

Board of the Centre

78th Session, Turin, 29-30 October 2015

CC 78/4/2

FOR DECISION

FOURTH ITEM ON THE AGENDA

Report of the meeting of the Officers of the Board (19th May 2015)

Background

1. Article 17 of the Financial Regulations of the Centre provides as follows:
 - 1) The Director shall ensure that for each financial period audited, financial statements, together with the External Auditor's report thereon, are submitted to the Board for consideration at a meeting to be held during the year following.
 - 2) The Board shall consider the financial statements in the light of the External Auditor's report and shall adopt them if it is satisfied with their content.
2. The financial statements have normally been submitted to the annual meeting of the Board held in October/November each year. At the 75th Session (October 2013) of the Board, concern was expressed about the timing of the adoption of the financial statements and particularly, that this does not happen until ten months following the end of the relevant financial period.
3. Another development to be taken into account is that the Centre is classified as a "controlled entity" of the ILO for the purposes of financial reporting since the implementation of International Public Sector Accounting Standards (IPSAS). As a result of this, the Centre's financial statements are consolidated into the financial statements of the ILO since 2010. As the annual financial statements of the ILO are adopted by the International Labour Conference in June each year, this creates an anomaly as the Centre's financial statements are adopted by the Board subsequent to this.
4. In response to the discussion at the 75th Session of the Board, a meeting of the Board was convened to adopt the 2013 financial statements at the start of the International Labour Conference in Geneva on 28th May, 2014. The Board members expressed dissatisfaction with this arrangement and at the 77th Session of the Board (October 2014), the Director undertook to address this matter with the Officers of the Board.

Meeting of the Officers of the Board

5. At a meeting of the Officers of the Board held on 11th February 2015, a number of alternative arrangements were presented by the Director. Following consideration of these options, the Officers requested that the following procedure be adopted to enable the timely consideration, and provisional adoption, of the 2014 financial statements. The procedure agreed was as follows:
- the financial statements and External Auditor's Report to be circulated to all Board members;
 - any questions/clarifications to be addressed to the Treasurer and responses sent;
 - consultations by Officers to be undertaken with their respective group members;
 - a meeting *via* videoconference of the Officers of the Board and the External Auditors to be held to enable timely consideration of the financial statements and the External Auditor's Report and provisional adoption of the financial statements;
 - the Programme, Finance and Administrative Section of the ILO Governing Body to be advised of the outcome of the meeting;
 - a report of the meeting of the Officers of the Board to be presented to the next meeting of the Board.
6. In accordance with the above agreed procedure, a meeting of the Officers of the Board was held on 19th May, 2015. A report of this meeting is attached (Appendix).

Adoption of future financial statements

7. In relation to the adoption of the Centre's financial statements for 2015 and beyond, and in light of the recent experience, it is proposed that the Board delegate to its Officers the authority to adopt the annual financial statements following the procedure described in paragraph 5 above.
8. **The Board is requested to:**
- take note of the report of the meeting of the Officers of the Board held on 19 May 2015;**
 - adopt the 2014 financial statements submitted in accordance with article 17.2 of the Financial Regulations;**
 - take note of the External Auditor's Report;**
 - delegate to the Officers of the Board its authority to adopt the annual financial statements.**

Point for decision: Paragraph 8.

Turin, July 2015

APPENDIX

1. A meeting of the Officers of the Board of the International Training Centre of the ILO (the Centre) was held, *via* videoconference, on 19th May 2015 to enable timely consideration and provisional adoption of the financial statements for the year ended 31 December 2014.
2. The meeting was chaired by the representative of the ILO Director-General, Mr Hougbo, Deputy Director-General.
3. The report of this meeting is submitted to the 78th Session of the Board (October 2015).

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

(Item on the agenda)

4. The *Chairperson and Representative of the Director-General* welcomed the Officers of the Board to the meeting. He noted that the only item on the agenda was the 2014 financial statements and External Auditor's Report.
5. This document was published on the webpage of the Centre on 17th April and all members of the Board were notified of this. This allowed for a period of one month for any questions and clarifications to be provided by the Treasurer, as well as for consultations by the Officers with the members of their respective groups.
6. The *Chairperson* invited the Treasurer to introduce the 2014 financial statements.
7. The *Treasurer* introduced the financial statements and highlighted a number of key areas. She stated that the 2014 financial statements had been prepared in accordance with International Public Sector Accounting Standards (IPSAS) for the third year. She provided details on the most significant variances between the 2014 and 2013 revenue and expenditures. She explained the main reasons for these variances which included lower than expected revenue from publications, an increase in voluntary contributions and a decrease in expenditures relating to staff costs, sub-contracts, travel and costs relating to training. Total expenditures decreased by 7 per cent as compared to 2013. The most significant expenditures related to staff costs, sub-contracts, travel and the costs related to training activities. At the end of 2014, the Centre had net assets of €18.1 million which were stable when compared to 2013.
8. Total revenues decreased by 14 per cent as compared to 2013 as a result of a decrease of €6.4 million in earned revenue. This was mainly due to a decrease in participants attending training activities, the mix of the different types of activities delivered, an increase in the number of activities held on the campus, as well as a decrease in revenue from publications.
9. The *Treasurer* then explained the main variances in the financial results for 2014 against the approved budget. The Centre achieved positive results by earning higher than budgeted training revenue, receiving voluntary contributions from the Piedmont Region, the Government of Portugal as well as the City of Turin, while containing its non-staff costs which came in lower than budgeted. The Centre recognized an exchange rate gain of €209,000 which contributed to an overall budget surplus of €386,000. In 2014, the Centre received contributions from donors totaling €14.7 million. The largest contribution was received from the Government of Italy totaling €9.4 million.

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10. Revenue from training activities was higher than budgeted by €586,000. Revenue from publications was lower than budgeted by €429,000. The use of past surpluses was lower than budgeted as activities were funded from other funds. Regular budget staff costs were below budget by €469,000 mainly due to staff retirements and extended staff leave without pay. Actual expenditure related to facilities was higher than the budget by €470,000 linked to campus improvement works carried out. The Centre also recognized an estimated expenditure of €200,000 relating to an additional garbage tax for the period of 2010-12.
 11. General operating expenditures were lower than expected by €225,000 as a result of savings achieved. Total variable expenditures were lower than budgeted by €341,000 as a result of the changes in the distribution of types of activities mainly due to an increase in activities at a distance which resulted in a lower variable expenditure ratio to training revenue.
 12. The *Treasurer* concluded by stating that the Centre had achieved overall positive results for 2014 yielding a modest budgetary surplus through a combination of higher than budgeted revenue earned from training, exchange rate gains, and savings in both staff and operating costs.
 13. The *Chairperson* then invited the Officers to provide their comments on the 2014 financial statements.
 14. The *Governments' Vice-Chairperson* welcomed the opportunity to review the 2014 financial statements and expressed appreciation for the information provided which he considered to be clear and comprehensive. He had consulted with the government group members and had not received any comments or queries from them. Therefore, he was ready to support the adoption of the 2014 financial statements as presented.
 15. The *representative of the Government of Italy* expressed support for the position of the Government Group Vice-Chairperson and did not have any comments to add.
 16. The *Workers' Vice-Chairperson* noted with satisfaction that the financial statements were prepared in accordance with International Public Sector Accounting Standards (IPSAS) and that, according to the External Auditor, they presented fairly the financial position of the Centre as at 31 December 2014. He thanked the Director for organizing this meeting of the Officers to enable timely consideration of the 2014 financial statements. He also thanked the Piedmont Region, the Government of Portugal and the City of Turin for their voluntary contributions.
 17. He requested more information on why training revenue and the number of participants had decreased in 2014 as well as the ILO's Regular Budget technical cooperation contribution for training. He also raised a question regarding the substantial decrease in revenue from publications and requested additional information on the *ex-gratia* payments. He suggested that the Centre should engage the ILO earlier to discuss training needs in the second year of the biennium.
 18. He understood that part of the decrease in 2014 compared to 2013 was due to a decline of €6.4 million (25 per cent) in training revenue financed from the ILO's Regular Budget for technical cooperation. As this decrease is not related to the overall trends of ILO's Technical cooperation for 2014, he queried why there was such a decrease and what measures were planned to reverse this trend. In this regard, he reiterated the importance of allocating an adequate share of the ILO's regular budget for technical cooperation to the Centre for the capacity-building of constituents.

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19. While a steady positive margin in the operation of the Centre showed improved attention in the use of resources and in the effectiveness of the work of the Centre, he reiterated the view of the Workers' Group that the Centre must use this margin to fulfil its core institutional mandate as the training arm of the ILO and not to produce high surpluses. Support to the Workers' and Employers' Programmes should be structural.
 20. Investing in human resources and a succession plan was important. In the next Strategic Plan, the Centre should continue to innovate by developing cutting-edge approaches and technologies in relation to face-to-face learning, blended-learning and distance-learning. New learning modalities, and the development of new methodologies, will have a positive impact on the future of the Centre.
 21. The Workers' Group was ready to approve the 2014 financial statements as presented together with the Report of the External Auditor.
 22. The *Employers' Vice-Chairperson* welcomed the financial statements and appreciated the additional clarifications provided by the Treasurer in her introductory statement. He requested information concerning the Centre's efforts to procure additional voluntary contributions from governments and on whether or not these efforts had borne fruit. He sought clarification on the reasons why the Government of France had not provided a voluntary contribution in 2014. He also called on governments to make additional voluntary contributions to the Centre.
 23. He stressed the importance of building greater synergies between the Centre and the ILO on capacity-building, particularly through greater involvement in the capacity-building components of ILO technical cooperation projects. It would be important to ensure that the Centre is fully integrated into the capacity-building work of the ILO and also that the implications of the Post-2015 Development Agenda are taken into account in developing the next Strategic Plan of the Centre.
 24. He concluded by stressing the need to implement the recommendations made by the External Auditor.
 25. The *Chairperson* invited the representative of the External Auditor to introduce the External Auditor's Report for 2014.
 26. The *representative of the External Auditor* stated that an unqualified opinion was being issued to the Centre on its 2014 financial statements which were fully IPSAS compliant. As part of their audit work, the auditors had followed up on past recommendations on the accounting treatment of land, not currently valued and included in the financial statements, and also on the issue of the discounting of employee future benefits. She encouraged management to continue monitoring these matters in the light of on-going discussions at the level of the UN System.
 27. She also recommended that the Centre adopt the practice of including a statement of management responsibility as part of its approval of the financial statements. The auditors had also reviewed the Centre's processes and procedures for the recruitment of positions at the P5 level and above as well as the information technology capacity management. The External Auditor was satisfied that both were appropriate. She thanked the Director, the Treasurer, and the staff of the Centre for their cooperation during the audit process.
 28. The *Chairperson* requested the Treasurer and the Director to respond to the various points that had been raised during the discussion.

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29. The *Treasurer* explained that the 2014 publications revenue was lower than budgeted mainly due to a decrease in demand by external clients as well as a decrease in the training activities at the Centre. The training revenue was also lower than in 2013 due to the decreased number of participants as well as the distribution of activities by type of training – such as on-campus, in the field and distance-learning. She confirmed that efforts are continuously being made to ensure that all recommendations made by both the internal and external auditors are implemented on a timely basis and this was monitored regularly.
30. The *Director* provided additional information on the issue of the decrease in the 2014 training revenue and the number of participants which is mainly due to the fact that 2014 was the first year of the ILO biennium and as a result, the demand for training and publication services by the ILO normally decreases. The Centre continues to work closely with the ILO to align its programme of work to the ILO strategic priorities and the move to a biennium programme and budget cycle at the Centre for 2016-17 should reinforce this. In relation to additional voluntary contributions from governments, she welcomed the initiative by the government representative of the United Arab Emirates *vis-à-vis* the Gulf Cooperation Council countries. She confirmed that the Centre had recently renewed a three-year agreement with the Government of Portugal and that discussions were on-going with a number of other governments, including with France in the context of the proposed new four-year partnership agreement to be signed between the ILO and the Government of France. The Centre was also engaging more and more with the ILO for delivery of the capacity-building components of large technical cooperation projects. This was a win-win strategy for both the ILO and the Centre.
31. In response to the request for more details concerning the two *ex-gratia* payments made in 2014 amounting in total to €31,700, the Director stated that the payments were made in accordance with the discretionary authority granted to her under the Financial Regulations. Disclosure of the details concerning these payments is not required under the Financial Regulations. The files concerning these *ex-gratia* payments had been available for review by the External Auditor.
32. In relation to the point raised in the External Auditor's Report concerning the accounting treatment of the land on which the campus is based, the Director explained that the land is made available by the City of Turin to the Centre for a nominal value of €1. As the land is part of a protected public park area, the Centre has been advised that it is not possible to ascertain its fair value for inclusion in the financial statements of the Centre.

The Officers of the Board:

- 1) *provisionally adopted the financial statements, and*
- 2) *took note of the External Auditor's Report for the year ended 31 December 2014.*

Concluding remarks

33. The *Chairperson* stated that a report of the meeting would be presented to the next Session of the Board to be held on 29-30 October, 2015 in Turin. The Officers of the Board agreed to delegate approval of the report of the meeting to the Chairperson and Secretary of the Board.
34. The *Chairperson* thanked the Officers for their participation as well as the secretariats of the groups, the staff of ILO and the Centre, and declared the meeting closed.

Attendance list
Liste des présences
Lista de presencias

Ms Marilina ARMELLIN	ITALY
Mr Abdulrahman AL MARZOOQI	UAE <i>(Governments' Vice-Chairperson)</i> <i>by video-conference</i>
Mr Kris DE MEESTER (Belgium)	<i>(Employers' Vice-Chairperson)</i> <i>by video-conference</i>
Mr Frederick MUIA (IOE)	<i>(Employers' Secretariat)</i>
Mr Bheki NTSHALINSHALI (South Africa)	<i>(Workers' Vice-Chairperson)</i> <i>by video-conference</i>
Ms Raquel GONZALEZ (ITUC)	<i>(Workers' Secretariat)</i>

International Labour Organization

Mr Gilbert HOUNGBO	Representative of the Director-General
Mr Morten HOVDA	CAB
Ms Riikka KOSKENMÄKI	JUR
Mr Tilmann GECKELER	JUR
Mr Anthony WATSON	IAO

External Auditors

Ms Marian MC MAHON	<i>by video-conference</i>
Ms Carla NASH	
Ms Chantal BERGER	

International Training Centre of the ILO

Ms Patricia O'DONOVAN	Director
Ms Christine BOULANGER	Treasurer