

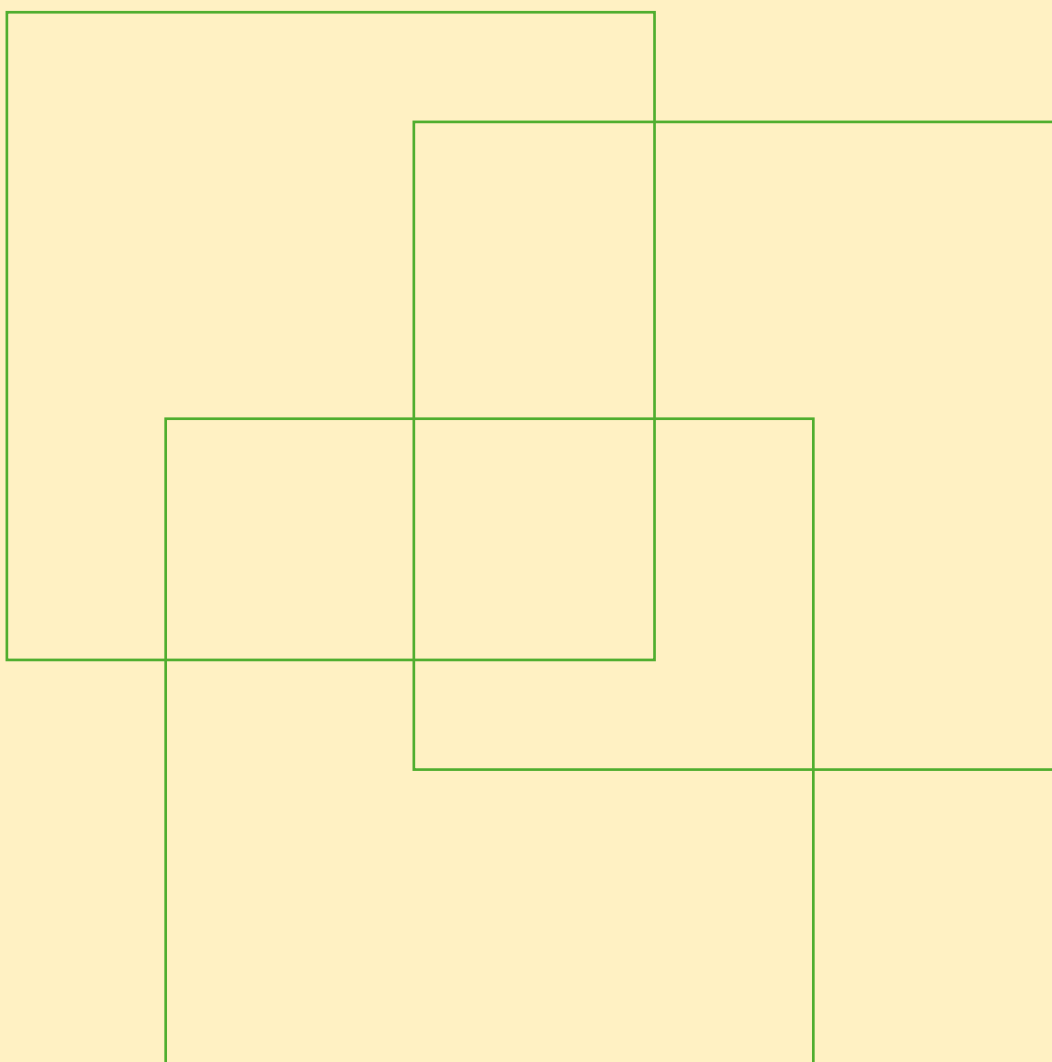


International
Labour
Organization



Financial report and audited consolidated financial statements for the year ended 31 December 2018

and Report of the External Auditor



International Labour Organization

Financial report
and audited consolidated financial statements
for the year ended 31 December 2018

and Report of the External Auditor

International Labour Office, Geneva

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1. Financial report on the 2018 accounts

Introduction

1. The 2018 consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and consolidate all of the operations under the direct authority of the Director-General including the regular budget, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), the International Training Centre of the ILO (ITC), the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF) activities.
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 2018 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 23 to the Financial Statements.

Financial highlights for 2018

5. The table below summarizes the financial situation of the ILO in 2018 as compared to 2017 and 2016 (the first year of the previous biennium):

| (US\$ millions) | 2018 | 2017 | 2016 |
|---------------------------------|----------------|----------------|----------------|
| Revenue | 708.3 | 663.5 | 655.0 |
| Expenses | (742.0) | (736.0) | (674.9) |
| Foreign exchange gains/(losses) | 3.5 | 43.3 | (1.9) |
| Surplus (deficit) | (30.2) | (29.2) | (21.8) |
| Assets | 1 954.1 | 1 852.9 | 1 717.1 |
| Liabilities | (2 583.4) | (2 521.5) | (1 984.1) |
| Net assets | (629.3) | (668.6) | (267.0) |

6. The consolidated deficit for 2018 is US\$30.2 million as compared to a deficit of US\$29.2 million in 2017 and a deficit of US\$21.8 million in 2016. The increase in deficit is largely due to actuarial adjustments on the After Service Health Insurance (ASHI) calculation and reduced foreign exchange gains. An analysis of revenue and expenses is provided in the following sections.

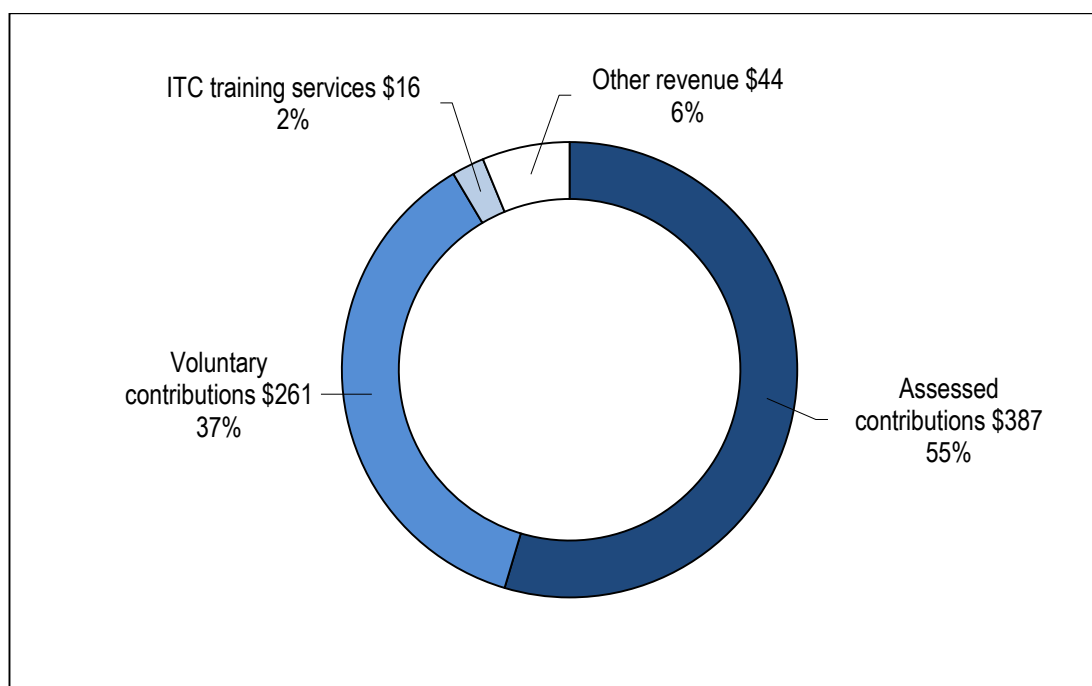
7. The increase in net assets from negative US\$668.6 million in 2017 to a negative US\$629.3 million in 2018 is mainly attributable to a decrease in the ASHI liability. Further information on the most significant movements in assets and liabilities, is provided in the Financial Position section of this report. The consolidated statement of changes in net assets (Statement III) provides the details of the movements in net assets.

Financial performance

Revenue

8. Revenue in 2018 totalled US\$708.3 million (US\$663.5 million in 2017) and is composed as follows:

Figure 1. Revenue by source, 2018 (US\$ millions)



9. The two principal sources of revenue in 2018 were assessed contributions from member States and voluntary contributions. These represented 91.5 per cent of ILO revenue.

10. In 2018, the total revenue increased by US\$44.8 million compared to 2017, or 7 per cent. The two principal sources of the increase were assessed contributions from member States, increasing by US\$26.7 million in US\$ terms, and voluntary contributions, increasing by US\$14.4 million.

11. 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 currency rates between the Swiss franc and the US dollar. Exchange rate fluctuations resulted in increased revenue from assessed contributions of US\$19.3 million. The assessed contributions revenue is also 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 ILO's constitution. The change in the provision in 2018 of US\$2.1 million, compared to US\$9.5 million in 2017, accounts for the remaining US\$7.4 million increase.

12. 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. The current year increase in voluntary contributions revenue of US\$14.4 million is mainly due to a significant number of development cooperation project agreements signed at the end of

2017 that were reported as deferred revenue in that year and recognised as revenue in 2018 through delivery and also due to increase in new agreements signed during the current financial year for which delivery commenced in 2019. Details on voluntary contribution activities are provided in the “Other Funds” section of this report.

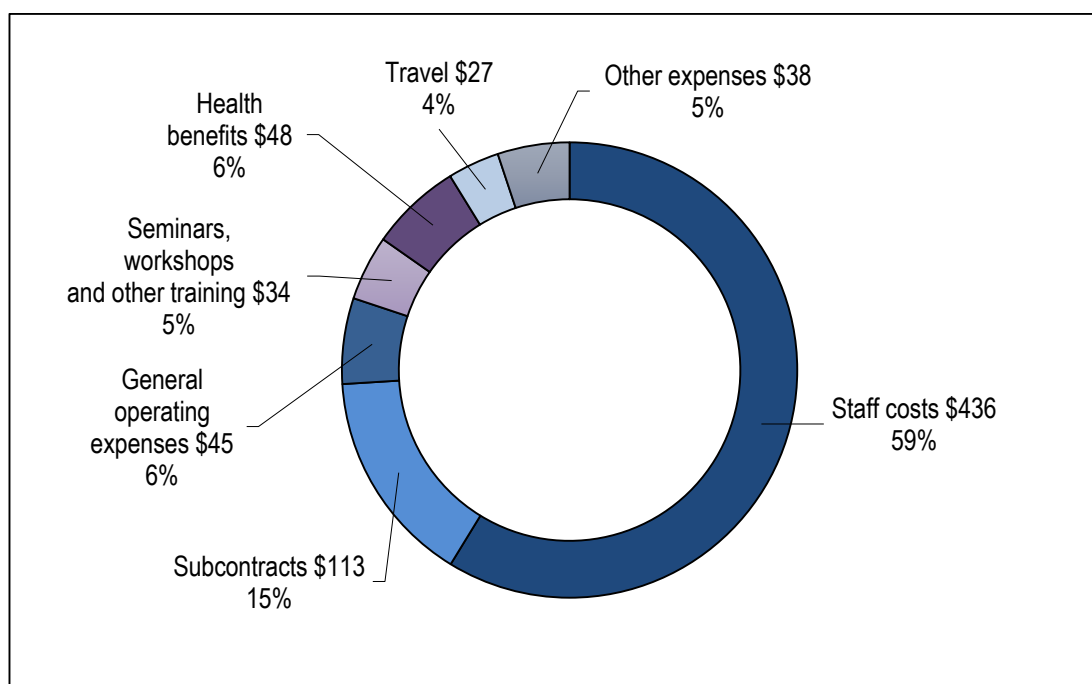
13. Other revenue in figure 1 experienced a slight increase of US\$1.7 million as compared to 2017 and includes revenue from staff/retiree contributions to SHIF, sales and royalties, investment income and other revenue.

14. ITC training services are recorded in euro, the functional currency of the Centre. In US dollar terms, the revenue earned by the Centre increased by US\$2.0 million mainly due to the effect of a strengthening euro and currency translation effects.

Expenses

15. Expenses in 2018 totalled US\$742.0 million (US\$736.0 million in 2017) and were distributed as follows:

Figure 2. Expenses in 2018 (US\$ millions)



16. In 2018, expenditure increased by US\$6.0 million or by 1 per cent as compared to 2017. ILO’s historic pattern of comparatively lower expenditure in the first year of a biennium was offset primarily by increased current service and interest costs on the ASHI liability (US\$19.6 million), increased expenditure related to development cooperation projects by US\$19.7 million, and increased provisions for contingent liabilities (US\$3.0 million). More details on expenditure are provided in the “Regular Budget” and “Other funds” sections of this report.

Foreign exchange gains/losses

17. In accordance with the Financial Regulations and decisions of the International Labour Conference (ILC), exchange movements relating to the regular budget are

managed through the net premium account, netting gains and losses and providing protection to member States. They are not recorded as a revenue or expense item in Statement V but are accumulated in the Net Premium account which is returned to the member States at the end of each biennium (see note 17 to the Financial Statements).

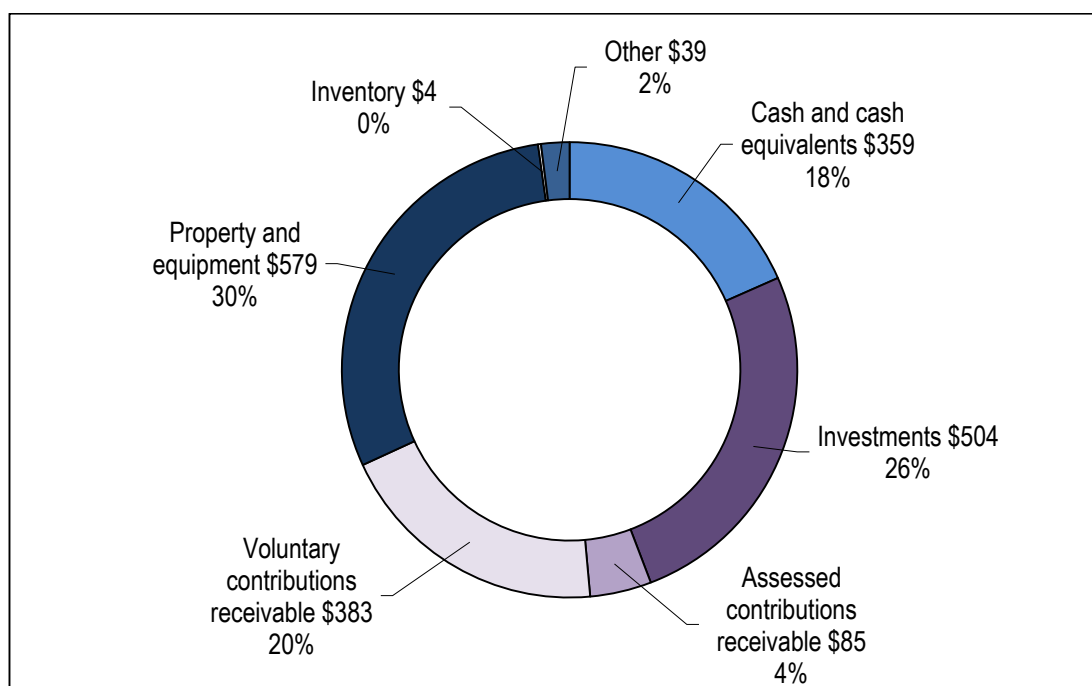
18. In 2018 the net gain on foreign exchange US\$3.5 million consisted of US\$11.8 million unrealized losses from the revaluation of assets and liabilities held in currencies other than the United States dollar and US\$15.3 million realized exchange net gains including the gain of \$9.2 million on the forward purchase agreements.

Financial position

Assets

19. Assets as at 31 December 2018 totalled US\$1,954.1 million (US\$1,852.9 million as at 31 December 2017) as follows:

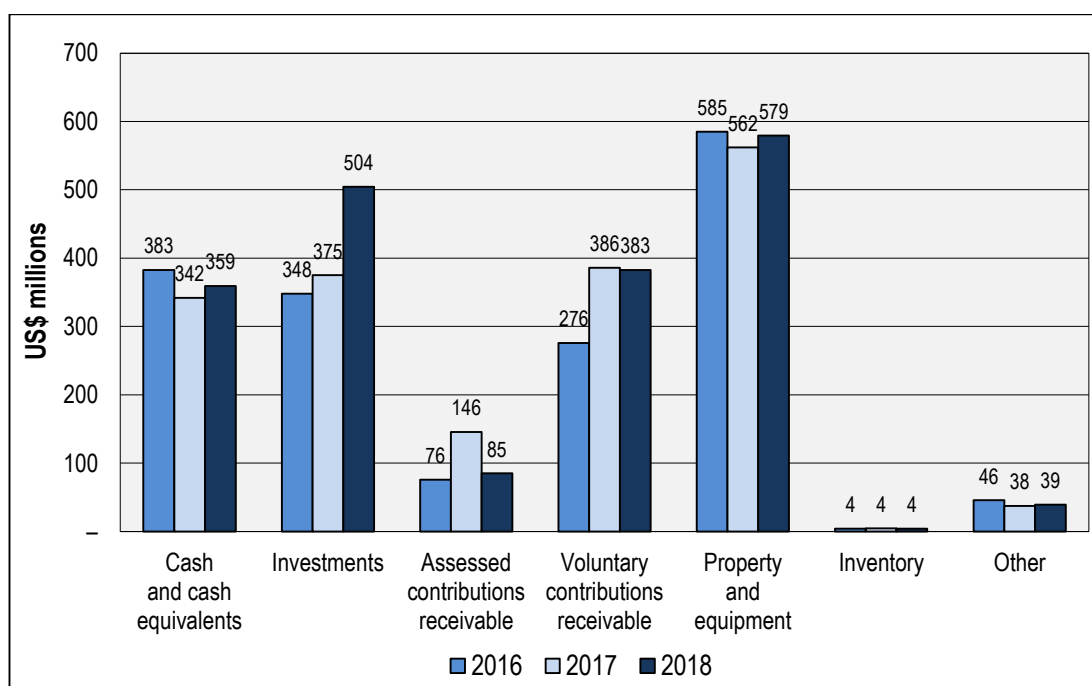
Figure 3. Assets (US\$ millions)



20. Cash, cash equivalents and investments totalling US\$863.6 million (US\$717.2 million as at 31 December 2017) were the largest component of assets as at 31 December 2018 representing 44 per cent of the total assets. Of this amount, US\$347.2 million or 40 per cent (US\$262.4 million or 37 per cent at 31 December 2017) corresponded to funds held on behalf of donors for development cooperation projects. Property and equipment and Voluntary contributions and Assessed contributions receivables were the other significant asset components.

21. Figure 4 provides a three-year comparison by asset category:

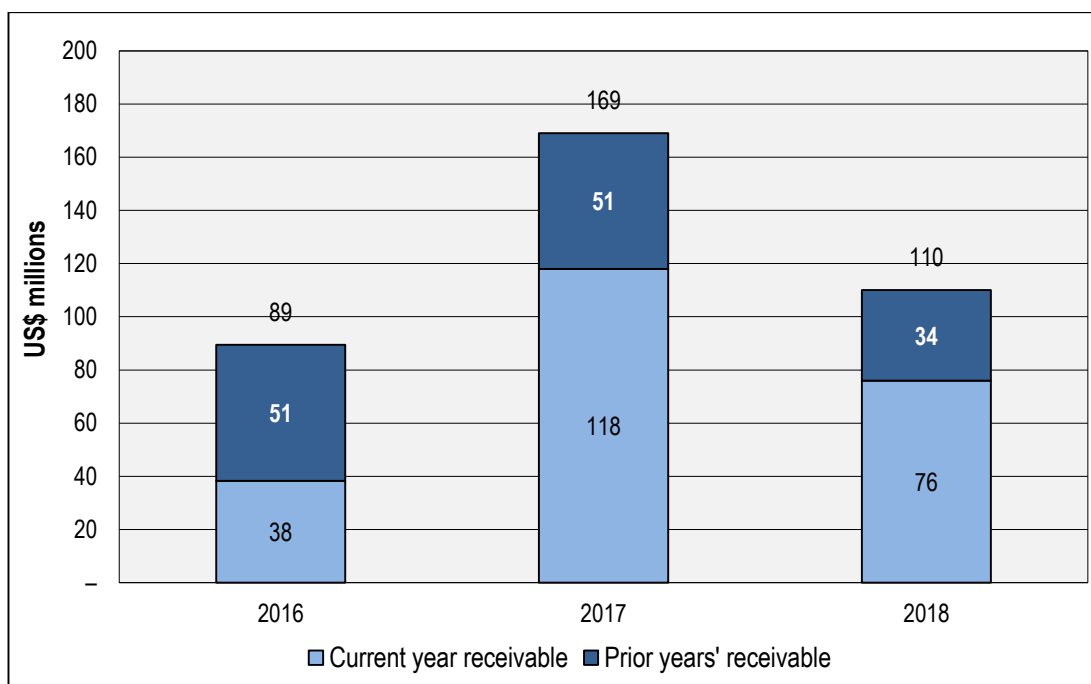
Figure 4. Assets, three-year comparison



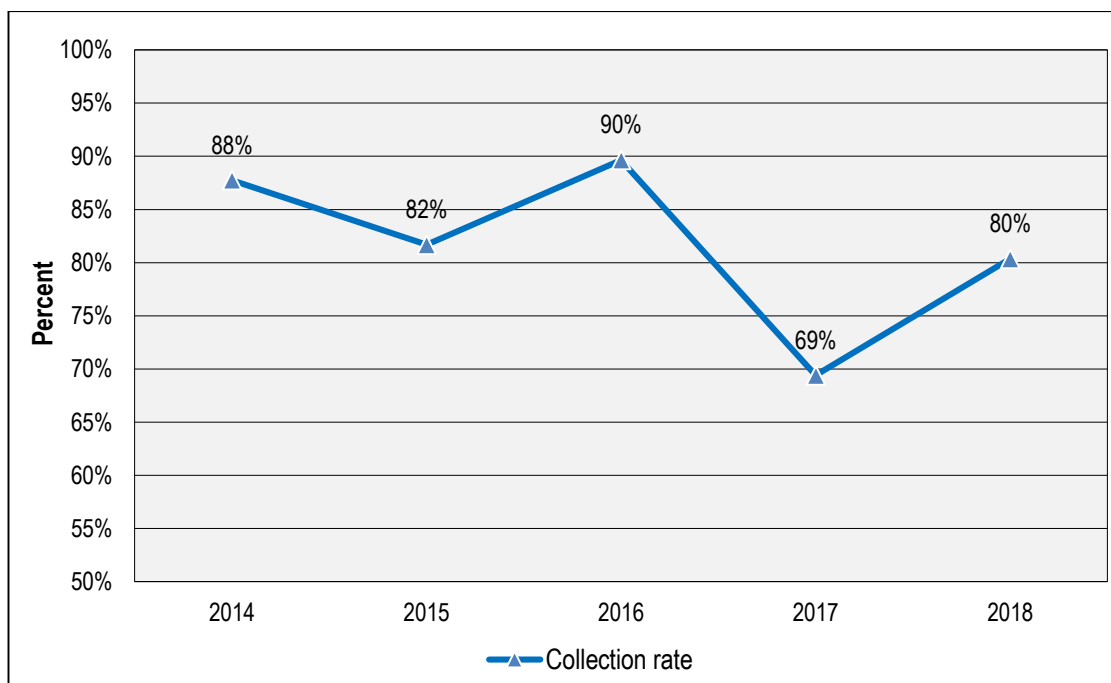
Assessed contributions receivable

22. Due to the higher collection rate on current year contributions and collection of larger arrears balances in 2018, the level of assessed contributions receivable decreased by US\$59.0 million to US\$110.3 million as at 31 December 2018, prior to the required adjustment for member States which had lost the right to vote.

23. Figure 5 summarizes the assessed contributions receivable balances and their components at the end of each of the last three years:

Figure 5. Assessed contributions receivable

24. The trend in collection rate for current year assessed contributions is reflected in figure 6 below:

Figure 6. Assessed contributions collection rate (in the year of assessment)

25. A provision of US\$22.3 million (US\$20.3 million at 31 December 2017) has been made in respect of the amount due from member States that had lost the right to vote at 31 December 2018 and amounts due by States for prior periods of membership in the ILO. More detailed information on assessed contributions can be found in note 29 and note 30 to the Financial Statements.

Property and equipment

26. Property and equipment with the total value of US\$579.3 million is mainly composed of land and buildings which had a market value of US\$567.3 million. The market value is a point-in-time estimate (as at 31 December 2018) calculated by an independent valuer in accordance with international valuation standards.

Land

27. The total value of land decreased by US\$12.5 million. The decrease is primarily due to a decrease in the market value of the land in Geneva by US\$9.5 million combined with decreases of US\$3 million due to currency rate fluctuations, offset by minor market value increases in some field locations. The decrease in the Geneva land valuation was caused by a decline in real estate values for the kind of buildings that could be constructed on ILO land.

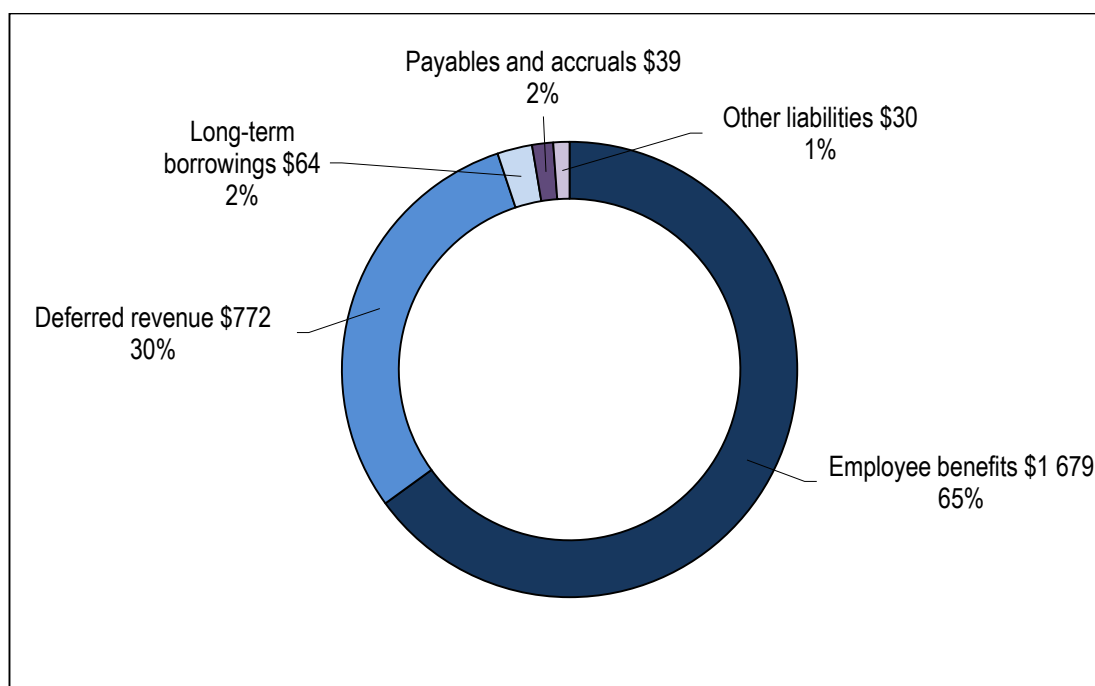
Buildings

28. The total value of buildings increased by US\$33.3 million mainly attributable to an increase in the market value of the headquarters building by US\$34.1 million due to the renovation work realised during the year. The total fair value of buildings in other locations decreased by US\$0.8 million as compared to 2017, mainly due to revaluation of US dollar against other currencies.

Liabilities

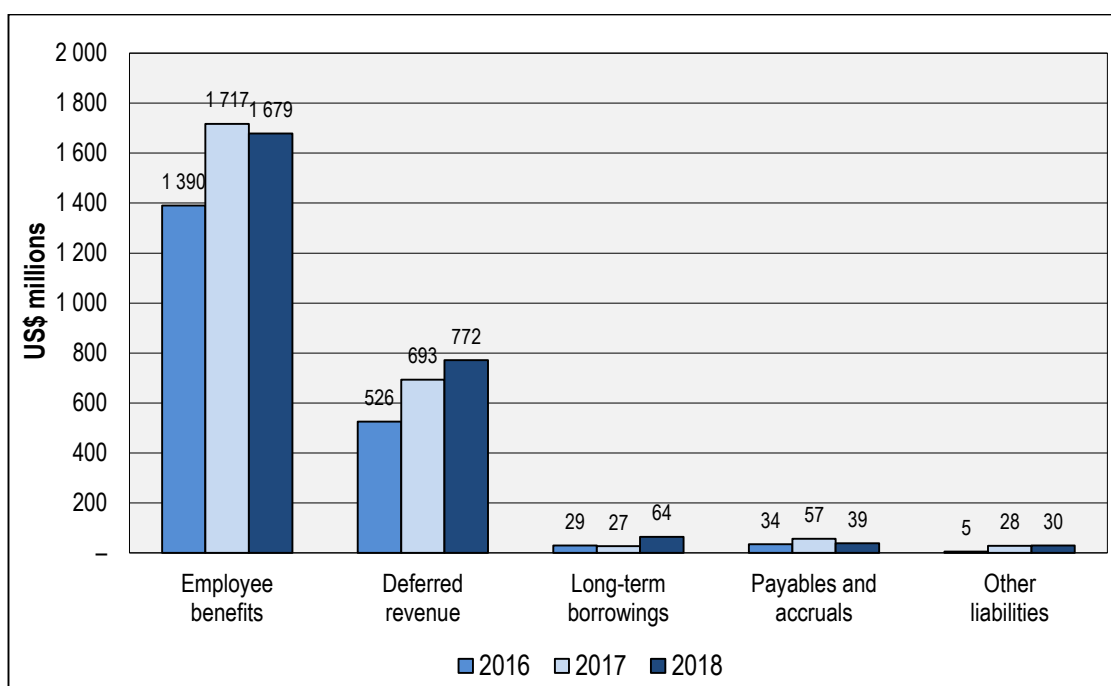
29. Liabilities as at 31 December 2018 totalled US\$2,583.4 million (US\$2,521.5 million as at 31 December 2017) as follows:

Figure 7. Liabilities (US\$ millions)



30. Figure 8 below provides a three-year comparison by liability category:

Figure 8. Liabilities, three-year comparison



Employee benefits

31. The most significant liabilities were the future employee benefits accrued by staff members and retirees. These represented 65 per cent of the ILO's total liabilities as at 31 December 2018.

32. The ASHI liability at US\$1,594.0 million, accounts for 95 per cent of the total employee benefits liability and represents the estimated cost of the employer's share of future health-care premia in respect of all current retirees, as well as all active staff members with projected eligibility for ASHI. It is a point-in-time estimate calculated by an independent actuary taking into consideration the current discount rates, trends in health-care costs, mortality rates, the demographic make-up of the insured population, inflation and other assumptions. It is based on an approach developed by the actuarial profession and endorsed by accounting standard setters as being the most accurate method for projecting the amount of the Organization's future obligation.

33. The ASHI liability decreased by US\$39.9 million in 2018 as a result of actuarial gains of US\$99.1 million offset by increased current service and interest costs as detailed below:

| Actuarial (gains)/losses (US\$ millions) | 2018 | 2017 |
|--|---------------|--------------|
| Loss due to Experience | 24.8 | 5.1 |
| (Gain)/loss due to change in discount rate | (86.5) | 0.3 |
| (Gain)/loss due to change in medical trend rate | (37.1) | 109.3 |
| (Gain)/loss due to change in other actuarial assumptions | (0.3) | 172.7 |
| (Gains)/losses due to financial assumption changes | (123.9) | 282.2 |
| Total actuarial (gains)/losses recognized in net assets | (99.1) | 287.3 |
| Current service cost | 64.7 | 49.5 |
| Interest cost | 22.1 | 17.7 |
| Net benefits paid | (27.6) | (27.9) |
| Net ASHI expense recognized in the statement of financial performance | 59.2 | 39.3 |
| Total (decrease)/increase in ASHI liability | (39.9) | 326.6 |

34. In 2017, several actuarial assumptions were revised following both the adoption of a harmonized approach among UN system organizations and the revision of the mortality rates by the UNJSPF Committee of Actuaries. These changes created actuarial losses in the prior year that resulted in a significant increase to the overall liability at that time. While most of these assumptions have remained constant in 2018, actuarial gains were realized as a result of higher discount rates and updates to the harmonized UN medical trend rates where medical costs are assumed to increase at a slower rate than was previously estimated.

35. As part of the annual actuarial valuation exercise, actual changes in the valuation of the benefit obligation that differ from previous actuarial assumed amounts create actuarial gains or losses due to experience. These unexpected changes in the obligation valuation are generally minor, but vary from year to year based on actual participant experience. In 2018, a loss was realized primarily due to more new plan entrants, higher actual medical claims cost than expected, and a higher number of retirees than previously expected. These changes were partially offset by a slightly higher rate of coverage expiration.

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

37. The ASHI liability is considered as unfunded. However, an amount of US\$56.3 million is available in a SHIF Guarantee Fund to cover future short-term liabilities of SHIF together with an additional amount of US\$7.4 million accumulated in respect of the staff of development cooperation projects. The ILO fulfils its immediate obligations in respect of the financing of health insurance for former officials from the regular budget, on a pay-as-you-go basis. Member States have preferred to maintain a pay-as-you-go basis to meet this liability rather than to include a provision in the Programme and Budget to accumulate a reserve aimed at limiting the growth in the ILO's ASHI liability.

Deferred revenue

38. The amounts recognized as deferred revenue liabilities 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 in deferred revenue in 2018 by US\$79 million as compared to 2017 is primarily resulted from the increase in the funds received from donors near the end of the financial year. The details on deferred revenue are provided in note 14 to the Financial Statements.

Long-term borrowings

39. 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 2018 by US\$37.1 million resulted from the renovation loan instalments received for the headquarters renovation during the year, offset by annual repayments of the headquarters construction loan.

Regular budget

40. The International Labour Conference, at its 106th Session (June 2017), approved an expenditure budget for the 2018–19 financial period amounting to US\$784.1 million and an income budget for the period for the same amount, which at the budget rate of exchange for the period of CHF0.97 to the US dollar, resulted in total assessed contributions of CHF760.6 million.

41. The overall budgetary results for the first twelve months of the 2018–19 financial period are summarized in Statement V-A with the details of contributions paid by member States shown in note 30 to the Financial Statements.

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

Variance analysis by strategic outcome for 2016–18 (in US\$ thousands)

| | 2016 | 2016 | 2016 | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 |
|---|---------------------|----------------|------------|---------------------|----------------|-------------|---------------------|----------------|------------|
| | Budget ¹ | Actual | Delivery | Budget ¹ | Actual | Delivery | Budget ¹ | Actual | Delivery |
| Part I – Ordinary budget | | | | | | | | | |
| A. Policy-making organs | 27 379 | 24 804 | 91% | 27 378 | 26 758 | 98% | 26 192 | 25 546 | 98% |
| B. Policy outcomes | 317 414 | 298 928 | 94% | 317 415 | 333 263 | 105% | 312 955 | 291 485 | 93% |
| C. Management services | 31 716 | 31 934 | 101% | 31 715 | 34 443 | 109% | 31 242 | 29 477 | 94% |
| D. Other budgetary provisions | 23 283 | 20 794 | 89% | 23 284 | 21 599 | 93% | 22 729 | 22 470 | 99% |
| Adjustment for staff turnover | (3 262) | – | 0% | (3 261) | – | 0% | (3 210) | – | 0% |
| Total Part I | 396 530 | 376 460 | 95% | 396 531 | 416 063 | 105% | 389 908 | 368 978 | 95% |
| Part II – Unforeseen expenditure | 438 | – | 0% | 437 | – | 0% | 438 | – | 0% |
| Part IV – Institutional investments and extraordinary items | 1 727 | 3 454 | 200% | 1 727 | – | 0% | 1 714 | 3 428 | 200% |
| Total Parts I, II and IV | 398 695 | 379 914 | 95% | 398 695 | 416 063 | 104% | 392 060 | 372 406 | 95% |

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

43. The results for the first year of the 2018–19 biennium should be compared with those for 2016, the first year of the previous biennium, showing the same budgetary delivery rate of 95 per cent. In the first year of a biennium, the ILO normally utilizes less than one half of the biennial budget as activities are often planned and programmed in the first year for delivery across the whole biennium. It is expected that the delivery rate will accelerate in 2019 to attain full delivery of the approved biennial budget for 2018–19. Results-based delivery information is reported biennially to the Governing Body and Conference through the ILO Programme Implementation Report at the conclusion of each biennium.

44. Statement V-A shows an excess of income over expenditure for the period at the budgetary rate of exchange amounting to US\$19.7 million. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of the Working Capital Fund and internal borrowings, the net surplus for budgetary purposes at the end of the first year of the biennium was US\$7.0 million. Since the ILO operates on a biennial financial period, the results for 2018 do not represent a surplus as defined in article 18 of the Financial Regulations. The final determination of surpluses to be returned to member States will be made at the end of the financial period, 31 December 2019.

45. 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 23 to the Financial Statements and the appendix.

| (US\$ thousands) | Regular budget | CINTERFOR | ITC | Voluntary Contribution activities | Subsidiary funds | Inter-fund elimination | Total |
|--|----------------|------------|-----------|-----------------------------------|------------------|------------------------|-----------------|
| Net result per budgetary basis (Statement V) | 7 043 | 175 | 1 122 | – | – | – | 8 340 |
| IPSAS adjustments | 11 676 | (23) | (1 050) | – | – | – | 10 603 |
| Subsidiary funds | – | – | – | 4 166 | (53 283) | (60) | (49 177) |
| Net result per IPSAS basis | 18 719 | 152 | 72 | 4 166 | (53 283) | (60) | (30 234) |

Other budgetary funds

46. As at 31 December 2018, the net assets of other funds managed by the ILO (ITC and CINTERFOR) amounted to US\$18.6 million.

47. The overall results of those funds with budgets approved by the Governing Body or the Board of the ITC for 2018 are summarized in Statements V-B and V-C. Information on the net assets of each fund is included in the appendix.

Voluntary contribution activities

48. Expenditure recognized during 2018 on extra-budgetary development cooperation activities totalled US\$245.4 million (US\$225.7 million in 2017). In accordance with IPSAS, revenue is recognized and matched by the Office when earned through project delivery; hence the extra-budgetary development cooperation delivery rate is consistently 100 per cent in financial terms. The results show that the actual delivery measured by expenditure was higher by 9 per cent in 2018 as compared to 2017.

Subsidiary funds

49. The ILO Staff Health Insurance Fund (SHIF) is a self-insured health insurance programme for active staff, retirees and dependents, which is maintained by the ILO. This programme is financed through contributions from insured persons and the ILO. The Statement of Financial Performance reports the contributions received from insured persons as revenue and reports as expense the amount reimbursed for medical claims under the programme. In 2018, the SHIF had a technical surplus of US\$86,634, and a net operating deficit of US\$35,175 after foreign exchange losses and sundry expenses were taken into consideration. SHIF investment income of US\$1,791,552 in 2018 offset by currency revaluation losses of US\$2,133,577 resulted in an overall deficit of US\$377,200.

50. The net assets of the SHIF as at 31 December 2018 were US\$56.3 million (US\$64.2 million in 2017). The change over 2017 reflects the net results reported above and the additional US\$7.5 million transferred from the ILO SHIF reserves to the International Telecommunications Union that had previously participated in the SHIF, as described in note 18 to the Financial Statements.

51. Information on the net assets and annual results for all other subsidiary funds of the ILO is included in the appendix.

2. Statement of Internal Control for the year ended 31 December 2018

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 is a process, effected by the ILO's Governing Body, the Director-General, the Treasurer and Financial Comptroller, senior management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, compliance with regulations and policies, and reliable financial reporting. 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 2018, and considers any relevant events up to the date of the approval of the Organization's consolidated 2018 financial statements.

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 expose the ILO to potential risks and opportunities. These risks can relate to the physical security of officials and of Office property, to the successful delivery of outcomes, as well as the challenges of maintaining high standards of internal control.

ILO's risk management and internal control frameworks

5. The ILO has an Enterprise Risk Management Framework, which is based on the following key elements:
 - ❑ A six-step approach, comprising (i) establishing the context; (ii) identifying risk; (iii) scoring risks for likelihood and impact; (iv) responding to risk cost-effectively; (v) monitoring risks and risk practices; and (vi) reporting to senior managers and external stakeholders information on key risk exposures and on the efficiency and effectiveness of ILO's risk management processes.
 - ❑ A dedicated Risk Management Committee, which oversees and recommends actions on ILO's exposure to major risks, as recorded in the Strategic Risk Register, and on the efficiency and effectiveness of risk management processes.
 - ❑ Mandatory risk assessments in ILO's Departments and Offices, and in its main processes (including outcome management and development cooperation projects).
 - ❑ Building organizational capacity to manage risk well and efficiently.
6. The ILO also has an Internal Control Framework. The key elements 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

7. 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.
 - ❑ 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

8. The 2018 internal letters of representation (ILR) received from directors and other managers provided significant assurance on the effective implementation of ILO's internal controls during 2018. Although no major control weaknesses were identified from these disclosures, a number of areas have been noted in 2018 where policies and procedures are in place but their operational application may require further improvements. The managers' disclosures are consistent with the observations made in audit and evaluation reports as well as with guidance provided by the Governing Body, for which actions have been or are being taken.

- ❑ **Business Continuity Management strategy and tools to be institutionalized.** In the 2018 ILR disclosures, managers reported different levels of business continuity preparedness, mainly due to changes of personnel and absence of regular simulation exercises. This information accords with the Office's plan to review and update its business continuity management strategy and to modernize the tools to standardize this process informed by the Organizational Resilience Management System adopted by the HLCM. The work is ongoing with the support of the risk management committee.
- ❑ **Advance travel planning to be strengthened.** Although the ILO travel policy generally requires that travel plans are established in advance and updated on a quarterly basis, the 2018 ILR disclosures highlighted some challenges related to unanticipated support requests from constituents. Work will be continued in 2019 to provide tools to support the travel planning process.
- ❑ **Workforce planning and skills development to be enhanced for a fit-for-purpose workforce.** The 2018 ILR disclosures also highlighted the importance of workforce planning, in particular the need for skills development of staff to perform newly assigned duties and tasks resulting from the streamlining and re-engineering of business processes, and the retirement or departure of highly experienced staff. One of the key outputs of the ILO's Human Resources Strategy 2018–21 is to ensure a mobile and fit-for-purpose workforce. The Office is progressively implementing knowledge-sharing tools to foster greater agility and flexibility among staff, and a wide range of training opportunities, with particular focus on information technology skills, have been emphasized to ensure that staff are sufficiently skilled to meet current and future requirements.

Update of internal control matters reported in the statement of the year ended 31 December 2017

9. In 2018, the Office implemented measures to address the internal control matters reported in my inaugural statement of 2017, and achieved significant improvements in those areas. These improvements have been reflected positively in the 2018 ILR disclosures received from directors and other managers, and confirmed by the internal and external auditors, and the IOAC in their respective reports to the Governing Body.

- ❑ **Risk management tools and practices.** In 2018, the ILO revised its tools and guidance for the identification and management of risk, and conducted an Office-wide exercise to update the departmental and country office-level risk registers,

which was completed with a 100 per cent compliance rate. The individual risks were escalated through the organizational hierarchy, and common themes aggregated across units to form the basis for the update of the Strategic Risk Register for the 2020–21 biennium. In support of this process, the Office also developed and delivered training for staff at headquarters and in the field. Work on building organizational competence and capacity in risk management will continue in 2019.

- **Results-based management (RBM).** In 2018, an RBM task force with three sub-teams was formally established with the objective of identifying improvements for an integrated and coordinated approach to address all RBM-related issues. The initial outputs of the task force included a self-assessment of the ILO's RBM system by benchmarking the UN Joint Inspection Unit model; a road map for RBM improvement in 2018–19; and a methodology for the development of a new results framework for 2020–21. More work is to be undertaken in 2019 including the development of the new results framework; the revision of the guidance for Decent Work Country Programmes, taking into consideration the United Nations reform and the revised United Nations Development Assistance Framework; the improvement of institutional monitoring and reporting systems; and a revised Programme Implementation Report. An RBM Resource Centre and training packages will also be developed with a view to supporting the continuous development of RBM.
- **Performance management.** In 2018, following the streamlining of the performance management framework with unified annual appraisal cycles, harmonized processes and simpler forms, the Office enhanced its tools and systems and provided further guidelines and training support to managers and staff throughout the year. As at the time of this statement, completion of both the End of Cycle reports for 2018 and Beginning of Cycle reports for 2019 has reached over 80 per cent, and the quality of the performance appraisals has significantly improved. These achievements have also been evidenced by the feedback received from the 2018 ILR exercise, where 12 per cent more managers reported a full compliance compared to that of 2017.
- **Country-level financial operations.** In 2018, the ILO Finance Manual, which provides detailed and specific instructions on all aspects of financial operations, in particular those of external offices, was updated. Knowledge-sharing through regular meetings of the global finance team continued. The roll-out to external offices of the Integrated Resource Information System (IRIS) continued to progress, allowing further enhancement of oversight and support by headquarters and regional offices for country- and project-level financial operations, and is scheduled to be completed by the end of 2019.

Conclusion

10. 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.

11. 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 during the year ended 31 December 2018 and up to the date of approval of the 2018 consolidated financial statements.

(Signed) Guy Ryder
Director-General
Geneva, 17 April 2019

3. Approval of the consolidated financial statements for the year ended 31 December 2018

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) Greg Johnson
Treasurer and Financial Comptroller

29 March 2019

(Signed) Guy Ryder
Director-General

29 March 2019

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 2018, 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 2018, 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 2018 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
19 April 2019

5. Consolidated financial statements for the year ended 31 December 2018

International Labour Organization

Statement I

Consolidated statement of financial position as at 31 December 2018 (US\$ millions)

| | Note | 2018 | 2017 |
|---|-------------|-----------------------|-----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 359.4 | 341.9 |
| Contributions receivable – Assessed | 5 | 76.8 | 135.4 |
| Contributions receivable – Voluntary | 6 | 289.4 | 310.3 |
| Derivative assets | 7 | 9.3 | 4.0 |
| Investments | 8 | 275.0 | 140.0 |
| Other receivables | 9 | 9.6 | 9.6 |
| Inventories | 10 | 4.1 | 4.4 |
| Other current assets | 11 | 18.4 | 18.1 |
| | | <u>1 042.0</u> | <u>963.7</u> |
| Non-current assets | | | |
| Contributions receivable – Assessed | 5 | 8.4 | 10.4 |
| Contributions receivable – Voluntary | 6 | 93.3 | 75.7 |
| Derivative assets | 7 | – | 3.4 |
| Investments | 8 | 229.2 | 235.3 |
| Property and equipment | 12 | 579.3 | 561.9 |
| Intangible assets | 13 | 1.9 | 2.5 |
| | | <u>912.1</u> | <u>889.2</u> |
| Total assets | | <u>1 954.1</u> | <u>1 852.9</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Payables and accruals | | 38.6 | 56.8 |
| Deferred revenue | 14 | 678.6 | 617.1 |
| Employee benefits | 15 | 60.9 | 55.7 |
| Current portion of long-term borrowings | 16 | 3.8 | 3.8 |
| Due to member States | 17 | 11.1 | 0.2 |
| Other current liabilities | 18 | 11.8 | 9.8 |
| Derivative liabilities | 7 | 0.1 | – |
| | | <u>804.9</u> | <u>743.4</u> |
| Non-current liabilities | | | |
| Deferred revenue | 14 | 93.3 | 75.7 |
| Employee benefits | 15 | 1 618.3 | 1 661.6 |
| Long-term borrowings | 16 | 64.0 | 26.9 |
| Due to member States | 17 | 2.9 | 13.9 |
| | | <u>1,778.5</u> | <u>1,778.1</u> |
| Total liabilities | | <u>2 583.4</u> | <u>2 521.5</u> |
| Net assets | | | |
| Reserves | 19 | 213.5 | 147.0 |
| Accumulated balances | 19 | (842.8) | (815.6) |
| Total net assets | | <u>(629.3)</u> | <u>(668.6)</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 2018 (US\$ millions)

| | Note | 2018 | 2017 |
|---|--------|---------------|---------------|
| Revenue | | | |
| Assessed contributions | 25, 30 | 386.8 | 360.1 |
| Voluntary contributions | 25 | 261.1 | 246.7 |
| ITC training services | 25 | 16.4 | 14.4 |
| Staff/retiree benefit contributions | 2 | 21.7 | 21.6 |
| Sales and royalties | 2 | 12.3 | 12.2 |
| Investment income | 2 | 7.6 | 7.7 |
| Other income | | 2.4 | 0.8 |
| Total revenue | | 708.3 | 663.5 |
| Expenses | | | |
| Salaries, employee benefits and other personnel costs | 20 | 435.9 | 416.1 |
| Travel | 20 | 27.3 | 25.7 |
| Subcontracts | 20 | 113.3 | 125.7 |
| General operating expenses | 20 | 45.2 | 43.3 |
| Supplies, materials and small equipment | 20 | 7.1 | 10.1 |
| Depreciation and amortization | 20 | 9.6 | 8.2 |
| Seminars, workshops and other training | 20 | 34.3 | 40.1 |
| Staff development | 20 | 4.2 | 5.7 |
| Health benefits | 20 | 48.1 | 48.5 |
| Contributions and grants in aid | 20 | 9.3 | 8.3 |
| Finance expenses | 20 | 1.9 | 2.1 |
| Other expenses | 20 | 5.8 | 2.2 |
| Total expenses | | 742.0 | 736.0 |
| Foreign exchange gains/(losses) | | 3.5 | 43.3 |
| Net surplus (deficit) | | (30.2) | (29.2) |

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

International Labour Organization

Statement III

Consolidated statement of changes in net assets for the year ended 31 December 2018 (US\$ millions)

| | Note | Reserves | Accumulated balances | Total net assets |
|---|------|---------------|-------------------------|---------------------|
| Balance as at 31 December 2016 | | 205.1 | (472.1) | (267.0) |
| Surplus (deficit) for the year 2017 | | 12.1 | (41.3) | (29.2) |
| Internal borrowing for financing of regular budget deficit | | (70.2) | 70.2 | – |
| Change of derivatives | | – | (10.0) | (10.0) |
| Change of revaluation surplus of land and buildings | | – | (66.9) | (66.9) |
| Actuarial gain (loss) of employee benefit liabilities | | – | (284.6) | (284.6) |
| Transfer to liabilities due to member States of period 2017 | | – | (13.4) | (13.4) |
| Translation difference from consolidation of ITC | | – | 2.5 | 2.5 |
| Total 2017 movement | | (58.1) | (343.5) | (401.6) |
| Balance as at 31 December 2017 | 19 | 147.0 | (815.6) | (668.6) |
| Surplus (deficit) for the year 2018 | | 5.2 | (35.4) | (30.2) |
| Repayment of internal borrowing for financing of regular budget deficit | | 69.4 | (69.4) | – |
| Change of derivatives | | – | (0.8) | (0.8) |
| Change of revaluation surplus of land and buildings | | – | (23.5) | (23.5) |
| Actuarial gain (loss) of employee benefit liabilities | | – | 102.2 | 102.2 |
| SHIF guarantee fund transfer to ITU | | (7.5) | | (7.5) |
| Translation difference from consolidation of ITC | | (0.6) | (0.3) | (0.9) |
| Total 2018 movement | | 66.5 | (27.2) | 39.3 |
| Balance as at 31 December 2018 | 19 | 213.5 | (842.8) | (629.3) |

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 2018 (US\$ millions)

| | Note | 2018 | 2017 |
|---|------|----------------|---------------|
| Cash flows from operating activities | | | |
| Surplus (deficit) for the year | | (30.2) | (29.2) |
| Non-cash movements: | | | |
| Depreciation and amortization | | 9.6 | 8.2 |
| (Increase) decrease in contributions receivable – Assessed | | 60.6 | (70.0) |
| (Increase) decrease in contributions receivable – Voluntary | | 3.3 | (110.0) |
| (Increase) decrease in derivative instruments | | (2.6) | 1.7 |
| (Increase) decrease in investment portfolios | | (1.1) | (9.8) |
| (Increase) decrease in other receivables | | – | 0.1 |
| (Increase) decrease in inventories | | 0.3 | (0.5) |
| (Increase) decrease in other assets | | (0.3) | (3.5) |
| Increase (decrease) in payables and accruals | | (18.2) | 22.7 |
| Increase (decrease) in deferred revenue | | 79.1 | 167.0 |
| Increase (decrease) in employee benefits | | 64.1 | 42.5 |
| Increase (decrease) in due to member States | | (0.1) | 13.2 |
| Increase (decrease) in other liabilities | | 2.0 | 6.0 |
| Increase (decrease) in borrowings | | 0.3 | 2.1 |
| Transfer to liabilities due to member States | | – | (13.4) |
| Effect of exchange rates on cash and cash equivalents | | 3.5 | (15.4) |
| Transfer to ITU from net assets | 18 | (7.5) | – |
| Net cash flows from operating activities | | 162.8 | 11.7 |
| Cash flows from investing activities | | | |
| Proceeds from sale of investments | 8 | 277.2 | 202.4 |
| Purchase of investments | 8 | (405.0) | (220.0) |
| Additions of property and equipment | 12 | (50.4) | (49.9) |
| Proceeds from disposals of property and equipment | | 0.4 | – |
| Additions of intangible assets | 13 | (0.2) | (1.1) |
| Net cash flows from investing activities | | (178.0) | (68.6) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | 16 | (3.7) | (3.8) |
| Proceeds from new borrowing | 16 | 40.5 | 3.1 |
| Net cash flows from financing activities | | 36.8 | (0.7) |
| Effect of exchange rates on cash and cash equivalents | | (4.1) | 16.7 |
| Net increase (decrease) in cash and cash equivalents | | 17.5 | (40.9) |
| Cash and cash equivalents, beginning of period | 4 | 341.9 | 382.8 |
| Cash and cash equivalents, end of period | 4 | 359.4 | 341.9 |

US\$5.3 million of interest received is included in the net cash flows from operating activities (2017 = US\$2.6 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 2018

(US\$ thousands)

| | Original ² and final budget | Actual | Difference ³ |
|--|--|----------------|-------------------------|
| Revenue | | | |
| Assessed contributions | 392 060 | 392 060 | – |
| Total revenue | 392 060 | 392 060 | – |
| Expenses | | | |
| Part I – Ordinary budget | | | |
| A. Policy-making organs | 26 192 | 25 546 | (646) |
| B. Policy outcomes | 312 955 | 291 485 | (21 470) |
| C. Management services | 31 242 | 29 477 | (1 765) |
| D. Other budgetary provisions | 22 729 | 22 470 | (259) |
| Adjustment for staff turnover ⁴ | (3 210) | – | 3 210 |
| Total Part I | 389 908 | 368 978 | (20 930) |
| Part II – Unforeseen expenditure | 438 | – | (438) |
| Part IV – Institutional investments and extraordinary items | 1 714 | 3 428 | 1 714 |
| Total expenses (Parts I, II and IV) | 392 060 | 372 406 | (19 654) |
| Surplus at budgetary rate of exchange | | 19 654 | |
| Revaluation of the budgetary surplus | | (338) | |
| Surplus at UN operational rate of exchange ⁵ | | 19 316 | |
| Surplus resulting from the receipt of contributions in an amount higher than approved regular budget | | 57 254 | |
| Reimbursement of 2016–17 deficit financing ⁶ | | (69 527) | |
| Net surplus (deficit) ⁷ | | 7 043 | |

¹ Budget and actual information calculated at budgetary rate of exchange of US\$1 = CHF0.97.

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 2018 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 2017, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF68.623 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 2018 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 2018 (US\$ thousands)

| | Original and final budget ¹ | Actual | Difference |
|--|---|--------------|-------------|
| Accumulated balance, beginning | 818 | 1 191 | 373 |
| Revenue | | | |
| Contribution from ILO regular budget | 1 219 | 1 219 | – |
| Contribution from host country and other countries in the region | 300 | 262 | (38) |
| Other contributions | 125 | 429 | 304 |
| Sales of publications and services | 10 | – | (10) |
| Miscellaneous income | 5 | 14 | 9 |
| Total revenue | 1 659 | 1 924 | 265 |
| Expenses | | | |
| Expenditure | 1 785 | 1 749 | (36) |
| Total expenses | 1 785 | 1 749 | (36) |
| Net surplus (deficit) | (126) | 175 | 301 |
| Accumulated balance, ending | 692 | 1 366 | 674 |

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 2018

| | Original ¹ and final budget | Actual | Difference ² |
|---|---|---------------|-------------------------|
| (in € thousands) | | | |
| Revenue | | | |
| Voluntary contributions | 11 534 | 11 604 | 70 |
| Earned income | 27 052 | 25 213 | (1 839) |
| Use of surplus | 750 | 559 | (191) |
| Total budget revenue | 39 336 | 37 376 | (1 960) |
| Expenditure | | | |
| Fixed expenditure | 21 483 | 21 471 | (12) |
| Variable expenditure | 17 179 | 14 799 | (2 380) |
| Contingency | 300 | – | (300) |
| Total expenditure | 38 962 | 36 270 | (2 692) |
| Budget surplus ³ | 374 | 1 106 | 732 |
| Other items | | | |
| Doubtful accounts | – | (84) | (84) |
| Exchange gain (loss) and revaluation, net | – | (72) | (72) |
| Total other items | – | (156) | (156) |
| Net budget surplus ³ | 374 | 950 | 576 |

(in US\$ thousands)

| | | | |
|--|------------|--------------|------------|
| Net budget surplus ⁴ | 442 | 1 122 | 680 |
|--|------------|--------------|------------|

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 2018 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 = €0.8468 for the reporting period (US\$1 = €0.8908 for 2017).

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, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR) and the International Training Centre of the ILO (ITC) along with the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF).
6. Controlled entity: The ITC was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is headquartered in Turin, Italy. The Centre provides training and related services to UN agencies, governments and non-governmental organizations designed to develop human resources and improve institutional capabilities. The Centre is principally financed from contributions from the ILO regular budget and development cooperation projects, from the Government of Italy and from charges for training services provided. The Centre produces separate financial statements at the same reporting date as the ILO.

Note 2 – Accounting policies

Basis of preparation and presentation

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

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 millions 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.

Cash and cash equivalents

13. Cash comprises cash on hand and demand deposits; cash equivalents are short-term, highly liquid investments with maturity 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 plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The ILO and the UNJSPF, 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 plan 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.

Inventory

33. Publications held for free distribution are valued at the lower of cost and current replacement cost. Publications held for sale are valued at the lower of cost and net realizable value. If net realizable value is lower than cost, the difference is recognized as an expense on the consolidated statement of financial performance. The value of publications is written off when they are considered damaged or after two years when they are considered obsolete and this is an expense on the consolidated statement of financial performance. The cost of publications is calculated using the weighted average cost. The cost of paper and other supplies used in the production process is calculated using the first-in, first-out method formula.

Intangible assets

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

Investments

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

Leases

36. 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

37. 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.

38. 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

39. 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.

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

41. 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.

42. 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

43. 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.

44. 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

45. 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

46. Revenue from exchange transactions is recognized as follows:

- ❑ *Sales and royalties:* Revenue is recognized on the date earned. Revenue related to the provision of services is valued based upon the stage of completion measured based upon the total costs incurred by the Organization in delivering the services at the reporting date. Sales of publications are recognized when the publication has been shipped to the purchaser. A provision for doubtful debts is established equal to 50 per cent of the amount outstanding from one year to two years and 100 per cent of the amount outstanding for more than two years unless the Organization receives from the debtor a written confirmation of the amount due with a planned date of payment.
- ❑ *Investment income:* Interest income, earned based on a time-proportionate basis as it accrues taking into account the effective yield on the asset, gains and losses from sales of investments and changes of investment market value are recognized in the consolidated statement of financial performance in the period that they arise.
- ❑ *Staff/retiree benefit contributions* are recognized on the date the revenue becomes due in accordance with the Administrative Regulations of the SHIF.

Note 3 – New accounting standards

New accounting standards effective on 1 January 2018

47. In 2018, the ILO adopted amendments to IPSAS 21 – Impairment of Non-Cash-Generating Assets and IPSAS 26 – Impairment of Cash-Generating Assets, effective 1 January 2018. These amendments establish impairment standards relating to assets measured using the revaluation method. In 2018, the ILO also adopted the new standard IPSAS 39 – Employee Benefits, which supersedes IPSAS 25 – Employee Benefits effective 1 January 2018. Adoption of these standards has not had a significant impact on the current consolidated financial statements.

New accounting standards issued but not yet effective

48. In 2018, the International Public Sector Accounting Standards Board (IPSASB) published the following new standards:

- ❑ IPSAS 40 – Public Sector Combinations, effective 1 January 2019. This standard provides the first international accounting requirements that specifically address the needs of the public sector when accounting for combinations of entities and

operations. This standard will have no impact on the consolidated financial statements.

- IPSAS 41 – Financial Instruments, effective 1 January 2022. 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.

Note 4 – Cash and cash equivalents

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

| (US\$ millions) | US\$ | CHF | € | Other | 2018 total | 2017 total |
|--|--------------|--------------|-------------|-------------|--------------|--------------|
| Cash | 62.8 | 179.2 | 9.4 | 14.3 | 265.7 | 238.1 |
| Cash equivalents | 69.8 | 20.3 | 3.6 | – | 93.7 | 103.8 |
| Total cash and cash equivalents | 132.6 | 199.5 | 13.0 | 14.3 | 359.4 | 341.9 |

Note 5 – Contributions receivable – Assessed contributions

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

| (US\$ millions) | 2018 | 2017 |
|--|-------------|--------------|
| Assessed contributions receivable (notes 29, 30) | 110.3 | 169.1 |
| Less: Advance payments received from member States with financial arrangements (note 29) | (2.0) | (2.0) |
| Less: Amortization of long-term financial arrangements | (0.8) | (1.0) |
| Less: Provision for doubtful collection of contributions | (22.3) | (20.3) |
| Total net receivable | 85.2 | 145.8 |
| ■ Assessed contributions receivable – Current | 76.8 | 135.4 |
| ■ Assessed contributions receivable – Non-current | 8.4 | 10.4 |

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

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

| (US\$ millions) | 2018 | 2017 |
|--|-------------|--------------|
| Less than 1 year | 75.7 | 118.5 |
| 1–2 years | 6.3 | 22.0 |
| Over 2 years | 26.3 | 26.6 |
| Less provision for doubtful debts and amortization | (23.1) | (21.3) |
| Total | 85.2 | 145.8 |

Note 6 – Contributions receivable – Voluntary contributions

53. As at the reporting date, voluntary contributions receivable are as follows (note 14):

| (US\$ millions) | 2018 | 2017 |
|--|--------------|--------------|
| Voluntary contributions receivable – Current | | |
| Development cooperation projects (all with conditions) | 282.0 | 305.4 |
| ITC training services | 7.4 | 4.9 |
| Subtotal voluntary contributions receivable – Current | 289.4 | 310.3 |
| Voluntary contributions receivable – Non-current | | |
| Development cooperation projects (all with conditions) | 86.1 | 75.1 |
| ITC training services | 7.2 | 0.6 |
| Subtotal voluntary contributions receivable – Non-current | 93.3 | 75.7 |
| Total voluntary contributions receivable | 382.7 | 386.0 |

Note 7 – Derivative assets and liabilities

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

| (US\$ millions) | 2018 | 2017 |
|---|------------|------------|
| Derivative assets | | |
| SHIF forward purchase agreement – Current | – | 0.1 |
| ILO regular budget forward purchase agreement – Current | 9.3 | 3.9 |
| ILO regular budget forward purchase agreement – Non-current | – | 3.4 |
| Total derivative assets | 9.3 | 7.4 |
| Derivative liabilities | | |
| SHIF forward purchase agreement – Current | 0.1 | – |
| Total derivative liabilities | 0.1 | – |
| Total derivative net asset position | 9.2 | 7.4 |

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

| Derivative instrument | Maturity | Contractual amount (US\$ millions) |
|---|------------------------------|---------------------------------------|
| SHIF forward purchase agreement | Within the next three months | 37.2 |
| ILO forward purchase agreement within the portfolio | Within the next three months | 1.3 |
| ILO regular budget forward purchase agreement | Within the next 12 months | 166.6 |

SHIF forward purchase agreement

56. 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

57. 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

58. 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.

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

| (US\$ millions) | 2018 | 2017 |
|---|------------|-------------|
| Fair value as at 1 January | 7.3 | 18.4 |
| Derivatives exercised during the period and recognised in net asset | (2.1) | (14.2) |
| Derivatives exercised during the period and recognised in surplus (deficit) | (3.1) | (4.2) |
| Change in fair value of the spot element recognized in net assets | 1.3 | 4.2 |
| Change in fair value of the forward element recognized in surplus (deficit) | 5.8 | 3.1 |
| Total fair value as at 31 December | 9.2 | 7.3 |

60. The cash flow hedges were highly effective in 2018. The amount reclassified from net assets and included in the consolidated statement of financial performance as exchange gain (loss) and the amounts retained in net assets at the end of the year are as follows:

| Net assets: Value of outstanding derivatives (US\$ millions) | 2018 | 2017 |
|--|-------------|-------------|
| Opening balance as at 1 January (note 19) | 4.2 | 14.2 |
| Reclassification during the year to exchange gain (loss) and revaluation, net (effective hedge of the spot element – transactions realized during the period) | (2.1) | (14.2) |
| Net gain (loss) during the year recognized in net assets (effective hedge of the spot element – forecasted transactions) | 1.3 | 4.2 |
| Closing balance as at 31 December (note 19) | 3.4 | 4.2 |

61. The amounts retained in net assets as at 31 December 2018 are expected to mature and affect the consolidated statement of financial performance in 2019.

Note 8 – Investments

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

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

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

| (US\$ millions) | 2018 | | 2017 | |
|--|--------------|--------------|--------------|--------------|
| | Fair value | Cost | Fair value | Cost |
| Investments – Current | | | | |
| ILO short-term deposit | 275.0 | 275.0 | 140.0 | 140.0 |
| ITC one year term deposit | – | – | – | – |
| Subtotal investment – Current | 275.0 | 275.0 | 140.0 | 140.0 |
| Investments – Non-current | | | | |
| Cash within the portfolios | 7.5 | 7.5 | 3.1 | 3.1 |
| Fixed income | | | | |
| Bonds | 62.0 | 61.5 | 74.5 | 74.1 |
| Floating rate notes | 24.3 | 24.3 | 29.1 | 29.1 |
| Money market | 25.4 | 25.3 | 18.0 | 17.9 |
| Total fixed income investments | 111.7 | 111.1 | 121.6 | 121.1 |
| Unit funds | 110.0 | 106.0 | 110.6 | 105.7 |
| Subtotal investment – Non-current | 229.2 | 224.6 | 235.3 | 229.9 |
| Total investment | 504.2 | 499.6 | 375.3 | 369.9 |

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

| (US\$ millions) | 2018 | 2017 |
|---|--------------|--------------|
| Fair value as at 1 January | 375.3 | 347.9 |
| Interest and net gain (loss) on investments | 1.1 | 9.8 |
| New investment during the period | 405.0 | 220.0 |
| Disposal of investments during the period | (277.2) | (202.4) |
| Fair value as at 31 December | 504.2 | 375.3 |

Note 9 – Other receivables

66. Other receivables are as follows:

| (US\$ millions) | 2018 | 2017 |
|---|------------|------------|
| US income taxes receivable | 3.1 | 4.5 |
| VAT and other withholding taxes receivable | 1.9 | 1.1 |
| Accrued interest and investment income | 2.8 | 1.4 |
| Other accrued income and amounts receivable | 1.8 | 2.6 |
| Total other receivables | 9.6 | 9.6 |

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

67. An ageing of other receivables is as follows:

| (US\$ millions) | 2018 | 2017 |
|------------------|------------|------------|
| Less than 1 year | 8.7 | 7.2 |
| 1–2 years | 0.4 | 1.8 |
| Over 2 years | 0.5 | 0.6 |
| Total | 9.6 | 9.6 |

Note 10 – Inventories

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

| (US\$ millions) | Production supplies | Publications | 2018 total | 2017 total |
|----------------------------------|---------------------|--------------|------------|------------|
| Balance as at 1 January | 0.4 | 4.0 | 4.4 | 3.9 |
| Produced and purchased | 0.3 | 4.9 | 5.2 | 8.4 |
| Inventory available | 0.7 | 8.9 | 9.6 | 12.3 |
| Less: Expensed | (0.4) | (3.2) | (3.6) | (4.9) |
| Less: Write-down | – | (0.5) | (0.5) | (1.6) |
| Less: Write-off | – | (1.4) | (1.4) | (1.4) |
| Balance as at 31 December | 0.3 | 3.8 | 4.1 | 4.4 |

Note 11 – Other current assets

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

| (US\$ millions) | 2018 | 2017 |
|-----------------------------------|-------------|-------------|
| Staff advances | 8.2 | 8.2 |
| Prepaid expenses | 9.6 | 8.2 |
| Other | 0.6 | 1.7 |
| Total other current assets | 18.4 | 18.1 |

Note 12 – Property and equipment

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

| (US\$ millions) | Land | Buildings | Leasehold improvements | Equipment | Total |
|---|---------------|--------------|------------------------|--------------|---------------|
| Net carrying amount as at 31 December 2016 | 377.4 | 194.0 | 7.2 | 6.5 | 585.1 |
| Additions | – | 46.6 | 0.6 | 2.7 | 49.9 |
| Depreciation | – | (4.6) | (0.6) | (2.3) | (7.5) |
| Disposals – Carrying amount | – | – | – | (0.4) | (0.4) |
| Disposals – Accumulated depreciation | – | – | – | 0.4 | 0.4 |
| Exchange adjustment – Cost | – | – | 1.5 | 0.4 | 1.9 |
| Exchange adjustment – Depreciation | – | – | (0.5) | (0.1) | (0.6) |
| Net revaluation recognized in net assets | (65.2) | (1.7) | – | – | (66.9) |
| Subtotal 2017 movement | (65.2) | 40.3 | 1.0 | 0.7 | (23.2) |
| Closing balance as at 31 December 2017 | 312.2 | 234.3 | 8.2 | 7.2 | 561.9 |
| Gross carrying amount as at 31 December 2017 | 312.2 | 234.3 | 13.5 | 14.0 | 574.0 |
| Accumulated depreciation | – | – | (5.3) | (6.8) | (12.1) |
| Net carrying amount as at 31 December 2017 | 312.2 | 234.3 | 8.2 | 7.2 | 561.9 |
| Additions | – | 50.2 | – | 0.2 | 50.4 |
| Depreciation | – | (5.7) | (0.7) | (2.2) | (8.6) |
| Disposals – Carrying amount | (0.2) | – | – | (0.6) | (0.8) |
| Disposals – Accumulated depreciation | – | – | – | 0.4 | 0.4 |
| Exchange adjustment – Cost | – | – | (0.6) | (0.1) | (0.7) |
| Exchange adjustment – Depreciation | – | – | 0.2 | – | 0.2 |
| Net revaluation recognized in net assets | (12.3) | (11.2) | – | – | (23.5) |
| Subtotal 2018 movement | (12.5) | 33.3 | (1.1) | (2.3) | 17.4 |
| Closing balance as at 31 December 2018 | 299.7 | 267.6 | 7.1 | 4.9 | 579.3 |
| Gross carrying amount as at 31 December 2018 | 299.7 | 267.6 | 12.9 | 13.5 | 593.7 |
| Accumulated depreciation | – | – | (5.8) | (8.6) | (14.4) |
| Net carrying amount as at 31 December 2018 | 299.7 | 267.6 | 7.1 | 4.9 | 579.3 |

Land and buildings

71. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot. In 2018, 675 square meters of

access road occupying ILO land was sold by the ILO and the proceeds will contribute to the funding of the ongoing headquarters building renovation project.

72. In addition, the Organization owns land and buildings in Abidjan, Côte d'Ivoire, Lima, Peru, and Santiago, Chile. In Buenos Aires, Argentina, and Brussels, Belgium, the Organization owns apartments located in buildings for which no separate land ownership exists. In Brasilia, Brazil, Dar es Salaam, United Republic of Tanzania, and Islamabad, Pakistan, it further owns buildings located on land to which the ILO has surface rights or leaseholds at a nominal cost (note 27).

73. In order to more accurately reflect the value of its land and buildings, an independent appraiser reviewed and updated the fair value of all properties as at 31 December 2018 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 2018 includes US\$6.4 million revaluation loss due to currency rate fluctuation. The net difference between historical cost and land and buildings valued at fair value is recognized as a separate component of the net assets as shown in note 19.

| US\$ (thousands) | 2018 | 2017 |
|---------------------------------|----------------|----------------|
| Land | | |
| Headquarters - Geneva | 290 879 | 303 155 |
| Lima | 3 881 | 3 650 |
| Abidjan | 584 | 582 |
| Santiago | 4 349 | 4 883 |
| Total land | 299 693 | 312 270 |
| Buildings | | |
| Headquarters - Geneva | 242 614 | 208 557 |
| Lima | 12 290 | 11 557 |
| Brasilia | 375 | 436 |
| Abidjan | 3 312 | 3 298 |
| Dar es Salaam | 2 233 | 2 590 |
| Buenos Aires | 339 | 756 |
| Islamabad | 478 | 572 |
| Santiago | 5 248 | 5 893 |
| Brussels | 682 | 669 |
| Total buildings | 267 571 | 234 328 |
| Total land and buildings | 567 264 | 546 598 |

74. One third of the headquarter building in Geneva was under renovation in 2018. The related capital expenditures are presented as "Additions" to "Buildings".

Leasehold improvements

75. 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 – Intangible assets

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

| (US\$ millions) | Software acquired externally | Software internally developed | Total |
|---|------------------------------|-------------------------------|--------------|
| Net carrying amount as at 31 December 2016 | 0.6 | 1.5 | 2.1 |
| Additions | 0.3 | 0.8 | 1.1 |
| Amortization | (0.2) | (0.5) | (0.7) |
| Subtotal 2017 movement | 0.1 | 0.3 | 0.4 |
| Closing balance as at 31 December 2017 | 0.7 | 1.8 | 2.5 |
| Gross carrying amount as at 31 December 2017 | 1.3 | 3.4 | 4.7 |
| Accumulated amortization | (0.6) | (1.6) | (2.2) |
| Net carrying amount as at 31 December 2017 | 0.7 | 1.8 | 2.5 |
| Additions | (0.1) | 0.3 | 0.2 |
| Amortization | (0.2) | (0.6) | (0.8) |
| Subtotal 2018 movement | (0.3) | (0.3) | (0.6) |
| Closing balance as at 31 December 2018 | 0.4 | 1.5 | 1.9 |
| Gross carrying amount as at 31 December 2018 | 1.2 | 3.7 | 4.9 |
| Accumulated amortization | (0.8) | (2.2) | (3.0) |
| Net carrying amount as at 31 December 2018 | 0.4 | 1.5 | 1.9 |

Note 14 – Deferred revenue

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

| (US\$ millions) | 2018 | 2017 |
|--|--------------|--------------|
| Deferred revenue – Current | | |
| Assessed contributions received in advance | 40.8 | 45.2 |
| Voluntary contributions receivable relating to signed agreements | 284.0 | 306.7 |
| Due to donors (including ITC) | 347.2 | 262.4 |
| Receivables relating to signed agreements on ITC training services | 5.8 | 2.0 |
| SHIF contributions received in advance | 0.7 | 0.7 |
| Other deferred revenue | 0.1 | 0.1 |
| Subtotal current deferred revenue | 678.6 | 617.1 |
| Deferred revenue – Non-current | | |
| Voluntary contributions receivable relating to signed agreements | 86.1 | 75.1 |
| Receivables relating to signed agreements on ITC training services | 7.2 | 0.6 |
| Subtotal non-current deferred revenue | 93.3 | 75.7 |
| Total deferred revenue | 771.9 | 692.8 |

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

Note 15 – Employee benefits

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

| (US\$ millions) | 2018 | 2017 |
|---|----------------|----------------|
| Current liabilities | | |
| Education grant | 5.5 | 3.0 |
| Accumulated leave | 22.8 | 20.8 |
| Home leave | 0.4 | 0.3 |
| Repatriation entitlements | 5.7 | 3.7 |
| ASHI liability | 26.5 | 27.9 |
| Subtotal current liabilities | 60.9 | 55.7 |
| Non-current liabilities | | |
| Accumulated leave | 11.9 | 12.9 |
| Repatriation entitlements | 38.9 | 42.7 |
| ASHI liability | 1 567.5 | 1 606.0 |
| Subtotal non-current liabilities | 1 618.3 | 1 661.6 |
| Total employee benefit liabilities | 1 679.2 | 1 717.3 |

Post-employment benefits

United Nations Joint Staff Pension Fund

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

81. The ILO's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

82. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements.

83. The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

84. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26.

85. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, 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 UNJSPF during the preceding three years (2015, 2016 and 2017) amounted to US\$6,931.3 million, of which 2.2 per cent was contributed by the ILO.

86. During 2018, the ILO's contributions paid to the UNJSPF amounted to US\$52.0 million (US\$51.0 million in 2017). Expected contributions due in 2019 are US\$54.7 million.

87. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid

to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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

After-service health insurance plan (ASHI)

89. An actuarial valuation carried out in 2018 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.

90. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's after-service medical care plans. The selection includes harmonized actuarial factors as applied across the UN system. For the 2018 valuation, the assumptions and methods used are as described below.

| Key financial assumptions | 2018 (%) | 2017 (%) |
|---------------------------------------|---|---|
| Discount rate | ILO: 1.57 | ILO: 1.34 |
| | ITC: 2.30 | ITC: 1.91 |
| | ISSA: 1.09 | ISSA: 0.84 |
| Rate of future compensation increases | UNJSPF rate (3.50 + 2017 salary scale) | UNJSPF rate (3.50 + 2017 salary scale) |
| Rate of pension increases | 2.50 | 2.50 |
| Medical inflation | 3.50 from 2018 decreasing by 0.10 per year to 3.20 | 3.60 from 2017 decreasing by 0.10 per year to 3.30 |

91. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds. Based on the plan duration, the discount rate has been determined for each major currency in which the SHIF incurs liabilities (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 21.8 years (22.5 years in 2017).

92. 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 plans (US\$ millions) | 2018 | 2017 |
|--|---------|---------|
| 1 percentage point increase in health-care trend rate – Effect on service and interest costs | 36.7 | 38.1 |
| 1 percentage point decrease in health-care trend rate – Effect on service and interest costs | (26.4) | (27.2) |
| 1 percentage point increase in health-care trend rate – Effect on DBO | 432.5 | 458.1 |
| 1 percentage point decrease in health-care trend rate – Effect on DBO | (330.0) | (347.9) |

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

| Sensitivity information for other key assumptions (% change) | 2018 (%) | 2017 (%) |
|---|-----------------|-----------------|
| 1 percentage point increase in discount rate – Effect on DBO | (18.9) | (18.8) |
| 1 percentage point decrease in discount rate – Effect on DBO | 25.5 | 25.5 |
| 1 percentage point increase in life expectancy – Effect on DBO | 4.4 | 4.4 |
| 1 percentage point decrease in life expectancy – Effect on DBO | (3.5) | (3.5) |

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

| (US\$ millions) | 2018 | 2017 |
|--|------------------|------------------|
| Defined benefit obligation beginning of year | 1 633.9 | 1 307.3 |
| Current service cost | 64.7 | 49.5 |
| Interest cost | 22.1 | 17.7 |
| Net benefits paid | (27.6) | (27.9) |
| Actuarial (gain) loss due to experience | 24.8 | 5.1 |
| Actuarial (gain) loss due to financial assumption changes | (123.9) | 125.6 |
| Actuarial (gain) loss due to demographic assumption changes | – | 156.6 |
| Defined benefit obligation, end of year | 1 594.0 | 1 633.9 |
| Consolidated statement of financial position asset (liability), beginning of year | (1 633.9) | (1 307.3) |
| Total (charge) credit for interest cost and current service cost | (86.8) | (67.2) |
| Net benefits paid | 27.6 | 27.9 |
| Total (charge) credit recognized in consolidated statement of financial performance | (59.2) | (39.3) |
| Total (charge) credit recognized in net assets | 99.1 | (287.3) |
| Consolidated statement of financial position liability, end of year | (1 594.0) | (1 633.9) |

95. Expenses related to interest cost and current services costs for 2018 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US\$826.1 million (cumulative net actuarial loss of US\$925.2 million as of 31 December 2017) 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\$56.3 million is available in a SHIF Guarantee Fund (US\$64.2 million as at 31 December 2017) to cover future liabilities of SHIF. In addition, an amount of US\$7.4 million has been accumulated to partially fund the ASHI liability. The total contribution paid to this ASHI liability reserve in 2018 was US\$1.3 million (US\$1.2 million in 2017).

96. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2018–19 includes a provision of US\$30 million for this purpose.

Repatriation entitlements

97. An actuarial valuation carried out in 2018 calculated the ILO's estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

98. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements

for the ILO's repatriation entitlements. For the 2018 valuation, the assumptions and methods used are as described below.

| Key financial assumptions | 2018 (%) | 2017 (%) |
|---|--|--|
| Discount rate | Repatriation entitlement: 4.19 End of service payment: 1.40 | Repatriation entitlement: 3.54 End of service payment: 1.28 |
| Rate of future compensation increases: Repatriation grant and End of service | UNJSPF rate (3.5 + 2017 UNJSPF scale) | UNJSPF rate (3.5 + 2017 UNJSPF scale) |
| Rate of future cost increases: Repatriation travel and removal costs | 1.3 | 1.3 |
| Probability of benefit claim | ILO repatriation grant: 74 ITC repatriation grant: 98 ILO travel and removal: 81 ITC travel and removal: 98 | ILO repatriation grant: 74 ITC repatriation grant: 95 ILO travel and removal: 81 ITC travel and removal: 95 |

99. The discount rates were determined for the currencies US dollar and euro by reference to the AA corporate bond yield curve in the respective currency as at 31 December 2018.

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

| (US\$ millions) | 2018 | 2017 |
|--|-------------------|-------------------|
| Defined benefit obligation, beginning of year | 46.4 | 46.8 |
| Current service cost | 2.8 | 2.9 |
| Past service costs | — | — |
| Interest cost | 1.4 | 1.5 |
| Net benefits paid | (2.5) | (3.5) |
| Actuarial (gain) loss due to experience | (1.1) | (2.0) |
| Actuarial (gain) loss due to demographic assumption changes | 0.1 | 1.2 |
| Actuarial (gain) loss due to financial assumption changes | (2.0) | (1.9) |
| Foreign currency exchange rate changes | (0.5) | 1.4 |
| Defined benefit obligation, end of year | 44.6 | 46.4 |
| Consolidated statement of financial position asset (liability), beginning of year | (46.4) | (46.8) |
| Total (charge) credit for interest cost and current service cost | (4.1) | (4.4) |
| Net benefits paid | 2.5 | 3.5 |
| Foreign currency exchange rate changes | 0.5 | (1.4) |
| Total (charge) credit recognized in consolidated statement of financial performance | (1.1) | (2.3) |
| Total (charge) credit recognized in net assets | 2.9 | 2.7 |
| Consolidated statement of financial position liability, end of year | (44.6) | (46.4) |

101. Expenses related to interest cost and current services costs for 2018 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial gains of US\$7.2 million (cumulative net actuarial gains of US\$4.2 million as at 31 December 2017) have been recognized in net assets. In accordance with IPSAS-39, no plan assets have been offset against the liability, however, an amount

of US\$47.1 million has been accumulated by the ILO in the Terminal Benefits Fund (US\$44.6 million as at 31 December 2017) to partially cover the repatriation grant. The total contribution paid to this Terminal Benefits Fund in 2018 was US\$4.8 million (US\$4.8 million in 2017).

Note 16 – Borrowings

102. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organisations (FIPOI). Drawdowns on the first loan began in 1967 for the construction of the ILO's headquarters building, and in 2017 on the second loan for its subsequent renovation.

| (US\$ millions) | 2018 | 2017 |
|--|-------------|-------------|
| Nominal value 1967 borrowings for the HQ building construction | 26.3 | 30.3 |
| Nominal value 2017 borrowings for the HQ building renovation | 43.6 | 3.1 |
| Nominal value at end of period | 69.9 | 33.4 |
| Carrying amount 1967 borrowings for the HQ building construction | 24.2 | 27.6 |
| Carrying amount 2017 borrowings for the HQ building renovation | 43.6 | 3.1 |
| Carrying amount at end of period | 67.8 | 30.7 |

Construction loan – 1967

103. This borrowing consists of a loan in Swiss francs made in 1967 to the ILO from the FIPOI for the construction of the ILO's headquarters building with an original interest rate based on market rates. The interest was subsequently waived by the Swiss Confederation in 1996. The loan is unsecured. The outstanding amount of CHF26.3 million for the 1967 borrowing is reflected in US\$ at amortized cost (US\$24.2 million).

| (US\$ millions) | 2018 | 2017 |
|---|--------------|--------------|
| Nominal value at beginning of period | 30.3 | 32.5 |
| Repaid in current period | (3.7) | (3.8) |
| Exchange rate effect | (0.3) | 1.6 |
| Nominal value at end of period | 26.3 | 30.3 |
| Fair value adjustment beginning of period | (2.7) | (3.2) |
| Exchange rate effect | – | (0.1) |
| Amortization using effective interest rate | 0.6 | 0.6 |
| Fair value adjustment end of period | (2.1) | (2.7) |
| Total borrowings | 24.2 | 27.6 |

104. The loan is repayable in annual instalments and the final payment will be due in 2025. The annual payments in nominal value (CHF3.7 million per year) are as follows:

| (US\$ millions) | 2018 | 2017 |
|--|-------------|-------------|
| Payments due next year | 3.8 | 3.8 |
| Payments due from second to fifth year (CHF3.7 million per year) | 15.0 | 15.1 |
| Payments due after five years | 7.5 | 11.4 |
| Nominal value at end of period | 26.3 | 30.3 |

Renovation loan – 2017

105. At its 309th Session in November 2010, the ILO Governing Body approved the comprehensive plan for the renovation of the ILO headquarters building in Geneva. The financing of the project was approved in June 2015. The International Labour Conference authorized the ILO Director-General to contract a loan with the FIPOI for the partial financing of the renovation.

106. In September 2016, the Swiss Confederation agreed to provide through the FIPOI a loan to the ILO of up to CHF70 million. Following the approval of the Federal Government in late 2016, the loan agreement with the FIPOI was signed in April 2017. The loan will be received by the ILO in quarterly instalments over the period September 2017 to December 2019. A total of US\$43.6 million has been received as of 31 December 2018 (US\$3.1 million as of 31 December 2017).

107. The loan will be repaid over 30 years, with the first instalment due at the end of the year the renovation is completed, or in 2020 at the latest.

108. The annual interest rate is fixed at 0.5 per cent. Interest charges will commence once the total loan has been received, or in 2020 at the latest.

Note 17 – Due to member States

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

| (US\$) | 2018 | 2017 |
|---|-------------------|-------------------|
| Undistributed surpluses of prior periods | 108 478 | 109 689 |
| Undistributed net premia of prior periods | 242 577 | 311 101 |
| Undistributed 50 per cent of net premia | 6 627 631 | 6 688 621 |
| Subtotal | 6 978 686 | 7 109 412 |
| Incentive Fund | 7 077 893 | 7 025 278 |
| Total payable to member States | 14 056 579 | 14 134 690 |
| ■ Due to member States – Current | 11 132 475 | 190 882 |
| ■ Due to member States – Non-current | 2 924 104 | 13 943 808 |

110. 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 2018 amount is included as a separate element of the accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

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

- *Net premium* – Article 11(5) and (7) provides for distribution to member States of one half of any net premium earned on the forward purchasing transactions between US dollars and Swiss francs to member States apportioned on the basis of the proportion of the total of each member State's assessed contributions during the biennium in which the net premium was earned and credited against assessed contributions payable in the next financial period. The remaining one half of the net premium is transferred to the Incentive Fund. 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\$) | 2018 | 2017 |
|---|------------------|------------------|
| Interest earned in current year | 239 918 | 212 279 |
| Interest earned in prior year | 210 344 | 124 378 |
| Total interest earned | 450 262 | 336 657 |
| 50 per cent of net premium | 6 627 631 | 6 688 622 |
| Total available in Incentive Fund | 7 077 893 | 7 025 278 |

Note 18 – Other current liabilities

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

| (US\$ millions) | 2018 | 2017 |
|---|-------------|-------------|
| Due to ITU | – | 1.8 |
| Provisions for contingencies | 3.9 | 0.9 |
| Pass-through funds held as administrative agent | 5.8 | 5.2 |
| Other | 2.1 | 1.9 |
| Total other current liabilities | 11.8 | 9.8 |

113. The amount due to the ITU – US\$1.8 million in 2017 – represented the accumulated accounting of the ITU's transactions during its period of affiliation to the SHIF. Following its withdrawal from the SHIF, this amount was contested by the ITU and brought to arbitration proceedings that were completed in 2018. The arbitrator's decision resulted in a revised determination of the ITU share of the SHIF net assets, and an additional US\$7.5 million was transferred from the ILO's SHIF reserves to the ITU. The resulting payment of US\$9.3 million was made to the ITU in 2018 and the revised ILO share of the guarantee fund is presented in note 19.

114. 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.

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

| (US\$ millions) | 2018 | 2017 |
|--|------------|------------|
| Balance as at 1 January | 0.9 | 0.3 |
| Additional provisions raised during the period | 3.8 | 0.6 |
| Provisions used during the period | – | – |
| Unused provisions reversed during the period | (0.8) | – |
| Balance as at 31 December | 3.9 | 0.9 |

116. The significant increase in provisions for contingencies arises from the claims filed in respect of the International Civil Service Commission decision to reduce the post adjustment in Geneva.

Note 19 – Reserves and accumulated balances

117. 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.
 - *Extra-budgetary 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.

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

| (US\$ thousands) | 2018 | 2017 |
|---|------------------|------------------|
| Reserves | | |
| Working Capital Fund | 35 461 | – |
| Income Adjustment Account | 63 603 | 28 381 |
| Terminal Benefit Fund | 47 117 | 44 207 |
| Fidelity Guarantee Fund | 1 361 | 1 349 |
| Extra-budgetary Fund | 25 | 25 |
| SHIF Guarantee Fund | 56 273 | 64 167 |
| ASHI Liability Reserve | 7 366 | 6 025 |
| ITC's Working Capital Fund | 2 283 | 2 882 |
| Total reserves | 213 489 | 147 036 |
| Accumulated balances | | |
| Employee benefits | (1 383 155) | (1 485 368) |
| Revaluation surplus of land and buildings | 346 240 | 369 733 |
| Value of outstanding derivatives | 3 415 | 4 223 |
| Translation difference | (4 980) | (4 159) |
| Accumulated surplus | 195 634 | 299 922 |
| Total accumulated balances | (842 846) | (815 649) |
| Total net assets | (629 357) | (668 613) |

Note 20 – Expenses

119. 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 21 – Financial instruments

120. 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 |

121. 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).

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

Financial risk management

123. 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

124. 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

125. 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.

126. 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.

127. 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.

128. 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.

129. 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.

130. The table below shows the impact on surplus/deficit and net assets as of 31 December 2018, if the major currencies to which the Organization was exposed, weakened or strengthened by 5 per cent against the US dollar:

| (US\$ millions) | Impact on surplus/deficit | | Impact on net assets | |
|--|---------------------------|----------------|----------------------|----------------|
| | CHF ¹ | € ² | CHF ¹ | € ² |
| 5 per cent depreciation of the foreign currency against US\$: | | | | |
| Financial assets and liabilities other than derivative instruments | (11.9) | (1.0) | – | – |
| Derivative instruments | – | – | 8.0 | – |
| Total impact | (11.9) | (1.0) | 8.0 | – |
| 5 per cent appreciation of the foreign currency against US\$: | | | | |
| Financial assets and liabilities other than derivative instruments | 13.2 | 1.1 | – | – |
| Derivative instruments | – | – | (8.8) | – |
| Total impact | 13.2 | 1.1 | (8.8) | – |

¹ The UN operational rate of exchange was US\$1 = CHF0.987 as at 31 December 2018.

² The UN operational rate of exchange was US\$1 = €0.876 as at 31 December 2018.

131. 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.

132. 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

133. 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.

134. 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\$3.5 million. The ILO believes that it is not subject to significant interest rate risk. The

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

Credit risk

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

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

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

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

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

| Credit rating ¹ | Cash and cash equivalents | | Investments | |
|----------------------------|------------------------------------|--------------|------------------------------------|--------------|
| | Carrying amount (US\$ millions) | % | Carrying amount (US\$ millions) | % |
| AAA | – | – | 34.9 | 6.9 |
| AA | 152.3 | 42.5 | 41.8 | 8.3 |
| A | 190.3 | 52.9 | 315.7 | 62.6 |
| BBB | 5.2 | 1.4 | 1.8 | 0.4 |
| <BBB | 9.7 | 2.7 | – | – |
| Not rated | 1.9 ² | 0.5 | 110.0 ³ | 21.8 |
| Total | 359.4 | 100.0 | 504.2 | 100.0 |

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

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

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

140. The ILO manages its exposure to derivative counterparty credit risk by contracting primarily with reputable financial institutions (A rated). As at the end of the year, the rating of derivatives counterparties was A to AA within a maximum exposure of US\$9.2 million.

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

Liquidity risk

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

143. The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US\$1,042.0 million are sufficient to settle its current financial liabilities of US\$804.9 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

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

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

Note 22 – Operating leases

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

147. The total amount paid by the ILO to other UN agencies for leases under cost-sharing agreements based on the reimbursement of actual cost incurred was US\$2.2 million in 2018 (US\$1.9 million in 2017).

148. The total amount of lease and sublease expense recognized in 2018 was US\$11.7 million (US\$10.3 million in 2017).

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

| (US\$ millions) | 2018 | 2017 |
|---|------------|------------|
| Within one year | 0.5 | 0.6 |
| Later than one year and not later than five years | 1.7 | 1.7 |
| Later than five years | 0.4 | 0.8 |
| Total operating lease commitments | 2.6 | 3.1 |

150. The total amount of rent earned under contingent lease agreements in 2018 was US\$0.9 million (US\$0.6 million in 2017), 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 23 – Statement of comparison of budget and actual amounts

151. The ILO does not publish a consolidated budget. Consequently, separate statements of comparison of budget and actual amounts are prepared for each of the published budgets: the regular budget adopted by the 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.

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

Basis difference

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

Timing difference

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

Entity difference

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

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

| (US\$ thousands) | Regular budget | CINTERFOR | ITC | Other funds and eliminations | Total |
|--|----------------|-------------|----------------|------------------------------|-----------------|
| Net result per budgetary basis (Statement V) | 7 043 | 175 | 1 122 | – | 8 340 |
| Reconciling items from budgetary basis to IPSAS basis: | | | | | |
| Reimbursement of 2016-17 deficit financing | 69 386 | – | – | – | 69 386 |
| Treatment of exchange differences | 4 137 | – | 267 | – | 4 404 |
| Provision for assessed contributions receivable | (60 855) | – | – | – | (60 855) |
| Amortization of receivable from member States with financial arrangement | 253 | – | – | – | 253 |
| Recognition of inventory | (152) | – | – | – | (152) |
| Recognition of property and equipment | (1 335) | (16) | (415) | – | (1 766) |
| Recognition of intangible assets | (312) | – | – | – | (312) |
| Accrual of employee benefits | 836 | (7) | – | – | 829 |
| Provision for contingencies | (2 827) | – | – | – | (2 827) |
| Unrealized gain from forward purchase agreements | 2 683 | – | – | – | 2 683 |
| Accrual for ITC training services | (138) | – | – | – | (138) |
| Use of prior year surplus (ITC) | – | – | (661) | – | (661) |
| Delivery adjustment relating to ILO (ITC) | – | – | 55 | – | 55 |
| Entity difference (ITC) | – | – | (296) | – | (296) |
| Subsidiary funds | – | – | – | (49 177) | (49 177) |
| Total difference | 11 676 | (23) | (1 050) | (49 177) | (38 574) |
| Net result per IPSAS basis | 18 719 | 152 | 72 | (49 177) | (30 234) |

157. The following table provides a reconciliation between Statement V and Statement IV for the year ended 31 December 2018:

| (US\$ thousands) | Operating | Investing | Financing | Total |
|--|----------------|------------------|---------------|---------------|
| Regular budget net result (Statement V-A) | 7 043 | – | – | 7 043 |
| CINTERFOR net result (Statement V-B) | 175 | – | – | 175 |
| ITC net result (Statement V-C) | 1 122 | – | – | 1 122 |
| Total surplus on budgetary basis | 8 340 | – | – | 8 340 |
| Total net result on basis comparable to the adopted budgets: | | | | |
| Timing difference | – | – | – | – |
| Basis difference | 13 142 | (1 815) | – | 11 327 |
| Entity difference | 141 343 | (176 194) | 36 782 | 1 931 |
| Net cash flows | 162 825 | (178 009) | 36 782 | 21 598 |
| Effect of exchange rates on cash and cash equivalents | | | | (4 063) |
| Actual amount in the consolidated statement of cash flow (Statement IV) | | | | 17 535 |

Note 24 – Related party disclosures

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

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

| Category | 2018 | | 2017 | |
|----------------|--------------------------|---------------------|--------------------------|---------------------|
| | Individuals ¹ | Remuneration (US\$) | Individuals ¹ | Remuneration (US\$) |
| Key management | 12.8 | 4 246 523 | 13.0 | 4 447 875 |

¹ Full-time equivalent.

160. There were no advances granted or outstanding to key management personnel in 2018 (US\$80,854 granted and US\$51,018 outstanding as of 31 December 2017).

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

162. There were related party transactions involving key management personnel in 2018 totalling US\$156,950 (US\$146,557 in 2017). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 25 – Revenue from non-exchange transactions

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

| (US\$ millions) | 2018 | 2017 |
|---|--------------|--------------|
| Assessed contributions from member States | 386.8 | 360.1 |
| Voluntary contributions to development cooperation projects, RBSA, and gifts and grants | 261.1 | 246.7 |
| ITC training services and other non-exchange revenue | 17.8 | 14.4 |
| Total revenue from non-exchange transactions | 665.7 | 621.2 |
| Receivables from assessed contributions (note 5) | 85.2 | 145.8 |
| Receivables from voluntary contributions (note 6) | 382.7 | 386.0 |
| Total receivables from non-exchange transactions | 467.9 | 531.8 |
| Liabilities recognized for conditional voluntary contributions | 370.1 | 381.8 |
| Liabilities recognized for ITC training services | 13.0 | 2.5 |
| Advance receipts from assessed contributions | 40.8 | 45.2 |

Note 26 – Contingent assets and liabilities and commitments

Contingent assets

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

| (US\$ millions) | 2018 |
|--|--------------|
| Member State contribution assessed for 2018–19 ¹ | 404.2 |
| Revenue from voluntary ITC training services covering future periods | 9.0 |
| Contributions to the RBSA covering future periods | 15.4 |
| Total contingent assets | 428.6 |

¹ CHF392.1 million at the budget rate of exchange of US\$1 = CHF0.97 adopted by the ILC for the 2018–19 biennium.

Contingent liabilities

165. The ILO has contingent liabilities of US\$0.1 million for claims or legal actions related to the ILO Administrative Tribunal (US\$0.2 million as at 31 December 2017).

Commitments

166. Outstanding contracts for renovation of the headquarters building totalled US\$29.4 million as at 31 December 2018 (US\$84.1 million as at 31 December 2017).

167. Future minimum lease rental payments for non-cancellable leases are presented in note 22.

Note 27 – Contributions in kind

168. 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 28 – Segment reporting

169. 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.

170. 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 23).

Consolidated statement of financial performance by segment for the year ended 31 December 2018 (US\$ millions)

| | Funds with approved budgets: | | | | Voluntary contribution activities | Subsidiary funds | Intersegments transfers elimination | Total |
|---|------------------------------|------------|--------------|--------------|-----------------------------------|------------------|-------------------------------------|---------------|
| | Regular budget | CINTERFOR | ITC | Subtotal | | | | |
| Revenue | | | | | | | | |
| Assessed contributions | 386.8 | – | – | 386.8 | – | – | – | 386.8 |
| Voluntary contributions | – | 1.9 | 15.6 | 17.5 | 248.3 | 106.0 | (110.7) | 261.1 |
| ITC training services | – | – | 25.5 | 25.5 | – | – | (9.1) | 16.4 |
| Programme support income | – | – | – | – | – | 23.9 | (23.9) | – |
| Staff/retiree benefit contributions | – | – | – | – | – | 48.2 | (26.5) | 21.7 |
| Sales and royalties | – | – | 1.2 | 1.2 | – | 5.3 | 5.8 | 12.3 |
| Investment income | – | – | 0.1 | 0.1 | 3.2 | 4.2 | 0.1 | 7.6 |
| Other income | – | – | 1.0 | 1.0 | 7.2 | 1.3 | (7.1) | 2.4 |
| Total revenue | 386.8 | 1.9 | 43.4 | 432.1 | 258.7 | 188.9 | (171.4) | 708.3 |
| Expenses | | | | | | | | |
| Salaries, employee benefits and other personnel costs | 250.9 | 1.4 | 21.4 | 273.7 | 93.6 | 86.1 | (17.5) | 435.9 |
| Travel | 11.9 | 0.1 | 3.7 | 15.7 | 10.1 | 1.8 | (0.3) | 27.3 |
| Subcontracts | 20.9 | 0.1 | 8.3 | 29.3 | 84.3 | 1.8 | (2.1) | 113.3 |
| General operating expenses | 30.4 | 0.1 | 4.5 | 35.0 | 9.6 | 2.0 | (1.4) | 45.2 |
| Supplies, materials and small equipment | 3.1 | – | 0.8 | 3.9 | 3.1 | 0.1 | – | 7.1 |
| Depreciation and amortization | 2.1 | – | 1.1 | 3.2 | – | 6.4 | – | 9.6 |
| Seminars, workshops and other training | 9.5 | 0.1 | 3.8 | 13.4 | 25.7 | 0.6 | (5.4) | 34.3 |
| Staff development | 4.7 | – | – | 4.7 | – | – | (0.5) | 4.2 |
| Health benefits | – | – | – | – | – | 48.1 | – | 48.1 |
| Contributions and grants in aid | 36.2 | – | – | 36.2 | 2.3 | 90.6 | (119.8) | 9.3 |
| Programme support costs | – | – | – | – | 24.3 | – | (24.3) | – |
| Finance expenses | (0.2) | – | 0.1 | (0.1) | 0.4 | 1.6 | – | 1.9 |
| Other expenses | 4.9 | – | – | 4.9 | 0.4 | 0.5 | – | 5.8 |
| Total expenses | 374.4 | 1.8 | 43.7 | 419.9 | 253.8 | 239.6 | (171.3) | 742.0 |
| Foreign exchange gains/(losses) | 6.3 | – | 0.2 | 6.5 | (0.7) | (2.3) | – | 3.5 |
| Net surplus (deficit) | 18.7 | 0.1 | (0.1) | 18.7 | 4.2 | (53.0) | (0.1) | (30.2) |

Consolidated statement of financial performance by segment for the year ended 31 December 2017 (US\$ millions)

| | Funds with approved budgets | | | | Voluntary contribution activities | Subsidiary funds | Inter-segments transfers elimination | Total |
|---|-----------------------------|--------------|--------------|---------------|-----------------------------------|------------------|--------------------------------------|---------------|
| | Regular budget | CINTERFOR | ITC | Subtotal | | | | |
| Revenue | | | | | | | | |
| Assessed contributions | 360.1 | – | – | 360.1 | – | – | – | 360.1 |
| Voluntary contributions | – | 0.5 | 14.9 | 15.4 | 234.9 | 0.5 | (4.1) | 246.7 |
| ITC training services | – | – | 24.8 | 24.8 | – | – | (10.4) | 14.4 |
| Programme support income | – | – | – | – | – | 21.9 | (21.9) | – |
| Staff/retiree benefit contributions | – | – | – | – | – | 21.3 | 0.3 | 21.6 |
| Sales and royalties | – | – | 1.3 | 1.3 | 5.9 | 5.8 | (0.8) | 12.2 |
| Investment income | – | – | 0.1 | 0.1 | 1.3 | 6.3 | – | 7.7 |
| Inter-segment contribution | – | 1.2 | – | 1.2 | – | 87.3 | (88.5) | – |
| Gain on sale of investment property | – | – | – | – | – | – | – | – |
| Other income | – | – | 1.0 | 1.0 | – | 0.2 | (0.4) | 0.8 |
| Total revenue | 360.1 | 1.7 | 42.1 | 403.9 | 242.1 | 143.3 | (125.8) | 663.5 |
| Expenses | | | | | | | | |
| Salaries, employee benefits and other personnel costs | 266.1 | 1.4 | 20.6 | 288.1 | 86.6 | 60.6 | (19.2) | 416.1 |
| Travel | 12.1 | 0.1 | 3.6 | 15.8 | 9.0 | 1.4 | (0.5) | 25.7 |
| Subcontracts | 33.3 | – | 8.9 | 42.2 | 83.4 | 2.4 | (2.3) | 125.7 |
| General operating expenses | 31.9 | 0.1 | 3.7 | 35.7 | 7.0 | 1.8 | (1.2) | 43.3 |
| Supplies, materials and small equipment | 5.2 | – | 0.9 | 6.1 | 3.6 | 0.4 | – | 10.1 |
| Depreciation and amortization | 1.8 | – | 1.1 | 2.9 | – | 5.3 | – | 8.2 |
| Seminars, workshops and other training | 14.7 | 0.1 | 3.7 | 18.5 | 27.2 | 0.9 | (6.5) | 40.1 |
| Staff development | 6.3 | – | – | 6.3 | – | – | (0.6) | 5.7 |
| Health benefits | – | – | – | – | – | 48.4 | 0.1 | 48.5 |
| Contributions and grants in aid | 32.8 | – | – | 32.8 | 1.7 | 47.2 | (73.4) | 8.3 |
| Programme support costs | – | – | – | – | 22.3 | – | (22.3) | – |
| Finance expenses | – | – | 0.1 | 0.1 | 0.4 | 1.6 | – | 2.1 |
| Other expenses | 3.1 | – | – | 3.1 | – | (0.9) | – | 2.2 |
| Total expenses | 407.3 | 1.7 | 42.6 | 451.6 | 241.2 | 169.1 | (125.9) | 736.0 |
| Foreign exchange gains/(losses) | 36.9 | – | (1.2) | 35.7 | (0.6) | 8.2 | – | 43.3 |
| Net surplus (deficit) | (10.3) | (0.0) | (1.7) | (12.0) | 0.3 | (17.6) | 0.1 | (29.2) |

Note 29 – 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 2018 (in CHF)

| Details | Balance due as at 1.1.2018 ⁽¹⁾ | Assessed Contributions 2018 | Total amounts due | Amount received or credited ⁽²⁾ 31.12.2018 | 2017 | Total income | Balance due as at 31.12.2018 |
|--|---|-----------------------------------|----------------------|--|----------|--------------------|------------------------------------|
| A. Assessed contributions for 2018: | | | | | | | |
| 2018 – Assessed with the budget | | 380 298 200 | 380 298 200 | 305 592 312 | | 305 592 312 | 74 705 888 |
| Total assessed contributions for 2018 | | 380 298 200 | 380 298 200 | 305 592 312 | - | 305 592 312 | 74 705 888 |
| B. Assessed contributions for previous financial periods due from member States | 158 763 278 | | 158 763 278 | 131 215 598 | - | 131 215 598 | 27 547 680 |
| 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 | 165 378 967 | - | 165 378 967 | 131 215 598 | - | 131 215 598 | 34 163 369 |
| Total 2018 | 165 378 967 | 380 298 200 | 545 677 167 | 436 807 910 | - | 436 807 910 | 108 869 257 |
| Total 2016–17 | 111 459 218 | 757 529 634 | 868 988 852 | 703 609 885 | - | 703 609 885 | 165 378 967 |

Balance in US dollars at the United Nations rate of exchange for 31 December 2018 (0.987 Swiss francs to the dollar)

Less: prepayments of financial arrangements

Assessed contributions receivable in US dollars

⁽¹⁾ Excludes assessed contributions for 2018.

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

The Incentive Scheme for 2016

50 per cent Net Premium for prior years

Surplus for prior years

Total credits

In Swiss francs

121 641

64 834

208

186 683

110 303 199

(2 012 978)

108 290 221

Note 30 – Assessed contributions – Detailed information

**Assessed contributions of member States and amounts due
by States for prior periods of membership in the ILO
Details for the year ended 31 December 2018 (in CHF)**

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|---------------------------------|--|------------|-----------------------------------|------------------------------------|--|-------------------------------|------------------------------------|------------------------------------|----------------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Afghanistan (2) | 0.006 | 22 818 | - | 22 818 | 42 648 | - | 42 648 | 2015–17 | 65 466 |
| Albania | 0.008 | 30 424 | 30 424 | - | 27 625 | 27 625 | - | | - |
| Algeria | 0.161 | 612 280 | 612 280 | - | - | - | - | | - |
| Angola | 0.010 | 38 030 | 38 030 | - | - | - | - | | - |
| Antigua and Barbuda | 0.002 | 7 606 | 7 606 | - | 141 859 | 141 859 | - | | - |
| Argentina | 0.893 | 3 396 063 | 881 | 3 395 182 | 2 614 329 | 2 614 329 | - | | 3 395 182 |
| Armenia (4) | 0.006 | 22 818 | 22 818 | - | 951 666 | 120 000 | 831 666 | 1994–2004 | 831 666 |
| Australia | 2.338 | 8 891 372 | 8 891 372 | - | - | - | - | | - |
| Austria | 0.720 | 2 738 147 | 2 738 147 | - | - | - | - | | - |
| Azerbaijan (4) | 0.060 | 228 179 | 228 179 | - | 2 158 904 | 247 743 | 1 911 161 | 1995–2005 | 1 911 161 |
| Bahamas | 0.014 | 53 242 | 53 242 | - | - | - | - | | - |
| Bahrain | 0.044 | 167 331 | 167 331 | - | - | - | - | | - |
| Bangladesh | 0.010 | 38 030 | 38 030 | - | - | - | - | | - |
| Barbados | 0.007 | 26 621 | 26 621 | - | - | - | - | | - |
| Belarus | 0.056 | 212 967 | 212 967 | - | - | - | - | | - |
| Belgium | 0.885 | 3 365 639 | 3 365 639 | - | - | - | - | | - |
| Belize | 0.001 | 3 803 | 3 803 | - | 7 572 | 7 572 | - | | - |
| Benin | 0.003 | 11 409 | 10 | 11 399 | 11 447 | - | 11 447 | 2016–17 | 22 846 |
| Bolivia, Plurinational State of | 0.012 | 45 636 | 18 | 45 618 | 45 448 | 45 434 | 14 | 2017 | 45 632 |
| Bosnia and Herzegovina | 0.013 | 49 439 | 49 439 | - | - | - | - | | - |
| Botswana | 0.014 | 53 242 | 53 242 | - | - | - | - | | - |
| Brazil | 3.825 | 14 546 406 | 5 984 | 14 540 422 | 25 605 289 | 25 605 289 | - | | 14 540 422 |
| Brunei Darussalam | 0.029 | 110 286 | 110 286 | - | - | - | - | | - |
| Bulgaria | 0.045 | 171 134 | 171 134 | - | - | - | - | | - |
| Burkina Faso | 0.004 | 15 212 | 15 212 | - | - | - | - | | - |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|----------------------------------|---------------------------------------|------------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Burundi | 0.001 | 3 803 | 3 803 | - | - | - | - | - | |
| Cabo Verde | 0.001 | 3 803 | 3 803 | - | 9 431 | 9 431 | - | - | |
| Cambodia | 0.004 | 15 212 | 15 212 | - | - | - | - | - | |
| Cameroon | 0.010 | 38 030 | - | 38 030 | 72 087 | - | 72 087 | 2016-17 | 110 117 |
| Canada | 2.922 | 11 112 313 | 11 112 313 | - | - | - | - | - | |
| Central African Republic (4) | 0.001 | 3 803 | 3 635 | 168 | 49 475 | 8 515 | 40 960 | 1998-2000+2004-07 | 41 128 |
| Chad | 0.005 | 19 015 | - | 19 015 | 26 429 | - | 26 429 | 2016-17 | 45 444 |
| Chile | 0.399 | 1 517 390 | 1 517 390 | - | - | - | - | - | |
| China | 7.924 | 30 134 829 | 30 134 829 | - | - | - | - | - | |
| Colombia | 0.322 | 1 224 560 | - | 1 224 560 | 2 871 622 | 1 927 335 | 944 287 | 2017 | 2 168 847 |
| Comoros (2) | 0.001 | 3 803 | - | 3 803 | 467 634 | - | 467 634 | 1985-2017 | 471 437 |
| Congo | 0.006 | 22 818 | - | 22 818 | 4 098 | - | 4 098 | 2017 | 26 916 |
| Cook Islands | 0.001 | 3 803 | 3 792 | 11 | - | - | - | - | 11 |
| Costa Rica | 0.047 | 178 740 | 178 740 | - | 12 | 12 | - | - | |
| Côte d'Ivoire | 0.009 | 34 227 | 34 227 | - | - | - | - | - | |
| Croatia | 0.099 | 376 495 | 376 495 | - | - | - | - | - | |
| Cuba | 0.065 | 247 194 | 63 | 247 131 | 53 009 | 51 753 | 1 256 | 2017 | 248 387 |
| Cyprus | 0.043 | 163 528 | 163 528 | - | - | - | - | - | |
| Czech Republic | 0.344 | 1 308 226 | 1 308 226 | - | - | - | - | - | |
| Democratic Republic of the Congo | 0.008 | 30 424 | 6 | 30 418 | 22 596 | - | 22 596 | 2017 | 53 014 |
| Denmark | 0.584 | 2 220 941 | 2 220 941 | - | - | - | - | - | |
| Djibouti (2) | 0.001 | 3 803 | - | 3 803 | 109 604 | - | 109 604 | 1996+1998-2017 | 113 407 |
| Dominica (2) | 0.001 | 3 803 | - | 3 803 | 45 069 | 7 573 | 37 496 | 2008-2017 | 41 299 |
| Dominican Republic | 0.046 | 174 937 | 174 937 | - | 9 702 | 9 702 | - | - | |
| Ecuador | 0.067 | 254 800 | - | 254 800 | 409 783 | - | 409 783 | 2016-17 | 664 583 |
| Egypt | 0.152 | 578 053 | - | 578 053 | - | - | - | - | 578 053 |
| El Salvador | 0.014 | 53 242 | 139 | 53 103 | 169 492 | 169 492 | - | - | 53 103 |
| Equatorial Guinea (2) | 0.010 | 38 030 | - | 38 030 | 209 537 | - | 209 537 | 2012-17 | 247 567 |
| Eritrea | 0.001 | 3 803 | 3 803 | - | - | - | - | - | |
| Estonia | 0.038 | 144 513 | 144 513 | - | - | - | - | - | |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|--|---------------------------------------|------------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Eswatini (formerly known as Swaziland) | 0.002 | 7 606 | 7 606 | - | - | - | - | - | |
| Ethiopia | 0.010 | 38 030 | 20 | 38 010 | 37 861 | 37 861 | - | 38 010 | |
| Fiji | 0.003 | 11 409 | 11 409 | - | - | - | - | - | |
| Finland | 0.456 | 1 734 160 | 1 734 160 | - | - | - | - | - | |
| France | 4.861 | 18 486 295 | 18 486 295 | - | - | - | - | - | |
| Gabon (2) | 0.017 | 64 651 | 21 | 64 630 | 244 665 | - | 244 665 | 2014-17 | |
| Gambia (2) | 0.001 | 3 803 | - | 3 803 | 67 767 | - | 67 767 | 1999-2017 | |
| Georgia (4) | 0.008 | 30 424 | 30 424 | - | 875 493 | 430 066 | 445 427 | 1998-2004 | |
| Germany | 6.392 | 24 308 661 | 24 308 661 | - | - | - | - | - | |
| Ghana | 0.016 | 60 848 | 60 848 | - | 64 093 | 64 093 | - | - | |
| Greece | 0.471 | 1 791 204 | 1 791 204 | - | - | - | - | - | |
| Grenada (2) | 0.001 | 3 803 | - | 3 803 | 18 728 | 3 783 | 14 945 | 2014-17 | |
| Guatemala | 0.028 | 106 483 | 106 483 | - | - | - | - | - | |
| Guinea | 0.002 | 7 606 | 86 | 7 520 | - | - | - | 7 520 | |
| Guinea-Bissau (2) | 0.001 | 3 803 | - | 3 803 | 279 389 | - | 279 389 | 1992-2001+2003-17 | |
| Guyana | 0.002 | 7 606 | 7 606 | - | - | - | - | - | |
| Haiti | 0.003 | 11 409 | 7 | 11 402 | 5 | - | 5 | 2017 | |
| Honduras | 0.008 | 30 424 | 30 424 | - | - | - | - | - | |
| Hungary | 0.161 | 612 280 | 612 280 | - | - | - | - | - | |
| Iceland | 0.023 | 87 469 | 87 469 | - | - | - | - | - | |
| India | 0.737 | 2 802 798 | 2 802 798 | - | - | - | - | - | |
| Indonesia | 0.504 | 1 916 703 | 1 916 703 | - | - | - | - | - | |
| Iran Islamic Republic of | 0.471 | 1 791 204 | 1 069 | 1 790 135 | 2 004 404 | 1 328 608 | 675 796 | 2017 | |
| Iraq (4) | 0.129 | 490 585 | 5 | 490 580 | 3 840 914 | 793 215 | 3 047 699 | 1996-2007 | |
| Ireland | 0.335 | 1 273 999 | 1 273 999 | - | - | - | - | - | |
| Israel | 0.430 | 1 635 282 | 1 616 160 | 19 122 | 284 122 | 284 122 | - | 19 122 | |
| Italy | 3.750 | 14 261 182 | 14 261 182 | - | 847 427 | 847 427 | - | - | |
| Jamaica | 0.009 | 34 227 | 34 227 | - | - | - | - | - | |
| Japan | 9.684 | 36 828 078 | 36 828 078 | - | - | - | - | - | |
| Jordan | 0.020 | 76 060 | 76 060 | - | 75 692 | 75 692 | - | - | |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|----------------------------------|---------------------------------------|-----------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Kazakhstan (4) | 0.191 | 726 369 | 726 369 | - | 772 012 | 257 335 | 514 677 | 1998-99 | 514 677 |
| Kenya | 0.018 | 68 454 | 21 512 | 46 942 | 87 084 | 87 084 | - | | 46 942 |
| Kiribati | 0.001 | 3 803 | 1 | 3 802 | 7 802 | 3 940 | 3 862 | 2016-17 | 7 664 |
| Korea Republic of | 2.040 | 7 758 083 | 7 758 083 | - | - | - | - | | - |
| Kuwait | 0.285 | 1 083 850 | 666 | 1 083 184 | 1 079 467 | - | 1 079 467 | 2017 | 2 162 651 |
| Kyrgyzstan (4) | 0.002 | 7 606 | 7 606 | - | 1 166 323 | 58 316 | 1 108 007 | 1992-2017 | 1 108 007 |
| Lao People's Democratic Republic | 0.003 | 11 409 | 11 409 | - | 3 613 | 3 613 | - | | - |
| Latvia | 0.050 | 190 149 | 190 149 | - | - | - | - | | - |
| Lebanon | 0.046 | 174 937 | 49 | 174 888 | 356 906 | 156 045 | 200 861 | 2016-17 | 375 749 |
| Lesotho | 0.001 | 3 803 | 3 803 | - | - | - | - | | - |
| Liberia | 0.001 | 3 803 | 3 803 | - | - | - | - | | - |
| Libya (2) | 0.125 | 475 373 | - | 475 373 | 1 897 026 | 473 450 | 1 423 576 | 2015-17 | 1 898 949 |
| Lithuania | 0.072 | 273 815 | 273 815 | - | - | - | - | | - |
| Luxembourg | 0.064 | 243 391 | 243 391 | - | 241 977 | 241 977 | - | | - |
| Madagascar | 0.003 | 11 409 | 11 409 | - | 818 | 818 | - | | - |
| Malawi | 0.002 | 7 606 | 4 | 7 602 | 150 | - | 150 | 2017 | 7 752 |
| Malaysia | 0.322 | 1 224 560 | 1 224 560 | - | - | - | - | | - |
| Maldives, Republic of | 0.002 | 7 606 | 7 606 | - | 11 362 | 11 362 | - | | - |
| Mali | 0.003 | 11 409 | 11 409 | - | - | - | - | | - |
| Malta | 0.016 | 60 848 | 60 826 | 22 | 16 | 16 | - | | 22 |
| Marshall Islands | 0.001 | 3 803 | 3 803 | - | - | - | - | | - |
| Mauritania | 0.002 | 7 606 | 1 097 | 6 509 | - | - | - | | 6 509 |
| Mauritius | 0.012 | 45 636 | 45 592 | 44 | - | - | - | | 44 |
| Mexico | 1.436 | 5 461 082 | 1 461 082 | 4 000 000 | 11 047 470 | 11 047 470 | - | | 4 000 000 |
| Moldova, Republic of (4) | 0.004 | 15 212 | 15 212 | - | 1 091 736 | 136 467 | 955 269 | 1996-2004 | 955 269 |
| Mongolia | 0.005 | 19 015 | 19 015 | - | - | - | - | | - |
| Montenegro | 0.004 | 15 212 | 15 212 | - | - | - | - | | - |
| Morocco | 0.054 | 205 361 | 205 361 | - | - | - | - | | - |
| Mozambique | 0.004 | 15 212 | 8 | 15 204 | - | - | - | | 15 204 |
| Myanmar | 0.010 | 38 030 | 38 030 | - | - | - | - | | - |
| Namibia | 0.010 | 38 030 | 38 030 | - | - | - | - | | - |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|----------------------------------|---------------------------------------|------------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Nepal | 0.006 | 22 818 | 22 125 | 693 | 94 | 94 | - | | 693 |
| Netherlands | 1.483 | 5 639 822 | 5 639 822 | - | - | - | - | | - |
| New Zealand | 0.268 | 1 019 199 | 1 019 199 | - | - | - | - | | - |
| Nicaragua | 0.004 | 15 212 | 15 212 | - | 676 | 676 | - | | - |
| Niger | 0.002 | 7 606 | - | 7 606 | 15 136 | - | 15 136 | 2016-17 | 22 742 |
| Nigeria | 0.209 | 794 823 | - | 794 823 | 48 560 | - | 48 560 | 2017 | 843 383 |
| North Macedonia, Republic of | 0.007 | 26 621 | 26 621 | - | - | - | - | | - |
| Norway | 0.849 | 3 228 732 | 3 228 732 | - | - | - | - | | - |
| Oman | 0.113 | 429 737 | 429 737 | - | 25 | 25 | - | | - |
| Pakistan | 0.093 | 353 677 | 352 253 | 1 424 | 11 260 | 11 260 | - | | 1 424 |
| Palau | 0.001 | 3 803 | 2 | 3 801 | 171 | - | 171 | 2017 | 3 972 |
| Panama | 0.034 | 129 301 | 116 415 | 12 886 | 7 791 | 7 791 | - | | 12 886 |
| Papua New Guinea | 0.004 | 15 212 | 8 | 15 204 | 6 913 | - | 6 913 | 2017 | 22 117 |
| Paraguay (4) | 0.014 | 53 242 | 53 242 | - | 384 240 | 42 723 | 341 517 | 1998-2003 + 2011-13 | 341 517 |
| Peru | 0.136 | 517 205 | 353 729 | 163 476 | - | - | - | | 163 476 |
| Philippines | 0.165 | 627 492 | 627 492 | - | - | - | - | | - |
| Poland | 0.841 | 3 198 308 | 3 198 308 | - | - | - | - | | - |
| Portugal | 0.392 | 1 490 769 | 1 490 769 | - | - | - | - | | - |
| Qatar | 0.269 | 1 023 002 | 1 023 002 | - | - | - | - | | - |
| Romania | 0.184 | 699 749 | 699 740 | 9 | 5 | 5 | - | | 9 |
| Russian Federation | 3.089 | 11 747 411 | 11 747 411 | - | - | - | - | | - |
| Rwanda | 0.002 | 7 606 | 5 | 7 601 | 616 | - | 616 | 2017 | 8 217 |
| Saint Kitts and Nevis | 0.001 | 3 803 | 3 482 | 321 | - | - | - | | 321 |
| Saint Lucia | 0.001 | 3 803 | 2 | 3 801 | - | - | - | | 3 801 |
| Saint Vincent and the Grenadines | 0.001 | 3 803 | 48 | 3 755 | 4 267 | - | 4 267 | 2016-17 | 8 022 |
| Samoa | 0.001 | 3 803 | 3 803 | - | - | - | - | | - |
| San Marino | 0.003 | 11 409 | 11 409 | - | - | - | - | | - |
| Sao Tome and Principe (2) | 0.001 | 3 803 | - | 3 803 | 197 091 | - | 197 091 | 1995-2017 | 200 894 |
| Saudi Arabia | 1.147 | 4 362 020 | 4 362 020 | - | - | - | - | | - |
| Senegal | 0.005 | 19 015 | - | 19 015 | 16 400 | - | 16 400 | 2017 | 35 415 |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|------------------------------|---------------------------------------|-----------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| Serbia | 0.032 | 121 695 | 121 695 | - | - | - | - | - | |
| Seychelles | 0.001 | 3 803 | 3 803 | - | - | - | - | - | |
| Sierra Leone (2) | 0.001 | 3 803 | - | 3 803 | 432 653 | - | 432 653 | 1986-2015 | 436 456 |
| Singapore | 0.447 | 1 699 933 | 1 699 933 | - | - | - | - | - | |
| Slovakia | 0.160 | 608 477 | 608 477 | - | - | - | - | - | |
| Slovenia | 0.084 | 319 450 | 319 450 | - | - | - | - | - | |
| Solomon Islands (2) | 0.001 | 3 803 | - | 3 803 | 41 477 | - | 41 477 | 2004-2007+2010-17 | 45 280 |
| Somalia (2) | 0.001 | 3 803 | - | 3 803 | 411 940 | - | 411 940 | 1988-2017 | 415 743 |
| South Africa | 0.364 | 1 384 285 | 1 384 285 | - | - | - | - | - | |
| South Sudan (2) | 0.003 | 11 409 | - | 11 409 | 75 164 | - | 75 164 | 2012-17 | 86 573 |
| Spain | 2.444 | 9 294 488 | 9 294 488 | - | - | - | - | - | |
| Sri Lanka | 0.031 | 117 892 | 117 892 | - | - | - | - | - | |
| Sudan | 0.010 | 38 030 | 15 | 38 015 | 42 872 | - | 42 872 | 2016-17 | 80 887 |
| Suriname | 0.006 | 22 818 | 4 | 22 814 | 38 370 | 22 496 | 15 874 | 2017 | 38 688 |
| Sweden | 0.957 | 3 639 454 | 3 639 454 | - | - | - | - | - | |
| Switzerland | 1.141 | 4 339 202 | 4 339 202 | - | - | - | - | - | |
| Syrian Arab Republic | 0.024 | 91 271 | 45 641 | 45 630 | - | - | - | - | 45 630 |
| Tajikistan (2) | 0.004 | 15 212 | - | 15 212 | 496 915 | 38 120 | 458 795 | 1994-2017 | 474 007 |
| Tanzania, United Republic of | 0.010 | 38 030 | 38 030 | - | 38 029 | 38 029 | - | - | - |
| Thailand | 0.291 | 1 106 668 | 1 106 668 | - | - | - | - | - | |
| Timor-Leste | 0.003 | 11 409 | - | 11 409 | 565 | - | 565 | 2017 | 11 974 |
| Togo | 0.001 | 3 803 | 3 803 | - | - | - | - | - | |
| Tonga | 0.001 | 3 803 | - | 3 803 | 28 | - | 28 | 2017 | 3 831 |
| Trinidad and Tobago | 0.034 | 129 301 | 129 301 | - | - | - | - | - | |
| Tunisia | 0.028 | 106 483 | 106 483 | - | - | - | - | - | |
| Turkey | 1.019 | 3 875 239 | 3 875 239 | - | - | - | - | - | |
| Turkmenistan | 0.026 | 98 877 | 98 877 | - | - | - | - | - | |
| Tuvalu | 0.001 | 3 803 | 5 | 3 798 | 114 | - | 114 | 2017 | 3 912 |
| Uganda | 0.009 | 34 227 | 34 227 | - | - | - | - | - | |
| Ukraine (4) | 0.103 | 391 707 | 391 707 | - | 1 265 887 | 316 472 | 949 415 | 1999 + 2009 | 949 415 |

| States | 2018 Assessed contributions | | | | Amounts due for previous financial periods | | | Calendar years of assessment | Total due as at 31.12.2018 |
|--|---------------------------------------|-------------|-----------------------------|------------------------------|--|-------------------------|------------------------------|------------------------------|----------------------------|
| | Assessed contributions ⁽¹⁾ | | Amount received or credited | Balance due as at 31.12.2018 | Balance due as at 01.01.2018 | Amount received in 2018 | Balance due as at 31.12.2018 | | |
| | % | Amount | | | | | | | |
| United Arab Emirates | 0.604 | 2 297 001 | 2 297 001 | - | - | - | - | - | - |
| United Kingdom | 4.465 | 16 980 315 | 16 980 315 | - | - | - | - | - | - |
| United States | 22.000 | 83 665 604 | 41 496 361 | 42 169 243 | 83 289 483 | 83 289 483 | - | - | 42 169 243 |
| Uruguay | 0.079 | 300 436 | - | 300 436 | - | - | - | - | 300 436 |
| Uzbekistan (4) | 0.023 | 87 469 | 87 469 | - | 1 237 000 | 112 000 | 1 125 000 | 1998-2014 | 1 125 000 |
| Vanuatu | 0.001 | 3 803 | - | 3 803 | 605 | - | 605 | 2017 | 4 408 |
| Venezuela, Bolivarian Republic of (2) | 0.571 | 2 171 503 | - | 2 171 503 | 8 053 694 | - | 8 053 694 | 2014-17 | 10 225 197 |
| Viet Nam | 0.058 | 220 573 | 220 573 | - | - | - | - | - | - |
| Yemen | 0.010 | 38 030 | 20 | 38 010 | 75 732 | - | 75 732 | 2016-17 | 113 742 |
| Zambia | 0.007 | 26 621 | 12 | 26 609 | 28 369 | - | 28 369 | 2016-17 | 54 978 |
| Zimbabwe | 0.004 | 15 212 | 8 | 15 204 | 447 | - | 447 | 2017 | 15 651 |
| Total member States | 100.000 | 380 298 200 | 305 592 312 | 74 705 888 | 158 763 278 | 131 215 598 | 27 547 680 | | 102 253 568 |
| Amounts due by States for prior periods of membership in the ILO | | | | | | | | | |
| Paraguay (3) | - | - | - | - | 245 066 | - | 245 066 | 1937 | 245 066 |
| Total – Amounts due by States for prior periods of membership in the ILO | | | | | 245 066 | - | 245 066 | | 245 066 |
| Amounts due by States when they ceased to be Members of the ILO | | | | | | | | | |
| Former Socialist Fed. Rep. of Yugoslavia (5) | - | - | - | - | 6 370 623 | - | 6 370 623 | 1989–2001 | 6 370 623 |
| Total - Amounts due by States when they ceased to be members of the ILO | | | | | 6 370 623 | - | 6 370 623 | | 6 370 623 |
| | | | | | | | | | |
| TOTAL | 100.000 | 380 298 200 | 305 592 312 | 74 705 888 | 165 378 967 | 131 215 598 | 34 163 369 | | 108 869 257 |

(1) Assessed contributions for 2018. Represents contributions assessed with the approval of the 2018–19 budget.

(2) **Member States which, at 31 December 2018, 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 (2016–17). Each of these member States had therefore lost the right to vote, in accordance with the provisions of paragraph 4 of article 13 of the Constitution of the Organisation.

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

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

| Member State | Session of Conference at which arrangement was approved | |
|--------------------------|---|--------|
| Armenia | 93rd | (2005) |
| Azerbaijan | 95th | (2006) |
| Central African Republic | 97th | (2008) |
| Georgia | 93rd | (2005) |
| Iraq | 97th | (2008) |
| Kazakhstan | 88th | (2000) |
| Kyrgyzstan | 106th | (2017) |
| Moldova, Republic of | 93rd | (2005) |
| Paraguay | 102nd | (2013) |
| Ukraine | 99th | (2010) |
| Uzbekistan | 104th | (2015) |

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

6. Report of the External Auditor to the Governing Body

**On the financial operations of the
International Labour Organization**

for the year ended 31 December 2018



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

To the Governing Body of the International Labour Office:

We have the honour to transmit the Report of the External Auditor on the Financial Operations of the International Labour Organization (ILO) for the financial year 2018.

Our report, as the External Auditor, contains the results of our audit of the 2018 financial statements, and also our observations and recommendations on the review of the Staff Health Insurance Fund, investigation of fraud cases, corporate resource mobilization and programme results reporting of the Organization. We also conducted an audit of six field offices. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Organization.

Our audit was conducted in accordance with the International Standards on Auditing. 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 should be aware of. We will be pleased to elaborate on any of these points during the Governing Body meeting in June 2019.

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 ILO's Governing Body.

Yours sincerely,

(Sgd) Michael G. Aguinaldo

Chairperson, Commission on Audit, Republic of the Philippines
External Auditor

Quezon City, Philippines
19 April 2019

**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 2018

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 2018

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List of acronyms

| | |
|---------|--|
| BOC | Beginning of Cycle |
| CO | Country Office |
| COA | Commission on Audit |
| CPO | Country Programme outcome |
| DC | Development Cooperation |
| DWCP | Decent Work Country Programme |
| DG | Director-General |
| EC | European Commission |
| ERM | Enterprise Risk Management |
| F&E | Furniture and equipment |
| HIIS | Health Insurance Information System |
| HLCM | High-level Committee on Management |
| HQ | Headquarters |
| IAO | Office of Internal Audit and Oversight |
| ICF | Internal Control Framework |
| IFIs | International Financial Institutions |
| IGDS | Internal Governance Documents System |
| ILO | International Labour Organization |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IOAC | Independent Oversight Advisory Committee |
| IPSAS | International Public Sector Accounting Standards |
| IRIS | Integrated Resource Information System |
| ISA | International Standards on Auditing |
| ITC | International Training Centre of the ILO |
| ITU | International Telecommunication Union |
| MPF | Model Policy Framework |
| OBW | Outcome-based workplan |
| OCT | Outcome coordinating team |
| OGA | Oracle Grants Accounting |
| P&B | Programme and budget |
| PIR | Programme Implementation Report |

| | |
|----------------|---|
| PPPs | Public-Private Partnerships |
| PROGRAM | Strategic Programming and Management Department |
| RBM | Results-based management |
| RO | Regional Office |
| RO-Arab States | Regional Office for the Arab States |
| SHIF | Staff Health Insurance Fund |
| SIC | Statement of internal control |
| SM/IP | Strategic Management Implementation Planning |
| SM/M | Strategic Management Module |
| SMART | Specific, measurable, achievable, relevant and time-bound |
| SOs | Strategic Objectives |
| SOPs | Standard Operating Procedures |
| TR | Travel requests |
| UN | United Nations |
| UNAIDS | Joint United Nations Programme on HIV/AIDS |
| UNDP | United Nations Development Programme |
| US\$ | US dollar |
| UW | Unit workplan |
| WHO | World Health Organization |
| WMO | World Meteorological Organization |

EXECUTIVE SUMMARY

Introduction

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

This is the third audit report to the Governing Body by the Chairperson of the Commission on Audit of the Republic of the Philippines, under its mandate as the External Auditor for the 75th and 76th financial periods that commenced on 1 April 2016 for a period of four years (2016-2019), granted by the Governing Body during its 323rd Session in March 2015. At its 326th Session in March 2018, the Governing Body extended the mandate of the Chairperson of the Commission on Audit of the Republic of the Philippines for a further two financial periods from 2020 to 2023.

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

Overall results of the audit

In line with our mandate, we audited the financial statements of the ILO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board. We concluded that the financial statements present fairly, in all material respects, the financial position of the ILO for the financial year ended 31 December 2018, 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 2018.

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) Regional Office for Africa (RO-Africa), (b) Regional Office for Asia and the Pacific (RO-Asia and the Pacific), (c) Regional Office for the Arab States (RO-Arab States), (d) Country Office for Indonesia and Timor-Leste (CO-Jakarta), (e) Country Office for Zambia, Malawi, and Mozambique (CO-Lusaka), and (f) Country Office for Bangladesh (CO-Dhaka). Likewise, we conducted an audit of 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 Staff Health Insurance Fund (SHIF), the status of investigation of fraud cases, resource mobilization activities and programme results reporting and monitoring. The reviews were undertaken 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.

Key audit findings

The audit resulted in the following key audit observations which need to be addressed by ILO Management.

Staff Health Insurance Fund (SHIF)

- a) The ILO's Staff Health Insurance Fund needs to establish predetermined criteria which will clearly define indicators or red flags corresponding to the different types of fraud schemes related to health insurance. These criteria can be used by the claim processors to identify and initially evaluate potential fraudulent claims. In the absence of written criteria in determining whether a claim is suspicious or fraudulent, variations in the Claim Adjuster's management of potential fraudulent claims are highly subjective.

Investigation of Fraud Cases

- b) The ILO needs to devise a strategy on the investigation of pending fraud cases, as it was noted that 35 out of 53, or 66 per cent, of the cases are yet to be investigated, 32 of which originated in 2018.

Resource Mobilization

- c) ILO resource mobilization needs enhancements of internal mechanisms, interventions and clear structure to ensure that the processes, competencies of internal players, the structure that supports it, the policies and procedures and those that sustain the development of partnerships, particularly non-state actors, are in place and functioning as expected.

Programme Management – reporting and monitoring

- d) The ILO's Programme Management roadmap and strategies require enhancement in progress reporting and monitoring, specifically in augmenting the presentation of the status and progress of Country Programme Outcomes (CPOs) in the Outcome Coordinating Team (OCT) Reports and review of linkages of CPOs to the P&B outcome indicators.

Control environment in regional and country offices

- e) The ILO's regional and country offices' operations need to improve and strengthen implementation of management controls, to ensure oversight and monitoring controls work more effectively so as to better align the self-assessment internal control representations with the state of the operating realities of internal controls in the field offices.

Summary of recommendations

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

- a) the ILO should clearly define, in the Standard Operating Procedures (SOPs), 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 Office of Internal Audit and Oversight;
- b) ILO Management should place emphasis and devise a strategy on the investigation of pending fraud cases to deter the occurrence of fraud, to send a message throughout the Organization that fraud will not be tolerated, and to further strengthen fraud controls;
- c) the ILO should deepen, expand and diversify partnerships and financing with other United Nations (UN) entities, international financial institutions (IFIs), and the private sector through the development of a structured corporate resource mobilization framework and guidelines for the purposes of consistent, systematic implementation and coordination of the resource mobilization activities organization-wide;
- d) the ILO should optimize the participation of field offices in resource mobilization by clarifying the specific roles and responsibilities of the offices including their structure, in order to achieve more efficient coordination and to establish clear accountability lines;
- e) ILO should ensure the inclusion, in the performance appraisal of staff involved in resource mobilization, of the corresponding agreed outputs and measure of performance, in order to assess results achieved and the contribution made to the attainment of organizational outcomes on resource mobilization;
- f) the ILO should refine the corporate staff development strategy on resource mobilization by aligning it with the context of United Nations Reform and incorporating it in the 2020-2025 Development Cooperation Strategy to ensure a unified approach towards efficient and effective resource mobilization capacity building;
- g) the ILO should enhance further the mechanism on results reporting by clarifying its planned results and measurements that will guarantee better accounting and reporting of interim results, particularly from field offices for the purposes of better accountability and more meaningful results reporting;
- h) the ILO should enhance the results linking process of the CPOs to the 2018-2019 P&B Outcome Indicators and improve its internal coordination during the review exercise so as to improve the integrity of results information; and
- i) the ILO should assess the level of operational risks of its field offices and implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions, so as to ensure operational efficiency and

effectiveness; and better support the certification made by field office directors on the state of their control environment.

Implementation of the External Auditor's recommendations made in previous years

In our validation of the implementation of the 25 audit recommendations from the previous years, we noted that seven (or 28 per cent) had been fully implemented, two (or 8 per cent) had been implemented on an ongoing basis, five (or 20 per cent) had been partially implemented, and 11 (or 44 per cent) were still in the process of implementation. We are satisfied with the progress of implementation of the audit recommendations.

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 119-year old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institution (INTOSAI) and the Panel of External Auditors of the United Nations. 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 37 years, 19 of which as a member of the United Nations Board of Auditors.

2. At its 323rd Session in March 2015, 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 75th and 76th financial periods that commenced on 1 April 2016 for a period of four years (2016-2019). The mandate was further extended for two more financial periods from 2020 to 2023 by the ILO Governing Body at its 332nd Session in March 2018. 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 five individual financial 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 the ILO's compliance with its 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 2018 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 Body 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 the ILO, in particular the SHIF, investigation of fraud cases, resource mobilization, programme results reporting, 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 in 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, not absolute, assurance, assurance as to whether the financial statements are free of material misstatement including those caused by fraud or error.

10. During the financial year 2018, in addition to the audit of the financial statements, we also conducted audits of the: (a) Regional Office for Africa (RO-Africa), (b) Regional Office for Asia and the Pacific (RO-Asia and the Pacific), (c) Regional Office for the Arab States (RO-Arab States), (d) Country Office for Indonesia and Timor-Leste (CO-Jakarta), (e) Country office for Zambia, Malawi, and Mozambique (CO-Lusaka) and (f) Country Office for Bangladesh (CO-Dhaka). In addition, we conducted an audit of 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 the IAO's 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 2018, 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 2018 financial statements, in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with the IPSAS.

2. Staff Health Insurance Fund (SHIF)

17. We reviewed the SHIF to determine whether its operations and transactions are in accordance with regulations, rules and policies. The review also included the assessment of fraud risks and the strategies employed by Management to mitigate them. We found the transactions compliant with regulations; however, we noted improvement opportunities to further enhance the efficiency and effectiveness of SHIF operations which were communicated to SHIF management. We highlighted the management of fraud risks in view of the increasing number of cases of fraud and presumptive fraud relating to SHIF claims.

18. Fraud risk management is an integral component of corporate governance and the internal control environment. It helps organizations protect themselves and their stakeholders from acts of intentional deception, whether those acts originate internally or externally. Fraud prevention requires a system of policies and procedures, which, as a whole, minimize the likelihood of fraud occurring while maximizing the possibility of detecting any fraudulent activity that might transpire. The likelihood of being caught most often persuades would-be perpetrators not to commit the fraud.

19. The anti-fraud and anti-corruption policy of the ILO requires the reporting of any case of fraud or presumptive fraud, attempted fraud, or any corruptive or collusive practices. It emphasizes that line managers and their staff are responsible for prevention and detection of fraud, corruption and other inappropriate conduct, and are responsible for understanding the exposure to fraud, corruption and other improper conduct across their range of responsibilities and putting in place appropriate preventive measures.

20. In line with this policy, we noted that one of the preventive measures adopted by the SHIF is the referral of a suspicious claim to the IAO for investigation. Pending the results of an investigation by the IAO, processing of the suspicious claim is suspended in the Health Insurance Information System (HIIS). We also noted that a draft SOP, providing examples of fraud that may be committed against the SHIF by different parties, as well as procedures to be undertaken by the different action personnel involved in the processing of SHIF claims, is undergoing review.

21. Our review of the SHIF cases submitted to the IAO for investigation and the corresponding allegations revealed that predetermined criteria in considering whether a claim is suspicious or is a case of fraud is yet to be established by SHIF Management. Further, the SHIF still needs to define clearly indicators or red flags corresponding to the different types of fraud schemes related to health insurance fraud, which can be used by the claim processors to identify and initially evaluate potential fraudulent claims. At present, the determination of a potential case of fraud is left to the judgment of the Claims Adjusters. In the absence of written criteria in determining whether a claim is suspicious or fraudulent, variations in the Claim Adjuster's management of potential fraudulent claims are highly subjective. Consequently, potential fraudulent claims may not be reported to the Claim Supervisor, the Executive Secretary and subsequently to the IAO.

22. The absence of specific criteria could result in cases initially considered as presumptive fraud and submitted for further investigation by the IAO, which may not be cost-efficient. Pending the results of the investigation, processing of the respective claims is suspended; thus, any delay in the results of the investigation will be counter beneficial to the SHIF participants, if after investigation a claim is proven not to be fraudulent as alleged.

23. **We recommended that the ILO SHIF clearly define in the SOP the fraud indicators or red flags as well as the predetermined criteria in assessing claims which may be initially classified under any of the fraud schemes in order to identify, on a preliminary basis, potential cases of fraudulent claims to be submitted for further investigation by the IAO. Inclusion in the SOP of the potential fraud could result in cost efficiency in terms of scaled down resources needed for investigation and more effective management of cases of fraud and presumptive fraud, with due consideration given to the rights of the insured members pending the final results of a formal investigation by the IAO.**

24. **ILO response:** The need to document the process and criteria for all SHIF Secretariat staff members to manage potentially fraudulent claims was previously raised in the internal audit reports on the review of the SHIF claims payment process. In this context, SHIF practices were benchmarked against health insurance reimbursement practices in the private sector. The SHIF

Secretariat has made significant enhancements in its business processes to ensure implementation of a consistent approach by all claims adjusters to review claims and report suspicions of fraud to the Claims Supervisor and Executive Secretary. Training on fraud detection was provided to all team members, team job descriptions were reviewed to strengthen fraud detection and compliance, and specific procedures are being aligned with relevant standard operating procedures (SOPs) of other United Nations agencies operating their own health insurance fund (i.e. aligned with comparable mutual health insurance schemes). Although standard indicators are already being used consistently by the SHIF team in reviewing both individual claims and aggregate claims settlement/expenditure trends, the Office agrees that further development and inclusion within SOPs could contribute to making these SOPs more efficient. All suspected fraudulent SHIF claims referred by the SHIF Secretariat to the IAO for investigation in the past few years were eventually substantiated as fraud, therefore the external audit reference to potential cost efficiency in terms of scaled down investigation resources would appear to be very limited. The SHIF Management Committee is in the process of considering changes to the SHIF Regulations, which will seek to clarify the rights of the insured members pending the final results of the formal investigation by the IAO.

3. Investigation of Fraud Cases

25. We noted that the ILO is committed to preventing fraud and corruption and to actively promoting an anti-fraud culture among officials, external collaborators, contractors, suppliers of goods and services, implementing partners and other parties. The anti-fraud and anti-corruption policy of the ILO dated 19 October 2017 emphasized that the ILO has zero tolerance towards fraud and corruption, and that every case of fraud, presumptive fraud, attempted fraud, corruptive or collusive practice, shall be thoroughly investigated and dealt with appropriately.

26. Fraud is defined in the Policy as “any act or omission whereby an individual or entity knowingly misrepresents or conceals a fact (a) in order to obtain an undue benefit or advantage or avoid an obligation for himself, herself, itself, or a third party, and/or (b) in such a way as to cause an individual or entity to act, or fail to act, to his, her or its detriment”.

27. The Policy added that to ensure that opportunities for committing acts of fraud or corruption are reduced to the lowest possible level, the ILO continues to promote an anti-fraud culture and measures including developing and maintaining effective controls to prevent fraud, and ensuring that, if fraud or corruption occurs, a vigorous and prompt investigation takes place without regard to position held, length of service or relationship to the ILO, to particular officials within it, or constituents, and reviewing systems and procedures to prevent similar cases of fraud or corruption, among others.

28. Along these lines, the Policy requires that officials are required to report any case of fraud or presumptive fraud, attempted fraud, or any corruptive or collusive practices to the Director-General through the Treasurer and Financial Comptroller (Treasurer) and the Chief Internal Auditor. The Management also takes measures to facilitate the reporting of fraud and corruption by third parties, in particular external collaborators, suppliers and implementing partners.

29. We noted that for the calendar years 2017 and 2018, there were 53 cases of reported fraud, 44 (15 in 2017 and 29 in 2018) originating from ILO officials, and nine (five in 2017 and four in 2018) from whistleblowers. The details are shown in the table below:

30. The allegations contained in the 53 cases varies as shown below:

Summary of allegations

| No. | Cases | No. of Allegations | Per cent |
|-----|--------------------|--------------------|----------|
| 1 | SHIF | 22 | 41.51 |
| 2 | Procurement | 18 | 33.96 |
| 3 | Benefits | 5 | 9.43 |
| 4 | Travel/DSA | 3 | 5.66 |
| 5 | Independence | 2 | 3.77 |
| 6 | Repatriation Grant | 2 | 3.77 |
| 7 | Impersonation | 1 | 1.90 |
| | Grand Total | 53 | 100 |

31. As shown in the table above, 41.51 per cent of the allegations pertain to reimbursement claims in the SHIF followed by procurement-related irregularities (33.96 per cent). Medical claims and procurements are considered high risk areas. While these are high fraud risk areas it does not mean conclusively that fraud is occurring there.

32. We noted that the Chief Internal Auditor is responsible for the conduct of ILO investigation activities concerning allegations of fraud, presumptive fraud or attempted fraud, or corruptive or collusive practices. Moreover, the Treasurer refers to the Committee on Accountability appropriate cases of fraud, presumptive fraud and attempted fraud, as well as any corruptive or collusive practices, negligence or disregard of established ILO rules and/or procedures which resulted, or could have resulted, in financial or other loss to the ILO or damage to its property. The Committee, in turn, establishes the facts of any case referred to it, fixes responsibility for the loss, if any, and makes appropriate recommendations to the Director-General (DG) relating to reimbursement, disciplinary action and writing off of losses. An annual summary report of the activities of the Committee on Accountability is published on the ILO website.

33. Review of the investigation of the 53 cases of fraud revealed that 35 out of 53 or 66.04 per cent, of the cases are yet to be investigated, 32 of which originated in 2018, as shown in the table below:

Schedule of action taken on cases of fraud

| Year | Closed | For IAO Investigation | Report Pending | Under Investigation | No Status | Total |
|-------|--------|-----------------------|----------------|---------------------|-----------|-------|
| 2017 | 8 | 3 | 1 | 8 | | 20 |
| 2018 | | 32 | | | 1 | 33 |
| Total | 8 | 35 | 1 | 8 | 1 | 53 |

34. We underscore that one of the strategies of the ILO in its commitment to zero tolerance of fraud is that vigorous and prompt investigation takes place without regard to position held, length of service or relationship to the ILO, to particular officials within it, or constituents. The Organization should therefore employ a coordinated approach to investigation and corrective action to address fraud and in a timely manner. There should be a system for prompt, competent and confidential review, investigation, and resolution of instances of non-compliance and allegations involving fraud and misconduct.

35. A review of the policy of the ILO on investigation of fraud showed that the IAO has a standard operating procedure on investigations, dated July 2018. The policy emphasized that *the Chief Internal Auditor will ensure that all investigative activities are completed in a timely manner taking into account circumstances, such as the complexity of the case, IAO workload and priorities,*

and/or other compelling reasons. Such circumstances will be documented in the relevant case file and the matter reviewed when appropriate.

36. We recommend that the ILO Management place emphasis and devise a strategy on the investigation of pending fraud cases to deter the occurrence of fraud, to send a message throughout the Organization that fraud will not be tolerated, and to further strengthen fraud controls.

37. ILO response: the IAO conducts a risk assessment of each referral so that those rated as high priority are addressed in a timely manner. To help reduce the backlog, the IAO has adopted a “cluster” approach to address those referrals ranked medium to low priority whereby the IAO groups the referrals by region and addresses them in one mission. It should also be noted that when the IAO has requested supplementary resources to address critical needs, the Director-General has responded positively. Moreover, the Director-General’s Programme and Budget Proposals for 2020-21 include an increase of resources for the Investigation Unit, which should fund an additional position in the IAO. This too will assist the IAO in reducing its backlog.

4. Resource Mobilization

38. Resource mobilization is understood to include a set of activities undertaken to ensure that an entity has the resources it needs to implement its strategies and achieve operating objectives. The responsibility for raising additional funds and nurturing partnerships to diversify funding sources and deliver organizational mandates always rests with offices and departments of an organization. It is therefore critical for organizations to take stock not just of their financial metrics, but also of how resource mobilization functions from within.

39. We noted that the ILO Development Cooperation Strategy of 2015-2017 had elaborated six statements on how resource mobilization is to be undertaken. We also observed that its assessed contribution has been the major source of revenue/funding, although it also recognizes the importance of resource mobilization as a vital component in the delivery of its services, particularly in the area of development cooperation. However, the ILO financial metrics for 2017 showed a decrease in the collection rate of assessed contributions that gave rise to an increase in assessed contributions receivable by US\$79.6 million. It was also reported in the first Outcome-based workplan (OBW) Progress Report for the 2018-2019 biennium that some CPOs suffered from limited development cooperation resources to sustain a substantive and medium-term engagement. It is thus expected that the Organization needs robust resource mobilization to harness its intended value and support the achievement of the ILO’s strategic objective. The results of our audit also dwelled on these perspectives and are presented in the succeeding paragraphs.

4.1 Resource Mobilization Institutional Framework and Guidelines

40. Fundamental to resource mobilization is the ability of an organization to adopt and manage the related strategies or policies, guidelines, specific mandate, engagements with non-state actors, funding diversification, clear structure, staff competencies and risk management. This is to gain better traction and gather faster momentum in its ability to harness resources and move the use of its budgetary and extra-budgetary resources to where it should be. However, we ascertained that the Organization’s strategy for resource mobilization is still in “draft form” and that the vigorous efforts of field offices to have effective resource mobilization approaches were challenged by the difficult context of respective geographical location and by the fact that donor funds were currently focused on social and humanitarian issues. In this context, the ILO has to recognize that resource

mobilization needs to move within an environment where policies and procedures are concretely put in place.

41. Responding to the ILO's operational needs and in the absence of a formal resource mobilization strategy, we noted that PARDEV had responded to these needs by providing robust coordination and guidance relative to resource mobilization to achieve the ILO's objectives. This will, nevertheless, be less effective since the support is based on the status quo and would need to be put in place by means of a concrete and stable institutional framework on resource mobilization, since the responsibility covers the whole organization and not just PARDEV. Further, we observed that the 2013 Resource Mobilization Guidelines are no longer responsive to current needs as these were still anchored on the Millennium Development Goals, and hence were not aligned to the Organization's 2030 Agenda for Sustainable Development. Given these situations, the ILO has to ensure that its resource mobilization strategy and operational guidelines are suitable for establishing concrete accountability and transparency requirements and supporting more effective decisions.

42. **We recommended that the ILO deepen, expand and diversify partnerships and financing with other UN entities, IFIs and the private sector through the development of a structured corporate resource mobilization framework and guidelines for consistent, systematic implementation and coordination of resource mobilization activities organization-wide.**

43. **ILO response:** The Office agrees with this recommendation. The Governing Body's guidance on the plan of action to lay the grounds for the preparation of the ILO Development Cooperation (DC) strategy 2020-25 (GB.334/INS/3/1) contained an area of focus to "deepen, expand and diversify partnerships and financing". Engagement with specific IFIs and development finance institutions more broadly is taken forward, with the work with UN partners being a core dimension of the UN Funding Compact. A high-level evaluation of Public-Private Partnerships (PPPs) has been scheduled in 2019, which will further inform the strategy with the private sector.

4.2 Resource Mobilization Organizational Structure and Capacity Building

44. Organizational structure defines how activities such as task allocation, coordination and supervision are directed towards the achievement of resource mobilization objectives. The organizational structure should provide a clear staff hierarchy as well as guidance and clarity on managerial authority and responsibility. The Organizational structure of the ILO was reformed, as explained in Internal Governance Documents System (IGDS) Number 322, dated 22 March 2013. One of the purposes of the reform is to enable the ILO to respond better to the needs of its constituents, consistent with the call made in the Declaration on Social Justice for a Fair Globalization. The call embodied the policy of *Delivering as One ILO* by having responsive in-country operations supported by an effective field structure with cooperation and coordination with the headquarters.

45. Also, effective resource mobilization can never be achieved without the required competency. The required competency acquired through training demonstrates a commitment to keep staff at the cutting edge of knowledge and practice. Clearly, training is beneficial to the workplace, as it shows managerial and business commitment to staff welfare and high performance standards.

46. As the main player in the ILO Resource Mobilization strategy, PARDEV renders services to the three pillars of work-quality support, partnerships and resource mobilization. It maintains relations with all the key ILO donors, negotiates funding agreements, secures approval of project

proposals from partners, and provides oversight on technical and financial reporting. PARDEV is also responsible for funding from the United Nations and emerging partners.

47. Nevertheless, our review of the job descriptions of the Directors of Regional Offices, Decent Work Technical Support Teams (DWTs) and Country Offices (COs) revealed that they included resource mobilization functions but without any specificities. It was likewise gathered that some technical staff spend large portions of their time on resource mobilization-related efforts. Hence the structure, particularly as regards roles and responsibilities, in field offices requires clarity.

48. We also noted that the Beginning of Cycle (BOC) performance appraisal of two directors did not provide a specific output and agreed measure of performance on resource mobilization, while other directors and staff involved in resource mobilization at field offices (who submitted their BOCs) had a specific output and measurement on resource mobilization. In providing for an output on resource mobilization, the results/level achieved can be assessed and, consequently, affect the achievement of the organizational results on resource mobilization.

49. Achieving the strategic priorities of the ILO in terms of resource mobilization, as stated in the development cooperation strategy, requires its structure to be enhanced to address current vulnerabilities in the Organization's approach to resource mobilization, and its strengths to be leveraged, opportunities seized and external risks minimized. Country and regional offices offer great potential for resource mobilization, as evidenced by the approval of funding by administrative responsibility, which refers to the amount committed by development partners, pegged at 77 per cent and 69 per cent in the field offices for the calendar years 2016 and 2017 respectively.

50. We noted further that the ILO has a corporate and structured approach to staff development in resource mobilization. This is delivered through several media such as the Online Development Cooperation Resource Kit, a Community of Practice, Resource Mobilization Guidelines, and, donor-specific webinars. In the previous biennium, we noted that training courses were organized through regional learning journeys. In addition, dedicated resource mobilization training programmes on the European Commission (EC) were organized. The Project Cycle Management Course, we ascertained, covered resource mobilization and the conduct of resource mobilization clinics. Under the learning journeys, we observed that in 2019 there will be a training course specifically related to resource mobilization. However, the 2016-17 resource mobilization strategy of one regional office still indicated that insufficient skills and capacity were one of the key challenges in the pursuit of an effective resource mobilization exercise. Further, the results of our inquiry with several field office directors suggested more emphasis on resource mobilization capacity building and development for their personnel to bridge competency gaps.

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

- a. 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;**
- b. ensure inclusion in the performance appraisal of staff involved in resource mobilization of the corresponding agreed outputs and measure of performance in order to assess results achieved and contribution made to the attainment of organizational outcomes on resource mobilization; and**

- c. **refine the corporate staff development strategy on resource mobilization by aligning it to the context of United Nations Reform and incorporating it in the 2020-2025 Development Cooperation Strategy to ensure a unified approach towards efficient and effective resource mobilization capacity building.**

52. **ILO response:** The Office agrees with these recommendations. The IGDS on Project Cycle Management will be revised to further clarify roles and responsibilities related to resource mobilization and more specific instruments will be identified for Regional Offices in order to support more efficient coordination of resource mobilization. Starting from the 2020 performance appraisal cycle, templates with standardized outputs and corresponding measures on resource mobilization will be developed and made available through the ILO's Performance Management online system, and staff members involved in resource mobilization will be encouraged to add these outputs to their performance appraisal forms to foster alignment with organizational priorities and assess results achieved. Furthermore, building on the current courses related to United Nations reform already available in the Development Cooperation Learning Journeys, more strategic elements on resource mobilization and partnerships within the context of the United Nations reform will be included in the Development Cooperation Strategy 2020-25, in keeping with the overall staff development programmes.

5. Programme implementation reporting and monitoring

53. Applying the principles of results-based management (RBM) and within the context of results reporting and monitoring, it is essential that all factors, contributing directly or indirectly to achieving a set of desired results are considered. These include the entire contribution made by processes, products and services involved in terms of outputs, outcomes and impacts which are accounted for and eventually reported, all of which reflect the interventions that resulted from the monitoring activities undertaken. At the ILO, we noted that the ongoing work of the RBM Task Force on the RBM implementation roadmap had drawn up the expected key outputs to bring forward enhancements to the overall delivery of programme management. The development of Strategic Programming, Monitoring and Reporting and its position document with recommendations to improve the Programme Implementation Report (PIR) system was a welcome change. We were informed that programme implementation reporting processes had already reflected three enhancements. The task team also emphasized that the main accountability channel in relation to the P&B, the contents and structure of the PIR, should facilitate the comparison with the strategies and targets established in the 2018-19 P&B and will be shorter and more visually-oriented. The foregoing provided us with the backdrop to our review, the results of which are presented below.

5.1 Outcome-Based Workplan Progress and Status Reports

54. In the preparation of the 2018-19 PIR, we observed that the OCT Leads prepared the first OBW semi-annual progress report, covering the period from January to June 2018. The summary of the progress report, based on the information provided by OCTs as of August 2018 and complemented by information from the SM/IP, stated that a total of 746 out of 850 target CPOs of the 2018-19 P&B, or 88 per cent, was reported to be on target. We noted, however, that many of the CPOs are linked to two or three indicators within the same policy outcomes; hence, the total number of potentially reportable results is 1,193 out of 850 CPOs. Our analysis further revealed that only Outcomes 9 and 10E had achieved their targets while other Outcomes fell short in achieving the same in terms of primary linkages. On the other hand, Outcomes 2, 5, and 6 remained behind target even after considering the additional linkages.

55. Based on the foregoing information, the Strategic Programming and Management Department (PROGRAM) explained that *monitoring of P&B outcomes has the main purpose of revising whether the ILO is making progress in achieving the results committed in the P&B. The information is therefore reported in the PIR.* PROGRAM also explained that *the figures –including additional links – indicate that it seems likely that we will be achieving more results than planned, on aggregate. In terms of monitoring and reporting, what is important is the achievement at the level of each Policy Outcome, as determined through the outcome indicators.*

56. We noted that the challenge in determining the definitive progress and status of target CPOs is mainly attributed to the gaps in the inputs from field offices and the existing monitoring mechanism. We also observed that in monitoring the progress of CPOs that were linked to the indicators of Outcome A of the 2018-19 P&B, ILO tracks these by providing status labels (target, pipeline and maintenance) and adopting the traffic light system. We were further informed that the status label is applied only to the CPOs' primary link and to only one outcome indicator because it is the primary link that reflects the focus and priority. However, we observed that the progress of some CPOs was indicated in accordance with the traffic light system, but not all. PROGRAM explained that the OBW reviews provide an opportunity to further review the status and progress of the CPOs in the SM/IP.

57. We emphasize that for effective reporting of results, it is important that the results should be complete and realistic based on an appropriate analysis which is inclusive and will support the full accounting of results achieved vis-à-vis the planned results. In this sense, results learnings and decisions are better guaranteed.

58. Moreover, we determined that the progress report to capture the actual results should provide the status and progress of CPOs linked to the 2018-19 P&B Outcome indicators. One programme management component that can also contribute to effective results reporting relates to how the results are monitored. The development of OBW, supported by the Strategic Management Modules of the Integrated Resource Information System (IRIS) and other monitoring tools, becomes an essential component of programme implementation. It is thus important that the integrity of results information must be upheld by the field offices and that accurate attribution of reported results achieved be ensured so that programme status represents the implementation reality. Any deviation from what was planned must form part of ILO's learning and determine the level of required calibration of successive programme interventions.

59. **We recommended that the ILO enhance further the mechanism on results reporting by clarifying its planned results and measurements that will guarantee better accounting and reporting of interim results particularly from field offices, for the purposes of better accountability and more meaningful results reporting.**

60. **ILO response:** The Office agrees with this recommendation. During the preparation of the second OBW progress report of the 2018-19 biennium (covering the period July-December 2018), the OCTs have been requested to present information on both primary and additional linkages of the CPOs, and such information has been included in the summary report issued at the end of March 2019. Going forward, further enhancements in the progress reports will be considered as part of the overall improvements in work planning, monitoring and reporting that are being analysed in the context of the RBM Task Force.

5.2 Country Programme Outcomes and Programme & Budget outcome indicator linkages

61. We observed that under the existing ILO guideline on results attribution or the linking process, a CPO can be linked to three indicators within the same P&B outcome, provided that the work is relevant to the measurement criteria of the indicators. The (mandatory) primary link of the CPO reflects the principal focus of the results the Office and constituents aim to achieve and the strategy they will implement for that purpose. The additional links serve to identify potential reportable results for the achievement of related outcome and underpinning work. PROGRAM explained that the possibility of multiple linking within the same P&B outcome was introduced for the 2016-17 biennium, when the ILO passed from a results framework of 19 outcomes to a results framework of ten outcomes. We were further informed that the primary link of the CPOs reflects the main strategy for the Office and the constituents to implement the country programme in order to achieve results. The additional links are used to identify related, potential or additional work where results in terms of policy and capacity are captured through different indicators in the same outcome. PROGRAM emphasized that maintaining a one to one linkage would have led to a multiplication of CPOs in the system leading to fragmentation of country programmes.

62. On this basis, we have tested the consistency of results linkages and noted that information on additional linkages was provided only for Outcomes 1, 7, and 9, while other Outcomes have no such information. We gathered that in all likelihood, this was the result of the divergent views of OCTs as to the categorization of the primary and additional linkages. We were informed that primary and additional linkages should be treated alike, considering several factors such as difference in priorities among constituents, political opportunities and constraints, risk management strategies, among others. Consequently, as noted from the reporting exercise, some OCT reports reflected inaccuracies in the linking of results. In effect, reporting the additional links as potential reportable results without the information on their progress and status in relation to the measurement criteria of the Outcome indicator affects the credibility of the report. The linking of CPOs and their corresponding review under each office and department of the Organization define the manner in which the actual progress and status of targeted results are measured and reported.

63. Given the current state of the exercise, it is thus imperative for the Organization to have a more effective data attribution and escalation process to support meaningful reporting. Furthermore, it is expected that sufficient clarity and accuracy regarding the progress and status of CPOs linked to 2018-19 P&B indicator reports will be delivered. We therefore see the need to enhance the linking of the CPOs to the 2018-19 P&B Outcome Indicators including robust participation in the review exercise of the COs/DWTs/ROs, OCTs and PROGRAM thus, ensuring that linked CPOs meet the criteria for the attainment of the Outcome indicators.

64. **We recommended that the ILO enhance its results linking process for the CPOs to the 2018-19 P&B Outcome Indicators and improve its internal coordination during the review exercise to improve the integrity of results information.**

65. **ILO response:** The Office agrees with this recommendation. It will be implemented in two streams: a) in the context of the revision of work planning, monitoring and reporting procedures and tools that is being undertaken by the RBM task force; and b) as part of the preparation of the PIR for the 2018-19 biennium, following the OBW review undertaken in April 2019.

6. Control environment in regional and country offices

66. For the financial year 2018, we reviewed the design and operating effectiveness of embedded controls across critical processes in RO-Africa, RO-Asia and the Pacific, RO-Arab States, CO-Jakarta, CO-Lusaka and CO-Dhaka. The review was carried out primarily to determine the sufficiency of the delivery of front-line controls within these processes, how these impacted operational efficiency and effectiveness; and how policies and procedures were adhered to.

67. The delivery of the front-line controls, also known as management controls, reflects the effectiveness level of the control environment within the offices in relation to managing Decent Work Country Programmes (DWCPs), development cooperation projects, grants, procurement, external collaboration contracts, assets, cash and travel. The offices' representations on the state of their internal controls is reflected in an annual representation document that comes in the form of a self-assessment internal control questionnaire. Thus, pivotal to the representations is the ability of the regional and country offices to ensure that what was reported was aligned to their internal control operating realities.

68. Based on the results of our audits of critical operational processes in the regional and country offices, we deemed it vital 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 defence against the offices' business risks. The efficacy of treating these risks at source relies mainly on the design and operating effectiveness of the controls that were in place. While we have seen 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. In some observed instances, we noted a need to reinforce supervisory controls. Making the controls work more effectively also requires sustained assessment at all levels of the ILO management, not just the regional and country offices.

69. **We recommended that the ILO assess the level of operational risks of its field offices and 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.**

70. **ILO response:** The Office took note of the observations made during the field audit work and has immediately implemented actions to address the most urgent office-specific recommendations while the implementation of others is still in progress. It is foreseen that the completion of the rollout of IRIS by the end of 2019 will significantly enhance oversight and accountability capacities. At a more strategic level, operational risks of field offices have been assessed through the Office-wide exercise to update risk registers in 2018. Within the hierarchical structure of the annual Internal Letter of Representation reporting exercise, ILO directors at all levels, not just the regional and country offices, and managers of major development cooperation programmes and projects have completed their 2018 self-assessment in key areas of internal control, which served as both a pedagogical and feedback mechanism

for further strengthening operational supervisory and monitoring controls. Coordinated support efforts are being made through regular communications and knowledge sharing of the global finance team and the regional administrative workshops.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PREVIOUS YEARS

71. We validated the implementation of external audit recommendations contained in previous years' audit reports. We noted that of the 25 outstanding recommendations, seven (28 per cent) had been fully implemented, two (8 per cent) had been implemented on an ongoing basis, five (20 per cent) had been partially implemented, and 11 (44 per cent) are still in the process of implementation, all of which relate to the on-going work of the Results-Based Management (RBM) task force and the development of the new results framework scheduled for completion at the end of 2019. Annex A presents a detailed analysis of the implementation of the recommendations.

D. DISCLOSURES BY MANAGEMENT

72. **Write-off.** Management reported that, in accordance with Article 33 of the Financial Regulations, a total of US\$247,124 in 2018 (US\$173,988 in 2017) was approved for write-off by the Treasurer. We noted that the appropriate procedures required under the Financial Regulations for the write-off were observed.
73. **Ex-gratia payment.** In accordance with Article 32 of the Financial Regulations, no extra-gratia payments were made in 2018 (nor in 2017).
74. **Cases of fraud and presumptive fraud.** We noted an increase in reported cases of fraud or presumptive fraud to 33 in 2018 (29 cases in 2017). This is a further increase from 2016 which reported only 12 cases of fraud. The majority of these cases involve fraudulent SHIF claims by staff members (19 cases). Other cases involved: (a) procurement fraud – (five cases) (b) project implementation fraud, including those committed by implementing partners – (four cases); (c) travel/DSA claims – (three cases); and (d) repatriation grant – (two cases). It was further noted that 31 of these cases related to the field and two to Headquarters.
75. We had previously acknowledged the establishment of ILO policies and guidelines on anti-fraud and anti-corruption, complementing the ILO ethics and whistle-blower policies. We had recommended the need for the increased awareness among its staff member of the said policies and guidelines in order to achieve its objectives. However, with the rising trend of fraud and presumptive fraud cases, since 2016, we recommend a more aggressive stance and strategies for the prevention and/or decrease in the number of cases of fraud or presumptive fraud. Necessarily, the procedures and guidelines embodied in the established policies should be given greater emphasis, especially in the field offices, considering that most of the reported cases involved the field. A separate observation on the investigation of fraud cases is presented in item 3 of this Report.

E. ACKNOWLEDGEMENT

76. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the Director-General, the Deputy Director-General, Regional Directors, Headquarters Directors, the Treasurer and Financial Comptroller, Country Directors, and members of their staff.
77. 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.106.FIN and ILC.107.FIN)

| | Recommendation | External Auditor's Validation |
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| | ILC.106.FIN – 2016 | |
| 1 | <p>Accountability framework:</p> <p>We recommended and ILO agreed to improve the accountability framework to include the accountability mechanism and tools to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency (Para. 26)</p> | <p>In progress</p> <p>IGDS 137 “ILO accountability framework” and IGDS 195 “The ILO accountability framework: key standards and mechanisms” will be reviewed, taking into consideration the progress made with the ERM, ICF and SIC, and with particular attention given to the inclusion of specific tools used to measure, report and assess performance, in addition to the current presentation of accountability mechanisms based on definitions of offices/functions. The updated IGDS documents are targeted for publication in June 2019. However, a further review will be required to ensure compatibility with the new results framework, currently under development.</p> |
| 2 | <p>Procurement feedback and grievances:</p> <p>We recommended and ILO agreed to:</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>Partially implemented</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 ILO, together with other Geneva-based UN sister organizations (WHO, UNAIDS, ITU, IOM and WMO), has agreed to the establishment of a Joint Sanctions Board to deal with cases of vendors suspected of having undertaken proscribed practices. Internally, the existing Office Directive on Anti-fraud and anti-corruption policy (IGDS No. 69) has been updated to reflect the ILO's participation in this Joint Sanctions Board. The Joint Sanctions Board will operate in compliance with the procedures contained in the Model Policy Framework (MPF) approved by the HLCM and the Chief Executives Board in 2011.</p> |

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| 3 | <p>Asset Accountability Policy and Procedures:</p> <p>We recommended and the ILO agreed to expand the Asset Accountability Policy and incorporate the circumstances surrounding asset loss; guidelines for documentation for lost assets; levels of administrative and fiscal responsibility and the role of the Committee on Accountability in safeguarding the Organization's assets to enhance the quality of controlling of assets and related accountabilities (Para. 38)</p> | <p>Partially implemented</p> <p>A revised version of the internal procedure on the management of furniture and equipment has been drafted. 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. The Office is also reviewing the accounting and financial reporting of fixed assets, which is part of the procedure. The publication of the procedure is scheduled for June 2019.</p> |
| 4 | <p>Ethics:</p> <p>We recommended and ILO agreed to:</p> <p>a. update the Whistle-blower Policy to include the two-step process of investigation, the amount of evidence needed in order to constitute disciplinary actions and the corresponding sanctions for each infraction to align more closely with the requirement of due process;</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 anti-fraud policy was revised in October 2017 in order to address specific audit recommendations as well as other matters requiring updates.</p> <p>Recommendations a, b and c are still under consideration as part of an overall review of the whistle-blower policy and alignment with current best practice.</p> |

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| 5 | <p>Risk management:</p> <p>We recommended that ILO consider in its 2017 planned enhancements of the ERM process the:</p> <p>a) formal process for risk communication and aggregation within 2017, in support of the updating of its Strategic Risk Register;</p> <p>b) improvement in the clarity of guidance on identification of inherent risk; and</p> <p>c) more robust programme on risk management competency build-up amongst its staff to warrant a more effective delivery of risk management across the Organization. (Para. 57)</p> | <p>Fully implemented</p> <p>On risk communication, articles on risk management have been published on the ILO's intranet site and on a Development Cooperation blog curated by the ILO International Training Centre. The 2019 risk management plan contains commitments to continue communicating on risk.</p> <p>The Strategic Risk Register was updated in 2018. The update took account of individual risks escalated by Departmental and Country Office Directors through their hierarchy, and of common themes across units (aggregation).</p> <p>On risk identification, training and competency development, the ILO has revised its tools and guidance for the identification and management of risk. In addition, in support of the update of Departmental and Country Office risk registers during 2018, it developed and delivered a series of training programmes for staff at headquarters and in the field.</p> <p>Work on building organizational competence and capacity in risk management will continue through 2019. For example, the ILO will be creating a corps of risk experts, based on an enhanced training programme risk, and plans to deliver four webinars on risk as part of a learning journey on development cooperation projects being organized jointly by the Human Resources Development Department, the Partnerships and Field Support Department and the ILO International Training Centre in Turin.</p> |
| 6 | <p>RBM – Assessment of SOs effecting the changes influenced by ILO's interventions:</p> <p>We recommended that the ILO:</p> <p>a. initiate assessment of the most recent achievements in the SOs to initially identify areas of concern needing continued support, and present these in accordance with the Organization's accountability hierarchy to solicit comments and agree on the priority</p> | <p>In progress</p> <p>Issues raised in this recommendation are being addressed in the context of the preparation of the Programme and Budget for 2020-21.</p> |

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| | <p>higher level changes to be achieved within an agreed timeline; and</p> <p>b. craft the SOs in a change-oriented language before the end of the planning period to reflect specific, measurable and time-bound higher-level changes as improvement over the baseline conditions, considering the related assumptions and risks, moving forward. (Para. 64)</p> | |
| 7 | <p>RBM - Alignment of outcomes to SOs:</p> <p>We recommended that the ILO:</p> <p>a. identify and prioritize, the expected changes or outcomes achievable within a given period, express them following the SMART attributes and present them under the SO to which they contribute; and</p> <p>b. ensure that the SOs and outcomes express the desired higher-level and immediate changes achievable within the agreed planned period, and adopt the SMART attributes in their formulation. (Para. 70)</p> | <p>In progress</p> <p>Issues raised in this recommendation are being addressed in the context of the preparation of the Programme and Budget for 2020-21.</p> |
| 8 | <p>RBM - Linkage of outputs to outcomes and accountability for delivery:</p> <p>We recommended that the ILO:</p> <p>a. distinguish and prioritize the Outputs which most significantly contribute to the Outcomes, present with clarity which Outcome the Outputs influence and identify which level/s of the Organization is/are responsible for their delivery to clarify accountability; and</p> <p>b. initiate a re-thinking process of the P&B structure by all levels of the Organization, on how the Theory of Change and the causal relationships of the outputs, outcome and impact/SOs can be presented with clarity to improve measurability and accountability for results. (Para. 75)</p> | <p>In Progress</p> <p>Issues raised in this recommendation are being addressed in the context of the preparation of the Programme and Budget for 2020-21 and in the forthcoming Programme Implementation rReport 2018-19.</p> |
| 9 | <p>RBM – Measurement of SOs and outputs:</p> <p>We recommended and ILO agreed that:</p> <p>a. initiate discussions on the measurement of the agreed SOs and Outputs using SMART indicators, baselines and targets, based on the results of the assessment of the achievements of the SOs and agreed higher-level changes;</p> | <p>In progress</p> <p>Issues raised in this recommendation are being addressed in the context of the preparation of the Programme and Budget for 2020-21.</p> |

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| | <p>b. agree on the common most significant outputs that are achievable within the biennium to be delivered by various levels of the Organization, which contribute to and will be used to measure progress of the outcomes, and formulate their SMART indicators;</p> <p>c. ensure that the Outputs reflect the Office's products and services and not the results to which they contribute to, and that these Outputs and its Indicators are reflected consistently in the workplans across the Organization for uniform measurement of results; and</p> <p>d. develop guidance on the measurement of SOs and Outputs based on agreements reached. (Para. 79)</p> | |
| 10 | <p>RBM - Harmonization of RBM policies, tools and application in the P&B, DWCPs and DC projects:</p> <p>We recommended that ILO initiate discussions amongst departments/offices involved in the P&B, DWCP and DC projects on the existing RBM application, to determine the root causes of the differences in policies, tools and application and to harmonize them to guarantee better results aggregation, moving forward. (Para. 84)</p> | <p>In Progress</p> <p>This recommendation is being implemented in the context of the ongoing work of the RBM Task Force and its three sub-teams, whose work plans include relevant deliverables and timelines for the period ending in December 2019.</p> |
| 11 | <p>RBM- Cascading of P&B Outcomes to Workplans:</p> <p>We recommended that ILO:</p> <p>a. enhance the presentation of the most significant outputs in the P&B and the OBW to reflect clearly that the outputs in the P&B are the same as those in the OBW for improved traceability and monitoring of outputs;</p> <p>b. formulate its OBWs to show distinctly how the P&B outcomes flow to the OBWs by indicating therein the outcomes and/or outputs that supports those in the P&B;</p> <p>c. develop Unit Workplans (UWs) appropriate for each level of the Organization ensuring that the HQ departments/offices and field offices' UWs show how their outputs</p> | <p>Partially implemented</p> <p>The Office produced revised guidance in the context of its preparations for the OBW 2018-19 planning exercise. Moreover, the exercise was preceded by a strategic planning workshop in October 2017, which provided an opportunity for Outcome Team Leads and field representatives to address the linkages between most significant outputs and outputs at the regional level.</p> <p>The issues raised in this recommendation will be further addressed in the context of the overall improvements in work planning, monitoring and reporting that are being analysed in the context of the RBM Task Force.</p> |

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| | <p>relate to and support the OBW outputs, as the key information to establish such link; and</p> <p>d. improve the existing guidance on the OBWs to clarify the cascading of the P&B outcomes to the OBWs and UWs for enhanced monitoring and reporting on progress and results, and to provide bases for the individual workplans and subsequent staff performance appraisal. (Para. 90)</p> | |
| 12 | <p>RBM – Use of OBW and UW formats:</p> <p>We recommended that ILO:</p> <p>a. facilitate a forum of OCTs, concerned departments and field offices where in consultation with each other they will review the current workplans, identify challenges and agree on the design/ format of the OBW and UW templates that will effectively address and support the planning, monitoring and reporting requirements across all levels of the Organization;</p> <p>b. ensure that the OCTs develop OBW and UW templates that will guarantee the clear cascading of the P&B outcomes to the level of UWs, the accountability for outputs, the monitoring of their delivery within given timelines, and the reporting on results; and</p> <p>c. develop guidance on the mandatory preparation of the workplans, defining accountabilities for their preparation, review, and approval and monitoring, to provide the basis for implementation, review, reporting of results and performance appraisal. (Para. 96)</p> | <p>In Progress</p> <p>The issues raised in this recommendation will be further addressed in the context of the overall improvements in work planning, monitoring and reporting that are being analysed in the context of the RBM Task Force.</p> |
| 13 | <p>RBM - Information system supporting programme results management:</p> <p>We recommended that ILO facilitate an assessment of the needs of the OCTs and departments/offices throughout the programme management cycle, and the review of the capabilities of SM/M, SM/IP, OGA and IRIS to identify and apply the necessary enhancements. (Para. 102)</p> | <p>In Progress</p> <p>Enhancements of the SM modules and system continue to be addressed on a permanent basis, including in the context of the ongoing analysis of procedures and tools for work planning, monitoring and evaluation undertaken by the RBM Task Force. Given the potential financial investment that could be required, the extent of improvements to be implemented will be adapted to the level of available resources.</p> |

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| 14 | <p>RBM -Programme results monitoring- Overall monitoring system and Mechanisms:</p> <p>We recommended that ILO craft a programme monitoring framework including the related tools that will enable a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results. (Para. 106)</p> | <p>In Progress</p> <p>Mapping of office systems and tools used for work planning, monitoring and reporting was carried out and finalized in December 2018. Proposals for improvements in work planning, monitoring and reporting are being discussed in the context of the RBM Task Force and considering ongoing Office work to enhance ILO transparency.</p> |
| 15 | <p>Review of operations of Regional and Field Offices:</p> <p>We recommended that the ILO enhance the level of management controls in its Regional and Country operations by further improving their monitoring and supervisory controls over critical processes to warrant the performance of the embedded controls as intended. (Para. 110)</p> | <p>Implemented on an ongoing basis</p> <p>The Office continues to monitor closely the ongoing implementation of strengthened supervisory and monitoring controls in field offices. The rollout of IRIS is scheduled for completion by the end of 2019, which will further enhance managerial capacities through automated system controls.</p> |
| ILC.107.FIN - 2017 | | |
| 16 | <p>Programme results monitoring - Evidence-based Monitoring</p> <p>We recommended that ILO, moving forward, ensure that its results monitoring mechanisms are enhanced through the:</p> <ul style="list-style-type: none"> a. improvement of data collection methodologies by including additional parameters in its OBW and UW on data collection methods, data sources, frequency of collection, among others to provide more compelling evidence of programme results; 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 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>In progress</p> <p>The development of an integrated monitoring system, including revised mechanisms for data collection and information systems, was defined as a key output in the road map of the RBM task force, including timelines and responsibilities. Preliminary work has started.</p> <p>Mapping of office systems and tools used for work planning, monitoring and reporting was finalized and proposals for improvements in work planning, monitoring and reporting are being discussed in the context of the RBM Task Force and considering ongoing Office work to enhance ILO transparency.</p> |
| 17 | <p>Programme Results Reporting</p> <p>We recommended that ILO, moving forward, enhance its data collection and review</p> | <p>In progress</p> <p>The development of an integrated monitoring system, including revised</p> |

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| | <p>mechanism on reported results with robust engagements by all those involved in the process; support the exercise with clearer and concrete procedures to ensure better alignment of activities and collaboration; and craft evidence-based quality assurance guidance to enable effective validation of reported results. (Para 34)</p> | <p>mechanisms for data collection and information systems, was defined as a key output in the road map of the RBM task force, including timelines and responsibilities. Preliminary work has started.</p> <p>PROGRAM's guidance for the preparation of the PIR 2018-19, which is scheduled to be issued in June 2019, will take into account this recommendation.</p> |
| 18 | <p>Procurement processes and activities</p> <p>We recommended that ILO institute a robust monitoring mechanism that drives the need for effective procurement planning and the production of procurement plans including its annual Corporate Procurement Plan to promote better procurement accountability and achieve best value for money and process efficiency. (Para 40)</p> | <p>Fully implemented</p> <p>In December 2018 the Office finalized and successfully introduced a new template for the preparation of the ILO Corporate Procurement Plan. This revised ILO Procurement Plan Template (in Excel format) has been developed to allow the consolidation of all procurement activities, regardless of the source of funding (Regular Budget, Extra-Budgetary Project or combined) in one single ILO Corporate Procurement Plan.</p> |
| 19 | <p>Procurement processes and activities</p> <p>We recommended that ILO fully leverage the use of its LTAs through the performance of mechanisms to adequately manage its contracts based on well-established policies on procurement planning; consistent use of performance indicators and lessons learned; and market and spend analyses. (Para 45)</p> | <p>Fully implemented</p> <p>In 2018, the Office has progressed further with the deployment of IRIS, improving global accuracy of its procurement data and greatly improving the granularity of its spending analysis and statistics. Following the successful introduction of the ILO Contract Management Module (based on relevant key performance indicators), the finalization of the IRIS world wide deployment, and the recently implemented revised version of the ILO Corporate Procurement Plan this recommendation has been fully implemented.</p> |
| 20 | <p>Procurement processes and activities</p> <p>We recommended that ILO align more closely to its sustainable procurement commitment through a better-fitted sustainable procurement policy that includes specific and clear provisions: on environmentally-responsible procurement in its standard Terms of Conditions for ILO Contracts; on vendor assessment and evaluation embracing sustainability criteria</p> | <p>Fully implemented</p> <p>The Office takes note of this recommendation and advises that the terms and conditions applicable to the ILO contracts contain several provisions strengthening social and environmental sustainability in the acquisition of goods and services, in particular relating to labour practices compliant with ILO Conventions, but also in respect of environmental provisions. Any refusal by a bidder to</p> |

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| | and specifications; and on sustainable disposal of assets procured. (Para 51) | <p>comply with the labour clause would render that bidder ineligible.</p> <p>A review has been initiated of tender templates to ensure that environmental criteria are specifically included as a standard item for the evaluation of tenders. In his minute to the Senior Management Team dated July 2018, the ILO DDG/MR announced that the Office Directive on Environmental and Social Safeguards is scheduled to be finalized by the end of June 2019. However, bearing in mind other measures that the Office has in place, it is considered that this recommendation has been fully implemented.</p> |
| 21 | <p>Procurement processes and activities</p> <p>We recommended that ILO review the causes of deviations on procurement policies and apply appropriate mitigating strategies to address them to ensure that the rate of compliance with the policies is improved thereby enhancing effectiveness of its procurement activities in field offices. (Para 54)</p> | <p>Fully implemented</p> <p>Corrective measures have already been taken in the Offices where deficiencies were observed. One of the key mitigation measures deployed more generally was the Procurement Staff Development Initiative, comprising a set of face-to-face workshops, online tools and webinars on procurement matters, dedicated to the ILO staff in the field. These workshops are conducted throughout the year in the regions to disseminate knowledge and best practices in procurement activity.</p> |
| 22 | <p>Travel</p> <p>We recommended that ILO clarify the purpose and staff accountability attached to travel planning policy and ensure that travel plan preparation is adequately supported with tools, reviewed and monitored to improve adherence to the requirement and achieve the intended benefits. (Para.60)</p> | <p>Fully implemented</p> <p>A reminder of the rules related to planning and coordination of travel on official business has been sent to all secretariats of headquarters departments and field offices. Clarification of the financial purpose of the travel planning policy in relation to ticket issuance was included in this reminder.</p> |
| 23 | <p>Travel</p> <p>We recommended that ILO enhance its travel policies and procedures by aligning these closely with the United Nation's Climate Neutral Strategy of 2007 and cultivate a sustainable travel culture through increased awareness to the cause to demonstrate its commitment and contribution to the reduction of UN climate footprint. (Para 66)</p> | <p>Fully implemented</p> <p>An awareness note was prepared to encourage the use of more sustainable options and published on the Intranet. Travel itineraries proposed by the headquarters dedicated travel agency already disclose CO₂ emission footprints, and include text encouraging sustainability considerations.</p> |

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| 24 | <p>Travel</p> <p>We recommended that ILO identify the common causes of deviations from its 14-day lead time rule for travel request initiation and apply appropriate mitigating strategies to these to ensure that the rate of compliance with the rule is improved thereby enhancing effectiveness of its official and statutory travels. (Para 71)</p> | <p>Partially implemented</p> <p>Regional Offices have been requested to share the usual causes for their non-compliance with this procedure. Following the receipt of this information, the Office plans to complete the overall review on common causes and corresponding mitigating strategies by 30 April 2019.</p> <p>In the meantime, the Office sent a reminder of the rules related to planning and coordination of travel on official business to all secretariats of headquarters departments and field offices. The 14-day advance booking procedure was also included in this reminder.</p> |
| 25 | <p>Review of operations of Regional and Field Offices</p> <p>We recommended that ILO place more emphasis on accountabilities and responsibilities in delivering management controls in key business processes in regional and country offices, particularly supervisory and monitoring controls, to optimize the performance of these controls and support the overall operating objectives of the offices. (Para 83)</p> | <p>Implemented on an ongoing basis</p> <p>The Office continues to monitor closely the ongoing implementation of strengthened supervisory and monitoring controls in field offices. The rollout of IRIS is scheduled for completion by the end of 2019, which will further enhance managerial capacities through automated system controls.</p> |

7. Appendix

Additional unaudited information

Detail of net assets revenue and expense by fund for 2018 (US\$ thousands)

| | Net Assets 31 Dec 2017 | Revenue 2018 | Expense 2018 | Foreign Exchange gain (losses) 2018 | Net result 2018 | Deficit financing | Adjustments to Net Assets | Net Assets 31 Dec 2018 |
|--|---------------------------|-----------------|------------------|---|--------------------|----------------------|------------------------------|---------------------------|
| Funds with approved budget: | | | | | | | | |
| Regular Budget | 135 988 | 386 808 | (374 414) | 6 325 | 18 719 | (69 386) | (809) | 84 512 |
| CINTERFOR | 1 060 | 1 926 | (1 772) | (2) | 152 | – | – | 1 212 |
| ITC | 18 134 | 43 473 | (43 582) | 181 | 72 | – | (799) | 17 407 |
| Subtotal | 155 182 | 432 207 | (419 768) | 6 504 | 18 943 | (69 386) | (1 608) | 103 131 |
| Voluntary Contribution activities | | | | | | | | |
| Development Cooperation Projects | – | 245 432 | (244 889) | (544) | (1) | – | – | (1) |
| RBSA | 46 172 | 13 227 | (8 875) | (185) | 4 167 | – | – | 50 339 |
| Subtotal | 46 172 | 258 659 | (253 764) | (729) | 4 166 | – | – | 50 338 |
| Subsidiary funds | | | | | | | | |
| Programme Support Income | 75 010 | 24 836 | (18 559) | (967) | 5 310 | – | – | 80 320 |
| Publications | 1 561 | 275 | (101) | (2) | 172 | – | – | 1 733 |
| Information Technology System | 1 650 | 17 | – | (2) | 15 | – | – | 1 665 |
| Research | 15 800 | 158 | (2 825) | (20) | (2 687) | – | – | 13 113 |
| Gifts, Grants and Reimbursable Costs | 5 205 | 2 650 | (2 043) | (14) | 593 | – | – | 5 798 |
| Land and Buildings | 515 946 | 53 925 | (47 295) | 711 | 7 341 | – | (23 493) | 499 794 |
| Building Accommodation | 30 268 | 45 285 | (50 006) | (313) | (5 034) | – | – | 25 234 |
| Working Capital | – | – | – | 72 | 72 | 35 389 | – | 35 461 |
| Income Adjustment Account | 28 381 | 2 230 | (641) | (361) | 1 228 | 33 997 | – | 63 606 |
| Prior Period Surplus | 801 | 9 | (1) | (7) | 1 | – | – | 802 |
| Special Programme Accounts | 7 821 | 67 | (628) | (68) | (629) | – | – | 7 192 |
| Terminal Benefits | 5 234 | 5 536 | (4 461) | (15) | 1 060 | – | 3 485 | 9 779 |
| SHIF | 64 166 | 49 227 | (48 380) | (1 223) | (376) | – | (7 517) | 56 273 |
| ASHI Liability | (1 633 823) | – | (59 250) | – | (59 250) | – | 99 133 | (1 593 940) |
| ASHI Reserve | 6 025 | 1 350 | – | (9) | 1 341 | – | – | 7 366 |
| Other Funds | 5 988 | 3 390 | (5 775) | (55) | (2 440) | – | (510) | 3 038 |
| Subtotal | (869 967) | 188 955 | (239 965) | (2 273) | (53 283) | 69 386 | 71 098 | (782 766) |
| Inter-fund elimination | – | (171 461) | 171 401 | – | (60) | – | – | (60) |
| Total | (668 613) | 708 360 | (742 096) | 3 502 | (30 234) | – | 69 490 | (629 357) |