Board of the Centre

82nd session, Geneva, 25 October 2019

CC 82/4/1

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the year ended 31 December 2018

TABLE OF CONTENTS

Financial report on the 2018 accounts

Introduction

1. These financial statements are prepared in accordance with Article 14 of the Financial Regulations of the International Training Centre of the International Labour Organization (the Centre) and they are submitted to the Board in accordance with Article 17. The External Auditor's report on the audit of the Centre's 2018 financial statements in addition to the Auditor's opinion, are also submitted to the Board of the Centre in accordance with Article 27 of the Financial Regulations.

2. The 2018 financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). Financial statements prepared under IPSAS recognize the general operations' voluntary contributions for which there are no stipulations when receipt is probable and the amount is known. Contributions relating to training activities that have conditions are recognized as revenue when the services are delivered by the Centre. Expenditures are recognized when goods and services are received or delivered, rather than when they are paid. Employee benefits relating to accumulated leave, shipment and travel are recognized in the financial statements as they are earned by the Centre's officials, rather than when they are paid. The after-service health insurance (ASHI) and the end-of-service payments and repatriation grant liabilities are recognized in the International Labour Organization's (ILO) consolidated financial statements.

3. The implementation of IPSAS has no impact on the preparation of the budget, which is still presented on a modified accrual basis. As the basis and scope of the budget and the financial statements differ, reconciliations between the budget and the IPSAS Statements of financial performance and cash flow are presented in Note 16 to the financial statements.

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

Financial highlights for 2018

5. The table below summarizes the IPSAS-based financial results and budget surplus of the Centre in 2018 as compared to its previous years:

(in thousands of Euros)

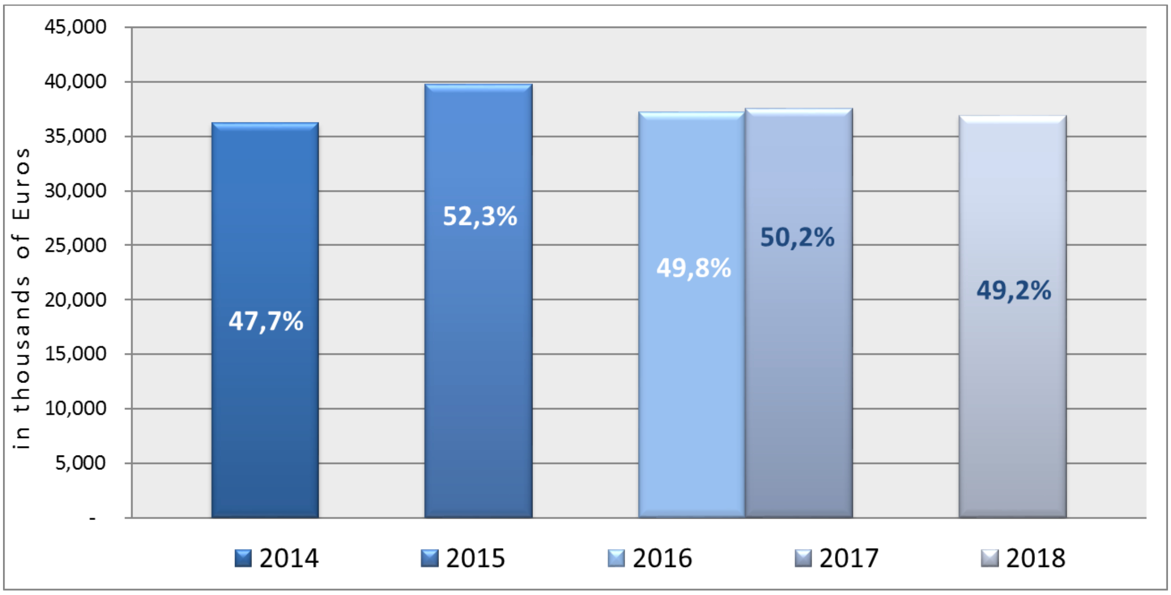
	2018	2017	2016	2015
Revenue	36 917	37 581	37 225	39 791
Expenditure	36 931	39 052	38 689	39 801
Net deficit	**(14)**	**(1 471)**	**(1 464)**	**(10)**
Assets	37 134	26 657	27 210	29 970
Liabilities	21 874	11 476	10 558	11 854
Net assets	**15 260**	**15 181**	**16 652**	**18 116**
Budget surplus	**950**	**712**	**1 052**	**1 387**

The IPSAS-based net deficit incurred in 2018 that amounts to €14 000 incorporates the total financial results of all Funds of the Centre whereas the budget surplus of €950 000 only includes the results of the General Fund. The difference is mainly explained by:

- the difference in the depreciation expense for assets expensed prior to 2012 as a result of the conversion to IPSAS of €381 000;
- the use of past surpluses of €559 000 recognized in the Statement of Budget and Actual only;
- the unrealised exchange loss of €226 000 recognized in the Statement of Financial Performance;
- the net use of funds incurred in the Campus Improvement Fund of €96 000;
- the net use of funds earned in the Italian Trust Fund of €51 000; and
- the inter-fund expenditures of €97 000.

6. The change in net assets from €15.18 million in 2017 to €15.26 million in 2018 is attributable to the net deficit in the Statement of Financial Performance as well as the actuarial gain on the employee benefit liability, as a result of an actuarial valuation now being completed at end of the year on accumulated leave.

Total revenue, three biennium comparison



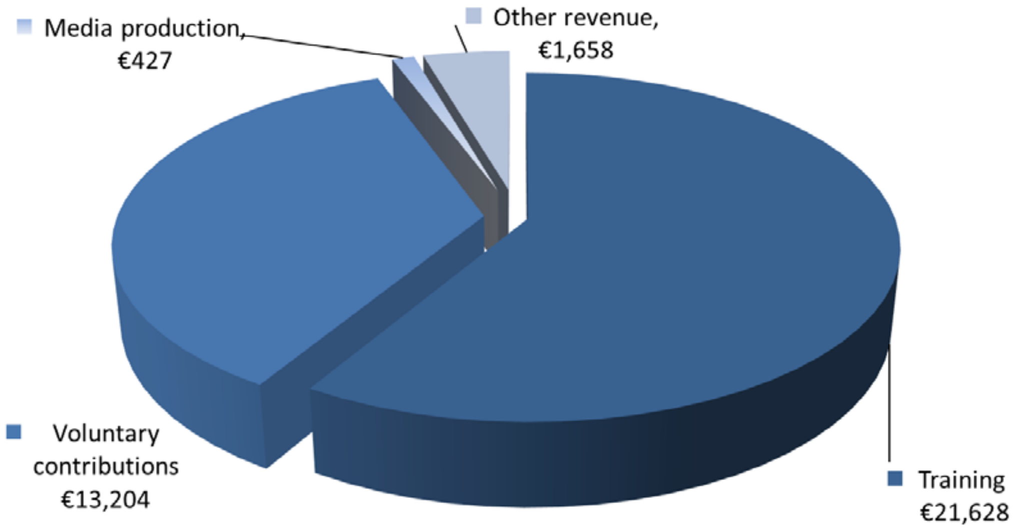
7. The Centre's total revenue generally follows a pattern over a two-year cycle whereas the Centre's total revenue is slightly higher in the second year of the cycle. In 2018, a first year of a biennium, the ratio of total revenue when compared to the forecasted biennium total revenue is 49.2 per cent. Thus, the Centre's revenue continues to follow the pattern set in the previous biennium. This is again as a result of the ILO's reform whereby it provides the Centre with more balanced training activity funding from its Regular Budget over the two years.

Financial performance

Revenue

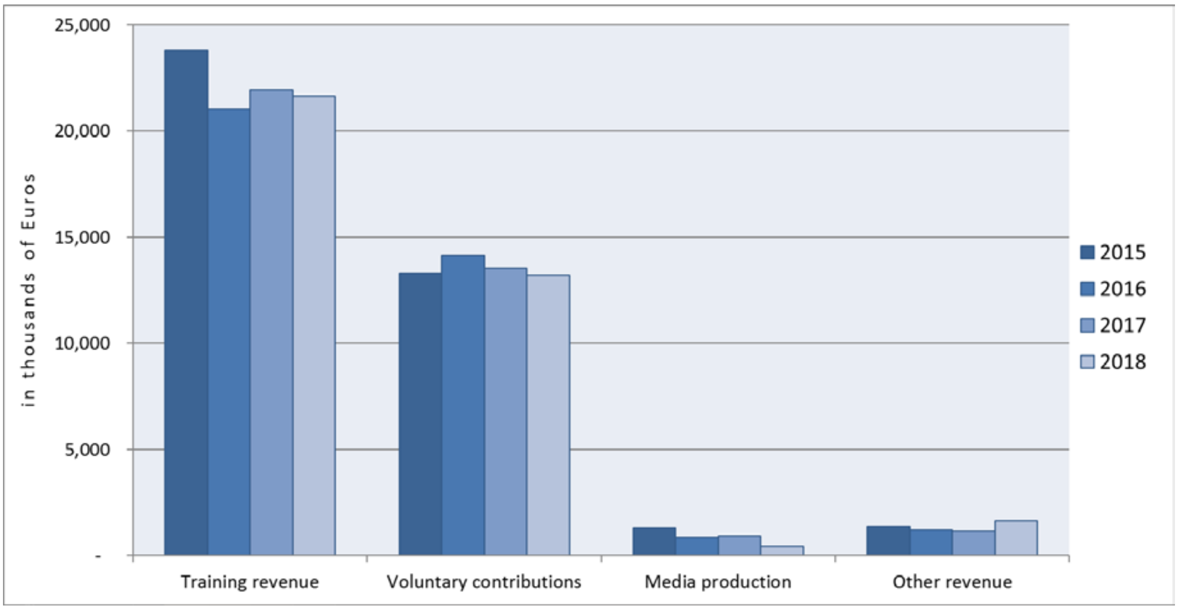
8. Revenue in 2018 totalled €36.9 million (€37.6 million in 2017) and was distributed as follows:

Revenue by source, 2018 (in thousands of Euros)



9. The two major sources of revenue, representing 94.4 per cent of total revenue (2017 – 94.4 per cent), are derived from training activities and voluntary contributions.

Revenue sources, four-year comparison



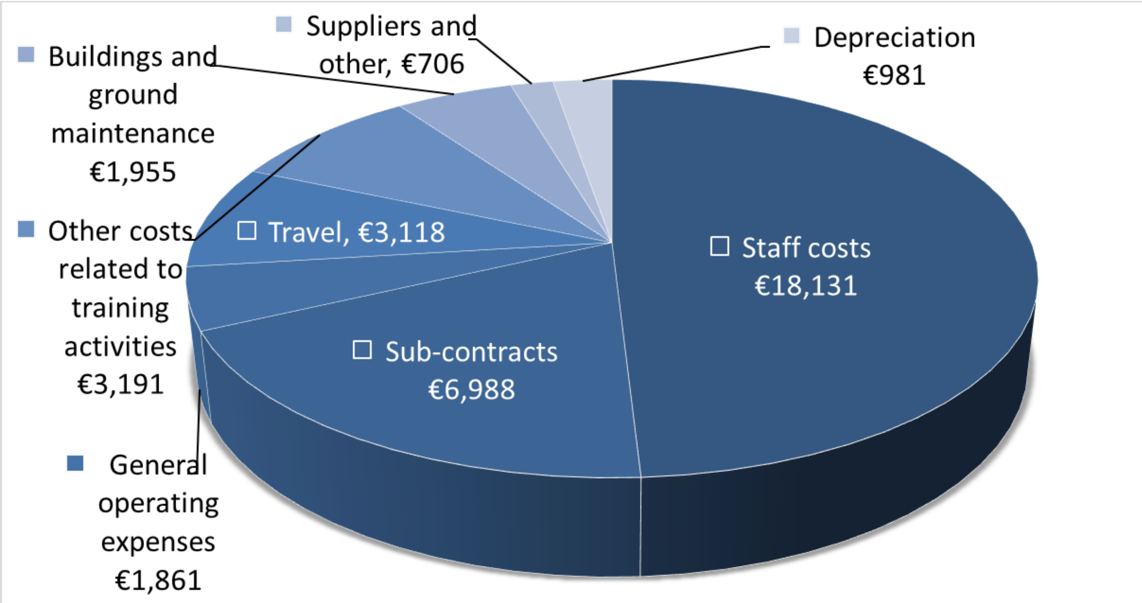
10. Training revenue totalled €21.63 million in 2018 as compared to €21.95 million in 2017 showing a slight decrease of €320 000 or 1.5 per cent. Overall, the number of participants attending training in 2018 was positive at 11 668 which is slightly lower by 487 or 4.0 per cent than the number of participants having attended training in 2017. When the 2018 results are compared to the first year of the previous 2016-17 biennium, this represents an increase in revenue of €617 000 or 2.94 per cent and an increase as well in the total number of participants of 218 or 1.9 per cent.

11. Voluntary contributions decreased by €335 000 in 2018 as compared to 2017. This year, the Centre received a contribution of €12 500 (2017 – € nil) from the Piedmont Region and a contribution from the ILO of 4.172 million US dollars. While this annual contribution was higher by 52 000 US dollars in 2018, its conversion into Euros resulted in approximately €447 000 less revenue in 2018 as compared to 2017.

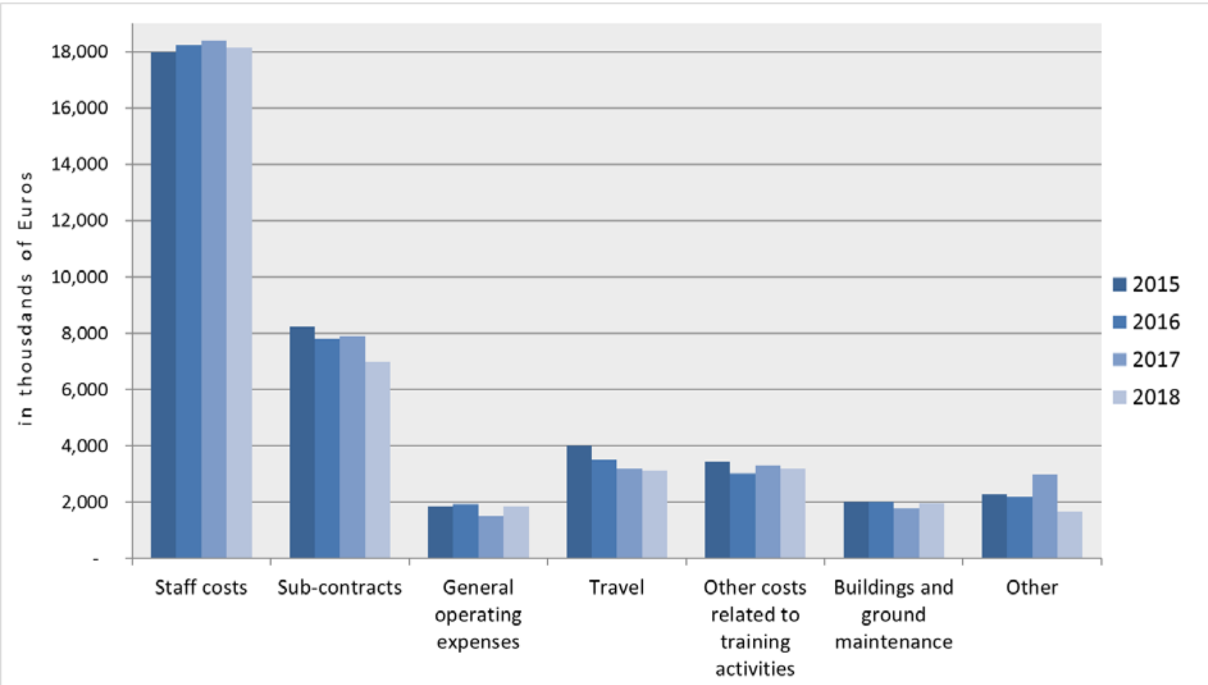
Expenditure

12. Expenditure in 2018 totalled €36.9 million (€39.1 million in 2017) and were distributed as follows:

Expenditure by source, 2018 (in thousands of Euros)



Expenditure, four-year comparison



13. Staff costs decreased slightly by 1.4 per cent from €18.4 million in 2017 to €18.1 million in 2018. This was the net result of the normal increases in the Centre's compensation package issued by the United Nations International Civil Service Commission (ICSC), counter balanced by the recruitment of more junior level staff in vacant positions and savings resulting from vacant positions during the year. In addition, in 2018, the applicable monthly post-adjustment applied to professional staff remuneration decreased as a result of a change in methodology applied by the ICSC. Every effort is being made to continue to ensure that staff costs are kept within an acceptable level.

14. Sub-contract expenditure decreased by €912 000 or 11.6 per cent as a result of a lower level of consultative work having been carried out in 2018 in the areas of information technology technical assistance, translation services, external lecturers as well as a expertise for audit purposes. In 2017, two significant audits had been carried out on Diversity as well as Health and Safety.

15. At the end of 2018, the Centre had net exchange gains of €153 000 as compared to net exchange losses of €1.07 million at the end of 2017. While only €72 000 loss was realized in the year, the remaining portion of €226 000 derives from exchange gains not yet realised. Under IPSAS, these must still be recognised and the Centre actively monitors its currencies as well as naturally hedges its currencies in order to minimise realized exchange losses.

16. Buildings and ground maintenance increased by €172 000 or 9.6 per cent as a result of significant increases of €215 000 or 24 per cent in the pricing of heating, electricity and water. This was counter balanced by the lower costs for cleaning and maintenance of the campus.

17. Other costs related to training activities and depreciation decreased by €189 000 or 4.3 per cent as compared to 2017. A portion of this decrease is the result of a lower level of depreciation recorded in 2018 as the Centre disposed of a large asset during the year. The balance of the decrease for other costs related to training activities is in line with the historical pattern of expenditure whereby these are lower in the first year of the biennium, and in line with training revenue earned.

18. General operating expenditure, buildings and ground maintenance increased by €367 000 or 24.6 per cent as compared to 2017. This is mostly as a result of undertaking additional work in the areas of videoconferencing support, legal consultations, external financial review of large and new vendors as well as the development of material required in the delivery of external training. In addition, there were smaller increases in expenditure in the areas of transportation, removals, security services and software maintenance.

19. Travel expenditures also decreased by €85 000 or 2.7 per cent as compared to 2017. This is as a result of participant travel and official missions both having been slightly lower than in 2017.

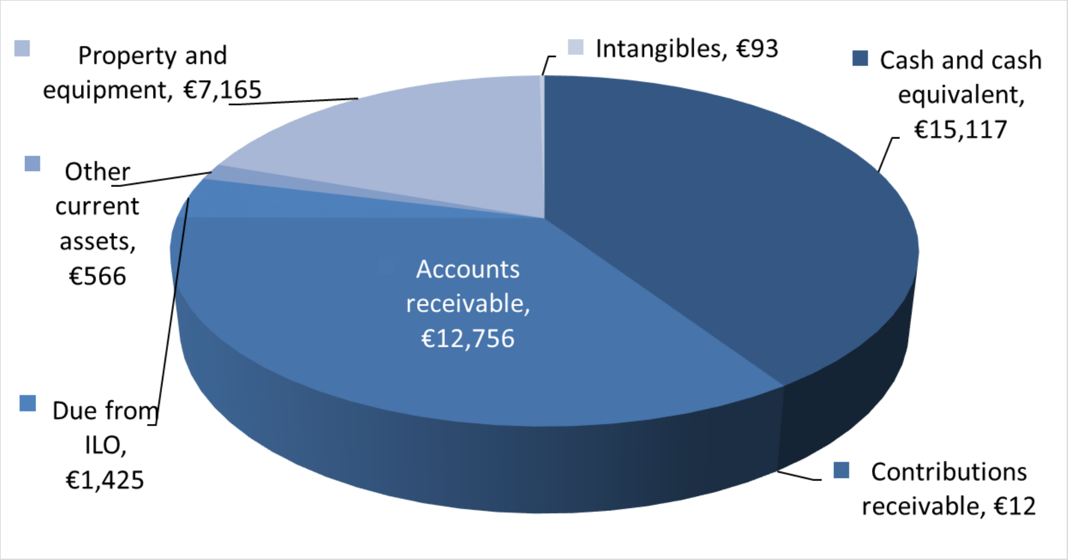
20. Supplies decreased by €148 000 or 18.4 per cent as compared to 2017. This is mostly explained by the significant decrease of €108 000 or 34.5 per cent in reproduction costs in the year, with the closing of the printing shop, the increase usage of e-campus in the training activities as well as the reduction is overall printing of documents within the Centre's units. In addition, expendable materials relating to information technology decreased when compared to 2017 by €50 000 or 28.7 per cent as some planned purchases were postponed.

Financial position

Assets

21. The Centre held assets of €37.1 million as at 31 December 2018 (€26.7 million as at 31 December 2017) which were as follows:

Assets by type, 2018 (in thousands of Euros)

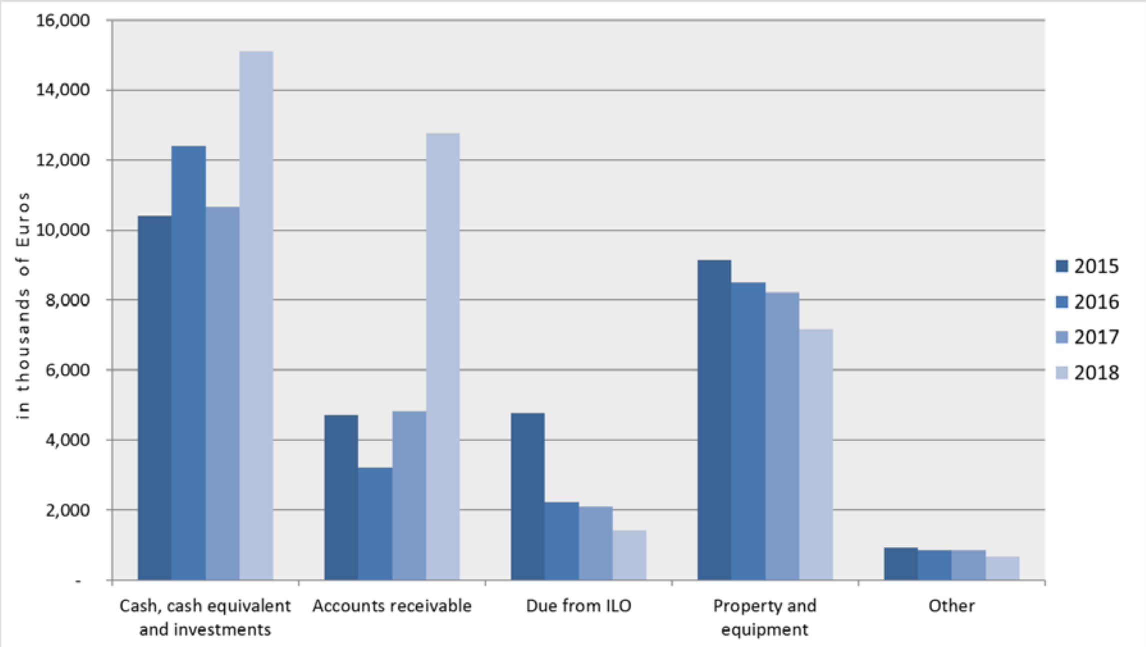


22. As at 31 December 2018, the Centre's most significant asset was cash and cash equivalents totalling €15.1 million (€10.7 million as at 31 December 2017) and representing 40.7 per cent of the total assets. Of this amount, €5.8 million or 38.4 per cent corresponds to funds held on behalf of donors for training activities (€3.8 million or 35.6 per cent as at 31 December 2017).

23. In 2018, the Centre invested its US dollars in short-term swaps to the Euro thus making it possible to earn a higher return. The majority of the other funds are kept in the Centre's savings accounts, still earning a minimal return.

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

Assets, four-year comparison



25. The Centre's total assets increased by €10.5 million or 39.3 per cent (€0.6 million or 2.0 per cent decrease as at 31 December 2017).

Cash and cash equivalents have increased by €4.5 million or 41.8 per cent (decrease of €1.74 million or 14.0 per cent as at 31 December 2017). Further information is provided on the Statement of Cash Flow.

26. Accounts receivable increased by €7.9 million or 164.5 per cent (increase of €1.6 million or 50.0 per cent as at 31 December 2017) mainly as a result of an increase of €9.1 million (increase of €1.9 million as at 31 December 2017) in accounts receivable relating to agreements for training services held at the end of the year. The Centre entered into several large multi-year project agreements in 2018 which are reflected in both accounts receivable and deferred revenue. In addition, there was a significant decrease of €1.2 million or 41.6 per cent (increase of €591 000 or as at 31 December 2017) in accounts receivables relating to training and other activities due to increased and successful collection efforts.

27. The receivable from the ILO decreased by €677 000 or 32.2 per cent (decrease of €0.1 million or 6.1 per cent as at 31 December 2017) as a result of changes in the timing of the training activities' invoicing process as well as increased frequency of collection.

28. Property and equipment decreased by €1.1 million or 12.9 per cent (decrease of €0.3 million or 3.3 per cent as at 31 December 2017) as a result of a full year of depreciation recorded in 2018 in the amount of €981 000 (€1.1 million in 2017) and disposals of €876 000 (€7 600 in 2017) relating to printing and obsolete equipment.

Liabilities

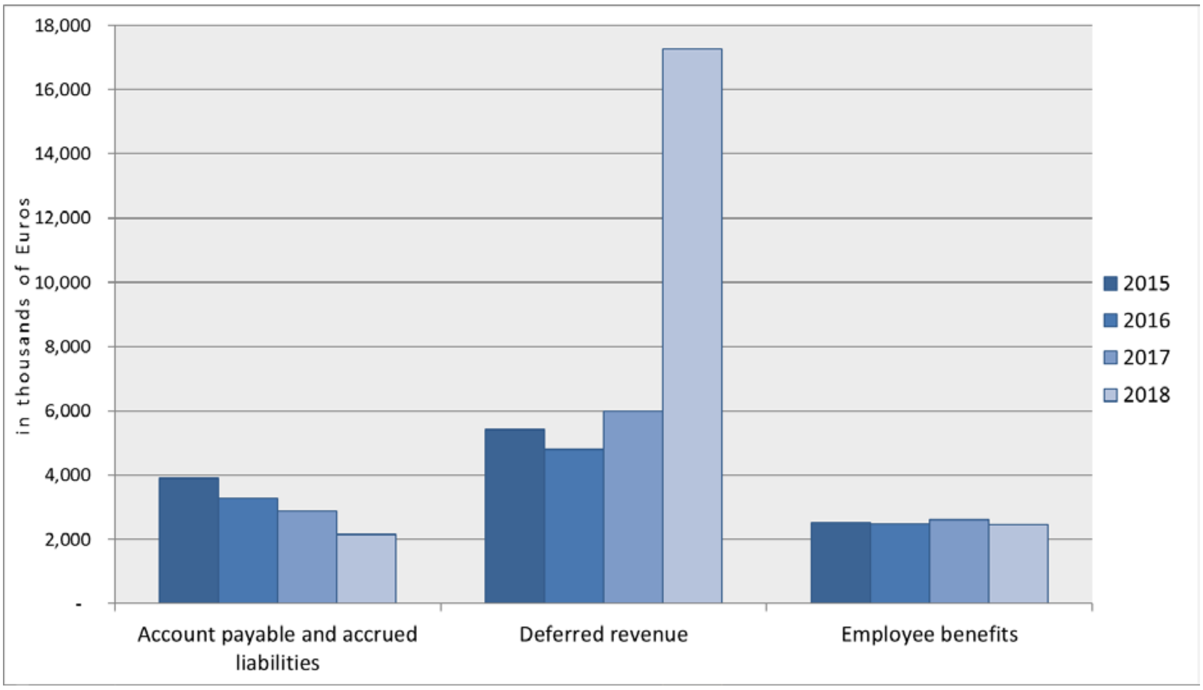
29. The Centre had liabilities totalling €21.9 million as at 31 December 2018 (€11.5 million as at 31 December 2017) which were as follows:

Liabilities by type, 2018 (in thousands of Euros)

30. The most significant liability totalling €17.2 million or 78.9 per cent (€6.0 million or 52.2 per cent as at 31 December 2017) relates to deferred revenue. This balance represents funds advanced by donors and sponsors for specific training projects (€5.9 million as at 31 December 2018 and €3.8 million as at 31 December 2017) and funds receivable based on signed agreements with sponsoring agencies and other donors with respect to future training activities and consulting services, subject to specific performance conditions (€11.3 million as at 31 December 2018 and €2.2 million as at 31 December 2017).

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

Liabilities, four-year comparison

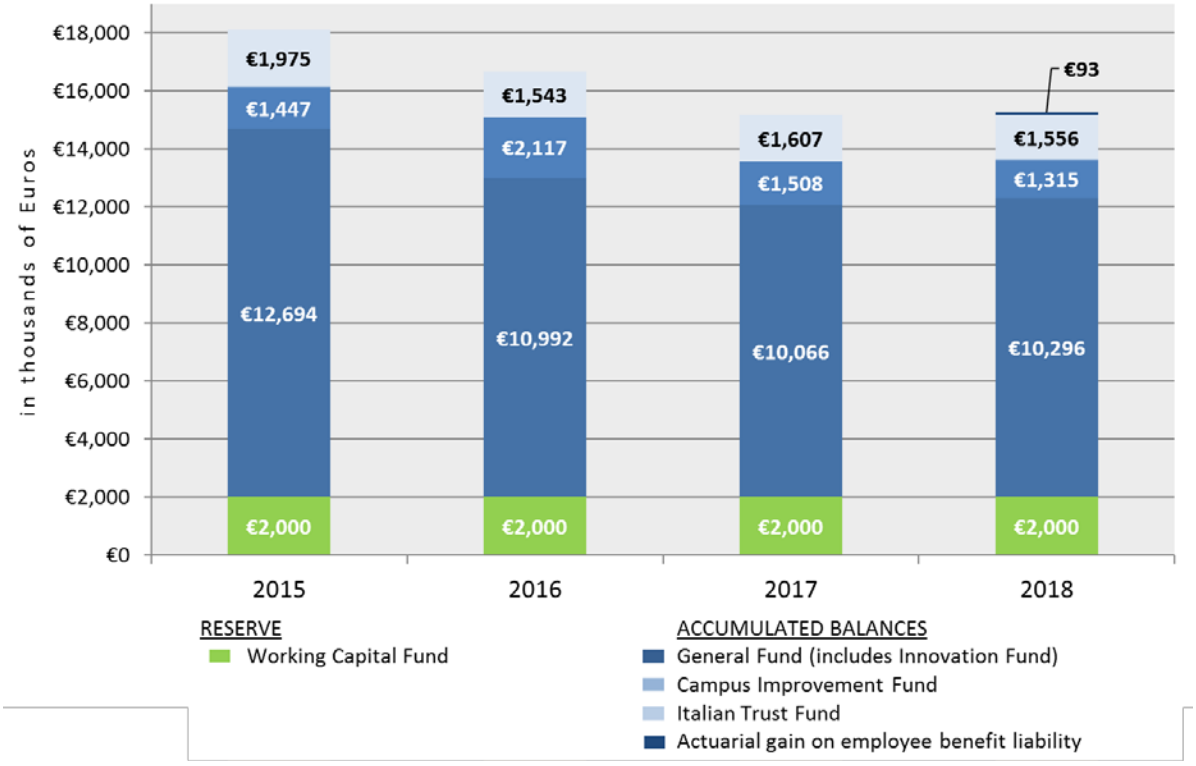


32. Accounts payable and accrued liabilities decreased by €711 000 or 24.8 per cent (decrease of €400 000 or 12.2 per cent as at 31 December 2017) as a result of different payment terms by type of suppliers.

33. Deferred revenue increased by €11.3 million or 190.3 per cent (increase of €1.2 million or 24.5 per cent as at 31 December 2017). This is due mainly to an increase in the voluntary contributions receivable relating to large project agreements signed in the year, which is consistent with the Centre's objective to increase its number of large multi-year project agreements. Advances received relating to signed agreements have also increased by €2.0 million (increase of €369 000 as at 31 December 2017).

Net assets

Net assets, four-year comparison by Fund



34. The Centre's net assets include the Working Capital Fund which represents 13.1 per cent or €2 million (13.2 per cent or €2 million as at 31 December 2017) as set by the Financial Regulations.

35. In addition, it includes the General Fund totalling €10.3 million and 67.5 per cent of the overall net assets (€10.1 million and 66.3 per cent as at 31 December 2017), the Campus Improvement Fund with €1.3 million and 8.6 per cent of the total (€1.5 million and 9.9 per cent as at 31 December 2017) and the Italian Trust Fund with €1.6 million and 10.2 per cent of the total (€1.6 million and 10.6 per cent as at 31 December 2017).

36. As a result of a change in the methodology applied in the calculations of the estimated liability for staff repatriation travel and removal which is part of the employee benefit liability, the net assets now include an accumulated balance which will reflect, going forward, any gains or losses from the annual actuarial valuation. In 2018, the accumulated balance for the employee benefit liability in net assets totals €93 000 or 0.6 per cent.

Regular Budget

37. At its 80th Session (October 2017), the Board approved the 2018-19 Budget Proposals consisting of total expenditure of €80.842 million including a contingency of €600 000 and total revenue of €80.842 million resulting in a balanced budget.

38. The preliminary budgetary results for the 2018 financial year, the first year of the 2018-19 biennium, are summarized in Statement V, with the details of voluntary contributions received from donors shown in Note 12.

39. The 2018 actual revenue amounted to €37.376 million which was mainly made up of €36.8 million in voluntary contributions and external revenue as well as a use of past surpluses totalling €559 000. The actual expenditure amounted to €36.426 million which included other items of €156 000. The preliminary 2018 budget surplus was €950 000. This is after taking into account the provision for doubtful accounts and realised foreign exchange losses.

Significant differences between the 2018 budget and actual amounts as presented on Statement V

(In thousands of Euros)

Line item in Statement V			Budget 2018[1]	Actual 2018	Variance Amount	Variance %
Chapter	**Line**					
I	10	International Labour Organization voluntary contribution	3 434	3 492	58	1.7
II	20	Revenue from training activities and advisory services	25 068	23 280	(1 788)	(7.1)
II	21	Revenue from media production	984	427	(557)	(56.6)
II	22	Miscellaneous revenue	1 000	1 506	506	50.6
III	30	Past surpluses to training activities	750	539	(211)	(28.1)
IV	40	Regular budget staff	15 766	15 016	(750)	(4.8)
IV	41	Facilities	1 798	2 279	481	26.8
IV	44	General operating costs	718	867	149	20.8
IV	47	Information and technology costs	1 470	1 287	(183)	(12.4)
IV	49	Other fixed expenditure	-	156	156	100
V	50–58	Total variable expenditure	17 179	14 799	(2 380)	(13.8)

40. The Centre achieved positive results in its first year of the biennium as demonstrated in Statement V, with a 2018 preliminary budget surplus of €950 000.

41. For the period of 2018-19, the Centre received a contribution of $8.34 million as approved in the ILO's 2018-19 Programme and Budget. Half of this was received in 2018. The variance of €58 000 or 1.7 per cent is due to the difference in exchange rates between the budget rate and the applied rate to record the transaction.

42. Revenue from training activities totaled €23.28 million which are below the expected target set for 2018 by 7.1 per cent. Although there is a difference of €1.79 million to the original budget, this figure does not directly impact the preliminary budget surplus as the

[1] Budget represents 50% of the approved budget for voluntary contributions, miscellaneous revenue and past surpluses, 49% of the approved budget for fixed expenditures, variable budget (VB) and project budget (PB) staff as well as 48% of the approved budget for training and media production revenue and total variable expenditure excluding variable budget (VB) and project budget (PB) staff. It also includes 50% of the approved budget for the contingency.

related variable expenditure are also well below the anticipated budget by €2.38 million and 13.8 per cent. The training revenue, the use of past surpluses and variable expenditure need to be considered together in order to understand the final results of the Centre. In 2018, the contribution to fixed costs (CFC) targets were surpassed slightly by the Centre with an overall lesser amount of total revenue and total expenditure than originally planned. This is as a result of overall efficiency gains in the delivery of its training.

43. Revenue from media production totaled €427 000 and the results are below by 56.6 per cent of the expected target set for 2018. The difference of €557 000 is mostly due to the re-alignment of the overall strategy for media production as digital design and multimedia services are now prioritized over more traditional publications work. This revenue only relates to work carried out for external parties and all internal work carried out to support the Centre's activities is recognized under training services and advisory services revenue.

44. Miscellaneous revenue totaled €1.506 million and the results are over by 50.6 per cent of the expected target set for 2018. The difference of €506 000 is due to an increase in revenue from the rental of the Campus facilities, including a large conference held on campus during the fall, as well as higher returns on US Dollar investments.

45. The use of past surpluses for training activities totaled €539 000 and this is below the budget of €750 000 by €211 000 or 28.1 per cent. In the activities undertaken in 2018, the Centre was able to allocated funds from other sources instead of past surpluses. These will be available for the second year of the biennium.

46. Regular budget staff expenditure totaled €15.016 million and are below the budget of €15.766 million by €750 000 or 4.8 per cent. During the year, there were some vacant positions that were either filled later in the year or remain vacant at the end of the year. In addition, the United Nations International Civil Service Commission (ICSC), changed its methodology for conducting cost of living survey for the purposes of determining Post Adjustment levels in some duty stations. This resulted in an overall decrease of approximately 2.9 per cent in the Professional and higher categories.

47. The facilities expenditure are higher than the budget by €481 000 or 26.8 per cent. This is mainly due to the significant increases in the pricing for heating, electricity and water services as well as the maintenance costs related to the aging campus.

48. General operating costs are higher than the budget by €149,000 or 20.8 per cent mostly as a result of the need for further external expertise in the areas of videoconferencing support, legal consultations as well as financial review of large and new vendors.

49. Information and technology costs are lower than the budget by €183 000 or 12.4 per cent as a result of savings incurred in the hardware and software maintenance, technical assistance, internet costs as well as some small purchases having been cancelled.

50. Other fixed expenditure totalled €156 000 in the year and related to two specific items: the doubtful accounts which totalled €84 000 and related to write-offs of non-collectable accounts receivable as well as the movement in the provision for doubtful accounts; and the second item related to the net realised exchange loss and revaluation of the year. These amounts were funded from the contingency as no approved budget is generally included in the biennial budget of the Centre.

51. Total variable expenditure were below the budget and show a variance of €2.38 million or 13.8 per cent. These expenditure are aligned to the total training revenue and the use of past surpluses for training activities recognised in the year. As training revenue was lower than the budget, the related variable expenditure are also lower than anticipated. As explained above, while both are below the expected levels, this is due to efficiency gains generated in the delivery of training activities while achieving a level of contribution to fixed costs slightly above the targets fixed for the year.

Ex–gratia payments

There were no ex-gratia payments made in 2018.

Approval of the Financial Statements for the year ended 31 December 2018

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

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

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

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

Christine Boulanger
Treasurer, Chief of Financial Services
18 March 2019

Yanguo Liu
Director
18 March 2019

Point for decision

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the International Training Centre (ITC) of the International Labour Organization, which comprise the statement of financial position as at 31 December 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flow and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ITC as at 31 December 2018, and its financial performance, changes in net assets, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

Other information

Management is responsible for the other information. The other information comprises the information included in the ITC financial statements and external auditor's report for the year ending 31 December 2018, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the *Financial Regulations* of the ITC, we report that, in our opinion, the accounting principles in International Public Sector Accounting Standards have been applied on a basis consistent with that of the preceding year.

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

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

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

Quezon City, Philippines
18 March 2019

Financial Statements for the year ended 31 December 2018

International Training Centre of the ILO

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

	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	**4**	15 117	10 664
Investments	**5**	–	–
Accounts receivable	**6**	6 433	4 370
Contributions receivable	**7**	12	–
Due from the ILO		1 425	2 102
Other current assets		566	679
		23 553	**17 815**
Non-current assets			
Accounts receivable	**6**	6 323	453
Property and equipment	**9**	7 165	8 228
Intangible assets		93	161
		13 581	**8 842**
Total assets		**37 134**	**26 657**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		2 157	2 868
Deferred revenue	**10**	10 926	5 535
Employee benefits	**11**	1 451	157
		14 534	**8 560**
Non-current liabilities			
Deferred revenue	**10**	6 323	453
Employee benefits	**11**	1 017	2 463
		7 340	**2 916**
Total liabilities		**21 874**	**11 476**
Net assets			
Reserve		2 000	2 000
Accumulated balances	**3**	13 260	13 181
Total net assets	**17**	**15 260**	**15 181**
Total liabilities and net assets		**37 134**	**26 657**

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

International Training Centre of the ILO

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

	Notes	2018	2017
Revenue			
Training activities		21 628	21 949
Voluntary contributions	**12**	13 204	13 539
Other revenue	**14**	1 810	2 028
Exchange gain and revaluation, net		153	–
Interest		122	65
Total revenue		**36 917**	**37 581**
Expenditures			
Staff costs		18 131	18 385
Sub–contracts		6 988	7 900
General operating expenditures		1 861	1 494
Travel		3 118	3 203
Other costs related to training activities		3 191	3 302
Buildings and ground maintenance		1 955	1 783
Supplies		658	806
Depreciation		981	1 061
Exchange loss and revaluation, net		–	1 072
Bank charges		48	46
Total expenditures		**36 931**	**39 052**
Net deficit		**(14)**	**(1 471)**

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

International Training Centre of the ILO

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

(in thousands of Euros)

	Reserve	Accumulated Balances					Net Assets
	Working Capital Fund	**General Fund**	**Campus Improvement Fund**	**Italy Trust Fund**	**Actuarial gain on employee benefit liability**	**Total accumulated balances**	
Balance as at 1 January 2018	2 000	10 066	1 508	1 607	–	13 181	15 181
Net deficit (surplus) of 2018	–	133	(96)	(51)	–	(14)	(14)
Actuarial gain (loss) on employee benefit liabilities (Note 3)	–	–	–	–	93	93	93
Transfers to/(from) [/1]	–	97	(97)	–	–	–	–
Balance as at 31 December 2018	**2 000**	**10 296**	**1 315**	**1 556**	**93**	**13 260**	**15 260**
Balance as at 1 January 2017	2 000	10 992	2 117	1 543	–	14 652	16 652
Net deficit of 2017	–	(1 500)	(35)	64	–	(1 471)	(1 471)
Actuarial gain (loss) on employee benefit liabilities	–	–	–	–	–	–	–
Transfers to/(from) [/2]	–	574	(574)	–	–	–	–
Balance as at 31 December 2017	**2 000**	**10 066**	**1 508**	**1 607**	**–**	**13 181**	**15 181**

/1 Adjustments to the Campus Improvement Fund and the General Fund during the year

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

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

International Training Centre of the ILO

Statement of cash flow for the year ended 31 December
(in thousands of Euros)

	2018	2017
Cash flows from operating activities		
Net deficit for the period	(14)	(1 471)
Effect of exchange rates on cash and cash equivalents	351	(869)
Non-cash items:		
Depreciation	981	1 061
Gain from disposal of property and equipment	(7)	–
Increase in accounts receivable	(7 933)	(1 609)
Increase in contributions receivable	(12)	–
Decrease in due from the ILO	678	136
(Increase)/decrease in other current assets	113	(63)
Decrease in accounts payable and accrued liabilities	(711)	(400)
Increase in deferred revenue	11 261	1 180
Increase/(decrease) in employee benefit liabilities	(59)	138
Net cash flows from operating activities [/1]	**4 648**	**(1 897)**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	–	(712)
Proceeds from disposals of property and equipment	156	–
Proceeds from disposal of short-term investments	–	2 000
Net cash flows from investing activities	**156**	**1 288**
Effect of exchange rates on cash and cash equivalents	(351)	869
Net increase in cash and cash equivalents	**4 453**	**260**
Cash and cash equivalents, beginning of period	10 664	10 404
Cash and cash equivalents, end of period	**15 117**	**10 664**

[/1] €105 in interest received is included under “Net deficit for the period” in the net cash flows from operating activities (2017 – €68).

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

International Training Centre of the ILO

Statement of comparison of budget and actual amounts for the year ended 31 December 2018
(in thousands of Euros)

Chapter	Item	PART A ─ REVENUE	Original budget[/1]	Final budget	Actual	Budget Variance[/2]
I		**Voluntary contributions**				
	10	International Labour Organization	3 434	3 434	3 492	58
	11	Government of Italy *(ex-lege)*	7 850	7 850	7 850	–
	12	Piedmont Region (Italy)	–	–	12	12
	13	Government of Portugal	250	250	250	–
	14	City of Turin	–	–	–	–
		Total voluntary contributions	**11 534**	**11 534**	**11 604**	**70**
II		**External revenue**				
	20	Training activities and advisory services	25 068	25 068	23 280	(1 788)
	21	Media production	984	984	427	(557)
	22	Miscellaneous	1 000	1 000	1 506	506
		Total external revenue	**27 052**	**27 052**	**25 213**	**(1 839)**
III		**Other**				
	30	Past surpluses to training activities	**750**	**750**	**539**	**(211)**
	31	Past surpluses to the business process review	**–**	**–**	**–**	**–**
	32	Past surplus to the HRS IT applications	**–**	**–**	**20**	**20**
		Total income	**39 336**	**39 336**	**37 376**	**(1 960)**
		PART B – EXPENDITURE				
IV		**Fixed expenditure**				
	40	Regular Budget staff	15 766	15 766	15 016	(750)
	41	Consultants	423	423	437	14
	42	Facilities	1 798	1 798	2 279	481
	43	Security	413	413	441	28
	44	General operating costs	718	718	867	149
	45	Missions and representation	246	246	239	(7)
	46	Governance	333	333	305	(28)
	47	Information and technology costs	1 470	1 470	1 287	(183)
	48	Depreciation of property and equipment	637	637	600	(37)
	49	Other	–	–	156	156
		Total fixed expenditure	**21 804**	**21 804**	**21 627**	**(177)**
V		**Variable expenditure**				
	50	Variable Budget (VB) staff	2 558	2 558	2 470	(88)
	51	Project Budget (PB) staff	175	175	442	267
	52	External collaborators	4 675	4 675	4 746	71
	53	Missions	647	647	826	179
	54	Participants' costs	6 600	6 600	4 783	(1 817)
	55	Books, training aids and materials	550	550	236	(314)
	56	Training facilities and services outside Turin	1 100	1 100	654	(446)
	57	Other	179	179	97	(82)
	58	Costs related to revenue from media production	630	630	290	(340)
	59	Costs related to miscellaneous revenue	96	96	255	159
		Total variable expenditure	**17 210**	**17 210**	**14 799**	**(2 411)**
VI	60	**Contingency**	**300**	**300**	–	**(300)**
		Total expenditure	**39 314**	**39 314**	**36 426**	**(2 888)**
		BUDGET SURPLUS[/3]	**22**	**22**	**950**	**928**

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

International Training Centre of the ILO

Statement of comparison of budget and actual amounts for the year ended 31 December 2018 (cont'd)

(in thousands of Euros)

/1 Original budget represents 50% of approved budget for voluntary contributions, other revenue, past surpluses, 49% of the approved budget for fixed expenditures, variable budget and project staff variable expenditure as well as 48% of the approved budget for training and publications revenue and the total variable expenditure excluding variable budget and project staff. It also includes 50% of the approved budget for the contingency.

/2 Budget variances are explained in the accompanying financial report on the 2018 accounts.

/3 As per Financial Regulations 7(4).

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

International Training Centre of the ILO

Notes to the Financial Statements
for the year ended 31 December 2018

(in thousands of Euros)

Note 1 – Objectives, activities and other information

The International Training Centre of the International Labour Organization (the "Centre") was established by the Governing Body of the ILO and the Government of Italy in 1964. The objective of the Centre, in keeping with the principles set forth in the Preamble of the Constitution of the International Labour Organization (ILO) and in the Declaration of Philadelphia, is to provide training activities at the service of economic and social development in accordance with, and through the promotion of international labour standards. Its training activities are elaborated within the framework of the technical co-operation of the ILO, the United Nations System and other international organizations.

The ILO is the controlling entity of the Centre. Under the terms of the Statute of the Centre adopted by the ILO Governing Body, the Centre's funds and assets are accounted for separately from the assets of the ILO (Article VI, paragraph 6). The Centre is principally financed from voluntary contributions from the ILO's regular budget and the Government of Italy and from revenues earned by providing training services. With the ILO as the controlling entity of the Centre, the financial statements of the Centre are consolidated within the ILO's financial statements. Should the Centre be dissolved, the Governing Body of the ILO has the authority under the Statute (Article XI) to dispose of the Centre's assets and remaining funds.

The Centre is governed by a Board chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. Two meetings of the Board are convened in the year. The members of the Board do not receive any remuneration from the Centre for their services. Every second year, at its October meeting, the Centre adopts its programme and budget in accordance with the Centre's Financial Regulations on the recommendation of the members of the Board. Under Article 17 of the Centre's Financial Regulations, the Officers of the Board, as delegated by the Board, adopt the financial statements in May.

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

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

Note 2 – Accounting policies

Basis of preparation and presentation

The financial statements of the Centre have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS) and fully comply with all the applicable standards effective as at 31 December 2018.

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

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

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

Significant accounting policies

Foreign currency transactions

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

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

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

Financial instruments

Financial assets and financial liabilities are categorized as follow:

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

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

Recognition and initial measurement

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

De-recognition

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

Impairment

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

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

<u>Cash and cash equivalents</u>

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

<u>Investments</u>

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

<u>Accounts receivable</u>

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

<u>Contributions receivable</u>

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

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

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

<u>Property and equipment</u>

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

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

Deferred revenue

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

Employee benefits

The Centre recognizes the following categories of employee benefits:

1. Short-term employee benefits: these benefits fall due within twelve months after the end of the financial period in which employees render the related service and include the following:

– accumulating leave: accumulating compensated absences, such as annual leave and compensatory time, are recognized as expenditures and liabilities as they are earned by employees. In accordance with Staff Regulations, officials earn annual leave of 30 working days per year. Officials may accumulate up to 60 working days which is payable on separation from service. The value of leave payable at the reporting date is calculated by multiplying the actual number of days accumulated by each staff member by the staff member's base salary plus post adjustment for eligible professional staff and base salary and language allowance for general services staff. The non-current portion of the liability is not discounted as the impact is not material;

– non-accumulating leave: non-accumulating compensated absences, such as sick leave and maternity leave, are recognized as an expenditure when the absence occurs;

– home leave: in accordance with Staff Regulations, non-locally recruited officials are entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter every second year. A liability exists related to the value of home leave entitlements that have been earned by officials but not taken at the reporting date. The value of home leave earned and payable at the reporting date has been calculated on the basis of the last year's cost of home leave adjusted for price increases in airfare; and

– other benefits: other employee benefits are expensed as part of payroll and a liability is recorded at year-end if an amount remains unpaid. They include non-resident allowance, family allowance, post adjustment allowance, education grant, and language allowance.

2. post–employment benefits:

– repatriation travel and removal expenditures: officials, their spouses and dependent children are entitled to reimbursement of costs of travel and transport of personal effects upon termination. Expenditure related to repatriation travel and transport of personal effects is calculated by an independent actuary using the Projected Unit Credit Method. Interest and current service costs are recognized in the Statement of Financial Performance as a component of staff costs. Actuarial gains or losses arising from the changes in actuarial assumptions or experience adjustments are recognized directly in net assets;

– end–of–service payments and repatriation grant: in accordance with Staff Regulations, staff in the General Services category is entitled to an end-of-service payment on separation or on promotion to the Professional category or above. The Centre makes a defined contribution of 7.5 per cent of the General Services salaries every month to the ILO. In accordance with Staff Regulations, non-locally recruited officials are entitled to a grant on separation from service if they have completed at least one year of service outside their home country. The Centre makes a defined contribution of 6.0 per cent of compensation paid to eligible employees during the financial period to the ILO.

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

– after-service medical benefits: officials and their dependents are entitled to after-service medical benefits when they retire at the age of 55 or more and if they have at least 10 years of service with an agency of the United Nations System and have been a participant in the Staff Health Insurance Fund for the five years immediately preceding separation from service. The Staff Health Insurance Fund is a multi-employer defined benefit plan providing medical coverage to all staff, retirees and their dependents. The Centre is one of the participating members of that Fund. Monthly contributions towards this Fund are made by the officials, with matching contributions made by the participating organizations. In the case of the retirees from the Centre, the ILO makes the required monthly contribution to the Staff Health Insurance Fund. On that basis, the Centre does not have any liability with regards to the after-service medical benefits nor does it record any expenditure; and

– United Nations Joint Staff Pension Fund: through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. The Centre and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify the Centre's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the Centre has treated this plan as if it was a defined contribution plan in line with the requirements of IPSAS 39 Employee Benefits. The Centre's contributions to the plan during the financial period are recognized as staff cost expenditures in the Statement of Financial Performance.

Payables and accruals

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

Revenue from exchange transactions

1. Other revenue: other revenue comprises non-training activities such as revenue from social life activities, the use of residential facilities by non-participants attending training and revenue from the sale of publications. Revenue is recognized when the services are provided or the publications are shipped.
2. Interest revenue: interest revenue generated from short-term deposits is recognized as it is earned, on a time proportion basis that takes into account the effective yield.

Revenue from non-exchange transactions

1. Voluntary contributions: these are provided to support the general operations of the Centre, for campus improvement and for training activities. These contributions contain no stipulations in the nature of “conditions” that require specific performance and the return of funds not used for their intended purposes. They are recognized as an asset and revenue when it is probable that the contribution will be received and if the amount can be measured reliably.
2. Goods and services–in–kind: the Centre does not recognize services-in-kind in the financial statements. Contributions of goods-in-kind are recognized at fair value at the date of receipt.
3. Training activities: agreements related to training activities are subsidized by non-conditional voluntary contributions which provide support to the Centre’s operations. These agreements are considered non-exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds if such conditions are not met, are recognized as assets (accounts receivable) and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion of expenditures incurred to the estimated total expenditures of the training activity.
4. Operating leases with other UN organizations: these comprise revenue from leases with other UN organizations and their use of Centre facilities. These leases are operating leases in that they do not transfer substantially all of the risks of ownership to the lessee, and they are cancellable. Lease payments are contingent rents as they are based on costs incurred by the Centre for the area they occupy.

Contingent assets

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

Contingent liabilities

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

A provision is recognized for contingent liabilities when the Centre has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the present value of expenditures required to settle the present obligation at the reporting date.

Segment information

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

Significant judgements and sources of estimation uncertainty

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

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

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

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

Note 3 – New accounting standards

1. New accounting standards effective 1 January 2018

   The Centre adopted amendments to IPSAS 21 – Impairment of Non-Cash-Generating Assets and IPSAS 26 – Impairment of Cash-Generating Assets, effective 1 January 2018. These amendments establish impairment standards relating to assets measured using the revaluations method. There was no impact on the Centre’s financial statements.

   It also adopted the new standard IPSAS 39 – Employee Benefits, which supersedes IPSAS 25 – Employee Benefits, effective 1 January 2018. The adoption of this standard did not have a significant impact on the current financial statements, other than the estimated amount allocated between current and non-current liabilities.

2. Change in accounting estimate relating to the employee benefit liability and new accumulated balances under net assets

   In the past, the Centre calculated the repatriation travel and removal liability using current estimated costs increased for inflation in the year. As the final liability approximated the discounted value, no adjustments were recorded. Starting in 2019, the liability is now calculated by an independent actuary. The actuarial gains or losses are now recorded under accumulated balances of net assets. In 2018, the accumulated gain amounted to €93. The effect on future periods cannot be disclosed as estimating it is impracticable at this time.

3. New accounting standards issued but not yet effective

   In 2017 and 2018, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

   - IPSAS 40 – Public Sector Combinations: This new standard establishes the requirements for classifying, recognizing and measuring public sector combinations. The effective date for the application is for annual periods beginning on or after 1 January 2019, with earlier adoption permitted. This will have no significant impact on the Centre’s financial statements.
   - IPSAS 41 – Financial Instruments: This new standard establishes the requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29, *Financial Instruments: Recognition and Measurement.* The effective date for the application is for annual periods beginning on or after 1 January 2022, with earlier adopted permitted. This will have no significant impact on the Centre’s financial statements.
   - Financial Reporting under the Cash Basis of Accounting: These amendments were made as a result of the current requirements for the preparation of consolidated financial statements and disclosures about external assistance and third party payments. The effective date for the application of these amendments is for annual periods beginning on or after 1 January 2019, with earlier adoption permitted. This will have no impact on the Centre’s financial statements.

Note 4 – Cash and cash equivalents

	US dollar (€ equivalent)	Euro	2018	2017
Current accounts and cash on hand	9 920	5 197	15 117	10 664
Total cash and cash equivalents	**9 920**	**5 197**	**15 117**	**10 664**

Of the total cash and cash equivalents held in 2018, €5 197 was in Euro and the balance was held in US dollars, €9 920 Euro equivalent.

The cash and cash equivalent balance includes an amount of €5 857 (2017 – €3 831) which must be used for training activities.

Note 5 – Investments

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

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

	2018		2017	
	Fair value	Cost	Fair value	Cost
One-year term deposits	–	–	–	–

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

	2018	2017
Fair value as at 1 January	–	2 000
New investments during the period	–	–
Disposal of investments during the period	–	(2 000)
Fair value as at 31 December	–	–

Note 6 – Accounts receivable

	2018	2017
Current accounts receivable		
Accounts receivable from invoiced training services	1 585	2 766
Accounts receivable from training services agreements due in 2019	4 849	1 601
Other accounts receivable	46	29
Less: provision for doubtful accounts – training services	(47)	(26)
Total current net accounts receivable	**6 433**	**4 370**

	2018	2017
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2019	6 323	453
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	**6 323**	**453**

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

	2018	2017
Movements in provision for doubtful accounts		
Balance 1 January	26	155
Amounts written off during the year as uncollectible	(10)	(44)
Impairment losses reversed	(6)	(85)
Increase in allowance for new impairments	37	–
Balance 31 December	**47**	26

Note 7 – Contributions receivable

	2018	2017
Chamber of Commerce	–	–
Piedmont Region	12	–
Less: provision for doubtful accounts	–	–
Total contributions receivable	**12**	**–**

	2018	2017
Movements in provision for doubtful accounts		
Balance 1 January	–	50
Amounts written off during the year as uncollectible	–	–
Impairment losses reversed	–	(50)
Increase in allowance for new impairments	–	–
Balance 31 December	–	**–**

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

Note 8 – Financial instruments

Activities are exposed to the following financial risks: market risk, credit risk and liquidity risk. The Centre focuses on these risks and seeks to minimize potential effects on financial performance. Financial risk management is carried out in conjunction with the investment policy, Financial Regulations and Risk Register. In 2018, there were no changes related to the objective, policies and processes for managing these risks. There were also no changes in the risks and risk levels to those identified in 2017.

Market risk

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

Currency risk

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

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

	2018 US Dollar	2018 € equivalent	2017 US Dollar	2017 € equivalent
Cash and cash equivalents	11 325	9 920	7 049	5 900
Accounts receivable	39	34	658	551
Due from the ILO	663	581	(739)	(619)
Payables and accrued liabilities	–	–	(195)	(163)
Net exposure	**12 027**	**10 535**	**6 773**	**5 669**

Based on the net exposure as at 31 December 2018, and assuming all the other variables remain constant, a hypothetical 5 per cent change in the US dollar against the Euro would result in an increase or decrease in net results of €527 (2017 – €285) or 5 per cent (2017 – 5 per cent).

Interest rate risk

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

Other price risk

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

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

Liquidity risk

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

Accounts payable are mostly due within 34 days (2017 – 21 days).

In accordance with its Financial Regulations, a Working Capital Fund is maintained which can be used to temporarily finance expenditures pending the receipt of voluntary contributions and other income and in exceptional circumstances, to provide advances to meet emergencies. At the reporting date, the Working Capital Fund balance was €2 million (2017 – €2 million).

Credit risk

This is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Centre is exposed to credit risk through its cash and cash equivalents, investments and accounts receivable.

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

Cash and cash equivalents as well as investments are diversified to several banks in order to avoid an over-concentration of funds with few institutions. The total percentage of cash, cash equivalents and investments that may be placed with a single institution is determined according to its long-term credit rating excluding the main banking service provider. The Centre did not hold more than the established limit of €10 000 in any one institution at the end of the reporting period. Investments are made only in term deposits, deposit certificates, bonds, sovereign treasury bills and notes, and floating rate notes.

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

2018	**AAA**	**AA+–AA–**	**A+–A–**	**BBB+–BBB–**	**Total**
Cash and Cash Equivalents	–	–	11 761	3 356	**15 117**
2017					
Cash and Cash Equivalents	–	–	7 104	3 560	**10 664**

Accounts receivable

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

The aging of receivables at 31 December is as follows:

2018	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	6 286	113	81	(47)	6 433
Contributions receivable	12	–	–	–	12
Total receivable	**6 298**	**113**	**81**	**(47)**	**6 445**
2017					
Accounts receivable	3 792	330	274	(26)	4 370
Contributions receivable	–	–	–	–	–
Total receivable	**3 792**	**330**	**274**	**(26)**	**4 370**

Note 9 – Property and equipment

	Equipment	Leasehold improvements	Total 2018	Total 2017
Cost at 31 December	3 636	10 737	14 373	15 249
Accumulated depreciation at 31 December	2 607	4 601	7 208	7 021
Net book value at 31 December 2018	**1 029**	**6 136**	**7 165**	**8 228**
Net book value at 31 December 2017	**1 508**	**6 720**	**8 228**	

There were no contractual commitments for the acquisition of property and equipment at the end of 2018.

Equipment

	Vehicles	Office equipment	Other type of equipment	Furniture and fixtures	Total 2018	Total 2017
Cost at 1 January	54	2 487	1 811	160	4 512	4 251
Additions	–	–	–	–	–	268
Disposals	–	(483)	(393)	–	(876)	(7)
Cost at 31 December	**54**	**2 004**	**1 418**	**160**	**3 636**	**4 512**
Accumulated depreciation at 1 January	54	2 005	870	75	3 004	2 606
Depreciation	–	177	136	15	327	405
Disposals	–	(483)	(242)	–	(725)	(7)
Accumulated depreciation at 31 December	**54**	**1 699**	**764**	**90**	**2 607**	**3 004**
Net book value at 31 December	–	**305**	**654**	**70**	**1 029**	**1 508**

Leasehold improvements

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

The carrying value of these improvements is as follows:

	Total 2018	**Total 2017**
Cost at 1 January	10 737	10 302
Additions	–	435
Disposals	–	–
Cost at 31 December	**10 737**	**10 737**
Accumulated depreciation at 1 January	4 017	3 439
Depreciation	584	578
Disposals	–	–
Accumulated depreciation at 31 December	**4 601**	**4 017**
Net book value at 31 December	**6 136**	**6 720**

Note 10 – Deferred revenue

	2018	**2017**
Deferred revenue – Current		
Voluntary contributions received in advance relating to signed agreements	5 857	3 831
Voluntary contribution receivable relating to signed agreements	5 069	1 704
Total current deferred revenue	**10 926**	**5 535**
Deferred revenue – Non-current		
Voluntary contribution receivable relating to signed agreements	6 323	453
Total non-current deferred revenue	**6 323**	**453**
Total deferred revenue	**17 249**	**5 988**

	2018	**2017**
Movements in deferred revenue		
Balance 1 January	**5 988**	**4 808**
New agreements signed during the year	16 848	6 460
Recognition of deferred revenue to training revenue in the Statement of financial performance	(5 538)	(4 588)
Refund/reduction of agreements to donors	(812)	(464)
Other funds received in advance not linked to agreements	682	(136)
Discounting	81	(92)
Balance 31 December	**17 249**	**5 988**

Note 11 – Employee benefits

	2018	2017
Current liabilities		
Accrued salaries	1	22
Accumulated leave	1 437	117
Repatriation travel and removal expenditures	11	10
Home Leave	2	8
Total current liabilities	**1 451**	**157**
Non-current liabilities		
Accumulated leave	359	1 702
Repatriation travel and removal expenditures	658	761
Total non-current liabilities	**1 017**	**2 463**
Total employee benefits liabilities	**2 468**	**2 620**

Repatriation travel and removal expenditures

Starting in 2018, the liability for repatriation travel and removal expenditures was estimated based on an actuarial valuation. Prior to 2018, the liability was based on nominal calculations without discounting, which approximated the liability, had it been calculated by an actuarial valuation.

The Centre, jointly with the ILO, reviews and selects assumptions and methods that will be used by the actuary in the valuation to determine the expense and contribution requirements for the Centre's repatriation travel and removal expenditures. For the 2018 valuation, the assumptions and methods used are as described below.

	2018 (%)
Discount rate	1.40
Rate of future cost increases	1.80
Probability of benefit claim	98

The discount rate was determined by reference to the AA corporate bond yield curve of the Euro currency as at 31 December 2018.

The following table shows the change in the present value of the defined benefit obligation during the reporting period:

	2018
Defined benefit obligation, beginning of the year	**771**
Interest costs	9
Net benefits paid	(18)
Actuarial (gain) loss due to experience	(88)
Actuarial (gain) loss due to assumption changes	12
Adjustment for true-up of opening balance in Statement of Financial Position	(17)
Defined benefit obligation, end of year	**669**

Statement of Financial Position liability, beginning of year	**(771)**
Total (charge) credit for interest cost and current service cost	(9)
Net benefits paid	18
Total (charge) credit recognized in statement of financial performance	9
Total (charge) credit recognized in net assets	93
Statement of Financial Position liability, end of year	**(669)**

Expenses related to interest costs and net benefits paid for 2018 have been recognized in the statement of financial performance as staff costs. The Cumulative net actuarial gains of €93 (2017 – nil) have been recognized in net assets.

End–of–service payments and repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2018 was €680 (2017 – €709).

The present value of the defined benefit obligation for end-of-service was estimated at €8 569 (2017 – €8 542). The present value of the defined benefit obligation for repatriation grant was €1 263 at the end of 2018 (2017 – €1 169). These liabilities are recognized by the ILO in its consolidated financial statements.

After-service medical benefits

The liability for after-service medical benefits was estimated at €88 507 at the end of 2018 (2017 – €88 338). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

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

The Centre’s financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension

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

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

The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2015, 2016 and 2017) amounted to USD 6 931.39 million, of which approximately 0.0002 per cent was contributed by the Centre.

During 2018, contributions paid to UNJSPF amounted to €3 962 (2017 – €4 384). Expected contributions due in 2019 are approximately €4 352.

Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of liabilities are included in the amount.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board and to the United Nations General Assembly on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org

Note 12 – Revenue from voluntary contributions

	2018	2017
Government of Italy	9 450	9 350
International Labour Organization	3 492	3 939
Government of Portugal	250	250
Piedmont Region (Italy)	12	–
Total voluntary contributions	**13 204**	**13 539**

The ILO contribution of €3 492 (US$4 172) represents one half of the approved 2018-19 biennial contribution of US$8 343.

The Italian Government's *ex-lege* contribution to the Centre in 2018 was €7 850 (2017 – €7 850) and was received in 2018. The Italian Government's contribution for training activities in 2018 was €1 600 which is recorded in deferred revenue (2017 – €1 600).

Note 13 – Contributions–in–kind

There were no goods-in-kind received during the year. The Centre received services-in-kind from the ILO for legal and/or internal audit services in the amount of € nil (2017 – €309) as well as services of trainees from various external parties for which the value is minimal. The land and buildings of the Centre are provided by the City of Turin at a nominal rent including facilities constructed with funds provided by various donors.

Note 14 – Other revenue

	2018	2017
Non-exchange transactions		
Operating leases with other UN organizations	478	287
Use of facilities other than residential	417	120
Other miscellaneous income	242	490
Exchange transactions		
Use of residential facilities by non-participants attending training	111	95
Revenue from the sale of publications	427	924
Social life activities	135	112
Total other revenue	**1 810**	**2 028**

Note 15 – Commitments, leases and contingent liabilities

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

At 31 December 2018, the Centre has commitments of €1 829 (2017 – €3 656) for contracts related to future services such as hardware and software maintenance as well as outsourced services such as the maintenance of campus.

The majority of leases entered into by the Centre as a lessee relate to equipment rental and use of software and are cancellable operating leases. Only one lease relating to specialized computer and stamping equipment is non-cancellable. The minimum lease payments for this agreement are €0.5 per year for 2019 and 2020. Total expenditures for equipment rental were €0.5 (2017 – €22) and €85 (2017 – €72) for software licenses.

The Centre, acting as a lessor, has cancellable operating leases with United Nations Interregional Crime and Justice Research Institute (UNICRI) and the United Nations System Staff College (UNSSC). Revenue generated under these leases totalled €478 (2017 – €287).

Note 16 – Statement of comparison of budget and actual amounts

The Statement of financial position (Statement I), Statement of financial performance (Statement II), Statement of changes in net assets (Statement III) and Statement of cash flow (Statement IV) include all funds while the Statement of comparison of budget and actual amounts (Statement V) includes only the General Fund for which a budget is adopted by the Centre.

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

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

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

Reconciliation between Statement V and Statement IV

	Operating	Investing	Financing	Total
Net budget surplus (Statement V)	**950**	–	–	**950**
Timing differences	–	–	–	–
Basis differences	3 371	156	–	3 527
Entity differences	(250)	–	–	(250)
Net cash flow	**4 071**	**156**	**–**	**4 227**
Effect of exchange rates on cash and cash equivalent	226	–	–	226
Net increase in cash and cash equivalent (Statement IV)	**4 297**	**156**	**–**	**4 453**

Reconciliation between Statement V and Statement II

Net budget surplus (Statement V)	**950**
Timing differences	–
Basis differences	(940)
Entity differences	(24)
Net deficit per Statement of financial performance (Statement II)	**(14)**

<u>Use of surplus funds</u>

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

The following table summarizes the remaining balances from the allocations of the 2010, 2013, 2014, 2015 and 2016-17 surpluses. The allocation of the 2016-17 surplus was approved in 2018 through a separate paper presented to the Officers of the Board in May. The approved allocations became available immediately for use. Prior allocations were only available in the subsequent year following their approval in the budget proposals. There are no remaining funds available from the allocations of the 2011 and 2012 surpluses.

	Training activities	Innovation Fund	Campus Improve-ment Fund	Business Process Review	HRS – IT applica-tions	Total
Allocations from 2010 surplus	500	300	650	350	–	**1 800**
Expenditure in 2012	(500)	(45)	–	(31)	–	**(576)**
Expenditure in 2013	–	(255)	–	(51)	–	**(306)**
Expenditure in 2014	–	–	(650)	–	–	**(650)**
Expenditure in 2015	–	–	–	(102)	–	**(102)**
Expenditure in 2016	–	–	–	(77)	–	**(77)**
Expenditure in 2017	–	–	–	(37)	–	**(37)**
Expenditure in 2018	–	–	–	–	–	–
Balance at 31 December 2018	–	–	–	**52**	–	**52**
Allocations from 2013 surplus	1 150	550	950	–	150	**2 800**
Expenditure in 2015	(228)	(123)	–	–	(33)	**(384)**
Expenditure in 2016	(796)	(385)	–	–	(50)	**(1 231)**
Expenditure in 2017	(126)	(33)	(33)	–	(18)	**(210)**
Expenditure in 2018	–	(9)	(95)	–	(20)	**(124)**
Balance at 31 December 2018	–	–	**822**	–	**29**	**851**
Allocations from 2014 surplus	286	–	100	–	–	**386**
Expenditure in 2016	–	–	–	–	–	–
Expenditure in 2017	(286)	–	–	–	–	**(286)**
Expenditure in 2018	–	–	–	–	–	–
Balance at 31 December 2018	–	–	**100**	–	–	**100**
Allocations from 2015 surplus	693	–	694	–	–	**1 387**
Expenditure in 2016	–	–	–	–	–	–
Expenditure in 2017	(355)	–	(575)	–	–	**(930)**
Expenditure in 2018	(338)	–	–	–	–	**(338)**
Balance at 31 December 2018	–	–	**119**	–	–	**119**
Allocations from 2016-17 surplus	1 200	300	–	–	–	**1 500**
Expenditure in 2018	(201)	(91)	–	–	–	**(292)**
Balance at 31 December 2018	**999**	**209**	–	–	–	**1 208**

Note 17 – Net assets

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

1. *Reserve* includes the Working Capital Fund which was established in accordance with the Financial Regulations of the Centre to temporarily finance expenditures pending receipt of firmly pledged voluntary contributions and other income to be received under signed agreements. Its target level has been established at €2.0 million.

2. *Accumulated balances* include the following:

- *General Fund*: the main operating fund of the Centre for training activities which represents the accumulated surpluses and deficits of the current and past years;
- *Innovation Fund*: established as a sub-fund of the General Fund to promote innovation in learning and knowledge-sharing tools, develop new training activities in response to emerging ILO policies, and embed best practices and excellence in the Centre's learning and training activities;
- *Campus Improvement Fund*: established by the Director to receive funds specifically for the refurbishment of the campus; and
- *Italy Trust Fund*: established to receive funds from the Italian government for training activities.
- *Employee benefits*: represent the impact on changes in actuarial gains and losses.

Note 18 – Contingent assets

	2018	**2017**
ILO contribution	3 654	6 897
Government of Italy – Centre's operations	7 850	7 850
Funding agreements	1 015	1 072
Total contingent assets	**12 519**	**15 819**

Note 19 – Related party transactions

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

	2018	**2017**
General operations	3 492	3 939
Training activities	8 760	9 857
ASHI contribution for former employees	785	775
Repatriation grants	–	–
End–of–service benefits	392	709
Staff costs of ILO staff members assigned to Centre	287	215
Internal audit, legal and HR services	219	149
Total related party transactions	**13 935**	**15 644**

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

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

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

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

	2018		**2017**	
Category	Full-time equivalent	Total remuneration	Full-time equivalent	Total remuneration
Key Management	7.6	1 402	7.8	1 508

There were no loans or advances granted to key management personnel and their close family members which were not available to other categories of staff in accordance with Staff Regulations.

Note 20 – Capital management

The Centre defines the capital that it manages as the aggregate of its net assets, which is comprised of accumulated fund balances. The objectives in managing capital are to safeguard its ability to continue as a going concern, to fund its asset base and to fulfil its mission and objectives as established by its member States and donors. The overall strategy with respect to capital management includes balancing the costs of its operating and capital activities which can extend over multiple financial periods with its funding from voluntary contributions and revenue earned from its training activities.

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

Report of the External Auditor to the Board on the audit of the Financial Statements of the International Training Centre of the International Labour Organization for the year ended 31 December 2018

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

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

We have the honor to transmit the Report of the External Auditor on the Financial Operations of the International Training Centre of the International Labour Organization for the financial year 2018.

Our report as External Auditor of the Centre contains the results of our audit of the 2018 financial statements, and also our observations and recommendations on the review of human resource management. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Centre.

Our audit was conducted in accordance with International Standards on Auditing. Where appropriate, we included other information required under the said Standards. We addressed the matters relative to the review of the Centre's financial statements that came to our attention during the audit that we believe the Board of the Centre should be aware of. We will be pleased to elaborate on any of these points during the Board meeting in May 2019.

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

Yours sincerely,

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

Quezon City, Philippines
18 March 2019

Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

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

For the Financial Year Ended 31 December 2018

REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL OPERATIONS OF THE INTERNATIONAL TRAINING CENTRE OF THE INTERNATIONAL LABOUR ORGANIZATION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Contents **Page**

EXECUTIVE SUMMARY

Introduction

This Report of the External Auditor on the audit of the financial operations of the International Training Centre (ITC, also referred hereto as the Centre) of the International Labour Organization (ILO) is issued pursuant to Chapter IX of the Financial Regulations of the Centre. It contains the results of the audit on the financial statements for the financial year ending 31 December 2018 and the observations with respect to the administration and management of the Centre as required under Regulations IX.25.

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

Overall results of the audit

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

Our audit resulted in the issuance of an unmodified audit opinion[2] on the Organization's financial statements for the financial year ended 31 December 2018. We concluded that the financial statements present fairly, in all material respects: (a) the financial position of the Centre for the year ended 31 December 2018; (b) its financial performance; (c) the changes in net assets; (d) its cash flows; and (e) the comparison of budget and actual amounts of its expenditures for the said year in accordance with International Public Sector Accounting Standards (IPSAS).

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

In line with Regulation IX.25, we provided Management with recommendations that are designed to support the objectives of Centre's work, to reinforce its accountability and transparency, and to improve and add value to Centre's financial management and governance. For financial year 2018, we conducted a review of the human resource management of the Centre with focus on recruitment and selection, staff performance evaluation and collective bargaining processes. We noted improvement opportunities to further enhance the human resource management work of the Centre such as the need to re-evaluate the present pre-recruitment procedures, the enhancement of the performance management system and the conduct of staff management relations training, among others.

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

Summary of recommendations

We provided recommendations which were discussed in detail in this Report, the salient points of which were as follows:

Financial management and reporting

a. evaluate and analyze the effects and implications of the journal entries for standard costs in Statement II, particularly on the accuracy and proper presentation of the expenses incurred and recorded during the year including the appropriateness of the recognition of miscellaneous income, to ensure compliance with IPSAS, and financial regulations and rules of the Centre;

b. facilitate the review of the receiving function with emphasis on the invoices from large suppliers which are still being received on hard copies (2-way match), to ensure that Financial Services fully automate the workflow and facilitate the overall monitoring of its liabilities. We reiterate that responsible process users faithfully and consistently comply with all Procure-to-Pay rules and procedures;

Human resource management

c. re-evaluate the present pre-recruitment procedures with the end view of addressing, to the extent feasible, the root causes of delays in recruitment. It is further recommended that the Selection Committee, after consultation with the JNC, facilitate the review, approval and issuance of the corresponding amendatory Circular which should include, among others:

i. prompt posting of vacancy announcement for regular recruitment and enhance the written procedures on the recruitment process;

ii. optimum days required for the entire recruitment process and ensure that the agreed time periods are enforced, to the extent feasible, to avoid delays; and

iii. guidelines of conducting interview and assessment of candidates;

d. conduct a cost-benefit analysis on the need for a software application on the maintenance of Rosters and Pools of candidates and if deemed feasible, the preparation of proposal to fund the project;

e. integrate into the Centre's performance management system, predetermined standards and success indicators which are to be cascaded down to the operational level while addressing the issue of performance rating and appraisal form which is negotiated with the Staff Union in the JNC, as performance management affects the conditions of the employment of staff;

f. ensure that staff performance feedbacks are documented in the Centre's performance evaluation system and appropriately monitored for more effective and concrete feedback protocol on staff performance and to better support future performance assessments;

g. initiate a proposal in consultation and agreement with the JNC, to link more closely the Recognition and Awards Programme to its performance management system cycle;

h. facilitate the formalization of the procedures to be followed in addressing and escalating staff's disagreements on the results of their performance appraisals;

i. remind formally the Parties of their right for a Secretary as provided under the Staff Regulations and the Recognition and Procedural Agreement to ensure appropriate representation in the JNC;

j. remind formally the Parties that any request to review the operation of the Recognition of Procedural Agreement, or parts of it such as the RP, should be done formally in writing to the JNC, in accordance with Art. 8 of the Agreement, especially in revisiting and reconsidering the procedure and making the essential changes, if warranted; and

k. implement regular trainings on staff management relations issues for both the Management and Staff Union representatives that will further improve interpersonal relationships and provide better understanding of the substantive concerns of each party that would resolve differences constructively.

Implementation of External Auditor's recommendations in prior years

We recognize the actions made by the Centre Management that have led to the implementation of prior years' recommendations. We recommend that Management continue its efforts to prioritize the full implementation of the audit recommendations which dealt with accounts receivable monitoring, finance manual, embedding of a clear definition of accountability in the accountability framework; inclusion of a well-defined accountability roles and responsibilities as well as mechanisms and tools to facilitate the documentation and monitoring of accountability performance and achieved better transparency; summarizing its internal control arrangements in relation to its overall framework of governance through crafting of a most appropriate Internal Control Framework; and preparing a travel handbook containing and harmonizing all of the Centre's travel circulars, policies, guidelines and procedures for both staff and non-staff to support their information needs and further clarify travel process controls.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed as the External Auditor of the ILO for the 75th and 76th financial periods, with the appointment to commence on 1 April 2016 for a period of four years[3]. Under Regulation IX.24, the External Auditor of the ILO is also the External Auditor of the Centre. The mandate was further extended for another four years by the ILO Governing Body at its 334th session for the 77th and 78th financial periods, covering the period 1 January 2020 to 31 December 2023.

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

[3] GB.323/PFA/6

Scope and objectives

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

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

> financial statements present fairly the financial position of Centre as at 31 December 2018, the results of its financial performance, the changes in its net assets, the cash flows of the Organization and the comparison of its budget with actual amounts of expenditures for the financial year ended 31 December 2018 in accordance with IPSAS;
>
> accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial year; and
>
> transactions that have come to our notice or that we have tested as part of the audit, comply in all significant respects with the Financial Regulations and legislative authority.

We also conducted a review of the Centre's operations pursuant to Financial Regulation IX.25 in order to identify any issues with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of its operations. For the financial year 2018, we reviewed the human resource management of the Centre with specific focus on recruitment and selection, performance evaluation and collective bargaining processes.

Overall, our audit was carried out as per the Audit Plan presented to the Board in October 2018 and is intended to provide independent assurance to the Members of the Board, reinforce transparency and accountability in the Centre, and support the objectives of the Centre's work through the external audit process.

Methodology and auditor's responsibilities

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

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

We communicated with the Board of the Centre, who is charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during the audit. We also reported the audit results to the Centre's Management in the form of audit observation memorandums containing detailed observations and recommendations. This practice provides a continuing dialogue with Management.

We coordinated planned audit areas with the Chief of the Office of Internal Audit and Oversight to avoid unnecessary duplication of efforts and determine the extent of reliance that could be placed on the latter's work as required under the ISA.

Management responsibilities

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Centre's ability to continue as a going concern. Those charged with governance are responsible for overseeing the Centre's financial reporting process.

B. AUDIT RESULTS

This section presents the results of the audit for the financial year 2018. It covers matters that in our opinion should be brought to the attention of the Board of the Centre. We afforded the Centre's Management the opportunity to comment on observed Centre's operation weaknesses in our audit observation memorandum to ensure balanced reporting. The recommendations provided to Management are designed to support the objectives of the Centre's mandate, to reinforce its accountability and transparency as well as to improve and add value to Centre's financial management and governance.

B.1 Audit of financial statements

B.1.1 Opinion on the financial statements

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

(a) Statement I. Statement of Financial Position;
(b) Statement II. Statement of Financial Performance;
(c) Statement III. Statement of Changes in Net Assets;
(d) Statement IV. Statement of Cash Flow; and
(e) Statement V. Statement of Comparison of Budget and Actual Amounts.

We issued an unmodified opinion on the Centre's financial statements. We concluded that the financial statements present fairly, in all material respects, the financial position of the Centre for the financial year ended 31 December 2018, the results of its financial performance, the changes in net assets, the cash flows, and the comparison of budget and actual amounts of its expenditures in accordance with IPSAS.

B.1.2 Application of accounting policies and test of transactions

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

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

B.2 Financial management and reporting

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

B.2.1 Effects of the journal entries for standard costs

Our audit of the accounts comprising the Statement of Financial Performance (Statement II) for the financial year 2018 disclosed that the Centre uploads monthly journal entries in the general ledger pertaining to standard costs after the completion of the various activities conducted by the Centre and after the final budget for each of this activity is closed. These standard costs were based on the Centre's 2018 Pricing Policy, considered for budget monitoring purposes. Therefore, these journal entries should not affect the balances of accounts in Statement II.

Management explained that these journal entries were debits and credits to an expense account which do not affect the total expenses as at year end. Management attests the accuracy and proper presentation of the expense accounts in the financial statements. However, the final balance of this account resulted in a negative ending balance. Management further explained that the expenses incurred by the Centre on this account are recovered from activities, from the perspective of budget. As a result, the negative balance was reclassified to miscellaneous revenue.

While the net deficit at year-end is not affected by the journal entries for standard costs, our analysis of these entries disclosed that this resulted in a reclassification of actual expenses already recorded in the general ledger to another revenue account.

It was also noted that some expense account resulted in negative balances after uploading the entries for standard costs. It is reiterated that these negative balances are treated by the Centre as recovery of costs from the activities and is reclassified to miscellaneous income at year-end.

We recommended that the Centre Management evaluate and analyze the effects and implications of the journal entries for standard costs in Statement II, particularly on the accuracy and proper presentation of the expenses incurred and recorded during the year including the appropriateness of the recognition of miscellaneous income, to ensure compliance with IPSAS, and financial regulations and rules of the Centre.

Management response

Management implemented this process when IPSAS was adopted in 2012 in order to ensure that costs initially recorded under certain cost centers were then recovered from the appropriate activities through the application of standard costs (or fixed rates), as established in the Centre's Pricing Policy. Every year, an estimate of the standard cost is performed, however this may result in small differences with actual costs. In those instances, any surplus is reclassified to miscellaneous revenue, as per the Financial Regulations and IPSAS, to ensure that expenditures are not underestimated when presented in Statement II.

B.2.2 Procure-to-pay process in the Oracle Application

The streamlining of the business process in the new procure-to-pay cycle of the Oracle Application (OA) results in the automation of various tasks within the process that previously were completed manually on paper. Financial Services continuously monitors attachments, and this has shown improvements over the past year. The functionality of attaching mandatory supporting documents to purchase order (PO), receiving and invoice modules in the OA facilitates the initiative towards paperless transactions. The transactional item attachments when placed in a proper OA module will facilitate transactional review and the 3-way match as the documents and information are readily available and accessible by the Centre for quick reference and resolution of everyday issues, as well as audits.

As noted in the previous audit, this specific functionality is supported by procedures including the list of documents required to be attached to each of the module and transactions that require receipt. Reminders were also included in the notifications to ensure compliance with the policy of attaching supporting documents to appropriate module.

On this basis, we tested the OA process functionalities and we noted gaps on the attachment of supporting documents and on the requirement of Certification on Satisfactory Performance. Management explained that for certain transactions, a two-way process was maintained whereby the PO is received on the paper invoice. This was because the receiving requires the unit to perform a full reconciliation of the invoice thus, this reconciliation and the signature are considered as the receipt and are accepted as such. Management further elaborated that this is the current and approved procedure as seen on the PO type (2-way or 3-way). In 2019, this will be reviewed as the Centre is moving towards a 3-way match for nearly all transactions.

We recognize the efforts of the Centre's Management in improving the procure-to-pay process and encourage the responsible process users to faithfully and consistently comply with the whole Procure-to-Pay process.

We recommended that the Centre Management facilitate the review of the receiving function with emphasis on the invoices from large suppliers which are still being received in hard copies (2-way match), to ensure that Financial Services fully automate the workflow and facilitate the overall monitoring of its liabilities. We reiterate that responsible process users faithfully and consistently comply with all Procure-to-Pay rules and procedures.

Management response

Management recognizes that certain larger transactions are subject to a slightly different process than the standard 3-way match in Oracle. This was put in place at the time of the implementation of the Oracle upgrade, due to the significant changes already required on all other transactions.

These previous decisions are now being revisited to bring as many transactions as possible under the standard 3-way process in Oracle.

B.3 Review of human resource management

We reviewed the critical areas of human resources management, specifically the recruitment and selection, performance evaluation, and collective bargaining processes, with the view of assessing how the risk control mechanisms in place, through policies and procedures, are influenced by the overall governance arrangements within a given office or the Centre itself. Such review is aligned with our mandate under Financial Regulation IX.25 of the Centre. The succeeding discussions highlight the results of our review.

B.3.1 Recruitment and selection

B.3.1.1 The need to enhance and update the written procedures on the recruitment process

The recruitment and appointment regulations of the Centre are embodied in Chapter 1 of the Staff Regulations and its Annex H thereof, Human Resource Services (HRS) Circular No. 02/28 dated 10 December 2002 (Employment Contracts at the Centre), Personnel Office (PO) Circular No. 90/10 dated 04 April 1990 (Rules of Procedure of the Selection Committee), and other pertinent documents.

The application and recruitment process of the Centre's *e*-Recruitment programme is posted in the website https://erecruitment.itcilo.org/. The application process includes an overview, log in procedure, registration for first-time users, completing one's profile, and completing the application form. On the other hand, the Recruitment process covers procedures for screening of applications, written test and interview, selection notification, and reference checks.

We determined that at present, the Centre needs to further enhance and update its structured and specific guidelines/procedures in filling up vacancies specifically on the detailed written procedures. This is to guide and document each step of the recruitment process.

Upon inquiry, Management highlighted that the vacancy announcement is a legal document that provides the specific rules whereby a competition will be conducted. It pertains therefore in full to, and complements, the overall regulatory and legal framework governing the recruitment and selection process. As a direct reference to the e-recruitment procedure is made in the vacancy announcement, those procedures are fully incorporated by those means into the normative and regulatory framework governing recruitment and selection.

We noted, however, that draft Circular providing the Selection Committee's terms of reference and rules of procedures, was prepared by the HRS. This was to complement the existing detailed written procedures to guide and document each step of the recruitment process. It is determined that the circular is awaiting approval and its issuance needs to be facilitated. If approved it should be disseminated to all staff, consistently applied and effectively implemented, with due regard to transparency and timeliness.

B.3.1.2 The need to evaluate the cause of delays in pre-recruitment activities

Moreover, in our review, we noted that in certain instances, there was long period of recruitment entailed from pre-recruitment activities and the Vacancy Announcement (VA) posting period following the present practice of the Centre, which determined an average of 208 days.

Management explained that, in those instances, there were specific circumstances and sensitive issues, which the Director had to consider in exercising prudent management in the best interest of the Centre and in line with the Statute of the Centre. This had resulted, in certain instances, in an extended recruitment process.

Apparently, the Centre's advertisement of vacant posts has consistently followed the standard guideline of two weeks for General Service (GS) positions and four weeks for Professional (P) positions. This arises from long standing internal working arrangements agreed since the inception of the Selection Committee in 1989, which was currently drafted with a corresponding HRS Circular. Hence, we push forward for the approval and issuance of the draft circular to formalize the procedures in the pre-recruitment process.

B.3.1.3 The need for an optimum time to fill vacancies

Further, we noted that the length of time taken to fill vacant posts is in an average of 162 days, which, while not differing substantially from other United Nations (UN) entities, could impact the management of the recruitment and selection processes as well as the delivery of the Centre's programmes. Management explained that the starting date of an official is based on factors such as the amount of notice that the appointed official needs to give prior to joining the Centre, or other circumstances. Also, to be considered, is the possibility that an appointed official may change his mind, in which case the verification process (i.e. references check), contractual procedures, and period of notice will start all over again for the second classified candidate.

In as much as HRS is the process owner in the recruitment process and indeed actively follows up with all actors involved to respect the timeline proposed by the Selection Panel, it is a fact, rather than an excuse, that the members of the Selection Panel are carrying out their tasks on top of their normal duties. Nevertheless, an aspirational timeline can be made a reality with the cooperation of all the parties involved in filling up vacancies (and not just the HRS) in setting a policy for the optimum number of days allowed for the entire recruitment process. It is underscored that limited human resource can overload existing work force to the detriment of the Centre's operations.

The Centre's HR Strategy for 2018-21 states that a more efficient and effective recruitment process will be implemented, following consultations in the Selection Committee and the Joint Negotiation Committee (JNC). To address the need, the functions of all the involved members in relation to recruitment has to be highlighted as equally critical and therefore the members' cooperation and availability has to be given definite time allotments so that the related delays in the hiring process is ably addressed.

Management commented to consider that the members of the Selection Committee continue to discharge their professional duties and obligations linked to their official functions during the selection process, and these continue to be as critical as those discharged in the selection process. There is therefore a need to strike a reasonable balance between equally important priorities.

Striking a reasonable balance, nonetheless, necessitates prioritization and compromise, thus, the Centre can develop and draft a policy guideline with regards to the optimum number of days allowed for the entire recruitment process.

B.3.1.4 The need to formalize the interview and assessment mechanism

We observed that all final shortlisted candidates are indeed asked uniform questions, specific to the post requirements in terms of technical skills as well as attributes and behaviours and are rated accordingly. A standard '*interview protocol'* is used and followed for each vacancy and is annexed to the Selection Panel's final report to the Director. Management revealed that the Selection Committee members have been trained to administer these interviews. This is in line with good practice to avoid any cognitive bias while conducting the interview process. The interview protocol consistently uses the same rating system, on a scale from 1 (poor) to 5 (excellent) for each question and for each different vacancy.

However, the current practice in the conduct of assessment and interview are not yet formalized in a duly approved Circular. The Management for their part explained that existing interview mechanism is already based upon uniform criteria, and as it will indeed be formally integrated in the new Circular.

We recommended that the Centre Management re-evaluate the present pre-recruitment procedures with the end view of addressing, to the extent feasible, the root causes of delays in recruitment. It is further recommended that the Selection Committee, after consultation with the JNC, facilitate review, approval and issuance of the corresponding amendatory Circular which should include, among others:

a) **prompt posting of vacancy announcement for regular recruitment and enhance the written procedures on the recruitment process;**

b) **optimum number of days required for the entire recruitment process and ensure that the agreed time periods are enforced, to the extent feasible, to avoid delays; and**

c) **guidelines on conducting interview and assessment of candidates.**

Management response

Management agrees in principle with the recommendation and has already taken proactive action to formulate proposals to the Selection Committee, and for further consultation of the JNC. It also agrees on setting of timelines for the recruitment process, in line with the strategic direction to make the recruitment process leaner and more effective, bearing in mind the necessity to strike a reasonable balance between the discharge of official functions and the role in the Selection Committee of its members.

B.3.1.5 The need to enhance the maintenance of Rosters and Pools of candidates

Rosters based on specific job openings have the potential to add value, appear to be cost effective, and encourage the organizations to adopt rosters for specific categories of posts and occupational groups, as appropriate. Consideration should be given in developing or acquiring a system for the maintenance of rosters and pools of candidates that can speed up the recruitment process, as the length of the recruitment process is a major factor for human resources management.

Management commented that candidate pooling, i.e. using a pool of candidates identified in a competition for the filling of a similar vacant job, needs to be carefully reviewed in light of the provisions of Art. 1.3 of the Staff Regulation, that calls for advertising positions as widely as possible in order not to deprive other potential candidates of equal opportunities to apply.

In light of the above, Management highlighted that it sees the utility of such a roster, where the profiles can be stored, kept up-to-date and be available to the training programmes and administrative units of the Centre, for the purpose of consultancy assignments where specific expertise is required, or for short-term assignments. It requires further analysis in order to be used for recruitment purposes on regular positions. Hence, a thorough cost-benefit analysis would need to be conducted before software acquisition or development can be considered.

We recommended that the Centre Management conduct a cost-benefit analysis on the need for a software application on the maintenance of Rosters and Pools of candidates and if deemed feasible, the preparation of proposal to fund the project.

Management response

Management agrees to conduct a feasibility study and to carefully assess the expected benefits against costs. The acquisition of a software application and/or development, which will be needed for the roster to be truly operational, requires proper planning with the assistance of ICTS for the software technical part and HRS staff to be assigned to this task.

B.3.2 Performance management system

B.3.2.1 The need to shift from measuring tasks/quantities to measurable/assessable goals

The Centre's present performance system connotes task-based evaluation system, wherein a staff's performance is evaluated based on the work assignments performed during the review period, rather than a goal-oriented one. The review of Performance Appraisal Sheets shows list of work assignments during the review period and corresponding tasks, and how the responsible Chief described the effectiveness of the official's performance in each task listed, as well as comments on any other achievements during the review period and the need for staff training.

Our audit revealed that the goal setting is rarely undertaken at the individual level. The appraisal of individual performance itself does not show how and to what extent the staff member has contributed to the Centre's results. Management underscored that the Centre has not fully moved to a Results-Based Management (RBM) approach yet as concerns to performance management.

The performance system of the Centre is wanting of a reliable measurement on how the staff accomplished their tasks in accordance with pre-defined goals and objectives. It is critical for staff to understand the importance of their role and how they contribute to the attainment of the objectives of the Centre. Knowing how the staff contributes increases their level of engagement and motivation.

The individual's work plan or commitment and rating form should be linked to a department/office work plan or commitment and the rating form which is at least results-based to clearly establish the connection between organizational and staff performance. Moreover, performance goals and measurements should be aligned to the Centre's Strategic Plan, mandate, vision, mission, priorities, and to an organizational performance indicator framework; and that accountabilities and individual roles in the achievement of organizational goals are clearly defined to facilitate collective goal setting and performance rating.

We recommended that the Centre Management integrate into the Centre's performance management system, predetermined standards and success indicators which are to be cascaded down to the operational level while addressing the issue of performance rating and appraisal form which is negotiated with the Staff Union in the JNC, as performance

management affects the conditions of the employment of staff.

Management response

Management agrees. The Centre has already engaged in the review of its performance management framework to move from task-based performance appraisal reports to goal and development-setting performance management.

B.3.2.2 The need to establish documentation of feedback mechanisms

Feedbacks and/or comments are critical in ensuring the effectiveness and relevance of an organization's performance management system. It is where interactions take place that enables staff to learn from recent experiences for improving and/or reinforcing better performance and building capabilities. Additionally, it is essential to link feedback directly to the organizational goals and definition of accountability towards attaining quality of deliveries.

It was noted that there is a need for a formal and substantial documentation of progressive discussions and/or indications of any follow-up made with respect to the periodic progression of performances before the year-end appraisal takes place. It was observed that, while current policies recognize the need for ongoing feedback during the appraisal cycle, there was lack of formally documented feedback and interim reviews done on a regular basis. Missing information as to the progress made at a point in time, eventually would not provide a scenario of how well the tasks were undertaken, whether these tasks were progressing in a timely manner or whether the ratings provided are justifiable. As we noted, these matters are fully covered and accepted in the HRS analysis paper.

It is underscored that the establishment of an improved Centre performance management system accompanied by an orientation program for the Centre staff to promote awareness and interest on the system can generate appreciation for the system as a management tool to engage staff as partners in the achievement of organizational goals.

We recommended that the Centre Management ensure that staff performance feedback is documented in the Centre's performance evaluation system and appropriately monitored for more effective and concrete feedback protocol on staff performance and to better support the future performance assessments.

Management response

Management agrees. The Centre will drive the implementation of a new performance management system that would guide staff and managers in setting clear, measurable goals, and in maintaining ongoing formal and informal feedback at any stage of the process.

B.3.2.3 The need to establish the Rewards and Recognition Policy within the Performance Evaluation System

The Staff Regulations (SR), specifically in Article 7.7 (a) provide certain rewards to Centre staff that have been appraised favorably, such that a Supervisor or Chief may recommend the granting of an additional increment to a staff whose performance during the period under review has been appraised as being especially meritorious.

We noted that there is a Recognition Awards Programme (RAP) started in year 2018, through the Director's Office Information Note No. 01/218 dated 31/01/2018. While the eligibility requirements for the awards programme include the requirement that responsible chiefs and staff need to complete the performance appraisals in a timely manner, the actual results of appraisals are not part of the award criteria.

Management explained that the RAP introduces new categories of awards that are distinct from those that are institutionalized in the Staff Regulations (Chapter VII). These awards are intended to reward and recognize Innovation and Teamwork.

The awards programme should place more emphasis on performance evaluation results as a core consideration and criterion. Linking more closely the RAP to the performance appraisals recognizes and reinforces exemplary behavior towards work, which makes the Centre's performance management system more effective thus, motivates staff to perform well if not at their best.

We recommended that the Centre Management initiate a proposal in consultation with the JNC, to link more closely the Recognition and Awards Programme to its performance management system.

Management response

Management agrees to reinforce the notion that eligibility for an award under the RAP is linked to positive performance appraisal, and to consult the JNC accordingly.

B.3.2.4 The need to formalize rebuttal process in performance management system

The rebuttal process contributes to achieving an effective performance management system, as it gives staff members a formal mechanism to present substantive evidence and/or grounds to any disagreements in the resulting appraisal rendered by the supervisor. Whiles the process of dealing with disagreements in general is indicated in Chapter VII, Chapter XII and Annex G of the Staff Regulations, the Centre needs to establish a more structured formal rebuttal procedure.

It was noted that existing policies can be reviewed and improved with regards to the provision regarding the creation of rebuttal panels, specific and detailed procedures in the rebuttal initiation, supporting documents required, forms to be used, processing and review of cases, and timeframes to be followed at every stage of the rebuttal process, up to its completion.

While provisions in the Staff Regulations provide guidance as to where to bring differences/disputes arising from performance evaluations, we bring to fore the need to clarify the role of the Reports Committee and to formalize the procedures to follow for addressing and escalating staff disagreements on the results of their performance appraisals. HRS for their part underlined that the Performance Management System (PMS) document already recognizes the need to formalize the procedures to follow for addressing and escalating staff complaints regarding their appraisals.

We recommended that the Centre Management facilitate the formalization of the procedures to be followed in addressing and escalating staff's disagreements on the results of their performance appraisals.

Management response

Management agrees. The establishment of a formal rebuttal process and a clarification of the role of the Reports Committee will be addressed in the context of the ongoing review of the Centre's performance management system.

B.3.3 Collective bargaining process

The Recognition and Procedural Agreement between the Centre and the Centre's Staff Union, which became effective on November 15, 2000, sets the formal framework for discussion and negotiations concerning human resources of the Centre. It recognizes the importance of establishing a dialogue through the exchange of information and by putting machinery for consultation and collective bargaining through the JNC. The Agreement has been in existence for 18 years and the present conditions may necessitate that it should be revisited in the interest of all Parties to the agreement.

B.3.3.1 Need to adhere to the Staff Regulations on the composition of JNC Secretariat

The Recognition and Procedural Agreement aligned with Article 10.2 (b), Chapter X of the Staff Regulations, states that each of the Parties shall nominate a Secretary. In consonance, Art. 5 (4) of the Recognition Agreement states that two Secretaries shall be responsible for all the administrative arrangements for the meetings, including the production of the draft agenda.

A review of the current collective bargaining process of the Centre revealed that the JNC Internal Rules of Procedure provide that the JNC shall designate a secretary who is normally a HRS official. This is currently the situation of the Centre, as discussed and approved by the JNC in one of the earliest meetings of their existence (2002). None of the Parties has ever formally notified to the other a disagreement on this composition.

Notwithstanding the agreement of the parties, there is currently a misalignment between the Staff Regulations, the Recognition and Procedural Agreement and the internal rules of procedure. We highlight that, even if this composition has never been questioned by any of the parties, the alignment of the Recognition and Procedural Agreement with the internal rules of procedure, within the general provision enshrined in the Staff Regulation, would further clarify the composition of the Secretariat, thus avoiding any possible perception of partiality.

On a general note, Management commented that collective bargaining is viewed as a rule-making process leading to employment regulations or as a negotiating process aiming at shaping ongoing relationships as well as resolving particular issues.

Furthermore on this comment, even though the Rules and Procedures state that there should be two representatives in the Secretariat of the JNC, the Parties have voluntarily agreed to a different composition of the Secretariat and never asked formally in the past years to change the relevant Internal Rules of Procedure, although this option has been open to them ever since. In other words, it is up to both parties to agree with the modification of the current rules and procedures.

We recommended, and the Centre Management agreed, to formally remind the Parties of their right for a Secretary as provided under the Staff Regulations and the Recognition and Procedural Agreement to ensure appropriate representation in the JNC.

Management response

Management agrees and will formally remind to the parties of their right for a Secretary in line with the relevant provisions of the Staff Regulations and the Recognition and Procedural Agreement.

B.3.3.2 Need to appraise the Review Panel (RP) as an effective mechanism

Staff Regulations, Art. 10.2 (e) states that: "if the Joint Negotiating Committee fails to reach agreement, the item on its agenda shall be submitted to a Review Panel". We noted that the RP is an advisory panel, which makes recommendation for the resolution of an issue within 15 working days of being seized.

The Staff Regulation does not define precisely the stages following the RP recommendation. Article 7 of the Recognition and Procedural Agreement is more eloquent and reads as follows in its paragraphs (4) and (5):

> *" …4. The Review Panel shall make every effort to find a solution to the dispute to which both Parties can agree. In the event of a failure to find such a solution, the Review Panel will issue a recommendation to the Parties. Should a Party reject the recommendation, it shall inform the other Party, and the Review Panel, in writing, within no more than 15 working days, of its reasons for non-acceptance.*
>
> *5. Should a recommendation be rejected by one Party, and after written notice to that effect, either Party shall have the right to take such action/s as it deems necessary."*

Paragraph 4.3 of the Internal Rules of Procedure of the JNC explicitly provides that the RP shall make its recommendations to the Director within fifteen (15) working days. At the end of the process, when a party refused in writing to accept a solution or the recommendation put forward by the RP, it will be submitted before the Director who will then have the managerial responsibility whether to adopt the recommendation or take a different course of action, in the best interests of the Centre.

In light of the above, it would be valid to define the complementarity and alignment of the Recognition and Procedural Agreement with the Internal Rules of Procedure and to clarify the different stages following the final recommendations of the RP.

It is noted that, in the 19 years of operation of the Recognition and Procedural Agreement, the Parties have resorted to the Review Panel to address cases of disagreement in one instance only. This rare utilization of this additional conciliation stage, notwithstanding cases of apparent disagreement and long lasting discussions in the JNC have been noted, would call for further examination of its effectiveness. In this light, the Parties should be reminded of their rights to review the Recognition of Procedural Agreement insofar as the scope and mandate of the RP are concerned, to clarify the aspects that may cause doubt and make the necessary modifications, if warranted, that will contribute to the improvement and reinforcement of the collective mechanism of the Centre. It is further noted that the option to formally raise a request for review of the Recognition and Procedural Agreement, or parts of it, is open to both parties under its Art. 8.

Management commented that every time there is a modification in the management of staff relations, such a modification should be carefully examined with a view to avoiding unnecessary possible conflicts in future. All in all, there should be mutual respect for a two-way process: respect for the willingness of the management's proposals and respect for the willingness of the

Staff Union Committee's (SUC) proposals. It is only in this way that mutual trust can be further nurtured between the two parties.

We recommended that the Centre Management formally remind the Parties that any request to review the operation of the Recognition of Procedural Agreement, or parts of it such as the RP, should be done formally in writing to the JNC, in accordance with Art. 8 of the Agreement, especially in revisiting and reconsidering the procedure and making the essential changes, if warranted.

Management response

Management agrees and will formally remind to the parties of their right to request a review or to renegotiate parts of the Recognition and Procedural Agreement in line with the relevant provisions of Article 8 (3) of that Agreement.

B.3.3.3 Need for capacity building on staff-management relation issues for both the Management and Staff Union Representatives

Article 3.4 of the Recognition and Procedural Agreement provides that the Centre and the Union shall from time to time discuss training requirements of Union Representatives. Such training may be carried out on a joint partnership basis, if agreed.

Inquiry from the Chief of HRS revealed that it was a long time since joint or individual training and retreats were conducted for the management and staff representatives. It was acknowledged that there is a need for the management and staff representatives to undergo this kind of training and retreats to build staff management relationships, openness and trust and to update their knowledge and skills in the field of collective bargaining for them to better execute their duties as Management and Staff Union representatives.

We recommended that the Centre Management implement regular training on staff management relations issues for both the Management and Staff Union representatives that will further improve interpersonal relationships and provide better understanding of the substantive concerns of each party that would resolve differences constructively.

Management response

Management agrees to the recommendation.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

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

Audit Report	Number of Recommendations	Implemented	In Progress	Not Implemented
2017	3	2	1	0
2016	8	2	6	0
2015	2	2	0	0
Total	13	6	7	0

It can be noted that four recommendations in 2016 have been initiated but the final implementation is planned by Management in 2019 for the first three and the last one, in the next biennium, due to other priorities and lack of resources. These recommendations are: a) embedding of a clear definition of accountability in the accountability framework; b) inclusion of a well-defined accountability roles and responsibilities as well as mechanisms and tools to facilitate the documentation and monitoring of accountability performance and achieved better transparency; c) summarizing its internal control arrangements in relation to its overall framework of governance through crafting of a most appropriate Internal Control Framework; and d) a travel handbook containing and harmonizing all of the Centre's travel circulars, policies, guidelines and procedures for both staff and non-staff to support their information needs and further clarify travel process controls.

Further, two audit recommendations contained in the audit report of the previous External Auditor for the financial year 2015 pertain to the accounting treatment on land and buildings, and accounting for employee future benefits. Management has not decided to record the leased land and buildings as was raised as it awaits further developments in the various accounting treatments used in the UN System and the further difficulties in having these assets externally valued. Regarding the accumulated leave portion of the employee benefits, we were informed by Management that the amount involved when discounting the non-current portion is insignificant and thus, this was not recorded. This will subject to future re-assessment. The recommendations are discussed in the Appendix of this Report.

D. DISCLOSURES BY MANAGEMENT

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

D.1 Contingent assets pertaining to voluntary contributions

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

D.2 Receivables

Receivables of €12,756,000 (€4,823,000 for 31 December 2017) as shown on the Statement of Financial Position, represent bona fide claims against debtors and donors for services rendered, funds receivable based on signed agreements in respect of future training activities and consultancy services that are subject to conditions, or other charges arising on or before 31 December 2018. The significant increase of €9,100,000 related to training services agreements held at the end of the year. Receivables totaling €81,000 that were more than two years old are provisioned as doubtful accounts and considered impaired based on individual assessment.

The balance due from the ILO of €1,425,000 (€2,102,000 for 31 December 2017) as shown on the Statement of Financial Position represents the net balance of the current account with the ILO to record transactions including ILO's voluntary contribution for the general operations of the Centre, staff costs and disbursements for the Centre's training activities incurred by the ILO on behalf of the Centre, as well as remittances made to the ILO.

D.3 Payables

Liabilities of the Centre totaling €21.8 million is composed primarily of €17.2 million pertaining to funds advanced by donors and sponsors for specific training activities/projects and funds receivable based on signed agreements with participants and their sponsoring agencies in respect of future training activities and consulting services that are subject to specific performance conditions. As compared with 2017, deferred revenue increased by 186 per cent mainly due to the Centre having signed multi-year agreements resulting in increased advances received from the sponsors in addition to voluntary contributions receivable related to signed agreements.

D.4 Cases of fraud and presumptive fraud

Management is not aware of any reported cases of fraud and presumptive fraud in the financial year 2018 as well as any conflicts of interest involving the Centre where it has, directly or indirectly, entered into any purchase, sale or any other transaction with a member of the Board, a member of senior management, a manager, or with an organization in which one of these persons had a direct or indirect interest.

D.5 Ex-gratia payments

Management reported that there were no ex-gratia payments made by the Centre in financial year 2018.

E. ACKNOWLEDGEMENT

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

Commission on Audit
Republic of the Philippines
External Auditor

18 March 2019
Quezon City, Philippines

Appendix

STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PRIOR YEARS

	Recommendation	External Auditor's Validation
2017		
1	**Financial Management: Centre's operational results** Evaluate closely the movements and fluctuations of its revenue and expenditures streams to determine the most optimal strategy to improve its operating bottom line and enhance further its financial condition.	**Implemented** Management re-affirms that the Statement II alone cannot provide users with the information on which to assess the health of the Centre and that they need to also consider other financial and non-financial information, such as the ratios of the Statement of Financial Position. In 2018 because of differing recognition between revenue and expenditure, the deficit is at 14,000 euros only. However, this is again due to the timing of transactions on both the revenue and expenditure, and the accounting policies of IPSAS. It is noted that for the ILO and every other IPSAS-compliant organization, such variations are also observed. IPSAS standards are very much focused on the Statement of Financial Position and the Statement of Financial Performance records all movements coming from the changes in the position of the organization.
2	**Financial Management: Procure-To-Pay Process in the Oracle Application** (reiterated in 2018) Continue its efforts in informing all process users of their responsibilities including the requirement to attach certain mandatory documents to the appropriate area in the Oracle Application to comply with its internal procedures.	**Closed** In 2018, further reminders have been issued to staff and a specific follow-up with the missing documents identified in April and November 2018 was carried out to ask the staff concerned to attach the missing documents. Finserv continues to monitor this situation and will continue to issue reminders, if necessary, in the future.
3	**Financial Management: Accounts receivable monitoring** Our review of the receivable monitoring and following up process as well as the estimates used for the provision of doubtful accounts receivables revealed that the current practice is not aligned with Circular No. DIR 04/2007. We recognize that the Centre's Management review of existing policy, rules and procedures on receivables to align them to its existing current practices.	**On-going** A draft Circular was circulated to all training and service units for comments. This Circular now includes the full process of enrolment, invoicing, collection, provision and write-off. This was initiated in early 2018 and due to various priorities, a delay occurred in the final issue of the Circular (some parts of the process were reviewed and amended at the same time and standardization of forms was also brought in). The provision process is updated and reflects the current practice of reviewing all AR older than 1 year – one by one – since the Centre is unable to apply a straight percentage due to the differing situation of each AR. This Circular is planned for issue around April 2019.

	Recommendation	External Auditor's Validation
2016		
4	**Financial Management: Development of formal IPSAS Manual, Finance Manual and formal Chart of Accounts** Prepare and develop a formal IPSAS and Finance Manuals integrating therein a) all standards adopted and the mechanism for review, updates and approval; b) the financial policies and procedures; c) the formal chart of accounts: and d) the process flowcharts and system descriptions to serve as a comprehensive guide in financial management and reporting that will ensure compliance with the requirements of IPSAS.	**Completed** Regarding the IPSAS Manual, significant comments were provided to the ILO as they are the lead in this project. The Centre has now included the final version on its intranet website. **On-going** The Finance Manual is still outstanding. Each Circular (new or newly amended) now incorporates the procedures of the process involved and eventually, this will all be put together to form the financial manual. In addition, we are starting to document our internal financial processes. **For Review** As explained previously, there is no priority given to this as the current chart of account meets the needs of the Centre for reporting purposes. There is no reference in IPSAS on how a chart of account should be set up and thus, reference to IPSAS in your recommendation should have been deleted. EA will review this in the next year audit.
5	**Accountability Framework: Embedding of a clear definition of accountability in the accountability framework** Embed in the Accountability Framework a clear, particular and appropriate definition of accountability as it purports in the framework to highlight the meaning and limitations of accountability in the context of the Centre's operation.	**On-going** Discussions have been initiated and this is planned for 2019 due to the lack of resources and other priorities.
6	**Accountability Framework: Inclusion of well-defined accountability roles and responsibilities as well as mechanisms and tools** Include in its Accountability Framework: a. Clear depiction of roles and responsibilities of all key stakeholders and key players in its accountability continuum to entrench better the culture of accountability and related dependencies within the core of its operations. b. Include the accountability mechanism and tools to effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency.	**On-going** A preliminary review has been undertaken and the final implementation is planned in 2019.

	Recommendation	External Auditor's Validation
7	**Asset Management: Enhancement of asset management policy on lost assets, write off and asset disposal** Enhance its asset management policy by: a. incorporating the criteria defining various circumstances surrounding asset loss, guidelines for documentation and levels of administrative and fiscal responsibility for every type of circumstance defined as the cause of asset loss; and b. improving its policy on the assessment of impairment, disposal and write-off of supplies, equipment and other assets to align it to its Financial Rule.	**On-going** Preliminary discussions have been held and the final implementation is planned in 2019.
8	**Risk Management: Risk management framework - specific definitions for critical risk terminologies** a. Include in its Framework the definition of critical and key terms to assist in the implementation of its ERM policy, rules and procedures thus better guide the risk owners b. Adhere to the categorization of the risks by source as prescribed by the Framework c. Develop a risk appetite statement as an effective way to communicate to all officials the level of acceptable risk and subsequently the basis to evaluate and monitor the level of risk that the Centre consents and faces is within an acceptable range.	**Implemented** The categories of risks were included in the ERP Circular (revision 1) as well as in the corporate risk register. The risk appetite definition, the risk categories and the key terms and necessary definitions were included in the ERP Circular (revision 1) in 2018.
9	**Risk Management: Formulation of risk statements and risk communication structure** a. Adhere to the defined template and standard formulation of risk statements as prescribed in the Centre's Framework for risk documentations; and b. Incorporate within the RMF, Rules and Procedures, a well-structured risk communication structure to facilitate the completion of an accurate risk inventory within the corporate risk register, for the efficient and effective escalation of information to foster better coordination and expedite evaluation in the establishment of a Corporate Risk Register.	**Implemented** The template was updated to incorporate the categories and most risk registers were updated for the formulation of the risk statements. In addition, the escalation process as well as the evaluation process followed by the RMC has also been included in the revised ERP Circular.
10	**Internal Control: Internal control framework** Summarize its internal control arrangements in relation to its overall framework of governance through the crafting of a most appropriate Internal Control Framework to ensure more effective strategic management of its embedded controls and to align these controls more closely to the other governance mechanisms.	**On-going** Preliminary review of what is required was undertaken and this is planned for 2019. Delays are due to lack of resources and other priorities.

	Recommendation	External Auditor's Validation
11	**Travel Management: Institution of travel handbook** a. Prepare a travel handbook containing and harmonizing all the Centre's travel circulars, policies, guidelines and procedures for both staff and non-staff to support their information needs and further clarify travel process controls; and b. Document the classification and categorization of all circulars published to identify the level of authority and scope.	**On-going** Brainstorming has been carried out twice within the Finserv group – an application will need to be developed for this process as a One-stop shop option is not possible due to the significant needs noted. Several consultation meetings are planned for 2019 and implementation of the new process, the travel manual and the application will occur in the next few years, as this is a significant project. The classification of documents is actually already in place within IT documents (for the ISO certification). Some additional information will be needed however due to the lack of resources and other priorities; this will be addressed later once the above points are completed.
2015		
12	**Financial Reporting: Accounting treatment for land and buildings** Continue monitoring the discussions held in the United Nations System on recognizing the nominal cost of this service. The inclusion of such a cost in the Centre's financial statements would make the financial information more transparent.	**Completed** No changes to the accounting treatment of the campus in the Centre's Financial Statements. Due to constraints in determining a fair value, this continues to be monitored.
13	**Financial Reporting: Accounting for employee future benefits** Continue to monitor the impact of not discounting the non-current portion of the liability of future benefits related to accumulated leave as well as the repatriation grant and travel expenses as required by IPSAS 25 (now IPSAS 39) as it may become material in the future and the needed correction would then impact the Centre's surplus.	**Completed** The repatriation grant and travel expense liability are now subject to an actuarial valuation. Regarding accumulated leave, an actuarial valuation was carried out on the 2017 figures and the outcome confirms that the current method results in similar results. Due to the work involved but also the associated costs, the ILO and the Centre opted to continue with the current method of valuation as the results do not differ. In 2018, the difference for discounting on the non-current portion of accumulated leave amounted to €27,000. This is re-assessed every year.