



FIRST ITEM ON THE AGENDA

**DIRECTOR'S REPORT ON THE ACTIVITIES OF THE CENTRE
IN 2006-2007 AND PERSPECTIVES FOR 2008**

**Financial Statements and External Auditor's Report
for the financial year 1 January to 31 December 2006**

TABLE OF CONTENTS

Statements

	Page
I. STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES AS AT 31 DECEMBER 2006	3
II. STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES FOR THE PERIOD ENDING 31 DECEMBER 2006.....	4
III. STATEMENT OF CASH FLOW FOR THE PERIOD ENDING 31 DECEMBER 2006.....	5
IV. STATEMENT OF APPROPRIATIONS FOR THE PERIOD ENDING 31 DECEMBER 2006.....	6
NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006.....	7
APPROVAL OF THE FINANCIAL STATEMENTS AND THE EXTERNAL AUDITOR'S OPINION	21-22
REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE INTERNATIONAL TRAINING CENTRE OF THE ILO FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006.....	23

**INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF ASSETS, LIABILITIES, AND RESERVES
AND FUND BALANCES
AS AT 31 DECEMBER 2006**

EXPRESSED IN US \$ '000

	GENERAL FUND		WORKING CAPITAL FUND		CAMPUS IMPROVEMENT FUND		INVESTMENT FUND				
	NOTES		NOTES		NOTES		NOTES				
	2006	2005	2006	2005	2006	2005	2006	2005			
ASSETS											
CASH AND TERM DEPOSITS	3	11,830	11,217	3	2,700	2,725	3	2,107	2,248		
ACCOUNTS RECEIVABLE	4	10,167	9,623								
LESS PROVISION FOR DOUBTFUL ACCOUNTS	4	(435)	(274)								
INTERFUND BALANCES		7	25				9	1,280			
OTHER ASSETS	5	573	574		7						
FIXED ASSETS	6	998	941								
TOTAL ASSETS		23,140	22,106		2,707	2,725	17	3,387	2,248	0	0
LIABILITIES											
PAYMENTS OR CONTRIBUTIONS RECEIVED IN ADVANCE	7	4,660	5,969				17	3,387	1,945		
UNLIQUIDATED OBLIGATIONS	8	2,213	3,709								
ACCOUNTS PAYABLE											
INTERFUND BALANCES	9	1,280			7	25					
OTHER	9	5,300	3,451				17	0	303		
OTHER LIABILITIES	9	362	671								
TOTAL LIABILITIES		13,815	13,800		7	25		3,387	2,248	0	0
RESERVES AND FUND BALANCES											
OPENING OPERATING RESERVES		8,306	8,695					0	0	0	0
WORKING CAPITAL FUND					2,700	2,700					
TRANSFER (TO) / FROM OTHER FUNDS			(667)								
TRANSFER WITHIN THE GENERAL FUND			(118)								
SURPLUS (DEFICIT)		1,019	396		0	0		0	0	0	0
TOTAL RESERVES AND FUND BALANCES	10	9,325	8,306		2,700	2,700			0	0	0
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		23,140	22,106		2,707	2,725		3,387	2,248	0	0

STATEMENT II

INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES
IN RESERVES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2006

EXPRESSED IN US \$ '000

		GENERAL FUND		WORKING CAPITAL FUND		CAMPUS IMPROVEMENT FUND		INVESTMENT FUND		
		2006	2005	2006	2005	2006	2005	2006	2005	
INCOME	NOTES									
VOLUNTARY CONTRIBUTIONS	11	13,897	13,081			(173)	717			
OTHER INCOME										
REVENUE PRODUCING ACTIVITIES	12	26,282	23,757							
FUNDS RECEIVED UNDER INTER-ORGANIZATION ARRANGEMENTS	12	6,784	8,469							
ALLOCATION FROM OTHER FUNDS								10	667	
INTEREST INCOME		423	282			58	16			
CURRENCY EXCHANGE ADJUSTMENTS		28	51			212	(226)			
MISCELLANEOUS	13	2,344	924							
TOTAL INCOME		49,758	46,564	0	0	17	97	507	0	667
EXPENDITURE										
FIXED EXPENSES	14	26,110	23,503							
VARIABLE EXPENSES	15	22,720	22,766			97	507	0	667	
TOTAL EXPENDITURE		48,830	46,269	0	0	17	97	507	0	667
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		928	295	0	0		0	0	0	
PROVISIONS FOR DOUBTFUL ACCOUNTS	4	(236)	(189)							
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	16	692	106	0	0	0	0	0	0	
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS		327	290							
FINANCIAL SURPLUS / (DEFICIT)	16	1,019	396	0	0	0	0	0	0	
						0	0			
TRANSFERS (TO)/FROM RESERVES OR OTHER FUNDS	10		(667)							
TRANSFERS WITHIN THE GENERAL FUND	10		(118)							
RESERVES AND FUND BALANCES, BEGINNING OF PERIOD		8,306	8,695	2,700	2,700	0	0	0	0	
RESERVES + FUND BALANCES END PERIOD		9,325	8,306	2,700	2,700	0	0	0	0	

**INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF CASH FLOW FOR THE PERIOD ENDING
31 DECEMBER 2006**

EXPRESSED IN US \$ '000

	GENERAL FUND		WORKING CAPITAL FUND		CAMPUS IMPROVEMENT FUND		INVESTMENT FUND	
	2006	2005	2006	2005	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES								
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	692	106						
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(383)	(3,351)			0	1		
(INCREASE) DECREASE IN OTHER ASSETS	1	(6)	(7)	0				
INCREASE (DECREASE) IN CONTRIB. OR PAYMENTS RECEIVED IN ADVANCE	(1,309)	45			1,442	506		
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	1,849	464			(303)	(382)		
INCREASE (DECREASE) IN UNLIQUIDATED OBLIGATIONS	(1,496)	731						
INCREASE (DECREASE) IN OTHER LIABILITIES	(309)	462						
LESS: INTEREST INCOME	(423)	(282)			(58)	(16)		
PLUS: INTEREST EXPENSE								
CURRENCY EXCHANGE ADJUSTMENTS	(28)	(51)			(212)	226		
NET CASH FROM OPERATING ACTIVITIES	(1,406)	(1,882)	(7)	0	869	335		0
CASH FLOWS FROM INVESTING ACTIVITIES								
PLUS: INTEREST INCOME	423	282			58	16		
LESS: INTEREST EXPENSE								
(INCREASE) DECREASE IN FIXED ASSETS	(57)	179						
CURRENCY EXCHANGE ADJUSTMENTS	28	51			212	(226)		
NET CASH FROM INVESTING ACTIVITIES	394	512	0	0	270	(210)		0
CASH FLOWS FROM FINANCING ACTIVITIES								
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS	327	290						
(INCREASE) DECREASE IN INTERFUND BALANCES RECEIVABLE	18	(18)	(18)	18	(1,280)			
(INCREASE) DECREASE IN INTERFUND BALANCES PAYABLE	1,280							
TRANSFER WITHIN THE GENERAL FUND	0	(118)						
TRANSFERS TO) / FROM OTHER RESERCVES OR FUNDS	0	(667)						
NET CASH FROM OTHER SOURCES	1,625	(513)	(18)	18	(1,280)	0		0
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	613	(1,883)	(25)	18	(141)	125		0
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	11,217	13,100	2,725	2,707	2,248	2,123		0
CASH AND TERM DEPOSITS, END OF PERIOD	11,830	11,217	2,700	2,725	2,107	2,248		0

GENERAL FUND
STATEMENT OF APPROPRIATIONS
for the period ending 31 December 2006
(Expressed in thousands of US dollars)

Chapter	Item	Title	2006 BUDGET	2006 ACTUAL	BUDGET VARIANCE
		INCOME			
I		Voluntary contributions			
	10	International Labour Organization	3,043	3,043	0
	11	Government of Italy	9,492	9,917	425
	12	Government of France	111	118	7
	13	City of Turin	0	555	555
	14	Piedmont Region	242	264	22
		Total contributions <i>Note 18a</i>	12,888	13,897	1,009
II		Earned income			
	20	Income from training activities <i>Note 18b</i>	33,200	33,066	(134)
	21	Other income	1,727	2,767	1,040
		Total earned income	34,927	35,833	906
		TOTAL INCOME	47,815	49,730	1,915
		EXPENDITURE			
III		Fixed expenses			
	22	Staff	17,491	18,213	(722)
	23	External collaborators	520	361	159
	24	Buildings	2,242	2,572	(330)
	25	Transport and communications	672	505	167
	26	Specialized services	1,162	848	314
	27	Services provided by ILO Offices	218	180	38
	28	Official meetings	150	174	(24)
	29	Missions and representation	400	347	53
	30	Library and training resources	55	21	34
	31	Depreciation	700	508	192
	32	Other fixed costs	2,016	2,381	(365)
		Total fixed expenses <i>Note 18a</i>	25,626	26,110	(484)
IV		Variable expenses			
	33	Temporary assistance	9,860	10,885	(1,025)
	34	Missions	1,313	974	339
	35	Participants subsistence	3,873	3,791	82
	36	Participants travel	2,284	2,198	86
	37	External tuition fees	164	389	(225)
	38	Books, training aids, supplies	763	150	613
	39	Other variable costs	3,643	3,730	(87)
	39a	Other costs related to other income	529	603	(74)
		Total variable expenses <i>Note 18a</i>	22,429	22,720	(291)
		TOTAL OPERATING EXPENSES	48,055	48,830	(775)
		OPERATING SURPLUS/(DEFICIT)	(240)	900	1,140
V		Other items			
	40	Provision for doubtful accounts <i>Note 4</i>		(236)	(236)
	41	Gain / (Loss) on exchange		28	28
	42	Savings on or cancellations of prior period's obligations		327	327
		TOTAL OTHER ITEMS	0	119	119
		FINANCIAL SURPLUS / (DEFICIT)	(240)	1,019	1,259

NOTES TO THE FINANCIAL STATEMENTS

The Financial Statements have been prepared in accordance with the Financial Regulations of the Centre, using generally accepted financial reporting principles and procedures, and comprise a STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES, a STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES, a STATEMENT OF CASH FLOW and a STATEMENT OF APPROPRIATIONS.

1. STATEMENT OF OBJECTIVES AND ACTIVITIES

The objective of the Centre is, in keeping with the principles set forth in the Preamble of the Constitution of the International Labour Organization and in the Declaration of Philadelphia, to provide training activities at the service of economic and social development in accordance with, and through the promotion of international labour standards. Its training activities, elaborated within the framework of the technical co-operation of the ILO, the United Nations system and other international organizations, are mainly addressed to people in senior positions in their Member States.

2. STATEMENT OF ACCOUNTING POLICIES

2.1. GENERAL ACCOUNTING POLICIES

The general accounting policies and reporting practices applied by the Centre reflect the requirements of the Financial Regulations of the Centre as adopted by the Board of the Centre and are consistent with generally accepted accounting principles based on the concept of modified accrual accounting and take into account as far as possible the United Nations System Accounting Standards.

2.2. PARTICULAR ACCOUNTING POLICIES

The following significant accounting policies have a material effect on the results reported in the Financial Statements.

- a) The financial period of the Centre is a calendar year.
- b) The Centre's Financial Statements are prepared according to the historical cost accounting convention and have not been adjusted to reflect the effects of changing price levels for goods and services.
- c) There have been no changes in budgetary and accounting procedures, which materially affect the comparability of Financial Statements with those of previous periods.
- d) Income for all activities for which the main element, such as training or consulting, has been completed by the end of the financial year are included in total that year. For activities that span more than one financial year, the income element is recorded in the respective years in proportion to the delivery of the activities in each of those years.

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- e) All expenditure, including expenditure for follow up actions that may be performed in a future period, for activities completed by the end of the financial period are expensed or accrued in that period. For activities that span more than one financial period, the expenses are recorded in the period in which they occurred.
 - f) Income and expenditure are recorded and reported on a gross basis.
 - g) Fixed assets acquired since July 1980 have been recorded in the accounts at cost. Acquisitions and disposals of fixed assets in currencies other than US dollars have been converted to dollars at the United Nations operational rate of exchange at the date of acquisition. Fixed assets have been depreciated on a straight-line basis at rates of 20% or 10% per annum, depending on their estimated useful life. This is a departure from the United Nations System Accounting Standards but reflects more accurately the cost of the utilization of these assets. Contributions in kind are shown in notes to the Financial Statements.
 - h) The Statement of Assets, Liabilities and Reserves and Fund Balances prepared at the end of the financial period does not contain provisions for termination payments made to officials upon their departure from the Centre because such payments are made by the ILO Terminal Benefits Fund, to which the Centre makes monthly contributions. Furthermore, in accordance with UN accounting practices, the Centre neither accrues for outstanding leave not taken by the end of the financial year nor the actuarial valuation of the liability for after service medical benefits. The Centre discloses the potential liability of these costs in notes 21 and 22 of the financial statements.

2.3. EXCHANGE RATE TRANSLATION POLICY

- a) The Financial Statements of the Centre are expressed in United States dollars. Income and expenditure in other currencies are translated into US dollars at the time of the transaction at the prevailing United Nations operational rate of exchange. For the purpose of inclusion in the Financial Statements, assets and liabilities expressed in currencies other than US Dollars are translated into United States dollars at the United Nations operational rate of exchange applicable at the end of the financial period.
- b) Losses realized as a result of currency fluctuations are offset against gains realized during the same financial period. At the close of the financial period the net gains are credited to Other Income (Currency Exchange Adjustments) and net losses are also debited to Other Income.

STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES

3. CASH AND TERM DEPOSITS

General Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2006	2005
Cash in imprest accounts	19	18
Bank current accounts	3,663	3,965
Term deposits	9,921	9,875
Sub-Total	13,603	13,858
Less: Amounts held on behalf of the Italian Government	(1,773)	(2,641)
TOTAL CASH AND TERM DEPOSITS	11,830	11,217

The Term deposits made with the Centre's bank as at 31 December 2006 amounted to US\$ 9,921,188 of which US\$ 3,000,000 matured on 10 January 2007, US\$ 1,421,188 matured on 19 January 2007, and US\$ 5,500,000 matured on 15 February 2007.

The Centre also holds US\$ 229,000 (2005 = US\$ 630,000) of funds in bank current accounts drawn down from Italian Government Funds to pay for project expenditure falling due.

Working Capital Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2006	2005
Bank current account	0	25
Term deposits	2,700	2,700
TOTAL CASH AND TERM DEPOSITS	2,700	2,725

The Working Capital Fund was created to ensure that the Centre had sufficient liquid resources to cover its day to day operational needs.

The Term deposit made with the Centre's bank amounted to US\$ 2,700,000 as at 31 December 2006 and matured on 15 February 2007.

Campus Improvement Fund

Total Cash and Term Deposits at 31 December 2006 represent the balance on the bank current account of Euro 101,556 equivalent to US\$ 133,626 and a term deposit made with the Centre's bank Euro 1,500,000 (US\$ 1,973,684) that matured on 22 January 2007.

4. ACCOUNTS RECEIVABLE

General Fund

Total Accounts Receivable at 31 December comprise:

(Expressed in thousands of US dollars)

	2006	2005
Accounts receivable and accrued income	10,031	9,451
Less provision for doubtful accounts	(435)	(274)
Accounts receivable net	9,596	9,177
Other receivables	136	172
TOTAL ACCOUNTS RECEIVABLE NET	9,732	9,349

The Centre has provided for doubtful debts totalling US\$ 435,000 (2005= US\$ 274,000) at the year end. The Centre provides for 50% of the value of all unpaid debts over one year old and 100% of the value of all unpaid debts over 2 years old. During the year the Centre wrote off fully US\$ 84,000 of debts over 3 years old provided for in previous years, which required an increase in the provision for doubtful debts of US\$ 236,000.

Other receivables include the net balance due to the Centre by the ILO of US\$ 123,000 (2005 US\$ 400,000 due to the ILO) after crediting an additional contribution of US\$ 1,050,000 to meet the requirements of the Financial Regulations concerning Terminal benefits.

The Article 13 of the Financial regulations state that *The Director shall include in budget proposals for each financial period adequate provisions for payroll charges to be paid to the ILO Terminal Benefits Fund to cover terminal payments accruing to the Centres staff under its Staff regulations.*

The Centre contributes to this fund at the rate of 6 per cent of salary costs for the Professional and above Category and 7.5 per cent for the General Service Category.

The estimate of the sums required to meet retirement benefits in 2007 amounts to US\$ 2,478,000. The sum available in the fund held by the ILO to meet these obligations was US\$ 628,000 at the end of 2006, which together with the estimated contributions of 2007 (US\$ 800,000), leaves a shortfall of US\$ 1,050,000 to be covered by this contribution.

5. OTHER ASSETS

Total Other Assets at 31 December comprise:

(Expressed in thousands of US dollars)

	2006	2005
Stock of consumable supplies	458	380
Less provision for obsolescence	(58)	(58)
<u>Sub Total</u>	400	322
Prepaid expenses and sundry advances	173	252
TOTAL OTHER ASSETS	573	574

Stock of consumable supplies consists of publications held for sale and training materials and other consumable supplies held either for sale or for internal use. Stock is disclosed in the Financial Statements on the lower of costs and net realisable value. The original cost has been reduced by a provision for obsolescence.

Prepaid expenses and sundry advances are composed principally of prepaid insurance premiums and advances for education expenses made to officials of the Centre.

6. FIXED ASSETS

Fixed assets

(Expressed in thousands of US dollars)

	Vehicles and Office Equipment	Computer Systems	Other Equipment and Furniture	TOTAL
COST AT 1.1.2006	952	1,791	1,334	4,077
2006 Additions	195	341	29	565
Disposals	(81)	0	(608)	(689)
COST AT 31.12.2006	1,066	2,132	755	3,953
DEPRECIATION AT 1.1.2006	692	1,159	1,285	3,136
2006 Depreciation	141	324	43	508
Disposals	(81)	0	(608)	(689)
DEPRECIATION AT 31.12.2006	752	1,483	720	2,955
NET BOOK VALUE AT 31.12.2006	314	649	35	998

Provisions for depreciation of fixed assets are calculated on a straight-line basis at annual rates of 20% or 10%, depending upon the estimated useful life of the assets. As a general rule, vehicles, office equipment and computer systems are given a 5-year life, while other equipment and furniture are given a 10-year life.

7. CONTRIBUTIONS OR PAYMENTS RECEIVED IN ADVANCE

The amount of US\$ 4,660,000 (2005 = US\$ 5,969,000) is mainly comprised of contributions concerning future training activities. The largest contributions in advance were received from the Italian Ministry of Foreign Affairs for Project Palestine and the Bulgarian Foreign Ministry for Capacity Building.

8. UNLIQUIDATED OBLIGATIONS

The amount of US\$ 2,213,000 (2005 = US\$ 3,709,000) includes expenditure incurred or committed for but not yet invoiced, for various activities; the amount includes expenses mainly associated with training courses and advisory services, plus various accruals for fixed costs. In accordance with note 2.2.e) for activities that span more than one financial period, the expenses are recorded in the period they occurred.

9. OTHER ACCOUNTS PAYABLE AND OTHER LIABILITIES

The inter fund balance of US\$ 1,280,000 represents amounts due from the General Fund to the Campus Improvement Fund that were received in December 2006 and transferred in 2007.

The amount of US\$ 5,300,000 in respect of Accounts Payable Other (2005 = US\$ 3,451,000) represents amounts due to suppliers for goods and services rendered

The Other Liabilities of US\$ 362,000(US\$ 671,000 in 2005) relates mainly to amounts transferred from the Italian Government Funds to meet project expenditure falling due.

10. ACCUMULATED GENERAL FUND RESERVE

The General Fund represents the main operating fund of the Centre.

The movements in the General Reserve are as follows:

(Expressed in thousands of US dollars)

	2006	2005
Opening balance at January 1 st	8,306	8,695
Surplus for the year (net of the Special Reserve)	219	396
Special Reserve (see note 16)	800	
Less transfer to Investment Fund	0	(667)
Less pensions costs in respect of INPS contributions approved at the 65 th session of the Board of the Centre	0	(118)
Closing balance at December 31	9,325	8,306

The Centre estimates that there may still be US\$ 128,000 of pension costs in relation to Istituto Nazionale della Previdenza Sociale (INPS) to be borne by the Centre in future years.

**STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN
RESERVES AND FUND BALANCES**

11. INCOME FROM VOLUNTARY CONTRIBUTIONS

General Fund

Income from voluntary contributions for the periods ending 31 December 2006 are detailed below:

(Expressed in thousands of US Dollars)

	2006	2005
INTERNATIONAL LABOUR ORGANIZATION	3,043	2,937
GOVERNMENT OF ITALY	9,917	9,708
GOVERNMENT OF FRANCE	118	119
CITY OF TURIN	555	73
PIEDMONT REGION	264	244
TOTAL	13,897	13,081

- a) The ILO contribution of US\$ 3,043,000 represents one half of the approved 2006/2007 biennial contribution of US\$ 6,086,000.
- b) The Italian Government's contribution to the Centre in 2006 was Euro 7,850,000 (2005 = Euro 7,850,000) the equivalent of US\$ 9,917,000 at the exchange rate on the date of receipt.
- c) The French Government contributed Euro 92,000 (2005 = Euro 92,000) the equivalent of US\$ 118,000 at the exchange rate on the date of receipt.
- d) The City of Turin contributed Euro 500,000 the equivalent of US\$ 636,000 at the exchange rate on the date of receipt to cover cost of major maintenance cost in accordance with the agreements signed between the City and the ILO. Out of the US\$ 636,000, US\$ 555,000 were disbursed in 2006, the balance of US\$ 81,000 was carried forward to 2007 to meet future expenditures.
- e) The Piedmont Region contributed Euro 200,000 (2005 = Euro 200,000) the equivalent of US\$ 264,000 at the exchange rate on the date of receipt.

12. INCOME FROM REVENUE-PRODUCING TRAINING ACTIVITIES, FUNDS RECEIVED UNDER INTER-ORGANIZATION ARRANGEMENTS AND ALLOCATIONS FROM OTHER FUNDS

General Fund

(Expressed in thousands of US Dollars)

REVENUE PRODUCING TRAINING ACTIVITIES	2006	2005
GOVERNMENT OF ITALY (voluntary contribution)	8,487	7,896
GOVERNMENT OF ITALY (other)	3,205	5,244
EUROPEAN UNION (including the European Commission, the European Training Foundation and the European Social Fund)	4,242	3,002
BILATERAL DONORS / DIRECT TRUST FUNDS	8,536	6,777
OTHER MULTILATERAL AGENCIES	1,812	838
TOTAL REVENUE-PRODUCING ACTIVITIES	26,282	23,757
FUNDS RECEIVED UNDER INTER-ORGANISATIONAL ARRANGEMENTS		
INTERNATIONAL LABOUR ORGANIZATION – REGULAR BUDGET	2,842	3,053
INTERNATIONAL LABOUR ORGANIZATION - OTHER	1,589	2,902
WORLD BANK	1,010	1,334
OTHER UN AGENCIES	1,343	1,180
TOTAL INTER-ORGANIZATION	6,784	8,469
TOTAL INCOME FROM TRAINING ACTIVITIES	33,066	32,226

Other multilateral agencies includes the amount of Euro 132,400 (equivalent to US\$ 168,900) (2005 Euro 211.000 , US\$ 255.000) received from Compagnia di Sanpaolo, which is an arms length organization from the Centre's bankers, the Intesa Sanpaolo Bank, for specific training activities

13. MISCELLANEOUS INCOME

Miscellaneous income comprises:

(Expressed in thousands of US Dollars)

	2006	2005
Non training activities and services	1,127	788
2006 Winter Olympic Games	923	0
Sundry receipts	294	136
TOTAL MISCELLANEOUS INCOME	2,344	924

Non training activities and services income includes rentals, contribution to the Centre's costs from contractors and receipts from UNSSC, language courses and paying guests.

The receipts from the 2006 Winter Olympic Games concern the revenue obtained from TOROC during the period that the Centre was used as a media village.

14. FIXED EXPENSES

Fixed expenses were US\$ 2,607,000 (11.1%) higher than in 2005 mainly due to an additional charge of US\$ 1,050,000 to cover terminal benefits payments (see note 4 above) and to the weakening of the US Dollar. This adversely affected all expenditure made in Euro. The salaries were US\$ 627,000 (excluding the US\$ 1,050,000 provision above) higher than the previous year mainly due to a 12.16% salary increase for the General Service Category Staff. Building costs were US\$ 736,000 higher than in the previous year as more maintenance work was performed following the receipt of a contribution of euro 500,000 from the City of Turin for this purpose (see note 11d).

15. VARIABLE EXPENSES

Variable expenses were in line with 2005 despite increased income from training activities.

16. NET EXCESS OF INCOME OVER EXPENDITURE

The net excess of income over expenditure of US\$ 692,000 (2005 US\$ 106,000, excess), was further increased by savings on or cancellations of prior period's obligations of US\$ 327,000 (2005 US\$ 290,000). This resulted in a surplus of US\$ 1,019,000.

In accordance with Article 7 paragraph 4 of the Financial Regulations of the Centre, the Director has decided to set aside for future years the amount of US\$ 800,000 to finance two P4 positions, together with the related operational expenses, for the years 2008 and 2009 to develop and promote activities in the field of a) Employment and Skills Development and b) Migration, Forced Labour and Human Trafficking. These costs will be identified in the respective budgets. The balance of US\$ 219,000 was transferred to the General Reserve (see note 10).

17. CAMPUS IMPROVEMENT FUND

In December 2002, the Government of Italy made an extraordinary initial contribution to the Centre of Euro 516,000 (US\$ 512,000 at that date) for the urgent needs to adapt the buildings to current security standards.

In 2004, 2005 and 2006 the following additional funds were donated in order to adapt the buildings to current security standards and to cover exceptional expenses engendered by the works required to upgrade the hotel facilities that was used as a press centre during the 2006 Winter Olympics:

Date of receipt of funds	Origin of funds	Amount in Euro
01 December 2002	Government of Italy	516,500
07 December 2004	Government of Italy	569,500
27 January 2004	Compagnia di San Paolo	25,000
16 September 2004	Piedmont Region	1,000,000
04 November 2004	SanPaolo IMI S.p.A.	83,600
06 September 2005	Piedmont Region	1,000,000
01 October 2006	Piedmont Region	1,000,000

In 2006, US\$ 97,000 were spent on improvements of the Campus bringing the total from the start of the project to US\$ 2,025.000. The expenditure include the construction of the temporary reception building and furniture and fittings for the new hotel rooms, and common areas, fees for the architect following the progress and quality of the works and final cleaning of the hotel infrastructure at the end of the works.

This fund shows negative income as the exchange gains on the important Cash and Term Deposits exceeds the actual expenditure in USD:

The balance available of US\$ 3,387,000 will be used in future years.

STATEMENT OF APPROPRIATIONS

18. STATEMENT OF APPROPRIATIONS

General Fund

a) Voluntary Contributions

The Italian Government's contribution was Euro 7,850,000 as planned in the budget. The excess of US\$ 425,000 was entirely due to exchange differences.

The Government of France contributed Euro 92,000 as planned in the budget. The excess of US\$ 7,000 was entirely due to exchange differences.

The Piedmont Region contributed Euro 200,000 as planned in the budget. The excess of US\$ 22,000 was entirely due to exchange differences.

The City of Turin contributed an unbudgeted amount of euro 500,000 to finance major maintenance in accordance with the agreement between the City and the ILO.

b) Earned Income

(Expressed in thousands of US Dollars)

	Budget 2006	Actual 2006	Budget Variance
Group Training and advisory services	31,430	31,620	190
Publications	1,770	1,446	(324)
TOTAL INCOME FROM TRAINING ACTIVITIES	33,200	33,066	(134)

The total income from training activities was in line with the budget.

Other income was favourably affected by payments received from TOROC concerning the use of the Centre as a media village during the 2006 Winter Olympic Games (see note 13).

c) Fixed Expenses

Fixed expenses were US\$ 484,000 higher than budget (2005 = US\$ 530,000 lower) due to the effect of the additional contribution of US\$ 1,050,000 for terminal benefits (see note 4 above). This increase was partially offset by a reduction of other salary costs by freezing a number of posts, by an effective control on all general expenses and by a lower than budgeted depreciation charge as planned capital acquisitions of fixed assets were not made.

d) Variable Expenses

It will be recalled that the Centre's variable costs are solely related to the implementation of specific activities. The programme evolves during the budget year in accordance with funding available. The level of these costs itself thus evolves in relation to the programme of activities, just as it is equally subject to variations resulting from the diversity of the cost factors associated with implementation of the Centre's activities including exchange rate variations.

Variable expenses were in line with the budget.

All funds

19. FUTURE COMMITMENTS

At 31 December 2006 the Centre had future commitments under the General Fund for the purchase of fixed assets amounting to US\$ 107,000.

20. ACCRUED LEAVE AND END OF SERVICE BENEFITS

The Centre, in accordance with UN accounting practices, does not accrue neither for leave not taken by the end of the financial year nor for amounts due to staff on termination. At 31 December 2006, the liability for outstanding leave is estimated at US\$ 2,419,000 (2005 = US\$ 2,296,000) and the liability for end of service benefits is estimated at US\$ 10,696,000 (2005 = US\$ 9,048,000).

21. AFTER SERVICE MEDICAL BENEFITS

On retirement, staff members are entitled, under certain conditions, to continue to benefit from the Staff Health Insurance Fund (SHIF) on paying a yearly contribution of 2.8% of the full retirement benefits received. The SHIF is not fully funded by contributions and an actuarial valuation made as at 31 December 2005 estimated the liability of the Centre for after service medical benefits at US\$ 30,166,000 for which, in accordance with UN accounting practices, no provision has been included in the accounts.

22. UNITED NATIONS JOINT STAFF PENSION FUND (UNJSPF)

The International Training Centre of the ILO is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payment 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. At the time of this report the United Nations General Assembly has not invoked this provision.

23. UNITED NATIONS INTER-REGIONAL CRIME AND JUSTICE RESEARCH INSTITUTE RELOCATION FUND

UNICRI was transferred from Rome to Turin in 2000. The Centre has managed, on behalf of UNICRI, the funds necessary to cover the costs of the relocation from Rome and the costs of the restructuring of the Pavilion they now occupy. At 31 December 2006 the Centre held a balance of Euro 51,000 on behalf of UNICRI (2005 = Euro 51,000). In the year 2006 nothing was spent on the renovation.

24. CONTRIBUTIONS IN KIND (NOT AUDITED)

The ILO provided a total of 7 man months (2005 = 23 man months) of staff time free of charge.

The French Government provide a total of 15 man months of staff time free of charge (2005 = 24 man months).

The land and buildings of the Centre are provided by the City of Turin at a nominal rent, the valuation of the land and buildings in unknown.

Between 2003 and 2006 the pavilions U Thant, F, G and H were re-furbished and re-furnished so that they could be used as a press village during the 2006 Winter Olympic and Paralympic Games. The total cost of some euro 17 million was financed by the Olympic Organising Committee, the City of Turin and other donors.

APPROVAL OF THE FINANCIAL STATEMENTS

The Statements of Assets, Liabilities, and Reserves and Fund Balances (Statement I), of Income and Expenditure and Changes in Reserves and Fund Balances (Statement II), of Cash Flow (Statement III), of Appropriations (Statement IV) and Notes to the Financial Statements (Notes 1-24) are approved.

So far as the Director is aware, there is no relevant audit information of which the Centre's external auditors are unaware, and he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the external auditors are aware of that information.

(signed)

François Eyraud
Executive Director
Turin Centre

(signed)

Peter S. Jones
Treasurer and Director,
Financial Services

AUDIT OPINION OF THE EXTERNAL AUDITOR

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

I have audited the accompanying financial statements comprising Statements I to IV and Notes 1 to 23 of the International Training Centre of the International Labour Organization for the financial period ended 31 December 2006.

Respective responsibilities

These financial statements are the responsibility of the Director as set out in Chapter V of the Financial Regulations. My responsibility is to express an opinion on these financial statements based on my audit performed in accordance with Chapter VIII of the Financial Regulations.

Basis of Opinion

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and conforming with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director of the Centre, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2006 and the results of the operations and cash flows for the period then ended in accordance with the International Training Centre of the International Labour Organization's stated accounting policies set out in Note 2 of the financial statements.

Further, in my opinion, the transactions of the International Training Centre of the International Labour Organization, which I have tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

In accordance with Articles 25 to 28 of the Financial Regulations and the Additional Terms of Reference Governing External Audit appended thereto, I have also issued a long-form Report on my audit of the International Training Centre of the International Labour Organization's financial statements.

Sir John Bourn

Comptroller and Auditor General, United Kingdom

External Auditor

National Audit Office

London, October 2007



***REPORT OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2006***

<i>Contents:</i>	
	Paragraphs
Executive summary	1 - 13
Detailed Report Findings	14-23
Financial issues	
Management Matters	
○ Upgrade of the Oracle Financials software package	24-42
○ Risk management at the Centre	43-60
○ The legacy of the 2006 Winter Olympic and Paralympic Games	61-68
Follow up to prior year audit recommendations	69-71
Acknowledgements	72
Scope and Audit Approach	Annex I

EXECUTIVE SUMMARY

- *An unqualified audit opinion on the financial statements for 2006;*
- *Recommendations to improve financial and project management;*
- *Proposals to strengthen management oversight; and*
- *A recommendation concerning energy monitoring.*

Overall results of the audit

1. Our financial audit yielded satisfactory results and revealed no weaknesses or errors which we considered material to the accuracy, completeness and validity of the financial statements as a whole. The External Auditor has provided an unqualified audit opinion on the financial statements of the International Training Centre of the International Labour Organization (the Centre) for 2006.
2. The External Auditor audited the financial statements of the Centre in accordance with Articles 25 to 28 of the Financial Regulations; and in conformity with the common auditing standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, and with International Standards on Auditing. The audit approach we adopted is summarised in Annex 1.
3. In addition to our audit of the financial statements, we have made a number of observations on financial and management issues which result from the audit work carried out at the Centre.

On financial matters

4. We have identified a number of areas where we believe further improvement to the financial management of the Centre could be secured. As we reported last year, there continues to be over-dependence on the Treasurer in producing the annual accounts and we

continue to encourage the Centre to ensure that more staff are involved in the preparation of the financial statements, with the aim of providing these to an earlier timetable. We received the 2006 draft financial statements and supporting notes in mid-July, some seven months after the close of the financial period. Involvement by a greater number of staff would help to facilitate faster preparation of financial statements and enable the Treasurer to undertake a review of the draft accounts prior to audit.

5. We have identified scope for improvement in financial control through the preparation of regular high-level financial management information, and preparation of a more detailed high-level budget to facilitate the regular review and analysis of budget variations during the year. These improvements would serve to enhance senior managers' awareness of the financial performance of the Centre as a whole throughout the year.
6. In each of the past two years our reports have identified lack of sufficient coverage in the Centre's internal audit arrangements, provided by the ILO's internal audit unit. During 2006 internal audit undertook only a single review and made four significant recommendations regarding the strengthening of internal financial control at the Centre. We believe that the results of internal audit's work illustrate that the level of internal audit activity remains insufficient to provide adequate assurance to the Director on the operation of controls.

On the upgrade to the main computer accounting system

7. The Centre is spending a net amount of some US\$ 596,000 on an upgrade to the Oracle Financials accounting system. Our review of developments has confirmed that action was required to upgrade or replace the system, but the business case to upgrade the system had not been supported by a cost-benefit analysis of credible alternatives to ensure best value for the Centre's investment.
8. Our examination of the process used by the Centre to manage the upgrade revealed that standard, systematic project management procedures, such as PRINCE2, were not used. These procedures have been developed to assist managers with the implementation of complex projects and to facilitate oversight and review by senior managers. While we acknowledge that the project is on timetable for implementation in early 2008, the adoption of a stronger project management framework would have been appropriate in this case, without which the achievement of required outcomes can be at risk.

On risk management at the Centre

9. In November 2006 the first of a series articles were published in the Italian press suggesting financial irregularities in the use of funds managed by the Centre. These allegations have been investigated by internal audit. Although internal audit found deficiencies in the management of the project, they concluded that the allegations were not credible.
10. The deficiencies in project management identified by internal audit were consistent with other evidence of control weaknesses identified in this report and in previous reports issued by the External Auditor. Recurrent themes include the need for improved risk management processes and management oversight.
11. In considering what changes to implement, the Centre and the Board will be aware of the debate within the United Nations generally regarding governance arrangements. Issues being considered include the accountability framework for senior management and risk management. The response of the Director to the issues raised by the internal audit report provides the ideal opportunity for the Centre to re-examine governance arrangements, and ensure that they meet emerging best practice as appropriate to the business needs of the Centre.

On the legacy of the 2006 Winter Olympic and Paralympic Games

12. The City of Turin hosted the 20th Winter Olympic Games and the 6th Winter Paralympic Games in February and March 2006. As its contribution to the Games, the Centre acted as a Media Village. In preparation for this role four pavilions were re-furbished and re-furnished. The total cost was over US\$ 23.1 million, which was paid for by the Turin Olympic Games Organising Committee, the City of Turin and other donors.
13. The refurbishment of the pavilions included the replacement of doors and windows which should reduce heat gain during the summer and heat loss in the winter. This should result in reduced energy bills and a reduction in the Centre's carbon footprint. These benefits offer an opportunity for the Centre to carry out energy monitoring to identify whether further savings might be possible.

DETAILED REPORT FINDINGS

Section 1. Financial issues

- *Review of the Centre's financial performance;*
- *Improving timeliness and review of the preparation of the financial statements;*
- *Three areas where financial control should be strengthened; and*
- *A need for greater involvement of internal audit in oversight of the Centre's operations.*

Financial Results

14. The financial statements report an operating surplus in excess of US\$ 1.0 million for 2006 compared to a surplus of US\$ 0.4 million in 2005. The financial performance in the year reflected strong growth in income, which rose by almost US\$ 3.2 million or 6.8 per cent. This increase included more than US\$ 0.9 million from hosting a Media Village on the campus during the 2006 Olympic Winter Games. The increase in income was offset by an increase in costs of some US\$ 2.5 million. Variable costs showed a small reduction despite increased levels of training activity in the year but fixed costs rose by more than eleven per cent.
15. The increase in fixed costs included an amount of US\$ 1.0 million set aside for the estimated costs associated with staff retiring in 2007. Traditionally, end of service termination benefits have been effected through pay-as-you-go contributions to the ILO Terminal Benefits Fund as they fall due – this is explained in accounting policy 2.2(h). But at the end of 2006, the Centre recognised that the budget set for 2007 did not include sufficient funds to cover the expected costs. Article 13 of the Financial Regulations requires the Director to include in the budget adequate provision for payroll charges to be paid to the ILO Terminal Benefits Fund. As the number of retirements and agreed terminations was expected to arise in 2007, the Centre sought to confirm that the budget

provision in 2007 was sufficient to cover the estimated cost of some US\$ 2.5 million. The Centre found that the amount available was some US\$ 1.5 million, leaving a shortfall of US\$ 1.0 million which has now been provided for.

16. At the close of the 2006 financial period, the Centre held a general reserve balance exceeding US\$ 9.3 million – equivalent to two month’s expenditure. When considering the overall financial health of the Centre and the adequacy of the general reserve, it is relevant to note that United Nations System Accounting Standards do not require the Centre to recognise in its statement of assets and liabilities future liabilities which have accrued over the course of operations. In common with other international organisations, the scale of these liabilities continues to increase and will require funding in future years. These liabilities comprise primarily accrued leave (US\$ 2.4 million), amounts due to staff on termination of employment (US\$ 10.7 million) and after service medical benefits (US\$ 30.2 million). Although these liabilities rose by over US\$ 1.7 million during 2006, they are not reflected in the income and expenditure account. If they were, the Centre’s reported surplus of US\$ 1.0 million would have been converted into a deficit of US\$ 0.7 million. The Board of the Centre and management should continue to take careful note of the scale of these long term liabilities when assessing the adequacy of the General Reserve Fund.

Preparation of the financial statements

17. The Centre closed its books and financial records for 2006 on 11 July 2007, some two and a half months later than in the previous year. A full set of draft financial statements with accompanying notes was made available to us in mid-July and final adjustments continued to be made up to the end of September. We believe there is scope to speed up the accounts production timetable. For example, and by contrast, the International Labour Organization has a year end of 31 December and presents its complete financial statements for audit by the end of March. Faster closing would enable the Centre’s management and Board to obtain earlier assurance on the financial position and operating results of the Centre, thus ensuring that financial decisions are based on accurate and timely information.
18. We believe that the delay in preparing draft accounts is at least in part the result of the Treasurer bearing sole responsibility for their production. In our previous two audit reports we have encouraged the Centre to involve more staff in the accounts’ preparation process. Importantly, the dependence on the Treasurer means that the accounts have not been subject to any detailed management review or oversight prior to submission for audit and

there is a corresponding risk of undue management override and lack of accountability. Over-reliance on a single key individual also presents risks in terms of succession and contingency planning. We believe that improved arrangements involving less reliance on a key individual would reduce risk, improve accountability and provide greater assurance to the Director in meeting his responsibilities to maintain sound internal control and accurate financial records.

Financial control

19. Our audit approach is a risk based one in which we consider the key financial and business control systems in place at the Centre and focus our audit on those areas where we believe there is a risk of material error in the financial statements. It is the responsibility of management to ensure that the system of internal financial control guards against the risk of irregularity, misstatement, fraud and error.
20. We use a range of audit techniques and tools to assist our audit teams in identifying potential areas of audit risk; and to assess whether the key controls established by the Centre are sufficient to prevent material misstatements arising in the financial statements. We report to management any weaknesses we identify together with our recommendations for improvements.
21. Our analysis confirmed that in most areas the Centre had a satisfactory framework of financial and management controls to prevent and detect errors which could be material to the financial statements. In a number of areas, the risks we identified were not being fully mitigated by the controls established by management. We identified the following areas for management attention:
 - The preparation of regular high level financial information would assist senior managers in their oversight of the financial performance of the Centre;
 - Our audit report on the 2005 financial statements reported our concerns over weaknesses in budgetary control, which we believe led to the risk of potential coding errors and weaknesses in cost control. Our review in March 2007 suggested that these concerns have not yet been fully addressed and that the preparation of a more detailed high-level budget would facilitate monitoring during the year; and

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- There is no formal sign-off of the monthly payroll to verify that the amounts to be paid are confirmed as accurate.

22. The Centre has decided to move from reporting in US Dollars to the Euro from 1 January 2008. This is a complex change affecting many aspects of the business. We believe a comprehensive project plan for this change should be prepared and approved by management.

Internal Audit

23. In our Report for 2004, we reported that there had been insufficient internal audit coverage to provide an appropriate level of assurance to the Director of the Centre on the satisfactory operation of internal controls. In 2005, internal audit examined the use of external collaborators by the Centre; and in 2006 reviewed allegations of financial mismanagement made against the Centre (see further below). Internal audit identified four areas where they considered internal financial control should be strengthened and made appropriate recommendations. We welcome the increasing involvement of internal audit in reviewing the financial operations of the Centre in 2006 and further involvement of Internal Audit in 2007 to provide an appropriate level of assurance to the Director over the effective operation of the Centre's internal control environment.

Recommendations:

Recommendation 1: We recommend that the Centre considers the establishment of an earlier deadline - potentially the end of April - for the production of the annual financial statements; and that a wider range of appropriate finance staff be involved in the accounts preparation, to enable the Treasurer to more effectively review and manage the accounts production process.

Recommendation 2: We recommend that internal financial control procedures be enhanced by:

- The preparation of regular, high level financial information to management;
- Strengthening financial and budgetary control; and
- Formal sign-off of the payroll to confirm that it is accurate.

Recommendation 3: We recommend that the move from accounting in US\$ to Euros should be the subject of a comprehensive project plan to ensure a successful outcome.

Recommendation 4: We recommend that the extent of internal audit coverage of the Centre should continue on a consistent basis to provide an appropriate level of assurance on the operation of internal controls at the Centre.

Section 2: Upgrade of the Oracle Financials Software Package

- *The Oracle Financials software system needed to be replaced or upgraded. The Board approved a US\$ 620,000 upgrade programme;*
- *The business case for upgrading the system did not include cost-benefit analysis;*
- *Project and risk management processes indicated scope for improvement;*
- *The project is on target to be rolled out early in 2008.*

Business Rationale and Approval of the Project

24. Effective operation of computer systems is essential to the Centre's business operations. The computer system includes a range of applications including: Microsoft Windows - supporting the administration functions; MAP – which assists in organising courses; Oracle Financials – the main payments and accounting system; and a payroll application.
25. The Oracle Financial system is a standard package which is, from time to time, upgraded by the manufacturer. Upgrades may include the correction of faults in the operation of the package; and the introduction of new features and improved functionality. Prudent organisations adopt patches and upgrades at regular intervals to take advantage of the benefits offered by these changes, to comply with licence conditions and to ensure continuing manufacturers' support for the software in use.
26. The Centre had chosen not to apply all the patches to the system since its installation on 1 April 2000, although a number of new versions had been released by Oracle. The Centre was satisfied with the operation of the system and management were not convinced of the cost-effectiveness of implementing upgrades. In 2005, Oracle announced that the version of Oracle Financial in use by the Centre would not be supported after December 2006. This prompted a need to upgrade or replace the system.
27. The main options considered by the Centre were upgrading Oracle Financials, or adopting the ILO IRIS system (which is also based on an Oracle platform). Working with the ILO, the Centre identified significant differences between the ILO's and the Centre's business processes; that roll-out for IRIS was scheduled for April 2008; and that IRIS functionality

could be best applied to the Centre in the areas of human resource management and payroll. Irrespective of any link-up with IRIS, the Centre would still be required to find a successor to its existing accounting system.

28. The business case presented to the Governing Board in November 2006 concluded that alignment with the ILO's business systems was not a practical option. The preferred way forward was to upgrade Oracle, which would provide benefits including:

- a more robust, better integrated and easier to use package;
- the opportunity to review current systems so that the efficiency and effectiveness of the Centre's business processes could be improved; and
- easier preparation of the financial accounts in Euros and the making electronic bank payments.

The intention was that the upgrade would involve minimal changes for users of the system.

29. The estimated cost of the upgrade was US\$ 620,000 and was approved by the Board. Since Board approval was given, the Centre have continued discussions with the ILO on the longer-term possibility of utilising aspects of the IRIS system, including the payroll and human resources management modules.

30. We observed that the paper presented to the Board in November 2006 did not meet best practice on project approval, as identified in our report to the governing Board at their meeting in November 2004. In particular, the decision to upgrade Oracle Financials was based on an assessment of Oracle against IRIS, without the support of a cost-benefit analysis of the proposed course of action, nor an analysis for the Board of a wider range of alternatives.

31. The Centre sought tenders for the implementation of the upgrade project from seven contractors. Following detailed discussions on requirements and timescales, all but one contractor withdrew. The remaining contractor was Confor Age, who had already worked with the Centre to provide database management support functions and a help desk service to users of Oracle. In April 2007 the contract was let to Confor Age with a value of US\$ 610,000 (€446,550). The target date for implementation was December 2007.

Project Management

32. Once the decision to upgrade Oracle had been taken, the Centre's senior management delegated responsibility for implementation to the Management Information Systems Unit. The project was managed on a day-to-day basis by a technical manager at P3 level. Although the technical manager's role did not benefit from a formal job description, his work encompassed managing the project implementation partner; planning and implementing a test schedule; planning and implementing a training programme; and maintaining the project risk register.
33. We observe that the Centre did not adopt a standard project management process, such as PRINCE2 (Projects in a Controlled Environment) or an alternative. The adoption of a standard project management framework provides senior managers with assurance that a structured approach will be adopted from project initiation through to project completion.
34. The PRINCE2 approach identifies areas which should be addressed to help ensure a successful project outcome. The areas addressed are based around key themes of:
- a business rationale which is clearly linked to defined outcomes;
 - the project setup and its management structure;
 - the project plan being based around a risk assessment;
 - assurance in respect of the delivered product; and
 - change management.
35. While there are alternative project management tools, we consider that PRINCE2 would be an appropriate framework to follow for major projects undertaken by the Centre.
36. One of the elements of good project management is risk recognition and management. Although a risk register was not prepared as part of the project initiation and approval, action was taken to establish one in June 2007. At the time of preparing this present report, the Centre were proceeding to finalise the list of key risks faced by the project, identify owners, and define risk mitigation and management strategies.
37. We welcome the steps being taken to identify and manage the risks associated with this project. We have previously recommended to the Board of the Centre (in November 2004)

that all major projects should be supported by a detailed risk assessment prepared at the time the project is scoped. The risk assessment can then inform management's judgement on whether to proceed with the project concerned. Identified risks should be assigned to owners who are accountable for the mitigation and management of their risks and the risk register should be continually updated to reflect changes in the risk environment.

Project implementation and costs

38. The target for the implementation of the upgrade is December 2007. As at September 2007, progress had been made with the system upgrade: the modules of the system had been tested and the project manager was satisfied that they were working effectively. The Centre anticipated that a fully working version of the package would be available by mid-October, and user training is planned to commence in November. Full roll-out of the system is anticipated for early in 2008.
39. The contract with Confor Age is at a fixed price of US\$ 610,000. In addition to the Confor Age contract, the Centre has been developing a training package for system users, mainly course secretaries. The cost of developing the training and the staff time cost of those attending has not been estimated by the Centre, but the external auditor estimates the cost at not less than US\$ 70,000.
40. In parallel with the Oracle upgrade, the Centre took the opportunity to replace existing servers and other central hardware. The total cost of the new hardware was some US\$ 49,000 (€37,442). The Centre consider the new hardware will help improve efficiency of the computer network and reduce direct costs – such as maintenance – by an estimated US\$ 133,000 (€102,000) over the period from 2008 to 2010.
41. The budget approved by the Board was US\$ 620,000 and this did not include staff, accommodation and training costs, nor the costs of the replace hardware. We have estimated that the total cost to the Centre of the upgrade was US\$ 610,000, staff and associated costs of US\$ 70,000, hardware costs of US\$ 49,000 less direct costs savings over three years of US\$ 133,000. This gives a net cost of US\$ 596,000.
42. Our audit review confirmed that action was needed to upgrade or replace the Oracle Financials system. However, the decision to upgrade the existing system was not supported

by a cost-benefit analysis of credible alternatives; nor the identification of potential efficiency gains.

Recommendations:

Recommendation 5: We consider that, as a matter of good financial management and governance, major project decisions should be supported by appropriate cost-benefit analyses of alternative courses of action.

Recommendation 6: We recommend that in future, all major projects approved by the Board should be supported by implementation plans which set out the scope of the work; and identify the roles and accountability arrangements for delivery.

Recommendation 7: We recommend that all major projects should utilise a clear management process, such as PRINCE2, with training for project management staff as necessary.

Recommendation 8: We further consider that all major projects would benefit from a detailed risk assessment prepared at inception. Risks should be assigned to risk owners who become accountable for the management of their risks, which should be reviewed regularly and updated to reflect changes in the risk environment.

Section 3: Risk Management at the Centre

- *External auditors are required to consider the risk of fraud and report to the Board;*
- *Internal Audit investigated allegations of financial irregularities in relation to a project at the Centre and concluded that the allegations were not credible;*
- *Weaknesses in project management arrangements were identified by the internal audit review, which require attention by management.*

43. Effective assessment and management of risk, including fraud risk, is an important element of sound financial management generally, and of good governance.

44. The External Auditor is required, in accordance with International Standards on Auditing, to consider the risks of fraud and management's response to the perceived risks. The External Auditor is required to inform the Board of the Centre where he believes that the design of controls in relation to fraud require attention.

45. We have considered the risks of fraud focusing on those risks which, if they were to occur, might have a material effect on the reported financial position of the Centre. Building on enquiries made in previous years with the Treasurer and Director of Administration, we used a structured diagnostic audit tool to assess the risk of fraud. We interviewed key staff, reviewed financial controls and analysed financial management information.

46. Our examination identified potential exposures to fraud risk that the Centre needs to guard against: most would not have a material effect on the reported financial position of the Centre. However we identified four areas where, if fraud were to occur, it might have a material effect on the financial position of the Centre. The four areas were: income management; procurement; misuse of assets owned by the Centre; and the misreporting of the financial position of the Centre. We examined the controls operating in each of the four areas of greater risk. In no instance did our examination find evidence of fraud or attempted fraud in 2006.

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47. We enquired of the Centre as to their policies for reporting and dealing with allegations, and potential and actual cases of fraud. The Centre told us that they recognised the importance of guarding against the risk of fraud and the Financial Rules make provision for individuals to raise any concerns they may have in respect of fraud with the Director through the Treasurer. We noted nevertheless that the Centre had no standardised procedures on how to deal with allegations of fraud; and did not promote policies or undertake structured training and education of staff to make them aware of the risks of fraud; nor use informal briefings or other structured actions to raise fraud awareness.
48. We consider there is a risk that the Centre's reputation could be at risk if no action, or insufficient or ineffective action, were taken to investigate and prosecute cases of actual and alleged fraud. Even though the occurrence of alleged or detected fraud is low, as a trading entity the Centre should have in place a prominent, clear anti-fraud policy and an action plan to follow if and when cases arise. All staff should be made aware of the risk of fraud and the Centre's anti-fraud policies and procedures.

The External Auditor's Responsibility to Report to the Board

49. The Financial Regulations require the External Auditor to report to the Board cases of fraud or presumptive fraud which have come to attention (Appendix II to the Financial Regulations). One such case came to our attention during the audit.
50. In November 2006 the first of a series articles were published in the Italian press suggesting financial irregularities in the use of funds managed by the Centre. The allegations related to a project jointly funded by the European Union Social Fund and the Italian Ministry of Foreign Affairs. The value of the project was Euros 4 million and ran from August 2003 to February 2004. The allegations were based on information provided to the Italian authorities by an informer unrelated to the Centre and suggested that the project had been assigned to the Centre without the need for competitive tendering; that the project manager had received a financial incentive for awarding contracts to certain suppliers; and that the Centre had been overcharged by two sub-contractors working for the project.
51. The Director of the Centre took these allegations very seriously and asked ILO's Office of Internal Audit and Oversight (Internal Audit) to investigate and determine whether there was evidence to substantiate the allegations. Internal Audit also undertook an assessment of the adequacy of the project's system of internal control, including the adequacy of

monitoring and oversight of project operations by the Centre's management, and the extent of compliance with the Centre's rules and established procedures.

52. Internal Audit's investigation included examining documentary evidence held on the project and other files, and undertaking interviews with staff. Based on the available evidence, and despite the weaknesses observed, Internal Audit concluded that it was highly unlikely that the allegations made against the Centre concerning the selection of the Centre to implement the project and the alleged overcharging for services were based in fact; and Internal Audit concluded that the allegations were not credible.

53. Internal Audit also identified deficiencies in the management of the project. These included:

- Although this was an unusual project for the Centre to undertake in terms of scope, scale and short delivery period, no formal structured risk analysis was undertaken to inform management's decision on whether to proceed with the project or reject it;
- There was a lack of an appropriate level of management monitoring and oversight over project activities;
- In managing the project, there had been an inadequate separation of duties, with too much responsibility placed in the hands of one individual for selecting companies invited to tender and in the assessment of those tenders; and
- There was no documentation on project or other files evidencing the identification process or the checks carried out to determine reliability and capacity of the 23 companies invited to submit tenders for project activities.

54. As regards the deficiencies identified by Internal Audit in the processes used by the Centre to manage this project, Internal Audit believed that wider lessons could be learned for the future. The case provided the Centre with an opportunity to improve its systems of governance and internal control, which would help reduce in the future its risk of exposure to fraud, financial loss and/or damage to reputation. The areas identified by Internal Audit for improvement included:

- developing policies concerning disclosures of conflicts, or potential conflicts, of interest (from both staff and suppliers of goods and services), financial disclosure for appropriate

categories of the Centre's officials, whistle blowing and anti-fraud. The ILO's policies on ethics and financial disclosure could be adopted and developed for use at the Centre;

- conducting formal risk assessments for major project proposals to determine significant risks to the Centre, and any risk mitigation action required thereon, to enable management to make an informed decision on whether to accept or reject the proposals;
- reviewing the procurement policies and procedures of the Centre for major procurement actions to ensure that no single official is responsible for all aspects of the procurement process; and
- ensuring that all stages of the procurement process are adequately documented in order to demonstrate transparency and accountability.

55. We have reviewed Internal Audit's report and confirmed our understanding of the project, its contracts and payments made. Based on this review, we are satisfied that the work undertaken by Internal Audit appears to provide a sound basis for their conclusions and recommendations.

56. The weaknesses identified by Internal Audit are consistent with issues raised in Reports we have previously made to the Board. In particular:

- In our Report on the 2003 Accounts (considered by the Board of the Centre in November 2004), we recommended that all project proposals should contain core information comprising a detailed risk assessment of the project, project milestones, full cost budgets analysed by task, and defined internal and external reporting requirements;
- In our Report on the 2004 accounts (November 2005), we recommended the establishment of a systematic process of risk management including the establishment of registers of interest (to record any potential conflicting financial interests) and registers of hospitality and gifts (to ensure transparency where gifts or hospitality are received by officials and staff in connection with their work for the Centre); and
- Our Report on the 2005 accounts (November 2006) once again recommended that the Centre should consider establishing a systematic process of risk management and the establishment of a register of interests and a record of receipts of gifts and hospitality.

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57. For the past four years we have also commented on the need for the provision of Internal Audit services to be enhanced. The work undertaken by Internal Audit in investigating this case, and their identification of areas where controls can be improved, illustrates the value that can be added for management by a well structured and thorough Internal Audit review of risks and weaknesses in controls. In our view, this case demonstrates that further improvements in governance and project management need to be achieved through the enhancement of corporate management procedures.
58. The Director of the Centre welcomed the report of Internal Audit and the confirmation that the allegations were not credible. The Centre has informed us that in relation to the internal control improvements identified by Internal Audit, the Director is taking steps to enhance the arrangements for prevention of fraud and implementation of effective safeguards, in particular related to the development of large projects, by clarifying programme managers' responsibilities in the prevention and detection of fraud; issuing guidance on project risk assessment and separation of duties; designing fraud awareness training for programme managers and staff. We understand that the programme of briefing meetings for staff will be delivered in the first weeks of 2008.
59. Clearly, there is scope for improvement in some aspects of management and governance. In considering what changes to implement, the Centre and the Board will be aware of the debate within the United Nations generally on improving governance arrangements. Issues being considered include the accountability framework for senior management, improved ethical frameworks and more effective, systematic risk management. The review of governance arrangements commissioned by the Director provides the ideal opportunity for the Centre to re-examine its governance arrangements, and ensure that they meet emerging best practice as appropriate to the business of the Centre.
60. The Centre has informed us that it already has in place provisions addressing the investigation and prosecution of fraud (citing Article XIII of the Financial Regulations); a Committee on Accountability; a newly-established Committee on Risk Management; and a draft policy on ethics in the office.

Recommendations:

Recommendation 9: We welcome the action being taken and proposed to improve risk management and risk response. We consider that the Centre should additionally take steps to establish a clear, well-publicised anti-fraud policy with a presumption that all cases of alleged or actual fraud will be investigated and action taken, with consideration being given to whether cases should be reported to the appropriate civil authorities where justified. The policy should be supported by improved advice to staff on the action to take if fraud is identified or suspected.

Recommendation 10: The Centre should press forward to remedy the project management control weaknesses identified by Internal Audit by:

- Developing and implementing policies on ethics and financial disclosures;
- Conducting formal risk assessments of novel, contentious or large projects;
- Reviewing procurement policies and procedures; and
- Reminding managers of the necessity to document all stages of the procurement process, within a framework of appropriate separation of duties and accountability.

Recommendation 11: the Centre needs to strengthen its corporate management procedures and develop a systematic and effective system of improved senior management oversight of the business. As a first step, the Centre should establish a corporate risk identification and management system.

Section 4: The Legacy of the 2006 Winter Olympic and Paralympic Games

- *The Centre was used as a Media Village during the Winter Olympics and Paralympics Games in 2006.*
- *The U-Thant pavilion was refurbished, paid for by the Olympic Organising Committee, the City of Turin and other donors;*
- *Increased use of the Centre over the period of the Olympics generated a one-off financial boost to the Centre of some US\$ 900,000 in value.*

61. The City of Turin in the Region of Piedmont, Italy, was selected by the International Olympic Committee to host the 20th Winter Olympic Games and the 6th Winter Paralympic Games in February and March 2006. As its contribution to this event, the Centre agreed to act as a Media Village for the duration of the Games. Recognising the importance of this role, improvements were made to the campus. The main improvement was the refurbishment and extension of four Pavillions (F, G, H and U-Thant) incorporating 120 additional bedrooms, extra offices, a bank, a travel agency, a post office, an infirmary and a gymnasium.
62. The refurbishment and extension of the pavilions was paid for directly by the Turin Olympic Games Organising Committee. The Centre estimated that the value of the works undertaken was some €17 million – more than US\$ 22 million. As the costs were not incurred directly by the Centre they are reported in Note 24 to the financial statements.
63. Having refurbished and extended the physical infrastructure of the pavilion, the opportunity was taken to replace many of fixtures and fittings, including desks and beds. The cost of the furnishings was US\$ 1.1 million funded by the Piedmont Region, the Italian Ministry of Foreign Affairs and other donors. The costs were incurred in 2004 and 2005 and have been accounted for through the Campus Improvement Fund, which forms part of the financial statements.
64. Over the period of the Games, the Turin Olympic Games Organising Committee paid the Centre US\$ 923,000, mainly for 8,325 room-nights at the Centre. In addition, other services at the Centre, such as the restaurant, were available to journalists. To put these figures in

context, in a typical year the Centre provides some 40,000 room-nights of accommodation for delegates attending courses. The 8,325 room-nights for the Games therefore represented a substantial increase in turnover compared with the equivalent period in previous years.

65. This increase in room occupancy is reflected in the contribution to fixed costs made by the Centre’s hotel function for 2006. Based on financial data maintained by the Centre, we have estimated that the impact on the hotel services of the Centre increased the contribution to fixed costs in 2006 to nearly US\$ 1.5 million, more than double the contribution achieved in previous years (US\$ 675,000 in 2004 and US\$ 550,000 in 2005). But the increase in net operating surplus was not due solely to the effect of the Olympics: the Centre’s operating position also benefited from price increases and a policy aimed at increasing room occupancy rates across the year. The financial impacts of these changes are summarised in Table 1.

Table 1: Estimated net contribution to fixed costs accruing from the hotel operation on campus, for the years 2004 to 2006

	2004 US\$ 000	2005 US\$ 000	2006 US\$ 000
Net contribution to fixed costs from hotel operations	675	550	1,475

Source: External Audit analysis of the Centre’s financial records

66. The refurbishment of the pavilions should result in reduced running costs over coming years. In the short-term there will be no need for a major furniture replacement programme, thus saving costs. In the longer term, the increased specification of doors and

windows will reduce heat gain during the summer and heat loss in the winter. This should result in reduced energy bills, and a reduction in the Centre's carbon footprint. The Centre informed us that, for technical reasons, it is not at present possible to monitor the energy consumption of each Pavilion complex. In order to maximise opportunities from energy efficiencies, the Centre could undertake an energy audit and appropriate monitoring to assist in identifying where there is potential to save or reduce energy costs and to explore other opportunities to improve energy efficiency.

67. The purpose of the Centre is not to provide commercial accommodation with a profit motive but to offer economic training and accommodation for course participants. We investigated the extent to which the use of the campus as a Media Village had disrupted or displaced planned training activities. The Centre informed us that the period of the Games fell at a time of year when the Centre traditionally ran few courses on campus; and the planning period leading up to the Games gave the Centre time to reschedule courses. Furthermore, during the period of the Games the delivery of courses in the field - outside Turin - continued as normal and was not disrupted.

68. Based on the evidence available and analysis of the financial records, we conclude that the Winter Olympic Games generated a lasting financial legacy for the Centre in three main areas:

- A substantial refurbishment programme worth in excess of US\$ 23.1 million was carried out at no direct cost to the Centre; and
- An increase in the room occupancy rate during the Olympic period resulted in a financial contribution to the surplus for 2006; and
- The increase in capacity of the campus will allow the Centre to run additional courses in the future.

Recommendations:

Recommendation 12: The Centre might usefully consider a review and monitoring of energy usage to identify opportunities for the reduction of energy bills and the carbon footprint of the Centre.

Follow up to previous audit recommendations

69. As part of our audit we routinely review the extent to which management have implemented and addressed the recommendations arising from our previous audit work. The purpose of this is to inform the Board on the most significant areas where we believe continued attention by management may still be appropriate. Our reports in previous years have recommended that the Centre enhance accountability mechanisms by reporting directly to the Board on progress in implementing audit recommendations; and we continue to encourage this as an effective mechanism for the Board to monitor the Centre's responses to audit outputs.
70. A number of matters raised in our previous report where we believe action is still appropriate, such as on internal audit coverage, are further addressed directly in this present report. As regards the impact on the Centre of the move by the United Nations system to the adoption of International Public Sector Accounting Standards, IPSAS, the adoption of IPSAS will provide management and the Board of the Centre with more complete, useful and consistent financial reporting as a basis for accountability and financial decision-making. We understand that the Centre propose to adopt these standards by 2010.
71. On governance issues, in recent years we have advocated the development of improved and systematic risk management procedures for the Centre. This year, our report includes another two instances where a system of systematic risk management would have assisted the Centre in better managing the business. We believe improvements in governance are clearly called for and should be taken forward as a matter of priority by the Director.

Recommendations:

Recommendation 13: We again recommend that, as a matter of good practice and to improve accountability, the Centre should provide a formal response and monitoring to the Board on action taken in respect of audit recommendations.

Acknowledgement

72. We are grateful for the assistance and co-operation received from the Centre, in particular from the Director, the Treasurer and the staff during the course of the audit.

SIR JOHN BOURN, COMPTROLLER AND AUDITOR GENERAL, UNITED KINGDOM, EXTERNAL AUDITOR

SCOPE AND AUDIT APPROACH

Audit scope and objectives

The audit covers the examination of the Centre's financial statements for the financial period ended 31 December 2006 in accordance with the Financial Regulations.

The main purpose of the financial audit was to enable the External Auditor to form an opinion as to whether expenditure recorded in the financial statements had been incurred for the purposes approved by the Board of the Centre; whether income and expenditure were properly classified and recorded in accordance with the Centre's Financial Regulations; and whether the financial statements fairly presented the financial position at 31 December.

Audit standards

Our audit of the financial statements was carried out in accordance with International Standards on Auditing. These standards require us to plan the audit so as to obtain reasonable assurance that the financial statements are free of material misstatement. The Centre's management were responsible for preparing the financial statements and we are responsible for expressing an opinion on them, based on evidence collected in the audit.

Audit approach

The examination was performed on a test basis, in which all areas of the financial statements were subject to substantive testing of the transactions recorded. We also undertake testing on the key internal controls operated by the Centre for the purpose of providing an audit opinion. Finally we carried out an examination to ensure that the financial statements accurately reflected the Centre's accounting records and were fairly presented.

This audit examination included a general review of the Centre's accounting procedures; a broad assessment of internal controls; and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an opinion on the Centre's financial statements. Consequently, the work did not involve a detailed review of all aspects of the Centre's budgetary and financial information systems and the results should not be regarded as a comprehensive statement on them.