INTERNATIONAL TRAINING CENTRE OF THE ILO

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Board of the Centre

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FIRST ITEM ON THE AGENDA

DIRECTOR'S REPORT ON THE ACTIVITIES OF THE CENTRE IN 2005-2006 AND PERSPECTIVES FOR 2007

Financial Statements and External Auditor's Report for the financial year 1 January to 31 December 2005

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INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005

EXPRESSED IN US $ '000

	NOTES	GENERAL FUND		NOTES	WORKING CAPITAL FUND		NOTES	CAMPUS IMPROVEMENT FUND		NOTES	INVESTMENT FUND	
		2005	2004		2005	2004		2005	2004		2005	2004
ASSETS												
CASH AND TERM DEPOSITS	3	11,217	13,100	3	2,725	2,707	3	2,248	2,123	3		
ACCOUNTS RECEIVABLE	4	9,623	6,359						1			
LESS PROVISION FOR DOUBTFUL ACCOUNTS	4	(274)	(361)									
INTERFUND BALANCES		25	7									
OTHER ASSETS	5	574	568									
FIXED ASSETS	6	941	1,120									
TOTAL ASSETS		22,106	20,793		2,725	2,707		2,248	2,124		0	0
LIABILITIES												
PAYMENTS OR CONTRIBUTIONS RECEIVED IN ADVANCE	7	5,969	5,924				18	1,945	1,439			
UNLIQUIDATED OBLIGATIONS	8	3,709	2,978									
ACCOUNTS PAYABLE												
INTERFUND BALANCES					25	7						
OTHER	9	3,451	2,987				18	303	685			
OTHER LIABILITIES	9	671	209									
TOTAL LIABILITIES		13,800	12,098		25	7		2,248	2,124		0	0
RESERVES AND FUND BALANCES												
OPENING OPERATING RESERVES		8,695	7,389					0	27		0	0
WORKING CAPITAL FUND					2,700	2,700						
TRANSFER (TO) / FROM OTHER FUNDS (Investment Fund)		(667)	(172)									
TRANSFER WITHIN THE GENERAL FUND		(118)	(8)									
SURPLUS (DEFICIT)		396	1,486		0	0		0	(27)		0	0
TOTAL RESERVES AND FUND BALANCES	10	8,306	8,695		2,700	2,700		0	0		0	0
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		22,106	20,793		2,725	2,707		2,248	2,124		0	0

INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2005

EXPRESSED IN US $ '000

		GENERAL FUND			WORKING CAPITAL FUND			CAMPUS IMPROVEMENT FUND			INVESTMENT FUND	
		2005	2004		2005	2004		2005	2004		2005	2004
INCOME	NOTES			NOTES			NOTES			NOTES		
VOLUNTARY CONTRIBUTIONS	11	13,081	12,909					717	933			
OTHER INCOME												
REVENUE PRODUCING ACTIVITIES	12	23,757	23,351									
FUNDS RECEIVED UNDER INTER-ORGANIZATION ARRANGEMENTS	12	8,469	7,900									
ALLOCATION FROM OTHER FUNDS										17+10	667	172
INTEREST INCOME		282	92					16	1			
CURRENCY EXCHANGE ADJUSTMENTS		51	45					(226)	134			
MISCELLANEOUS	13	924	1,086									
TOTAL INCOME		46,564	45,383		0	0	18	507	1,068		667	172
EXPENDITURE												
FIXED EXPENSES	14	23,503	22,408									
VARIABLE EXPENSES	15	22,766	21,597					507	1,095	17	667	172
TOTAL EXPENDITURE		46,269	44,005		0	0	18	507	1,095		667	172
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		295	1,378		0	0		0	(27)		0	0
PROVISIONS FOR DOUBTFUL ACCOUNTS	4	(189)	(154)									
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	16	106	1,224		0	0		0	(27)		0	0
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS		290	262									
FINANCIAL SURPLUS / (DEFICIT)	16	396	1,486		0	0		0	(27)		0	0
TRANSFERS(TO) / FROM RESERVES OR OTHER FUNDS (Investment Fund)	10	(667)	(172)									
TRANSFERS WITHIN THE GENERAL FUND	10	(118)	(8)									
RESERVES AND FUND BALANCES, BEGINNING OF PERIOD		8,695	7,389		2,700	2,700		0	27		0	0
RESERVES + FUND BALANCES END PERIOD		8,306	8,695		2,700	2,700		0	0		0	0

INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF CASH FLOW FOR THE PERIOD ENDING
31 DECEMBER 2005

EXPRESSED IN US $ '000

	GENERAL FUND		WORKING CAPITAL FUND		CAMPUS IMPROVEMENT FUND		INVESTMENT FUND	
	2005	2004	2005	2004	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES								
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	106	1,224			0	(27)		
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(3,351)	4,919			1	(1)		
(INCREASE) DECREASE IN OTHER ASSETS	(6)	100						
INCREASE (DECREASE) IN CONTRIB. OR PAYMENTS RECEIVED IN ADVANCE	45	(354)			506	1,164		
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	464	(647)			(382)	642		
INCREASE (DECREASE) IN UNLIQUIDATED OBLIGATIONS	731	459						
INCREASE (DECREASE) IN OTHER LIABILITIES	462	(635)						
LESS: INTEREST INCOME	(282)	(92)			(16)	(1)		
PLUS: INTEREST EXPENSE								
CURRENCY EXCHANGE ADJUSTMENTS	(51)	(45)			226	(134)		
NET CASH FROM OPERATING ACTIVITIES	(1,882)	4,929	0	0	335	1,643	0	0
CASH FLOWS FROM INVESTING ACTIVITIES								
PLUS: INTEREST INCOME	282	92			16	1		
LESS: INTEREST EXPENSE								
(INCREASE) DECREASE IN FIXED ASSETS	179	(80)						
CURRENCY EXCHANGE ADJUSTMENTS	51	45			(226)	134		
NET CASH FROM INVESTING ACTIVITIES	512	57	0	0	(210)	135	0	0
CASH FLOWS FROM FINANCING ACTIVITIES								
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS	290	262						
(INCREASE) DECREASE IN INTERFUND BALANCES RECEIVABLE	(18)	(5)	18	5				
(INCREASE) DECREASE IN INTERFUND BALANCES PAYABLE								
TRANSFER WITHIN THE GENERAL FUND	(118)	(8)						
TRANSFERS TO) / FROM OTHER RESERCES OR FUNDS (investment Fund)	(667)	(172)						
NET CASH FROM OTHER SOURCES	(513)	77	18	5	0	0	0	0
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(1,883)	5,063	18	5	125	1,778	0	0
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	13,100	8,037	2,707	2,702	2,123	345	0	0
CASH AND TERM DEPOSITS, END OF PERIOD	11,217	13,100	2,725	2,707	2,248	2,123	0	0

GENERAL FUND
STATEMENT OF APPROPRIATIONS

for the period ending 31 December 2005
(Expressed in thousands of US dollars)

Chapter	Item	Title		2005 BUDGET	2005 ACTUAL	BUDGET VARIANCE
		INCOME				
I		**Voluntary contributions**				
	10	International Labour Organization		2,937	2,937	0
	11	Government of Italy		9,446	9,708	262
	12	Government of France		110	119	9
	13	Walloon Region		0	73	73
	14	Piedmont Region		240	244	4
		Total contributions	*Note 19a*	12,733	13,081	348
II		**Earned income**				
	20	Income from training activities	*Note 19b*	29,500	32,226	2,726
	21	Other income		900	1,206	306
		Total earned income		30,400	33,432	3,032
		TOTAL INCOME		**43,133**	**46,513**	**3,380**
		EXPENDITURE				
III		**Fixed expenses**				
	22	Staff		16,568	16,536	32
	23	External collaborators		506	433	73
	24	Buildings		1,845	1,836	9
	25	Transport and communications		674	541	133
	26	Specialized services		1,021	972	49
	27	Services provided by ILO Offices		196	152	44
	28	Official meetings		128	160	(32)
	29	Missions and representation		380	317	63
	30	Library and training resources		44	58	(14)
	31	Depreciation		867	500	367
	32	Other fixed costs		1,804	1,998	(194)
		Total fixed expenses	*Note 19c*	24,033	23,503	530
IV		**Variable expenses**				
	33	Temporary assistance		7,600	10,543	(2,943)
	34	Missions		1,150	1,243	(93)
	35	Participants subsistence		3,650	3,739	(89)
	36	Participants travel		2,500	2,083	417
	37	External tuition fees		300	402	(102)
	38	Books, training aids, supplies		350	167	183
	39	Other variable costs		3,350	4,269	(919)
	39a	Other costs related to other income		350	320	30
		Total variable expenses	*Note 19d*	19,250	22,766	(3,516)
		TOTAL OPERATING EXPENSES		**43,283**	**46,269**	**(2,986)**
		OPERATING SURPLUS/(DEFICIT)		**(150)**	**244**	**394**
V		**Other items**				
	40	Provision for doubtful accounts	*Note 4*	0	(189)	(189)
	41	Gain / (Loss) on exchange		0	51	51
	42	Savings on or cancellations of prior period's obligations		0	290	290
		TOTAL OTHER ITEMS		0	**152**	**152**
		FINANCIAL SURPLUS / (DEFICIT)		**(150)**	**396**	**546**

NOTES TO THE FINANCIAL STATEMENTS

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

1. STATEMENT OF OBJECTIVES AND ACTIVITIES

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

2. STATEMENT OF ACCOUNTING POLICIES

2.1. GENERAL ACCOUNTING POLICIES

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

2.2. PARTICULAR ACCOUNTING POLICIES

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

a) The financial period of the Centre is a calendar year.

b) The Centre's Financial Statements are prepared according to the historical cost accounting convention and have not been adjusted to reflect the effects of changing price levels for goods and services.

c) There have been no changes in budgetary and accounting procedures, which materially affect the comparability of Financial Statements with those of previous periods.

d) Income for all activities for which the main element, such as training or consulting, has been completed by the end of the financial year are included in total that year. For activities that span more than one financial year, the income element is recorded in the respective years in proportion to the delivery of the activities in each of those years.

e) All expenditure, including expenditure for follow up actions that may be performed in a future period, for activities completed by the end of the financial period are expensed or accrued in that period. For activities that span more than one financial period, the expenses are recorded in the period in which they occurred.

f) Income and expenditure are recorded and reported on a gross basis.

g) Fixed assets acquired since July 1980 have been recorded in the accounts at cost. Acquisitions and disposals of fixed assets in currencies other than US dollars have been converted to dollars at the United Nations operational rate of exchange at the date of acquisition. Fixed assets have been depreciated on a straight-line basis at rates of 20% or 10% per annum, depending on their estimated useful life. This is a departure from the United Nations System Accounting Standards but reflects more accurately the cost of the utilization of these assets. Contributions in kind are shown in notes to the Financial Statements.

h) The Statement of Assets, Liabilities and Reserves and Fund Balances prepared at the end of the financial period does not contain provisions for termination payments made to officials upon their departure from the Centre because such payments are made by the ILO Terminal Benefits Fund, to which the Centre makes monthly contributions. Furthermore, in accordance with UN accounting practices, the Centre neither accrues for outstanding leave not taken by the end of the financial year nor the actuarial valuation of the liability for after service medical benefits. The Centre discloses the potential liability of these costs in notes 21 and 22 of the financial statements.

2.3. EXCHANGE RATE TRANSLATION POLICY

a) The Financial Statements of the Centre are expressed in United States dollars. Income and expenditure in other currencies are translated into US dollars at the time of the transaction at the prevailing United Nations operational rate of exchange. For the purpose of inclusion in the Financial Statements, assets and liabilities expressed in currencies other than US Dollars are translated into United States dollars at the United Nations operational rate of exchange applicable at the end of the financial period.

b) Losses realized as a result of currency fluctuations are offset against gains realized during the same financial period. At the close of the financial period the net gains are credited to Other Income (Currency Exchange Adjustments) and net losses are also debited to Other Income.

STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES

3. CASH AND TERM DEPOSITS

General Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2005	2004
Cash in imprest accounts	18	17
Bank current accounts	3,965	5,248
Term deposits	9,875	10,752
Sub-Total	13,858	16,017
Less: Amounts held on behalf of the Italian Government	(2,641)	(2,917)
TOTAL CASH AND TERM DEPOSITS	**11,217**	**13,100**

The Term deposits made with the Centre's bank as at 31 December 2005 amounted to US$ 9,875,422 of which US$ 3,000,000 matured on 17 January 2006, US$ 1,875,422 matured on 20 January 2006 and US$ 5,000,000 matured on 15 February 2006.

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

Working Capital Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2005	2004
Bank current account	25	7
Term deposits	2,700	2,700
TOTAL CASH AND TERM DEPOSITS	**2,725**	**2,707**

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

The Term deposit made with the Centre's bank amounted to US$ 2,700,000 as at 31 December 2005 and matured on 10 January 2006.

The interest earned of US$ 52,000 for the year ended 31 December 2005 was credited to the General Fund.

Campus Improvement Fund

Total Cash and Term Deposits at 31 December 2005 represent the balance on the bank current account of Euro 400,000 equivalent to US$ 473,000 and a term deposit made with the Centre's bank Euro 1,500,000 (US$ 1,775,000) that matured on 23 January 2006.

4. ACCOUNTS RECEIVABLE

General Fund

Total Accounts Receivable at 31 December comprise:

(Expressed in thousands of US dollars)

	2005	2004
Accounts receivable and accrued income	9,451	5,960
Less provision for doubtful accounts	(274)	(361)
Accounts receivable net	9,177	5,599
Other receivables	172	399
TOTAL ACCOUNTS RECEIVABLE NET	**9,349**	**5,998**

The Centre has provided for doubtful debts totalling US$ 274,000 (2004= US$ 361,000) at the year end. The Centre provides for 50% of the value of all unpaid debts over one year old and 100% of the value of all unpaid debts over 2 years old. During the year the Centre wrote off fully US$ 276,000 of debts over 3 years old provided for in previous years, which required an increase in the provision for doubtful debts of US$ 189,000.

The increase in accounts receivable and accrued income is mainly due to amounts falling due from the Italian Government in respect of a number of large projects.

5. OTHER ASSETS

Total Other Assets at 31 December comprise:

(Expressed in thousands of US dollars)

	2005	2004
Stock of consumable supplies	380	420
Less provision for obsolescence	(58)	(58)
Sub Total	322	362
Prepaid expenses and sundry advances	252	206
TOTAL OTHER ASSETS	**574**	**568**

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

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

6. FIXED ASSETS

Fixed assets

(Expressed in thousands of US dollars)

	Vehicles and Office Equipment	Computer Systems	Other Equipment and Furniture	TOTAL
COST AT 1.1.2005	957	1,802	1,334	4,093
2005 Additions	84	246	0	330
Disposals	(89)	(257)	0	(346)
Transfers and adjustments	0	0	0	0
COST AT 31.12.2005	952	1,791	1,334	4,077
DEPRECIATION AT 1.1.2005	669	1,083	1,221	2,973
2005 Depreciation	112	324	64	500
Disposals	(89)	(248)	0	(337)
Transfers and adjustments	0	0	0	0
DEPRECIATION AT 31.12.2005	692	1,159	1,285	3,136
NET BOOK VALUE AT 31.12.2005	260	632	49	941

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

In the year the Centre replaced obsolete equipment for interpretation replaced obsolete computer servers and installed a backup electrical generator for the computer farms.

7. CONTRIBUTIONS OR PAYMENTS RECEIVED IN ADVANCE

The amount of US$ 5,969,000 (2004 = US$ 5,924,000) is mainly comprised of contributions concerning future training activities. The largest contributions in advance were received from the Italian Ministry of Foreign Affaires for Project Palestine and the Bulgarian Foreign Ministry for Capacity Building.

8. UNLIQUIDATED OBLIGATIONS

The amount of US$ 3,709,000 (2004 = US$ 2,978,000) includes expenditure incurred or committed for but not yet invoiced, for various activities; the amount includes expenses mainly associated with training courses and advisory services, plus various

accruals for fixed costs. In accordance with note 2.2.e) for activities that span more than one financial period, the expenses are recorded in the period they occurred.

The increase in unliquidated obligations arises from higher ILO related expenses, an accrual for a backdated salary increase for the General Service staff and for costs relating to the Investment Fund which will be spent in 2006.

9. OTHER ACCOUNTS PAYABLE AND OTHER LIABILITIES

The amount of US$ 3,451,000 in respect of Accounts Payable Other (2004 = US$ 2,987,000) represents amounts due to suppliers for goods and services rendered. The rise is due to the increase in amounts due to a number of the main suppliers of the Centre at the end of the year.

The rise in Other Liabilities from US$ 209,000 in 2004 to US$ 671,000 in 2005 relates to amounts transferred from the Italian Government Funds to meet project expenditure falling due.

10. ACCUMULATED GENERAL FUND RESERVE

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

The movements in the General Reserve are as follows:

(Expressed in thousands of US dollars)

	2005	**2004**
Opening balance at January 1st	8,695	7,389
Surplus for the year	396	1,486
Less transfer to Investment Fund (see note 17)	(667)	(172)
Less pensions costs in respect of INPS contributions approved at the 65th session of the Board of the Centre	(118)	(8)
Closing balance at December 31	**8,306**	**8,695**

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

11. INCOME FROM VOLUNTARY CONTRIBUTIONS

General Fund

Income from voluntary contributions for the period ending 31 December 2005 is detailed below:

(Expressed in thousands of US Dollars)

	2005	2004
INTERNATIONAL LABOUR ORGANIZATION	2,937	2,937
GOVERNMENT OF ITALY	9,708	9,620
GOVERNMENT OF FRANCE	119	111
WALLOON REGION	73	0
PIEDMONT REGION	244	241
TOTAL	**13,081**	**12,909**

a) The ILO contribution of US$ 2,937,000 represents one half of the approved 2004/2005 biennial contribution of US$ 5,874,000.

b) The Italian Government's contribution to the Centre in 2005 was Euro 7,850,000 (2004 = Euro 7,850,000) the equivalent of US$ 9,708,000 at the exchange rate on the date of receipt.

c) The French Government contributed Euro 92,000 (2004 = Euro 92,000) the equivalent of US$ 119,000 at the exchange rate on the date of receipt.

d) The Walloon Region contributed Euro 60,000 (2004 = nil) the equivalent of US$ 73,000 at the exchange rate on the date of receipt.

e) The Piedmont Region contributed Euro 200,000 (2004 = Euro 200,000) the equivalent of US$ 244,000 at the exchange rate on the date of receipt.

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

General Fund

(Expressed in thousands of US Dollars)

REVENUE PRODUCING TRAINING ACTIVITIES	**2005**	**2004**
GOVERNMENT OF ITALY (voluntary contribution)	7,896	8,178
GOVERNMENT OF ITALY (other)	5,244	3,774
EUROPEAN UNION (including the European Commission, the European Training Foundation and the European Social Fund)	3,002	4,571
BILATERAL DONORS / DIRECT TRUST FUNDS	6,777	6,497
OTHER MULTILATERAL AGENCIES	838	331
TOTAL REVENUE-PRODUCING ACTIVITIES	**23,757**	**23,351**
FUNDS RECEIVED UNDER INTER-ORGANISATIONAL ARRANGEMENTS		
INTERNATIONAL LABOUR ORGANIZATION – REGULAR BUDGET	3,053	2,408
INTERNATIONAL LABOUR ORGANIZATION - OTHER	2,902	3.208
WORLD BANK	1,334	1,402
OTHER UN AGENCIES	1,180	882
TOTAL INTER-ORGANIZATION	**8,469**	**7,900**
TOTAL INCOME FROM TRAINING ACTIVITIES	**32,226**	**31,251**

Other multilateral agencies includes the amount of Euro 211,000 (equivalent to US$ 255,000) received from the Compagnia di Sanpaolo, which is an arms length organisation from the Centre's bankers the Sanpaolo IMI bank, for specific training activities.

13. MISCELLANEOUS INCOME

Miscellaneous income comprises:

(Expressed in thousands of US Dollars)

	2005	2004
Non training activities and services	788	963
Sundry receipts	136	123
TOTAL MISCELLANEOUS INCOME	**924**	**1,086**

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

14. FIXED EXPENSES

Fixed expenses were US$ 1,095,000 (5%) higher than in 2004 mainly due to the weakening of the US Dollar. This adversely affected all expenditure made in Euro including salaries that were US$ 473,000 higher than the previous year, building costs (US$ 209,000 higher) and other fixed costs that were US$ 322,000 higher.

15. VARIABLE EXPENSES

Variable expenses were US$ 1,169,000 (5%) higher than in 2004 reflecting the weakening of the US$ and the 10% increase in training activities to which variable expenses are directly linked.

16. NET EXCESS OF INCOME OVER EXPENDITURE

The net excess of income over expenditure of US$ 106,000 (2004 US$ 1,224,000, excess), was further increased by savings on or cancellations of prior period's obligations of US$ 290,000 (2004 US$ 262,000). This resulted in a surplus of US$ 396,000 that was transferred to the General Reserve (see note 10).

Other Funds

17. DEVELOPMENT PLAN AND ASSOCIATED INVESTMENT FUND

At its 63rd session, the Board approved the operationalization of the Third Development Plan (document CC 63/4) and its associated Investment Fund. The Investment Fund was modified by the Board at its 64th session (document CC 64/5/b).

The current Development Plan ceased on 31 December 2005. A proposed new Plan, running from 1 January 2006 to 31 December 2011, is presented in a another document to this Board. Expenditure of US$ 180,000 committed under the plan ending on 31 December 2005 but unspent at the end of 2005 has been reflected in the General Fund in 2005.

In 2005 US$ 667,000 (2004=US$ 172,000) was spent on the following investment programmes:

This amount was transferred from the General Reserve (see note 10 above)

Programme	US$
Third Investment Fund	
Gender Mainstreaming	20
Quality of Training	122
Information Technology	126
Extended Reach	105
Closer Association with the ILO	294
TOTAL NET EXPENDITURE FOR 2005	**667**

18. CAMPUS IMPROVEMENT FUND

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

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

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

In 2005, US$ 507,000 were spent on improvements of the Campus bringing the total from the start of the project to US$ 1,928,000. The expenditure include the construction of the temporary reception building and furniture and fittings for the new hotel rooms and common areas, fees for the architect following the progress and quality of the works and final cleaning of the hotel infrastructure at the end of the works.

The balance available of US$ 2,248,000 will be used to pay outstanding suppliers invoices and for, in future years, further improvements to the Campus infrastructure.

STATEMENT OF APPROPRIATIONS

19. STATEMENT OF APPROPRIATIONS

General Fund

a) Voluntary Contributions

The Italian Government's contribution was Euro 7,850,000 as planned in the budget. The excess of US$ 262,000 was entirely due to exchange differences.

The Government of France contributed Euro 92,000 as planned in the budget. The excess of US$ 9,000 was entirely due to exchange differences.

The Piedmont Region contributed Euro 200,000 as planned in the budget. The excess of US$ 4,000 was entirely due to exchange differences.

The Walloon Region made an exceptional contribution of Euro 60,000.

b) Earned Income

(Expressed in thousands of US Dollars)

	Budget 2005	Actual 2005	Budget Variance
Group Training and advisory services	28,100	30,986	2,886
Publications	1,400	1,240	(160)
TOTAL INCOME FROM TRAINING ACTIVITIES	**29,500**	**32,226**	**2,726**

The total income from training activities was 9% higher than planned in 2005. This is mainly due to an increased number of training activities and the weakening of the US dollar against the Euro.

c) Fixed Expenses

Fixed expenses were US$ 530,000 lower than budget (2004 = US$ 787,000 higher) despite the unfavourable effect of the weakening of the USdollar against the Euro. This is mainly due to reduction of salary costs by freezing a number of posts, to an effective cots control on all general expenses and to a lower than budgeted depreciation charge as planned capital acquisitions of fixed assets were not made.

d) Variable Expenses

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

Variable expenses were 7% higher than budget mainly due to the increase in revenue (9% higher).

All funds

20. FUTURE COMMITMENTS

At 31 December 2005 the Centre had future commitments under the General Fund for the purchase of fixed assets amounting to US$ 89,000 and of US$ 56,000 under the Campus Improvement Fund.

21. ACCRUED LEAVE AND END OF SERVICE BENEFITS

The Centre, in accordance with UN accounting practices, does not accrue neither for leave not taken by the end of the financial year nor for amounts due to staff on termination. At 31 December 2005, the liability for outstanding leave is estimated at US$ 2,296,000 (2004 = US$ 2,233,000) and the liability for end of service benefits is estimated at US$ 9,048,000 (2004 = US$ 9,438,000).

22. AFTER SERVICE MEDICAL BENEFITS

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

23. UNITED NATIONS JOINT STAFF PENSION FUND (UNJSPF)

The International Training Centre of the ILO is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payment under Article 26 of the regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. At the time of this report the United Nations General Assembly has not invoked this provision.

24. UNITED NATIONS INTER-REGIONAL CRIMINAL RESEARCH INSTITUTE RELOCATION FUND

UNICRI was transferred from Rome to Turin in 2000. The Centre has managed, on behalf of UNICRI, the funds necessary to cover the costs of the relocation from Rome and the costs of the restructuring of the Pavilion they now occupy. At 31 December

2005 the Centre held a balance of Euro 51,000 on behalf of UNICRI (2004 = Euro 87,000). In the year 2005 Euro 36,000 was spent on the renovation.

25. CONTRIBUTIONS IN KIND (NOT AUDITED)

The ILO provided a total of 23 man months (2004 = 35 man months) of staff time free of charge.

The French Government provide a total of 24 man months of staff time free of charge.

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

APPROVAL OF THE FINANCIAL STATEMENTS

The Statements of Assets, Liabilities, and Reserves and Fund Balances (Statement I), of Income and Expenditure and Changes in Reserves and Fund Balances (Statement II), of Cash Flow (Statement III), of Appropriations (Statement IV) and Notes to the Financial Statements (Notes 1-25) are approved.

François Eyraud
Executive Director
Turin Centre

Peter S. Jones
Treasurer and Chief,
Financial Services

AUDIT OPINION OF THE EXTERNAL AUDITOR

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

I have audited the accompanying financial statements comprising Statements I to IV and Notes 1 to 24 of the International Training Centre of the International Labour Organization for the financial period ended 31 December 2005.

Respective responsibilities

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

Basis of Opinion

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2005 and the results of the operations and cash flows for the period then ended in accordance with the International Training Centre of the International Labour Organization's stated accounting policies set out in Note 2 of the financial statements.

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

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

(signed)

Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor

London, 9th October 2006

REPORT OF THE EXTERNAL AUDITOR FOR THE YEAR ENDED 31 DECEMBER 2005

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Executive summary

- ***An unqualified audit opinion on the financial statements***
- ***Four recommendations for the improvement of financial procedures and controls;***
- ***Two recommendations towards more equitable sharing of common campus costs and to ensure cost recovery from other users of the campus facilities;***
- ***Two recommendations for the improvement of treasury management to ensure that arrangements are in accordance with an approved strategy and subject to management oversight; and***
- ***Three recommendations for improving the management of sick absence.***

Overall results of the audit

1. Our financial audit yielded satisfactory results and revealed no weaknesses or errors which we considered material to the accuracy, completeness, and validity of the financial statements as a whole; and the External Auditor has placed an unqualified audit opinion on the financial statements of the International Training Centre of the International Labour Organization (the Centre).

2. The External Auditor audited the financial statements of the Centre in accordance with Articles 25 to 28 of the Financial Regulations; and in conformity with the common auditing standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, and with International Standards on Auditing.

3. In addition to our audit of the financial statements, we have made a number of observations on financial and management issues which result from the audit work carried out at the Centre.

On financial matters

4. This report identifies a number of areas where we believe further improvement to the financial management of the Centre could be secured. As we reported last year, there continues to be an over-dependence on the Treasurer in producing the financial statements and we continue to encourage the Centre to ensure that more staff are involved in the preparation of the financial statements, with the aim of providing these to an earlier timetable. We received the 2005 draft financial statements and supporting notes in mid-July, some seven months after the close of the financial period. Involvement by a greater number of staff would help to facilitate faster preparation of financial statements and enable the Treasurer to undertake review of the draft accounts prior to audit.

5. We have identified scope for improvement in financial control through regular review and analysis of budget variations during the year. This would serve to enhance accountability and improve managers' awareness of their budget utilisation throughout the year. We have also identified the need for improved and systematic debt management procedures, to ensure that outstanding contributions or course fees are collected on a timely basis.

6. In our report last year we identified some significant weaknesses in the Centre's internal audit arrangements, provided by the ILO's internal audit unit. In 2005, internal audit undertook a review of the Centre's use of external collaborators. However, we have noted that there continues to be an absence of risk-based planning; and the level of internal audit activity has remained insufficient to provide adequate assurance to the Director on the operation of controls.

Review of campus cost sharing agreements

7. Following a request by management, we undertook a review of the cost sharing arrangements for organisations using the Turin Centre campus. Common costs are borne by the Centre and recharged to users under different arrangements, which have not been subject to review for some time. We found from our review that there was scope to review the apportionment formulae used to calculate these recharges, so as to ensure that common costs are allocated on a more consistent and equitable basis to all campus users. We noted that the United Nations System Staff College (UNSSC) did not accept their

share of the common maintenance costs of the campus, which resulted in a potential under-recovery of common costs by the Centre of up to US$ 21,886.

Treasury management arrangements

8. We reviewed the Centre's current treasury management arrangements in relation to significant cash balances. At the time of our audit, these totalled some US$ 21.6 million, of which a significant proportion was committed for use in 2006 and beyond. We noted that the Centre had not formulated a strategy for the investment of these funds, and had not specified arrangements to ensure that investment risk is properly controlled. We have therefore made a number of recommendations to secure improvements in these areas, including the approval of a formal treasury strategy; the regular comparison of investment returns with those on offer by other market providers; controls to ensure the spreading of investment risk; and better assessment of currency requirements to reduce exposure to exchange rate movements. These improvements would be underpinned by improved oversight through the Centre's Finance Committee and the involvement of the ILO's Investment Committee.

Management of sick absences

9. Staff costs are the largest single area of expenditure by the Centre. The management of these costs is therefore critical to ensuring that the Centre achieves its financial target. Furthermore, the efficient and effective management of staff is essential to enable the Centre to deliver its services and meet operational needs. Critical to this is the way in which the Centre manages sick absence, which in the period 2003-2005 has accounted on average for the loss of some 1,758 days a year. As part of our audit for 2005, we considered the need for improved management through better analysis of sickness trends and data. At present, management do not analyse sickness data, and are unable therefore to focus resources towards the management of areas with greater levels of sickness absence. We also reviewed the need for improved administrative procedures, including return to work interviews and the confidential reporting of reasons for sick absence.

Detailed report findings

Financial issues

- ***Review of the Centre's financial results***
- ***Improving timeliness and review of the preparation of the financial statements;***
- ***Enhancing budgetary control through improved and regularised reporting of financial variances;***
- ***Formalising debt management processes to ensure that all debts are regularly followed up to obtain timely recovery; and***
- ***Securing more effective internal control through risk-based internal auditing.***

Financial Results

10. The financial statements report a total General Fund surplus of US$ 396,000, which included an increase in the provision for doubtful debts of US$ 189,000 and savings on prior year obligations of US$ 290,000. This surplus has been transferred to the General Fund Reserve. The year 2005 has seen a reduction in the level of General Fund surplus of some US$ 1.09 million when compared with the previous year, largely as a result of increased costs which were not matched by a commensurate increase in course fees or contributions income. Voluntary contributions rose by 1.3 per cent, while revenue-earned income rose by 3.1 per cent. Fixed expenses rose by 4.9 per cent while variable expenses rose by 5.2 per cent. The most significant area of increased expenditure was in relation to staff costs and for temporary staff assistance, where costs were US$ 1.45 million higher than 2004.

11. At the close of 2005 the Centre held a general reserves balance of US$ 8.3 million, although when considering the overall financial health of the Centre it is relevant to note that the United Nations System Accounting Standards do not require the Centre to recognise in its statement of assets and liabilities future liabilities which have accrued

over the course of operations. In common with other international organisations, the scale of these liabilities continues to increase and will require continuing funding in future years. These liabilities are primarily accrued leave (US$ 2.2 million) and after service medical benefits (US$ 30.2 million). The Board of the Centre and management should continue to take careful note of the scale of these long term liabilities.

Preparation of financial statements

12. The Centre closed its books and financial records for 2005 on 30 April 2006 and provided a full set of draft financial statements with accompanying notes in mid-July for audit purposes. We believe there is scope to move closer to the timetable set by the International Labour Organization, which presents its complete financial statements by the end of March for certification and audit by 30 April. Faster closure would enable management to obtain earlier assurance on the financial position and operating results, thus ensuring that financial decisions could be based on accurate information.

13. In our audit report for 2004, we noted the Centre's over-dependence on the Treasurer to produce the financial statements and we encouraged the Centre to involve more staff in the preparation process. Over-reliance on a single key individual presents risks in terms of succession and contingency planning, for example, and contributes to the delay in preparing the financial statements. Importantly, the dependence on the Treasurer means that the accounts have not been subject to any detailed management review prior to submission for audit. Improved arrangements would reduce risk, improve accountability and provide greater assurance to the Director in meeting his responsibilities to maintain sound internal control and accurate financial records.

Financial control

14. As part of our audit procedures, we review the variations in expenditure and income against the previous year and the approved budget. From this review, we noted that management do not presently undertake any variance analysis to identify and investigate variations between these two indicators. We believe that systematic variance analysis, regularly reviewed by senior management as a group, would facilitate improved cost control and a better understanding of financial information. To assist this, the provision of regular reports against budget and a requirement for budget holders to explain significant variances would aid the identification of potential coding errors and increase

accountability in cost control. The process would offer an effective financial control which is commonly used in other international organisations and which provides a mechanism to secure more effective oversight of financial management.

Debt Management

15. At 31 December 2005 the Centre had a significant balance of contributions and amounts receivable of US$ 9.6 million, a substantial increase on the US$ 6.4 million outstanding at the close of the previous year (although we noted that a further US$3.8 million had been recovered shortly after the year-end). The level of amounts receivable indicates that there continues to be a need for the Centre to maximise its efforts to recover outstanding funds or, where relevant, to consider the need for such assets to be written-off. In the External Auditor's Report for 2003, we reported on the need for improved debt management, including the need for a more formalised and systematic debt management policy. There is still no formal recovery policy and no systematic follow-up of outstanding debts. Therefore we emphasise the need to establish these mechanisms in order to ensure that assets are recovered on a timely basis and that cash flow is maximised.

Other financial matters

Internal Audit

16. In the External Auditor's Report for 2004, we reported that there had been insufficient internal audit coverage to provide an appropriate level of assurance to the Director of the Centre on the satisfactory operation of internal controls. In 2005 internal audit examined the use of external collaborators by the Centre and a report was agreed by management in July. Nevertheless, there has continued to be a lack of risk-based internal audit planning for the Centre and we consider the level of audit coverage - which in 2005 cost the Centre a total of US$ 81,000 - remains insufficient to provide an appropriate level of assurance to the Director over the operation of the Centre's internal control environment.

Cases of fraud or presumptive fraud and ex-gratia payments

17. Under the terms of reference governing External Audit contained in the Financial Regulations, we are required to report any cases of fraud or presumptive fraud. The

Director has informed us that there have been no reported cases of fraud or presumptive fraud during 2005 and this has been further confirmed with the Chief Internal Auditor. Our audit did not identify any cases of fraud or presumptive fraud during the year.

18. The Director has confirmed that there were no ex-gratia payments made during 2005 and this representation is consistent with the findings from our audit.

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

Recommendation 2: We recommend that the Centre introduces regular budget variance reporting to improve financial management and control.

Recommendation 3: We recommend that the Treasurer institutes a formalised debt management policy and improved procedures to ensure timely and effective collection of outstanding debts.

Recommendation 4: We recommend that the Director, with confirmation to the Board, should engage ILO senior management and take steps to ensure that an improved level of internal audit coverage is delivered in accordance with a risk-based audit plan, to ensure that an adequate level of assurance is obtained on the operation of internal controls at the Centre.

Management issues

Observations and recommendations to improve management processes and promote greater efficiency and effectiveness in the use of resources:

- ***The need for review of the apportionment of campus costs, to ensure an equitable basis of recovery from users;***
- ***The benefits of an approved treasury strategy overseen by an investment committee; and***
- ***Ways to improve the Centre's management of sick absence.***

Campus cost sharing arrangements

Background

19. At the request of management we carried out a review of the Centre's cost sharing agreement with the United Nations System Staff College (UNSSC). We also considered alternative cost sharing arrangements, to assess the extent to which the Centre is recovering an equitable share of common costs from the users of the campus. The Centre hosts a number of United Nations and non-governmental bodies on its campus. In addition to the UNSSC, the campus houses the United Nations Interregional Crime and Justice Research Institute (UNICRI), Centro UNESCO Turin and the Italian Society for International Organisations (ISIO). The campus also contains a branch of the SanPaolo Bank. Each organisation, except for the Centro UNESCO Turin, pays a contribution to the Centre to cover common campus costs.

20. The equity and consistency of these arrangements have not previously been subject to detailed review; and the basis for the apportionment of costs has not been reviewed by management for some time. We considered whether the cost sharing arrangements offered an equitable and practical way to apportion costs; and whether they protected the Centre from bearing costs which should be attributable to other users of the campus. Under the cost sharing agreements in place, the costs of all common facilities should be

shared among the campus users, including the costs of maintenance, equipment and services attributable to shared areas. Table 1 provides an analysis of the current agreements in place and the basis of cost apportionment in each case. Several agreements are not recent and therefore may not reflect the fact that the campus, the nature of the operation and the activities of users have been evolving over time.

Table1: Agreements made between the Centre and organisations using the Campus

Tenant	**Date of agreement**	**Method employed for apportioning costs**
UN System Staff College	January 2002	Area occupied.
UNICRI	June 1996	Number of staff and clients occupying the campus relative to the Centre; and area occupied.
Centro UNESCO	No agreement located for audit	No contribution received.
Italian Society for International Organisations	1990	Original rental charge, increased by inflation.
SanPaolo Bank	July 2006	Commercial rental basis.

The current basis of cost apportionment

21. Total campus costs for 2005 were US$ 2.7 million and these costs were recharged in accordance with the relevant agreements and practices in place at the time. As part of our review, we assessed the actual charges to the campus occupants against two alternative methods of apportionment: the number of organisational staff and participants occupying the campus in 2005; and the area occupied by the organisations using the campus (Table 2).

Table 2: Actual costs charged by the Centre and the theoretical cost under different methods of cost apportionment

Occupying organisation	**Actual charge in US$ for the year to 31 Dec 2005**	**Estimated charge based on numbers of staff and students occupying the campus**	**Estimated charge based on space occupied**
International Training Centre ILO	2,349,129	2,220,535	2,450,850
UN System Staff College	69,403	233,741	87,226
UNICRI	257,136	210,366	119,139
Centro UNESCO	0	17,531	5,927
Italian Society for International Organisations (ISIO)	5,222	11,687	38,902
SanPaolo Bank	30,500	17,531	9,346
Total	**2,711,390**	**2,711,391**	**2,711,390**

Note: UNICRI is the only organisation on the campus to have its own water and electricity meters and hence pays these costs directly. The costs shown for UNICRI represent an estimate based on a share of all common costs for illustrative purposes only.

22. The presently agreed apportionment of costs differs between users making effective comparison and apportionment more difficult. For example, UNICRI and UNSSC reflect different methods of cost sharing. UNSSC's costs are apportioned on the basis of area occupied, while UNICRI's costs are generally apportioned on the basis of staff numbers in relation to those of the Centre, with utility costs being paid directly by UNICRI. Such differences do not obviously align with the concept of equitable distribution of shared costs. The Centro UNESCO Turin currently does not pay any costs associated with its use of campus facilities; and the Italian Society for International Organisations, ISIO, pays significantly less than other users compared with if the Centre were to use a more equitable basis of apportionment. Consideration should be given to the equity of this situation, since the Centre is effectively subsidising both Centro UNESCO's and ISIO's use of the campus.

23. SanPaolo Bank is different from other organisations using the campus by virtue of its commercial nature. It seems appropriate, therefore, that it should be charged a commercial rental to offset the costs borne by all users of the campus, and the Centre has used commercial property rentals in Turin as a basis for establishing the level of contribution by the Bank.

24. We noted a number of factors where current agreements may not reflect the equitable allocation of costs, including recent campus improvements and the installation of new common kitchen and catering facilities, the costs of which are currently borne by the Centre. We reviewed the UNSSC Agreement (authorised under Board Document CC63/5), and identified an under recovery of up to US$ 21,886 from UNSSC for the year 2005. There is a need to consider the potential for re-negotiating rental agreements to ensure that cost apportionment is made on a more equitable basis and that common costs do not have an adverse impact on the Centre.

Future cost apportionment

25. These findings indicate to us that the basis of the current cost apportionment merits review by management towards a fairer and more equitable basis which includes all campus users. There is scope to improve consistency in the method of apportioning costs by using a consistent, simple basis which covers all the organisations and includes all relevant common campus costs. This should ensure that all users of the campus are recharged a fair share of the full quantum of costs. Our findings indicate that in the case of the UNSSC, the current basis of apportionment does not enable the Centre to recover all common costs, and as a result the Centre bears a larger proportion of these than may be appropriate. The absence of any cost sharing by the Centro UNESCO Turin gives rise to further inequity in cost apportionment.

Recommendation 5:We recommend that the management of the Centre review and where appropriate renegotiate the cost sharing agreements currently in place, based on principles which ensure the most equitable apportionment of shared costs for all organisations using the campus. We further recommend that management should review the quantum of common costs to ensure that all common facilities are included in the arrangements.

Recommendation 6: We recommend that management review whether it is appropriate to establish an agreement with the Centro UNESCO Turin, in order to support equitable cost sharing and manage the risk of potential liabilities or disputes.

Treasury management

Introduction

26. Currently the Centre has significant cash resources under its direct management. The Centre's regulations require that reserves be invested in accordance with decisions taken by the Chairman of the Board of the Centre after consulting the Investments Committee of the ILO. The Financial Rules of the Centre delegate this responsibility to the Treasurer. These procedures are essential to provide assurance on and oversight of the investment of cash resources, to ensure that resources are maximised and that risks are properly managed.

27. To offer some assurance to the Board, and to consider the extent to which financial assets are used to maximise investment returns, we reviewed the Centre's treasury management procedures. We also considered this review as necessary given the level of cash balances held by the Centre, which have been increasing since 2001, as shown in Table 3. At the time of finalising this report, these balances totalled US$ 21.6 million, of which a significant proportion was committed for use in 2006 and beyond.

Table 3: Cash balances held by the Centre

Year	General Fund	Working Capital Fund	Other Funds under Management	Total
	(US $ 000s)	(US $ 000s)	(US $ 000s)	**(US$ 000s)**
2001	2,880	2,824	926	**6,630**
2002	4,310	2,705	2,138	**9,153**
2003	8,037	2,702	2,549	**13,288**
2004	13,100	2,707	5,158	**20,965**
2005	11,217	2,725	4,949	**18,891**

Treasury management strategy

28. An essential element of sound treasury management is the establishment of a clear strategy to maximise returns within the organisation's policy in relation to investment risk. At present the Centre does not have any clear, documented strategy to guide investment or set specific aims. The operation of any treasury function needs careful oversight, given the substantial value of invested funds. Such oversight in international organisations is normally provided by an investment committee which can review requirements; establish objectives; implement policy; monitor investment performance; and manage investment risks. Although the Centre's Financial Regulations provide for an investment committee role, the Committee has not formally met for many years. As a result, the extent to which investment returns are maximised and risks are kept to an acceptable level have not been fully considered by management in any context of accountability. We believe these issues need to be urgently addressed by establishing a formal strategy and by ensuring regular review of investment performance in the future.

Investment returns

29. Sound treasury management would ensure that investment returns can be reviewed against benchmark rates and alternative available investments. At the time of our audit, management had undertaken no detailed review in this way; and the Treasurer had not been required to present any comparative information to the Board or to senior management. We therefore carried out our own analysis of interest rates available for US Dollar and Euro deposits. The results of this review indicated that the Centre was securing favourable investment rates with its bankers, SanPaolo, who were consistently offering leading rates for the local financial market. However, there is no guarantee that this position will continue and for sound financial and investment management, the Centre's management should keep these rates under regular and documented review.

Investment risk

30. The Centre has not fully articulated its approach to managing investment risk. At present, the Centre has placed its funds on deposit with a single entity, SanPaolo bank. The Centre operated three current accounts in 2005 which were denominated in US Dollars, Swiss Francs and Euros. The US Dollar and Euro accounts were held with the SanPaolo Bank branch on campus. In addition to current accounts, the Centre held a number of investment deposit accounts in US Dollars and Euros, all with the SanPaolo Bank. Despite the Bank's reputation for stability, the Centre had not undertaken any formal credit risk assessment of the bank; nor had it opted to spread its investments across a number of banking institutions. It is common practice for a public sector or international organisation to mitigate potential risks by ensuring that funds are spread across a number of providers. If the Centre is to continue to accept potential investment risks through a relationship with a single provider, it is important that this be formally documented as an accepted risk by senior management and kept under review.

Currency exposure

31. For the last decade the Centre's investments have been denominated predominantly in US Dollars to minimise the risk of exchange rate fluctuations having an adverse effect on the budget and on the financial statements. However, in recent years the reduction in the purchasing power of the US Dollar against the Euro has led to increased costs. While holding US Dollar investments has preserved the asset values recorded in the Centre's balance sheet, it has left the Centre with a reduction in potential purchasing power,

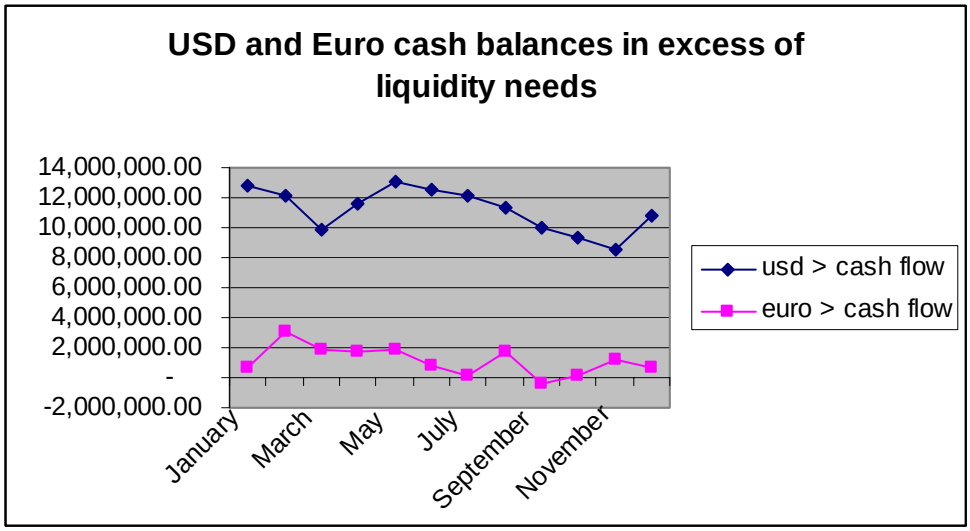
given that most expenditure is now incurred in Euros. The Centre has not systematically considered the impact of currency movements on its investment portfolio; and has not sought to keep a balance of investments which would better match the pattern of currency expenditures (Table 4). An example of this reduced purchasing power is highlighted by the effect on the Working Capital Fund, held at its target level of US$ 2.7 million since 2000 although the equivalent Euro value of the Fund has fallen by 31 per cent.

Table 4: Percentage of cash inflows and by currency of denomination

	US$	**EURO**
Cash inflows	30 %	70 %
Cash outflows	13 %	87 %
Investment Balance	76 %	24 %

32. Like all organisations, the Centre is exposed to the effects of currency fluctuations but if investments can more closely mirror patterns of expenditure, then these exposures can be reduced, especially if the Centre takes account of the potential forecasts for currency movements available at the time the budget is set. A clear and documented consideration of these factors should be undertaken as part of any investment decision; and the assumptions used and relied on should be validated by the wider investment committee. Graph 1 shows the average monthly cash holdings of the Centre, denominated in US Dollars and Euros, in excess of working capital needs. Management should strongly consider the need to review the percentage of investments currently denominated in US Dollars.

Graph 1: Balances of US$ and Euro Denominated Investments in excess of liquidity need in 2005



33. The Centre has a Finance Committee with a membership of internal staff which primarily focuses its work on reviewing the budgetary position of the Centre. We believe that this Committee could be tasked with formulating an investment strategy which could be presented to the Investment Committee of the ILO for consultation.

34. The current arrangements do not provide effective oversight or control to provide assurance that use of cash resources is maximised and that Funds are held in an appropriate risk-moderated environment. The present arrangements allow considerable flexibility for the Treasurer to determine investment decisions without these being subject to review. Despite good investment returns, the Centre is exposed to risks which are not subject to an adequate review process. In addition, we have noted the need for greater emphasis on the impact of exchange rate movements, and the need to balance investment decisions with the likely currency needs of the Centre by reviewing the level of US Dollar holdings. The Centre could utilise the investment arrangements of the ILO by ensuring closer liaison with the ILO's investment function in Geneva to validate revised treasury policies and to help monitor the investments of the Centre, as set out in Financial Regulations.

Recommendation 7: We recommend that the Director takes appropriate steps to establish a formal treasury strategy to provide the basis for treasury investments. This should identify the Centre's approach to investment returns, the management of risk and exchange rate exposures; and ensure that treasury activity is formally reported to the Board of the Centre.

Recommendation 8: We recommend that compliance with approved treasury strategy be overseen by the Director and the Finance Committee at the Centre; and be subject to review by the ILO's Investment Committee.

Management of Sick Absence

Introduction

35. The Centre is committed to the policies of the ILO in providing decent and fair work for all, and it promotes best practice in the management of staff welfare. This commitment is supported by staff health benefits provided under the Staff Health Insurance Fund and the arrangements in staff regulations and procedures. A major element of staff welfare is management's approach to dealing with staff absences in a considered and supportive manner. As well as securing better staff morale and welfare, sound absence management can minimise the inevitable financial and operational impact of prolonged or regular absences. As part of our audit we carried out a review of the Centre's management of sick absence. This area had not been subject to review in recent years; and our preliminary planning identified that management had not undertaken any recent reviews of absence patterns or policies to ensure that the Centre was effectively managing this area.

Impact of sick absence

36. Staff absence inevitably affects the Centre in many ways. High rates of sick absence may indicate health problems due to an aging population, low morale, pressurised working conditions or passive management of circumstances; and absences can have significant operational impacts, especially in relation to the delivery of training courses or the maintenance of effective internal control. In addition, staff absence has a financial cost in lost working time and the need to secure temporary staff cover or alternative

arrangements; and in funding the costs which result from charges to the Staff Health Insurance Fund. Poor absence management could even result in compensation claims and reputational damage. It is therefore important for management to keep absence patterns under review and to ensure that appropriate policies and strategies are in place to ensure the effective and efficient management of staff absence.

Sickness absence rates

37. We carried out an analysis of the Centre's sickness absence data; and with the aid of the human resources service we collated this to identify the sickness rates by staff contract type and grade for the years 2003 to 2005, as shown in Table 5. For the years 2003 to 2005, an average of 1,758 days a year were lost due to sick absence, which would represent a notional cost of US$ 731,000 at an average salary cost for permanent staff of the Centre as a whole. This represents a significant cost to the Centre in terms of lost working hours.

Table 5: Days of sickness and estimated costs of staff sick absence from 2003 to 2005

	2003	**2004**	**2005**	**Average**
Total days of sick absence	1,793	1,637	1,846	1,758
Percentage of sickness considered by the Centre to be long term of over 3 months	24 %	29 %	45 %	(n/a)
Estimated salary cost of sick absence	US $ 675,000	US $ 684,000	US $ 835,000	US $ 731,000

38. As part of our review, we identified the levels of sick absence by grade and contract type: this kind of analysis had not previously been compiled or reported by the Centre and we would encourage the monitoring of equivalent data in the future as an aid to the management of staff absences. Our analysis (Table 6) indicated significant variation in the average days lost to sickness between professional and general grade staff; and scope for the Centre to improve efficiency by analysing and addressing the reasons for differences between general staff and professional staff circumstances. Our analysis also showed that permanent staff absences were nearly twice as great as the rate of absence for fixed term contracted staff. We believe the reasons for these variations may be a useful starting point for management to address the reduction of absence levels.

Table 6: Average days of sickness amongst type of staff in 2003 to 2005 (excluding maternity leave)

	2003		2004		2005	
	Number of staff	**Average sick absence in days**	**Number of staff**	**Average sick absence in days**	**Number of staff**	**Average sick absence in days**
Professional staff	79	6.3	82	3.4	78	3.8
General staff	117	11.1	119	11.4	122	12.7
Training Dept staff	147	7.4	150	7.8	147	8.3
Admin. staff	49	14.5	51	9.1	53	11.8
Permanent staff	65	12.2	61	12.4	61	13.5
Fixed term staff	131	7.6	140	6.3	139	7.4
Centre staff	196		201		200	
All sick absence		9.1		8.1		9.2*
Short term sick absence		6.8		5.8		5.1

(Represents an absence rate of 4%)*

Sickness absence policies within the Centre

39. The Centre requires a medical examination prior to appointment of staff, and at regular intervals during employment by the Centre. This provides a useful benefit to the employee and helps the Centre to ensure that staff are fit for their designated duties. The Centre also issues circulars to provide guidance on required work practices, to ensure that staff are not exposed to risks such as misuse of visual display equipment, and to provide benefits such as flexible working times.

40. The Centre's administrative procedures for reporting and recording sick absence are laid down in Staff Regulations. The Centre's procedures require staff to self-certify absences of up to three successive days and up to a total of seven self certified days in a calendar year. Where absences exceed this, a deduction is made from salary unless the absence is certified by a medical practitioner. Where sickness absence exceeds a period of nine months in a four year period, salary is reduced by half (in the case of staff who have been employed by the Centre for less than three years, a reduction is made after three months) for an additional period of nine months. The procedures employed by the

Centre ensure that certified absences are reviewed by a competent Medical Advisor and this provides a control to reduce the potential for abuse.

41. Under existing sick absence procedures staff are not required to notify the Centre, other than the Medical Advisor, of the reasons for their absence. This reduces management's ability not only to discharge an employer's duty of care to the employee but also to ensure that sick absences can be monitored effectively for management purposes. The Centre informed us that the Medical Advisor may discuss trends and possible causes of sick absence with management but case details and causes of self-certified sick absences are not required to be reported to the Medical Advisor. While disclosure of the reason for self-certified sick absence is not currently a requirement, we would recommend that the Centre should require more informative confidential disclosure to the staff member's line manager of the reasons for absence, to facilitate the management of absences and to better enable management to identify ways in which frequent absences might be addressed. Many organisations have begun to consider the use of a return to work interview, to ensure that the staff member is fully recovered and fit for work. Such processes are particularly useful in the management of frequent short term absences.

Benefits of a sickness absence strategy

42. Strategies to manage sick absence are becoming increasingly common in the public sector and in international organisations. The Centre does not currently have a sickness absence strategy in order to better manage absence and to minimise its impact on both staff and operations. While the Centre considers that it has strong sickness absence procedures and practices, we believe that there would be a number of benefits to the Centre if it were to establish a basic absence strategy to reflect existing arrangements and provide a focus for improved management. An absence strategy would:

- Provide a framework for more systematic review and monitoring;
- Allow management to better understand the causes of sick absence and address these as appropriate; and
- Support managers in dealing sensitively with sick absence and its causes, helping to facilitate return to work and care of the employee.

43. The Centre has not set any absence management targets, and has therefore not established what might constitute an expected and acceptable level of sick absence for the operation of the Centre; nor has there been any systematic consideration of the risks of absence of key staff members where this might have a significant operational impact or affect operational continuity. This would be particularly relevant in any key training delivery areas and essential administrative functions such as finance, where absences could impact on business continuity and the operation of internal financial controls. Research undertaken by the National Audit Office in the United Kingdom has demonstrated that better strategic planning and improved policies can enable management to reduce the impact of sick absence and facilitate faster and more effective return to work.

Recommendation 9: We recommend that the Centre considers the establishment of more systematic monitoring and review of sick absence patterns on an annual basis, with a view to ensuring that the incidence of sick absence is managed to an acceptable level.

Recommendation 10: We recommend that the Centre considers establishing the requirement for a brief formal return to work interview between the responsible line manager and staff member following an absence, to ensure that the staff member is fit for work and to explore any underlying reasons for the absence which might need to be addressed by management.

Recommendation 11: We recommend that the Centre establish an absence management strategy to consolidate and where appropriate improve on existing management practice, and provide a sound base for good employment practice.

Follow up to prior year recommendations

44. As part of our audit we consider the extent to which management have implemented and addressed the recommendations arising from our previous audit work. In our 2004 report we recommended that the Centre should enhance accountability mechanisms by reporting directly to the Board on progress in implementing audit recommendations. We continue to encourage this as the most effective mechanism for the Board to monitor the Centre's responses to audit recommendations and to ensure proper oversight by the Board.

45. On financial matters we recommended that the Centre should consider the adoption of the Euro as the reporting currency for the Centre's financial statements. The Centre has informed us that this subject will be considered by the Board of the Centre in 2006. We also note that the Centre has not yet considered the impact of the move by the United Nations system towards the adoption of International Public Sector Reporting Standards. We understand these accounting standards will be discussed in the November ILO Governing Board.

46. On governance we recommended improvements in internal audit coverage and consideration by the Centre of systematic risk management. We consider that further substantive progress is required in both these areas; and that, as we recommended, the Centre should establish a register of interests and a record of receipt of gifts or hospitality to meet modern good governance practice.

Recommendation 12: We again recommend that, as a matter of good practice and accountability, the Centre should provide a formal response to the Board on action taken in respect of audit recommendations.

Acknowledgement

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

Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor

ANNEX I

Scope and Audit Approach

The main purpose of the financial audit was to enable the External Auditor to form an opinion as to whether expenditure recorded in the financial statements for 2005 had been incurred for the purposes approved by the Board; whether income and expenditure were properly classified and recorded in accordance with the Centre's Financial Regulations; and whether the financial statements fairly presented the financial position at 31 December 2005.

Audit approach

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

This audit examination included a general review and such tests of the accounting records and other supporting evidence, as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an opinion on the Centre's financial statements and the results should not be regarded as a comprehensive statement on them.