Board of the Centre

80th Session, Turin, 26-27 October 2017

CC 80/4/2

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Report of the meeting of the Officers of the Board (26th May 2017)

1. A meeting of the Officers of the Board of the International Training Centre of the ILO (the Centre) was held, *via* videoconference, on 26th May 2017 to enable timely consideration and adoption of the financial statements for the year ended 31 December 2016.

2. The report of this meeting is submitted to the 80th Session of the Board (October 2017).

Financial statements and External Auditor's Report for the year ended 31 December 2016

(Item on the agenda)

3. The *Chairperson and Representative of the Director-General* welcomed the Officers of the Board to the meeting. He pointed out that the meeting was held as per the Board request of October 2016, to enable the timely examination of the Financial Statements and External Auditor's Report.

4. The document was published on the Centre's webpage in April 2017 and the Officers of the Board were notified of this. This allowed for a period of five weeks for any questions and clarifications to be provided by the Treasurer, as well as for consultations by the Officers with the members of their respective groups. He noted that no questions had been received from the Officers.

5. The *Chairperson,* in his capacity of Director of the Centre, took the floor for a few introductory remarks.

6. The *Director of the Centre* thanked everyone involved in the preparation of the meeting, which was indicative of good cooperation between the ILO office and the Turin Centre. He explained that, as the ILO's training facility, the Centre operates within the "One ILO" policy and institutional framework, and that close alignment between the Centre and the ILO – both at headquarters and in the regions – has been and will remain critical to the relevance, effectiveness and sustainability of the Centre's learning and training activities.

7. He reminded everyone that the Centre faces many challenges in achieving its many objectives. While it receives voluntary contributions from the Government of Italy and the ILO, among others, it still needs to earn the majority of its revenue in order to be sustainable over the long term. In this endeavour, the Centre is constantly innovating with its products, as well as developing and delivering training of the highest quality which is relevant and effective to ILO constituents.

8. He also pointed out that every year the Centre must ensure that it earns sufficient revenue to cover its fixed and variable expenditures. In past years, the Centre had been fortunate to generate a reasonable surplus, which had been invested in training activities, innovation and the maintenance of its infrastructure. In its planning, the Centre carries out a number of pre-scheduled annual activities, in addition to those which are tailor-made, both of which may be performed on campus or in the field.

9. He noted that the Centre continues to strive to improve its planning and requires the full support of ILO Headquarters and field offices in ensuring that activities and projects are planned well in advance, so that high-quality training can be delivered at the most economical price. In this regard, he explained that the Centre has undertaken a streamlining exercise to ensure that its internal processes are more efficient, enabling the Centre to react more quickly to the various demands.

10. The Director confirmed that the Centre has already engaged with the ILO's programme of work associated with the Centenary Initiatives and is promoting knowledge-sharing around these initiatives, particularly around the Future of Work theme. To achieve this, the Centre has adapted its training and learning portfolio so that it can play a key role in the ILO's institutional capacity development efforts for the tripartite constituents. The Centre will continue to actively invest in innovation to review its training programme of work and will continue to identify new internal and external sources of funding, as well as obtaining further assistance from the ILO and its constituents in this exercise.

11. The Director presented the results of the Centre's financial statements for the year ended 31 December 2016 and the excess revenue results for 2016. He explained that they represent the results of the Centre's first year of operations for the approved 2016-17 budget period and that the final budget surplus will only be known at the end of December 2017.

12. He then clarified that, starting in 2016, the approved Programme and Budget now covers a two-year period - 2016 and 2017. The final budget surplus for the period may differ significantly from the preliminary 2016 results due to differences in the timing of recognition of revenues and expenditures. He recalled that the Centre manages its budget over the two-year period and, in some cases, expenditures planned in the first year may occur in the second year and vice versa. Thus, today's results should be considered as preliminary until the 2017 financial year is completed and the budget accounts are finalized and combine both years. Proposals for the final budget surplus allocations will be discussed in 2018.

13. The *Chairperson* invited the Treasurer to introduce the 2016 financial statements.

14. *The Treasurer* introduced the financial statements and highlighted a number of key areas.

15. She confirmed that, during the year, there had been no new IPSAS standards which impacted the Centre's financial statements and that IPSAS had no impact on the preparation of the budget, which is still presented on a modified accrual basis.

16. The overall budgetary results for 2016 can be found in Statement V on page 21 and show that the Centre achieved positive results, with an overall budget surplus of €1.052 million. She reiterated that this was a preliminary residual revenue balance for the first year of the Centre's 2016-17 biennium budget. The final budget surplus of the Centre's approved biennium budget might vary significantly as a result of timing differences in the recognition of revenues and expenditures between 2016 and 2017. This would only be known at the end of the 2017 financial year, when both the 2016 and 2017 results were combined. This would be presented to the Officers of the Board at the May 2018 meeting.

17. The actual revenue for 2016 totaled €38.4 million. The ILO's contribution was €216,000 higher than budgeted for as a result of the difference in the exchange rates applied when the budget was drawn up and the actual conversion rate. The Centre also received a voluntary contribution of €7.85 million from the Government of Italy and a contribution of €250,000 from the Government of Portugal, to be applied to overall expenditure. In addition, the Centre received €750,000 from the City of Turin, which paid its 2013, 2014 and 2015 contributions of €250,000 per annum in 2016, and this had been applied to additional maintenance and refurbishment work. Revenue from training activities totalled €22.9 million – a result that was within the expected target set in 2016. The difference of €605,000 or 2.6 per cent was mostly due to year-end adjustments and the timing in the delivery of certain activities, which carry over into the next year.

18. Overall, the number of participants attending training in 2016 was higher than in 2014, the first year of the previous biennium, by 529 participants or 4.8 per cent. While this is the first year of the biennium, the total participant-days in 2016 were still much higher (by 4.3 per cent) than in 2015, the second year of the previous biennium. The Centre also saw a significant increase of 62.6 per cent in participant-days for distance learning, which aligns with its competitive strategy of increasing the Centre's overall outreach through distance-learning modalities. Overall, the Centre generated training revenues representing approximately 46 per cent of its total biennium cycle. The Centre is well on target to achieve its approved biennium budget for 2016-17.

19. Actual expenditure on regular budget staff was lower than budgeted for by approximately €300,000 or 2 per cent. While the Centre had applied the mandatory salary increases approved by the International Civil Service Commission to its staff costs, this was counter-balanced by savings resulting from several positions being vacant during the year.

20. Actual expenditure on consultants was higher than budgeted for by €107,000 or 22.9 per cent. This was due to additional work undertaken during the year, such as a cost-benefit analysis in the area of publications and a review of diversity at the Centre. In addition, expertise had been required to support the Oracle upgrade, which occurred during the summer; the payroll system upgrade to allow for the implementation of the new professional compensation package; and the new interface with ILO, which was required to transmit pension data to UNJSPF in NY. Consultants were also retained to assess the flood damage which occurred in the late autumn and to prepare plans for the refurbishment of the restaurant, cafeteria and self-service areas, which started in early January 2017.

21. Actual expenditure on facilities was higher than budgeted for by €400,000 or 22.7 per cent. This additional spending was possible as a result of the 2013, 2014 and 2015 contributions paid in arrears by the City of Turin during the year. With this funding, the Centre undertook a refurbishment of several of the campus's hotel rooms and classrooms, improvements to the indoor and outdoor sport facilities, upgrading of the Centre's videoconference technology, installation of a new central air-conditioning system in one pavilion and new window protection in another one, a new fire-detection system and a clean-up after the flooding, the cost of which was not all recoverable from the insurance company. The Centre bought new furniture for a significant number of bedrooms and carried out additional painting in three pavilions.

22. General operating expenditures were higher than the budget for by €139,000 or 19.5 per cent. This was mostly due provision made to cover the administrative costs associated with the ILO Tribunal, which had not been included in the past.

23. Total variable expenditures were lower than budgeted for by approximately €1 million or 6.5 per cent. These expenditures were aligned to the training and publication revenue earned during the year, and fluctuated according to the type of activities delivered by the Centre. Distance-learning participant-days increased significantly, whereas participant-days for Blended-C and Blended-F activities were slightly below the figures for the first year of the previous biennium. As a result, the ratio of variable expenditures to training revenue was lower.

24. Regarding Statements I and II, the Treasurer explained that in 2016, in compliance with IPSAS, the Centre had recorded €37.2 million in total revenue and €38.7 million in total expenditures, resulting in a net deficit of €1.5 million. The details can be found in Statement II on page 18. The two major sources of revenue, accounting for 94% of the total, were training activities and voluntary contributions. While total revenues decreased by 6.4 per cent, which was to be expected in the first year of a biennial cycle of operations, the total number of participant-days of training activities showed an overall increase of 4.3 per cent over the previous year. In addition, voluntary contributions increased as a result of the receipt in 2016 of the 2013, 2014 and 2015 contributions of €250,000 per annum from the City of Turin. The Centre also benefited from an exchange-rate gain on the ILO contribution. Other revenue decreased, as the Centre earned €462,000 less in publication revenues and €279,000 less in revenues from various other sources.

25. Total expenditures decreased by €1.1 million, or 2.8 per cent, as compared to 2015. Salary costs increased by 1.4 per cent, or €200,000, mainly as a result of four additional variable staff positions created during the year for a new multi-year project in Afghanistan and the Green Jobs projects – positions which were fully funded from these two projects. Due to savings in staff costs as a result of positions being vacant, the Centre was able to keep the level of costs stable for the year.

26. Sub-contracts, travel, other costs related to training activities and other costs decreased by €1.5 million or 8.1 per cent, which was in line with the historical pattern of expenditure between the first and second years of a biennial cycle. General operating expenditures, buildings and grounds maintenance increased by 2.5 per cent, or €97,000, as a result of increased maintenance carried out on the campus. This comprised the refurbishment of classrooms, hotel rooms and the catering area, the updating of hotel room furniture, a new air-conditioning system in one pavilion and window protection in another, a new fire detection system and a significant clean-up and repairs after the flood, the cost of which was not fully covered by the insurance policy.

27. The Treasurer continued her presentation with Statement I, which showed that the Centre's total assets at the end of the year totalled nearly €27 million. Cash, cash equivalents and investments totaled €12.4 million at the end of 2016, of which the €2.0 million in the working capital fund was invested in short-term deposits. She referred the Officers to the cash and cash-equivalent position in Statement IV on page 20 for more detailed information.

28. The Centre had total accounts receivable of €5.5 million at the end of 2016, which was €4.1 million down on the 2015 figure. This was due in part to more strenuous collection efforts and a decrease of €1.3 million in training service agreements held at the end of the year. The final balance due from the ILO was €2.5 million down on 2015 as a result of timelier invoicing, initiated mid-year, and a significant cash settlement prior to year-end. Property and equipment was also down by €634,000 as a result of taking annual depreciation on its assets of €922,000, which was offset by purchases of €288,000 during the year.

29. The Treasurer concluded with an account of the Centre's liabilities, which totaled €10.6 million at the end of 2016, as compared to €11.9 million in 2015. The figure for accounts payable and accrued liabilities was down by €630,000 as a result of a decrease in training liabilities and a decrease of €611,000 in the voluntary contributions received in advance from donors in respect of signed agreements. At the end of 2016, the Centre had net assets of €16.7 million, as reported under IPSAS. Further details can be found in Statement III on page 19.

30. The *Chairperson* then invited the Officers to comment and ask questions regarding the 2016 financial statements.

31. *The Workers' Vice-Chairperson* thanked the auditors and noted with satisfaction that the financial statements were prepared in accordance with International Public Sector Accounting Standards (IPSAS) and that, according to the External Auditor, they fairly presented the financial position of the Centre as at 31 December 2016, showing an overall budget surplus for the first year of the biennium. He noted the significant "Deferred Revenue" liability and asked what steps were being taken by the Centre to reduce it.

32. He also observed a decrease in the number of participant-days, which was probably due to the intensive use of distance-learning modalities. He reiterated the importance of finding the right balance of training modalities. He congratulated the Director on the new refurbishment work, which has had a direct impact on the learning experience of participants on campus.

33. He welcomed the increase in voluntary contributions from the City of Turin and thanked the governments of Italy and Portugal for their contributions. As the training arm of the ILO, the Centre should continue to meet constituents' needs. As stated in the Auditors' Report, and mentioned in the Strategic Plan of the ITCILO, closer integration with the ILO was necessary and new funding sources needed to be identified. He took note that the Centre was well aligned with the ILO P&B for 2018-21.

34. Finally, the *Workers' Vice-Chairperson* asked for explanation of certain points concerning the implementation of the collective agreement signed in October 2016.

35. The *Workers' Group* was ready to approve the 2016 financial statements as presented, together with the Report of the External Auditor.

36. *The Employers' Vice-Chairperson* welcomed the financial statements and congratulated the Centre on its good performance and great job done by the Centre' staff. He also thanked the Government of Italy and the City of Turin.

37. The *Employers' Group* was ready to approve the 2016 financial statements, as presented, together with the Report of the External Auditor.

38. *The Governments' Vice-Chairperson* welcomed the opportunity to review the 2016 financial statements and expressed appreciation of the information provided, which he considered to be clear and comprehensive. He noted the good performance of the Centre, which followed the pattern of the previous year. He also thanked the Government of Italy, the ILO and the other donors for their support for the Centre.

39. *The representative of the Government of Italy* congratulated the Director on the good documentation, which highlighted the sound financial management of the Centre. He noted the increase in outreach but invited the Centre to pursue a more diversified income base, reaching out to non-traditional donors, and multi and bi-lateral partners, and to identify cost-saving opportunities, including keeping staff costs under control.

40. The *Chairperson* invited the Treasurer and the Deputy Director of the ITCILO to reply to the queries expressed by the Groups.

41. The *Treasurer* thanked the members for their comments. She explained that the "deferred revenues" liability in the financial statements referred to voluntary contributions, as required by IPSAS. Approximately €3.5 million of the amount represented cash advances relating to signed agreements; these were also recorded under cash and cash equivalents in the assets. When training is delivered by the Centre, the revenue is recorded in the Statement of Financial Performance and the liability is decreased. The other portion (€1.3 million) represented voluntary contributions receivable in respect of signed agreements. The Centre has yet to receive any cash, and IPSAS requires the Centre to record both the amount receivable, under assets, and the matching liability.

42. The *Deputy Director* thanked everyone for their constructive comments and suggestions. Although the HR issues raised by the Workers' Vice-Chairperson were not strictly relevant to the meeting of the Officers of the Board, he was happy to report that the implementation of the Agreement reached with the Staff Union on new variable positions was being implemented. He confirmed that, following the approval of the Board, the 25 officials concerned had received fixed-term contracts and that, following consultation with the Staff Union, the signed Agreement had been annexed to the contract as an integral part thereof. He recalled that the Collective Agreement stated that staff in variable-budget positions were to receive two-year fixed-term contracts, depending on continuing operational needs and the availability of funds as from the 2018-2019 budget cycle. He confirmed that implementation was under way and was being done in full respect of the current rules and procedures, and of the Agreement, in a spirit of constructive dialogue. There was ongoing consultation at the Joint Negotiating Committee on other issues concerning the Agreement and solutions would be found, taking into account the good practices already in place at the ILO, including matters relating to promotion. In addition, he pointed out that the Temporary Assignment Programme was already operative at the ITCILO, giving all staff the opportunity to move from one unit to the other for an agreed period of time.

43. The *Chairperson* invited the representative of the External Auditor to introduce the External Auditor's Report for 2016.

44. The *representative of the External Auditor* expressed his pleasure in presenting the External Auditor's first Report on the financial operations of the Centre on behalf on the Chairperson of the Audit Commission of the Republic of the Philippines. As part of the audit, the External Auditor had reviewed the financial statements in compliance with the International Standards on Auditing and had conducted a review of management controls in order to meet its responsibility for reporting any deficiencies in internal controls to those charged with governance. They had also reviewed critical processes at the Centre. The Report consisted of two sections, one on financial matters, the other on governance.

45. The External Auditor issued an unmodified opinion on the Centre's financial statements for 2016. The representative acknowledged the cooperation and professionalism of the Treasurer and her team in producing high-quality IPSAS-compliant financial statements, and appreciated the efforts made to address the recommendations issued throughout the audit. More specifically, the External Auditor highlighted the need for the development of a formal IPSAS and Financial Manuals integrating financial policies and procedures, formal charts of accounts, process flowcharts and system descriptions.

46. Where governance was concerned, the External Auditor recommended that the Centre leverage and focus on improvement of its existing corporate governance. Its governance procedures should include frameworks and policies through which objectives are set, as well as means of attaining its objectives, including performance monitoring. Specifically, the External Auditor recommended that the Accountability Framework should include a clear definition of the accountability, roles and responsibilities of all key stakeholders, and tools to document and monitor performance in order to achieve greater transparency. He also recommended that the Risk Management Framework should include additional definitions of critical key terms, including the Centre's risk-appetite statement, and be compliant in defining risk templates and risk formulation, and documenting the process for escalating risks to the corporate risk register. In addition, where internal control was concerned, an Internal Control Framework should be established, a Travel Handbook produced, and the Asset Management Policy strengthened to deal with asset loss.

47. He concluded by thanking the Director and his team for their support and commitment during the audit and thanked the Board for their support and recognition of the value of the External Auditor's work.

48. The *Chairperson* then invited the Officers to comment on the External Auditor's Report for 2016. Both the Employers' and Workers' Vice-Chairpersons took note of the report and thanked the Auditors.

49. *The Treasurer* provided additional information on the Business Process Review (BPR) and confirmed that, as part of this project, a number of rules and procedures would be reviewed or newly created to support improved processes. These would then be consolidated into a Corporate Manual. In close consultation with the ILO, the Centre would also ensure that an IPSAS Manual was issued. Going forward, the procurement process would be automated and paperless, as much as possible. The Centre would also look into the Accountability Framework to clarify responsibilities, as well as addressing the issues relating to risk management. Management would also ensure that the Internal Control Framework complied with the Auditor's recommendations.

50. *The Governments' Vice-Chairperson* noted that innovative ideas could be applied to pursuing a paperless environment and to identifying smart processes, in order to enhance the Centre's operations.

The Officers of the Board:

1) ***adopted the financial statements, and***
2) ***took note of the External Auditor's Report for the year ended 31 December 2016.***

Concluding remarks

51. The *Chairperson* stated that a report of the meeting would be presented to the next Session of the Board, to be held on 26-27 October, 2017, in Turin. The Officers of the Board agreed to delegate approval of the report of the meeting to the Chairperson and the Secretary of the Board.

52. The *Chairperson* thanked the Officers, the secretariats of the various groups and the staff of the ILO and the Centre for their participation and declared the meeting closed.

This report is submitted to the Board for information.

Turin, June 2017

Attendance list
Liste des présences
Lista de presencias

Mr Giulio MARINI	ITALY
Mr Abdulrahman AL MARZOOQI	UAE *(Governments' Vice-Chairperson)* *by video-conference*
Mr Mthunzi MDWABA (South Africa)	*(Employers' Vice-Chairperson)* *by tele-conference*
Mr Frederick MUIA (IOE)	*(Employers' Secretariat)*
Mr Bheki NTSHALINTSHALI (South Africa)	*(Workers' Vice-Chairperson)* *by video-conference*
Ms Esther BUSSER (ITUC)	*(Workers' Secretariat)*

International Labour Organization

Mr Enrico CAIROLA	ACTRAV
Mr Yasser HASSAN	CABINET

External Auditor

Mr Lito MARTIN
Mr Danilo CABUG

International Training Centre of the ILO

Mr Yanguo LIU	Director
Mr Giuseppe CASALE	Deputy Director
Ms Christine BOULANGER	Treasurer
Ms Nathalie MIRABILE	Note-taker