INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

81st Session, Turin, 25–26 October 2018

CC 81/4/1

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the year ended 31 December 2017

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Financial report on the 2017 accounts

Introduction

1. 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's report on the audit of the Centre's 2017 financial statements in addition to the Auditor's opinion, are also submitted to the Board of the Centre in accordance with Article 27 of the Financial Regulations.

2. The 2017 financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). Financial statements prepared under IPSAS recognize the general operations' voluntary contributions for which there are no stipulations when receipt is probable and the amount is known. Contributions relating to training activities that have conditions are recognized as revenue when the services are delivered by the Centre. Expenditures are recognized when goods and services are received or delivered, rather than when they are paid. Employee benefits relating to accumulated leave, 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) and the end-of-service payments and repatriation grant liabilities are recognized in the International Labour Organization's (ILO) consolidated financial statements.

3. 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, reconciliations between the budget and the IPSAS Statements of financial performance and cash flow are presented in Note 16 to the financial statements.

4. 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 the ILO is the controlling entity of the Centre, the Centre's financial statements are consolidated with those of the ILO.

5. Five funds are maintained at the Centre:

- the General Fund is the main operating fund of the Centre;
- the Working Capital Fund was established in accordance with the Centre's Financial Regulations to temporarily finance expenditure pending receipt of firmly pledged voluntary contributions and other revenue to be received under signed agreements. Its target level has been established at €2.0 million;
- the Campus Improvement Fund was established to receive funds specifically for the refurbishment of the campus;
- the Italian Trust Fund was established to receive funds from the Italian government for training activities; and
- the Innovation Fund was established 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.

Financial highlights for 2017

6. The table below summarizes the IPSAS-based financial results and budget surplus of the Centre in 2017 as compared to its previous years:

(in thousands of Euros)

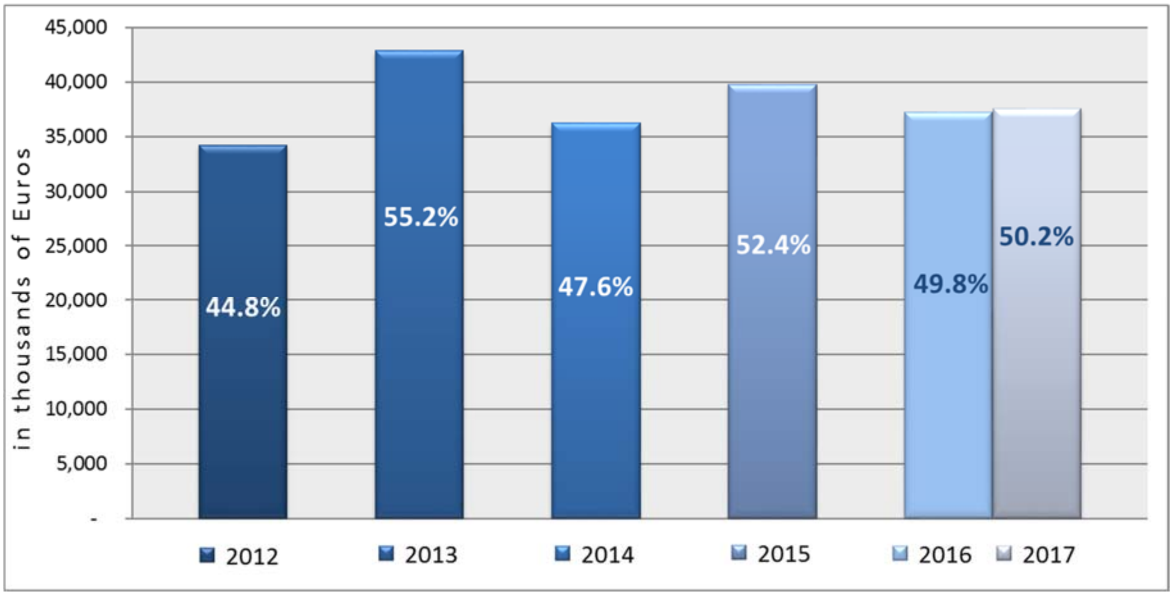
	2017	**2016**	**2015**	**2014**
Revenue	37 581	37 225	39 791	36 242
Expenditure	39 052	38 689	39 801	36 170
Net surplus (deficit)	**(1 471)**	**(1 464)**	**(10)**	**72**
Assets	26 657	27 210	29 970	30 465
Liabilities	11 476	10 558	11 854	12 339
Net assets	**15 181**	**16 652**	**18 116**	**18 126**
Budget surplus	**712**	**1 052**	**1 387**	**386**
Final 2016-17 budget surplus	**1 764**			

7. The IPSAS-based net deficit incurred in 2017 that amounts to €1.471 million incorporates the total financial results of all Funds of the Centre whereas the budget surplus of €712 000 only includes the results of the General Fund. The difference is mainly explained by:

- the difference in the depreciation expense for assets expensed prior to 2012 as a result of the conversion to IPSAS of €381 000;
- the use of past surpluses of €822 000 recognized in the Statement of Budget and Actual only;
- the unrealised exchange loss of €946 000 recognized in the Statement of Financial Performance;
- the net use of funds incurred in the Campus Improvement Fund of €35 000;
- the net surplus of funds earned in the Italian Trust Fund of €64 000; and
- the inter-fund expenditures of €63 000.

8. The change in net assets from €16.7 million in 2016 to €15.2 million in 2017 is attributable mostly to the net deficit in the Statement of Financial Performance.

Total revenue, three biennium comparison



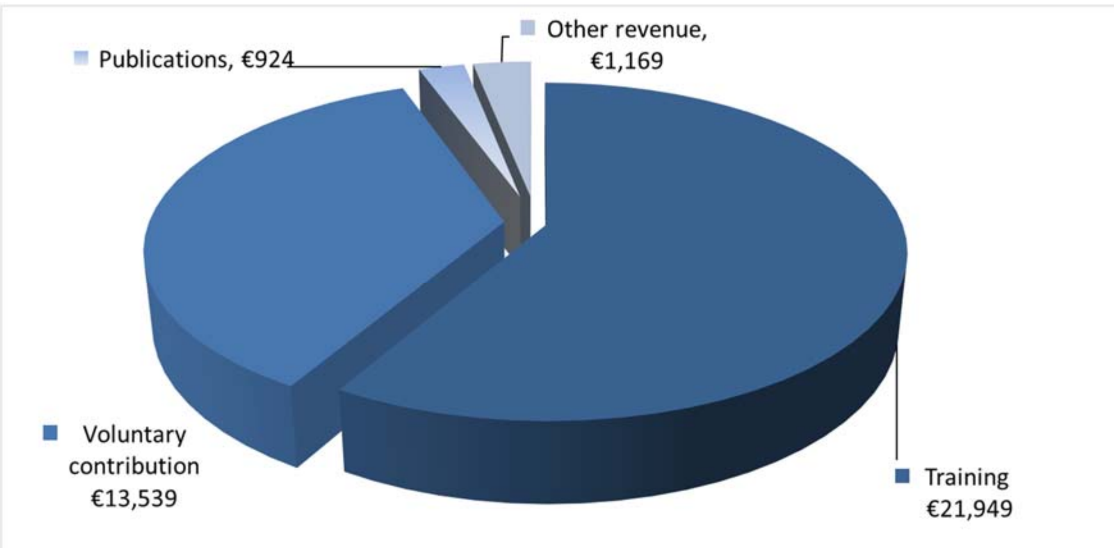
9. The Centre's total revenue generally follows a pattern over a two-year cycle whereas the Centre's total revenue is lower in the first year of the cycle and higher in the second year of this same cycle, as can been seen in the above graph. Starting in 2016, the Centre adopted a biennial Programme and Budget for the period of 2016-17 to align itself to the ILO's cycle. The actual results of this biennium show a ratio of 49.8 per cent of the total biennium revenue in the first year and 50.2 per cent in the second year thus resulting in a change in pattern for revenue. This is as a result of the ILO's reform whereby it provided the Centre with more balanced training activity funding from its Regular Budget over the two years as compared to prior biennia.

Financial performance

Revenue

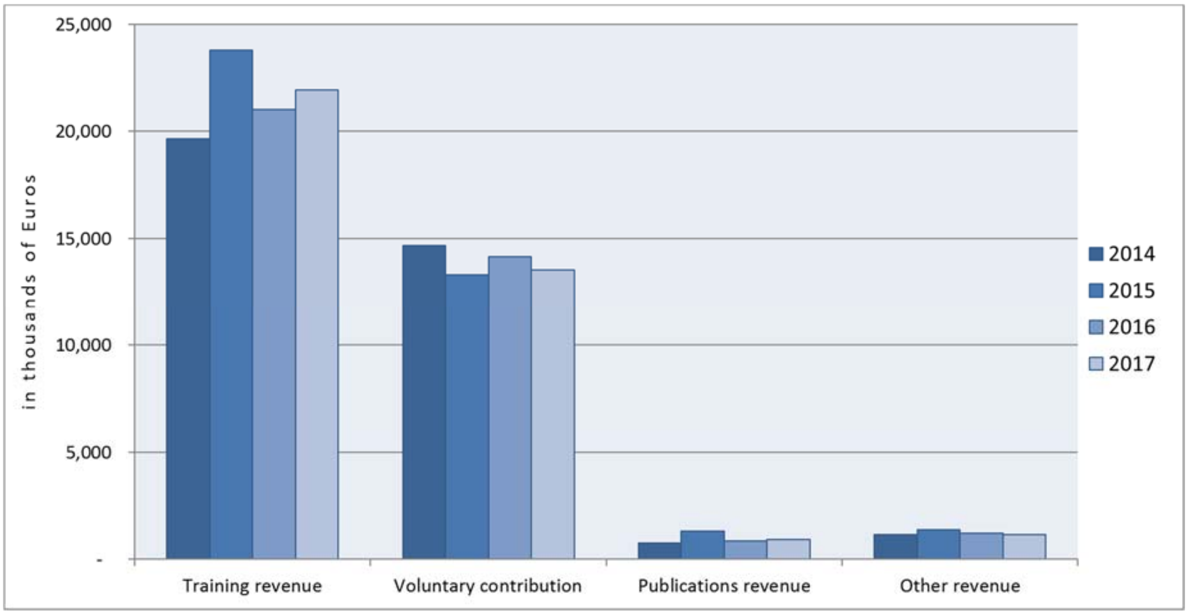
10. Revenue in 2017 totalled €37.6 million (€37.2 million in 2016) and were distributed as follows:

Revenue by source, 2017 (in thousands of Euros)



11. The two major sources of revenue, representing 94.4 per cent of total revenue (2016 – 94.5 per cent), are derived from voluntary contributions and training activities.

Revenue sources, four-year comparison



12. Training revenue totalled €21.95 million in 2017 as compared to €21.0 million in 2016 showing an increase of €950 000 or 4.5 per cent. Overall, the number of participants attending training in 2017 was positive at 12 148 which is higher by 698 or 6.1 per cent than the number of participants having attended training in 2016. The total participants attending training during the 2016-17 biennium was stable when compared to the level of the previous 2014 and 2015 years combined.

13. On a biennium basis, the total number of participant-days totalled 203 439 in 2016-17 as compared to 191 042 for the period of 2014-15. This represented an increase of 12 397 participant-days or 6.5 per cent from the last biennium period. The total number of participant-days in 2017 were 97 027 as compared to those of 2016 which were recorded at 106 412, thus showing a decrease of 9 385 participant-days or 9 per cent. While the number of participants were stable in 2016-17 when compared to the 2014-15 period, the actual number of training days delivered by the Centre totalled 6 983 for the 2016-17 biennium as compared to 6 810 during the 2014-15 period representing an increase of 173 days of training or 2.5 per cent.

14. There was a significant increase in training activities called "Blended–F" (distance training plus face-to-face in the field). Many constituents have been requesting that the Centre bring its training to the field and the Centre has responded, showing an increase of 129 per cent in Blended-F participant-days (8 279 participant-days in 2017 as compared to 3 614 in 2016). This has had an impact on the training at a distance which saw a decrease of 59.5 per cent in the participant-days in 2017 (12 356 participant-days in 2017 as compared to 30 492 in 2016). This is also explained by the Centre having held fewer Massive Open On-line Courses in 2017 as compared to 2016.

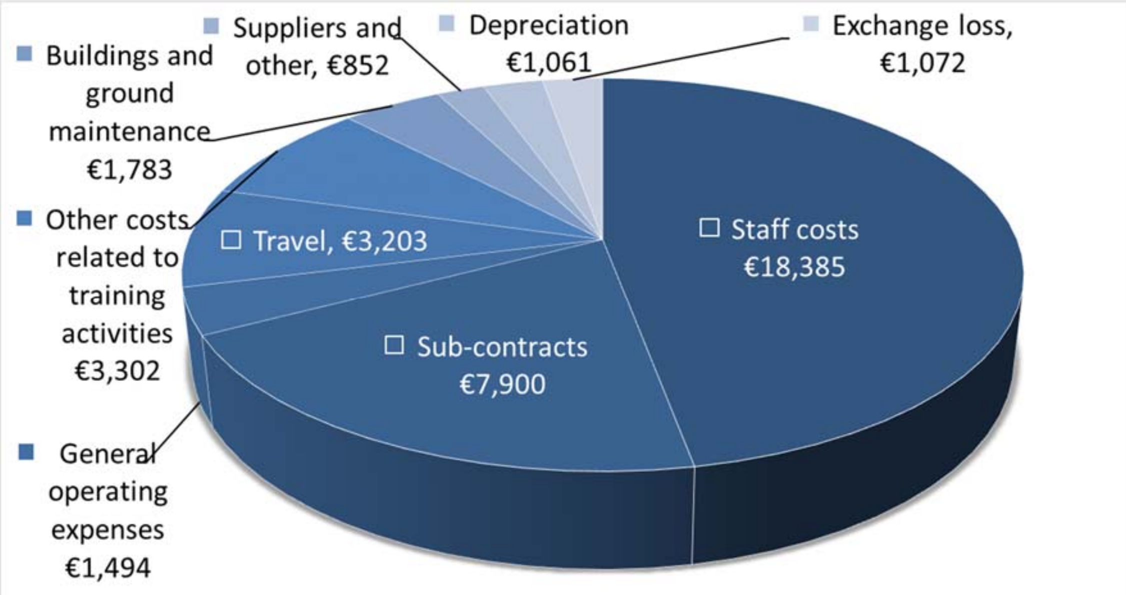
15. The results of all other types of activities such as Blended-C (distance training plus face-to-face on Campus) as well as training delivered in the field are stable reflecting expected levels.

16. Voluntary contributions decreased by €610 000 in 2017 as compared to 2016. This is mainly due to Centre not having received any contributions from the City of Turin in 2017 as compared to the receipt of the annual contributions of €250 000 for the years 2013, 2014 and 2015 in 2016. The conversion of the ILO contribution received in US dollars resulted in approximately €140 000 more in 2017 as compared to 2016.

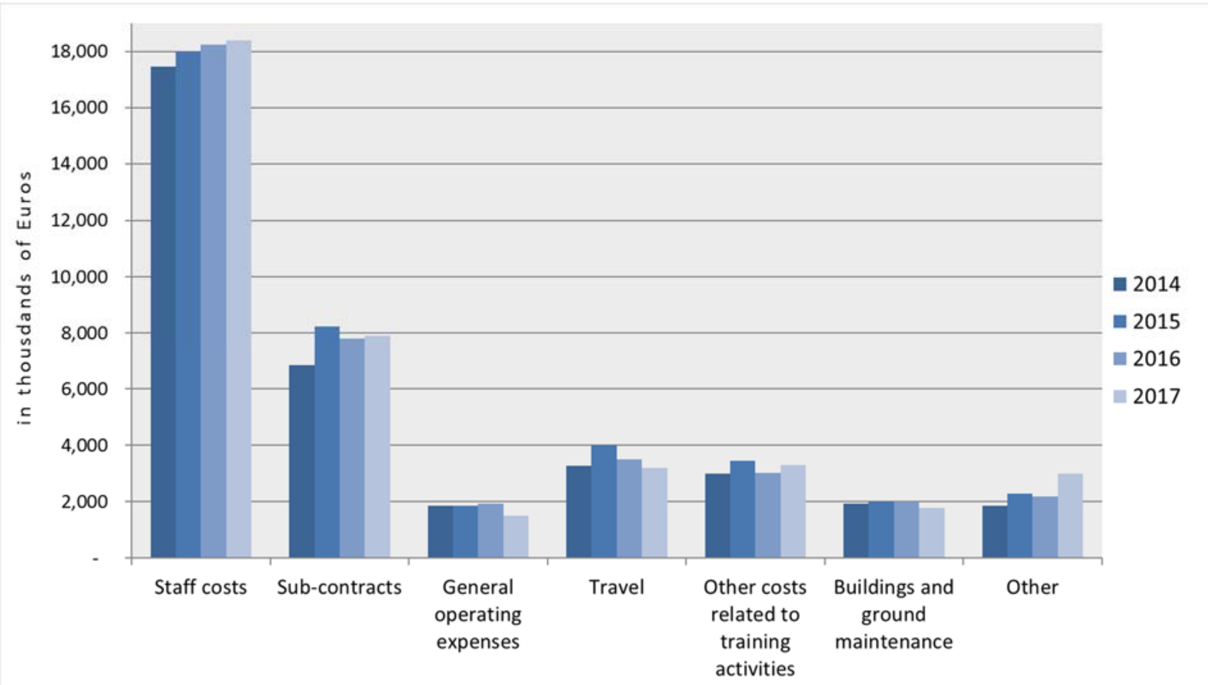
Expenditures

17. Expenditures in 2017 totalled €39.1 million (€38.7 million in 2016) and were distributed as follows:

Expenditures by source, 2017 (in thousands of Euros)



Expenditures, four-year comparison



18. Staff costs increased slightly by 0.8 per cent from €18.2 million in 2016 to €18.4 million in 2017. This was the net result of the normal increases in the Centre's compensation package issued by the United Nations International Civil Service Commission (UNICCS), counter balanced by the recruitment of more junior level staff in vacant positions and savings resulting from vacant positions during the year. Every effort is being made to continue to ensure that staff costs are kept within an acceptable level and that no additional positions are being created in the staff cost category.

19. Sub-contract expenditures increased by €101 000 or 1.3 per cent as a result of additional consultative work having been carried out in the areas of Health and Safety, the Oracle purchasing workflow and the creation of user documentation as well as the Diversity audit, among others.

20. At the end of 2017, the Centre had an exchange loss of €1.07 million as compared to an exchange gain of €182 000 at the end of 2016. While only €125 000 was realized in the year, the remaining portion of €947 000 derives from exchange losses not yet realised. Under IPSAS, these must still be recognised and the Centre actively monitors its currencies as well as naturally hedges its currencies in order to minimise realized exchange losses.

21. Other costs related to training activities and other costs increased by €369 000 or 9.1 per cent as compared to 2016. This is in line with the historical pattern of expenditures whereby these are higher in the second year of the biennium, and in line with training revenue earned.

22. General operating expenditures, buildings and ground maintenance decreased by €666 000 or 16.9 per cent as compared to 2016. This is as a result of having received in 2016 the City of Turin's 2013, 2014 and 2015 contributions for which the Centre had incurred significantly more expenditures. This was not the case in 2017 whereas the Centre incurred expenditures for normal repairs and maintenance while having received no contribution from the City.

23. Travel expenditures also decreased by €298 000 or 8.5 per cent as compared to 2016. This is as a result of the participant travel having been lower by €448 000 with a slightly higher expenditure of €144 000 for missions relating to activities. Both of these types of expenditures are variable and thus, fluctuate based on the number of participants and number of activities per year.

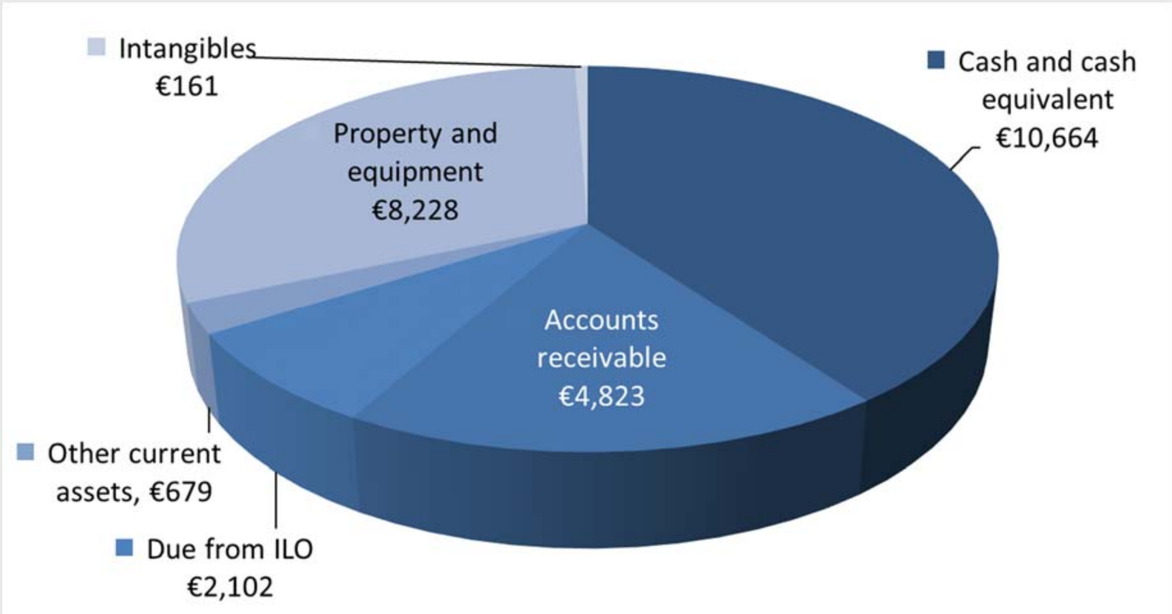
24. Supplies decreased by €353 000 or 30.45 per cent as compared to 2016. This is mostly explained by the significant decrease in expendable materials relating to information technology and for the Centre in general as a result of the increased spending that occurred in 2016 relating to the refurbishment. In addition, internal reproduction costs also decreased in the activities as a result of the use of e-campus whereby less training material is being printed.

Financial position

Assets

25. The Centre held assets of €26.7 million as at 31 December 2017 (€27.2 million as at 31 December 2016) which were as follows:

Assets by type, 2017 (in thousands of Euros)

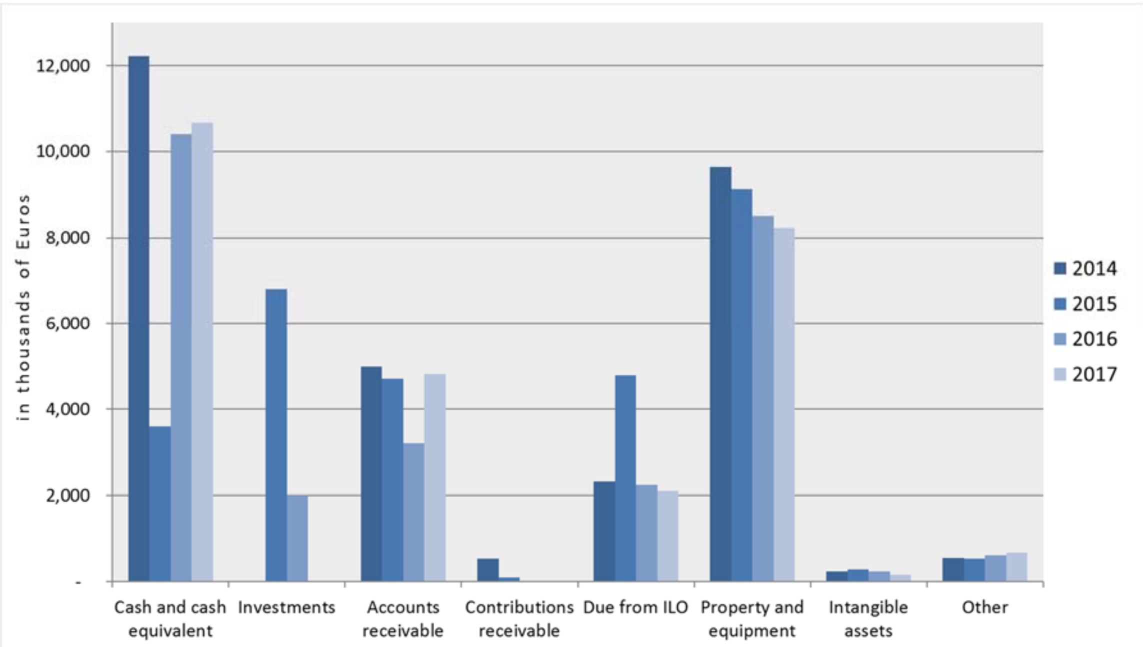


26. As at 31 December 2017, the Centre's most significant asset was cash and cash equivalents totalling €10.7 million (€12.4 million as at 31 December 2016 including investments) and representing 40 per cent of the total assets. Of this amount, €3.8 million or 35.6 per cent corresponds to funds held on behalf of donors for training activities (€3.5 million or 28.0 per cent as at 31 December 2016).

27. In the past year, the Centre's investments in short-term deposits have been greatly reduced and finally eliminated as a result of the minimal rate of return available on the market. Instead, the Centre retains its US dollars and has invested them in 30-day swaps to the Euro thus making it possible to earn slightly higher returns. All other funds are kept in the Centre's savings accounts, still earning a minimal return.

28. Accounts receivable and property and equipment were the other two significant asset components.

Assets, four-year comparison



29. The Centre's total assets decreased by €0.6 million or 2.0 per cent (€2.8 million or 9.2 per cent decrease as at 31 December 2016).

30. Cash and cash equivalents have increased by €260 000 or 2.5 per cent (increase of €2.0 million or 19.1 per cent as at 31 December 2016). However investments have decreased by €2.0 million or 100 per cent. On a net basis, the Centre's overall cash, cash equivalents and investments have decreased by €1.74 million (increase of €2.0 million as at 31 December 2016). Further information is provided on the Statement of Cash Flow.

31. Accounts receivable increased by €1.6 million or 50.0 per cent (decrease of €1.5 million or 31.7 per cent as at 31 December 2016) mainly as a result of an increase of €1.9 million (decrease of €1.3 million as at 31 December 2016) in accounts receivable relating to training services agreements held at the end of the year and an increase of €591 000 (decrease of €17 000 as at 31 December 2016) in accounts receivables relating to training activities held in the latter part of the year.

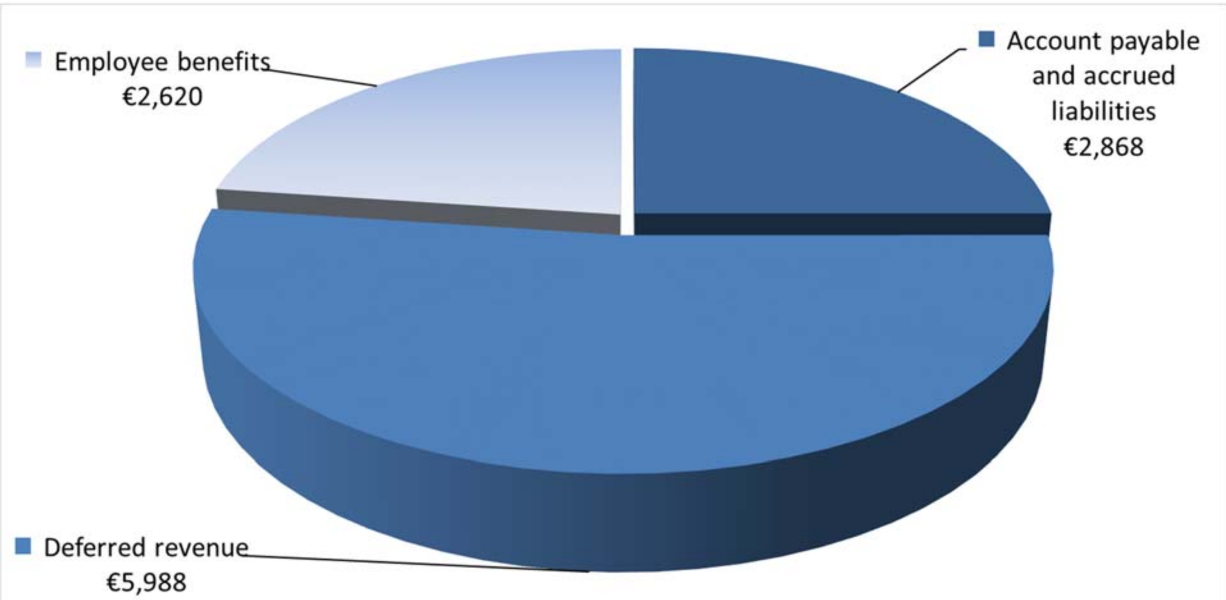
32. The receivable from the ILO decreased by €0.1 million or 6.1 per cent (decrease of €2.5 million or 53 per cent as at 31 December 2016) as a result of changes in the training activities invoicing process as well as increase frequency of collection. Prior to year-end, the Centre also received a significant amount from the ILO which was applied to its balance outstanding.

33. Property and equipment decreased by €0.3 million or 3.3 per cent (decrease of €634 000 or 6.9 per cent as at 31 December 2016) as a result of a full year of depreciation recorded in 2017 in the amount of €1.1 million (€922 000 in 2016), purchases of equipment of €712 000 (€288 000 in 2016) and disposals of €7 600 (€229 000 in 2016).

Liabilities

34. The Centre had liabilities totalling €11.5 million as at 31 December 2017 (€10.6 million as at 31 December 2016) which were as follows:

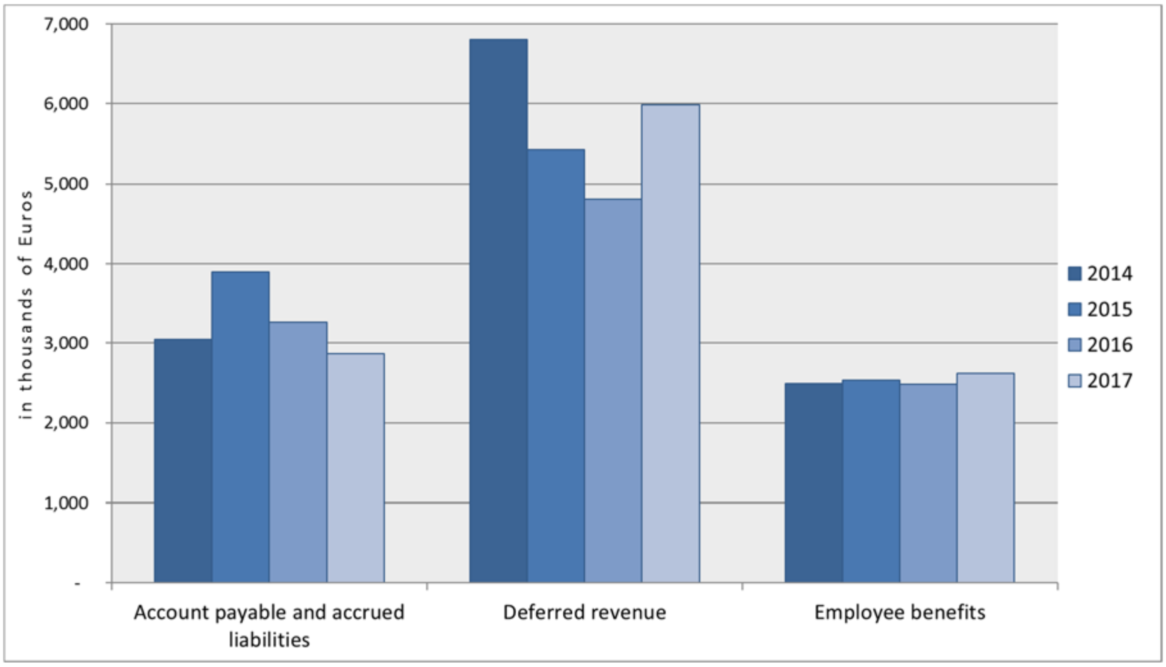
Liabilities by type, 2017 (in thousands of Euros)



35. The most significant liability totalling €6.0 million or 52.2 per cent (€4.8 million or 45.5 per cent as at 31 December 2016) relates to deferred revenue. This balance represents funds advanced by donors and sponsors for specific training projects (€3.8 million as at 31 December 2017 and €3.5 million as at 31 December 2016) and 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 (€2.2 million as at 31 December 2017 and €1.3 million as at 31 December 2016).

36. The employee benefit liability includes future employee benefits earned by staff members while they work at the Centre and for which the liability is accrued at year-end. This includes accumulated leave, repatriation travel and removal expenditures, among others.

Liabilities, four-year comparison

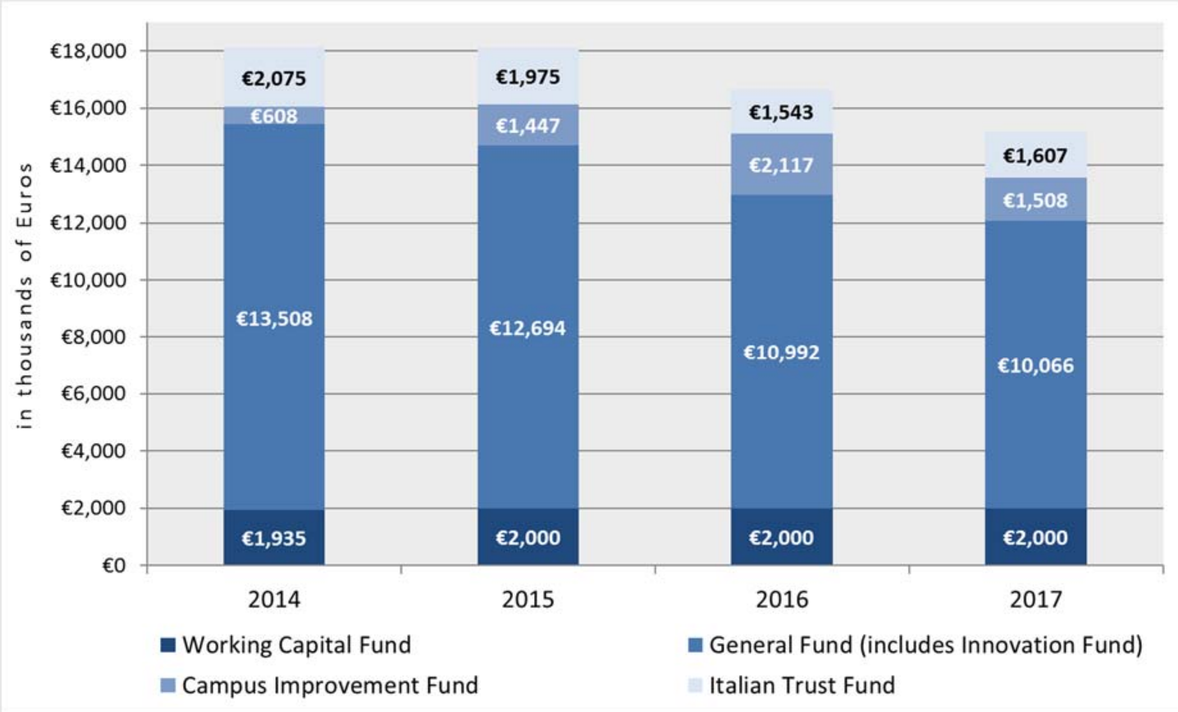


37. Accounts payable and accrued liabilities decreased by €400 000 or 12.2 per cent (decrease of €630 000 or 16.2 per cent as at 31 December 2016) as a result of different payment terms by type of suppliers.

38. Deferred revenue increased by €1.2 million or 24.5 per cent (decrease of €611 000 or 11.3 per cent as at 31 December 2016). This is due mainly to an increase in the voluntary contributions receivable relating to signed agreements, which is consistent with the Centre's objective to increase the period covered by its signed agreements. Advances received relating to signed agreements have also increased by €369 000 (increase of €648 000 as at 31 December 2016).

Net assets

Net assets, four-year comparison by Fund



39. The Centre's net assets are composed of the Working Capital Fund which represents 13.2 per cent or €2 million (12.0 per cent or €2 million as at 31 December 2016) as set by the Financial Regulations.

40. In addition, it includes the General Fund with €10.1 million and 66.3 per cent of the overall net assets (€11 million and 66.0 per cent as at 31 December 2016), the Campus Improvement Fund with €1.5 million and 9.9 per cent of the total (€2.1 million and 12.7 per cent as at 31 December 2016) and the Italian Trust Fund with €1.6 million and 10.6 per cent of the total (€1.5 million and 9.3 per cent as at 31 December 2016).

Regular Budget

41. At its 78th Session (October 2015), the Board approved the 2016-17 Budget Proposals consisting of total expenditures of €80.188 million including a contingency of €600 000 and total revenue of €80.188 million resulting in a balanced budget.

42. The overall budgetary results for the 2017 financial year as well as the 2016-17 final budget results of the biennium are summarized in Statement V, with the details of voluntary contributions received from donors shown in Note 12.

43. The 2017 actual revenue amounted to €38.4 million which was mainly made up of €37.5 million in voluntary contributions and earned income as well as a use of past surpluses of €822 000. The actual expenditure amounted to €37.6 million which included other items of €13 000. The final 2017 net budget surplus was €712 000. This is after taking into account the provision for doubtful accounts and realised foreign exchange losses.

44. The total result for the 2016-17 biennium as shown on Statement V reveals a total net budget surplus of €1.764 million which combines the 2016 net budget surplus of €1.052 million and the 2017 net budget surplus of €712 000.

45. As of 2016, the Centre's approved budget covered a biennium period – 2016-17. In order to present a comparative original and final annual budget in the Statement V – Statement of Comparison of budget and actual amounts, an analysis of the division between revenue and expenditures was undertaken, based on historical data. Voluntary contributions, other revenue and past surpluses were divided equally between the first and second year of the biennium approved budget, 49% of the approved budget was applied for the first year of the biennium for fixed expenditures and project staff variable expenditure. A rate of 46% of the approved budget was applied in this second year for the budget of training and publications revenue and total variable expenditure excluding project staff. The contingency approved for the biennium was then included in the second year of the biennium as it had not been required in the first year.

Significant differences between the 2017 budget and actual amounts as presented on Statement V

(In thousands of Euros)

Line item in Statement V			Budget 2017[1]	Actual 2017	Variance Amount	Variance %
Chapter	Line					
I	10	International Labour Organization voluntary contribution	3 582	3 939	357	10.0%
II	20	Revenue from training activities	27 648	23 385	(4 263)	(15.4%)
II	21	Revenue from publications	1 080	924	(156)	(14.4%)
II	22	Miscellaneous revenue	1 000	1 169	169	16.9%
IV	40	Regular budget staff	16 305	15 414	(891)	(5.5%)
IV	41	Consultants	487	779	292	60.0%
IV	42	Facilities	1 832	2 098	266	14.5%
IV	46	Governance	366	238	(128)	35.0%
IV	47	Information and technology costs	1 515	1 659	144	9.5%
V	50–58	Total variable expenditure	18 812	15 352	(3 460)	(18.4%)

46. The Centre achieved positive results in its second year of the biennium as demonstrated in Statement V, with a 2017 net budget surplus of €712 000 and a final 2016-17 net budget surplus of €1.764 million.

47. For the period of 2016-17, the Centre received a contribution of $8.24 million as approved in the ILO's 2016-17 Programme and Budget. Half of this was received in 2017. The variance of €357 000 or 10.0 per cent is due to the difference in exchange rate between the budget rate and the applied rate to record the transaction.

48. Revenue from training activities totaled €23.385 million which are below the expected target set for 2017 by 15.4 per cent. Although there is a difference of €4.263 million to the original budget, this figure does not directly impact the net budget surplus as the related variable expenditures are also well below the anticipated budget by €3.460 million and

[1] Budget represents 50% of the approved budget for voluntary contributions, other revenue and past surpluses, 51% of the approved budget for fixed expenditures and variable budget staff expenditure as well as 54% of the approved budget for training and publications revenue and total variable expenditure excluding variable budget staff expenditure. It also includes 100% of the approved budget for the contingency.

18.4 per cent. The training revenue, the use of surpluses and variable expenditures need to be considered together in order to understand the final results of the Centre. In both 2016 and 2017, the contribution to fixed costs (CFC) targets were achieved fully by the Centre with overall less total revenue and total expenditures than originally planned. This is as a result of overall efficiency gains in the delivery of its training and the Centre generated an overall net budget surplus for the biennium of €1.764 million.

49. Revenue from publications totaled €924 000 and the results are below by 14.4 per cent of the expected target set for 2017. The difference of €156 000 is mostly due to the re-alignment of the overall strategy for publications as digital design and multimedia services are now prioritized over more traditional publications work such as printing and production which has been on the decline over the past years.

50. Miscellaneous revenue totaled €1.169 million and the results are over by 16.9 per cent of the expected target set for 2017. The difference of €169 000 is mostly due to small increases in revenue from other non-training sources and social life.

51. Regular budget staff expenditures totaled €15.414 million and are below the budget of €16.305 million by €891 000 or 5.5 per cent. During the year, there were several vacant positions which were either filled later in the year or remain vacant at the end of the year.

52. The consultant expenditures are higher than the budget by €292 000 or 60.0 per cent. This is due to additional work undertaken in the year on the new Oracle purchasing workflow, the elaboration of the draft procurement manual, the Health and Safety audit as well as the audit on Diversity, and other staff-related matters, among others.

53. The facilities expenditures are higher than the budget by €266 000 or 14.5 per cent. In the current year, the Centre undertook additional maintenance work on the Campus and this included extraordinary repairs of the Centre's pipes, the initial work for the refurbishment of the reception, the creation of a small boutique as well as improvements to the gym area, the upgrading of various washrooms and changing rooms across the Campus as well as the upgrading of the building automation systems and fire detection equipment, among others.

54. Governance expenditures are lower than the budget by €128,000 or 35.0 per cent mostly as a result of having legal services provided free of charge by the ILO.

55. Information and technology costs are higher than the budget by €144 000 or 9.5 per cent as a result of one project having been deferred from 2016 into 2017, and small increases in all types of costs.

56. Total variable expenditures were below the budget and show a variance of €3.46 million or 18.4 per cent. These expenditures are aligned to the total training revenue and the use of past surpluses for training activities recognised in the year. As training revenue was lower than the budget, the related variable expenditures are also lower than anticipated. As explained above, while both are below the expected levels, this is due to efficiency gains generated in the delivery of training activities while achieving the same level of contribution to fixed costs as included in the approved budget.

Ex–gratia payments

There were no ex-gratia payments made in 2017.

Approval of the Financial Statements for the year ended 31 December 2017

The financial statements are the responsibility of and have been prepared by Management in accordance with the International Public Sector Accounting Standards and comply with the Financial Regulations of the International Training Centre of the International Labour Organization. They include certain amounts that are based on Management's best estimates and judgments.

Accounting procedures and related systems of internal control, developed by Management, provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with the appropriate segregation of duties.

The financial governance of the Centre includes the review of financial systems and internal controls by the International Labour Organization's Office of Internal Audit and Oversight, the External Auditor, and by the Board. The External Auditor also provides an opinion on the Financial Statements which are appended thereto.

In accordance with Article 17.2 of the Financial Regulations, the financial statements numbered I to V and the accompanying notes are hereby approved and submitted to the Board of the International Training Centre of the International Labour Organization.

Christine Boulanger
Treasurer, Chief of Financial Services
12 March 2018

Yanguo Liu
Director
12 March 2018

Point for decision

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the International Training Center (ITC) of the International Labour Organization, which comprise thestatement of financial position as at 31 December 2017, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ITC as at 31 December 2017, 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 (IPSAS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the **ITC financial statements and external auditor's report for the year ending 31 December 2017**, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the ITC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ITC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ITC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ITC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ITC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of the ITC,that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ITC.

In accordance with Article 27 of the Financial Regulations of the ITC, we have also issued a long-form report on our audit of the ITC.

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

Quezon City, Philippines
12 March 2018

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
18-121402141412

Financial Statements
for the year ended 31 December 2017

International Training Centre of the ILO

Statement of financial position as at 31 December
(in thousands of Euros)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	**4**	10 664	10 404
Investments	**5**	-	2 000
Accounts receivable	**6**	4 370	3 035
Contributions receivable	**7**	-	–
Due from the ILO		2 102	2 238
Other current assets		679	616
		17 815	**18 293**
Non-current assets			
Accounts receivable	**6**	453	179
Property and equipment	**9**	8 228	8 508
Intangible assets		161	230
		8 842	**8 917**
Total assets		**26 657**	**27 210**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		2 868	3 268
Deferred revenue	**10**	5 535	4 629
Employee benefits	**11**	157	189
		8 560	**8 086**
Non-current liabilities			
Deferred revenue	**10**	453	179
Employee benefits	**11**	2 463	2 293
		2 916	**2 472**
Total liabilities		**11 476**	**10 558**
Net assets			
Working Capital Fund		2 000	2 000
Total other accumulated fund balances		13 181	14 652
Total net assets	**17**	**15 181**	**16 652**
Total liabilities and net assets		**26 657**	**27 210**

The accompanying notes form an integral part of these Financial Statements.

International Training Centre of the ILO

Statement of financial performance for the year ended 31 December
(in thousands of Euros)

	Note	2017	2016
Revenue			
Training activities		21 949	21 013
Voluntary contributions	**12**	13 539	14 149
Other revenue	**14**	2 028	1 826
Exchange gain and revaluation, net		-	182
Interest		65	55
Total revenue		**37 581**	**37 225**
Expenditures			
Staff costs		18 385	18 247
Sub–contracts		7 900	7 799
General operating expenditures		1 494	1 929
Travel		3 203	3 501
Other costs related to training activities		3 302	3 008
Buildings and ground maintenance		1 783	2 014
Supplies		806	1 159
Depreciation		1 061	994
Exchange loss and revaluation, net		1 072	-
Bank charges		46	38
Total expenditures		**39 052**	**38 689**
Net deficit		**(1 471)**	**(1 464)**

The accompanying notes form an integral part of these 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 2017	2 000	10 992	2 117	1 543	14 652	16 652
Net deficit of 2017	-	(1 500)	(35)	64	(1 471)	(1 471)
Transfers to/(from) [/2]	-	574	(574)	-	-	-
Balance as at 31 December 2017	**2 000**	**10 066**	**1 508**	**1 607**	**13 181**	**15 181**
Balance as at 1 January 2016	2 000	12 694	1 447	1 975	16 116	18 116
Net deficit of 2016	–	(908)	(124)	(432)	(1 464)	(1 464)
Transfers to/(from) [/1]	–	(794)	794	–	–	–
Balance as at 31 December 2016	**2 000**	**10 992**	**2 117**	**1 543**	**14 652**	**16 652**

[/1] Transfer from the General Fund to the Campus Improvement Fund of €100 as approved by the Board in October 2015 and transfer of €693.5 as approved by the Officers of the Board in May 2016.

[/2] Transfer of capital assets financed from the Campus Improvement Fund to the General Fund

The accompanying notes form an integral part of these Financial Statements.

International Training Centre of the ILO
Statement of cash flow for the year ended 31 December
(in thousands of Euros)

	2017	2016
Cash flows from operating activities		
Net deficit for the period	(1 471)	(1 464)
Effect of exchange rates on cash and cash equivalents	(869)	357
Non-cash items:		
Depreciation	1 061	994
(Increase)/decrease in accounts receivable	(1 609)	1 496
Decrease in contributions receivable	–	100
Decrease in due from the ILO	136	2 543
(Increase) in other current assets	(63)	(81)
(Decrease) in accounts payable and accrued liabilities	(400)	(630)
Increase/(decrease) in deferred revenue	1 180	(611)
Increase/(decrease) in employee benefit liabilities	138	(55)
Net cash flows from operating activities /1	**(1 897)**	**2 649**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(712)	(303)
Acquisitions of short-term investments	–	(2 000)
Proceeds from disposal of short-term investments	2 000	6 811
Net cash flows from investing activities	**1 288**	**4 508**
Effect of exchange rates on cash and cash equivalents	869	(357)
Net increase in cash and cash equivalents	**260**	**6 800**
Cash and cash equivalents, beginning of period	10 404	3 604
Cash and cash equivalents, end of period	**10 664**	**10 404**

/1 €68 in interest received is included under “Net deficit for the period” in the net cash flows from operating activities (2016 – €87).

The accompanying notes form an integral part of these Financial Statements.

International Training Centre of the ILO

Statement of comparison of budget and actual amounts for the year ended 31 December 2017

(in thousands of Euros)

			2017 Original budget[/1]	2017 Final budget	2017 Actual	2017 Variance[/2]	2016-17 Original and final budget	2016-17 Actual	2016-17 Variance
		INCOME							
I		**Voluntary contributions**							
	10	International Labour Organization	3 582	3 582	3 939	357	7 165	7 738	573
	11	Government of Italy	7 850	7 850	7 850	–	15 700	15 700	–
	12	Piedmont Region (Italy)	–	–	–	–	–	–	–
	13	Government of Portugal	250	250	250	–	500	500	–
	14	City of Turin	–	–	–	–	–	750	750
		Total voluntary contributions	**11 682**	**11 682**	**12 039**	**357**	**23 365**	**24 688**	**1 323**
II		**Earned income**							
	20	Training activities and advisory services	27 648	27 648	23 385	(4 263)	51 200	46 332	(4 868)
	21	Publications	1 080	1 080	924	(156)	2 000	1 774	(226)
	22	Miscellaneous	1 000	1 000	1 169	169	2 000	2 200	200
		Total earned income	**29 728**	**29 728**	**25 478**	**(4 250)**	**55 200**	**50 306**	**(4 894)**
III		**Other**							
	30	Past surpluses to training activities	750	750	767	17	1 500	1 563	63
	31	Past surpluses to the business process review	64	64	37	(27)	123	114	(9)
	–	Past surpluses to the HRS – IT applications	–	–	18	18	–	68	68
		Total past surpluses	**814**	**814**	**822**	**8**	**1 623**	**1 745**	**122**
		Total income	**42 224**	**42 224**	**38 339**	**(3 885)**	**80 188**	**76 739**	**(3 449)**
		EXPENDITURE							
IV		**Fixed expenditure**							
	40	Regular budget staff	16 305	16 305	15 414	(891)	31 971	30 778	(1 193)
	41	Consultants	487	487	779	292	954	1 353	399
	42	Facilities	1 832	1 832	2 098	266	3 593	4 259	666
	43	Security	421	421	409	(12)	826	851	25
	44	General operating costs	743	743	713	(30)	1 457	1 566	109
	45	Missions and representation	269	269	273	4	528	513	(15)
	46	Governance	366	366	238	(128)	732	592	(140)
	47	Information and technology costs	1 515	1 515	1 659	144	2 971	3 017	46
	48	Depreciation of property and equipment	687	687	679	(8)	1 348	1 292	(56)
		Total fixed expenditure	**22 625**	**22 625**	**22 262**	**(363)**	**44 380**	**44 221**	**(159)**
V		**Variable expenditure**							
	50	Variable Budget (VB) staff	2 499	2 499	2 516	17	4 999	5 068	69
	50	Project Budget (PB) staff	–	–	332	332	–	472	472
	51	External collaborators	5 275	5 275	4 964	(311)	9 768	9 837	69
	52	Missions	729	729	863	134	1 350	1 582	232
	53	Participants costs	7 447	7 447	4 902	(2 545)	13 790	9 972	(3 818)
	54	Books, training aids and materials	620	620	318	(302)	1 149	685	(464)
	55	Training facilities and services outside Turin	1 241	1 241	687	(554)	2 298	1 480	(818)
	56	Other variable costs	202	202	199	(3)	374	368	(6)
	57	Costs related to income from publications	691	691	485	(206)	1 280	1 006	(274)
	58	Other costs related to miscellaneous income	108	108	86	(22)	200	207	7
		Total variable expenditure	**18 812**	**18 812**	**15 352**	**(3 460)**	**35 208**	**30 677**	**(4 531)**
VI	60	**Contingency**	**600**	**600**	–	**(600)**	**600**	–	**(600)**
		Total expenditure	**42 037**	**42 037**	**37 614**	**(4 423)**	**80 188**	**74 898**	**(5 290)**
		BUDGET SURPLUS[/3]	**187**	**187**	**725**	**538**	–	**1 841**	**1 841**
		Other items							
		Doubtful accounts	–	–	112	**(112)**	–	**61**	**(61)**
		Exchange loss and revaluation, net	–	–	(125)	**125**	–	**(138)**	**138**
		TOTAL OTHER ITEMS	–	**–**	**(13)**	**13**	–	**(77)**	**77**
		NET BUDGET SURPLUS	**187**	**187**	**712**	**525**	–	**1 764**	**1 764**

The accompanying notes form an integral part of these Financial Statements.

International Training Centre of the ILO

Statement of comparison of budget and actual amounts for the year ended 31 December 2017 (cont'd)

(in thousands of Euros)

/1 Original budget represents 50% of approved budget for voluntary contributions, other revenue, past surpluses, 51% of the approved budget for fixed expenditures and variable budget staff expenditure (VB) as well as 54% of the approved budget for training and publications revenue and total variable expenditure excluding variable budget staff expenditure (VB). It also includes 100% of the approved budget for the contingency (as this is included in the final biennium approved budget).

/2 Budget variances are explained in the accompanying financial report on the 2017 accounts.

/3 As per Financial Regulations 7(4).

The accompanying notes form an integral part of these Financial Statements.

International Training Centre of the ILO

Notes to the Financial Statements for the year ended 31 December 2017

(in thousands of Euros)

Note 1 – Objectives, activities and other information

The International Training Centre of the International Labour Organization (the "Centre") was established by the Governing Body of the ILO and the Government of Italy in 1964. The objective of the Centre, 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, is 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. 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 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. With the ILO as the controlling entity of the Centre, the financial statements of the Centre are consolidated within the ILO's financial statements. 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.

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. Two meetings of the Board are convened in the year. The members of the Board do not receive any remuneration from the Centre for their services. At its October 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 Officers of the Board, as delegated by the Board, adopt the financial statements in May.

The accounts of the Centre, which are produced on an annual basis, are audited by the External Auditor of the ILO.

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.

Note 2 – Accounting policies

Basis of preparation and presentation

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 the applicable standards effective as at 31 December 2017.

The Centre's financial period for budgetary purposes is a biennium consisting of two consecutive calendar years. The financial statements are prepared annually.

The functional and presentation currency of the Centre is the Euro (€).

The financial statements are expressed in thousands of Euro (€) unless otherwise indicated.

Significant accounting policies

<u>Foreign currency transactions</u>

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

Balances of monetary assets and liabilities maintained in currencies other than the Euro are converted to Euro at the United Nations operational rate of exchange applicable at the reporting date, which approximates the market rate. Exchange differences arising on the settlement of monetary items and unrealized gains or losses from the revaluation of monetary assets and liabilities are recognized as exchange gain (loss) and revaluation, net in the Statement of financial performance.

Balances of non-monetary assets and liabilities carried at historical cost are converted using the United Nations operational rate of exchange at the date of the transaction.

<u>Financial instruments</u>

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
Investments	Financial assets	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 as well as investments is determined using quoted prices in active markets for identical assets (Level 1).

Recognition and initial measurement
A financial asset or a financial liability is recognized on the Statement of Financial Position when, and only when, the Centre becomes a party to the contractual provisions of the instrument. The Centre initially measures the financial asset or financial liability at its fair value.

De-recognition
A financial asset is de-recognized from the Statement of Financial Position when, and only when, the contractual rights to the cash flows of the financial asset expire or are waived. A financial liability is de-recognized when, and only when, it has been extinguished.

Impairment
At the end of the reporting period, an assessment of impairment of financial assets is carried out. Impairment provisions are recognized in general operating expenditures on the Statement of performance if objective evidence exists that a financial asset's carrying value has decreased.

More specifically for accounts receivable and contributions receivable, the Centre establishes a provision for doubtful accounts based on its review of individual balances to determine if any amounts are impaired. When all collection efforts have been exhausted, the account is written-off.

<u>Cash and cash equivalents</u>

This includes cash in banks and short-term deposits maturing within three months from the date of acquisition.

<u>Investments</u>

Investments are classified as current or non-current assets depending on the time horizon of the investment objectives. If the period is one year or less, they are classified as current assets, and for a longer period, they are classified as non-current assets. Investment revenue earned is recognized in interest revenue in the Statement of financial performance.

<u>Accounts receivable</u>

These result mainly from training activities, and from the sale of publications. They are recognized when it is possible that they will be received and can be reliably measured.

<u>Contributions receivable</u>

Contributions receivable relate to voluntary contributions to cover general operations and are recognized when it is probable that they will be received and can be reliably measured.

<u>Due from/to the ILO</u>

The Centre has an inter-office 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.

<u>Property and equipment</u>

This 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

Deferred revenue

Deferred revenue represents funds received or 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 using a discount rate based on high grade corporate bonds.

Employee benefits

The Centre recognizes the following categories of employee benefits:

1. 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:

   – accumulating 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: non-accumulating compensated absences, such as sick leave and maternity leave, are recognized as an expenditure 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 the last year's cost of home leave adjusted for price increases in airfare; and

   – 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.

2. post–employment 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 2017 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;

– 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 officials, 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; and

– United Nations Joint Staff Pension Fund: through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified 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 Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the 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. Hence the Centre has treated this plan as if it was a defined contribution plan. The Centre's contributions to the Fund during the financial period are recognized as staff cost expenditures in the Statement of financial performance.

Payables and accruals

These are financial liabilities that relate to goods and services that have been received but not yet paid at the end of the reporting date.

Revenue from exchange transactions

1. 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 or the publications are shipped.
2. 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

1. 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 when 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) 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.
2. 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.

3. 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 of expenditures incurred to the estimated total expenditures of the training activity.

4. 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.

Significant judgements and sources of estimation uncertainty

The preparation of financial statements in accordance with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts. Judgments and estimates that are significant to the Centre's financial statements include the useful life of property and equipment as well as the provision for doubtful accounts. Estimates are also used to calculate employee benefits. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Depreciation of property and equipment is calculated based on the estimated useful life of the asset which represents the period over which the asset is expected to be available for use by the Centre. This is reviewed annually.

The provision for doubtful accounts is determined by assessing the probability of collection of the receivables based on the efforts already undertaken. When the probability is less than probable, the receivable is fully provisioned. It is written-off only when all practicable efforts have been made.

Significant estimates are used in the calculations of the provision for repatriation travel and removal expenditures and are based on current pricing available and the maximum shipment weight permitted under Staff Regulations. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

Note 3 – Accounting standards issued but not yet effective

In 2016 and 2017, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

- Amendments to IPSAS 21 - Impairment of Non-Cash Generating Assets and IPSAS 26 – Impairment of Cash-Generating Assets: the amendments establish the impairment standards relating to non-cash and cash-generating assets held using the revaluation method and which were previously out of scope of these chapters. The effective date for the application is for annual periods beginning on or after 1 January 2018. This will have no significant impact on the Centre's financial statements.
- IPSAS 39 – Employee Benefits: This standard replaces IPSAS 25 – Employee Benefits and provides for the elimination of the possible deferral of actuarial gains and losses and the immediate full recognition in net assets as well as amendments to the disclosure requirements in the notes to financial statements. The effective date for the application of this standard is for annual periods beginning on or after 1 January 2018, with earlier adoption permitted. This will have no significant impact on the Centre's financial statements.
- Improvements to IPSAS 2015: These improvements relate to the conceptual framework which include the role and authority; objectives and users; qualitative characteristics; and constraints on information for general purpose financial reports; and the reporting entity as well as other standards. The effective date for the application of these improvements is for annual periods beginning on or after 1 January 2017, with earlier application permitted. This will have no significant impact on the Centre's financial statements.
- Applicability of IPSAS and revised Preface to IPSAS: These changes relate to the deletion of the term "Government Business Enterprise" and the introduction of the newly defined term "Commercial Public Sector Entities". The effective date for the application of these revisions is for annual periods beginning on or after 1 January 2018, with earlier adoption permitted. This will have no significant impact on the Centre's financial statements.
- IPSAS 40 – Public Sector Combinations: This new standard establishes the requirements for classifying, recognizing and measuring public sector combinations. The effective date for the application is for annual periods beginning on or after 1 January 2019, with earlier adoption permitted. This will have no significant impact on the Centre's financial statements.
- Financial Reporting under the Cash Basis of Accounting: These amendments were made as a result of the current requirements for the preparation of consolidated financial statements and disclosures about external assistance and third party payments. The effective date for the application of these amendments is for annual periods beginning on or after 1 January 2019, with earlier adoption permitted. This will have no impact on the Centre's financial statements.

Note 4 – Cash and cash equivalents

	US dollar (€ equivalent)	Euro	2017	2016 (Note 21)
Current accounts and cash on hand	5 900	4 764	10 664	10 404
Short-term deposits	–	–	–	–
Total cash and cash equivalents	**5 900**	**4 764**	**10 664**	**10 404**

Of the total cash and cash equivalents held in 2016, €2 764 was in Euro and the balance was held in US dollars, €7 640 Euro equivalent.

The cash and cash equivalent balance includes an amount of €3 831 (2016 – €3 462) which must be used for training activities.

Note 5 – Investments

The Centre invests in one-year term deposits with or without notice with its current banking institutions. This is in line with the Centre's investment policy.

The fair value based on quoted prices and historical cost as at the reporting date is as follows:

	2017		2016	
	Fair value	**Cost**	**Fair value**	**Cost**
One-year term deposits	–	–	2 000	2 000

The movements of the investments during the reporting period are as follows:

	2017	2016
Fair value as at 1 January	2 000	6 811
New investments during the period	–	2 000
Disposal of investments during the period	(2 000)	(6 811)
Fair value as at 31 December	–	**2 000**

The investments included in 2016 an amount of €2.0 million relating to the Working Capital Fund (2017 – nil).

Note 6 – Accounts receivable

	2017	2016
Current accounts receivable		
Accounts receivable from invoiced training services	2 766	2 175
Accounts receivable from training services agreements due in 2018	1 601	980
Other accounts receivable	29	35
Less: provision for doubtful accounts – training services	(26)	(155)
Total current net accounts receivable	**4 370**	**3 035**
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2018	453	179
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	**453**	**179**

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

	2017	2016
Movements in provision for doubtful accounts		
Balance 1 January	155	129
Amounts written off during the year as uncollectible	(44)	(21)
Impairment losses reversed	(85)	(1)
Increase in allowance for new impairments	–	48
Balance 31 December	**26**	**155**

Note 7 – Contributions receivable

	2017	2016
Chamber of Commerce	–	–
Piedmont Region	–	50
Less: provision for doubtful accounts	–	(50)
Total contributions receivable	**–**	**–**

	2017	2016
Movements in provision for doubtful accounts		
Balance 1 January	50	50
Amounts written off during the year as uncollectible	–	–
Impairment losses reversed	(50)	–
Increase in allowance for new impairments	–	–
Balance 31 December	**–**	**50**

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

Note 8 – Financial instruments

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 2017, 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 2016.

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 US dollars 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:

	2017 US Dollar	2017 € equivalent	2016 US Dollar	2016 € equivalent
Cash and cash equivalents	7 049	5 900	7 992	7 640
Accounts receivable	658	551	1 282	1 225
Due from the ILO	(739)	(619)	917	877
Payables and accrued liabilities	(195)	(163)	(102)	(102)
Net exposure	**6 773**	**5 669**	**10 089**	**9 640**

Based on the net exposure as at 31 December 2017, 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 €285 (2016 – €482) or 5 per cent (2016 – 5 per cent).

Interest rate risk

This is the risk that the fair value of 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 deposits and is therefore subject to interest rate fluctuation. It manages its interest rate risk by investing in one-year term deposits with fixed interest rates for the period. 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 21 days (2016 – 20 days).

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 €2 million (2016 – €2 million).

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, investments 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 equivalents as well as investments are diversified to several banks in order to avoid an over-concentration of funds with few institutions. The total percentage of cash, cash equivalents and investments 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 €10 000 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 investments are as follows as at 31 December:

2017	**AAA**	**AA+–AA–**	**A+–A–**	**BBB+–BBB–**	**Total**
Cash and Cash Equivalents	–	–	7 104	3 560	**10 664**
Investments	–	–	–	–	**–**
2016					
Cash and Cash Equivalents	–	–	7 093	3 311	**10 404**
Investments	–	–	2 000	–	**2 000**

<u>Accounts receivable</u>

The accounts receivable, due upon receipt of the invoice 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:

2017	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	3 792	330	274	(26)	4 370
Contributions receivable	–	–	–	–	–
Total receivable	**3 792**	**330**	**274**	**(26)**	**4 370**
2016					
Accounts receivable	2 722	536	110	(155)	3 213
Contributions receivable	–	50	–	(50)	–
Total receivable	**2 722**	**586**	**110**	**(205)**	**3 213**

Note 9 – Property and equipment

	Equipment	Leasehold improvements	Total 2017	Total 2016
Cost at 31 December	4 512	10 737	15 249	14 553
Accumulated depreciation at 31 December	3 004	4 017	7 021	6 045
Net book value at 31 December 2017	**1 508**	**6 720**	**8 228**	**8 508**
Net book value at 31 December 2016	**1 645**	**6 863**	**8 508**	

There were no contractual commitments for the acquisition of property and equipment at the end of 2017.

Equipment

	Vehicles	Office equipment	Other type of equipment	Furniture and fixtures	Total 2017	Total 2016
Cost at 1 January	61	2 359	1 671	160	4 251	4 237
Additions	–	128	140	–	268	243
Disposals	(7)	–	–	–	(7)	(229)
Cost at 31 December	**54**	**2 487**	**1 811**	**160**	**4 512**	**4 251**
Accumulated depreciation at 1 January	51	1 787	708	60	2 606	2 468
Depreciation	10	218	162	15	405	367
Disposals	(7)	–	–	–	(7)	(229)
Accumulated depreciation at 31 December	**54**	**2 005**	**870**	**75**	**3 004**	**2 606**
Net book value at 31 December	–	**482**	**941**	**85**	**1 508**	**1 645**

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:

	Total 2017	Total 2016
Cost at 1 January	10 302	10 257
Additions	435	45
Disposals	–	–
Cost at 31 December	**10 737**	**10 302**
Accumulated depreciation at 1 January	3 439	2 884
Depreciation	578	555
Disposals	–	–
Accumulated depreciation at 31 December	**4 017**	**3 439**
Net book value at 31 December	**6 720**	**6 863**

Note 10 – Deferred revenue

	2017	2016
Deferred revenue – Current		
Voluntary contributions received in advance relating to signed agreements	3 831	3 462
Voluntary contribution receivable relating to signed agreements	1 704	1 167
Total current deferred revenue	**5 535**	**4 629**
Deferred revenue – Non-current		
Voluntary contribution receivable relating to signed agreements	453	179
Total non-current deferred revenue	**453**	**179**
Total deferred revenue	**5 988**	**4 808**

	2017	2016
Movements in deferred revenue		
Balance 1 January	**4 808**	**5 419**
New agreements signed during the year	6 460	4 555
Recognition of deferred revenue to training revenue in the Statement of financial performance	(4 588)	(4 938)
Refund/reduction of agreements to donors	(464)	(613)
Other funds received in advance not linked to agreements	(136)	357
Discounting	(92)	28
Balance 31 December	**5 988**	**4 808**

Note 11 – Employee benefits

	2017	2016
Current liabilities		
Accrued salaries	22	4
Accumulated leave	117	154
Repatriation travel and removal expenditures	10	17
Home Leave	8	14
Total current liabilities	**157**	**189**

Non-current liabilities		
Accumulated leave	1 702	1 758
Repatriation travel and removal expenditures	761	535
Total non-current liabilities	**2 463**	**2 293**
Total employee benefits liabilities	**2 620**	**2 482**

End–of–service payments and repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2017 was €709 (2016 – €703).

The present value of the defined benefit obligation for end-of-service was estimated at €7 150 (2016 – €8 930). The present value of the defined benefit obligation for repatriation grant was €1 169 at the end of 2017 (2016 – €1 383). 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 €88 338 at the end of 2017 (2016 – €80 937). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

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

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 Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

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

The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, is 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 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 2016, 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.

During 2017, the Centre paid to UNJSPF a total amount of €4 384 (2016 – €3 976). Expected payments due in 2018 are approximately €4 394.

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 12 – Revenue from voluntary contributions

	2017	**2016**
Government of Italy	9 350	9 350
International Labour Organization	3 939	3 799
City of Turin	–	750
Government of Portugal	250	250
Total voluntary contributions	**13 539**	**14 149**

The ILO contribution of €3 939 (US$4 120) represents one half of the approved 2016-2017 biennial contribution of US$8 240.

The Italian Government's *ex-lege* contribution to the Centre in 2017 was €7 850 (2016 – €7 850) and was received in 2017. The Italian Government's contribution for training activities in 2017 was €1 600 which includes a contribution of €100 to a specific project and which is recorded in deferred revenue (2016 – €1 600).

The City of Turin's 2016 contribution represents the annual contribution of €250 for the years 2013, 2014 and 2015 for a total of €750.

Note 13 – Contributions–in–kind

There were no goods-in-kind received during the year. The Centre received services-in-kind from the ILO for legal and/or internal audit services in the amount of €309 (2016 – € nil) as well as services of trainees from various external parties for which the value is minimal. 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 14 – Other revenue

	2017	2016
Non-exchange transactions		
Operating leases with other UN organizations	287	427
Use of facilities other than residential	120	132
Other miscellaneous income	490	230
Exchange transactions		
Use of residential facilities by non-participants attending training	95	130
Revenue from the sale of publications	924	850
Social life activities	112	57
Total other revenue	**2 028**	**1 826**

Note 15 – 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 2017, the Centre has commitments of €3 656 (2016 – €3 391) 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.

The majority of leases entered into by the Centre as a lessee relate to equipment rental and use of software and are cancellable operating leases. Only one lease relating to specialized computer and stamping equipment is non-cancellable. The minimum lease payments for this agreement are €0.5 per year for 2018, 2019 and 2020. Total expenditures for equipment rental were €22 (2016 – €14) and €72 (2016 – €67) 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 €287 (2016 – €427).

Note 16 – 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 for which a budget is adopted by the Centre.

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

1. the use of surplus from prior periods is presented as budgetary income in Statement V while it is not presented on Statement II;
2. the basis of accounting for income related to the Italy Trust Fund and the ILO grants for the Masters Programmes is 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; and
3. the unrealized exchange gains (losses) due to revaluation at year-end are not included in Statement V however they are recognized in Statement II.

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

	Operating	Investing	Financing	Total
Net budget surplus (Statement V)	**712**	**–**	**–**	**712**
Timing differences	–	–	–	–
Basis differences	(1 473)	2 000	–	527
Entity differences	(32)	–	–	(32)
Net cash flow	**(793)**	**2 000**	**–**	**1 207**
Effect of exchange rates on cash and cash equivalent	(947)	–	–	(947)
Net increase in cash and cash equivalent (Statement IV)	**(1 740)**	**2 000**	**–**	**260**

Reconciliation between Statement V and Statement II

	2017
Net budget surplus (Statement V)	**712**
Timing differences	–
Basis differences	(1 203)
Entity differences	(980)
Net deficit per Statement of financial performance (Statement II)	**(1 471)**

Use of surplus funds

In accordance with Article 7, paragraph 4 of the Financial Regulations, the Director can include the whole or part of the financial surplus at the end of any completed financial period in a future budgetary proposal, for a limited number of priorities or use it as an increase in the accumulated reserves of the General Fund.

The following table summarizes the remaining balances from the allocations of the 2010, 2012, 2013, 2014 and 2015 surpluses. The allocation of the 2015 surplus was approved in 2016 through separate papers presented to the Officers of the Board in May and to the Board in October 2016. The approved allocations became available immediately for use. Prior allocations were only available in the subsequent year following their approval in the budget proposal. There are no remaining funds available from the allocation of the 2011 surplus.

	Training activities	**Innovation Fund**	**Campus Impro-vement Fund**	**Business Process Review**	**HRS – IT applica tions**	**Total**
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)**
Expenditures in 2015	–	–	–	(102)	–	**(102)**
Expenditures in 2016	–	–	–	(77)	–	**(77)**
Expenditures in 2017	–	–	–	(37)	–	**(37)**
Balance at 31 December 2017	**–**	**–**	**–**	**52**	**–**	**52**
Allocations from 2012 surplus	675	100	200	–	–	**975**
Expenditures in 2014	(155)	–	–	–	–	**(155)**
Expenditures in 2015	(520)	(100)	(74)	–	–	**(694)**
Expenditures in 2016	–	–	(124)	–	–	**(124)**
Expenditures in 2017	–	–	(2)	–	–	**(2)**
Balance at 31 December 2017	**–**	**–**	**–**	**–**	**–**	**–**
Allocations from 2013 surplus	1 150	550	950	–	150	**2 800**
Expenditures in 2015	(228)	(123)	–	–	(33)	**(384)**
Expenditures in 2016	(796)	(385)	–	–	(50)	**(1 231)**
Expenditures in 2017	(126)	(33)	(33)	–	(18)	**(210)**
Balance at 31 December 2017	**–**	**9**	**917**	**–**	**49**	**975**
Allocations from 2014 surplus	286	–	100	–	–	**386**
Expenditures in 2016	–	–	–	–	–	–
Expenditures in 2017	(286)	–	–	–	–	**(286)**
Balance at 31 December 2017	**–**	**–**	**100**	**–**	**–**	**100**
Allocations from 2015 surplus	693	–	694	–	–	**1 387**
Expenditures in 2016	–	–	–	–	–	–
Expenditures in 2017	(355)	–	(575)	–	–	**(930)**
Balance at 31 December 2017	**338**	**–**	**119**	**–**	**–**	**457**

Note 17 – Net assets

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

Working Capital Fund: this 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.

Total other accumulated fund balances include*:*

- General Fund: the main operating fund of the Centre for training activities;
- Innovation Fund: established as a sub-fund of the General Fund 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;
- Campus Improvement Fund: established by the Director to receive funds specifically for the refurbishment of the campus; and
- Italy Trust Fund: established to receive funds from the Italian government for training activities.

Note 18 – Contingent assets

	2017	2016
ILO contribution	6 897	4 025
Government of Italy – Centre's operations	7 850	7 850
Funding agreements	1 072	1 209
Total contingent assets	**15 819**	**13 084**

Note 19 – Related party transactions

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

	2017	2016
General operations	3 939	3 799
Training activities	9 857	9 841
ASHI contribution for former employees	775	874
Repatriation grants	–	91
End–of–service benefits	709	620
Staff costs of ILO staff members assigned to Centre	215	177
Internal audit, legal and HR services	149	186
Total related party transactions	**15 644**	**15 588**

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

Key management personnel of the Centre are the Director and the 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:

	2017		**2016**	
Category	Full-time equivalent	Total remuneration (in thousands of Euros)	Full-time equivalent	Total remuneration (in thousands of Euros)
Key Management	7.8	1 508	7.9	1 521

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 20 – Capital management

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

Note 21 – Reclassification of figures and new presentation

In Note 4 – Cash and cash equivalent, the Centre has reclassified the 2016 amount of €7 093 previously included as short-term deposits to current accounts and cash on hand. The funds were held in a savings account and not short-term deposits and the new presentation is to align the disclosure to that of the current year and the Centre's accounting policies.

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 2017

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

To the Delegated Officers of the Board of the International Training Centre of the International Labour Organization:

We have the honor to transmit the Report of the External Auditor on the Financial Operations of the International Training Centre of the International Labour Organization for the financial year 2017.

This Report is issued pursuant to Chapter IX of the Financial Regulations of the Centre. It contains the results of the audit on the financial statements for the financial year ending 31 December 2017 and the observations with respect to the administration and management of the Centre as required under Regulations IX.25.

We wish to express our appreciation for the cooperation and assistance extended to our auditors by the Centre's key officials and their staff, and for the support and interest in our work as External Auditor by the Board of the Centre.

Yours sincerely,

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

Quezon City, Philippines
12 March 2018

Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

Report of the External Auditor to the Board on the Financial Operations of the International Training Centre of the International Labour Organization

For the Financial Year Ended 31 December 2017

REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL OPERATIONS OF THE INTERNATIONAL TRAINING CENTRE OF THE INTERNATIONAL LABOUR ORGANIZATION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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EXECUTIVE SUMMARY

Introduction

1. This Report of the External Auditor on the audit of the financial operations of the International Training Centre (ITC, also referred hereto as the Centre) of the International Labour Organization (ILO) is issued pursuant to Chapter IX of the Financial Regulations of the Centre. It contains the results of the audit on the financial statements for the financial year ending 31 December 2017 and the observations with respect to the administration and management of the Centre as required under Regulations IX.25.

2. This is the second report of the Chairperson of the Philippine Commission on Audit as External Auditor of the Centre. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to its Members and stakeholders, to help increase transparency and accountability at the Centre, and to support the objectives of the Centre's work through the external audit process. The report discusses in detail the results of the audit that the External Auditor believes should be brought to the attention of the Board of the Centre.

Overall results of the audit

3. In line with our mandate, we audited the financial statements of the Centre in compliance with the Financial Regulations and in conformity with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

4. Our audit resulted in the issuance of an unmodified audit opinion[1] on the Centre's financial statements for the financial year ended 31 December 2017. We concluded that the financial statements present fairly, in all material respects: (a) the financial position of the Centre for the year ended 31 December 2017; (b) its financial performance; (c) the changes in net assets, (d) its cash flows; and (e) the comparison of budget and actual amounts of its expenditures for the said year in accordance with IPSAS.

5. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the Centre that have come to our notice during the audit or that have been tested as part of the audit of the financial statements are, in all significant respects, in compliance with the Financial Regulations and legislative authority.

6. In line with Regulation IX.25, we provided Management with recommendations that are designed to support the objectives of Centre's work, to reinforce its accountability and transparency, and to improve and add value to Centre's financial management and governance.

[1] Unmodified audit opinion – Under ISA 700, this is an opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. This is the new terminology that replaces "unqualified or clean opinion".

Summary of recommendations

7. Our main recommendations to the Centre include:

Centre's operational results

a. We recognize the good financial management practices implemented and the financial model followed by the Centre's Management and we encourage them to evaluate closely the movements and fluctuations of its revenue and expenditure streams with a view to ensure healthy operating results.

Procure- to-Pay Process in the Oracle Application

b. **We recognize the efforts of the Centre's Management in improving the procure-to-pay process and we encourage them to continue its efforts in informing all process users of their responsibilities including the requirement to attach certain mandatory documents to the appropriate area in the Oracle Application in order to comply with its internal procedures.**

Accounts receivable monitoring

c. We recommend that the Centre's Management review its existing policy, rules and procedures on receivables to align them to its existing current practices.

Implementation of previous audit recommendations

d. We recommend that the Centre's Management continue to prioritize the implementation of the improvement opportunities to further enhance its internal control and overall governance.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

8. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed as the External Auditor of the ILO for the 75th and 76th financial periods, with the appointment to commence on 1 April 2016 for a period of four years[2]. Under Regulation IX.24, the External Auditor of the ILO is also the External Auditor of the Centre.

9. As the External Auditor, we are mandated to issue a report on the audit of the financial statements for each calendar year, which shall include information necessary in regard to matters referred to in Financial Regulation IX.25. We shall submit a report, together with the audited financial statements and relevant documents, which shall include such information as we deem necessary in the circumstances. The Board shall examine the financial statements and the audit reports.

Scope and objectives

10. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It includes the assessment of the accounting principles used and significant estimates made by the Centre, and the overall presentation of the financial statements. It also includes an assessment of the Centre's compliance with Financial Regulations and legislative authority.

11. The primary objectives of the audit are to provide an independent opinion on whether:

a. the financial statements present fairly the financial position of the Centre as at 31 December 2017, the results of its financial performance, the changes in its net assets, the cash flows of the Organization and the comparison of its budget with actual amounts of expenditures for the financial year ended 31 December 2017 in accordance with IPSAS;

b. the accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and

c. the transactions that have come to our notice or that we have tested as part of the audit, comply in all significant respects with the Financial Regulations and legislative authority.

12. We also conducted a review of the Centre's operations pursuant to Financial Regulation IX.25 in order to identify any issues with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of its operations.

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[2] GB.323/PFA/6

13. Overall, our audit was carried out as per the Audit Plan presented to the Board in October 2017 and is intended to provide independent assurance to the Members of the Board, reinforce transparency and accountability in the Centre, and support the objectives of the Centre's work through the external audit process.

Methodology and auditor's responsibilities

14. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatements. The audit includes examining evidence supporting the amounts and the disclosures in the financial statements on a test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements. We adopted a Risk-based Audit Approach in the audit of the financial statements which requires us to conduct a risk assessment to identify all possible material misstatements in the financial statements and the related assertions, based on an understanding of the entity and the environment in which it operates.

15. Our responsibility is to express an opinion on the financial statements based on the results of the audit. An audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free from material misstatements caused by either fraud or error.

16. We coordinated the planned audit areas with the ILO Chief of the Internal Audit Office to avoid unnecessary duplication of efforts, and determined the extent of reliance that could be placed on their work.

17. We reported the audit results to the Centre's Management in the form of audit observation memorandums and a management letter containing detailed observations and recommendations. This practice provides a continuing dialogue with Management.

B. RESULTS OF THE AUDIT

18. This section presents the results of the audit for the financial year 2017. It covers matters that in our opinion should be brought to the attention of the Board of the Centre. We afforded the Centre's Management the opportunity to comment on our audit observations to ensure balanced reporting The recommendations provided to Management are designed to support the objectives of the Centre's mandate, to reinforce accountability and transparency as well as to improve and add value to Centre's financial management and governance.

19. We are pleased to note Management's initiative to streamline its business processes through the new procure-to-pay cycle of the Oracle Application (OA) resulting in the automation of processes that previously required manual interventions and a number of paper trails in the cycle. The new system has increased the efficiency and effectiveness in the management of the growing number of activities at the Centre.

B.1 Audit of financial statements

B.1.1 Opinion on the financial statements

20. We audited the following financial statements of the Centre including the notes to financial statements in accordance with International Standards on Auditing:

a) Statement I. Statement of financial position;
b) Statement II. Statement of financial performance;
c) Statement III. Statement of changes in net assets;
d) Statement IV. Statement of cash flow; and
e) Statement V. Statement of comparison of budget and actual amounts.

21. We issued an unmodified opinion on the Centre's financial statements. We concluded that the financial statements present fairly, in all material respects, the financial position of the Centre for the financial year ended 31 December 2017, the results of its financial performance, the changes in net assets, the cash flows, and the comparison of budget and actual amounts of its revenue and expenditures in accordance with IPSAS.

B.1.2 Application of accounting policies and test of transactions

22. In addition, as required by the Centre's Financial Regulations, we concluded that based on our review, the accounting policies were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of the Centre that have come to our notice during the audit or that have been tested as part of the audit of the financial statements are, in all significant respects, in accordance with the Financial Regulations and legislative authority of the Centre.

23. While we issued an unmodified opinion on the financial statements, we present the following improvement opportunities that we believe will further enhance the Centre's operations in terms of accountability and transparency.

B.2 Financial management and processes

24. The main perspective of financial reporting is the demonstration of accountability for the resources of the Centre through the provision of insights on how that entity is able to finance its activities and meet its liabilities. In addition, the financial reports produced offer an aggregation of information that is material to the evaluation on the financial performance of the entity in terms of cost management, efficiency and effectiveness.

B.2.1 Operational results

25. Our review of the Financial Statements for the financial year 2017, particularly the Statement of Financial Performance (Statement II), revealed that the Centre incurred a net deficit of €1,471,000. Specifically, we observed that the resulting financial performance of the Centre in the revenue component had decreased from a high of €42,091,000 in 2013 to €37,381,000 at

the end of 2017 with 2016 registering the lowest. The revenue gap between 2013 and 2017 registered a decrease of €4,510,000. On the expenditure side, the recorded amounts between 2013 and 2017 only accounted for a minimum increase of €296,000.

26. Management commented that 2013 was an exceptional year and as a result, the Centre generated a substantial net surplus. In addition, its annual net budget surplus was subsequently allocated for use in future years. That being the situation, the related spending is now occurring in 2014, 2015, 2016 and 2017 as per Note 16. In 2017, the Centre also recorded an unrealized exchange loss of nearly €1 million and has amortization of €381,000 more than in Statement V as a result of the IPSAS 2012 adoption which explains the overall deficit.

27. Management further commented that on-going monitoring of all aspects of the financial health of the organization is being carried out and the Board is made aware of the Centre's financial results and forecasts on a regular basis. At the end of the 2017 financial year, the financial position of the Centre was healthy as demonstrated by its Statement of Financial Position. The current ratio (short-term assets to short-term liabilities) is 2.08 to 1 at the end of the year; the quick ratio (liquidity on hand to meet short-term liabilities) is 3.53 to 1 at the end of the year. The debt-to-equity ratio which is generally a solid indicator of an organization's long-term sustainability is currently at 0.36 to 1. While Statement II does show a net deficit of €1.471 million, this is explained by various factors of which the most significant is the final unrealized loss recorded at the end of the year, amounting to €1.072 million that is due to the IPSAS requirement to revalue all financial items held in different currencies other than the Euro. As a result, since the Centre held a significant level of American dollars, this created a large exchange loss. Management, throughout the year, monitors this on an on-going basis and naturally hedges to mitigate risks associated with realizing these losses. In addition, differences arise on Statement II (see explanations in Note 16), when expenditures related to the use of various transfers of prior surpluses, including the Innovation Fund and the Campus Improvement Fund, occur.

28. Management added that under IPSAS, the recognition of revenue and expenditures is no longer subject to the "matching" principle and on that basis, revenues earned are not always aligned to its related expenditures in the same period, thus showing net surpluses and net deficits over different year-ends. For example, the Italian contribution of €1.5 million is recognized in the year in which it is due as per the agreement, however as this contribution does not have any conditions, as defined under IPSAS, the accounting standards requires the Centre to fully recognize it when due however all related expenditures will be recorded when incurred only, which is generally in the subsequent year. Management further explained that they evaluate multiple factors affecting the financial health of the Centre as well as the sustainability of the Centre in the long run. There are also other aspects that come into play when the Board makes certain decisions and the role of management is to inform the Board of the outcome and risks of such decisions.

29. We are of the view that the essence of the figures presented in the Statement of Financial Performance of the Centre for 2017, when taken alone will indeed have less meaning in terms of evaluating its financial health. The past successes as well as future expectations of the organization do not solely rely on the Statement itself. However, operating results that have

caused changes in the financial condition of the organization tell a better story for the Board and the stakeholders at large to consider. On the other hand, the Centre's net biennium budget surplus registered in Statement V (Statement of Budget and Actual amounts) demonstrates how the Centre has delivered its budget to achieve its operating objectives. It is not enough, though, to draw conclusion on the financial health of the Centre based on the financial deliveries shown in the same Statement.

30. Given the relatively high dependency of the Centre to the nature of revenue it earns to deliver its activities, it is important for Management to continue monitoring its financial performance for there will always be a certain amount of risk associated with it. The Centre's Statement II should drive the Centre's financial management decisions more towards keeping the Centre operating above the red line.

31. **We recognize the good financial management practices implemented and the financial model followed by the Centre's Management and we encourage them to evaluate closely the movements and fluctuations of its revenue and expenditure streams with a view to ensure healthy operating results.**

B.2.2 Procure-to-Pay Process in the Oracle Application

32. We are pleased to note that in July 2017, the business processes were streamlined in the new procure-to-pay cycle of the Oracle Application (OA) resulting in the automation of processes that previously required manual interventions and a number of paper trails in the cycle. The new system has increased the efficiency and the effective management of the growing number of transactions and activities of the Centre. Furthermore, we noted that the OA included a functionality of notifying the process users when actions need to be taken. The OA also allows the functionality of attaching mandatory supporting documents to PO, receipt, invoice and payment modules. This specific functionality is supported by procedures including the list of documents required to be attached to each of the modules and transactions that require receipt. Reminders were also included in the notifications to ensure compliance with the policy of attaching supporting documents to appropriate module.

33. On this basis, we tested the OA process functionalities involving the procurement of goods, procurement of small items and payment of expenses using corporate credit cards, and procurement of external collaboration services and other related expenses and noted that these function as expected. Our tests also disclosed some gaps such as non-attachment of supporting documents, and attachment of non-required documents in certain modules. Moreover, we also observed that in relation to the external collaboration expenses, some activity and programme managers did not indicate clearly the delivery of satisfactory services as a pre-condition to payment. This particular transaction is governed by the Financial Regulations and Rules as well as by Circular No. 11/2012 dated 3/19/2012 which specifically requires that payment can only be made after evaluation that the services received were satisfactory.

34. Management informed us that the initial implementation of new processes always results in some minor issues such as these which require subsequent adjustments. Since the go-live date, the Treasurer sent several reminders to all staff regarding required attachments and where these

should be included in the transaction. The required documents are already well defined in the user guides and have been communicated to all users during the training sessions as well as through various reminders. In addition, the Treasurer implemented a full review of attachments in order to ensure that the instructions were followed. Although some may have been attached in the wrong place, this was still accepted as the transaction was fully documented for the purposes of the rules and procedures. A standard response in the receiving email, although included in the notification, will also be requested from now on.

35. Corresponding transactional item attachments when placed in a proper system's module will facilitate transactional review. The Centre can enhance its processing efficiency with the ability to readily access the available documents and information needed for quick resolutions to everyday issues, as well as audits.

36. **We recognize the efforts of the Centre's Management in improving the procure-to-pay process and we encourage them to continue its effort in informing all process users on their responsibilities including the requirement to attach certain documents to the appropriate module in the OA in order to comply with its internal procedures.**

B.2.3 Accounts receivable monitoring

37. We observed that Receivables of €3,214,000 (€4,709,000 as at 31 December 2016) as shown on the Statement of Financial Position of the Centre, represent bona fide claims against debtors and donors for services rendered, funds receivable based on signed agreements in respect of future training activities and consultancy services that are subject to conditions, or other charges arising on or before 31 December 2017. Moreover, we also noted that receivables totaling €26,000 older than two years, were provisioned as doubtful accounts and considered impaired based on an individual assessment while €44,000 were considered uncollectible and consequently written off based on current practices.

38. Article 18 of Chapter VIII on Internal Control of the Financial Regulations provides that the Director shall establish detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy and the effective custody of the physical assets of the Centre. In line with this regulation, the Director issued Circular No. DIR 04/2007 dated 26 October 2007 which outlines the billing of training services and revenue collection. However, our review of the receivable monitoring and follow-up process as well as the estimates used for the provision for doubtful accounts receivables revealed that the current practice is not aligned with Circular No. DIR 04/2007. Inquiry with the Treasurer disclosed that the application of the Circular is no longer feasible and needs to be updated to include a new policy, rules and procedures that should reflect the current practices of the Centre.

39. **We recommended that the Centre's Management review its existing policy, rules and procedures on accounts receivables to align them to its existing practices.**

C. IMPLEMENTATION OF PRIOR YEARS' RECOMMENDATIONS

40. We validated the implementation of External Audit Recommendations contained in prior years' audit reports. The status of implementation of the recommendations is summarized in the table below:

Audit report	Number of recommendations	Implemented	In progress	Not implemented
2016	8	0	3	5
2015	3	1	2	0
Total	11	1	5	5

41. It can be noted that five audit recommendations contained in the audit report for the financial year 2016 are not yet implemented by management due to competing priorities and lack of resources. These recommendations are: a) embedding of a clear definition of accountability in the accountability framework; b) inclusion of well-defined accountability roles and responsibilities as well as mechanisms and tools to facilitate the documentation and monitoring of accountability performance and achieve better transparency; c) enhancement of the asset management policy on lost assets, write off and asset disposal; d) summarizing its internal control arrangements in relation to its overall framework of governance through crafting of a most appropriate Internal Control Framework to ensure more effective; and e) institution of travel handbook containing and harmonizing all of the Centre's travel circulars, policies, guidelines and procedures for both staff and non-staff to support their information needs and further clarify travel process controls.

42. In addition, two audit improvement opportunities were raised by the previous External Auditor for the financial year 2015 to continue monitoring the land and buildings accounting treatment and improving disclosures. Management continues to monitor the development of the recognition of assets provided free of charge through the UN Task Force on Accounting Standards. Many improvements were made with respect to financial statement disclosures. *Annex A* presents the detailed analysis of the implementation of the recommendations.

43. **We recommended that the Centre's Management continue to prioritize the implementation of the audit recommendations to further enhance its internal control and overall governance.**

D. DISCLOSURES BY MANAGEMENT

44. We were provided by Management with a Representation Letter which includes detailed information that is vital in our audit of the financial statements. We found the information contained therein factual and in order. We would like to highlight the following disclosures which may be of interest to Members of the Board of the Centre:

C.1. Contingent assets pertaining to voluntary contributions

45. Voluntary contributions from the ILO and the Italian Government totaling €7,747,000 are not presented as receivables in the financial statements but instead disclosed as contingent assets as required by IPSAS since control of these funds is not wholly upon the Centre until they are received.

C.2 Receivables

46. Receivables of €4,823,000 (€3,214,000 for 31 December 2016) as shown on the Statement of Financial Position, represent bona fide claims against debtors and donors for services rendered, funds receivable based on signed agreements in respect of future training activities and consultancy services that are subject to conditions, or other charges arising on or before 31 December 2017. Receivables totaling €26,000 that were more than two years old are provisioned as doubtful accounts and considered impaired based on individual assessment while €44,000 were uncollectible and written off during the year.

47. The balance due from the ILO of €2,102,000 (€2,238,000 as at 31 December 2016) as shown on the Statement of Financial Position represents the net balance of the inter-office current account with the ILO to record transactions including, in 2017, the ILO's voluntary contribution for the general operations of the Centre, staff costs and disbursements for the Centre's training activities incurred by the ILO on behalf of the Centre, as well as remittances made to the ILO.

C.3 Payables

48. Liabilities of the Centre totaling €11.5 million is composed primarily of €6 million pertaining to funds advanced by donors and sponsors for specific training activities/projects and 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 compared with 2016, deferred revenue increased by 24.5 per cent mainly due to the Centre having focused on multi-year agreements resulting in increased advances received from the sponsors and increased voluntary contributions receivable related to signed agreements.

C.4. Cases of fraud and presumptive fraud

49. Management is not aware of any reported cases of fraud and presumptive fraud in the financial year 2017 nor of any conflicts of interest involving the Centre where it has, directly or indirectly, entered into any purchase, sale or any other transaction with a member of the Board, a member of senior management, a manager, or with an organization in which one of these persons had a direct or indirect interest.

C.5. Ex-gratia payments

50. Management reported that there were no ex-gratia payments made by the Centre in financial year 2017.

E. ACKNOWLEDGEMENT

51. We wish to express our appreciation for the cooperation and assistance extended to the External Auditor by the Director, Deputy Director, the Chiefs of Units as well as the Heads of Sections and their staff during our audit.

ANNEX A

STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PRIOR YEARS

	Recommendation	External Auditor's validation
2016		
1	**Development of formal IPSAS Manual, Finance Manual and formal Chart of Accounts:** Prepare and develop a formal IPSAS and Finance Manuals integrating therein: (a) all standards adopted and the mechanism for review, updates and approval; b) the financial policies and procedures; c) the formal chart of accounts: and d) the process flowcharts and system descriptions to serve as a comprehensive guide in financial management and reporting that will ensure compliance with the requirements of IPSAS.	**In progress** The ILO is leading the drafting of the IPSAS Manual for both the ILO and the Centre as the same accounting policies are followed and applied by both in their Financial Statements. The Centre also has on its intranet documents addressing the evaluation of each IPSAS standard adopted. Management explained that there is a significant amount of information on their intranet site on various processes, policies and rules. A Finance Manual will be created once all financial processes are revised. As these are revised, a review is carried out on the applicable Circulars (if any), controls, etc. and they are documented in details. This material will then be combined together to form a virtual Finance Manual. This is a long-term implementation. The current chart of account complies fully with IPSAS as it is currently used to produce IPSAS compliant Financial Statements. Further improvements are on-going on the list however no major changes are anticipated in the short-term.
2	**Embedding of a clear definition of accountability in the Accountability Framework:** Embed in the Accountability Framework a clear, particular and appropriate definition of accountability as it purports in the framework to highlight the meaning and limitations of accountability in the context	**Not implemented** The recommendation is still pending due to the lack of resources and other priorities.

	Recommendation	External Auditor's validation
	of the Centre's operation.	
3	**Inclusion of well-defined Accountability roles and responsibilities as well as mechanisms and tools:** Include in its Accountability Framework: a. Clear depiction of roles and responsibilities of all key stakeholders and key players in its accountability continuum to entrench better the culture of accountability and related dependencies within the core of its operations. b. Include the accountability mechanism and tools to effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency.	**Not implemented** The recommendation is still pending due to the lack of resources and other priorities.
4	**Enhancement of asset management policy on lost assets, write off and asset disposal:** Enhance asset management policy by: a. incorporating the criteria defining various circumstances surrounding asset loss, guidelines for documentation and levels of administrative and fiscal responsibility for every type of circumstance defined as the cause of asset loss; and b. improving its policy on the assessment of impairment, disposal and write-off of supplies, equipment and other assets to align it to its Financial Rule.	**Not implemented** Management has not yet revised the policies to clearly state that each case will be reviewed on an ad hoc basis, due to the minimal number that the Centre encounters. If the circumstances demanded it, the Centre would call upon Internal Audit to carry out an investigation to gather facts and provide management with all information prior to making the necessary decision on the matter. At this time, the review of the thresholds has not yet been undertaken. This is planned for 2018.
5	**Risk management framework - specific definitions for critical risk terminologies:** a. Include in its Framework the definition of critical and key terms to assist in the implementation of its ERM policy, rules and procedures thus better guide the risk owners	**In progress** Classifications of risks have now been implemented within the Corporate Risk Register. This has not yet been formalised in the Framework, Rules and Procedures due to other priorities. This will be implemented in

	Recommendation	External Auditor's validation
	b. Adhere to the categorization of the risks by source as prescribed by the Framework c. Develop a risk appetite statement as an effective way to communicate to all officials the level of acceptable risk and subsequently the basis to evaluate and monitor the level of risk that the Centre consents and faces is within an acceptable range.	2018. Some work has been undertaken to define the Centre's risk appetite however this has not yet been shared with the RMC members for discussions, due to other priorities.
6	**Formulation of risk statements and risk communication structure:** a. Adhere to the defined template and standard formulation of risk statements as prescribed in the Centre's Framework for risk documentations; and b. Incorporate within the RMF, Rules and Procedures, a well-structured risk communication structure to facilitate the completion of an accurate risk inventory within the corporate risk register, for the efficient and effective escalation of information to foster better coordination and expedite evaluation in the establishment of a Corporate Risk Register.	**In progress** The Chair of the RMC communicated the need to standardize the risk statements as per course material and Circular. This has been done at the Corporate Risk level. Work is on-going on unit risk registers and the members have been reminded of this. A final review will be undertaken by the Chair to specifically ensure that all risk registers are aligned properly. The Procedures will be updated in 2018.
7	**Internal control framework:** Summarize internal control arrangements in relation to its overall framework of governance through the crafting of a most appropriate Internal Control Framework to ensure more effective strategic management of its embedded controls and to align these controls more closely to the other governance mechanisms.	**Not implemented** This recommendation is still pending due to other priorities. A follow-up has been done with the ILO and that model will also be adopted by the Centre. This is planned for 2018 if internal or external resources are available.
8	**Institution of travel handbook:** a. Prepare a travel handbook containing and harmonizing all of the Centre's travel circulars, policies, guidelines and procedures	**Not implemented** Due to the delays in implementing the Oracle procure-to-pay workflow, this process was postponed to 2018 – the full process is

	Recommendation	External Auditor's validation
	for both staff and non-staff to support their information needs and further clarify travel process controls; and b. Document the classification and categorization of all circulars published in order to identify the level of authority and scope.	planned to be reviewed and automated as much as possible. This will also include the review the procedures and the creation of a user travel manual.
2015		
9	**Accounting treatment for land and buildings:** Continue monitoring the discussions held in the United Nations System on recognizing the nominal cost of this service. The inclusion of such a cost in the Centre's financial statements would make the financial information more transparent.	**In progress** Management has continued to monitor developments in this area. At this time the accounting treatment remains the same.
10	**Accounting for employee future benefits:** Continue to monitor the impact of not discounting the non-current portion of the liability of future benefits related to accumulated leave as well as the repatriation grant and travel expenses as required by IPSAS 25 as it may become material in the future and the needed correction would then impact the Centre's surplus.	**In progress** Management monitors the differences when applying the discounting and ensures that these differences are not significant for the purposes of the financial statements. In 2017, the differences noted were again not significant.
11	**Financial statement disclosures:** Ccontinue to review the financial statements' presentation and consider a table that clearly documents the flow of deferred revenues from the statement of financial position to the statement of financial performance, since this represents a significant amount of the Centre's activities. Management has committed to implement this change in 2016.	**Implemented** This was implemented in 2017 and the recommendation is fully addressed.