Board of the Centre

78th Session, Turin, 29-30 October 2015

CC 78/4/1

FOR DECISION

FORTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the year ending 31 December 2014

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Financial report on the 2014 accounts

Introduction

These financial statements are prepared in accordance with article 14 of the Financial Regulations of the International Training Centre of the International Labour Organization (the Centre) and they are submitted to the Board in accordance with article 17. The External Auditor' report on the audit of the Centre's 2014 financial statements, together with the Auditor's opinion, are also submitted to the Board of the Centre in accordance with article 27 of the Financial Regulations.

The 2014 financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and this is the third year that the Centre is fully compliant. Financial statements prepared under IPSAS recognize the general operations' voluntary contributions for which there are no stipulations in the year that they relate to. Contributions relating to training activities that have conditions are recognized as revenue when the services are delivered to the donor. Expenditures are recognized when goods and services are received or delivered, rather than when they are paid. Employee benefits relating to accumulated leave, the repatriation shipment and travel are recognized in the financial statements as they are earned by the Centre's officials, rather than when they are paid. The after-service health insurance (ASHI) liability is recognized in the International Labour Organization's (ILO) consolidated financial statements.

The implementation of IPSAS has no impact on the preparation of the budget, which is still presented on a modified accrual basis. As the basis and scope of the budget and the financial statements differ, the reconciliation between the budget and the IPSAS Statements of financial performance and cash flow are presented in note 13 to the financial statements.

The ILO is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. As an ILO controlled entity, the Centre's 2014 financial statements are consolidated with those of the ILO.

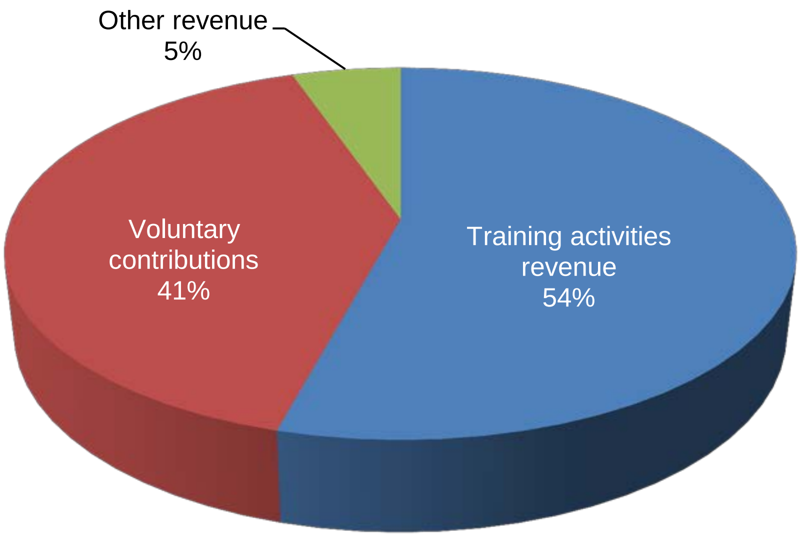
Financial results for 2014

Although revenues from training activities declined in 2014 when compared to 2013, the overall financial results and financial position of the Centre remain healthy. The 2014 financial results are as follows:

Financial highlights (in thousands of Euros)

	2014	2013
Total revenue	36 242	42 091
Total expenditures	36 170	38 756
Net surplus	72	3 335
Net assets	18 126	18 054

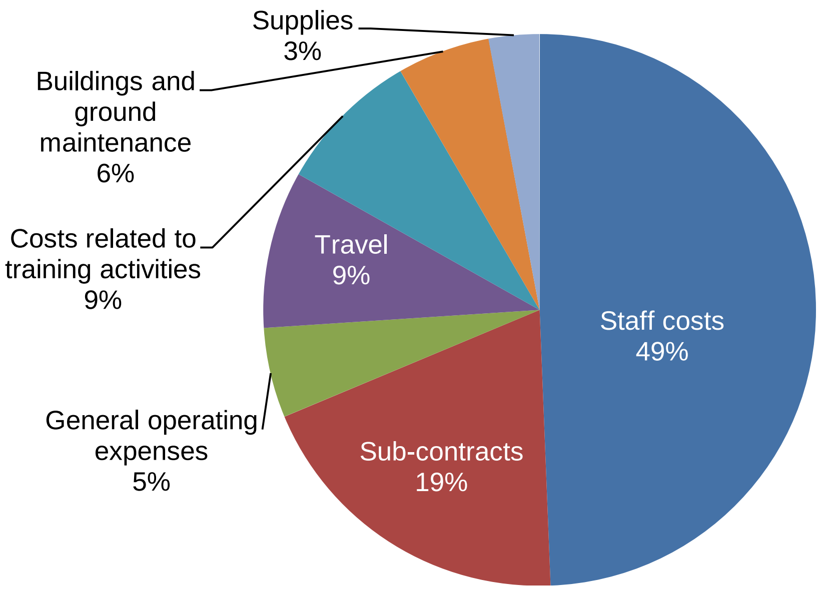
Total revenue by source



The two major sources of revenue, representing 95 per cent of total revenue (2013 – 93 per cent), are derived from voluntary contributions and training activities. Total revenue decreased by 14 per cent as compared to 2013 as a result of:

- a decrease of €6.4 million, or 25 per cent, in training revenue financed from the ILO's Regular Budget for technical cooperation. In 2014, this represented 30 per cent of the overall training revenue as compared to approximately 39 per cent in 2013. Overall, participants attending training in 2014 totaled 10,921 as compared to 13,524 in 2013. This represented a decrease of 2,603 participants or 19 per cent;
- the distribution of the activities by type of training also had an impact on the total training revenues. In 2014, we saw small decreases in the activities carried at the campus (175 activities in 2014 as compared to 179 in 2013) as well as in the "Blended–C" (distance training plus face-to-face on campus) activities (20 in 2013 as compared to 14 in 2014) which affected revenues slightly;
- there was also a decrease of 24 per cent in the number of activities held in the field (202 in 2014 as compared to 265 in 2013). This was balanced out by a rise in training activities called "Blended–F" (distance training plus face-to-face in the field) which show an increase of 244 per cent (nine activities in 2013 as compared to 31 in 2014);
- an increase of €1.5 million in voluntary contributions, mainly due to the receipt of voluntary contributions of €1.7 million for the refurbishment of Pavilion Europe, an additional contribution from the City of Turin of €200,000 and a decrease of €419,000 due to the conversion from US dollar to Euro of the ILO voluntary contribution;
- a decrease of €1.0 million in other revenue mainly due to a significant decrease in publications revenue earned from the ILO.

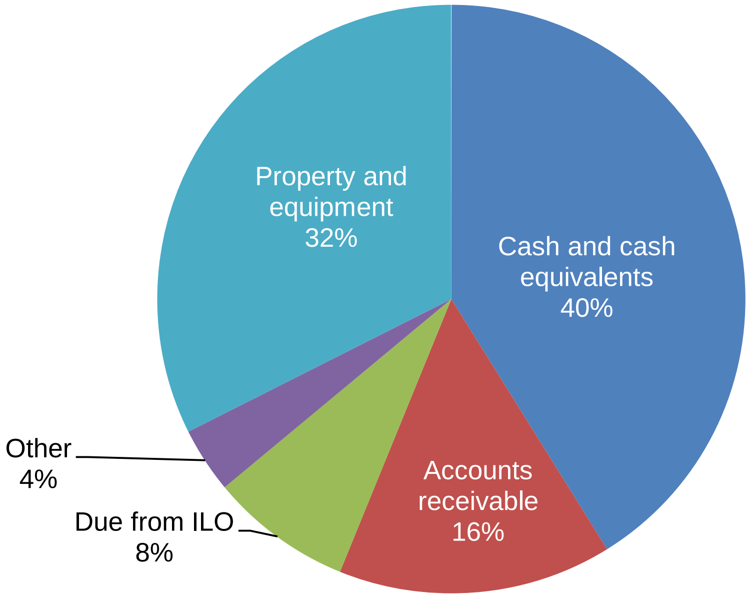
Total expenditures by source



The most significant expenditures relate to staff costs of €17.5 million, sub-contracts of €6.8 million, travel of €3.3 million and other costs related to training activities of €3.0 million. The decrease in total expenditures was mainly due to the decrease in training activities.

Operating result: the 2014 net surplus of revenue over expenditures, in accordance with IPSAS, was €72,000 as compared to a net surplus of €3.3 million in 2013.

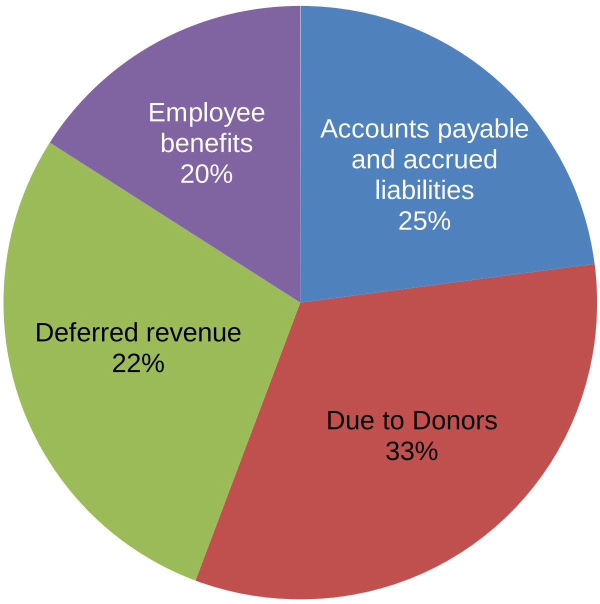
Assets: the Centre held assets of €30.5 million as of 31 December 2014 (€33.7 million as at 31 December 2013).



As at 31 December 2014, the Centre's most significant assets were cash and cash equivalents of €12.2 million, accounts receivable of €7.3 million, of which €2.3 million was receivable from the ILO, and property and equipment totalling €9.6 million. Overall, the Centre's assets decreased by €3.2 million as a result of:

- a decrease in cash and cash equivalent of €2.1 million as a result of the Centre's investment in equipment of €542,000 and Pavilion Europe (€2.4 million);
- a decrease in the accounts receivable of €875,000 as a result of the decrease in training activities and the related invoices;
- a decrease in the receivable from the ILO as a significant amount was paid prior to year-end;
- an increase in property and equipment as a result of investments in IT and non-IT equipment as well as the refurbishment of Pavilion Europe (totalling €3.165 million in the year).

Liabilities: the Centre had liabilities of €12.3 million as at 31 December 2014 (€15.6 million as at 31 December 2013).



Overall liabilities have decreased by €3.3 million as compared to last year. This is due to the following:

- the most significant liability totalling €4.1 million or 33 per cent of total liabilities is the liability called Due to donors. This represents funds advanced by various donors and sponsors for specific training projects. The balance has decreased by nearly €1.0 million as a result of the decrease in training activities;
- deferred revenues have also decreased by €1.5 million. These represent funds receivable based on signed agreements with participants and their sponsoring agencies in respect of future training activities and consulting services that are subject to specific performance conditions. As training activities have decreased in 2014 this amount also reflects a decreasing trend;
- accounts payable and accrued liabilities decreased slightly by €548,000 again being aligned with the decreasing training activities.

Net assets: at the end of 2014, net assets remained stable at the 2013 level. The following shows the movements within each fund during the year:

(In thousands of Euros)

	Working Capital Fund	General Fund	Campus Improvement Fund	Italy Trust Fund	Net Assets
Balance as at 1 January 2014	1 929	12 002	1 205	2 918	18 054
Net surplus/(Deficit) of 2014	6	928	(19)	(843)	72
Transfers to/(from)	–	578	(578)	–	–
Balance as at 31 December 2014	**1 935**	**13 508**	**608**	**2 075**	**18 126**

The transfers between the Campus Improvement Fund and the General Fund include the transfer of €200,000 as per the 2014 Programme and Budget, the transfer of the voluntary contributions (€1.7 million) relating to Pavilion Europe as well as the transfer of the refurbishment costs of Pavilion Europe (€2.5 million) which were capitalised in the General Fund.

Regular Budget

At its 75th Session (October 2013), the Board approved the 2014 budget consisting of expenditures of €36.1 million and revenue of €36.1 million.

The overall budgetary results for the 2014 financial year are summarized in **Statement V**, with the details of voluntary contributions received from donors shown in note 9. The 2014 actual revenue amounted to €35.8 million. The 2014 actual staff costs under Chapter III of the budget amounted to €17.2 million while actual fixed expenditures under Chapter IV totalled €6.5 million. Variable expenditures under Chapter V amounted to €12.0 million. The 2014 budget surplus amounted to €386,000 after taking into account the provision for doubtful accounts and foreign exchange gains.

Significant differences between 2014 budget and actual amounts as presented on Statement V

(In thousands of Euros)

Line item in Statement V			Budget 2014	Actual 2014	Variance Amount	Variance %
Chapter	**Line**					
I	10	International Labour Organization	3 354	2 990	(364)	(11%)
I	13–14	Piedmont Region, Government of Portugal and City of Turin	–	649	649	100%
II	20	Revenue from activities	21 400	21 986	586	3%
II	21	Revenue from publications	1 200	771	(429)	(36%)
II	22	Other revenue	1 200	937	(263)	(22%)
II	23	Use of surplus	1 134	655	(479)	(43%)
III	30	Regular–budget staff costs	15 062	14 593	(469)	(3%)
IV	41	Facilities	1 910	2 380	470	25%
IV	43	General operating expenditures	933	708	(225)	(24%)
V	50–57	Total variable expenditures	12 300	11 959	(341)	(3%)

Explanations of variances

The Centre achieved positive results by earning higher than budgeted training revenue, receiving voluntary contributions from the Piedmont Region, the Government of Portugal as well as the City of Turin while managing its non-staff costs which came in lower than the budget. The Centre recognized an exchange and revaluation gain in 2014 which helped it achieve an overall net budget surplus of €386,000. Below are more detailed explanations on the variances of certain line items for the year:

- **ILO voluntary contribution**: the ILO US dollar contribution revenue was €364,000 below budget as a result of the differences in exchange rates applied to the budget revenue (€0.814 to US$1) and the actual rate (€0.726 to US$1) applicable at the time the funds were converted into Euros;
- **Piedmont Region, Government of Portugal and City of Turin voluntary contributions**: in 2014, an additional contribution of €50,000 was received from the Piedmont Region for the general operations of the Centre; €250,000 was received from Portugal to be applied to overall expenditures. And finally, the balance of a past contribution from the City of Turin was used to cover maintenance expenditures of the campus and to cover additional expenditures related to garbage removal;
- **revenue from training activities**: actual revenues for 2014 exceeded the approved budget by €586,000 or by 2.7 per cent. This can be explained by the higher than anticipated training revenue from the ILO’s Regular Budget for technical cooperation; higher than anticipated training revenues from other UN agencies and institutions and lower than anticipated revenues from the EU and related institutions;
- **revenue from publications**: the variance in 2014 is due to the lower than expected demand for publications during the year. The overall 2014 revenue earned from publications went from €1.7 million in 2013 to €771,000 in 2014. As the budgeted figure was based on past performance with some adjustments to allow for 2014 being a first year of the ILO’s biennium budget, the actuals figures still came in significantly under budget;
- **other revenue**: the 2014 variance of €263,000, or 22 per cent, can be explained by interest income being lower than budgeted as was the income from rental of premises and installations on campus;
- **use of surplus**: the budgeted figure anticipated that a significant amount from the remaining balances from approved surplus allocations would be spent in 2014. The variance of €479,000, or 42 per cent, is due to activities being funded from other funds. Note 13 of the financial statements provides additional information on balances available as at 31 December 2014;
- **regular–budget staff costs**: the variance of €469,000, or 3 per cent, is mainly due to staff retirements and extended staff leave without pay thus resulting in slightly lower staff costs in 2014 as compared to the approved budget;
- **facilities**: the actual costs for facilities is higher than the budget by €470,000, or 25 per cent. This is the result of additional maintenance work carried out in the course of the year as savings were identified in other areas. Such projects included the installation of additional bathrooms in Pavilion Piemonte, re-painting and upgrading of the hotel accommodation and refurbishment of the Reception area. There was also an additional garbage tax amounting to approximately €200,000;

- **general operating expenditures**: the variance of €225,000, or 24 per cent, was generally attributable to lower than expected costs in maintenance of vehicles, freight and courier services, telephone and maintenance of office equipment;
- **total variable expenditures**: the variance of €341,000, or 3 per cent, is due in part to the changes in the distribution of the activities by type of training as compared to last year. With the increase of "Blended–C" and "Blended–F" activities as well as e-learning, the variable costs have decreased as a percentage of the total training revenue. The variable expenditures amounted to 57 per cent of the training revenue in the approved 2014 budget. The actual percentage is 54 per cent. When more activities are held at a distance, which is the case for "Blended–F" activities (13 days of training in 2013 versus 93 in 2014), the ratio of variable costs to training revenue decreases.

Ex–gratia payments

There were two ex-gratia payments made in 2014 totalling €31,700.

Approval of the Financial Statements for the year ended 31 December 2014

The Financial Statements numbered I to V and the accompanying notes (Notes 1–16) are approved.

Patricia O'Donovan	Christine Boulanger
Director	Treasurer, Chief of Financial Services
20 March 2015	20 March 2015

Point for decision

The Board is requested to adopt the Financial Statements as submitted in accordance with article 17.2 of the Financial Regulations.

Auditor General of Canada
Vérificateur général du Canada

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 International Public Sector Accounting Standards, 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.

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 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. 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 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.

.../2

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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 principles in 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 during my audit of the financial statements have, in all significant respects, been in accordance with *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, I have also issued a detailed report 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

20 March 2015
Ottawa, Canada

Financial Statements
for the year ended 31 December 2014

International Training Centre of the ILO

Statement of financial position for the year ended 31 December
(In thousands of Euros)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	**3**	12 225	14 364
Accounts receivable	**4**	4 465	5 115
Contributions receivable	**5**	525	669
Due from the ILO		2 321	4 792
Other current assets		542	509
		20 078	**25 449**
Non-current assets			
Accounts receivable	**4**	523	749
Property and equipment	**7**	9 637	7 377
Intangible assets		227	82
		10 387	**8 208**
Total assets		**30 465**	**33 657**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		3 041	3 589
Due to donors		4 128	5 074
Deferred revenue		2 154	3 690
Employee benefits	**8**	231	207
		9 554	**12 560**
Non-current liabilities			
Employee benefits	**8**	2 262	2 294
Deferred revenue		523	749
		2 785	**3 043**
Total liabilities		**12 339**	**15 603**
Net assets			
Working Capital Fund		1 935	1 929
Total accumulated fund balances		16 191	16 125
Total net assets		**18 126**	**18 054**
Total liabilities + net assets		**30 465**	**33 657**

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of financial performance for the year ended 31 December

(In thousands of Euros)

	Note	2014	2013
Revenue			
Training activities		19 643	26 022
Voluntary contributions	**9**	14 676	13 134
Other revenue	**11**	1 624	2 779
Exchange gain (loss) and revaluation, net		209	(9)
Interest		90	165
Total revenue		**36 242**	**42 091**
Expenditures			
Staff costs		17 460	17 267
Sub–contracts		6 828	8 659
General operating expenditures		1 866	2 068
Travel		3 261	3 559
Other costs related to training activities		2 982	3 450
Buildings and ground maintenance		1 920	2 004
Supplies		1 048	1 032
Depreciation		760	669
Bank charges		45	48
Total expenditures		**36 170**	**38 756**
Net surplus		**72**	**3 335**

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of changes in net assets for the year ended 31 December

(In thousands of Euros)

	Working Capital Fund	General Fund	Campus Improvement Fund	Italy Trust Fund	Total other accumulated fund balances	Net Assets
Balance as at 1 January 2013	1 911	10 075	1 017	1 716	12 808	14 719
Net surplus/(deficit) of 2013	18	2 127	(12)	1 202	3 317	3 335
Transfers to/(from) [/1]	–	(200)	200	–	-	–
Balance as at 31 December 2013	**1 929**	**12 002**	**1 205**	**2 918**	**16 125**	**18 054**
Balance as at 1 January 2014	1 929	12 002	1 205	2 918	16 125	18 054
Net surplus/(deficit) of 2014	6	928	(19)	(843)	66	72
Transfers to/(from) [/2]	–	578	(578)	–	–	–
Balance as at 31 December 2014	**1 935**	**13 508**	**608**	**2 075**	**16 191**	**18 126**

/1 Transfer of €200,000 from General Fund to the Campus Improvement Fund as approved by the Board in 2013.

/2 Transfer of €200,000 from General Fund to the Campus Improvement Fund as approved by the Board in 2014. There were also two transfers to/from the Campus Improvement Fund to/from the General Fund which consisted of the voluntary contributions received by the Centre totalling €1.687 million which were used to finance the renovation project of Pavilion Europe as well as transfer of Pavilion Europe's completed asset of €2.465 million.

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of cash flow
for the year ended 31 December

(In thousands of Euros)

	2014	2013
Cash flows from operating activities		
Net surplus for the period	72	3 335
Effect of exchange rates on cash and cash equivalents	45	(124)
Non-cash items:		
Depreciation	760	669
Decrease in accounts receivable	876	3 646
(Increase)/decrease in contributions receivable	144	(144)
(Increase)/decrease in due from the ILO	2 471	(2 742)
(Increase)/decrease in other current assets	(33)	(41)
Increase/(decrease) in accounts payable and accrued liabilities	(548)	939
Decrease in deferred revenue	(1 762)	(1 953)
Decrease in due to donors	(946)	(2 198)
Decrease in employee benefit liabilities	(8)	–
Net cash flows from operating activities [/1]	**1 071**	**1 387**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(3 165)	(867)
Net cash flows from investing activities	**(3 165)**	**(867)**
Effect of exchange rates on cash and cash equivalents	(45)	124
Net increase (decrease) in cash and cash equivalents	**(2 139)**	**644**
Cash and cash equivalents, beginning of period	14 364	13 720
Cash and cash equivalents, end of period	**12 225**	**14 364**

[/1] €94,000 in interest received is included under "surplus/(deficit) for the period" in the net cash flows from operating activities (2013 – €136,000).

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO
Statement of comparison of budget and actual amounts for the year ended 31 December 2014

(In thousands of Euros)

Budget Chapter	Budget Item	Title	2014 Approved Budget	2014 Actual	Budget Variance[2]
		REVENUE			
I		**Voluntary contributions**			
	10	International Labour Organization	3 354	2 990	(364)
	11	Government of Italy	7 850	7 850	–
	13	Piedmont Region	–	50	50
	14	Government of Portugal	–	250	250
	–	City of Turin	–	349	349
		Total voluntary contributions (Chapter I)	**11 204**	**11 489**	**285**
II		**Earned revenue**			
	20	Revenue from training activities	21 400	21 986	586
	21	Revenue from publications	1 200	771	(429)
	22	Other revenue	1 200	937	(263)
		Total earned revenue	**23 800**	**23 694**	**(106)**
	23	Use of surplus	1 134	655	(479)
		Total Chapter II	**24 934**	**24 349**	**(585)**
		TOTAL BUDGET REVENUE	**36 138**	**35 838**	**(300)**
		EXPENDITURES			
III		**Staff Costs**			
	30	Regular–budget staff costs	15 062	14 593	(469)
	31	Project–based staff costs	2 600	2 639	39
		Total staff costs (Chapter III)	**17 662**	**17 232**	**(430)**
IV		**Non-staff Costs**			
		Fixed expenditures			
	40	Consultants	433	487	54
	41	Facilities	1 910	2 380	470
	42	Security	375	360	(15)
	43	General operating expenditures	933	708	(225)
	44	Missions and representation	221	175	(46)
	45	Governance	400	374	(26)
	46	Information technology	1 524	1 618	94
	47	Depreciation of property and equipment	380	376	(4)
		Total fixed expenditures (Chapter IV)	**6 176**	**6 478**	**302**
V		Variable expenditures			
	50	External collaborators	4 300	4 385	85
	51	Missions	600	691	91
	52	Participants costs	5 370	4 982	(388)
	53	Books, training aids and materials	420	493	73
	54	Training facilities and services outside Turin	520	675	155
	55	Other variable costs	110	123	13
	56	Costs related to income from publications	780	510	(270)
	57	Other costs related to other income	200	100	(100)
		Total variable expenditures (Chapter V)	**12 300**	**11 959**	**(341)**
		TOTAL OPERATING EXPENDITURES	**36 138**	**35 669**	**(469)**
		BUDGET SURPLUS [1]	**–**	**169**	**169**
		Other items			
	58	Decrease in provision for doubtful accounts	–	8	8
	61	Exchange gain and revaluation, net	–	209	209
		TOTAL OTHER ITEMS	**–**	**217**	**217**
		NET BUDGET SURPLUS [1]	**–**	**386**	**386**

[1] As referred to in Financial Regulations 7(4).

[2] Budget variances are explained in the accompanying financial report on the 2014 accounts.

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Notes to the Financial Statements for the year ended 31 December 2014

Note 1 – Objectives and activities

The objective of the International Training Centre of the International Labour Organization (the “Centre”) is, in keeping with the principles set forth in the Preamble of the Constitution of the International Labour Organization (ILO) and in the Declaration of Philadelphia, to provide training activities at the service of economic and social development in accordance with, and through the promotion of international labour standards. Its training activities are elaborated within the framework of the technical co-operation of the ILO, the United Nations System and other international organizations.

The ILO is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. A meeting of the Board is convened annually. The members of the Board do not receive any remuneration from the Centre for their services. At its annual meeting, the Centre adopts its budget in accordance with the Centre’s Financial Regulations on the recommendation of the members of the Board. Under Article 17 of the Centre’s Financial Regulations, the Board adopts the financial statements.

The Centre is based in Turin, Italy. In accordance with the complementary agreement on the privileges and immunities of the Centre with the Italian government, the Centre is exempt from most taxes and customs duties imposed by the Italian government.

The Centre is principally financed from voluntary contributions from the ILO’s regular budget and the Government of Italy and from revenues earned by providing training services.

Under the terms of the Statute of the Centre adopted by the ILO Governing Body, the Centre’s funds and assets are accounted for separately from the assets of the ILO (article VI, paragraph 6). The accounts of the Centre, which are produced on an annual basis, are audited by the External Auditor of the ILO. Should the Centre be dissolved, the Governing Body of the ILO has the authority under the Statute (article XI) to dispose of the Centre’s assets and remaining funds. With the ILO as the controlling entity of the Centre, the financial statements of the Centre are consolidated with the ILO’s financial statements.

Five funds are maintained at the Centre:

1) the General Fund is the main operating fund of the Centre for training activities;
2) the Working Capital Fund was established in accordance with the Financial Regulations of the Centre to temporarily finance expenditures pending receipt of firmly pledged voluntary contributions and other income to be received under signed agreements. Its target level has been established at €2.0 million;
3) the Campus Improvement Fund was established by the Director to receive funds specifically for the refurbishment of the campus;

4) the Italian Trust Fund was established to receive funds from the Italian government for training activities; and
5) the Innovation Fund was established in 2011 to promote innovation in learning and knowledge-sharing tools, develop new training activities in response to emerging ILO policies, and embed best practices and excellence in the Centre's learning and training activities.

Note 2 – Accounting policies

The financial statements of the Centre have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS) and fully comply with all effective standards applicable as at 31 December 2014.

IPSAS 32, Service Concession Arrangements, that took effect in January 2014, has been reviewed and has no impact on the financial statements.

Financial period: the Centre's financial period for budgetary purposes is the calendar year and its financial statements are prepared annually. Comparative information reflects the full 12 months of the calendar year 2013.

Financial statement presentation: the financial statements include all of the Centre's funds. All transactions between funds are eliminated. The financial statements comprise a Statement of financial position, a Statement of financial performance, a Statement of changes in net assets, a Statement of cash flow and a Statement of comparison of budget and actual amounts for the General and Italian Trust funds.

Functional currency and foreign exchange translation: the functional currency of the Centre is the Euro (€) and the financial statements are prepared in that currency. The United Nations operational rates of exchange are used in the translation of transactions and balances in currencies other than the Euro. These rates approximate the market rates.

Monetary balances maintained in currencies other than the Euro are converted to Euro at the United Nations operational rate of exchange as at 31 December.

Transactions carried out during the financial period in currencies other than Euro are converted to Euro using the United Nations operational rates of exchange in effect on the date of the transaction.

The net gain or loss arising from the conversion of transactions and balances in currencies other than the Euro is recognized as exchange gain (loss) and revaluation, net in the Statement of financial performance.

Cash and cash equivalents: cash and cash equivalents include cash in banks and short-term deposits maturing within three months from the end of the reporting date.

Accounts receivable: accounts receivable result mainly from training activities, and from the sale of publications. The Centre establishes a provision for doubtful accounts based on its review of balances to determine if any amounts are impaired. When all collection efforts have been completed and the account is still outstanding, the account is written-off and is recognised in general operating expenditures on the Statement of financial performance.

Contributions receivable: contributions receivable relate to voluntary contributions to cover general operations where it is probable to be received and can be reliably measured.

Due from/to the ILO: the Centre has an inter-office transactions current account with its controlling entity, the ILO, to record transactions due from and to the ILO. This includes the ILO's voluntary contribution for general operations, staff costs and disbursements for training activities incurred by the ILO, both in the ILO's external offices or headquarters, on behalf of the Centre, as well as remittances made by the Centre to the ILO. The exchange net balance due from, or due to, the ILO is reflected in the Statement of financial position.

Property and equipment: property and equipment is comprised of equipment and leasehold improvements that are measured at historical cost and depreciated on a straight line basis over their useful lives, as follows:

Class	Estimated useful life (years)
Vehicles	5
Office equipment	5
Other type of equipment	10
Furniture and fixtures	10
Leasehold improvements	Lower of 15–30 and term of lease

Impairment: assets that are subject to depreciation or amortization are reviewed annually to determine the carrying amount is still considered appropriate. Impairment occurs due to complete loss, major damage or obsolescence. When the asset's carrying amount exceeds its recoverable service amount (the higher of the asset's value in use and its fair value less costs to sell), the impairment is recognized on the Statement of financial performance.

Payables and accrued liabilities: payables represent invoices for which goods and/or services have been received but not paid as of the reporting date. Accrued liabilities consist of goods and/or services received during the reporting period for which no invoice has been received as of the reporting date.

Due to donors: the due to donors represents funds received from training participants and their sponsoring agencies in respect of future training activities and consultancy services that are subject to conditions. They are not recognized as revenue until the Centre's performance obligation in providing the related services is fulfilled.

Deferred revenue: deferred revenue represent funds receivable based on signed agreements with training participants and their sponsoring agencies in respect of future training activities and consultancy services that are subject to specific performance conditions. They are recognized as revenue when the Centre's performance obligation in providing the related services is fulfilled. Agreements providing for amounts to be received in 12 months or longer from the reporting date are recognized as non-current liabilities and are discounted utilizing a discount rate based on high grade corporate bonds.

Employee benefits: the Centre recognizes the following categories of employee benefits:

- short-term employee benefits: these benefits fall due within twelve months after the end of the financial period in which employees render the related service and include the following:
  - accumulated leave: accumulating compensated absences, such as annual leave and compensatory time, are recognized as expenditures and liabilities as they are earned by employees. In accordance with Staff Regulations, officials earn annual leave of 30 working days per year. Officials may accumulate up to 60 working days which is payable on separation from service. The value of leave payable at the reporting date is calculated by multiplying the actual number of days accumulated by each staff member by the staff member's base salary plus post adjustment for eligible professional staff and base salary and language allowance for general services staff. The non-current portion of the liability is not discounted as the impact is not material;
  - non-accumulating leave: for non-accumulating compensated absences, such as sick leave and maternity leave, an expenditure is recognized when the absence occurs;
  - home leave: in accordance with Staff Regulations, non-locally recruited officials are entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter every second year. A liability exists related to the value of home leave entitlements that have been earned by officials but not taken at the reporting date. The value of home leave earned and payable at the reporting date has been calculated on the basis of last year's cost of home leave adjusted for price increases in air fare;
  - other short-term employee benefits: other short-term employee benefits are expensed as part of payroll and a liability is recorded at year-end if an amount remains unpaid. They include non-resident allowance, family allowance, post adjustment allowance, education grant, and language allowance;
- long–term employee benefits:
  - repatriation travel and removal expenditures: officials, their spouses and dependent children are entitled to reimbursement of costs of travel and transport of personal effects upon termination. Expenditure related to repatriation travel and transport of personal effects is calculated by estimating the nominal value of the cost attributable to each eligible staff member at 31 December 2014. The non-current portion of the liability is not discounted as the impact is not material;
  - end–of–service payments and repatriation grant: in accordance with Staff Regulations, staff in the General Services category is entitled to an end-of-service payment on separation or on promotion to the Professional category or above. The Centre makes a defined contribution of 7.5 per cent of the General Services salaries every month to the ILO. In accordance with Staff Regulations, non-locally recruited officials are entitled to a grant on separation from service if they have completed at least one year of service outside their home country. The Centre makes a defined contribution of 6.0 per cent of compensation paid to eligible employees during the financial period to the ILO.

    The Centre does not recognize any liability for end-of-service payments and repatriation grant. In March 1980, the ILO Governing Body decided that starting on 1 July 1980, the payments related to end-of-service and repatriation grant made to the Centre's staff would be charged to the ILO's terminal benefits account and that monthly contributions would be made by the Centre to the ILO. As there is no formal agreement for charging the net defined benefit costs to the Centre, the Centre accounts for the end-of-service payments and repatriation grants on a defined contribution basis. Apart from paying monthly contributions to the ILO, which is expensed on an ongoing basis, a liability is recognized only if the monthly contribution to the ILO in respect of employee services rendered remains to be paid at the reporting date;

- post–employment benefits:
  - after-service medical benefits: officials and their dependents are entitled to after-service medical benefits when they retire at the age of 55 or more and if they have at least 10 years of service with an agency of the United Nations System and have been a participant in the Staff Health Insurance Fund for the five years immediately preceding separation from service. The Staff Health Insurance Fund is a multi-employer defined benefit plan providing medical coverage to all staff, retirees and their dependents. The Centre is one of the participating members of that Fund. Monthly contributions towards this Fund are made by the retirees, with matching contributions made by the participating organizations. In the case of the retirees from the Centre, the ILO makes the required monthly contribution to the Staff Health Insurance Fund. On that basis, the Centre does not have any liability with regards to the after-service medical benefits nor does it record any expenditure;
  - United Nations Joint Staff Pension Fund: through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The pension fund is a funded, multi-employer defined benefit plan. As specified by 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;

    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 Centre and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify the Centre's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes, and hence the Centre has treated this plan as if it was a defined contribution plan. The Centre's contributions to the plan during the financial period are recognized as staff cost expenditures in the Statement of financial performance.

Expenditures: expenditures are recognized when goods and services are received or rendered. Expenditures related to operating leases are recognized in the Statement of financial performance on a straight-line basis over the lease term.

Revenue from exchange transactions

- Other revenue: other revenue comprises non-training activities such as revenue from social life activities, the use of residential facilities by non-participants attending training and revenue from the sale of publications. Revenue is recognized when the services are provided.

- Interest revenue: interest revenue generated from short-term deposits is recognized as it is earned, on a time proportion basis that takes into account the effective yield.

Revenue from non-exchange transactions

- Voluntary contributions:
  - voluntary contributions are provided to support the general operations of the Centre, for campus improvement and for training activities. These contributions contain no stipulations in the nature of "conditions" that require specific performance and the return of funds not used for their intended purposes. They are recognized as an asset and revenue in the year to which the contribution relates if it is probable that the contribution will be received and if the amount can be measured reliably;
  - voluntary contributions are also received from the City of Turin to meet expenditures related to the extraordinary maintenance and landscaping costs of the property occupied by the Centre. These contributions are recognized as an asset with a corresponding liability (deferred revenue) in the year to which the contribution relates when it is probable that the contribution will be received and the amount can be measured reliably. As the funds are utilized for extraordinary maintenance and landscaping costs, the liability (deferred revenue) is reduced and a corresponding amount is recognized as revenue.
- Goods and services–in–kind: the Centre does not recognize services-in-kind in the financial statements. Contributions of goods-in-kind are recognized at fair value at the date of receipt.
- Training activities: 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 (accounts receivable) and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion that expenditures incurred bear to the estimated total expenditures of the training activity.
- Operating leases with other UN organizations: these comprise revenue from leases with other UN organizations and their use of Centre facilities. These leases are operating leases in that they do not transfer substantially all of the risks of ownership to the lessee, and they are cancellable. Lease payments are contingent rents as they are based on costs incurred by the Centre for the area they occupy.

Contingent assets: the Centre does not recognize a contingent asset, but discloses in the notes to the financial statements details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Centre. Contingent assets are assessed regularly to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise from voluntary contributions and training activities and that the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements in the period in which the change occurs.

Contingent liabilities: contingent liabilities are disclosed where a possible obligation is uncertain but can be measured, or where the Centre has a present obligation but cannot reliably measure the possible outflow of resources.

A provision is recognized for contingent liabilities when the Centre 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 present value of expenditures required to settle the present obligation at the reporting date.

Segment information: the Centre is a single purpose entity with the purpose of providing training activities that support the mandate of the ILO. On that basis, it is considered a single segment and no segment note disclosure has been presented.

Measurement uncertainty: the preparation of 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 financial statements and the reported amounts of revenue and expenditures for the year. Accruals, property and equipment and employee benefit liabilities are the most significant items where estimates are used. Actual results could differ significantly from these estimates.

Review of estimates and assumptions are carried out on an on-going basis. Adjustments in accounting estimates are recognized in the period in which the estimates are adjusted and in any affected future period. Examples of significant estimates and assumptions that may result in any material adjustments in future years include: actuarial measurement of employee benefit liabilities such as staff turn-over, disability, mortality and medical rates; selection of useful lives of property and equipment and intangible assets; provisions for doubtful accounts, impairment on assets and loss contingencies; and discount rates applied to accounts receivable.

Note 3 – Cash and cash equivalents

(In thousands of Euros)

	US dollar (€ equivalent)	Euro	2014 total	2013 total
Current accounts and cash on hand	136	6 186	6 322	3 397
Short-term deposits	–	5 903	5 903	10 967
Total cash and cash equivalents	**136**	**12 089**	**12 225**	**14 364**

Of the total cash and cash equivalents held in 2013, €12.15 million was in Euros and the balance held in US dollars, €2.214 million Euro equivalent.

The cash and cash equivalent balance includes an amount of €4.128 million (€5.074 million in 2013) which must be used for training activities.

Note 4 – Accounts receivable

(In thousands of Euros)

	2014	2013
Current accounts receivable		
Accounts receivable from invoiced training services	2 438	2 738
Accounts receivable from training services agreements due in 2015	2 040	2 743
Other accounts receivable	15	12
Less: provision for doubtful accounts – training services	(28)	(378)
Total current net accounts receivable	**4 465**	**5 115**
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2015	523	749
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	**523**	**749**

All of the above net accounts receivable relate to non-exchange transactions.

	2014	2013
Movements in provision for doubtful accounts		
Balance 1 January	378	982
Amounts written off during the year as uncollectible	(348)	(579)
Impairment losses reversed	(20)	–
Increase/(decrease) in allowance for new impairments	18	(25)
Balance 31 December	**28**	**378**

Note 5 – Contributions receivable

(In thousands of Euros)

	2014	2013
Compagnia di San Paolo	375	369
Chamber of Commerce	100	200
Piedmont Region	50	100
Total contributions receivable	**525**	**669**

Of the above, €475,000 (€569,000 in 2013) was subject to conditions requiring the use of funds for the renovation of Pavilion Europe. All of the above contributions receivable relate to non-exchange transactions.

Note 6 – Financial instruments

Categories of financial assets and liabilities

Financial assets and financial liabilities are categorized as follow:

Assets/Liabilities	Classification	Measurement
Cash and cash equivalent	Cash and cash equivalent	Fair value through surplus and deficit
Accounts receivable	Loans and receivable	Amortized cost
Contributions receivable	Loans and receivable	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost

The fair value of cash and cash equivalent is determined using quoted prices in active markets for identical assets (Level 1).

Activities are exposed to the following financial risks: market risk, credit risk and liquidity risk. The Centre focuses on these risks and seeks to minimize potential effects on financial performance. Financial risk management is carried out in conjunction with the investment policy, Financial Regulations and Risk Register. In 2014, there were no changes related to the objective, policies and processes for managing these risks. There were also no changes in the risks and risk levels to those identified in 2013.

Market risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk or other price risk.

Currency risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Centre has exposure to currency risk on transactions occurring in currencies other than the Euro, which mainly relate to US dollar transactions. This risk is managed by converting Euros into the necessary currency based on anticipated needs and upon consideration of interest rates and exchange rate forecasts. For significant amounts, the best rates are sought.

The net US dollar foreign currency exposure as at 31 December is as follows:

(In thousands of Euros)

	2014 USD	2014 € equivalent	2013 USD	2013 € equivalent
Cash and cash equivalents	167	136	3 054	2 214
Accounts receivable	1 487	1 219	1 815	1 316
Due from the ILO	1 331	1 091	3 528	2 558
Payables and accrued liabilities	(28)	(23)	(108)	(78)
Net exposure	**2 957**	**2 423**	**8 289**	**6 010**

Based on the net exposure as at 31 December 2014, and assuming all the other variables remain constant, a hypothetical 5 per cent change in the US dollar against the Euro would result in an increase or decrease in net results of €121,000 (€300,000 in 2013) or 5 per cent (9 per cent in 2013).

Interest rate risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Centre does not charge interest on its accounts receivable nor is it charged interest on its liabilities and does not have borrowings. However, the Centre invests in short-term deposits and is therefore subject to interest rate fluctuation. It manages its interest rate risk by investing on a short-term basis. The interest rate risk is not significant.

Other price risk

This is the risk that relates to fluctuations in fair value or future cash flows of financial instruments caused by changes in market price other than changes arising from interest rate risk or currency risks.

There are no outstanding equity investments at the reporting date that would expose the Centre to this risk.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the Centre will encounter difficulties in meeting its financial obligations. The Centre manages liquidity risk to ensure that it will have sufficient liquidity to meet its liabilities by continuously monitoring actual and estimated cash flows.

Accounts payable and accrued liabilities are mostly due within 30 days (30 in 2013).

In accordance with its Financial Regulations, a Working Capital Fund is maintained which can be used to temporarily finance expenditures pending the receipt of voluntary contributions and other income and in exceptional circumstances, to provide advances to meet emergencies. At the reporting date, the Working Capital Fund balance was €1.935 million (€1.929 million in 2013).

Credit risk

This 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. The Centre is exposed to credit risk through its cash and cash equivalents and accounts receivable.

The Centre invests surplus funds to earn investment income with the objective of maintaining the safety and preservation of its capital, maintain adequate liquidity to meet cash flow requirements and obtain the best available return on its investments. In accordance with its investment policy, investments are only made with institutions with a Fitch long term rating of "A" or better. If no Fitch rating is available, a minimum rating of "A" by Standard and Poor's or Moody's is required. The Centre's main banking provider is excluded from this policy due to operational requirements.

Cash and cash equivalent, including term deposits, are diversified to several banks in order to avoid an over-concentration of funds with few institutions. The total percentage of cash and cash equivalents that may be placed with a single institution is determined according to its long-term credit rating excluding the main banking service provider. The Centre did not hold more than the established limit of €10.0 million in any one institution at the end of the reporting period. Investments are made only in term deposits, deposit certificates, bonds, sovereign treasury bills and notes, and floating rate notes.

The credit rating for cash and cash equivalents and term deposits are as follows as at 31 December:

(In thousands of Euros)

2014	AAA	AA+–AA–	A+–A–	BBB+–BBB–	Total
Cash and Cash Equivalents	–	–	7 833	4 392	**12 225**

2013	AAA	AA+–AA–	A+–A–	BBB+–BBB–	Total
Cash and Cash Equivalents	–	–	10 967	3 397	**14 364**

Accounts receivable

The accounts receivable, due upon receipt of invoices, pertain to governments and supra-nationals with established credit ratings. The maximum exposure to credit risk is represented by the carrying value of these assets.

The aging of receivables at 31 December is as follows:

(In thousands of Euros)

2014	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	4 132	770	114	(28)	4 988
Contributions receivable	525	–	–	–	525
Total receivable	**4 657**	**770**	**114**	**(28)**	**5 513**
2013					
Accounts receivable	5 733	105	404	(378)	5 864
Contributions receivable	669	–	–	–	669
Total receivable	**6 402**	**105**	**404**	**(378)**	**6 533**

Note 7 – Property and equipment

(In thousands of Euros)

	Equipment	Leasehold improvements	Total 2014	Total 2013
Cost at 31 December	3 844	10 231	14 075	11 498
Accumulated depreciation at 31 December	2 077	2 361	4 438	4 121
Net book value at 31 December 2014	**1 767**	**7 870**	**9 637**	**7 377**
Net book value at 31 December 2013	**1 555**	**5 822**	**7 377**	

There were no contractual commitments for the acquisition of property and equipment at the end of 2014.

Equipment

(In thousands of Euros)

	Vehicles	Machinery and equipment	Furniture and fixtures	Total 2014	Total 2013
Cost at 1 January	106	3 544	76	3 726	3 353
Additions	–	477	65	542	440
Disposals	–	(424)	–	(424)	(67)
Cost at 31 December	**106**	**3 597**	**141**	**3 844**	**3 726**
Accumulated depreciation at 1 January 2014	67	2 085	19	2 171	1 955
Depreciation	10	311	9	330	283
Disposals	–	(424)	–	(424)	(67)
Accumulated depreciation at 31 December	**77**	**1 972**	**28**	**2 077**	**2 171**
Net book value at 31 December 2014	**29**	**1 625**	**113**	**1 767**	**1 555**

Leasehold improvements

The Centre is located on land and in buildings provided by the City of Turin at a nominal rent. The Covenant between the City of Turin and the ILO signed on 29 July 1964 provides the Centre with the right to refurbish and improve the buildings on the site along with the responsibility to provide routine maintenance of the buildings, park, roads and paths on the site. The City assumes responsibility for major repairs and extraordinary maintenance, while the Centre is responsible for minor routine maintenance and repairs.

The carrying value of these improvements is as follows:

(In thousands of Euros)

	Conference Centre 2014	Other Renovations 2014	Total 2014	Total 2013
Opening balance at 1 January	3 953	3 819	7 772	7 388
Reclassification	(97)	97	–	(67)
Additions	46	2 413	2 459	451
Cost at 31 December	**3 902**	**6 329**	**10 231**	**7 772**
Accumulated depreciation at 1 January	427	1 523	1 950	1 575
Depreciation	129	282	411	375
Accumulated depreciation at 31 December	**556**	**1 805**	**2 361**	**1 950**
Net book value at 31 December	**3 346**	**4 524**	**7 870**	**5 822**

Note 8 – Employee benefits

(In thousands of Euros)	2014	2013
Current liabilities		
Accrued salaries	11	29
Accumulated leave	170	141
Repatriation travel and removal expenditures	17	20
Home Leave	33	17
Total current liabilities	**231**	**207**
Non-current liabilities		
Accumulated leave	1 765	1 787
Repatriation travel and removal expenditures	497	507
Total non-current liabilities	**2 262**	**2 294**
Total employee benefits liabilities	**2 493**	**2 501**

End–of–service payments and repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2014 was €654,000 (2013 – €663,000).

The present value of the defined benefit obligation for end-of-service was estimated at €7.935 million (2013 – €6.1 million). The present value of the defined benefit obligation for repatriation grant was €1.279 million at the end of 2014 (2013 – €800,000). These liabilities are recognized by the ILO in its consolidated financial statements.

After-service medical benefits

The liability for after-service medical benefits was estimated at €58.967 million at the end of 2014 (2013 – €37.1 million). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

The Pension 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.

The Centre’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 of pensionable remuneration 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 Pension 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.

The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2013 was 24.42 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as of 31 December 2015.

At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2013, 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 Fund. 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.

In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.

During 2014, the Centre paid to UNJSPF a total amount of €3.572 million (2013 – €3.63 million). Expected payments due in 2015 are €3.22 million.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board 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.

Note 9 – Revenue from voluntary contributions

(In thousands of Euros)

	2014	**2013**
Government of Italy	9 350	9 350
International Labour Organization	2 990	3 409
Compagnia di San Paolo	1 487	–
City of Turin	349	–
Government of Portugal	250	250
Turin Chamber of Commerce	200	100
Piedmont Region	50	–
Government of France	–	25
Total voluntary contributions	**14 676**	**13 134**

The ILO contribution of €2.99 million (US$4.12 million) represents one half of the approved 2014-2015 biennial contribution of US$8.24 million. The ILO's contribution toward the Masters' Programme in 2014 was €80,000 (2013 – €112,000).

The Italian Government's ex-lege contribution to the Centre in 2014 was €7.85 million (2013 – €7.85 million). This amount was received in 2014. The Italian Government's contribution for training activities in 2014 was €1.5 million (2013 – €1.5 million).

Note 10 – Contributions–in–kind

There were no goods-in-kind received during the year. The land and buildings of the Centre are provided by the City of Turin at a nominal rent including facilities constructed with funds provided by various donors.

Note 11 – Other revenue

(In thousands of Euros)

	2014	2013
Non-exchange transactions		
Operating leases with other UN organizations	385	451
Use of facilities other than residential	137	173
Other miscellaneous income	126	147
Exchange transactions		
Use of residential facilities by non-participants attending training	183	146
Revenue from the sale of publications	771	1 723
Social life activities	22	139
Total other revenue	**1 624**	**2 779**

Note 12 – Commitments, leases and contingent liabilities

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

At 31 December 2014, the Centre has commitments of €3.296 million (2013 – €4.4 million) for contracts related to future services such as hardware and software maintenance, printing services and outsourced services such as cleaning of campus premises and hotel rooms, hotel reception, post office, security, catering and transport.

Most leases entered into by the Centre as a lessee for equipment rentals and use of software are cancellable operating leases. Only leases for mobile telephones and warehouse document hosting are non-cancellable. The minimum lease payments on these agreements are €12,000 for 2015. The existing agreement on mobile phones is the only lease payment required for future years. Total expenditures for equipment rentals were €28,000 (2013 – €170,000) and €26,000 (2013 – €38,000) for software licenses.

The Centre, acting as a lessor, has cancellable operating leases with United Nations Interregional Crime and Justice Research Institute (UNICRI) and the United Nations System Staff College (UNSSC). Revenue generated under these leases totalled €385,000 (2013 – €451,000).

Note 13 – Statement of comparison of budget and actual amounts

The Statement of financial position (Statement I), Statement of financial performance (Statement II), Statement of changes in net assets (Statement III) and Statement of cash flow (Statement IV) include all funds while the Statement of comparison of budget and actual amounts (Statement V) includes only the General Fund and the Italy Trust Fund for which a budget is adopted by the Centre. The 2014 budget was approved by the Board in October 2013 and the period covered is the calendar year.

The budgetary basis is not the same as the basis used for the Statement of financial performance:

- the use of surplus from prior periods is presented as budgetary income in Statement V while it is not presented on Statement II;
- the basis of accounting for income related to the Italy Trust Fund and the ILO grants for the Masters Programmes are not the same in Statement II and Statement V. In Statement V, income related to the Italy Trust Fund and the ILO grants for the Masters Programmes is recognized as income from training activities as funds are utilized for training activities. In Statement II, they are recognized as voluntary contributions in the year to which these contributions relate if it is probable that these contributions will be received and if the amounts can be measured reliably.

The basis of accounting for depreciation and information and technology costs are not the same in Statement II and Statement V. In Statements V, depreciation of assets previously expensed and capitalized in 2011 and prior years are not reflected.

Reconciliation between Statement V and Statement IV

(In thousands of Euros)

Net budget surplus (Statement V)	**386**
Items not included in the Statement of comparison of budget and actual amounts (Statement V) but included in the Statement of cash flows (Statement IV)	
Basis Differences	
Acquisition of fixed assets	(3 165)
Changes in non-cash items	954
Depreciation of property and equipment for assets expensed prior to 2012	(384)
Entity Difference	
Net surplus/(deficit) from funds not included in the budget	832
Interfund expenditures	(107)
	(1 870)
Items included in Statement V but not included in Statement IV	
Basis Differences	
Use of surplus	(655)
	(655)
Net decrease in cash and cash equivalents (Statement IV)	**(2 139)**

Reconciliation between Statement V and Statement II

(In thousands of Euros)

Net budget surplus per Statement V	**386**
Items included in Statement V but not in the Statement of financial performance (Statement II)	
Basis Difference	
Use of prior year surplus	(655)
Entity Difference	
Interfund expenditures	(107)
	(762)
Items included in Statement II but not in Statement V	
Basis Difference	
Depreciation of property and equipment for assets expensed prior to 2012	(384)
Entity Difference	
Net surplus from funds not included in the budget	832
	448
Net income per Statement of financial performance	**72**

Use of surplus funds

In accordance with Article 7, paragraph 4 of the Financial Regulations, any financial surplus from prior completed financial periods is allocated to a number of limited priorities as proposed by the Director and approved by the Board as part of the annual programme and budget proposals.

The following table summarizes the allocations and remaining balances from the 2009, 2010, 2011, 2012 and 2013 surpluses. As surpluses are allocated at the end of the year following the completed financial period, expenditure of the surplus can only commence at the start of the year following the allocation decision (e.g. allocations of the surplus from the financial year 2013 were part of the 2015 Programme and Budget Proposals thereby enabling expenditure of the 2013 surplus to commence in January 2015).

(In thousands of Euros)

	Training activities	Innovation Fund	Campus Improvement fund	Business Process Review	Total
Allocations from 2009 surplus	500	–	–	–	**500**
Expenditures in 2010 and 2011	(333)	–	–	–	**(333)**
Expenditures in 2012	(154)	–	–	–	**(154)**
Expenditures in 2013	(13)	–	–	–	**(13)**
Balance at 31 December 2014	**–**	**–**	**–**	**–**	**–**
Allocations from 2010 surplus	500	300	650	350	**1 800**
Expenditures in 2012	(500)	(45)	–	(31)	**(576)**
Expenditures in 2013	–	(255)	–	(51)	**(306)**
Expenditures in 2014	–	–	(650)	–	**(650)**
Balance at 31 December 2014	**–**	**–**	**–**	**268**	**268**
Allocations from 2011 surplus	500	100	165	–	**765**
Expenditures in 2013	–	(44)	–	–	**(44)**
Expenditures in 2014	(500)	(6)	(128)	–	**(634)**
Balance at 31 December 2014	**–**	**50**	**37**	**–**	**87**
Allocations from 2012 surplus	675	100	200	–	**975**
Expenditures in 2014	(155)	–	–	–	**(155)**
Balance at 31 December 2014	**520**	**100**	**200**	**–**	**820**
Allocations from 2013 surplus	**1 150**	**550**	**950**	**–**	**2 650**

Note 14 – Contingent assets

(In thousands of Euros)

	2014	2013
ILO contribution	3 304	5 974
Government of Italy – Centre’s operations	7 850	7 850
Total contingent assets	**11 154**	**13 824**

Note 15 – Related party transactions

The ILO is the controlling entity of the International Training Centre. The ILO made the following contributions to the Centre:

(In thousands of Euros)

	2014	2013
General operations	2 987	3 297
Training activities	6 744	10 905
ASHI contribution for former employees	607	604
Repatriation grants	112	24
End–of–service benefits	4	650
Staff costs of ILO staff members assigned to Centre	59	57
Internal audit and legal services	181	181
Total related party transactions	**10 694**	**15 718**

All other transactions between the ILO and the Centre occur within the normal supplier or client/recipient relationship.

Key management personnel of the Centre are the Director and the nine members of the Management Team. The Board consists of representatives of member States of the ILO Governing Body, and a member each from the Italian Government, City of Turin, Piedmont Region and the Unione Industriale of Turin, who serve without compensation.

The aggregate remuneration paid to key management personnel includes salaries and benefits established in accordance with Staff Regulations and approved by the Board. Key management personnel are members of the UN Joint Service Pension Fund (UNJSPF) to which the personnel and Centre contributes and are also eligible for participation in the Staff Health Insurance Fund (SHIF) including the After Service Medical Insurance if they meet the eligibility requirements in the SHIF Regulations and Administrative Rules. Both the SHIF and the UNJSPF are defined benefit plans.

During the reporting period, salaries and benefits in the following amounts were paid to key management personnel:

	2014		2013	
Category	Individuals	Total remuneration (Euro)	Individuals	Total remuneration (Euro)
Key Management	10	1 737 000	10	1 775 000

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 Staff Regulations.

Note 16 – Capital management

The Centre defines the capital that it manages as the aggregate of its net assets, which is comprised of accumulated fund balances and reserves. The 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 overall strategy with respect to capital management includes the balancing of the costs of its operating and capital activities which can extend over multiple financial periods with its funding from voluntary contributions and revenue from training activities.

The Centre manages its capital structure in light of global economic conditions, the risk characteristics of the underlying assets and working capital requirements and reviews on a regular basis the actual project expenditures against the budgets approved by donors providing project funding.

Report of the External Auditor to the Board on the audit of the Financial Statements of the International Training Centre of the International Labour Organization for the year ended 31 December 2014

International Training Centre of the ILO

REPORT TO THE BOARD

ANNUAL AUDIT RESULTS

19 May 2015

FOR THE YEAR ENDED 31 December 2014

Auditor General of Canada
Vérificateur général du Canada

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

We have completed our audit of the 2014 financial statements of the Centre. This represents our seventh audit as external auditor. The following report contains all of the information that our audit plan indicated we would communicate to you at the conclusion of our audit, and where appropriate, other communications required under International Auditing Standards. We have addressed all of the matters that came to our attention during the course of the audit that we believe the Board of the Centre should be aware of in reviewing the Centre's financial statements. We will be pleased to elaborate on any of these points, to the extent you desire, during the Board meeting in May 2015.

We would like to take this opportunity to express our appreciation to the Director of the Centre, her officers and members of their staff for the cooperation and assistance received during our audit. We also wish to express our appreciation to the Board of the Centre and the Governing Body of the ILO for the support and interest shown in the work of our Office.

Yours sincerely,

MMcMahon

Marian McMahon, CPA, CA, CFA
Assistant Auditor General
for the Auditor General of Canada
External Auditor

Ottawa, Canada
20 March 2015

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Executive Summary

We have performed our audit in a manner consistent with the Report to the Board—Annual Audit Plan, which was presented to the Board at its 77th meeting in October 2014.

We expressed an unmodified audit opinion on the Centre's financial statements for the year ended 31 December 2014.

We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2014, its financial performance, changes in net assets, cash flow, and the comparison of budget with actual amounts for the period then ended in accordance with the International Public Sector Accounting Standards (IPSAS). We concluded that these accounting policies were applied on a basis consistent with that of the preceding period. We also concluded that the transactions of the Centre that have come to our notice have, in all significant respects, been in accordance with the Financial Regulations and the legislative authority of the Centre.

We completed our audit work in February 2015. As part of the audit, we followed-up on the recommendations included in prior years' reports and offer some observations on other matters not previously identified in our Audit Plan. We are generally satisfied with the progress made by management in this regard.

This is the third year the Centre has been fully compliant with IPSAS. These financial statements should provide the Board with a better understanding of the Centre's operations for 2014. Going forward, IPSAS compliant financial statements could be used by management to explain the results of its activities undertaken in the year, the sources of its funding, and how it was used during the year to achieve the Centre's objectives.

2014 Annual Audit Overview

Our mandate

1. The Office of the Auditor General of Canada (the OAG) is an independent audit office and a world leader in legislative and environmental auditing. A Supreme Audit Institution, we promote good financial and environmental management and sustainable development.

2. The OAG is widely involved in the activities of the Canadian, as well as the international, audit and accountancy profession. In Canada, the OAG is involved in many professional organizations, notably the Chartered Professional Accountants of Canada (the CPA Canada) which sets accounting and assurance standards. Internationally, the OAG has more than 50 years of experience collaborating with international partners in developing professional standards, building capacity, sharing knowledge, and conducting audits of international institutions.

3. The Auditor General of Canada was appointed external auditor of the Centre for the financial period beginning on 1 January 2008 for a four-year term which was extended an additional four years to December 2015. The Centre's *Financial Regulations*, chapter IX, elaborate on the terms of reference governing the external audit. The regulations require that the external auditor report to the Board on the audit of the financial statements of the Centre and on other such matters that should be brought to its attention.

Scope and objectives of the audit

4. The scope of the audit was determined in compliance with Chapter IX of the Centre's Financial Regulations.

5. An audit is an independent examination of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the Centre's compliance with significant authority instruments and considers whether, during the course of our examination, we have become aware of any other matters that, in our opinion, should be brought to the attention of the Board.

6. As noted in the Report to the Board—Annual Audit Plan, the objectives of our audit were to provide an independent opinion on whether:

   - the financial statements have been fairly presented, in all material respects, in accordance with International Public Sector Accounting Standards (IPSAS);

   - the accounting policies set out in Note 2 to the financial statements have been applied on a basis consistent with that of the preceding period; and

- the transactions coming to our notice as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the Centre.

Our auditor's report addresses each of our audit objectives.

Financial statement highlights

7. Management has informed us that they will review the financial statements with the Board and outline the important differences from the approved budget and the results of the previous year. We will be available to answer any questions the Board may have.

Audit approach and auditor's responsibilities

8. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An 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.

9. When planning the audit, we acquired a sound understanding of the Centre; its business environment, the risks it faces, how the Centre manages those risks and its overall control environment. This understanding is based primarily on interviews with senior management and our audit knowledge of the Centre and its environment, including its internal controls. We obtained such an understanding in order to plan our audit and also to determine the nature, timing, and extent of audit procedures to be performed.

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

11. A detailed report summarizing the business risks identified and other audit risks and our planned procedures to address each of these risks was prepared and discussed with the Centre's management. We identified the key risks that could have an impact on the achievement of the fair presentation of the results of the Centre's operations and obtained an understanding of those risks that had implications for the financial statements. We focused on areas with a higher risk of a material error or non-compliance with significant authority instruments, based on our understanding of the Centre and its activities.

12. The audit plan was presented to the Centre's management and to the Board at its meeting in October 2014 in order to ensure that we had identified areas of significance and that our evaluation of the current operating environment of the Centre was complete.

Audit results

13. We issued an unmodified audit opinion on the Centre's 2014 financial statements. We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2014, and its 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.

14. As required by the *Financial Regulations* of the Centre, we concluded that the accounting policies were applied on a basis consistent with that of the preceding period.

15. We also concluded that the transactions of the Centre that came to our notice as part of our audit of the financial statements were, in all significant respects, in accordance with the *Financial Regulations* and legislative authority of the Centre.

16. We are charged with reporting any disagreements with management over auditing, accounting, or disclosing matters that could, individually or in aggregate, significantly affect the financial statements or our independent auditor's report. We are also obliged to report whether we resolved any disagreements satisfactorily. We are pleased to report that there are no unresolved matters.

17. We are required to report on fraud and illegal acts involving senior management, as well as fraud and illegal acts (whether by senior management or other employees) that cause a more-than-trivial misstatement of the financial statements. We emphasize that it is management's responsibility to establish a control environment and maintain policies and procedures to help ensure the orderly and efficient conduct of the Centre's business. Our audit procedures did not identify any matters related to fraud and/or error that should be brought to the attention of management or the Board.

Audit completion

18. This was the OAG Canada's seventh audit of the Centre's financial statements. In 2014, we updated our description of the Centre's financial reporting framework and its overall control environment. We acknowledge the investment of time afforded to us by the Centre and wish to express our appreciation to the Director of the Centre, her officers and members of their staff for the excellent cooperation we received throughout the audit.

Detailed Report on Audit Results

19. As required by International Standards on Auditing and the Centre's Financial Regulations, we report to those charged with governance of the organization whose financial statements are being audited. In particular, we report on significant changes in accounting policies, accounting estimates and financial statement disclosures, and other matters that in the auditor's judgment are significant to the oversight of the financial reporting process. We have prepared a detailed report for the Director of the Centre. Significant issues identified during our audit and their resolutions are presented below.

20. We are responsible for discussing our views with the Board about the significant qualitative aspects of the Centre's accounting practices, including the appropriateness of accounting policies, the reasonableness of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

21. Our comments and views included in this report should be taken in the context only of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Accounting policies

22. The preparation of financial statements requires the selection of accounting policies and their consistent application from year to year. The selection of appropriate accounting policies to the particular situation of the Centre and to the needs of its financial statements' users, is an area that requires the exercise of professional judgement.

23. We reviewed the accounting policies, including the implementation of IPSAS 32—Service Concession Arrangements: Grantor, accounting estimates and disclosures. We found that the Centre's financial statements are in accordance with IPSAS in all material respects.

24. In 2013, we indicated that we would follow-up into two areas. These were in respect of the accounting for land and buildings from which the Centre conducts its operations and accounting for the employee future benefits.

25. **Land and Buildings.** In 2013, we concluded that the accounting treatment of the land and buildings, used by the Centre for its operations and provided at a nominal cost by the City of Turin, was in accordance with IPSAS. However, we indicated to Management that it should consider the various options available in IPSAS to better reflect the true cost of such a service. At the time, the two options provided were: i) recognize the land as an asset or ii) recognize the value of the service received (similar to a lease of the land) as revenue offset by an expense to show the true cost of using the asset. In 2014, Management indicated, due to the type of the land (i.e. a park), it is unable to obtain an

external valuation of the fair value of the land and there is no available information to derive such a value. Management will continue to monitor the discussions held in the UN System regarding this matter since there is inconsistency in the accounting treatment used throughout the various organizations who obtain a similar service at nominal cost. We encourage management to continue to closely monitor these discussions as we believe the inclusion of such a cost in the Centre's financial statements will increase the transparency of the financial information.

26. **Accounting for employee future benefits.** In the past two years, we have focused on the fact that the Centre was not discounting the non-current portion of the liability related to future benefits such as accumulated leave, the repatriation grant and travel expenses as required by IPSAS 25. For 2014, the impact of not discounting the accumulated leave and repatriation grant and travel expenses was determined not to be material. We continue to encourage the Centre to estimate a present value of these employee future benefits in future years, and adjust the financial statements accordingly, as the impact may become material in the future and the needed correction would then impact the Centre's surplus. We believe the Centre should continue to monitor this potential impact.

Financial statement disclosures

27. A significant amount of financial information can be found in the financial statements of the Centre. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of the financial statements for accountability purposes and for decision-making purposes. In order to ensure that the users understand this information and can identify what is significant, it is important that the Centre stand back and assess whether the information provided is clear and easy-to-understand format for its users.

28. As part of its assessment, the Centre prepared pro forma financial statements in the fall of 2014. We reviewed the document and made several suggestions towards improving and simplifying the presentation of the information and disclosures. Management has started to consider some of our suggestions and have postponed others to 2015 due to the amount of work involved. Changes to the financial statements are largely editorial in nature, details on accounts that were not significant were eliminated and some summary tables were created instead of narrative information. We have reviewed the financial statements' disclosures and notes and we found them to be appropriate, complete and in accordance with IPSAS. We encourage the Centre to pursue its review of the financial statements and especially in the area of the flow of deferred revenues/due to donors from the financial position statement into the financial performance statement.

Management responsibility for financial statements

29. Under other reporting frameworks, there is a requirement for management to provide a statement that indicates that management is responsible for the preparation of the

financial statements, and that these statements comply with the reporting framework as well as the entity's financial regulations. A statement of management responsibility would also address the fact that management has developed and maintained during the financial year those accounts, financial and management controls, information systems, and management practices to provide reasonable assurance that the financial information is reliable, that the assets of the entity have been safeguarded and controlled, and that the transactions have been in compliance with the applicable regulations of the entity.

30. While a statement of management responsibility is not required under IPSAS, it is a best practice already applied by other organizations as part of their reporting process. This statement is signed by those charged with governance and provides the users of the financial statements with additional assurance on various elements that roll up to the information presented but also goes beyond the information found in the financial statements.

31. **Recommendation.** As recommended to the International Labour Organisation (ILO) in 2013, we now recommend that the Centre adopts a similar best practice of issuing a statement of management responsibility signed by those charged with governance as part of its financial report. The Centre could take advantage of ILO's work on this matter and. This statement will help to clarify the roles and responsibilities of management in the preparation and presentation of the financial statements and the accompanying notes.

32. **Management's response.** The Centre will review ILO's work on this matter and will take the necessary steps to align our practices to those of the ILO next year.

Significant risk areas

33. In our Annual Audit Plan presented to the Board in October 2014, we identified two business risks that had significant audit implications—these were in the areas of funding and management estimates.

Funding

34. In preparing our audit plan, funding challenges were identified as a risk due to the ongoing economic climate in many countries. We had identified this as a risk as it could have resulted in non-compliance with the Financial Regulations of the Centre if the Centre was not able to carry out certain activities, to respect its budget, or not fully meet its objectives. We reviewed whether sufficient controls were in place to mitigate the risk of non-compliance, and we found that the transactions we tested were in compliance with the authorities of the Centre.

Management estimates

35. Preparing the financial statements requires the use of accounting estimates. Certain 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. Our audit plan identified the provisions for doubtful accounts and contingent liabilities as potentially the most significant estimates.

36. In determining the provision for doubtful accounts, management reviews the accounts receivable to determine the amounts that are expected to be recovered. The Finance Committee receives quarterly reports to monitor the status of overdue accounts receivable. Provisions for doubtful accounts are determined for each outstanding account receivable. We examined the reasonableness of the estimates through discussions with senior management and reviewed the key assumptions used to establish the provision for doubtful accounts, as well as the accuracy and completeness of data used to make these assumptions.

37. Contingent liabilities are recognized when the Centre determines it has a present legal or constructive obligation as a result of past events and it is likely it will be settled in an amount that can be reliably estimated. If a contingent liability is uncertain but can be measured, or if there is a present obligation that cannot be reliably measured, they are disclosed in the notes to the financial statements. We examined the reasonableness of management's assumptions in determining the likelihood and amount of contingent liabilities. We also obtained the Centre's legal counsel's assessment of any future liabilities. Through these procedures as well as discussions with senior management we determined that management's assessment for contingent liabilities is reasonable.

38. We do not consider the risks of material misstatement in these estimates to be high, nor did we find indicators of possible management bias. The significant assumptions used are reasonable. There have been no significant changes to estimates or processes made by management to the critical accounting estimates in the year under audit.

Development in International Public Sector Accounting Standards (IPSAS) and in International Auditing Standards (ISA)

Accounting standards

39. In fiscal 2014, IPSAS 32—Service Concession Arrangements: Grantor came into effect. This standard impacts the recognition, measurement, and disclosure of service concession assets and related liabilities, revenues, and expenses by the grantor. A service concession agreement provides for an entity to provide a public service on behalf of the grantor for a specified period of time where the entity is compensated by the grantor for its services over the period of the service concession arrangement. The Centre reviewed its contracts in order to determine whether any service concession

arrangements existed and determined that the new standard did not have any impact on the financial statements.

40. A summary of revised and in development accounting standards that could potentially have an impact on the Centre in the upcoming years is outlined in Appendix A of this report.

41. **Recommendation.** The Centre should monitor and review the proposed developments in financial reporting for the public sector and assess whether additional financial or non-financial information would benefit the users of the financial statements in better understanding the Centre's financial results and help the Centre in fulfilling its oversight responsibilities.

42. **Management's response.** Management has been monitoring new developments since the implementation of IPSAS in 2012 and will continue to do so in the future.

Auditing and other professional standards

43. In addition to the new accounting standards previously disclosed, we have noted one significant change in auditing standards that will have an impact on the content of the Centre's independent auditor's report.

44. In 2015, the International Auditing and Assurance Standards Board (IAASB) issued new and revised audit standards related to audit reporting that will be effective for periods ending on or after 15 December 2016.

45. The objectives of these new standards are:

    - Enhanced communication between auditors and those charged with governance;
    - Increased confidence in audit reports and financial statements; and
    - Increased transparency, audit quality, and enhanced information value.

46. Changes made to the independent auditor's report are such as:

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

47. The OAG is still in the process of analyzing the implications of these new standards. We will keep you apprised of any new developments regarding the content of our report.

Other Matters

48. In our audit plan we had identified two areas where the Centre faces risks. As in prior years we identified the management of key human resource issues related to the Centre's senior management upcoming retirements as a priority. We decided to review the processes and procedures used by the Centre to mitigate this risk. In addition, in the light of the Centre's expansion in the domain of its web training activities, we selected the area of Information Technology capacity management and how its IT processes and procedures support the training activities. Our observations are presented below.

Succession planning management

49. In accordance with article 1.2 b) of Staff Regulations of the Centre, the Director of the Centre may appoint directly grade P5 and above. We were expecting that the Centre would have a succession planning process to support the appointments made and to fill the needed positions.

50. Succession planning management is a systematic approach to building a leadership pipeline/talent pool to ensure leadership continuity, developing potential successors in ways that best fit their strengths, identifying the best candidates for categories of positions and concentrating resources on the talent development process yielding a greater return on investment.

Recruitment process is used instead of a succession planning process

51. During our meeting with the Director of the Centre and the Chief of Human Resources, the Director stated that in 2011, she introduced a number of procedural steps to assist her when directly selecting staff for appointment to positions at the P5 level and above. According to the Director, these procedural steps make the direct selection process more transparent and ensure that the vacancies are open to a wide pool of interested candidates.

52. The Centre identifies key positions as being P5 and above. For these positions, recruitment starts at least six months prior to the anticipated retirement date of the incumbents. To determine which positions are required to be filled in the following six to 12 months, the Chief of Human Resources keeps a list of all upcoming retirements and provides the information to the Director for advice. The Director approves the launch of the recruitment process by the Chief of Human Resources. The list obtained from the Human Resources Services is presently established up to 2017 and is updated as needed.

Recruitment process is started six months prior to known retirement date of incumbents

53. We have reviewed the last two recruitments in 2014 at grade P5 i.e. the position of Treasurer and Chief of Financial Services and the position of Manager of the Sustainable Development and Governance Programme. We noted that in both cases the recruitment process did start six months before the known retirement dates of the incumbents.

54. We noted that once the mandate was provided to the Chief Human Resources, a panel was put in place and timelines for each position to be filled were determined. The job descriptions were reviewed and updated in consultation with the incumbents and higher level chiefs. The short-listing, technical questions for the written test and the protocols for the interviews were discussed and agreed with the panel members.

Recruitment documentation is inconsistent from one recruitment to the other

55. We noted that for both cases reviewed, the steps established were discussed but not always documented and kept on file. After discussing with the Human Resources staff, it was determined that the level of documentation retained from a specific recruitment depends on the panel members. For example, for one panel, all questions and results were kept on file while for the other panel, the questions asked and results were partially on file. Therefore, it was not always clear why the candidates selected were able to move forward in the process.

56. **Recommendation.** The Centre should ensure that all recruitment documentation be kept on file with the same depth and breadth. This will ensure that there is full transparency of the process followed and the subsequent results.

57. **Management's response.** The Centre has already noted the comments made by the External Auditor while reviewing the two cases under reference and has ensured in subsequent recruitment processes that the relevant full documentation is kept on file. It should however be noted that in the filling of P5 positions and above, the role of the panel is to assist the Director in making a direct selection and is therefore distinct from the statutory Selection Committee that operates in selection processes for filling of vacancies by competition at the lower grades. The Centre does not exclude identifying potential candidates from an internal pool of talent for succession to senior management positions. Transfer in the same grade or promotion are options which are open to the Director in accordance with the applicable statutory provisions. Given the small size of the organization, the best fit, with the right skills mix of subject matter expertise and managerial competencies, may not always be available among the internal pool of mid-level professional staff. Also, as a learning and training institution, there is a need to ensure that there is a judicious mix of different work experiences, regional diversity and gender balance.

58. As indicated above the recruitment file does not always include all the questions and criteria used during the recruitment process. For one file, we were able to find such information. We reviewed the quality and appropriateness of the criteria, questions

and/or tests used to select candidates. We found that the criteria, questions and tests were in line with the competencies under review.

Arrangements are made so there is at least one month overlap

59. Once the Director has selected a successful candidate, every effort is made to ensure at least one month of overlap between the retiree and the candidate so transfer of knowledge can occur. When this is not possible due to the candidate's previous commitments, other arrangements are made so that the candidate has an opportunity to have some time with the previous incumbent. In the two cases we reviewed, such arrangements were made and in one case, the overlap period was two months.

Conclusion

60. The Centre has in place the proper processes and procedures to ensure that positions at the P5 level and above are properly recruited in a timely fashion to mitigate any time lag that could put the Centre at risk.

Information technology capacity management

61. 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 is not foreign to this concept since in its guiding principles and means of action of its Results-based Strategic Plan for 2012–2015, the Centre will be innovating by developing cutting-edge approaches and technologies in relation to face-to-face learning, blended-learning and distance- learning; and by creating opportunities for the training staff of the Centre to develop their pedagogical and technical competencies. Therefore, it is logical to conclude that support of the Information and Communications Technology Services (ICTS) will play a key role in the achievement of the Centre's various outcomes while maintaining its own activities.

62. While there are multiple processes and procedures that ICTS performs on a daily basis that provide supports to the Centre's operations and outcomes, we reviewed the organizational structure of the ICTS, the alignment of the IT services with the Centre's goals and the maintenance of service availability, efficient management of resources, and optimisation of system performance through prediction of future performance and capacity requirements.

Organizational structure of ICTS supports the strategic plan's goals

63. The organizational structure of ICTS should have a clear mandate that is understood and a proper communication channel between stakeholders to ensure that the Centre's needs are understood and incorporated in the work plan of the ICTS when needed. In addition, the structure should be sufficiently flexible to support growth. This would require

the proper amounts of staffing at the appropriate level of competencies to support future operations.

64. During our review, we noted that stakeholders understood well the role of ICTS. Since 2012, the CIO’s increased presence in various committees and presentations to staff ensured that people understood the impact they have on ICTS operations and how ICTS can help others in better achieving their goals. In other words, the ICTS transformed its self into a value-added activity and not just a simple cost-centre.

65. In addition, we noted that gap analyses on staffing level and needed competencies were performed in 2011–12. Plans are to revise these during the next strategic plan cycle. The gap analyses demonstrated that level and staff mix were appropriate. Some reclassification occurred and outsourcing contracts were adjusted to ensure that services were aligned with the Centre’s goals. However, competencies in information technology standards and best practices needed strengthening. At the time, development plans for staff were put in place and have been monitored ever since. We were able to review staff assessments and development plans and concluded that they were appropriate.

ICTS’s services are aligned with the Centre’s goals

66. As the foundation for defining services and communicating value, the IT service catalog is an essential element for any IT performance improvement initiative. The IT service catalog offers a way to:

- Document and publish the specific range of available services;
- Standardize service deliverables;
- Establish service level expectations; and
- Determine associated costs/market service offerings to users and internal customers.

67. It is a means by which IT services can be defined, configured, deployed and governed. When used effectively, a service catalog is an excellent communication tool, and a highly effective IT marketing and business relationship building vehicle.

68. We noted that ICTS has developed its own service catalogue and have been promoting its services through this tool. Stakeholders we met indicated that the services catalogue is useful to establish expectations and that ICTS has been able to deliver their services in accordance to the catalogue.

69. To be effective, this type of tools needs to be flexible, updated on a regular basis and aligned with the Centre’s goals. We noted that all project documents we reviewed contained discussions on the necessity to update the service catalogue as a result of the new demands. Stakeholders indicated that while the catalogue provides strict timeframes, the ICTS staff is able to be flexible to accommodate a pressing need or last minute requests. Therefore, the catalogue is a guide and flexibility is possible.

70. While the service catalogue provides some information on underlined processes and performance enablers, it does not fully demonstrate its alignment with the Centre's goals which reduces its relevance to the users.

71. **Recommendation.** The Centre should include in its service catalogue the contribution to IT-related and Centre's goals to ensure that services are always relevant to the Centre's wanted outcomes.

72. **Management's response.** We fully agree with this useful suggestion. We will plan to implement this concept with the next generation of the IT service catalogue in line with the Centre's next Result-based Strategic Plan 2016 and beyond.

ICTS's processes to maintain and manage its resources have improved

73. As part of its transformation, the ICTS has adopted the various recognized standards such as Information Technology Infrastructure Library (ITIL), PRINCE2 (Projects in Controlled Environment ver.2) and ISO 27001 Information Security Management System in support of its service delivery. All these standards are a set of well-known and widely accepted practices for information technology service management that focusses on aligning the IT services to with the needs of the business.

74. Service management is what enables ICTS to understand the services it is providing, to ensure that the services really do facilitate the outcomes its customers want to achieve, to understand the value of the services to its customers, and to understand and manage all of the costs and risks associated with those services.

75. The inputs to service management are the resources and capabilities that represent the assets of the service provider. The outputs are the services that provide value to the customers. One aspect of service management is to understand and influence customer demand for services and the provision of capacity to meet those demands.

76. ICTS has various processes in place to understand, monitor and improve its service delivery. From reviews on a weekly basis of progress made with the various demands obtained from the stakeholders, to reviews of incident reports from the help-desk, to review of service level achieved, to capacity usage and usage optimization. The 2014 third party assessment demonstrates that the Centre improved in this domain since 2012. We encourage the Centre to continue implementing processes to ensure that the Centre continues to optimize the use of its resources.

77. During our review of the Centre's various processes, we noted that ICTS had a business impact analysis. The business impact analysis aims to identify critical business functions and the impact of a disruption to them and provides an important starting point for defining disaster recovery strategies that are used to respond to disruptive events. As a result of this analysis combined with a component failure impact analysis and its risk management process, the ICTS has developed a formal IT Business Continuity Plan. The Centre has been developing its corporate business continuity and disaster

recovery plan for few years now, the ICTS plan is planned to be integrated to this overarching plan.

Conclusion

78. The Centre has in place the proper processes and procedures to ensure that the ICTS capacity is always appropriate to meet the Centre's goal. We support Management in continuing to implement new processes and procedures to ensure an effective use of IT.

79. In addition to these two areas, we noted other matters that we consider useful for the Centre's Board in order to fulfill its financial reporting oversight responsibilities. Our observation and recommendations are discussed below.

Timely review of financial statements by the Board

80. Under certain accountability frameworks and/or financial regulations of certain governmental organizations, there is a requirement for management to submit for approval within 90 days of the end of their financial period to those charged with governance the financial statements.

81. Under the Centre's financial regulations, article 17 indicates that the Director shall submit to the Board the financial statements for consideration at a meeting to be held during the year following and the Board shall consider the financial statements in the light of the External Auditor's report and shall adopt them if it is satisfied with their content.

82. Starting in 2013, the Centre's financial statements were approved by the Director at the end of March and submitted to the Board for consideration and adoption in May. At the May 2014 meeting, the Board members found they had insufficient time to review and challenge the financial statements presented by Management.

83. For year-end 2014, Management has offered various options to address both the Board's and our concerns regarding the time allotted for the review of the financial statements. It is too early to conclude if the proposed process will achieve the desired results. We encourage the Centre to obtain feedback on the proposed process and continue to work with the Board to develop a regular process that would address everyone's concerns.

Progress made on prior years' recommendations

84. We reviewed the status of recommendations made directly to management in our Report to the Board in previous years audit and we are satisfied with the progress made by management in addressing our recommendations.

85. The following table presents the progress on each recommendation made.

Recommendations	Progress
International Public Sector Accounting Standards—Lessons learned (2012) The Centre monitored and prepared for the new IPSAS standards applicable to 2014, and provided pro-forma financial statements on a timely basis. During our audit we made a number of recommendations for additional disclosures that were required by the standards. The standards require the Centre to categorize its financial instruments which determines how those assets and liabilities are accounted for. We found that at year-end, the financial instruments had not been categorized, nor was there a documented policy on the rationale for the categorization. Management included additional disclosures in the financial instrument note which is now compliant with IPSAS disclosure requirements.	●
Benefits of IPSAS Financial Statements (2013) The Centre should identify how the IPSAS financial statements can be used by management carrying out its responsibilities and also determine how that information (financial and operational) can be conveyed to Board members in a consolidated manner that assists them in carrying out their oversight role.	●
Number of recommendations	**Recommendations fully implemented**
2	**2**

Legend of progress:

● Full implementation: Fully addressed with implementation of a plan or a new process and expected results achieved.

◒ Ongoing implementation: Formal plans created for organizational changes with appropriate resources and a reasonable timetable. Implementation had partially achieved the expected results.

● No progress has been made.

Conclusion

86. We are pleased with the results of the 2014 financial statement audit. We will continue to work with the Centre's management in 2015 to identify how the financial statements can be improved in order to assist the Board members in their review of the financial results.

Appendix A—Development in International Public Sector Accounting Standards and in International Auditing Standards

87. **Approved project.** On 31 October 2014, the International Public Sector Accounting Standards Board approved the revision of the preface to the conceptual framework for general purpose financial reporting by public sector entities. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return to its owners. As a result, an entity's performance can only be partially evaluated through the financial statements' review. Users also need information such as whether the entity provided its services in an efficient and effective manner; whether the resources currently available for future expenditures have any restrictions or conditions imposed on them; and whether the entity's ability to provide these services has improved or deteriorated compared with the previous financial year.

88. **Projects under development.** There are various exposure drafts that have been issued by the International Public Sector Accounting Standards Board, of which three could be significant to the Centre. We provide to you a summary of the projects underway in order to permit you to assess the potential impact these proposed standards will have on the Centre and its financial statements.

89. The first IPSAS project relates to the financial statement discussion and analysis. This proposed guidance would apply to all public sector entities that prepare and present financial statements under the accrual basis of accounting. This proposed guidance relates to certain minimum content requirements in the financial statement discussion and analysis, currently called the Financial Report on the 2014 accounts by the Centre. This could include an overview of the entity's environment and risks in which it operates, its objectives and strategies to enable users to understand the entity's priorities and how this affects the financial statements; an analysis of the entity's financial statements of the current period including a description of significant events, trends and conditions, and factors that affected the financial statements to enhance the users' understanding of the financial statements.

90. The second project that is currently underway relates to the long-term sustainability of an entity's finances. With the continuing volatility in the world's financial markets and the sovereign debt crisis that has emphasized the importance of the fiscal condition of governments and other public sector entities to the global economy, the financial statements alone cannot provide all the information that users require to assess a government or an entity's long-term fiscal sustainability.

91. Additional information provided with the financial statements is recommended, such as projections of inflows and outflows of resources over the longer term, together with narrative explanations of the main risks facing governments and other public sector entities. This information would help users in evaluating the extent to which the current policies are sustainable and would complement the financial statements to achieve the objectives of financial reporting, which are accountability and decision-making.

92. The third project that is also underway deals with reporting service performance information. As the public sector provides a wide range of services, it proposes that an entity present information on its performance in addition to its finances. Guidance would be provided to ensure that this information meets users' needs and would recommend minimum characteristics for reporting. For example, an entity would report on its service performance objectives and how these were achieved, its performance indicators (both quantitative and qualitative measures), the resources used, and its impact on society, if any. This information would be presented either as part of the report that includes the financial statements or in a separate report.