INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

77th Session, Turin, 30-31 October 2014 **CC 77/7/1**

FOR INFORMATION

SEVENTH ITEM ON THE AGENDA

Plan for the Audit of the 2014 Financial Statements

International Training Centre of the ILO

REPORT TO THE BOARD OF THE CENTRE

30–31 October 2014

ANNUAL AUDIT PLAN

FOR THE YEAR ENDING 31 DECEMBER 2014

About the Office of the Auditor General of Canada

The Office of the Auditor General of Canada is the legislative audit office of the federal government and the three territories. We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, territorial legislatures, governments, and Canadians. Through our reports and testimony at parliamentary hearings, we assist Parliament in its work on the authorization and oversight of government spending and operations.

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

To the members of the Board of the International Training Centre of the ILO:

We are pleased to present a summary description of our plan of the International Training Centre of the ILO's (the Centre) annual audit of the transactions and financial statements for the year ending 31 December 2014.

This report is intended for the use of the Board of the Centre and provides information on our audit mandate and objectives, our responsibilities as auditor in relation to the responsibilities of the Board and management, the significant audit areas identified and our plans to address them, a description of information we intend to report to you at the conclusion of the audit, and other relevant matters.

We look forward to working with the members of the Board and are available for consultation at any time. During your upcoming meeting, we will be pleased to discuss any matters of interest and provide any additional information relating to the audit that you may require.

Yours sincerely,

MMcMahon

Marian McMahon, CPA, CA, CFA
Assistant Auditor General

Ottawa, 15 August 2014

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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Our mandate

The Auditor General of Canada is the external auditor of the International Training Centre of the ILO (the Centre) in accordance with the Financial Regulations of the Centre whereby the external auditor of the International Labour Organization is the external auditor of the Centre.

The Auditor General of Canada is the external auditor of the ILO following appointment by the Governing Body for a period of four years commencing on 1 April 2008. This period was extended for an additional four years until the completion of the 31 December 2015 financial statement audit.

Scope of our audit

Our audit objectives

Our primary responsibility is to form and express an opinion on the financial statements based on an audit. The financial statements are prepared by management with the oversight of the Board of the Centre.

An audit of the financial statements does not relieve management of their responsibilities. We will conduct our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable, but not absolute assurance, on whether the financial statements are free of material misstatement, including those misstatements caused by fraud or error.

The objectives of the annual audit are to provide an independent opinion on whether

- the financial statements present fairly, in all material respects, the financial position of the Centre as at 31 December 2014, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS);
- the accounting standards have been applied on a basis consistent with that of the preceding year; and
- the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, been in accordance with the *Financial Regulations* and legislative authority of the Centre (the Statute of the Centre).

Terms of the engagement

As required by our professional standards, we periodically obtain a written confirmation from management outlining our common understanding of, and our agreement on, the terms of the engagement for this audit. Our most recent engagement letter is included in Appendix A. We will be pleased to discuss matters of interest relating to the terms of the engagement that you may require.

Our deliverables

At the conclusion of the audit, we will provide the following reports:

- **Independent Auditor's Report.** A standard auditor's report is included in Appendix B for your reference.

- **Report to the Board of the Centre and Report to the Director—Audit Results.** These reports are prepared to assist the members of the Board and the Director in their review of the financial statements. The reports provide disclosures required by professional standards and other information we believe will be useful to the members of the Board and the Director in their work.

In addition to our reports, we expect to provide a management letter. This is a derivative communication, on issues that do not require Board involvement that identifies opportunities for changes in procedures that would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.

Our audit approach

Overview

Our audit is conducted in accordance with International Standards on Auditing. Our audit approach is designed to allow us to execute a good quality and efficient audit. We do this by

- gaining an understanding of the Centre and its environment by focusing on new developments and key business issues affecting the Centre, as well as management's monitoring of controls and business processes;

- identifying significant audit risks, sharing our perspectives, obtaining feedback, and ensuring our audit is tailored to these risks;

- reviewing the data provided to the actuary, hired by the ILO, to determine the liability related to After-Service Health Insurance (ASHI);

- using well-reasoned professional judgment, especially in areas that are subjective or that require estimates;

- leveraging reliance where possible on the Centre's internal controls, information technology, and data systems, we intend to adopt a controls-reliant approach for the payroll cycle; and
- relying on the work of the ILO's Office of Internal Audit and Oversight (IAO) which is also the Centre's internal auditor, to the extent we consider it practicable.

Our approach will include a mixture of key controls reliance, substantive analytics, and detailed testing. Our understanding of the Centre also drives our assessment of materiality and the identification of audit risks.

Throughout the audit, we will scale our work based on the size of an account balance, its complexity, and its impact on the financial statements. As a result, we will always discuss key issues with you.

Risk analysis

Our audit is risk-based. Significant risks are those risks of material misstatement or non-compliance with significant authority instruments that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the Centre, and current developments in your environment, including your internal controls.

They are the most important risks from our perspective. We request your input on the following significant risks, and whether there are any other areas of concern that you have identified.

The following table summarizes the most important risks, from our perspective, that we want to share with you:

Risk area(s) (including key judgments and estimates)	Operational Impact	Our audit approach
Funding As in prior years, the Centre continues to face funding challenges due to the ongoing economic climate in many countries.	This could also result in non-compliance with the *Financial Regulations* of the Centre: that funds are not being used for the intended purpose.	We will review whether sufficient controls are in place to mitigate the risk of non-compliance, and we will ensure that the transactions we test are in compliance with the authorities of the Centre. In addition, we will ensure that funds are being used for their designated purpose.

Risk area(s) (including key judgments and estimates)	Operational Impact	Our audit approach
Management estimates The preparation of financial statements requires the use of accounting estimates. Certain accounting estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. We have identified the following potentially significant estimates that represent a higher risk: • Provision for doubtful accounts • Provisions for contingent liabilities • Allocation of costs	This could result in errors in the financial results (over or understatement of accounts receivable, liabilities and/or expenses) if due diligence is not exercised in the determination of the estimates.	We will examine the reasonableness of the estimates by discussions with senior management and review the key assumptions used to establish the estimates, as well as the accuracy and completeness of data used to make these assumptions. We will also review disclosures made in the financial statements.
Human Resource capacity As in prior years, the Centre continues to have challenges with respect to plans to manage the Centre's key human resources in light of the fact that some senior management will be retiring in the near future. The Treasurer and the Deputy Director are both expected to retire at the end of 2014.	The transfer of knowledge and corporate history may not occur should the appointment of a replacement not occur in a timely manner.	We will review the process in place for the identification of key human resources and for succession planning.
Information Technology capacity As with most learning institutions, the electronic accessibility of learning material is a growing challenge. More and more courses are being delivered online as opposed to a classroom setting.	The Centre will have to ensure that it has the IT infrastructure and capabilities to deliver online courses to meet the needs of course participants will require.	We will review IT project plans and results of any internal assessments on IT capacity as well as follow up on participant comments regarding IT support for e-learning.

Materiality

Materiality represents our judgment on the degree of significance of a misstatement(s) that could influence the decision of a knowledgeable user relying on the financial statements. In determining materiality, both quantitative and qualitative factors are considered.

We have set our preliminary materiality for the audit as follows:

	Basis	31 December 2014
Overall materiality	2% of the total expenses of the Centre in 2013	€ 800,000
Unadjusted and adjusted items in excess of this amount will be reported to management	5% of overall materiality	€ 40,000

We considered the following factors in establishing materiality: the needs of the Centre and other contributors, representatives of governments, employers and workers, the United Nations and other multilateral agencies and the recipients of training services. This is consistent with the materiality used for the 2013 financial statement audit.

We would like to make you aware, however, that the quantitative measure of materiality is not the only factor we consider in evaluating misstatements. Relatively small misstatements may have material effect on the financial statements because of qualitative considerations. For example, misstatements that have the effect of altering performance trends, turning operating losses into operating income, or that increased compensation could be considered material, even though they might be less than our quantitative measure of materiality.

We will update you at year-end on our final determination of materiality.

Fraud and error

When planning and conducting the audit, we consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. Accordingly, we maintain an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.

In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:

- Inquire of management, internal auditor, and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process, and how fraud risks are addressed.

- Inquire about matters raised before the Accountability Committee regarding fraud and alleged fraud, dishonesty, negligence and disregard of established Centre procedures or directives.
- Consider whether fraud risk factors exist as part of our client acceptance and continuance procedures.
- Analytical procedures, primarily over revenue, and considering unusual or unexpected relationships identified in performing analytical procedures in planning the audit.
- Incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed annually.
- Perform additional required procedures to address the risk of management's override of controls, including:
  - examining journal entries and other adjustments for evidence of possible material misstatement due to fraud;
  - reviewing accounting estimates for biases that could result in material misstatement due to fraud (including a retrospective review of significant prior years' estimates); and
  - evaluating the business rationale of significant unusual transactions.

If you have knowledge of any actual, suspected, or alleged fraud affecting the Centre, please disclose this matter to us as soon as practicable.

If, at any point throughout the audit, we become aware of suspected fraud involving management, employees who have significant roles in internal controls, and other cases where fraud results in a material misstatement in the financial statements, we will advise you on a timely basis. We will discuss with you the nature, timing, and extent of the audit procedures necessary to complete the audit. We will also communicate any other matters related to fraud that are, in our judgment, relevant to your responsibilities.

Compliance with authorities

All transactions which we review for the purpose of expressing an opinion on the Centre's financial statements are also reviewed for compliance with the *Financial Regulations* and legislative authority of the Centre. We integrate this work with our other audit procedures. The results of this work are included in a separate paragraph of the auditor's report.

Reliance on internal control

We have assessed the overall control environment and the control activities relevant to the audit of the Centre and will therefore be adopting a controls-reliant approach for the payroll cycle.

Our professional standards require us to communicate in writing any significant deficiencies in internal control to management and those charged with governance on a timely basis. This includes deficiencies that may have been previously communicated, yet remain unresolved.

During the 2013 audit, we identified opportunities to improve systems of internal control, streamline operations, and enhance financial reporting practices. We will update this information as appropriate when we report back to you at the end of the 2014 audit.

Internal audit

The *Financial Regulations* of the Centre require the Director of the Centre to maintain an internal audit that provides an effective current examination and/or review of financial transactions. We identify areas where internal audit work could provide us with audit assurance and determine the impact on the external audit procedures.

The Office of Internal Audit and Oversight (IAO) of the ILO provides internal audit services to the Centre. We obtained the IAO's 2014 Audit Planning Memorandum for the Centre, which includes an updated risk register. In 2014, the IAO planned to conduct internal audits in two areas:

- procurement of goods and services
- review of training programmes

In addition, a follow-up on implementation of audit recommendations will be completed during the year. While there is no direct impact on the 2014 financial statements, we will review this work to augment our knowledge of systems and processes of the Centre for the current year's audit.

Our responsibilities relating to other information in the annual report and similar documents

The Centre may wish to publish the financial statements, including our audit reports, in other documents, such as in an annual report. International Standards on Auditing require us to review publications before they are published to ensure that the financial statements and our auditor's report have been reproduced accurately. We also read other information within the publications for the purpose of identifying material inconsistencies, if any, with the audited financial statements or material misstatements of fact. We will also expand the review described above to include the Internet version of the publications.

Other services provided

As the external auditor of the Centre, we have been asked to perform the expense verification for the ENPI CBC programme (Cross Border Cooperation in the Mediterranean), where the Centre is a partner of a large consortium led by the region of Tuscany in Italy.

This is a very specific type of agreement, which foresees that expenditure verification is carried out by each partner at its own cost. There would be four verifications on a six-monthly basis covering the period from 1 January 2014 to 31 December 2015.

Developments in accounting

1. Developments in International Public Sector Pronouncements

We have identified the following recent developments as being potentially significant to the Centre:

New/emerging developments	Implication to the entity	Financial audit implication
IPSAS 32—Service Concession Arrangements: Grantor. Effective for years beginning on or after 1 January 2014.	This standard impacts the recognition, measurement and disclosure of service concession assets and related liabilities, revenues and expenses by the grantor.	We will review the Centre's position on service concession arrangements: recognition and measurement and disclosure (if any). We will also review a sample of existing contracts in order to identify potential service concession arrangements (if any).

2. Auditor reporting

The International Auditing and Assurance Standards Board (IAASB) undertook a project that considers revision of ISA 700, *Forming an Opinion and Reporting on Financial Statements*, as well as proposed amendments to related ISAs. The premise under this project is that a good quality audit should be accompanied by an informative auditor's report that delivers value to the entity's stakeholders.

The IAASB has reached general agreement on a number of improvements to auditor reporting that it believes in principle should be promulgated internationally.

- Additional information in the auditor's report to highlight matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit, referred to as "Auditor Commentary."
- Auditor statement as to whether any material inconsistencies between the audited financial statements and other information have been identified based on the

auditor's reading of other information, and specific identification of the information read by the auditor.

- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.

- Auditor conclusion on the appropriateness of management's use of the going concern assumption in preparing the financial statements and an explicit statement as to whether material uncertainties in relation to going concern have been identified.

- Further suggestions to provide transparency about the audit performed, and enhance the description of the respective responsibilities of the auditor, management, and those charged with governance.

We anticipate that with the 2015 auditor's report some if not all of these changes will see an expanded report and the information will be shared with all readers of the auditor's report.

Independence

The Office of the Auditor General of Canada's *Code of Values, Ethics and Professional Conduct*, the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario (Canada), and the International Federation of Accountants' *Code of Ethics for Professional Accountants* require us to maintain independence from the Centre. The latter requires that we communicate with you regarding all relationships between the Centre and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario (Canada) and applicable legislation, covering such matters as:

- holding a financial interest, either directly or indirectly, in the Centre;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of the Centre;
- personal or business relationships of immediate family, close relatives, senior officials, or retired senior officials, either directly or indirectly, with the Centre; and
- over familiarity with the Centre due to a long-standing relationship.

To provide further assurance, our quality management system requires us to ensure safeguards are applied to eliminate identified threats to independence, or reduce them to an acceptable level to ensure that we complied with relevant ethical requirements regarding independence. Our audit staff is required to annually declare any personal relationships that could be perceived as placing them in a conflict of interest position. We also have policies designed to ensure that auditors do not remain on the same audit for excessive periods of time.

At this time, we are not aware of any relationships between the Centre and our audit staff that, in our professional judgment, may reasonably be thought to bear on our independence.

Audit management

Audit team

The audit of the Centre's 2014 year-end will be completed by a team composed of senior personnel from our Office who are involved in the planning, coordination, and direction of the audit and staff members who perform detailed procedures during our on-site visits. The Auditor General of Canada is consulted by the audit team on sensitive, complex, and/or difficult issues.

The Audit Principal is responsible for audit quality and ensures that audits are carried out in compliance with Office policies, professional standards, and the Office's system of quality control.

Senior staff involved in this year's audit includes the following:

Michael Ferguson	Auditor General
Marian McMahon	Assistant Auditor General
Carla Nash	Audit Principal
Chantal Berger	Director

Audit timetable

After consulting with management, we have established the following timetable that highlights the timing of the audit's major activities.

Board of the Centre Meeting—presentation of audit plan	30–31 October 2014
Interim Audit Visits	5 to 14 November 2014
Year-end Audit	9 to 27 February 2015
Clearance meeting with management	25 February 2015
Finalization of audit, including audit adjustments	16 March 2015
Signed audit opinion	End of March 2015
Board of the Centre Meeting—presentation of audit results	To be determined

Audit hours and costs

Fees, including travel costs, for the 2014 financial statements audit have been set at $145,000 USD. These fees are calculated on the basis of the time we anticipate spending on the audit of the Centre, and on the levels of skill and responsibilities involved. The various components of the fees were discussed with management of the Centre in determining the most economical alternatives and an agreement was reached that estimates for the various travel components are the lower of the best rates available to the Centre or the Office of the Auditor General of Canada.

Appendix A—Engagement letter

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

12 June 2014

Patricia O'Donovan
Director
International Training Centre of
the International Labour Organization
Viale Maestri del Lavoro, 10
10127 Turin, Italy

Dear Ms. O'Donovan:

The purpose of this letter is to confirm our common understanding of the terms of the audit engagement.

In accordance with Article 24 of the *Financial Regulations* of the International Training Centre of the International Labour Organization (the Centre), the Auditor General of Canada is the External Auditor of the Centre as it is the External Auditor of the International Labour Organization.

In accordance with the *Financial Regulations*, our audit of the financial statements of the Centre is designed to enable the Auditor General of Canada to issue a report indicating whether, in his opinion:

(a) the financial statements present fairly, in all material respects, the financial position of the Centre as at 31 December 2014, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards;

(b) the accounting principles in International Public Sector Accounting Standards have been applied on a basis consistent with that of the preceding year; and

(c) the transactions of the Centre that have come to his notice during his audit of the financial statements have, in all significant respects, been in accordance with the *Financial Regulations* and legislative authority of the Centre.

We also have an obligation to call attention to any other matter falling within the scope of the audit for the report that, in our opinion, should be brought to the attention of the Board of the Centre.

The form and content of this auditor's report will be in accordance with International Standards on Auditing. There may be circumstances where our auditor's report will differ from the standard with respect to form and content. In such cases, we will discuss with management in advance of finalizing our auditor's report and seek to resolve any difference of view that may exist. This will

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

be communicated, if appropriate or necessary, to those charged with governance in the Report to the Board – Annual Audit Results at the end of the audit.

Our responsibilities

Annual financial statements audit. We are responsible to conduct our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical and independence requirements, and that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The scope of our audit will include obtaining, to the extent necessary to effectively carry out our work, an understanding of the Centre and its business environment, the business risks it faces, how the Centre manages those risks, and its overall control environment.

Risk assessment. In making our risk assessments, we will obtain an understanding of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances. The scope of our review of internal controls will not be sufficient to express an opinion on the effectiveness or efficiency of the Centre's internal controls. However, we will inform the management as well as those charged with governance in writing of any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements in the financial statements may not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed in accordance with International Standards on Auditing.

Fraud. In planning and conducting the audit, we consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. Accordingly, we maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. Because of the nature of fraud, which could include attempts at concealment through collusion and forgery, an audit designed and executed in accordance with International Standards on Auditing may not detect a material fraud. Furthermore, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot guarantee that fraud, error, and illegal acts, if present, will be detected.

Communication of matters. We will inform management and, if appropriate or necessary, those charged with governance of the following matters that we may have identified during the course of our audit:

- misstatements, resulting from error (other than trivial errors), and the request to correct those misstatements;

- fraud or any information obtained that indicates that a fraud may exist;
- any evidence obtained that indicates non-compliance, or suspected non-compliance, with the *Financial Regulations* and legislative authority;
- significant deficiencies in the design or implementation of internal control to prevent and detect fraud or error; and
- related party transactions identified by us that are significant and outside the normal course of operations.

However, audits do not usually identify all matters that may be of interest to management in carrying out its responsibilities. The type and significance of the matter to be communicated will determine the level of management to whom the communication is directed.

Confidentiality. All of our employees have a duty of confidentiality within the limits of the law. Accordingly, except for information that is in or enters the public domain, we will not provide any third party with confidential information concerning the affairs of the Centre without your prior consent—unless we are required to do so by the law.

Review of designated public documents. As the Centre's external auditor we are required to review designated public documents containing the audited financial statements and our auditor's report, prior to their publication, to ensure that other information in these documents is consistent with the financial statements and does not appear to contain any material misstatements of facts. We will also expand our review to include the Internet version of such documents.

Management responsibilities

Our audit will be conducted on the premise that management and, where appropriate, those charged with governance acknowledge and understand that they have the following responsibilities.

Responsibility for financial statements and internal control. Management is responsible for the preparation and fair presentation of the financial statements and information referred to above. Management is also responsible for establishing and maintaining an effective system of internal control over financial reporting to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, management is responsible for establishing policies and procedures that ensure financial information is prepared in accordance with International Public Sector Accounting Standards.

Correction of errors. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us that the total of all uncorrected misstatements identified by us during our audit are immaterial, both individually and in total, to the financial statements taken as a whole. In addition, we expect management will correct all known non-trivial errors.

Prevention and detection of fraud. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us

(a) of the risk that the financial statements may be materially misstated as a result of fraud;

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(b) about all known or suspected fraud affecting the Centre involving (i) management, (ii) employees who have significant roles in internal control over financial reporting and (iii) others where the fraud could have a non-trivial effect on the financial statements; and

(c) of knowledge of any allegations of fraud or suspected fraud affecting the Centre received in communications from employees, former employees, or others.

Related parties. Management is responsible for disclosing to us the identity of each related party and all the related party relationships and transactions of which management is aware and, for providing to us any updates that occur during the course of this engagement.

Subsequent events. Management is responsible for informing us of subsequent events that may affect the financial statements of which they may become aware up to the date the financial statements are issued.

Laws, regulations, and other authorities. Management is responsible for identifying and ensuring that they comply with the laws, regulations and other authorities applicable to the Centre and its activities. Management will make available to us information relating to any illegal or possibly illegal acts, and all facts related thereto, and will provide information to us relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements.

Providing information on a timely basis. Management is responsible for making available to us, on a timely basis, all of the Centre's original accounting records and related information relevant to the preparation of the financial statements, additional information that we may request from you for the purposes of our audit, and unrestricted access to the Centre's personnel who we may determine necessary to obtain evidence necessary to support our audit of the financial statements.

Management representation letter. Management will provide us with written representations that encompass representations made to us during the audit covering the financial statements. Management's representations are integral to our audit evidence.

Other engagement matters

Fees, including travel costs, for the 2014 financial statements audit have been set at $145,000 USD. These fees are calculated on the basis of the time we anticipate spending on the audit of the Centre, and on the levels of skill and responsibilities involved. The various components of the fees were discussed with management of the Centre in determining the most economical alternatives and an agreement was reached that estimates for the various travel components are the lower of the best rates available to Centre or the Office of the Auditor General of Canada. Fees are established on the basis that the Centre will meet its obligations outlined in this engagement letter. It is our intention to present invoices for work done at appropriate intervals during the course of the audit. These invoices will be payable upon presentation.

All working papers and files, other materials, reports, and work that we create, develop, or perform during the course of the engagement will remain our property.

These terms of engagement will be effective from year to year until amended or terminated in writing.

If the terms of the audit engagement are acceptable to you, please sign the duplicate of this letter in the space provided and return it to us. Your signature also indicates that you agree to acknowledge and understand your management responsibilities, as outlined in this letter.

Yours sincerely,

M McMahon

Marian McMahon, CPA, CA, CFA
Assistant Auditor General

By signing below, I acknowledge and agree to my obligation to ensure that the responsibilities of the International Training Centre of the ILO and its management as set forth herein are properly discharged:

By:

Patricia O'Donovan
Director

16/06/14
Date

By:

Remedios Dungca
Treasurer and Chief, Financial Services

16 June 2014
Date

Appendix B—Standard Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Board of the International Training Centre of the International Labour Organization

Report on the Financial Statements

I have audited the accompanying financial statements of the International Training Centre of the International Labour Organization, which comprise the statement of financial position as at 31 December 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flow and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the International Training Centre of the International Labour Organization as of 31 December 2014, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with the International Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Regulations* of the International Training Centre of the International Labour Organization, I report that, in my opinion, the accounting policies in the International Public Sector Accounting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the International Training Centre of the International Labour Organization that have come to my notice as part of my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Regulations* and legislative authority of the International Training Centre of the International Labour Organization.

In accordance with Article 27 of the *Financial Regulations* of the International Training Centre of the International Labour Organization, a detailed report is issued on my audit of the International Training Centre of the International Labour Organization's financial statements to the Board.

Michael Ferguson, CPA, CA
FCA (New Brunswick)
Auditor General of Canada

Date
Ottawa, Canada