INTERNATIONAL TRAINING CENTRE OF THE ILO

Officers of the Board of the Centre

Meeting of Officers of the Board, 22 May 2020

FOR DECISION

FIRST ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the year ended 31 December 2019

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Financial report on the 2019 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 2019 financial statements in addition to the Independent Auditor's Report, are also submitted to the Board of the Centre in accordance with Article 27 of the Financial Regulations.

2. The 2019 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 conditions, 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 15 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 2019

5. The table below summarizes the IPSAS-based financial results and budget results of the Centre in 2019 as compared to its previous years:

(in thousands of Euros)

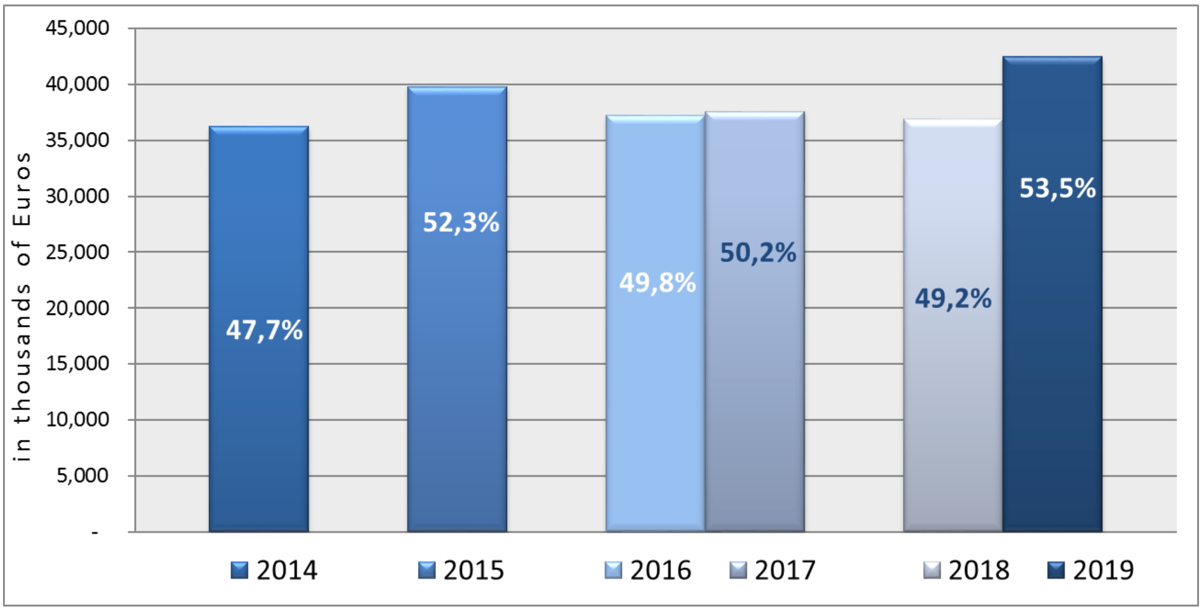
	2019	**2018**	**2017**	**2016**
Revenue	42 464	36 917	37 581	37 225
Expenditure	41 252	36 931	39 052	38 689
Net surplus (deficit)	**1 212**	**(14)**	**(1 471)**	**(1 464)**
Assets	40 265	37 134	26 657	27 210
Liabilities	23 942	21 874	11 476	10 558
Net assets	**16 323**	**15 260**	**15 181**	**16 652**
Budget surplus	**2 138**	**950**	**712**	**1 052**

The IPSAS-based 2019 net surplus amounts to €1.212 million and incorporates the total financial results of all Funds of the Centre whereas the budget surplus of €2.138 million only includes the results of the General Fund. The difference is explained by:

- the difference in the depreciation expense for assets expensed prior to 2012 as a result of the conversion to IPSAS of €376 000;
- the use of past surpluses of €598 000 recognized only in the Statement of Budget and Actual;
- the unrealised exchange loss of €258 000 recognized in the Statement of Financial Performance;
- the net use of funds incurred in the Campus Improvement Fund and Italian Trust Fund of €60 000; and
- the inter-fund expenditures of €150 000.

6. The change in net assets from €15.26 million in 2018 to €16.32 million in 2019 is attributable to the net surplus in the Statement of Financial Performance as well as the actuarial loss on the employee benefit liability, as a result of an actuarial valuation of the liability on repatriation travel and removal.

Total revenue, three biennium comparison



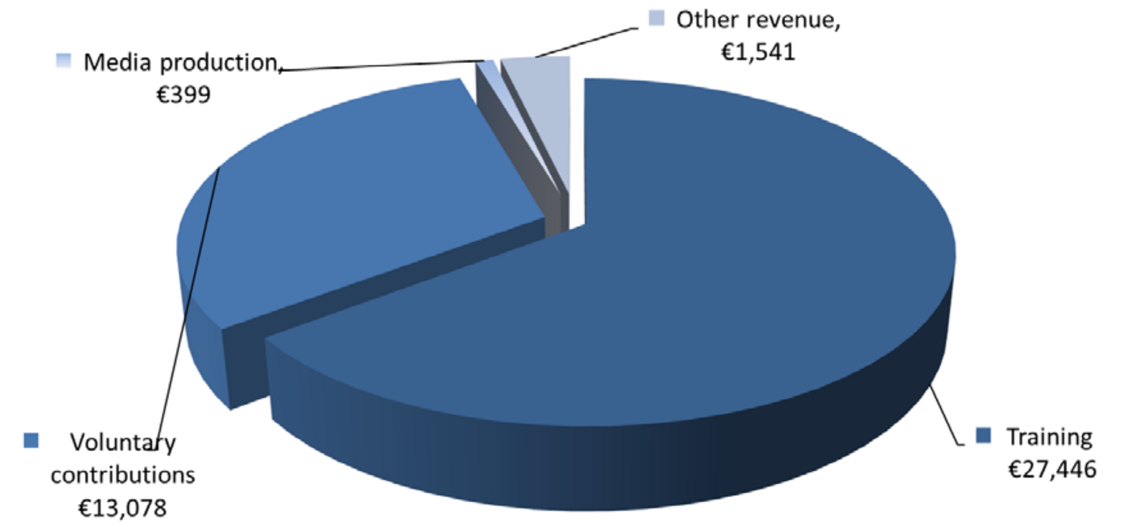
7. The Centre's total revenue generally follows a pattern over a two-year cycle whereas the Centre's total revenue is higher in the second year of the cycle. In 2019, a second year of a biennium, the ratio of total revenue when compared to the biennium total revenue is 53.5 per cent. Thus, the Centre's revenue continues to follow the pattern set in the previous biennium although this is the highest ratio to date.

Financial performance

Revenue

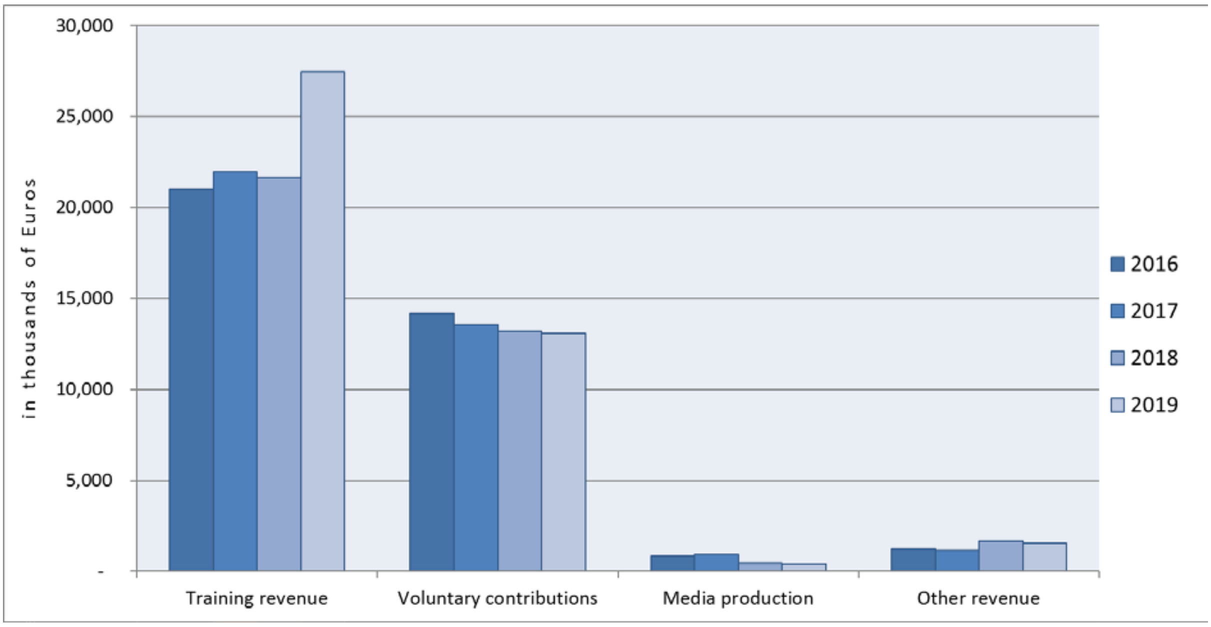
8. Revenue in 2019 totalled €42.5 million (€36.9 million in 2018) and was distributed as follows:

Revenue by source, 2019 (in thousands of Euros)



9. The two major sources of revenue, representing 95.4 per cent of total revenue (2018 – 94.4 per cent), are derived from training activities and voluntary contributions.

Revenue sources, four-year comparison



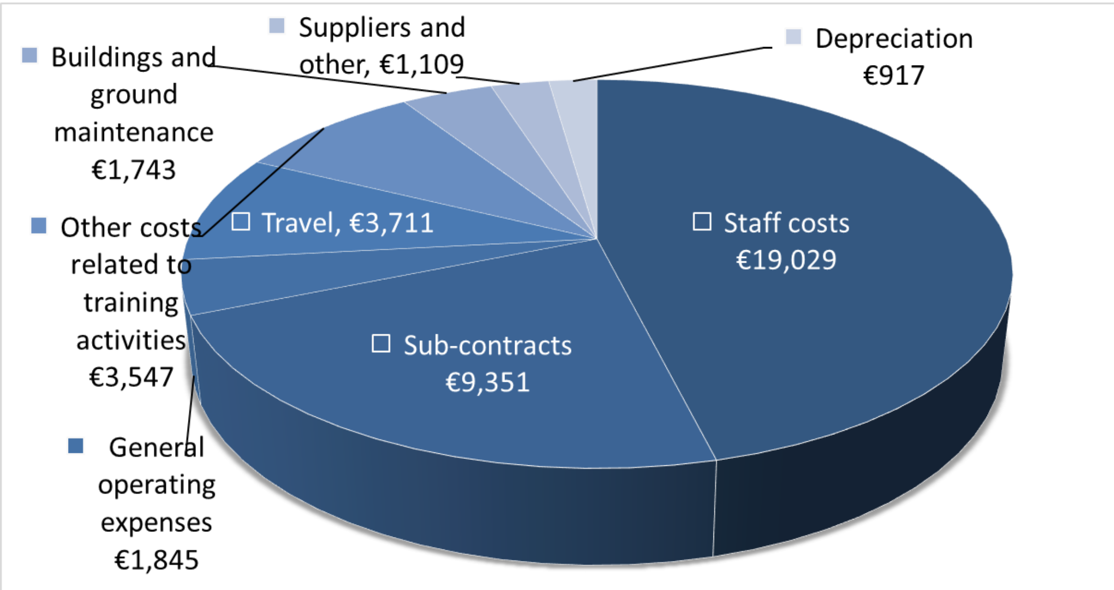
10. Training revenue totalled €27.45 million in 2019 as compared to €21.63 million in 2018 showing a sharp increase of €5.82 million or 27 per cent. Overall, the number of participants attending training in 2019 also shows a significant increase of 3 928 participants or 21.3 per cent. The Centre delivered training to 22 339 participants this year as compared to 18 411 participants in 2018. The increase relates to both face-to-face and distance learning activities by 2 059 participants (19.3 per cent) and 1 869 participants (24.1 per cent) respectively.

11. Voluntary contributions decreased slightly by €126 000 in 2019 as compared to 2018. While the Italian Government contribution towards activities remained constant at €1.6 million, €300,000 was recorded under deferred revenue as required by IPSAS. This year, the Centre received a contribution of €13 000 (2018 – €12 500 nil) from the Piedmont Region and a contribution from the ILO of 4.172 million US dollars. While this annual contribution was the same as in 2018, its conversion into Euros resulted in approximately €162 000 more revenue in 2019 as compared to 2018.

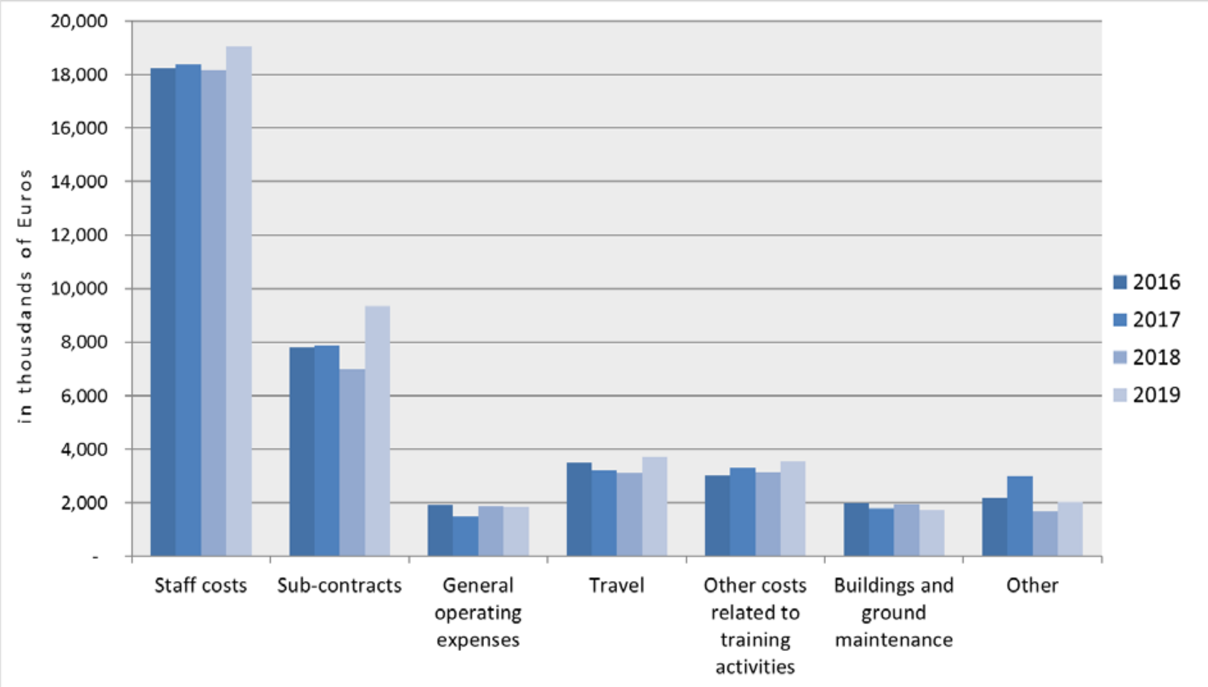
Expenditure

12. Expenditure in 2019 totalled €41.25 million (€36.9 million in 2018) and were distributed as follows:

Expenditure by source, 2019 (in thousands of Euros)



Expenditure, four-year comparison



13. Staff costs increased by 4.95 per cent from €18.16 million in 2018 to €19.03 million in 2019. 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. Every effort is being made to continue to ensure that staff costs are kept within an acceptable level. In addition, there were project-based staff working on large projects for which an additional €162 000 in costs were charged directly to these projects in 2019.

14. Sub-contract expenditure increased by €2.36 million or 33.8 per cent, in large part due to the use of an implementing agency retained under a large project to deliver a significant number of training activities in the field. Additional work in IT technical assistance, such as the development and testing of the Disaster Recovery Plan and the development of the new public website were carried out. Translation costs were higher in 2019 mainly due to the additional work needed to translate the new public website, the new on-line training modules and tools as well as for other corporate documents.

15. Travel expenditure increased by €593 000 or 18.8 per cent as compared to 2018. This is mainly as a result of the additional participant travel including study visits relating to the increased training revenue in the year.

16. Other costs related to training activities increased by €385 000 or 12.2 per cent as compared to 2018. This is due to the increase in training revenue whereby the directly-related costs also increased. More specifically, this relates to residential and subsistence costs for participants while on campus.

17. Buildings and ground maintenance decreased by €212 000 or 10.8 per cent as a result of an overall decrease in maintenance work carried out on the campus, which was more extensive in 2018. The savings under this category were transferred to expendable materials under the line item Supplies.

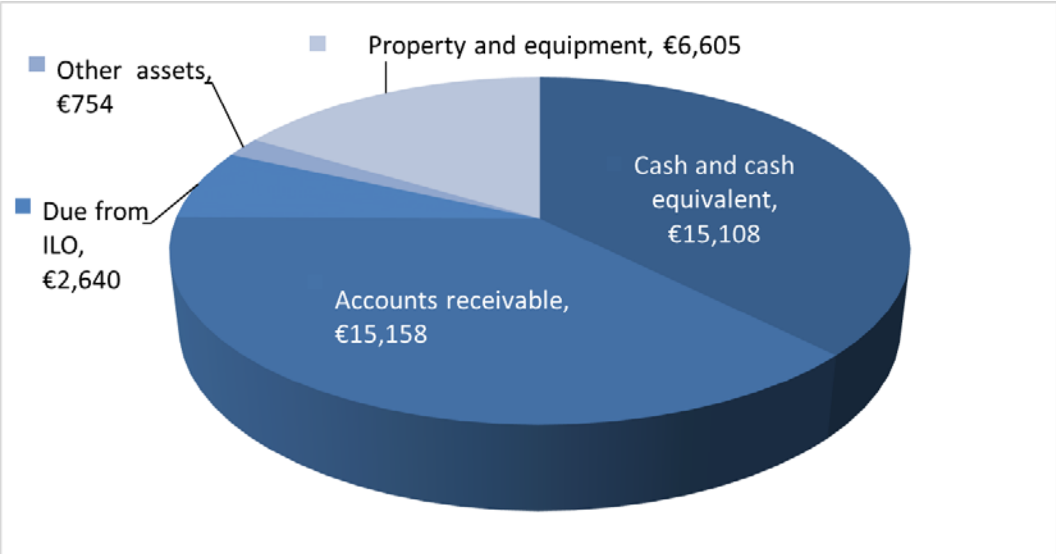
18. Supplies increased by €401 000 or 60.9 per cent as compared to 2018. This is mostly explained by the increase of €274 000 in expendable materials relating to additional investments for the continued maintenance and upgrade of the campus accommodations and the replacement of outdated IT equipment as well as the purchase of new equipment to support innovative training. In addition, an amount of €103,000 was incurred in 2019 for the purchase of items now sold in the cafeteria and in the campus boutique for which miscellaneous income is also collected.

Financial position

Assets

19. The Centre held assets of €40.3 million as at 31 December 2019 (€37.1 million as at 31 December 2018) which were as follows:

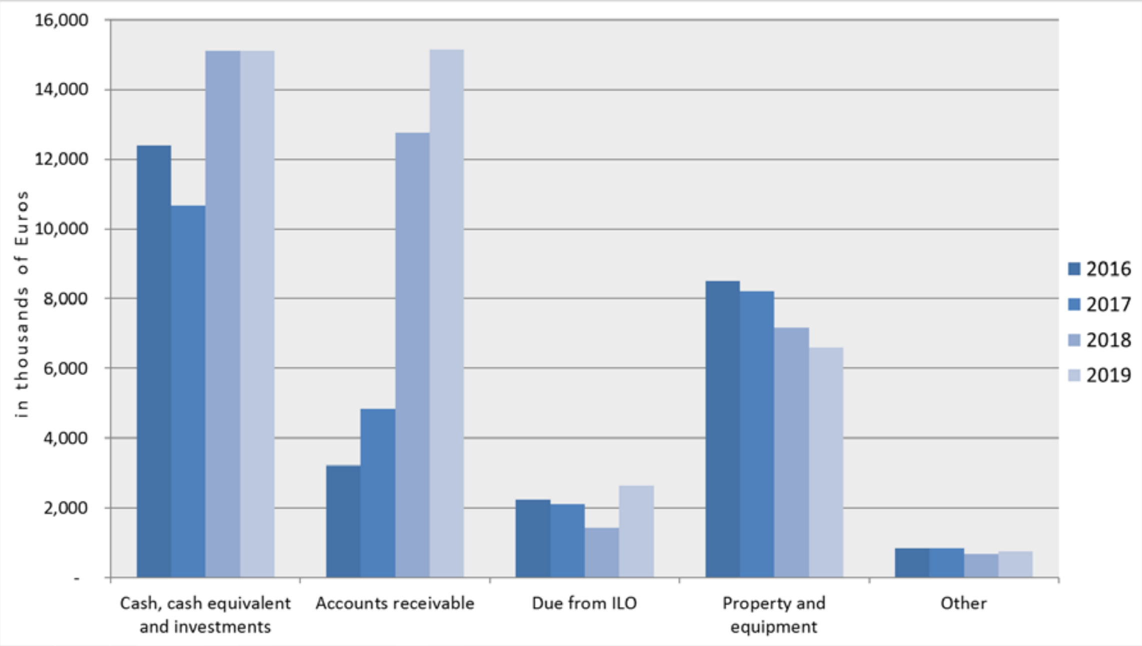
Assets by type, 2019 (in thousands of Euros)



20. As at 31 December 2019, the Centre's most significant asset was cash and cash equivalents totalling €15.1 million (€15.1 million as at 31 December 2018) and representing 37.5 per cent of the total assets. Of this amount, €4.0 million or 26.3 per cent corresponds to funds held on behalf of donors for training activities (€5.8 million or 38.4 per cent as at 31 December 2018).

21. Accounts receivable as well as property and equipment were the other two significant asset components.

Assets, four-year comparison



22. The Centre's total assets increased by €3.1 million or 8.4 per cent (€10.5 million or 39.3 per cent increase as at 31 December 2018).

23. Cash and cash equivalents have remained constant in 2019 at €15.1 million (increase of €4.5 million or 41.8 per cent as at 31 December 2018). Further information is provided on the Statement of Cash Flow.

24. Accounts receivable increased by €2.4 million or 18.8 per cent (increase of €7.9 million or 164.5 per cent as at 31 December 2018) mainly as a result of an increase of €2.1 million (increase of €9.1 million as at 31 December 2018) in accounts receivable relating to agreements for training services held at the end of the year. The Centre entered into additional larger multi-year project agreements in 2019 which are reflected in both accounts receivable and deferred revenue. In addition, there was an increase of €433 000 or 26.5 per cent (increase of €591 000 or as at 31 December 2017) in accounts receivable relating to the significant increase in training revenue.

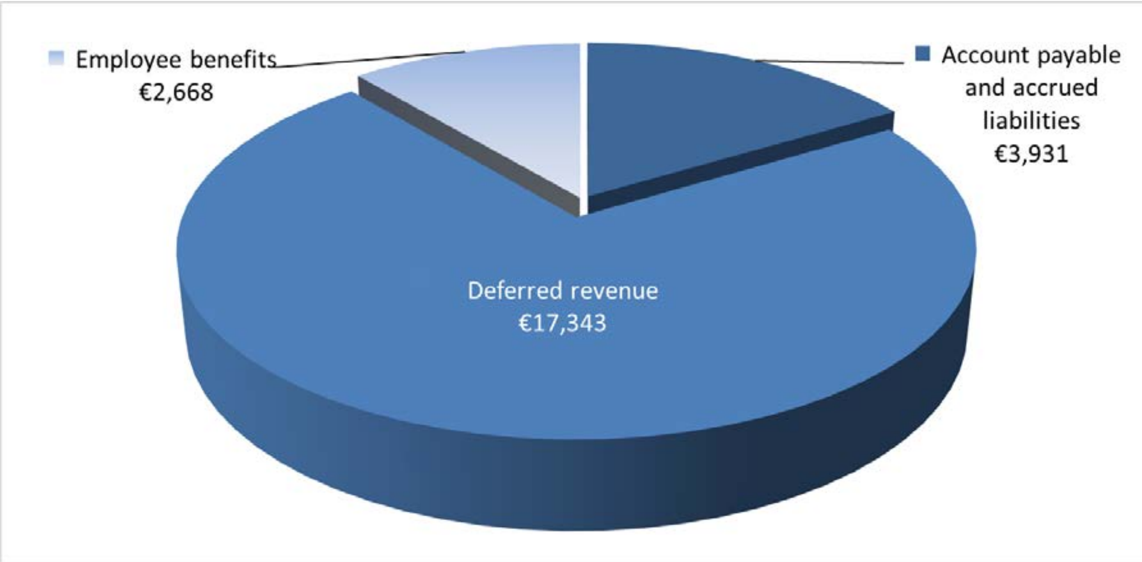
25. The receivable from the ILO increased by €1.2 million or 85.2 per cent (decrease of €677 000 or 32.2 per cent as at 31 December 2018) as a result of increased training services provided to the ILO for which a large portion of the balance was settled in early January 2020.

26. Property and equipment decreased by €560 000 or 7.8 per cent (decrease of €1.1 million or 12.9 per cent as at 31 December 2018) as a result of a full year of depreciation recorded in 2019 in the amount of €856 000 (€911 000 in 2018) and the purchase of equipment and work carried out under leasehold improvements totalling €296 000 (2018 – nil). Some assets were also disposed of during the year which were mostly fully depreciated.

Liabilities

27. The Centre had liabilities totalling €23.9 million as at 31 December 2019 (€21.9 million as at 31 December 2018) which were as follows:

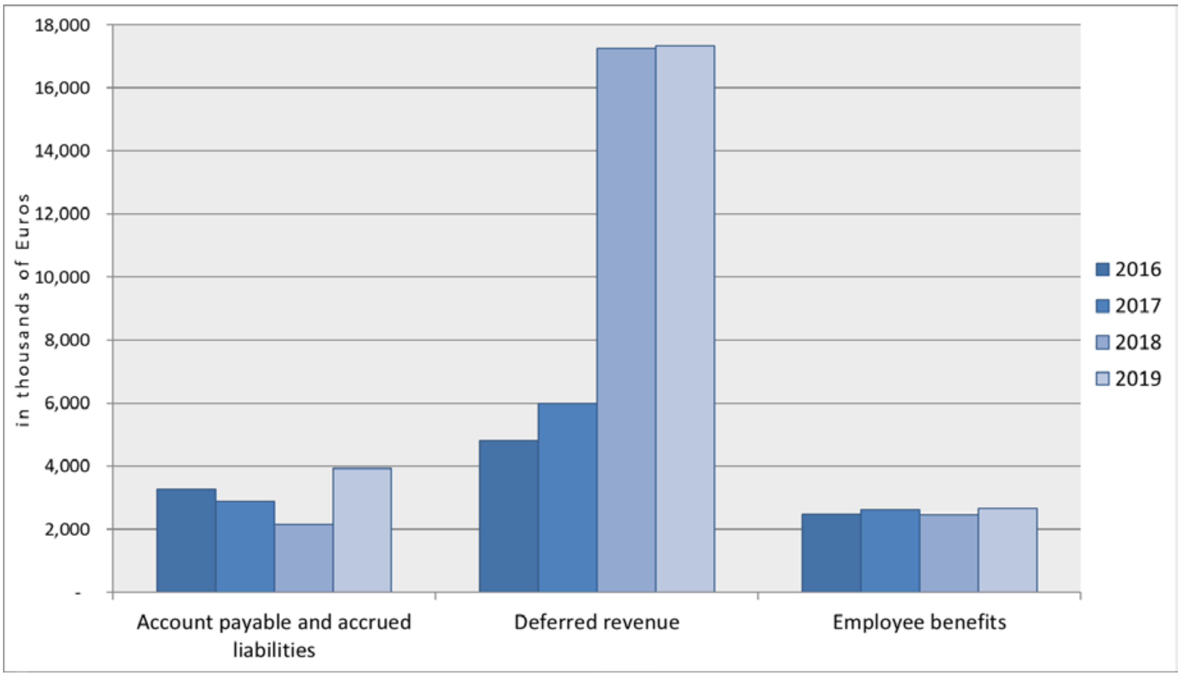
Liabilities by type, 2019 (in thousands of Euros)



28. The most significant liability totalling €17.3 million or 72.4 per cent (€17.2 million or 78.9 per cent as at 31 December 2018) relates to deferred revenue. This balance represents funds advanced by donors and sponsors for specific training projects (€4.0 million as at 31 December 2019 and €5.9 million as at 31 December 2018) 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 (€13.3 million as at 31 December 2019 and €11.3 million as at 31 December 2018).

29. 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

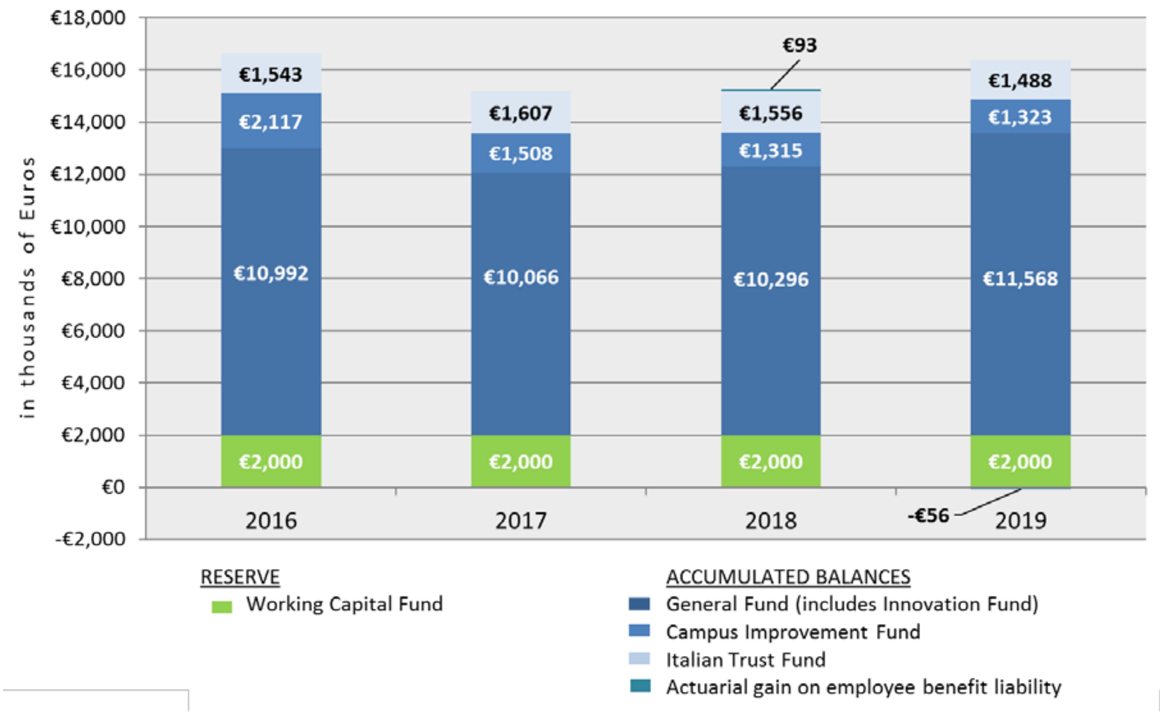


30. Accounts payable and accrued liabilities increased by €1.8 million or 82.2 per cent (decrease of €711 000 or 24.8 per cent as at 31 December 2018) as a result of increased training activities at the end of the year and which were mostly settled in January 2020.

31. Deferred revenue remained stable with a minimal increase by €94 000 or less than 1.0 per cent (increase of €11.3 million or 190.3 per cent as at 31 December 2018). This demonstrates the even level of anticipated revenue from signed agreements for training activities.

Net assets

Net assets, four-year comparison by Fund



32. The Centre's net assets include the Working Capital Fund which represents 12.3 per cent or €2 million (13.1 per cent or €2 million as at 31 December 2018) as set by the Financial Regulations.

33. In addition, it includes the General Fund totalling €11.6 million and 70.1 per cent of the overall net assets (€10.3 million and 67.5 per cent as at 31 December 2018), the Campus Improvement Fund with €1.3 million and 8.1 per cent of the total (€1.3 million and 8.6 per cent as at 31 December 2018) and the Italian Trust Fund with nearly €1.5 million and 9.1 per cent of the total (€1.6 million and 10.2 per cent as at 31 December 2018).

34. In 2018, a change in methodology was made to 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 reflects any gains or losses from the annual actuarial valuation. In 2019, the net accumulated actuarial loss for the employee benefit totals €56 000 or 0.4 per cent (2018 – actuarial gain of €93 000 or 0.6 per cent).

Regular Budget

35. 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.

36. The preliminary budgetary results for the 2019 financial year, the second year of the 2018-19 biennium, are summarized in Statement V, with the details of voluntary contributions received from donors shown in Note 11.

37. The 2019 actual revenue amounted to €43.0 million which was mainly made up of €42.4 million in voluntary contributions and external revenue as well as a use of past surpluses totalling €598 000. The actual expenditure amounted to €40.8 million which included other items of €246 000. The 2019 budget surplus is €2.138 million. This is after taking into account the provision for doubtful accounts and realised foreign exchange losses.

38. The total result for the 2018-19 biennium as shown on Statement V reveals a total budget surplus of €3.088 million which combines the 2018 budget surplus of €950 000 and the 2019 budget surplus of €2.138 million.

Significant differences between the 2019 budget and actual amounts as presented on Statement V

(In thousands of Euros)

Line item in Statement V			Budget 2019[1]	Actual 2019	Variance Amount	Variance %
Chapter	Line					
I	10	International Labour Organization voluntary contribution	3 433	3 654	221	6.4
II	20	Revenue from training activities and advisory services	27 157	28 816	1 659	6.1
II	21	Revenue from media production	1 066	399	(667)	(62.6)
II	22	Miscellaneous revenue	1 000	1 376	376	37.6
III	30	Past surpluses to training activities	750	598	(152)	(20.3)
IV	40	Regular budget staff	16 411	15 613	(798)	(4.9)
IV	41	Facilities	1 871	2 229	358	19.1
IV	44	General operating costs	748	1 065	317	42.4
IV	48	Depreciation	663	541	(122)	(18.4)
IV	49	Other fixed expenditure	–	246	246	100.0
V	50–58	Total variable expenditure	18 531	18 130	(401)	(2.2)

39. For the period of 2018-19, the Centre received a contribution of US$8.34 million as approved by the ILO in its 2018-19 Programme and Budget. Half of this was received in 2019. The variance of €221 000 or 6.4 per cent is due to the difference in exchange rates between the budget rate and the applied rate to record the transaction.

40. Revenue from training activities totaled €28.816 million which are significantly higher than the expected 2019 target by €1.66 million or 6.1 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. While training revenue results are above the anticipated level, the variable expenditure remained constant thus resulting once again, in the delivery of training services that were more economical and efficient.

41. Revenue from media production totaled €399 000 and the results are below by 62.6 per cent of the expected target set for 2019. The difference of €667 000 is 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.

42. Miscellaneous revenue totaled €1.38 million and the results are over by 37.6 per cent of the expected target set for 2019. The difference of €376 000 is mainly due to the revenue earned from sales of items in the campus boutique and the cafeteria, a higher social life surplus and returns on US Dollar investments.

43. The use of past surpluses for training activities totaled €598 000 and this is below the budget of €750 000 by €152 000 or 20.3 per cent. In the activities undertaken in 2019, the Centre was able to allocate funds from other sources instead of past surpluses. These will be available in the subsequent biennium.

[1] Budget represents 50% of the approved budget for voluntary contributions, miscellaneous revenue and past surpluses, 51% of the approved budget for fixed expenditures, variable budget (VB) and project budget (PB) staff as well as 52% 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.

44. Regular budget staff expenditure totaled €15.61 million and are below the budget of €16.41 million by €798 000 or 4.9 per cent. During the year, there were some vacant positions that were either filled later in the year, filled temporarily for a lesser period or remained 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 for the Professional and higher categories.

45. The facilities expenditure is higher than the budget by €358 000 or 19.1 per cent. This is mainly due to additional funding provided for utilities and regular maintenance during the year as the actual costs are higher than the forecasted costs included in the biennial budget prepared in May 2017.

46. General operating costs are higher than the budget by €317 000 or 42.4 per cent mostly as a result of the need for further external expertise in the area of training course development and promotion as well as technology updates and accessibility compliance for on-line course on disabilities.

47. Depreciation is lower than the budget by €122 000 or 18.4 per cent as the budgeted amount anticipated a full year of depreciation for the renovation costs of the Africa 10 and 11 pavilions which is now scheduled to start in 2020.

48. Other fixed expenditure totalling €246 000 were incurred in the year and related to two specific items: the doubtful accounts which totalled €153 000 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.

49. Total variable expenditure were below the budget and show a variance of €401 000 or 2.2 per cent. These expenditure are aligned to the total training revenue and the use of past surpluses for training activities recognised in the year. The training revenue was higher than the budget however the related variable expenditure were slightly below the budget. It indicates efficiency gains being generated in the delivery of training activities while achieving a level of contribution to fixed costs that surpassed the targets fixed for the year.

Ex–gratia payments

There were no ex-gratia payments made in 2019.

Approval of the Financial Statements for the year ended 31 December 2019

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
20 March 2020

Yanguo Liu
Director
20 March 2020

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 2019, 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 2019, 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 2019, 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 on the effectiveness of the ITC's internal control.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

Quezon City, Philippines
20 March 2020

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
20-130902191606

Financial Statements
for the year ended 31 December 2019

International Training Centre of the ILO

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

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	**4**	15 108	15 117
Accounts receivable	**5**	8 347	6 433
Contributions receivable	**6**	13	12
Due from the ILO		2 640	1 425
Prepayments		590	432
Other current assets		119	134
		26 817	**23 553**
Non-current assets			
Accounts receivable	**5**	6 811	6 323
Property and equipment	**8**	6 605	7 165
Intangible assets		32	93
		13 448	**13 581**
Total assets		**40 265**	**37 134**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		3 931	2 157
Deferred revenue	**9**	10 671	10 926
Employee benefits	**10**	1 550	1 451
		16 152	**14 534**
Non-current liabilities			
Deferred revenue	**9**	6 672	6 323
Employee benefits	**10**	1 118	1 017
		7 790	**7 340**
Total liabilities		**23 942**	**21 874**
Net assets			
Reserve		2 000	2 000
Accumulated balances		14 323	13 260
Total net assets	**16**	**16 323**	**15 260**
Total liabilities and net assets		**40 265**	**37 134**

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	2019	2018 (Note 20)
Revenue			
Training activities		27 446	21 628
Voluntary contributions	**11**	13 078	13 204
Other revenue	**13**	1 619	1 810
Exchange gain and revaluation, net		166	153
Interest		155	122
Total revenue		**42 464**	**36 917**
Expenditures			
Staff costs		19 029	18 160
Sub–contracts		9 351	6 988
General operating expenditures		1 845	1 861
Travel		3 711	3 118
Other costs related to training activities		3 547	3 162
Buildings and ground maintenance		1 743	1 955
Supplies		1 059	658
Depreciation		917	981
Bank charges		50	48
Total expenditures		**41 252**	**36 931**
Net surplus (deficit)		**1 212**	**(14)**

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 2019	2 000	10 296	1 315	1 556	93	13 260	15 260
Net deficit (surplus) of 2019	–	1 272	8	(68)	–	1 212	1 212
Actuarial gain (loss) on employee benefit liabilities	–	–	–	–	(149)	(149)	(149)
Transfers to/(from) [/1]	–	–	–	–	–	–	–
Balance as at 31 December 2019	**2 000**	**11 568**	**1 323**	**1 488**	**(56)**	**14 323**	**16 323**
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	–	–	–	–	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**

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

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)

	2019	2018
Cash flows from operating activities		
Net surplus (deficit) for the period	1 212	(14)
Effect of exchange rates on cash and cash equivalents	245	351
Non-cash items:		
Depreciation	917	981
Gain from disposal of property and equipment	(14)	(7)
Increase in accounts receivable	(2 402)	(7 933)
Increase in contributions receivable	(1)	(12)
(Increase)/decrease in due from the ILO	(1 215)	678
(Increase)/decrease in other current assets	(143)	113
Increase/(decrease) in accounts payable and accrued liabilities	1 774	(711)
Increase in deferred revenue	94	11 261
Increase/(decrease) in employee benefit liabilities	51	(59)
Net cash flows from operating activities [/1]	**518**	**4 648**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(296)	–
Proceeds from disposals of property and equipment	14	156
Net cash flows from investing activities	**(282)**	**156**
Effect of exchange rates on cash and cash equivalents	**(245)**	**(351)**
Net increase in cash and cash equivalents	**(9)**	**4 453**
Cash and cash equivalents, beginning of period	15 117	10 664
Cash and cash equivalents, end of period	**15 108**	**15 117**

[/1] €174 in interest received is included under “Net surplus (deficit) for the period” in the net cash flows from operating activities (2018 – €105).

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 2019
(in thousands of Euros)

	Item		2019 Original budget[1]	2019 Final budget	2019 Actual	2019 Budget Variance[2]	2018-19 Original and final budget	2018-19 Actual	2018-19 Variance
		PART A – REVENUE							
I		**Voluntary contributions**							
	10	International Labour Organization	3 433	3 433	3 654	221	6 867	7 146	279
	11	Government of Italy *(ex-lege)*	7 850	7 850	7 850	–	15 700	15 700	–
	12	Piedmont Region (Italy)	–	–	13	13	–	25	25
	13	Government of Portugal	250	250	250	–	500	500	–
	14	City of Turin	–	–	–	–	–	–	–
		Total voluntary contributions	**11 533**	**11 533**	**11 767**	**234**	**23 067**	**23 371**	**304**
II		**External revenue**							
	20	Training activities and advisory services	27 157	27 157	28 816	1 659	52 225	52 096	(129)
	21	Media production	1 066	1 066	399	(667)	2 050	826	(1 224)
	22	Miscellaneous	1 000	1 000	1 376	376	2 000	2 882	882
		Total external revenue	**29 223**	**29 223**	**30 591**	**1 368**	**56 275**	**55 804**	**(471)**
III		**Other**							
	30	Past surpluses to training activities	**750**	**750**	**598**	**(152)**	**1 500**	**1 137**	**(363)**
	31	Past surpluses to the business process review	–	–	–	–	–	20	20
	32	Past surplus to the HRS IT applications	–	–	–	–	–	–	–
		Total revenue	**41 506**	**41 506**	**42 956**	**1 450**	**80 842**	**80 332**	**(510)**
		PART B – EXPENDITURE							
IV		**Fixed expenditure**							
	40	Regular Budget staff	16 411	16 411	15 613	(798)	32 177	30 629	(1 548)
	41	Consultants	441	441	482	41	864	919	55
	42	Facilities	1 871	1 871	2 229	358	3 669	4 508	839
	43	Security	430	430	422	(8)	843	863	20
	44	General operating costs	748	748	1 065	317	1 466	1 932	466
	45	Missions and representation	257	257	255	(2)	503	494	(9)
	46	Governance	347	347	381	34	680	686	6
	47	Information and technology costs	1 529	1 529	1 454	(75)	2 999	2 741	(258)
	48	Depreciation of property and equipment	663	663	541	(122)	1 300	1 141	(159)
	49	Other	–	–	246	246	–	402	402
		Total fixed expenditure	**22 697**	**22 697**	**22 688**	**(9)**	**44 501**	**44 315**	**(186)**
V		**Variable expenditure**							
	50	Variable Budget (VB) staff	2 664	2 664	2 491	(173)	5 222	4 961	(261)
	51	Project Budget (PB) staff	183	183	615	432	358	1 057	699
	52	External collaborators	5 065	5 065	7 105	2 040	9 740	11 851	2 111
	53	Missions	700	700	1 019	319	1 347	1 845	498
	54	Participants' costs	7 151	7 151	5 453	(1 698)	13 751	10 236	(3 515)
	55	Books, training aids and materials	596	596	259	(337)	1 146	495	(651)
	56	Training facilities and services outside Turin	1 192	1 192	647	(545)	2 292	1 301	(991)
	57	Other	194	194	192	(2)	373	289	(84)
	58	Costs related to revenue from media production	682	682	81	(601)	1 312	371	(941)
	59	Costs related to miscellaneous revenue	104	104	268	164	200	523	323
		Total variable expenditure	**18 531**	**18 531**	**18 130**	**(401)**	**35 741**	**32 929**	**(2 812)**
VI	60	**Contingency**	**300**	**300**	–	**(300)**	**600**	–	**(600)**
		Total expenditure	**41 528**	**41 528**	**40 818**	**(710)**	**80 842**	**77 244**	**(3 598)**
		BUDGET (DEFICIT) SURPLUS[3]	**(22)**	**(22)**	**2 138**	**2 160**	–	**3 088**	**3 088**

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 2019 (cont'd)

(in thousands of Euros)

/1 Original budget represents 50% of approved budget for voluntary contributions, other revenue, past surpluses, 51% of the approved budget for fixed expenditure, variable budget and project staff variable expenditure as well as 52% of the approved budget for training and media production revenue and total variable expenditure excluding variable budget and project staff. It also includes 50% of the approved budget for the contingency. A small deficit is shown due to rounding in 2018 and in 2019. The overall total 2018-19 budget agrees to the approved budget.

/2 Budget variances are explained in the accompanying financial report on the 2019 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 2019

(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 2019.

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
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 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.

Cash and cash equivalents

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

Accounts receivable

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

Contributions receivable

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.

Due from/to the ILO

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.

Property and equipment

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 year 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 expenditure: 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, if recruited before 1 January 2017, or at least 5 years if recruited thereafter. 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 multimedia services. Revenue is recognized when the services are provided.
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. The obligation at the reporting date is measured by an independent actuary using estimates of travel and removal costs based on prior years adjusted for inflation.

Note 3 – New accounting standards

1. New accounting standards effective 1 January 2019

   The Centre adopted IPSAS 40 – Public Sector Combinations: This new standard establishes the requirements for classifying, recognizing and measuring public sector combinations. There was no impact on the Centre's financial statements.

   New 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. There was no impact on the Centre's financial statements.

2. New accounting standards issued but not yet effective

   In 2018 and 2019, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

   - Amendment to IPSAS 36 – Investments in Associates and Joint Ventures: This amendment clarifies that the amendment to IPSAS 41 also applies to long-term interests in associates and joint ventures. The effective date for the application is for annual periods beginning on or after 1 January 2022, with earlier adoption permitted. This will have no 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 adoption permitted. This will have no significant impact on the Centre's financial statements.
   - Amendment to IPSAS 41 – Financial Instruments: This amends the classification requirements for particular financial assets with prepayment features that may result in reasonable negative compensation for early termination of the contract and which may be eligible to be measured at amortized cost or fair value through net assets. The effective date for the application is for annual periods beginning on or after 1 January 2022, with earlier adoption permitted. This will have no impact on the Centre's financial statements.
   - IPSAS 42 – Social Benefits: This new standard defines social benefits and establishes when expenditure and liabilities for social benefits are to be recognized and how they should be measured. The effective date for the application is for annuals periods beginning on or after 1 January 2022, with earlier adoption encouraged. This will have no impact on the Centre's financial statements.

Note 4 – Cash and cash equivalents

	US dollar (€ equivalent)	Euro	2019	2018
Current accounts and cash on hand	11 189	3 919	15 108	15 117
Total cash and cash equivalents	**11 189**	**3 919**	**15 108**	**15 117**

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 €3 967 (2018 – €5 857) which must be used for training activities.

Note 5 – Accounts receivable

	2019	2018
Current accounts receivable		
Accounts receivable from invoiced training services	2 035	1 585
Accounts receivable from training services agreements due in 2020	6 445	4 849
Other accounts receivable	29	46
Less: provision for doubtful accounts – training services	(162)	(47)
Total current net accounts receivable	**8 347**	**6 433**
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2020	6 811	6 323
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	**6 811**	**6 323**

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

	2019	2018
Movements in provision for doubtful accounts		
Balance 1 January	47	26
Amounts written off during the year as uncollectible	(17)	(10)
Impairment losses reversed	(18)	(6)
Increase in allowance for new impairments	150	37
Balance 31 December	**162**	**47**

Note 6 – Contributions receivable

	2019	2018
Piedmont Region	13	12
Less: provision for doubtful accounts	–	–
Total contributions receivable	**13**	**12**

The above contribution receivable relates to a non-exchange transaction.

Note 7 – 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 2019, 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 2018.

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:

	2019 US Dollar	2019 € equivalent	2018 US Dollar	2018 € equivalent
Cash and cash equivalents	12 488	11 189	11 325	9 920
Accounts receivable	590	529	39	34
Due from the ILO	2 130	1 909	663	581
Accounts payables and accrued liabilities	(512)	(459)	–	–
Net exposure	**14 696**	**13 168**	**12 027**	**10 535**

Based on the net exposure as at 31 December 2019, 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 €658 (2018 – €527) or 5 per cent (2018 – 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.

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 6 days (2018 – 34 days).

In accordance with its Financial Regulations, a Working Capital Fund is maintained which can be used to temporarily finance expenditure pending the receipt of voluntary contributions and other revenue and in exceptional circumstances, to provide advances to meet emergencies. At the reporting date, the Working Capital Fund balance was €2 million (2018 – €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, and accounts receivable.

Cash and cash equivalents 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 can be 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 are as follows as at 31 December:

2019	**AAA**	**AA+–AA–**	**A+–A–**	**BBB+–BBB–**	**Total**
Cash and Cash Equivalents	–	–	10 293	4 815	**15 108**
2018 (Note 20)					
Cash and Cash Equivalents	–	–	11 761	3 356	**15 117**

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:

2019	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	8 307	135	67	(162)	8 347
Contributions receivable	13	–	–	–	13
Total receivable	**8 320**	**135**	**67**	**(162)**	**8 360**
2018					
Accounts receivable	6 286	113	81	(47)	6 433
Contributions receivable	12	–	–	–	12
Total receivable	**6 298**	**113**	**81**	**(47)**	**6 445**

Note 8 – Property and equipment

	Equipment	Leasehold improvements	Total 2019	Total 2018
Cost at 31 December	3 674	10 813	14 487	14 373
Accumulated depreciation at 31 December	2 699	5 183	7 882	7 208
Net book value at 31 December 2019	**975**	**5 630**	**6 605**	**7 165**
Net book value at 31 December 2018	**1 029**	**6 136**	**7 165**	

There were no contractual commitments for the acquisition of property and equipment at the end of 2019.

Equipment

	Vehicles	Office equipment	Other type of equipment	Furniture and fixtures	Total 2019	Total 2018
Cost at 1 January	54	2 004	1 418	160	3 636	4 512
Additions	–	213	7	–	220	–
Disposals	(49)	(111)	(22)	–	(182)	(876)
Cost at 31 December	**5**	**2 106**	**1 403**	**160**	**3 674**	**3 636**
Accumulated depreciation at 1 January	54	1 699	764	90	2 607	3 004
Depreciation	–	138	121	15	274	327
Disposals	(49)	(111)	(22)	-	(182)	(725)
Accumulated depreciation at 31 December	**5**	**1 726**	**863**	**105**	**2 699**	**2 607**
Net book value at 31 December	–	**380**	**540**	**55**	**975**	**1 029**

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 2019	Total 2018
Cost at 1 January	10 737	10 737
Additions	76	–
Disposals	–	–
Cost at 31 December	**10 813**	**10 737**
Accumulated depreciation at 1 January	4 601	4 017
Depreciation	582	584
Disposals	–	–
Accumulated depreciation at 31 December	**5 183**	**4 601**
Net book value at 31 December	**5 630**	**6 136**

Note 9 – Deferred revenue

	2019	2018
Deferred revenue – Current		
Voluntary contributions received in advance relating to signed agreements	3 967	5 857
Voluntary contribution receivable relating to signed agreements	6 704	5 069
Total current deferred revenue	**10 671**	**10 926**
Deferred revenue – Non-current		
Voluntary contribution receivable relating to signed agreements	6 672	6 323
Total non-current deferred revenue	**6 672**	**6 323**
Total deferred revenue	**17 343**	**17 249**

	2019	2018
Movements in deferred revenue		
Balance 1 January	**17 249**	**5 988**
New agreements signed during the year	8 268	16 848
Recognition of deferred revenue to training revenue in the Statement of financial performance	(7 661)	(5 538)
Refund/reduction of agreements to donors	(651)	(812)
Other funds received in advance not linked to agreements	(103)	682
Discounting	241	81
Balance 31 December	**17 343**	**17 249**

Note 10 – Employee benefits

	2019	2018
Current liabilities		
Accrued salaries	30	1
Accumulated leave	1 483	1 437
Repatriation travel and removal expenditures	20	11
Home Leave	17	2
Total current liabilities	**1 550**	**1 451**
Non-current liabilities		
Accumulated leave	353	359
Repatriation travel and removal expenditures	765	658
Total non-current liabilities	**1 118**	**1 017**
Total employee benefits liabilities	**2 668**	**2 468**

Repatriation travel and removal expenditures

The liability for repatriation travel and removal expenditures is estimated based on 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 2019 valuation, the assumptions and methods used are as described below.

	2019 (%)	2018 (%)
Discount rate	0.60	1.40
Rate of future cost increases	1.80	1.80
Probability of benefit claim	98	98

The discount rate was determined by reference to the AA corporate bond yield curve of the Euro currency as at 31 December 2019 and 2018.

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

	2019	2018
Defined benefit obligation, beginning of the year	**669**	**771**
Interest costs	9	9
Net benefits paid	(42)	(18)
Actuarial (gain) loss due to experience	93	(88)
Actuarial (gain) loss due to assumption changes	56	12
Adjustment for true-up of opening balance in Statement of financial position	–	(17)
Defined benefit obligation, end of year	**785**	**669**

Statement of financial position liability, beginning of year	**(669)**	**(771)**
Total (charge) credit for interest cost and current service cost	(9)	(9)
Net benefits paid	42	18
Total (charge) credit recognized in Statement of financial performance	33	9
Total (charge) credit recognized in net assets	(149)	93
Statement of financial position liability, end of year	**(785)**	**(669)**

Expenses related to interest costs and net benefits paid for 2019 have been recognized in the Statement of financial performance as staff costs. The Cumulative net actuarial loss of €149 (2018 – gain of €93) has 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 2019 was €715 (2018 – €680).

The present value of the defined benefit obligation for end-of-service was estimated at €9 174 (2018 – €8 569). The present value of the defined benefit obligation for repatriation grant was €1 429 at the end of 2019 (2018 – €1 263). 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 €106 580 at the end of 2019 (2018 – €88 507). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

The Centre is a member organization participating in the United Nations Joint Staff Pension Fund (the "Fund"), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified 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 Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. The Centre and the Fund, 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 were a defined contribution plan in line with the requirements of IPSAS 39, Employee Benefits. The Centre's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

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 Fund will be sufficient to meet its liabilities.

The Centre's financial obligation to the Fund consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% 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.

The latest actuarial valuation for the Fund was completed as of 31 December 2017, and the valuation as of 31 December 2019 is currently being performed. A roll forward of the participation data as of 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 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%. The funded ratio was 102.7% 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 Fund, 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 Fund during the preceding three years (2016, 2017 and 2018) amounted to USD 7,131.56 million, of which 0.19 per cent was contributed by the Centre.

During 2019, contributions paid to the Fund amounted to €4 322 (2018 – €3 962). Expected contributions due in 2020 are approximately €4 609.

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 the 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 the liabilities are included in the amount.

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

Note 11 – Revenue from voluntary contributions

	2019	2018
Government of Italy	9 161	9 450
International Labour Organization	3 654	3 492
Government of Portugal	250	250
Piedmont Region (Italy)	13	12
Total voluntary contributions	**13 078**	**13 204**

The ILO contribution of €3 654 (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 2019 was €7 850 (2018 – €7 850) and was received in 2019. The Italian Government's contribution for training activities in 2019 was €1 600, of which €300 was recorded in deferred revenue (2018 – nil). The Italian Government also made a contribution of €3 000 for the renovation of the Africa 10 and 11 pavilions on Campus. An amount of €361 was received in 2019 and is recorded under deferred revenue (2018 – nil). The balance of €2 639 will be received in 2020 and is disclosed under contingent assets.

Note 12 – Contributions–in–kind

There were no goods-in-kind received during the year. The Centre received services-in-kind for 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 13 – Other revenue

	2019	**2018**
Non-exchange transactions		
Operating leases with other UN organizations	424	478
Use of facilities other than residential	141	417
Other miscellaneous income	431	242
Exchange transactions		
Use of residential facilities by non-participants attending training	126	111
Revenue from the sale of publications	399	427
Social life activities	98	135
Total other revenue	**1 619**	**1 810**

Note 14 – 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.

The Centre has a legal case pending before the ILO Administrative Tribunal for which the final outcome is not yet known and no provision has been recorded.

At 31 December 2019, the Centre had commitments of €2 927 (2018 – €1 829) 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 2020. Total expenditures for equipment rental were €4 (2018 – €0.5) and €105 (2018 – €85) 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 €424 (2018 – €478).

Note 15 – 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)	**2 138**	**-**	**-**	**2 138**
Timing differences	-	-	-	-
Basis differences	(1 913)	(282)	-	(2 195)
Entity differences	(210)	-	-	(210)
Net cash flow	**15**	**(282)**	**-**	**(267)**
Effect of exchange rates on cash and cash equivalent	258	-	-	258
Net increase (decrease) in cash and cash equivalent (Statement IV)	**273**	**(282)**	**-**	**(9)**

Reconciliation between Statement V and Statement II

Net budget surplus (Statement V)	**2 138**
Timing differences	–
Basis differences	(974)
Entity differences	48
Net surplus per Statement of financial performance (Statement II)	**1 212**

Use of surplus funds

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

The following table summarizes the remaining balances from the allocations of the 2010, 2013, 2014, 2015 and 2016-17 surpluses. 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	–	–	–	–	–	–
Expenditure in 2019	–	–	–	–	–	–
Balance at 31 December 2019	**–**	**–**	**–**	**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)**
Expenditure in 2019	–	–	–	–	–	**–**
Balance at 31 December 2019	**–**	**–**	**822**	**–**	**29**	**851**
Allocations from 2014 surplus	286	–	100	–	–	**386**
Expenditure in 2016	–	–	–	–	–	–
Expenditure in 2017	(286)	–	–	–	–	**(286)**
Expenditure in 2018	–	–	–	–	–	–
Expenditure in 2019	–	–	–	–	–	–
Balance at 31 December 2019	**–**	**–**	**100**	**–**	**–**	**100**
Allocations from 2015 surplus	693	–	694	–	–	**1 387**
Expenditure in 2016	–	–	–	–	–	–
Expenditure in 2017	(355)	–	(575)	–	–	**(930)**
Expenditure in 2018	(338)	–	–	–	–	**(338)**
Expenditure in 2019	–	–	–	–	–	–
Balance at 31 December 2019	**–**	**–**	**119**	**–**	**–**	**119**
Allocations from 2016-17 surplus	1 200	300	–	–	–	**1 500**
Expenditure in 2018	(201)	(91)	–	–	–	**(292)**
Expenditure in 2019	(598)	(150)	–	–	–	**(748)**
Balance at 31 December 2019	**401**	**59**	**–**	**–**	**–**	**460**

Note 16 – 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 17 – Contingent assets

	2019	**2018**
ILO contribution	8 034	3 654
Government of Italy – Centre's operations	7 850	7 850
Government of Italy – Renovation of Africa 10/11 pavilions	2 639	–
Funding agreements related to activities	550	1 015
Total contingent assets	**19 073**	**12 519**

Note 18 – Related party transactions

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

	2019	2018
General operations	3 654	3 492
Training activities	11 376	8 760
ASHI contribution for former employees	835	785
End–of–service benefits	482	392
Staff costs of ILO staff members assigned to Centre	99	287
Internal audit, legal and HR services	296	219
Total related party transactions	**16 742**	**13 935**

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:

	2019		2018	
Category	Full-time equivalent	Total remuneration	Full-time equivalent	Total remuneration
Key Management	8.0	1 504	7.6	1 402

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 19 – Capital management

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

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

Note 20 – Reclassification of figures

In Statement II – Statement of financial performance for the year ended 31 December, an amount of €29 was reclassified in 2018 from the line item for Other costs related to training activities to the line item of Staff costs, in order to provide comparability between both financial years.

In Note 7, an amount of €25 in cash and cash equivalent of 2018 was reclassified from a credit rating of BBB+–BBB– to A+–A– to align to the current year presentation.

Note 21 – Subsequent event

In March 2020, the World Health Organization decreed a worldwide pandemic due to the coronavirus (Covid-19). This situation is in constant evolution and the measures put in place by the Prime Minister of Italy as well as world-wide governments will have a multitude of economic impacts on the world. Management is monitoring the situation and at this time, the impact on the Centre is still too uncertain to be able to provide an estimate. The impact will be accounted for when it will be known and can be estimated.

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 2019

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 2019.

Our report as External Auditor of the Centre contains the results of our audit of the 2019 financial statements, and also our observations and recommendations on the review of resource mobilization. Value-adding recommendations were communicated and discussed with Management to further enhance the efficient and effective management of the Centre.

Our audit was conducted in accordance with International Standards on Auditing. 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 2020.

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

Yours sincerely,

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

Quezon City, Philippines
20 March 2020

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
20-130902191606

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 2019

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 2019

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EXECUTIVE SUMMARY

Introduction

1. This Report of the External Auditor on the audit of the financial operations of the International Training Centre (ITC, also referred hereto as the Centre) of the International Labour Organization (ILO) is issued pursuant to Chapter IX of the Financial Regulations of the Centre. It contains the results of the audit on the financial statements for the financial year ending 31 December 2019 and the observations with respect to the administration and management of the Centre as required under Regulations IX.25.

2. 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

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

4. 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 2019. 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 2019; (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).

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

6. In line with Regulation IX.25, we provided Management with recommendations that are designed to support the objectives of Centre's work, to reinforce its accountability and transparency, and to improve and add value to Centre's financial management and governance. For the financial year 2019, we conducted a review of the resource mobilization of the Centre with focus on its overall resource mobilization strategy, skills development, financial resource allocation and bidding for calls for tenders and proposals. We noted improvement opportunities to further enhance the resource mobilization of the Centre such as the need to establish a more

[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

integrated and concrete resource mobilization strategy, with specific focus on defining the functions, responsibilities and activities of the Programmes involved and a clear and well-defined skills development plan for the staff involved and to provide ways to identify and monitor resource allocation needs and the enhancement of the procedural guidelines for competitive bidding, among others.

Summary of recommendations

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

Financial management and reporting

a. conduct a complete physical inventory of all capitalized assets and maintain an up to date Asset Register to ascertain the existence, condition and completeness of the recorded P&E and to further enhance accountability within the Centre.;

Resource Mobilization

b. consider establishing a more integrated and concrete Resource Mobilization strategy, with specific focus on defining the functions, roles, responsibilities and activities of those involved, to ensure an effective and relevant governance structure on Resource Mobilization;

c. incorporate in the development of Resource Mobilization strategy a clear and well-defined skills development plan for all staff involved, to ensure effective delivery of the planned resource mobilization;

d. review its strategic approach to resource mobilization to ensure that the efforts commensurate with the level of resources required by the Centre, and consider providing ways to identify and monitor resource allocation needs to enhance resource mobilization effectiveness in the context of a review of the resource mobilization strategy to ensure that the core principle of cost-benefit is achieved;

e. enhance its procedural guidelines for competitive bidding and include in the overall Resource Mobilization Strategy to be developed or in the PRODEV Operational Plan, a defined set of criteria applicable to calls for tenders and proposals which will be used in the evaluation of bidding opportunities, to ensure that the principles of good internal control are fully entrenched in Centre's resource mobilization structure;

f. ensure that risk management covers the whole bidding process by identifying the risks involved and by providing mitigation measures to address the identified risks;

g. consider communicating to Programme Managers on the pricing principles specifically applicable to competitive bidding for calls for tenders or proposals for them to understand the flexible parameters that could be applied to each type of contracts or funding opportunities on a case by case basis, to achieve a successful

rate of winning contracts and ultimately the accountability over resource mobilization activities;

h. consider enhancing its procedural guidelines for bidding and updating its Operational Plan to include the establishment of a feedback mechanism, if not foreseen otherwise, wherein the results of past activities will be assessed to improve the Centre's prospects for successful bids, which will then further promote sustainability of resource mobilization; and

i. prioritize the implementation of the audit recommendations to further improve operational efficiency.

Implementation of External Auditor's recommendations in prior years

8. 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 made in financial year 2018 which dealt with recruitment and selection, particularly the enhancement and update of the written procedures on the recruitment process including the cause of delays in pre-recruitment activities, the need for an optimum time to fill vacancies, formalize interview and assessment mechanism and enhance the maintenance of rosters and pools of candidates; the performance management system which needs to shift from measuring task/quantities to measurable/assessable goals, establishing documentation of feedback mechanism and rewards and recognition policy within the performance evaluation system and formalize rebuttal process; collective bargaining process particularly the adherence to the Staff Regulations on the composition of JNC Secretariat, appraisal of the Review Panel and the need for capacity building on staff-management relation issues.

9. We further encourage the implementation of all other recommendations from prior years which remain outstanding. Annex A presents the Status of the Implementation of the External Audit recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

10. 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.

11. 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

[3] GB 323/PFA/6

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.

Scope and objectives

12. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. This 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.

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

a. financial statements present fairly the financial position of Centre as at 31 December 2019, 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 2019 in accordance with IPSAS;

b. 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

c. 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.

14. 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 2019, we reviewed the resource mobilization activities of the Centre particularly the overall strategy, skills development, financial resource allocation and bidding for calls for tenders and proposal.

15. Overall, our audit was carried out as per the Audit Plan presented to the Board in October 2019 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

16. 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.

17. 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.

18. 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.

19. 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

20. 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

21. This section presents the results of the audit for the financial year 2019. 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

22. We audited the following financial statements of the Centre including the notes to the 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.

23. 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 2019, 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

24. 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.

25. 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

26. The main perspective of financial reporting is the demonstration of accountability for resources of the Centre through provision of insights on how that entity can 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 Conduct of physical inventory and update of Asset Register

27. A review of the Asset Register revealed that the last physical inventory of the capitalized assets was conducted and completed in April 2016. Such Asset Register had been duly filled and updated in December 2016. Further, a review of the 2019 balances of the Property and Equipment (P&E) accounts revealed that it was reconciled with the 2019 Fixed Asset Summary of the different items of the P&E maintained by FINSERV, while comparison between the Asset Register maintained by Facilities and Internal Services (FIS) and the 2019 Fixed Asset Summary was not possible due to the absence of an updated Asset Register.

28. Management acknowledged this delay and informed us that the conduct of next physical inventory would be undertaken in 2020. The physical inventory planned in 2018 was delayed after FIS sought the approval to delay the exercise due to the significantly high volume of training-related work that the Centre had to do in 2018. Also, it was disclosed that the policy and rules will be reviewed to ensure that assets are managed and controlled based on risks. We noted that aside from the annual inventory of P&E, the Centre adopted other means to safeguard the capitalized and trackable assets, particularly for IT equipment which is subject to a continuous inventory system through check-in, check-out policy and full reconciliation of items issued to participants in class.

29. We recognize the reasons provided by Management in delaying the conduct of physical inventory, and we appreciate the other measures in place to properly maintain and safeguard its assets. We maintain however, that a physical inventory should be performed to comply with the established policy and internal rules, and to further enhance the accountability over property and equipment. And the update of the Asset Register is equally important for the tracking of the details of each item of property and equipment to ensure control and facilitate asset management.

30. **We recommend that the Centre Management conduct a complete physical inventory of all capitalized assets and maintain an up to date Asset Register to ascertain the existence, condition and completeness of the recorded P&E and to further enhance accountability within the Centre.**

Management response

31. Agreed. A full review of the current rules and procedures is underway in order to manage these assets using a risk-based approach. A physical inventory will be undertaken in 2020.

B.3 Review of resource mobilization (RM)

32. We reviewed the resource mobilization (RM) activities of the Centre along the areas of overall strategy, RM skills development, financial resource allocation, and bidding for calls for tenders and proposals, with the end view of assessing how the accountability, internal control and risk control mechanisms in place, through policies and procedures, are influenced by the overall governance arrangements within a given Programme 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 Overall resource mobilization strategy

33. In the pursuit of RM within the Center, it was determined that its strategy emanated from the Strategic Plan and from its results-based Programme and Budget for 2018-19. Guided by these documents, the Office of the Director of Training had established a Strategy Implementation Framework for 2018-19 which put some details on the Strategic Plan, the Programme and Budget for 2018-19 and its outcomes, but particularly referring to the Training operation of the Centre. It was determined further that under the Office of the Director of Training is the Partnership and Programme Development Service (PRODEV), which is tasked to support and facilitate programme /partnership development and resource mobilization in the Centre.

34. It is commendable that the Centre has given primordial importance to a documented plan and it was noted that PRODEV had developed its Operational Plan for 2018-19 which was aligned with the biennial Programme and Budget 2018-19. It was indicated in the PRODEV Plan that its purpose was to contribute to the consolidation, expansion and diversification of the resource base and the partnership portfolio.

35. We noted however that the specific functions of the Technical Programmes and other offices involved in the Centre's RM were not indicated in the Operational Plan. We learned that RM at the Centre is not only the sole concern of PRODEV. Rather, it is a coordinated effort and collaboration of different Programmes. Other units provide instrumental support such as FINSERV - Budget Management and Financial Reporting Section (BMFR) that is tasked with the clearance of the budget proposal to be negotiated with the Sponsor after ensuring compliance to

the Centre's activity pricing. The Technical Programmes under the Office of the Director of Training contributed to identify potential sources of funding through their sectoral networks and provided technical data or information concerning a particular project. However, these Programmes also operate under their own area of responsibility and work plan, while activities related to resource mobilization falls within the coordinating role of PRODEV. While the different strategic frameworks refer to resource mobilization as a training department-wide undertaking, the Centre might benefit from a written framework defining in more details the contributing role of the technical programmes, FINSERV and the coordinating effort of PRODEV in resource mobilization.

36. Given its importance and the status of the Centre, it is imperative that an overall strategy be elaborated so that resource mobilization at the Centre be fully aligned with its results framework and its programmatic approach. Otherwise, donor relations and partnerships with stakeholders will remain on an ad hoc basis without internal stability as to its processes. While PRODEV and other Programmes involved in resource mobilization are considered to perform their assigned tasks within their respective dominion, a more structured approach will reinforce the assurance that their individual efforts will achieve cohesive results and impact on the relevance and effectiveness of resource mobilization efforts.

37. **We recommended that the Centre Management consider establishing a more integrated and concrete Resource Mobilization strategy, with specific focus on defining the functions, roles, responsibilities and activities of those involved, to ensure an effective and relevant governance structure on Resource Mobilization.**

Management response

38. The Centre's management agrees with the recommendation and a Resource Mobilization Strategy will be developed and will incorporate the roles, responsibilities and activities of the units involved in this area.

B.3.2 RM skills development

39. A robust strategy may not still achieve the objective of resource mobilization without the people involved having the right competencies in the process. The effectiveness of resource mobilization depends on the ability of staff to execute the activities as planned. The required competencies acquired through training demonstrates a commitment to keep staff on the cutting edge of knowledge and practice. It is the cornerstone for building knowledge about resource mobilization and the corresponding required skills. The most obvious benefit of resource mobilization training is achieving improved resource mobilization practices thus, optimizing the utilization of human resources.

40. PRODEV is the main coordinating unit with regards to resource mobilization. Through experience, PRODEV staff have already acquired sufficient skills. While this professional background enables effective knowledge of transfer through induction of prospective new staff, transfer of knowledge through induction may be one of the forms of capacity building, but then it was an established fact that resource mobilization is an innovative exercise requiring constant intervention with the new trends. This requires the establishment of professional development plans for the PRODEV team which should be aligned with strategic directions, and would aim to build and maintain up-to-date expertise and professional skills to operate in a highly volatile and uncertain environment.

41. **We recommended that the Centre Management incorporate in the development of Resource Mobilization strategy a clear and well-defined skills development plan for all staff involved, to ensure effective delivery of the planned resource mobilization.**
Management response

42. The Centre's management agrees with the recommendation and this will be addressed as part of the development of the Resource Mobilization Strategy.

B.3.3 Financial resource allocation

43. We noted that PRODEV had efficiently measured its performance and provided for its corresponding contribution in terms of quantitative and qualitative output. In the Centre's 2018 Interim Implementation Report, the Centre reported among others that PRODEV had contributed a total value of €1,035,774 to resource mobilization and partnership in the form of Contracts, Funding Agreements, Memorandum of Understanding, Framework Agreement and Grant Agreement. It was identified, however, that a specific financial allocation for resource mobilization efforts within the Centre was not provided.

44. Resource requirement varies from different modalities hence, it is important that an undertaking referenced to resource mobilization would entail a specific level of resources. For example, in a Memorandum of Understanding, funding partners generally require a contribution by each partner. This necessitates an allocation from the Centre, either in terms of staff time, logistical or financial resources, to generate the income from the same contract or agreement. Providing quantitative value over the activities within the resource mobilization's area of responsibility may be worth exploring.

45. It should be clarified that what is being raised as an issue is not the provision of a new or additional fund allocation to resource mobilization. It is the clear identification of the contributions already made by the Centre to resource mobilizations. In that way, the decision-makers of the Centre will know how much is being utilized to get additional funding through resource mobilization. This monitoring mechanism will then guide them in coming up with a decision on whether efforts should be extended or not, since they will know the cost and benefits derived from such activity. Further, the accountability principle of *Cost-benefit considerations* will be achieved more clearly. This principle means that the cost of a process or actions should be proportionate to the value of its intended results to ensure that resources are used in the most effective and efficient way.

46. **We recommended that the Centre Management review its strategic approach to resource mobilization to ensure that the efforts commensurate with the level of resources required by the Centre, and consider providing ways to identify and monitor resource allocation needs to enhance resource mobilization effectiveness in the context of a review of the resource mobilization strategy to ensure that the core principle of cost-benefit is achieved.**

Management response

47. Management agrees that resources allocated to resource mobilization should be identified and monitored to ensure that the core principle of cost-benefits is achieved.

B.3.4 Bidding for calls for tenders and proposals

48. Due to scarceness of voluntary contributions brought about by shifting concerns of prospective donors and funding partners, the global economic crisis and greater demands for transparency and accountability, competition is fierce. In consideration of the scarce resources, international public administration agencies have been outsourcing to a wide array of future partners. For such reasons, multi-lateral financial institutions and private non-governmental agencies became viable sources.

49. We were informed that the Centre can sustain its operations merely through the regular channels of resource mobilization. Competitive bidding for external partners is nevertheless undertaken for: (a) diversification of partnership portfolio or when Centre's visibility in a region needs to be enhanced; or (b) as a form of Human Resource strategy for the exposure of its personnel and staff to an individual project approach of providing training services. It is also noted from the Centre's Strategic Plan and its 2018-19 Programme and Budget that part of its overall objective under financial dimension is also the diversification of its resource base.

50. In the conduct of competitive bidding, PRODEV established an Operational Plan, the purpose of which is to contribute to the consolidation, expansion and diversification of the resource base and the partnership portfolio. This is supported by a Service Catalogue developed by PRODEV for Competitive Bidding which contains the services offered by the Competitive Bidding Desk and the Guidelines to streamline, coordinate, improve efficiency, and increase bidding operations. The review of the processes and activities within the area of competitive bidding under calls for tenders and proposals, being undertaken by the ITC, considered the following:

B.3.4.1 Criteria for pipeline inclusion

51. As gathered further from the Service Catalogue for Competitive Bidding established by PRODEV, the initial stage of the process which is the identification, checking eligibility and distribution of bidding opportunities (referred to as Identification stage), involved the following specific activities:

a. *Screen opportunities (forecasts, open calls and notices);*
b. *Check eligibility (formal eligibility criteria, prequalification requirements, technical relevance);*
c. *Prepare and update pipeline of forecasts and publish opportunities in PRODEV/INTRANET; and*
d. *Distribute specific relevant notices to Technical Programmes.*

52. It is at this stage that the initial screening is undertaken of the bidding opportunities gathered from different donor's or funding partner's websites, which would include: (a) multi-lateral banks; (b) UN System Agencies; (c) governments; and, (d) foundations and other clients/donors. It was further provided that the eligibility check involves looking at the formal eligibility criteria, prequalification requirements, and technical relevance. As to the delivery of this procedure, we were informed that in the initial screening, PRODEV takes into consideration the technical capabilities of the Centre and the financial and administrative requirements of the donor. Nevertheless, the set of criteria for such evaluation of bidding opportunities varies. Accordingly, while generic standard criteria are applied for the initial screening, specific criteria are applied on *ad hoc basis* before the decision to pursue each opportunity in consultation with

the Technical Programmes. As the result, those which were initially considered viable were then included in the pipeline or a list of viable tenders, being published by PRODEV for consideration by the Technical Programmes.

53. It is then submitted, based on the result of our review, that the process can be further enhanced if at the inception of the process, in the Identification Stage, there is already enough safeguard wherein the specific parameters in the form of a defined criteria for inclusion of a particular bidding opportunity in the pipeline would be clearly provided in the Operational Plan or in the Resource Mobilization strategy to be established. The same is true with the criteria when a tender opportunity may be considered of high interest to a Technical Programme. These will not only ensure that all those opportunities listed in the pipeline are viable but also that the Centre is also interested in bidding, which will then enhance the efficiency and effectiveness of the resource mobilization of the Centre.

54. **We recommended that the Centre Management enhance its procedural guidelines for competitive bidding and include in the overall Resource Mobilization Strategy to be developed or in the PRODEV Operational Plan, a defined set of criteria applicable to calls for tenders and proposals which will be used in the evaluation of bidding opportunities, to ensure that the principles of good internal control are fully entrenched in Centre's resource mobilization structure.**

Management response

55. The Centre's management agrees with the recommendation.

B.3.4.2 Risk management in competitive bidding

56. The Centre has a Risk Management policy and ensures that it is followed and applied. The Risk Management Committee meets regularly to review the risk assessments of each Unit and Training Department and ensure that sufficient mitigation actions are in place. This is a commendable exercise as it shows the commitment of the Centre's senior management to manage properly the Centre's risks. As one of the proof of this admirable commitment, it was noted next to the Identification stage of the competitive bidding process is the risk assessment stage wherein PRODEV will now coordinate with other Programmes regarding the assessment of risks associated with the bidding opportunities, which is again considered a good practice. Nevertheless, it is mainly starting from this stage that risks are assessed. The risk management exercise could be better structured to ensure that the risks involved in the whole bidding process are fully assessed, reviewed and managed.

57. Further, risk management may not be considered as a separate activity wherein it will be treated as an independent undertaking. Rather, it should be fully embedded within the core of the Centre's operations. Conducting a risk assessment independently and only in the succeeding stage of the process will not only deviate from the basic principle of the Centre's Risk Management Policy but also will not promote efficiency of the resource mobilization. As risks may arise in any stage of the proceeding, the level of efforts involved in the conduct of each of the stages in the competitive bidding process may not obtain the corresponding benefit and consequently, a bidding activity will not be beneficial to the Centre. This then necessitates the embedding of risks management strategy in all the stages of the bidding process so that risks will be properly identified and managed by all concerned units.

58. **We recommended that the Centre Management ensure that risk management covers the whole bidding process by identifying the risks involved and by providing mitigation measures to address the identified risks.**

Management response

59. The Centre's management agrees with the recommendation.

B.3.4.3 Pricing strategy

60. To be competitive, or in pursuance of the competitive bidding activities of the Centre, adjustments must be made in some aspect of the costs of services to be offered. It was noted that the Centre issues an annual Pricing Policy, in the form of a Circular. It was further provided that any exception to the provisions of the Circular must be approved in writing by the Director of Training in consultation with the Head of BMFR, as delegated by the Treasurer.

61. We were informed that pricing may require adjustments for the competitive bidding exercise considering the needed flexibility and the varying technical and administrative requirements for each tender opportunity. To remain competitive, certain costs need to be tailored to balance the financial viability of the tender opportunity and the technical limit of the Centre. We were also informed that specific guiding principles on price strategies for bidding might be considered in the context of the standard application of the Centre's pricing policy. However, internal rules and standards are also an important aspect for ensuring consistent operation and harmonious flow of processes. Thus, it was submitted during the audit that with the guiding principles on pricing, the needed flexibility will then be created without the need to deviate from internal rules and standards.

62. Management informed us that the current Pricing Policy provided sufficient flexibility in the bidding process. The Centre's senior management, nevertheless, may need to be involved when there are negotiations on possible project that needed to be undertaken. This is to ensure that the costs remain competitive and that the Centre's financial position is not be compromised. Management expressed its intention for a more detailed and extensive collaboration with the Programme Managers for them to understand the real concept of the flexibility provided under the established Pricing Policy.

63. **We recommended that the Centre Management consider communicating to Programme Managers on the pricing principles specifically applicable to competitive bidding for calls for tenders or proposals for them to understand the flexible parameters that could be applied to each type of contracts or funding opportunities on a case by case basis, to achieve a successful rate of winning contracts and ultimately the accountability over resource mobilization activities.**

Management response

64. Management agrees with the recommendation.

B.3.4.4 Lessons learned and feedback

65. In the progression of the bidding process, it was indicated in the Service Catalogue that the last stage will be the monitoring of implementation wherein: (a) advice on contractual and reporting requirements; (b) advice on eligibility of activities and costs; and (c) advice in case of

budget revisions and requests for amendments, are being undertaken. It can be gathered that the Technical Programmes are responsible from implementation up to the completion of the project. We noted, however, that there was no feedback mechanism in place, which is essential in the crafting of a new plan. It was gathered during interviews that while PRODEV may be called to assist in the implementation stage of the project, the monitoring and feedback stages are mainly the responsibility of the Technical Programmes.

66. The importance of feedback and lessons learned was acknowledged by PRODEV as noted in their prospective 2020-2021 Operation Plan for bidding process that the planned actions for 2021-2021 will be based on lessons learnt from 2017 through the biennium 2018-2019. It was further stated that the general trend would be for PRODEV to shift its efforts from a response-based approach to a more strategic approach. Monitoring or feedback needs to be incorporated in the action plan or general steps in the competitive bidding process for calls for tenders and proposals within PRODEV, as well as from the results obtained in specific tendering processes, to ensure consistency.

67. **We recommended that the Centre Management consider enhancing its procedural guidelines for bidding and updating its Operational Plan to include the establishment of a feedback mechanism, if not foreseen otherwise, wherein the results of past activities will be assessed to improve the Centre's prospects for successful bids, which will then further promote sustainability of resource mobilization.**

Management response

68. Management agrees with the recommendation.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

69. 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
2018	11	2	3	6
2017	1	0	1	0
2016	6	1	5	0
Total	18	3	9	6

70. It can be noted that six recommendations in 2018 have not yet been implemented by the Management and these recommendations are: a) the need to enhance the maintenance of rosters and pools of candidates; b) establishing documentation for feedback mechanism; c) establishing rewards and recognition policy within the performance evaluation system; d) formalization of rebuttal process in performance management system; e) adherence to the Staff Regulations on the composition of JNC Secretariat; and f) appraisal of the review panel as an effective mechanism in a collective bargaining process. Management planned to address these issues soon due to other priorities.

71. Further, five recommendations in 2016 have been initiated but the final implementation is planned by Management in 2020 for the first three and for the last two, no specific year was given, due to other priorities and lack of resources. These recommendations are: a) development of formal Finance Manual; b) embedding of a clear definition of accountability in the accountability framework; c) 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; d) enhancement of asset management policy on lost asset, write off and asset disposal; and e) 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.

72. **We recommended that the Centre Management prioritize the implementation of the audit recommendations to further improve operational efficiency.**

Management response

73. Management is actively working at implementing the recommendations made by the External Auditor. Unfortunately some of these recommendations require IT systems and an overall change in the related processes. This must be managed with all other priorities of the Centre as no specific resources are available, whether human or financial resources.

D. DISCLOSURES BY MANAGEMENT

74. 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

75. 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

76. Receivables of €15,158,000 (€12,756,000 as at 31 December 2018) 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 2019. Receivables classified as current do not include any material amounts that are collectible after one year. A provision for doubtful accounts of €162,000 (€47,000 as at 31 December 2018) has been made to reflect the Centre's best estimate of accounts impaired.

77. The balance Due from the ILO of €2,640,000 (€1,425,000 as at 31 December 2018) as shown on the statement of financial position represents the net balance of the current account with the ILO that is used 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 by the Centre to the ILO.

D.3 Payables

78. Liabilities of the Centre totaling €23.9 million is composed primarily of €17.3 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 2018, deferred revenue increased by 10 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

79. Management is not aware of any reported cases of fraud and presumptive fraud in the financial year 2019 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

80. Management reported that there were no ex-gratia payments made by the Centre in financial year 2019.

E. ACKNOWLEDGEMENT

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

Commission on Audit
Republic of the Philippines
External Auditor

20 March 2020
Quezon City, Philippines

Appendix

STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PRIOR YEARS

	Recommendation	External Auditor's Validation
	2018	
1	**Financial Management: Effects of the journal entries for standard costs** 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.	**Implemented** Management has reviewed each standard cost process, and each are working as intended with no impact on the final annual surplus/deficit.
2	**Financial Management: Procure-to-pay process in the Oracle Application** 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.	**Implemented** Some transactions will remain with a 2-way match as it is not possible to convert them to a 3-way match. These relate mostly to the large suppliers of the Centre for which a full invoice reconciliation is required prior to payment.
3	**Recruitment and Selection: (a) The need to enhance and update the written procedures on the recruitment process; (b) The need to evaluate the cause of delays in pre-recruitment activities; (c) The need for an optimum time to fill vacancies; and (d) The need to formalize interview and assessment mechanism** 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.	**On-going** A review is currently underway on the Selection Committee and a new Circular will be issued.

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4	**Recruitment and Selection: The need to enhance the maintenance of Rosters and Pools of candidates** 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.	**Not yet implemented** The acquisition of software application and/or development, which will be needed for the roster to be truly operational, require proper planning with the assistance of ICTS for the software technical part and HRS staff to be assigned to this task.
5	**Performance Management System: The need to shift from measuring tasks/quantities/measurable/assessable goals** 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.	**On-going** Work is underway with an initial concept note having been prepared at this time.
6	**Performance Management System: The need to establish documentation of feedback mechanisms** Centre Management 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.	**Not yet implemented** Discussions have been initiated but this will be addressed soon due to other priorities.
7	**Performance Management System:** The need to establish the Rewards and Recognition Policy within the Performance Evaluation System Centre Management initiate a proposal in consultation with the JNC, to link more closely the Recognition and Awards Programme to its performance management system.	**Not yet implemented** Discussion have been initiated and this is planned for 2020 due to other priorities.
8	**Performance Management System: The need to formalize rebuttal process in performance management system** 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.	**Not yet implemented** Discussions have been initiated but this will be addressed soon due to other priorities.
9	**Collective Bargaining Process: Need to adhere to the Staff Regulations on the composition of JNC Secretariat.** 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.	**Not yet implemented** ITC 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.

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10	**Collective Bargaining Process:** ***Need to appraise the Review Panel (RP) as an effective mechanism*** 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.	**Not yet implemented** Discussions have been initiated but this will be addressed soon due to other priorities.
11	**Collective Bargaining Process:** ***Need for capacity building on staff-management relation issues for both the Management and Staff Union Representatives*** Centre Management implement regular trainings on staff management relations issues for both the Management and Staff Union representatives that will further improve interpersonal relationship and provide better understanding of the substantive concerns of each party that would resolve differences constructively.	**On-going** A joint management and staff union retreat was organized and held in November 2019. Technical training on negotiation skills will be planned in the future.
	2017	
12	**Financial Management: Accounts receivable monitoring** Centre's Management review the existing policy, rules and procedures on receivables to align them to its existing current practices.	**On-going** The Circular was planned to be issued in 2019 however due to other priorities, this will be completed in the first quarter of 2020.
	2016	
13	**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** The Centre has issued its IPSAS Manual, jointly with the ILO. **On-going** The Finance Manual is under development and it is expected to be issued in 2020. **Closed** As explained previously, the Centre's chart of accounts is functional and has been simplified. No further revisions are planned soon.
14	**Accountability Framework: Embedding of a clear definition of accountability in the accountability framework** Embed in the Accountability Framework a clear, 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** The Circular has been amended and require some consultations. This is planned for 2020 due to a lack of resources and other priorities.

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15	**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** The Circular has been amended and require some consultations. This is planned for 2020 due to a lack of resources and other priorities.
16	**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** Discussions are under way to revise and simplify the policy, process and implement a simple asset management tool.
17	**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.	**Completed** The Internal Control Framework was issued and is available on the Centre's intranet site.
18	**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** Discussions have been held on the IT needs and consultations will be initiated shortly as the process also requires the revision and simplification of the travel policy and rules, which will then be included in a Travel Manual.