Board of the Centre

80th Session, Turin, 26-27 October 2017

CC 80/4/1

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the year ending 31 December 2016

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Financial report on the 2016 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 2016 financial statements in addition to the Auditor’s opinion, are also submitted to the Board of the Centre in accordance with Article 27 of the Financial Regulations.

2. The 2016 financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). Financial statements prepared under IPSAS recognize the general operations’ voluntary contributions for which there are no stipulations when receipt is probable and the amount is known. Contributions relating to training activities that have conditions are recognized as revenue when the services are delivered by the Centre. Expenditures are recognized when goods and services are received or delivered, rather than when they are paid. Employee benefits relating to accumulated leave, repatriation shipment and travel are recognized in the financial statements as they are earned by the Centre’s officials, rather than when they are paid. The after-service health insurance (ASHI) and the end-of-service payments and repatriation grant liabilities are recognized in the International Labour Organization’s (ILO) consolidated financial statements.

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

4. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. As the ILO is the controlling entity of the Centre, the Centre’s 2016 financial statements are consolidated with those of the ILO.

5. Five funds are maintained at the Centre:

- the General Fund is the main operating fund of the Centre for training activities;
- the Working Capital Fund 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;
- the Campus Improvement Fund was established by the Director to receive funds specifically for the refurbishment of the campus;
- the Italian Trust Fund was established to receive funds from the Italian government for training activities; and
- the Innovation Fund was established in 2011 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.

Financial highlights for 2016

6. The table below summarizes the IPSAS-based financial results and budget surplus of the Centre in 2016 as compared to its previous years:

(in thousands of Euros)

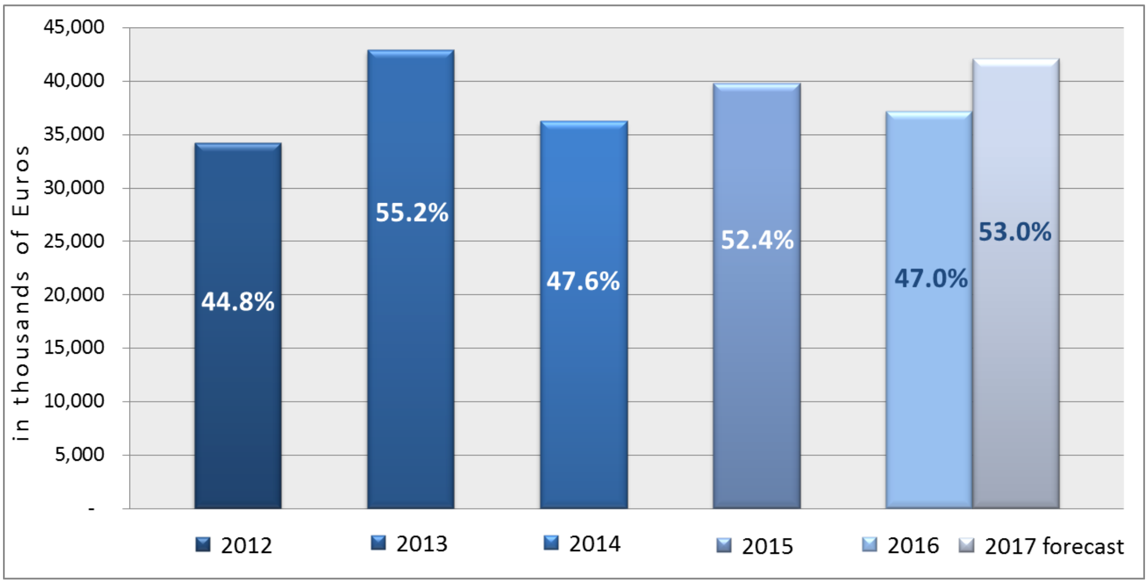
	2016	**2015**	**2014**
Revenue	37 225	39 791	36 242
Expenditures	38 689	39 801	36 170
Net surplus (deficit)	**(1 464)**	**(10)**	**72**
Assets	27 210	29 970	30 465
Liabilities	10 558	11 854	12 339
Net assets	**16 652**	**18 116**	**18 126**
Budget surplus	**1 052**	**386**	**2 875**

7. The IPSAS-based net deficit incurred in 2016 which amounts to €1.464 million incorporates the total financial results of all the Centre's Funds whereas the budget surplus of €1.052 million includes only the results of the General Fund. This is mainly explained by:

- the net use of funds incurred in the Campus Improvement Fund of €124 000;
- the net use of funds incurred in the Italian Trust Fund of €432 000;
- the difference in the depreciation expense for assets expensed prior to 2012 as a result of the conversion to IPSAS of €383 000;
- the use of past surpluses of €923 000 recognized in the Statement of Budget and Actual only;
- the inter-fund expenditures between the Innovation Fund and the General Fund of €1.95 million; and
- the unrealised gains of €195 000 recognized only in the Statement of Financial Performance.

8. The change in net assets from €18.1 million in 2015 to €16.7 million in 2016 is mainly attributable to the investments made by the Centre in its training activities and its infrastructures through increased maintenance.

Total revenue, three biennium comparison



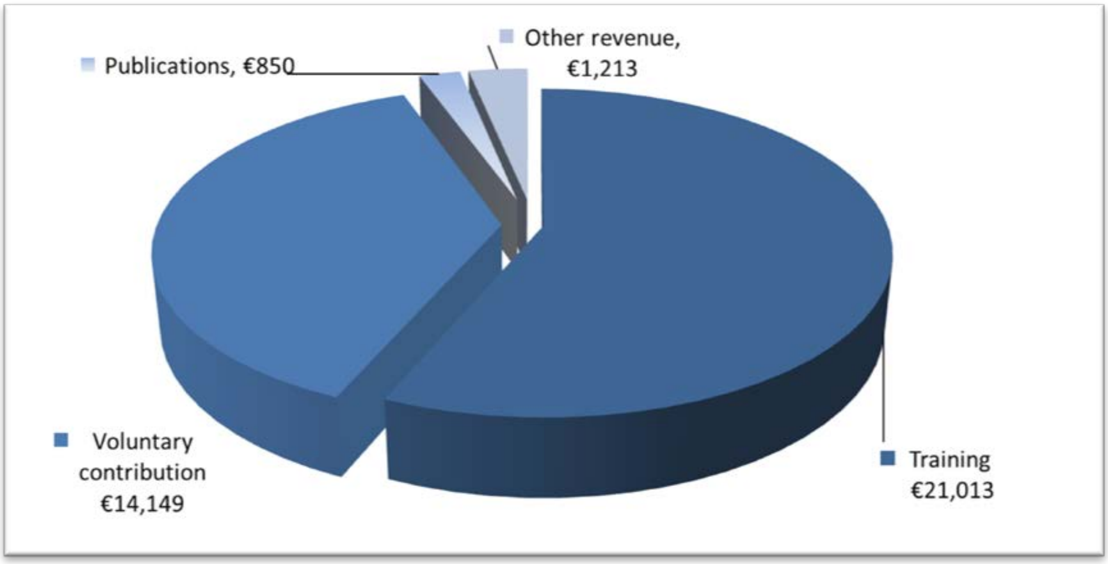
9. The Centre's total revenue follows a pattern over a two year cycle. Normally, the Centre's total revenues are lower in the first year of the cycle and higher in the second year of this same cycle, as can been seen in the above graph. Starting this year, the Centre has now adopted a Programme and Budget for the period of 2016-17 to align itself to ILO's cycle. The average earned in the first year as compared to the second year is approximately 46% and 54%, respectively. So far, the current biennium shows similar results and the Centre expect to generate results that align to approximately these averages.

Financial performance

<u>Revenue</u>

10. Revenue in 2016 totalled €37.2 million (€39.8 million in 2015) and were distributed as follows:

Revenue by source, 2016 (in thousands of Euros)



11. The two major sources of revenue, representing 94.5 per cent of total revenue (2015 – 93.0 per cent), are derived from voluntary contributions and training activities.

Revenue sources, three-year comparison

12. Training revenue totaled €21.0 million in 2016 as opposed to €23.8 million in 2015 showing a variance of €2.8 million or 11.8 per cent. Overall, the number of participants attending training in 2016 was higher than in 2014, the first year of the previous biennium, by 529 participants or 4.8 per cent. This is very much in line with our competitive strategy to increase the Centre's outreach to constituents and this also aligns to the Centre's 2016-17 strategic outcome 1.

13. While this is the first year of the biennium, the total participant-days in 2016 were still much higher than in 2015, the second year of the previous biennium. The Centre delivered 102 064 participant-days in 2015 and this increased to 106 412 participant-days or 4.3 per cent in 2016.

14. The Centre saw a significant increase of 62.6 per cent in the participant-days for training at a distance (30 492 participant-days in 2016 as compared to 18 749 in 2015). This again aligns to our competitive strategy which is to increase our overall outreach through distance learning modalities. There was also a variation of 9.9 per cent in training activities called "Blended–F" (distance training plus face-to-face in the field) (3 614 participant-days in 2016 as compared to 4 011 in 2015).

15. The results of all other types of activities such as Blended-C (distance training plus face-to-face on Campus) as well as training delivered in the field are at expected levels for a first year of the biennium.

16. Overall, the Centre generated training revenue as expected in the first year of a biennium which is within the average of approximately 46% of the total biennium cycle and the Centre is well on target to achieve its biennium approved budget for 2016-17.

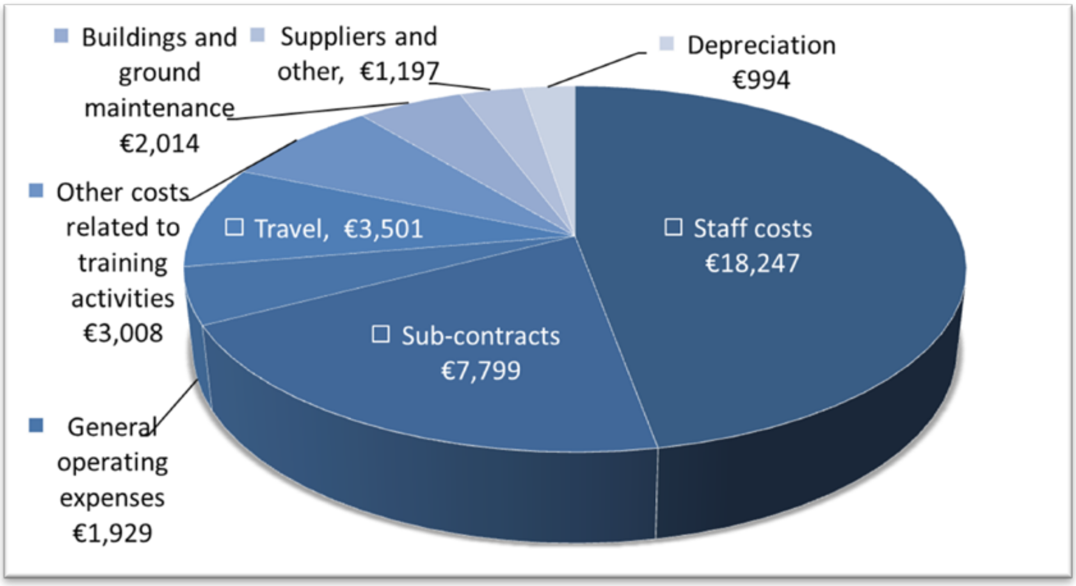
17. Voluntary contributions increased by €837 000 in 2016 as compared to 2015. This is mainly due to the receipt of the City of Turin's annual contribution of €250 000 for the years 2013, 2014 and 2015.

18. Other revenue decreased by €741 000 as a result of a decrease in publications revenue (€462 000) and other miscellaneous revenue from various sources (€279 000).

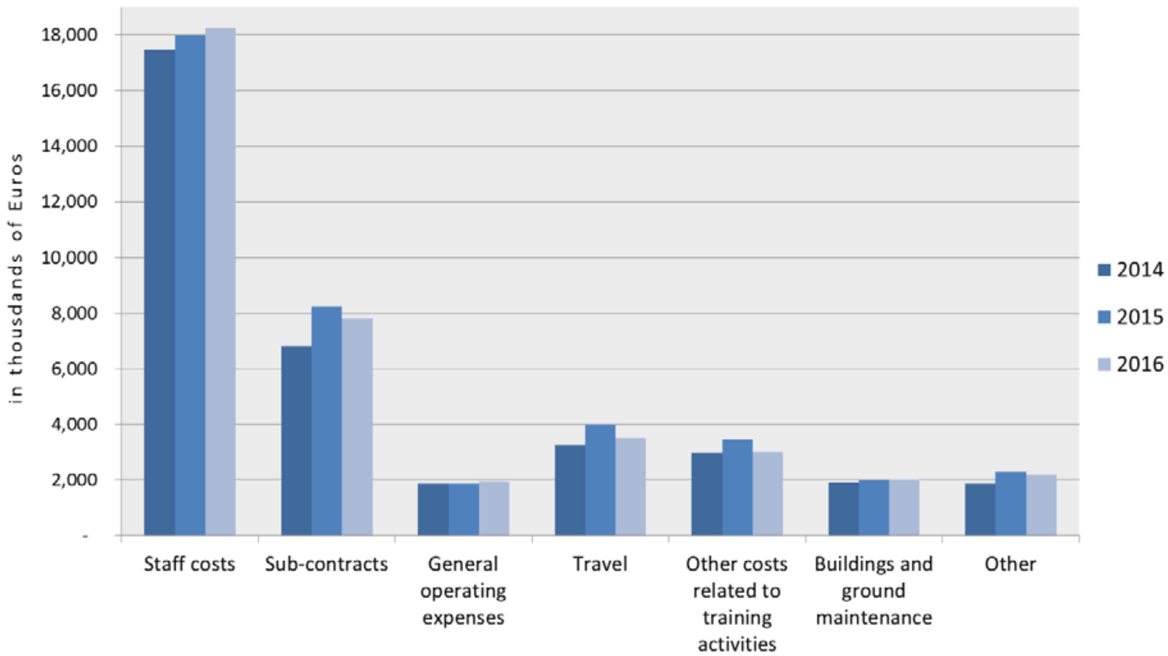
Expenditures

19. Expenditures in 2016 totalled €38.7 million (€39.8 million in 2015) and were distributed as follows:

Expenditures by source, 2016 (in thousands of Euros)



Expenditures, three-year comparison



20. Staff costs increased by a very reasonable 1.4 per cent from €18.0 million in 2015 to €18.2 million in 2016. This was the net result of the normal increases in the Centre's compensation package issued by the United Nations International Civil Service Commission (UNICCS), the additional three variable staff cost positions created during the year as a result of a new multi-year project in Afghanistan which are fully funded

from this project, as well as 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 and that no additional positions are being created in the staff cost category.

21. Sub-contract, travel, other costs related to training activities and other costs decreased by €1.5 million or 8.1 per cent as compared to 2015. This is in line with the historical pattern of expenditures whereby these are lower in the first year of the biennium and higher in the second year of the biennium, and in line with training revenue earned.

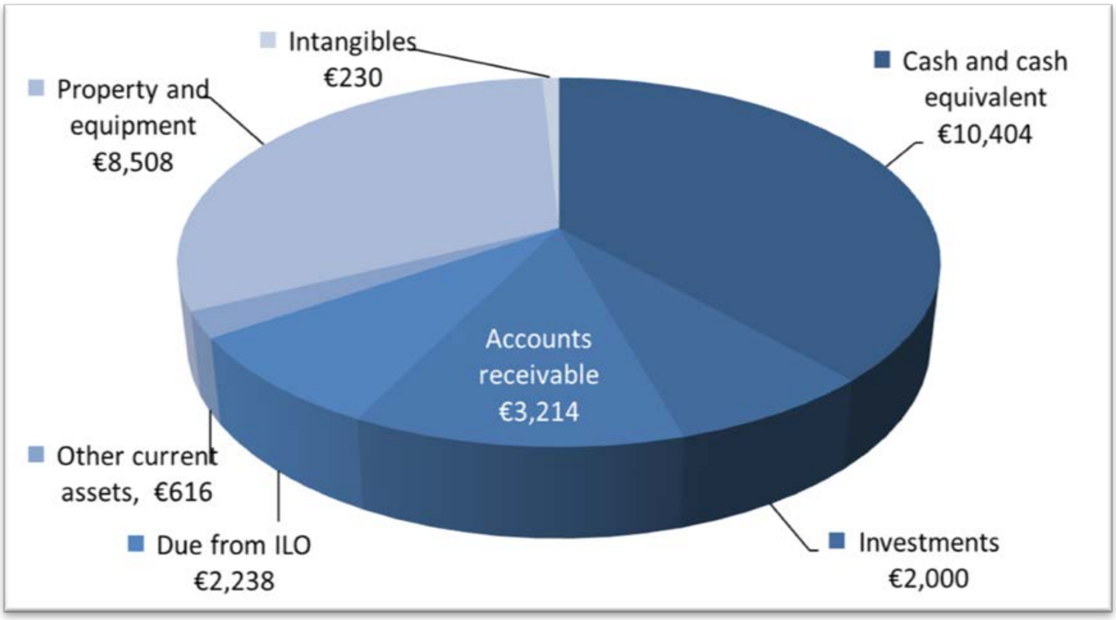
22. General operating expenditures, buildings and ground maintenance increased by €97 000 or 2.5 per cent as compared to 2015. This is as a result of increased maintenance carried out on the Campus during the year which included, among others, the refurbishment of classrooms, hotel rooms and the catering area, significant repainting efforts in three pavilions, updating of hotel room furniture, a new air conditioning system in one pavilion and window protection in another, new fire detection system as well as significant clean-up and repairs as a result of the flood which occurred in the fall.

Financial position

<u>Assets</u>

23. The Centre held assets of €27.2 million as at 31 December 2016 (€30.0 million as at 31 December 2015) which were as follows:

Assets by type, 2016 (in thousands of Euros)

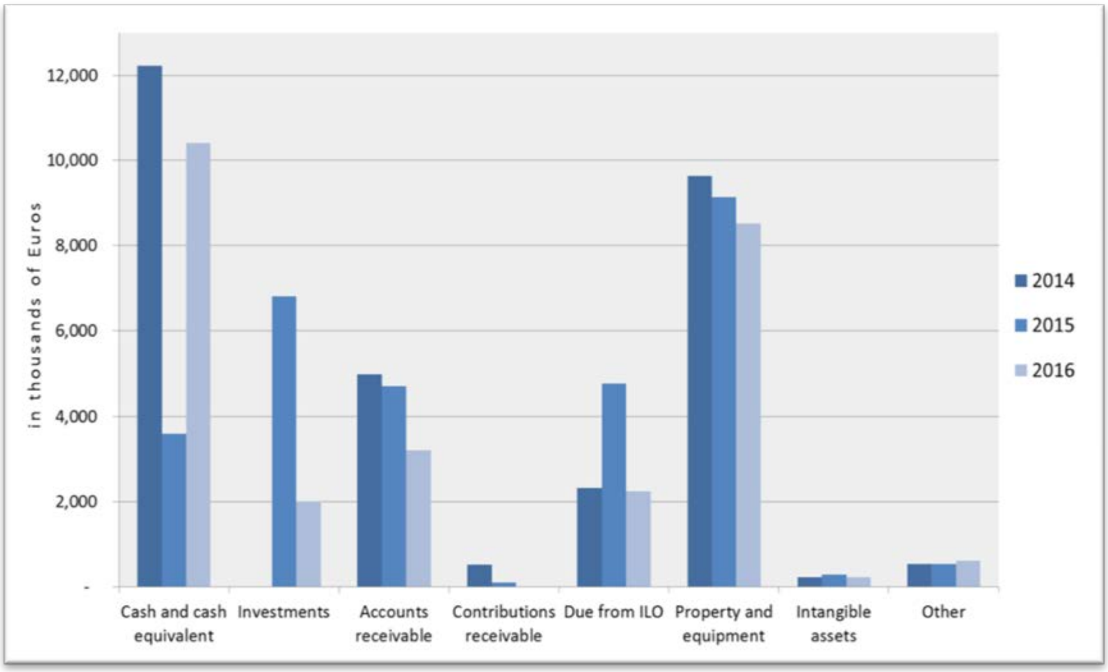


24. As at 31 December 2016, the Centre's most significant assets were cash, cash equivalents and investments totalling €12.4 million (€10.4 million as at 31 December 2015) representing 46 per cent of the total assets. Of this amount, €3.5 million or 28 per cent corresponded to funds held on behalf of donors for training activities (€2.8 million or 27 per cent as at 31 December 2015).

25. In the past year, the Centre's investments in short-term deposits have been greatly reduced as a result of the low rate of return available on the market. Instead, the Centre retains as its US dollars and have invested them in 15 or 30-day swaps with Euros and making it possible to earn slightly higher returns. All other funds are kept in the Centre's savings accounts.

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

Assets, three-year comparison



27. The Centre's total assets decreased by €2.8 million or 9.2 per cent (€495 000 or 1.6 per cent as at 31 December 2015).

28. Cash, cash equivalent and investments increased by €2.0 million or 19.1 per cent (decrease of €1.8 million or 14.8 per cent as at 31 December 2015) as a result of more timely invoicing for training activities, improved efforts in the collection of accounts receivable as well as an increase in the advances required for training activities. In addition, the Centre also shows an increase of €650 000 in the cash held on behalf of donors for training activities (decrease of €1.3 million as at 31 December 2015).

29. Accounts receivable decreased by €1.5 million or 31.7 per cent (€279 000 or 5.6 per cent as at 31 December 2015) as a result of increased collection efforts and the decrease of €1.3 million in the accounts receivable relating to training services agreements held at the end of the year (€148 000 or 5.8 per cent as at 31 December 2015).

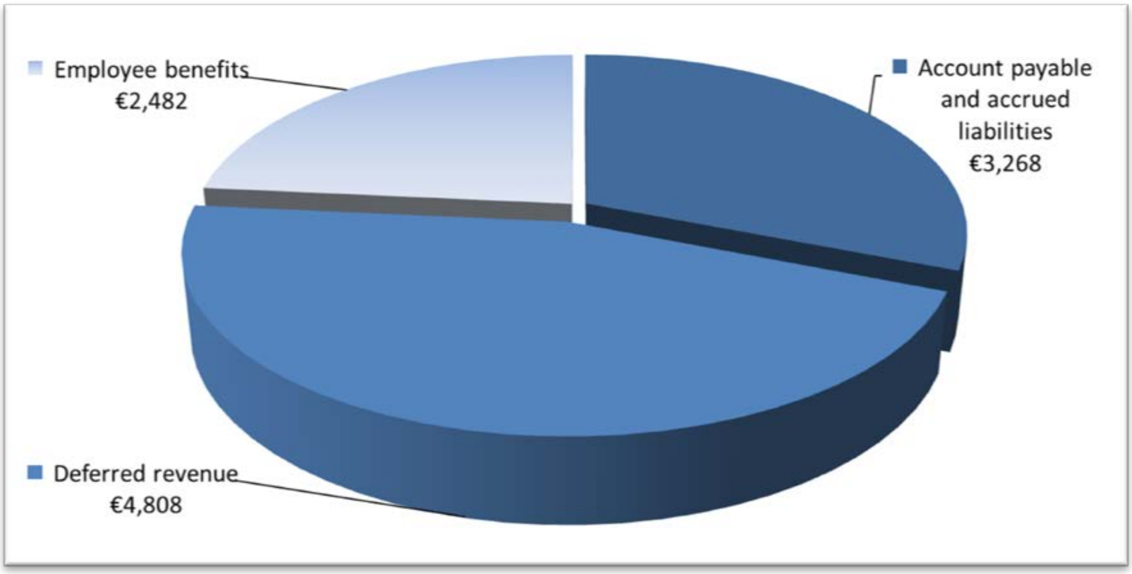
30. The receivable from the ILO decreased by €2.5 million or 53 per cent (increase of €2.5 million or 105 per cent as at 31 December 2015) as a result of 2016 being the first year of the biennium where there is a normal decrease in training activities delivered to the ILO. There was also a change in the training activities invoicing process to issue invoices in a more timely basis. Prior to year-end, the Centre also received from the ILO a significant amount to apply to its balance outstanding.

31. Property and equipment decreased by €634 000 or 6.9 per cent (€495 000 or 5.1 per cent as at 31 December 2015) as a result of a full year of depreciation recorded in 2016 in the amount of €922 000 (€941 000 in 2015), purchases of equipment for €288 000 (€456 000 in 2015) and disposals of €229 000 (€37 000 in 2015).

Liabilities

32. The Centre had liabilities totalling €10.6 million as at 31 December 2016 (€11.9 million as at 31 December 2015) which were as follows:

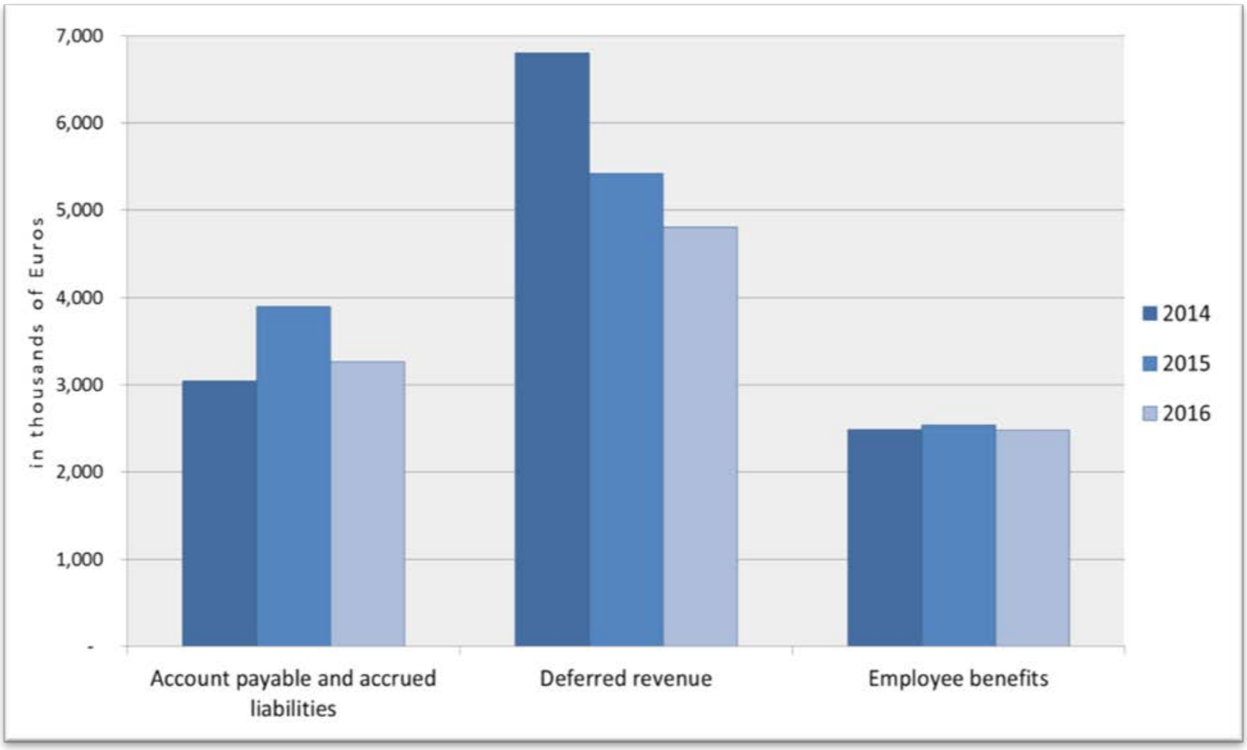
Liabilities by type, 2016 (in thousands of Euros)



33. The most significant liability totalling €4.8 million or 45.5 per cent (€5.4 million or 45.7 per cent as at 31 December 2015) relates to deferred revenue. This represents funds advanced by various donors and sponsors for specific training projects (€3.5 million as at 31 December 2016 and €2.8 million as at 31 December 2015) 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 (€1.3 million as at 31 December 2016 and €2.6 million as at 31 December 2015).

34. Employee benefits 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, three-year comparison

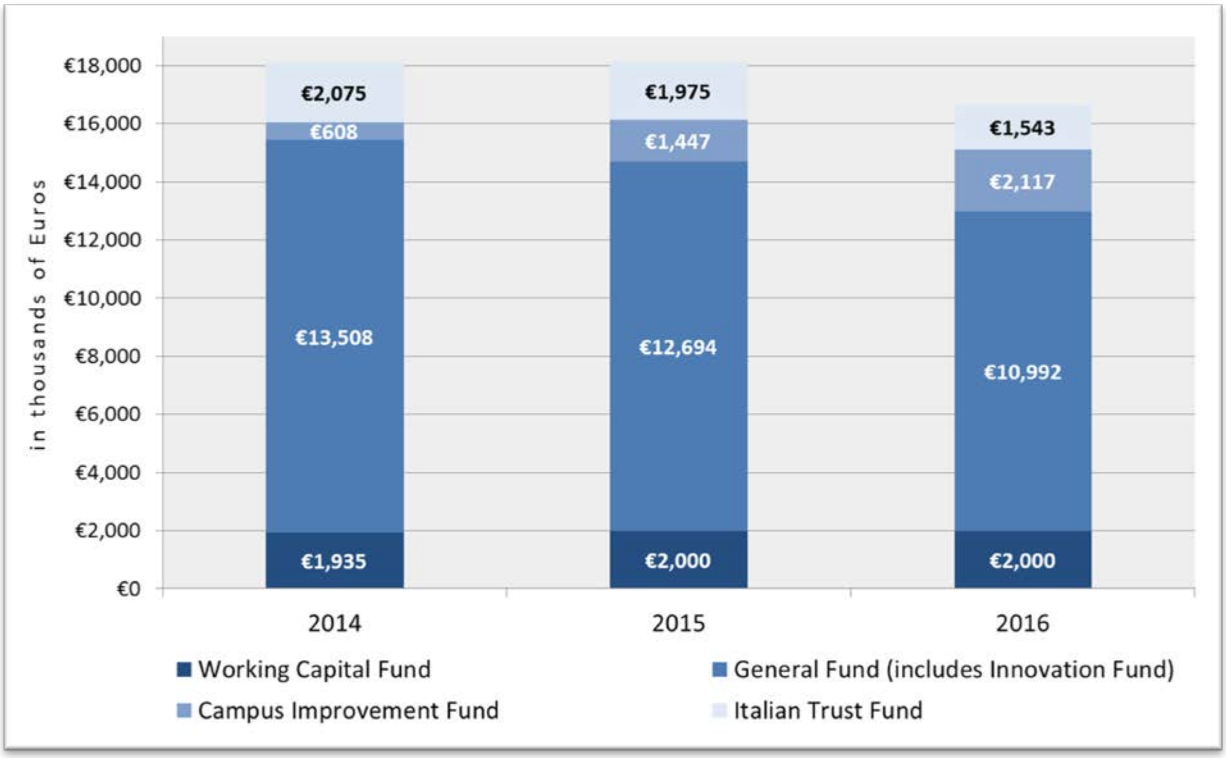


35. Accounts payable and accrued liabilities decreased by €630 000 or 16.2 per cent (increase of €857 000 or 28.2 per cent as at 31 December 2015) in line with the decreased training activities in 2016.

36. Deferred revenue decreased in 2016 by €611 000 or 11.3 per cent (decrease of €1.4 million or 20.4 per cent as at 31 December 2015). This is due mainly to a decrease in the voluntary contributions receivable relating to signed agreement, which is consistent with the first year of a biennium. Although activities decreased in 2016, advances received relating to signed agreements have increased by €648 000 (decrease of €1.3 million as at 31 December 2015).

Net assets

Net assets, three-year comparison by Fund



37. The Centre's net assets are composed of the Working Capital Fund which represents 12 per cent or €2 million (11 per cent or €2 million as at 31 December 2015) as set by the Financial Regulations.

38. In addition, it includes the General Fund with €11 million and 66.0 per cent of the overall net assets (€12.7 million and 70.1 per cent as at 31 December 2015), the Campus Improvement Fund with €2.1 million and 12.7 per cent of the total (€1.4 million and 8.0 per cent as at 31 December 2015) and the Italian Trust Fund with €1.5 million and 9.3 per cent of the total (2.0 million and 10.9 per cent as at 31 December 2015).

Regular Budget

39. At its 78th Session (October 2015), the Board approved the 2016-17 Budget Proposals consisting of total expenditures of €79.588 million, a contingency of €600 000 and total revenues of €80.188 million resulting in a balanced budget.

40. The overall budgetary results for the 2016 financial year are summarized in Statement V, with the details of voluntary contributions received from donors shown in Note 12. The 2016 total revenue amounted to €38.4 million which was made up of €37.5 million in voluntary contributions and earned income as well as the use of past surpluses of €923 000.

41. The 2016 actual staff costs under Chapter IV of the budget amounted to €15.4 million while actual fixed expenditures totalled €6.6 million. Variable expenditures under Chapter V amounted to €15.3 million of which €2.7 million were for project staff costs.

42. The 2016 budget surplus amounted to €1.052 million after taking into account the provision for doubtful accounts and realised foreign exchange losses.

43. As of 2016, the Centre's approved budget covers a biennium period – 2016-17. In order to present a comparative original and final annual budget in the Statement V – Statement of Comparison of budget and actual amounts, an analysis of the division between revenue and expenditures was undertaken. Voluntary contributions, other revenue and past surpluses were divided equally between the first and second year of the biennium approved budget, 49% of the approved budget was applied for the first year of the biennium for fixed expenditures and project staff variable expenditure. A rate of 46% of the approved budget was applied in this first year for the budget of training and publications revenue and total variable expenditure excluding project staff. The contingency approved for the biennium will only be included in the second year of the approved budget as this was not yet used.

Significant differences between the 2016 budget and actual amounts as presented on Statement V

(In thousands of Euros)

Line item in Statement V			Budget 2016[1]	Actual 2016	Variance Amount	Variance %
Chapter	**Line**					
I	10	International Labour Organization	3 583	3 799	216	6.0%
I	14	City of Turin	–	750	750	100%
II	20	Revenue from training activities	23 552	22 947	(605)	(2.6%)
IV	40	Regular budget staff	15 666	15 364	(302)	(1.9%)
IV	41	Consultants	467	574	107	22.9%
IV	41	Facilities	1 761	2 161	400	22.7%
IV	43	General operating expenditures	714	853	139	19.5%
V	50–58	Total variable expenditure	16 396	15 325	(1 071)	(6.5%)

44. The Centre achieved positive results in its first year of the biennium as demonstrated in Statement V, with a surplus of €1.05 million.

45. For the period of 2016-17, the Centre will receive $8.24 million as approved in the ILO's Programme and Budget. Half of the contribution was received in 2016. The variance of €216 000 or 6.0 per cent is due to the exchange rate difference.

46. The Centre also received from the City of Turin, its contributions for the years 2013, 2014 and 2015 for a total of €750 000, as per our signed agreement. We did not receive any contribution from the City for 2016 as the agreement has expired. These contributions are provided to the Centre for maintenance of the Campus.

47. Revenue from training activities totals €22.947 million and the results are within the expected targets set for 2016. The difference of €605 000 or 2.6 per cent is mostly due to year-end adjustments and the timing in the delivery of certain activities which carry over into next year.

[1] Budget represents 50% of the approved budget for voluntary contributions, other revenue and past surpluses, 49% of the approved budget for fixed expenditures, project staff variable expenditure as well as 46% of the approved budget for training and publications revenue and total variable expenditure excluding project staff. It also includes 0% of the approved budget for the contingency (as this will only be included in the final biennium approved budget).

48. Regular budget staff expenditures totaling €15.364 million and are slightly below the anticipated budget of €15.666 million or 1.9 per cent. During the year, there were several vacant positions which were either filled later in the year or remain vacant at the end of the year.

49. The consultant expenditures are higher than the budget by €107 000 or 22.9 per cent. This is due to additional work undertaken in the year. As a result of internal audit recommendations, a cost-benefit analysis was carried out in the area of publications. We also undertook the review on diversity at the Centre and obtained additional consulting expertise relating to the upgrade of Oracle, the upgrade of the payroll system as a result of the new professional compensation package as well as the new interface with the ILO for the transmission of pension data to UNJSPF. Professional expertise was also retained to assess the flooding damage which occurred in the fall, as well as to prepare and finalize the plans regarding the refurbishment of the restaurant, cafeteria and self-service areas which started in early 2017.

50. The facilities expenditures are higher than the budget by €400 000 or 22.7 per cent. In the current year, the Centre undertook additional maintenance work on the Campus as a result of receiving the City of Turin’s contributions for 2013, 2014 and 2015. This included the refurbishment of several of the Campus’ hotel accommodations and classrooms, improvements on indoor and outdoor sport facilities, upgrading of videoconference technology, new central air system in one pavilion and new window protection on another one, new fire detection system, as well as undertaking the significant clean-up and repairs as a result of the flooding which occurred in the fall. In addition, new furniture for a significant number of bedrooms was purchased as well as having completed the repainting of three pavilions.

51. General operating expenditures also are higher than the budget by €139,000 or 19.5 per cent as a result of having recognized a provision in 2016 for administrative costs associated with the ILO Tribunal of €140,000 which were not included in the budget as well as a an increase in the provision for doubtful accounts (€25,000). We also wrote-off doubtful accounts in the amount of €25,000 after multiple unsuccessful collection attempts. In addition, a significant and full review of the Centre’s assets was carried out. The old equipment was either donated, when possible, or disposed of and the Centre wrote-off approximately €14,000 from its books.

52. Total variable expenditures were below the budget and show a variance of €1.071 million or 6.5 per cent. These expenditures are aligned to the training and publication revenue earned during the year. The type of activities delivered by the Centre has a direct impact on the variable expenditures as each type combines different level of costs. In 2016, while the number of participant-days from training activities held on Campus as well as “Blended–C” and “Blended–F” activities were below the numbers of the previous first year of the 2014-15 biennium, the “learning at a distance” participant-days have also shown a significant increase, with an increase of 62.6%.

Ex–gratia payments

There were no ex-gratia payments made in 2016.

Approval of the Financial Statements for the year ended 31 December 2016

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	Yanguo Liu
Treasurer, Chief of Financial Services	*Director*
8 March 2017	8 March 2017

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 2016, 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 2016, 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 2016, 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.

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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 from material 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 charges 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 economics 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.

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- 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
8 March 2017

Financial Statements
for the year ended 31 December 2016

International Training Centre of the ILO

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

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	**4**	10 404	3 604
Investments	**5**	2 000	6 811
Accounts receivable	**6**	3 035	4 345
Contributions receivable	**7**	–	100
Due from the ILO		2 238	4 781
Other current assets		616	536
		18,293	**20 177**
Non-current assets			
Accounts receivable	**6**	179	364
Property and equipment	**9**	8 508	9 142
Intangible assets		230	287
		8,917	**9 793**
Total assets		**27 210**	**29 970**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		3 268	3 898
Deferred revenue	**10**	4 629	5 055
Employee benefits	**11**	189	226
		8 086	**9 179**
Non-current liabilities			
Deferred revenue	**10**	179	364
Employee benefits	**11**	2 293	2 311
		2 472	**2 675**
Total liabilities		**10 558**	**11 854**
Net assets			
Working Capital Fund		2 000	2 000
Total other accumulated fund balances		14 652	16 116
Total net assets	**17**	**16 652**	**18 116**
Total liabilities and net assets		**27 210**	**29 970**

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)

	Note	2016	2015
Revenue			
Training activities		21 013	23 787
Voluntary contributions	**12**	14 149	13 312
Other revenue	**14**	1 826	2 567
Exchange gain and revaluation, net		182	42
Interest		55	83
Total revenue		**37 225**	**39 791**
Expenditures			
Staff costs		18 247	17 988
Sub–contracts		7 799	8 226
General operating expenditures		1 929	1 850
Travel		3 501	4 002
Other costs related to training activities		3 008	3 443
Buildings and ground maintenance		2 014	1 996
Supplies		1 159	1 264
Depreciation		994	994
Bank charges		38	38
Total expenditures		**38 689**	**39 801**
Net deficit		**(1 464)**	**(10)**

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)

	Working Capital Fund	General Fund	Campus Improvement Fund	Italy Trust Fund	Total other accumulated fund balances	Net Assets
Balance as at 1 January 2016	2 000	12 694	1 447	1 975	16 116	18 116
Net deficit of 2016	–	(908)	(124)	(432)	(1 464)	(1 464)
Transfers to/(from) [/1]	–	(794)	794	–	–	–
Balance as at 31 December 2016	**2 000**	**10 992**	**2 117**	**1 543**	**14 652**	**16 652**
Balance as at 1 January 2015	1 935	13 508	608	2 075	16 191	18 126
Net surplus/(deficit) of 2015	–	201	(111)	(100)	(10)	(10)
Transfers to/(from) [/2]	65	(1 015)	950	–	(65)	–
Balance as at 31 December 2015	**2 000**	**12 694**	**1 447**	**1 975**	**16 116**	**18 116**

[/1] Transfer from the General Fund to the Campus Improvement Fund of €100 as approved by the Board in October 2015 and transfer of €693.5 as approved by the Officers of the Board in May 2016.

[/2] Transfer of €950 from General Fund to the Campus Improvement Fund as approved by the Board in 2015. Transfer of €65 from the General Fund to the Working Capital Fund which is below the amount of €75 approved by the Board in 2015 to bring the total amount in the Fund to €2 million as required by the Financial Regulations.

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)

	2016	2015
Cash flows from operating activities		
Net surplus (deficit) for the period	(1 464)	(10)
Effect of exchange rates on cash and cash equivalents	357	52
Non-cash items:		
Depreciation	994	994
Decrease in accounts receivable	1 496	279
Decrease in contributions receivable	100	425
(Increase)/decrease in due from the ILO	2 543	(2 460)
(Increase)/decrease in other current assets	(81)	6
Increase/(decrease) in accounts payable and accrued liabilities	(630)	811
Decrease in deferred revenue	(611)	(1 386)
Increase/(decrease) in employee benefit liabilities	(55)	44
Net cash flows from operating activities /1	**2 649**	**(1 245)**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(303)	(513)
Acquisitions of short-term investments	(2 000)	(9 311)
Proceeds from disposal of short-term investments	6 811	2 500
Net cash flows from investing activities	**4 508**	**(7 324)**
Effect of exchange rates on cash and cash equivalents	(357)	(52)
Net decrease in cash and cash equivalents	**6 800**	**(8 621)**
Cash and cash equivalents, beginning of period	3 604	12 225
Cash and cash equivalents, end of period	**10 404**	**3 604**

/1 €87 in interest received is included under “Net surplus/(deficit) for the period” in the net cash flows from operating activities (2015 – €20).

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 2016
(in thousands of Euros)

Budget Chapter	Budget Item	Title	Original budget/2	Final budget	Actual	Budget Variance/3
		INCOME				
I		**Voluntary contributions**				
	10	International Labour Organization	3 583	3 583	3 799	216
	11	Government of Italy	7 850	7 850	7 850	–
	12	Piedmont Region (Italy)	–	–	–	–
	13	Government of Portugal	250	250	250	–
	14	City of Turin	–	–	750	750
		Total voluntary contributions	**11 683**	**11 683**	**12 649**	**966**
II		**Earned income**				
	20	Training activities and advisory services	23 552	23 552	22 947	(605)
	21	Publications	920	920	850	(70)
	22	Miscellaneous	1 000	1 000	1 031	31
		Total earned income	**25 472**	**25 472**	**24 828**	**(644)**
III		**Other**				
	30	Past surpluses to training activities	750	750	796	46
	31	Past surpluses to the business process review	59	59	77	18
	–	Past surpluses to the HRS IT applications	–	–	50	50
		Total past surpluses	**809**	**809**	**923**	**114**
		Total income	**37 964**	**37 964**	**38 400**	**436**
		EXPENDITURE				
IV		**Fixed expenditure**				
	40	Regular budget staff	15 666	15 666	15 364	(302)
	41	Consultants	467	467	574	107
	42	Facilities	1 761	1 761	2 161	400
	43	Security	405	405	442	37
	44	General operating costs	714	714	853	139
	45	Missions and representation	259	259	240	(19)
	46	Governance	366	366	354	(12)
	47	Information and technology costs	1 456	1 456	1 358	(98)
	48	Depreciation of property and equipment	661	661	613	(48)
		Total fixed expenditure	**21 755**	**21 755**	**21 959**	**204**
V		**Variable expenditure**				
	50	Project staff	2 500	2 500	2 692	192
	51	External collaborators	4 493	4 493	4 873	380
	52	Missions	621	621	719	98
	53	Participants costs	6 343	6 343	5 070	(1 273)
	54	Books, training aids and materials	529	529	367	(162)
	55	Training facilities and services outside Turin	1 057	1 057	793	(264)
	56	Other variable costs	172	172	169	(3)
	57	Costs related to income from publications	589	589	521	(68)
	58	Other costs related to miscellaneous income	92	92	121	29
		Total variable expenditure	**16 396**	**16 396**	**15 325**	**(1 071)**
			38 151	**38 151**	**37 284**	**(867)**
VI	60	**Contingency**	–	–	–	–
		Total expenditure	**38 151**	**38 151**	**37 284**	**(867)**
		BUDGET SURPLUS/4	**(187)**	**(187)**	**1 116**	**1 303**
		Other items				
		Doubtful accounts	–	–	(51)	**51**
		Exchange loss and revaluation, net	–	–	(13)	**13**
		TOTAL OTHER ITEMS	–	**–**	**(64)**	**64**
		NET BUDGET SURPLUS	**(187)**	**(187)**	**1 052**	**1 239**

[/2] Original budget represents 50% of approved budget for voluntary contributions, other revenue, past surpluses, 49% of the approved budget for fixed expenditures, project staff variable expenditure as well as 46% of the approved budget for training and publications revenue and total variable expenditure excluding project staff. It also includes 0% of the approved budget for the contingency (as this will only be included in the final biennium approved budget).

[/3] 1 Budget variances are explained in the accompanying financial report on the 2016 accounts.

[/4] 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 2016
(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. At its October meeting, the Centre adopts its 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 2016.

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

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

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

Significant accounting policies

Foreign currency transactions

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

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

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

Financial instruments

Financial assets and financial liabilities are categorized as follow:

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

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

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

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

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

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

Cash and cash equivalents

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

Investments

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

Accounts receivable

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

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 period in which employees render the related service and include the following:

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

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

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

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

2. post–employment benefits:

– repatriation travel and removal expenditures: officials, their spouses and dependent children are entitled to reimbursement of costs of travel and transport of personal effects upon termination. Expenditure related to repatriation travel and transport of personal effects is calculated by estimating the nominal value of the cost attributable to each eligible staff member at 31 December 2016 The non-current portion of the liability is not discounted as the impact is not material;

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

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

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

Payables and accruals

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

Revenue from exchange transactions

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

Revenue from non-exchange transactions

1. Voluntary contributions:

– voluntary contributions 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;

– voluntary contributions are also received from the City of Turin to meet expenditures related to the extraordinary maintenance and landscaping costs of the property occupied by the Centre. These contributions are recognized as an asset with a corresponding liability (deferred revenue) when it is probable that the contribution will be received and the amount can be measured reliably. As the funds are utilized for extraordinary maintenance and landscaping costs, the liability (deferred revenue) is reduced and a corresponding amount is recognized as revenue.

2. Goods and services–in–kind: the Centre does not recognize services-in-kind in the financial statements. Contributions of goods-in-kind are recognized at fair value at the date of receipt.

3. Training activities: agreements related to training activities are subsidized by non-conditional voluntary contributions which provide support to the Centre’s operations. These agreements are considered non-exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds if such conditions are not met, are recognized as assets (accounts receivable) and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion of expenditures incurred to the estimated total expenditures of the training activity.

4. Operating leases with other UN organizations: these comprise revenue from leases with other UN organizations and their use of Centre facilities. These leases are operating leases in that they do not transfer substantially all of the risks of ownership to the lessee, and they are cancellable. Lease payments are contingent rents as they are based on costs incurred by the Centre for the area they occupy.

Contingent assets

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

Contingent liabilities

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

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

Segment information

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

Significant judgements and sources of estimation uncertainty

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

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

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

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

Note 3 – Accounting standards issued but not yet effective

In 2015 and 2016, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

- IPSAS 34 - Separate Financial Statements, IPSAS 35 - Consolidated Financial Statements, IPSAS 36 - Investments in Associates and Joint Ventures, IPSAS 37 - Joint Arrangements, IPSAS 38 - Disclosure in Interests in Other Entities. These standards establish new accounting and disclosure requirements for investments in controlled entities, joint ventures and associates as well as the principles of presentation and preparation of consolidated financial statements. These standards will replace the currents requirements in IPSAS 6 - Consolidated and Separate Financial Statements, IPSAS 7 - Investments in Associates and IPSAS 8 - Interests in Joint Ventures, effective for annual periods beginning on or after 1 January 2017, with earlier adoption application permitted. These new standards have no significant impact on the Centre's financial statements.
- Improvements to IPSAS which contain amendments to the Conceptual Framework of IPSAS and relate to the qualitative characteristics of useful financial information, accounting policies and hierarchy of sources for establishing accounting policies, general improvements to the existing IPSAS, improvements to IPSAS in relation to Government Finance Statistics and improvements to maintain convergence with IFRS. These improvements are effective on or after 1 January 2017, with earlier adoption permitted. The Centre does not foresee any significant impact on its financial statements.
- Amendments to IPSAS 21 - Impairment of Non-Cash Generating Assets and IPSAS 26 – Impairment of Cash-Generating Assets: the amendments establish the impairment standards relating to non-cash and cash-generating assets held using the revaluation method and which were previously out of scope of these chapters. The effective date for the application is for annual periods beginning on or after 1 January 2018. This will have no significant impact on the Centre's financial statements.
- IPSAS 39 – Employee Benefits: This standard replaces IPSAS 25 – Employee Benefits and provides for the elimination of the possible deferral of actuarial gains and losses and the immediate full recognition in net assets as well as amendments to the disclosure requirements in the notes to financial statements. The effective date for the application of this standard is for annual periods beginning on or after 1 January 2018, with earlier adoption permitted. This will have no significant impact on the Centre's financial statements.

Note 4 – Cash and cash equivalents

	US dollar (€ equivalent)	**Euro**	**2016**	**2015**
Current accounts and cash on hand	2 873	438	3 311	3 585
Short-term deposits	4 767	2 326	7 093	19
Total cash and cash equivalents	**7 640**	**2 764**	**10 404**	**3 604**

Of the total cash and cash equivalents held in 2015, €3 422 was in Euro and the balance was held in US dollars, €182 Euro equivalent.

The cash and cash equivalent balance includes an amount of €3 462 (2015 - €2 814) which must be used for training activities.

Note 5 – Investments

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

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

	2016		2015	
	Fair value	**Cost**	**Fair value**	**Cost**
One-year term deposits	2 000	2 000	6 811	6 811

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

	2016	2015
Fair value as at 1 January	6 811	–
New investments during the period	2 000	9 311
Disposal of investments during the period	(6 811)	(2 500)
Fair value as at 31 December	**2 000**	**6 811**

The investments include an amount of €2.0 million (2015 – €2.0 million) relating to the Working Capital Fund.

Note 6 – Accounts receivable

	2016	2015
Current accounts receivable		
Accounts receivable from invoiced training services	2 175	2 192
Accounts receivable from training services agreements due in 2017	980	2 051
Other accounts receivable	35	231
Less: provision for doubtful accounts – training services	(155)	(129)
Total current net accounts receivable	**3 035**	**4 345**
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2017	179	364
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	**179**	**364**

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

	2016	2015
Movements in provision for doubtful accounts		
Balance 1 January	129	28
Amounts written off during the year as uncollectible	(21)	(13)
Impairment losses reversed	(1)	(5)
Increase in allowance for new impairments	48	119
Balance 31 December	**155**	**129**

Note 7 – Contributions receivable

	2016	2015
Chamber of Commerce	–	100
Piedmont Region	50	50
Less: provision for doubtful accounts	(50)	(50)
Total contributions receivable	**–**	**100**

	2016	2015
Movements in provision for doubtful accounts		
Balance 1 January	50	–
Amounts written off during the year as uncollectible	–	–
Impairment losses reversed	–	–
Increase in allowance for new impairments	–	50
Balance 31 December	**50**	**50**

Of the above, € nil (2015 – €100) was subject to conditions requiring the use of funds for the renovation of Pavilion Europe. All of the above contributions receivable relate to non-exchange transactions.

Note 8 – Financial instruments

Activities are exposed to the following financial risks: market risk, credit risk and liquidity risk. The Centre focuses on these risks and seeks to minimize potential effects on financial performance. Financial risk management is carried out in conjunction with the investment policy, Financial Regulations and Risk Register. In 2016, 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 2015.

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:

	2016 US Dollar	2016 € equivalent	2015 US Dollar	2015 € equivalent
Cash and cash equivalents	7 992	7 640	200	182
Accounts receivable	1 282	1 225	1 845	1 687
Due from the ILO	917	877	2 856	2 611
Payables and accrued liabilities	(102)	(102)	(256)	(234)
Net exposure	**10 089**	**9 640**	**4 645**	**4 246**

Based on the net exposure as at 31 December 2016, 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 €482 (2015 – €212) or 5 per cent (2015 – 5 per cent).

Interest rate risk

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

Other price risk

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

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

Liquidity risk

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

Accounts payable and accrued liabilities are mostly due within 20 days (2015 – 30 days).

In accordance with its Financial Regulations, a Working Capital Fund is maintained which can be used to temporarily finance expenditures pending the receipt of voluntary contributions and other income and in exceptional circumstances, to provide advances to meet emergencies. At the reporting date, the Working Capital Fund balance was €2 million (2015 – €2 million).

Credit risk

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

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

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

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

2016	**AAA**	**AA+–AA–**	**A+–A–**	**BBB+–BBB–**	**Total**
Cash and Cash Equivalents	–	–	7 093	3 311	**10 404**
Investments	–	–	2 000	–	**2 000**
2015					
Cash and Cash Equivalents	–	–	44	3 560	**3 604**
Investments	–	–	6 811	–	**6 811**

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:

2016	**Less than 1 year**	**1–2 years**	**Over 2 years**	**Less provision for doubtful accounts**	**Total**
Accounts receivable	2 722	536	110	(155)	3 213
Contributions receivable	–	50	–	(50)	–
Total receivable	**2 722**	**586**	**110**	**(205)**	**3 213**
2015					
Accounts receivable	4 286	281	271	(129)	4 709
Contributions receivable	50	100	–	(50)	100
Total receivable	**4 336**	**381**	**271**	**(179)**	**4 809**

Note 9 – Property and equipment

	Equipment	**Leasehold improvements**	**Total 2016**	**Total 2015**
Cost at 31 December	4 251	10 302	14 553	14 494
Accumulated depreciation at 31 December	2 606	3 439	6 045	5 352
Net book value at 31 December 2016	**1 645**	**6 863**	**8 508**	**9 142**
Net book value at 31 December 2015	**1 769**	**7 373**	**9 142**	

There were no contractual commitments for the acquisition of property and equipment at the end of 2016.

Equipment

	Vehicles	**Office equipment**	**Other type of equip-ment**	**Furniture and fixtures**	**Total 2016**	**Total 2015**
Cost at 1 January	106	2 355	1 616	160	4 237	3 844
Additions	–	188	55	–	243	393
Disposals	(45)	(184)	–	–	(229)	–
Cost at 31 December	**61**	**2 359**	**1 671**	**160**	**4 251**	**4 237**
Accumulated depreciation at 1 January	86	1 778	560	44	2 468	2 077
Depreciation	10	193	148	16	367	391
Disposals	(45)	(184)	–	–	(229)	–
Accumulated depreciation at 31 December	**51**	**1 787**	**708**	**60**	**2 606**	**2 468**
Net book value at 31 December	**10**	**572**	**963**	**100**	**1 645**	**1 769**

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 2016	Total 2015
Cost at 1 January	10 257	10 231
Additions	45	63
Disposals	–	(37)
Cost at 31 December	**10 302**	**10 257**
Accumulated depreciation at 1 January	2 884	2 361
Depreciation	555	550
Disposals	–	(27)
Accumulated depreciation at 31 December	**3 439**	**2 884**
Net book value at 31 December	**6 863**	**7 373**

Note 10 – Deferred revenue

	2016	2015
Deferred revenue – Current		
Voluntary contributions received in advance relating to signed agreements	3 462	2 814
Voluntary contribution receivable relating to signed agreements	1 167	2 241
Total current deferred revenue	**4 629**	**5 055**
Deferred revenue – Non-current		
Voluntary contribution receivable relating to signed agreements	179	364
Total non-current deferred revenue	**179**	**364**
Total deferred revenue	**4 808**	**5 419**

	2016	2015
Movements in deferred revenue		
Balance 1 January	**5 419**	**6 805**
New agreements signed during the year	4 555	5 264
Recognition of deferred revenue to training revenue in the Statement of financial performance	(4 938)	(4 974)
Refund/reduction of agreements to donors	(613)	(1 052)
Other funds received in advance not linked to agreements	357	(618)
Discounting	28	(6)
Balance 31 December	**4 808**	**5 419**

Note 11 – Employee benefits

	2016	2015
Current liabilities		
Accrued salaries	4	43
Accumulated leave	154	160
Repatriation travel and removal expenditures	17	13
Home Leave	14	10
Total current liabilities	**189**	**226**

Non-current liabilities		
Accumulated leave	1 758	1 777
Repatriation travel and removal expenditures	535	534
Total non-current liabilities	**2 293**	**2 311**
Total employee benefits liabilities	**2 482**	**2 537**

End–of–service payments and repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2016 was €703 (2015 – €702).

The present value of the defined benefit obligation for end-of-service was estimated at €8 930 (2015 – €9 166). The present value of the defined benefit obligation for repatriation grant was €1 383 at the end of 2016 (2015 – €1 314). 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 €80 937 at the end of 2016 (2015 – €65 122). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

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

The Centre's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent of pensionable remuneration for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the 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 actuarial valuation performed as of 31 December 2015 revealed an actuarial surplus of 0.16 per cent (a deficit of 0.72 per cent in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2015 was 23.54 per cent of pensionable remuneration, compared to the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as of 31 December 2017.

At 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 100.9 per cent (91.2 per cent in the 2013 valuation) 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 2015, 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 Fund. 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.

During 2016, the Centre paid to UNJSPF a total amount of €3 976 (2015 – €3 905). Expected payments due in 2017 are €4 070.

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

Note 12 – Revenue from voluntary contributions

	2016	2015
Government of Italy	9 350	9 350
International Labour Organization	3 799	3 712
City of Turin	750	–
Government of Portugal	250	250
Total voluntary contributions	**14 149**	**13 312**

The ILO contribution of €3 799 (US$4 120) represents one half of the approved 2016-2017 biennial contribution of US$8 240. The ILO’s contribution toward the Masters’ Programme in 2016 was € nil (2015 – €94).

The Italian Government’s ex-lege contribution to the Centre in 2016 was €7 850 (2015 – €7 850) and was received in 2016. The Italian Government’s contribution for training activities in 2016 was €1 600 which includes a contribution of €100 to a specific project and which is recorded in deferred revenue (2015 – €1 600).

The City of Turin contribution represents the annual contribution of €250 for the years 2013, 2014 and 2015 for a total of €750.

Note 13 – Contributions–in–kind

There were no goods-in-kind received during the year. The Centre received services-in-kind from the ILO for legal and internal audit services in the amount of € nil (2015 – €173) as well as services of trainees from various external parties for which the value is minimal. The land and buildings of the Centre are provided by the City of Turin at a nominal rent including facilities constructed with funds provided by various donors.

Note 14 – Other revenue

	2016	2015
Non-exchange transactions		
Operating leases with other UN organizations	427	409
Use of facilities other than residential	132	121
Other miscellaneous income	230	550
Exchange transactions		
Use of residential facilities by non-participants attending training	130	130
Revenue from the sale of publications	850	1 312
Social life activities	57	45
Total other revenue	**1 826**	**2 567**

Note 15 – Commitments, leases and contingent liabilities

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

At 31 December 2016, the Centre has commitments of €3 391 (2015 – €2 423) for contracts related to future services such as hardware and software maintenance, printing services and outsourced services such as cleaning of campus premises and hotel rooms, hotel reception, post office, security, catering and transport.

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 two leases relating to specialized computer and stamping equipment are non-cancellable. The minimum lease payments for these agreements are €10 for 2017 and €0.5 per year for 2018, 2019 and 2020. Total expenditures for equipment rental were €14 (2015 – €11) and €67 (2015 – €80) 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 €427 (2015 – €410).

Note 16 – Statement of comparison of budget and actual amounts

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

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

5. the use of surplus from prior periods is presented as budgetary income in Statement V while it is not presented on Statement II;
6. 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
7. 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)	**1 052**	–	–	**1 052**
Timing differences	–	–	–	–
Basis differences	2 288	4 508	–	6 796
Entity differences	(1 405)	–	–	(1 405)
Net cash flow	**1 935**	**4 508**	–	**6 443**
Effect of exchange rates on cash and cash equivalent	357	–	–	357
Net decrease in cash and cash equivalent (Statement IV)	**2 292**	**4 508**	–	**6 800**

Reconciliation between Statement V and Statement II

	2016
Net budget surplus (Statement V)	**1 052**
Timing differences	–
Basis differences	(1 306)
Entity differences	(1 210)
Net deficit per Statement of financial performance (Statement II)	**(1 464)**

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, 2012, 2013, 2014 and 2015 surpluses. The allocation of the 2015 surplus was approved in 2016 through separate papers presented to the Officers of the Board in May and to the Board in October 2016. The approved allocations became available immediately for use. Prior allocations were only available in the subsequent year following their approval in the budget proposal. There are no remaining funds available from the allocation of the 2011 surplus.

	Training activities	Innovation Fund	Campus Impro-vement Fund	Business Process Review	HRS – IT applic ations	Total
Allocations from 2010 surplus	500	300	650	350	–	**1 800**
Expenditures in 2012	(500)	(45)	–	(31)	–	**(576)**
Expenditures in 2013	–	(255)	–	(51)	–	**(306)**
Expenditures in 2014	–	–	(650)	–	–	**(650)**
Expenditures in 2015	–	–	–	(102)	–	**(102)**
Expenditures in 2016	–	–	–	(77)	–	**(77)**
Balance at 31 December 2016	**–**	**–**	**–**	**89**	–	**89**
Allocations from 2012 surplus	675	100	200	–	–	**975**
Expenditures in 2014	(155)	–	–	–	–	**(155)**
Expenditures in 2015	(520)	(100)	(74)	–	–	**(694)**
Expenditures in 2016	–	–	(124)	–	–	**(124)**
Balance at 31 December 2016	–	–	**2**	**–**	–	**2**
Allocations from 2013 surplus	1 150	550	950	–	**150**	**2 800**
Expenditures in 2015	(228)	(123)	–	–	–	**(351)**
Expenditures in 2016	(796)	(385)	–	–	(50)	**(1 231)**
Balance at 31 December 2016	**126**	**42**	**950**	**–**	**100**	**1 218**
Allocations from 2014 surplus	286	–	100	–	–	**386**
Expenditures in 2016	–	–	–	–	–	–
Balance at 31 December 2016	**286**	–	**100**	**–**	–	**386**
Allocations from 2015 surplus	693.5	–	693.5	–	–	**1 387**
Expenditures in 2016	–	–	–	–	–	–
Balance at 31 December 2016	**693.5**	**–**	**693.5**	**–**	–	**1387**

Note 17 – Net assets

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

Working Capital Fund: this fund 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.

Total other accumulated fund balances include*:*

- General Fund: the main operating fund of the Centre for training activities;
- 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.

Note 18 – Contingent assets

	2016	2015
ILO contribution	4 025	7 531
Government of Italy – Centre's operations	7 850	7 850
Funding agreements	1 209	–
Total contingent assets	**13 084**	**15 381**

Note 19 – Related party transactions

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

	2016	2015
General operations	3 799	3 634
Training activities	9 841	11 426
ASHI contribution for former employees	874	704
Repatriation grants	91	144
End–of–service benefits	620	243
Staff costs of ILO staff members assigned to Centre	177	107
Internal audit and legal services	186	–
Total related party transactions	**15 588**	**16 258**

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:

	2016		2015	
Category	Full-time equivalent	Total remuneration (in thousands of Euros)	Full-time equivalent	Total remuneration (in thousands of Euros)
Key Management	7.9	1 521	8.3	1 612

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

Note 20 – Capital management

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

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

Report of the External Auditor to the Board on the audit of the Financial Statements of the International Training Centre of the International Labour Organization for the year ended 31 December 2016

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 2016.

This is our first report as External Auditor of the Centre. The report contains the results of our audit of the 2016 financial statements, and also our observations and recommendations on the review of the corporate governance mechanisms of the Centre. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Centre.

Our audit was conducted in accordance with the International Standards on Auditing. Where appropriate, we included other information required under the said Standards. We addressed the matters relative to the review of the Centre's financial statements that came to our attention during the audit that we believe the Board of the Centre should be aware of. We will be pleased to elaborate on any of these points during the Officers of the Board meeting in May 2017.

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
8 March 2017

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 2016

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 2016

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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 2016 and the observations with respect to the administration and management of the Centre as required under Regulations IX.25.

2. This is the first report of 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 of the Board of the Centre.

Overall result 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 issued by the International Auditing and Assurance Standards Board.

4. Our audit resulted in the issuance of an unmodified audit opinion[1] on the Organization's financial statements for the financial year ended 31 December 2016. 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 2016; (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 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 conducted performance audit work in addition to financial audit. Our performance audit work is aligned with the Centre's operating objectives. It

[1] 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".

included the review of governance along the areas of accountability, risk management and internal control. 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.

Summary of recommendations

7. We made several value-adding recommendations to further improve the Centre's financial management and governance. Our main recommendations to the Centre include:

Financial management and reporting

IPSAS Manual, Finance Manual and formal Chart of Accounts

a. **Preparing and developing a formal ITC 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 better ensure compliance with the requirements of IPSAS in the preparation of the Centre's financial statements;**

Corporate governance

Accountability

b. **Embedding in the Accountability Framework a clear, particular and appropriate definition of accountability as it purports in the framework to highlight the meaning and limitations of accountability in the context of the Centre's operation;**

c. **Providing in its Accountability Framework a) clear depiction of roles and responsibilities of all key stakeholders and key players in its accountability continuum, b) entrench better the culture of accountability and related dependencies within the core of its operations and c) include the accountability mechanism and tools to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency;**

Risk management

d. **Including in its Risk Management Framework a) the definition of critical and key terms to assist in the implementation of its ERM policy, rules and procedures thus better guide the risk owners, b) adhere to the categorization of the risks by source as prescribed by the Framework and c) develop its risk**

appetite statement as an effective way to communicate to all officials the level of acceptable risk and subsequently the basis to evaluate and monitor the level of risk that the Centre consents and faces is within an acceptable range;

e. Improving adherence by all Chiefs/Heads of Units to the defined template and standard formulation of risk statements as prescribed in the Centre's Framework in documenting risks;

f. Incorporating within the Centre's RMF, Rules and Procedures, a well-structured risk communication structure to facilitate the completion of an accurate risk inventory within the corporate risk register as well as the efficient and effective escalation of information to foster better coordination and expedite evaluation in the establishment of a Corporate Risk Register;

Internal control

g. 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 existing governance mechanisms;

h. Preparing a travel handbook that contains and harmonizes 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. In addition, document the classification and categorization of all circulars published in order to identify the level of authority and scope; and

i. Enhancing its asset management policy by incorporating the criteria that define 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. Consequently, enhance its policy on the assessment of impairment, disposal and write-off of supplies, equipment and other assets to align it to its Financial Rule thus, ensuring issuance of clear procedures.

Implementation of previous audit recommendations

8. Three audit recommendations contained in the audit report of the previous External Auditor for the financial year 2015 pertain to the accounting treatment on land and buildings, accounting for employee future benefits and financial statement disclosures. Management has not yet recorded land and buildings as was raised as it awaits further developments in the various accounting treatments used in the UN System. It has also not recorded the discounted value relating to employee future benefits since Management considers this not material. However, much improvement was done with respect to financial statement disclosures. The recommendations are discussed in Section D of this Report.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

9. 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[2]. Under Regulation IX.24, the External Auditor of the ILO is also the External Auditor of the Centre.

10. 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 in regard to matters referred to in Financial Regulation IX.25. We shall submit a report, together with the audited financial statements and relevant documents, which shall include such information as we deem necessary in the circumstances. The Board shall examine the financial statements and the audit reports. This is the first year of our audit mandate and the first Report of the External Auditor to be issued by us as External Auditor.

Scope and objectives

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

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

a. the financial statements present fairly the financial position of Centre as at 31 December 2016, 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 2016 in accordance with IPSAS;

b. the accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and

c. the 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.

13. We, likewise, conducted a review of the Organization's operations pursuant to Financial Regulation IX.25 to make observations with respect to the efficiency of the financial procedures,

[2] GB.323/PFA/6

the accounting system, the internal financial controls, and in general, the administration and management of its operations. Those matters are addressed in the relevant sections of this Report.

14. Overall, our audit was carried out based on the Audit Plan presented to the Board in November 2016 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

15. 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 of the financial statements. We adopted the Risk-based Audit Approach in the audit of the financial statements which requires us to conduct 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.

16. 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.

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

18. We reported the audit results to the Centre's Management in the form of audit observation memorandums and a management letter containing detailed observations and recommendations. This practice provides a continuing dialogue with Management.

B. RESULTS OF THE AUDIT

19. This section presents the results of the audit for the financial year 2016. 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 our audit observations to ensure balanced reporting and to co-develop solutions. 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.

20. We appreciate the comments, inputs and the efforts made by Management to address the following observations and recommendations issued in the course of the interim and year-end audits of the Centre's financial statements as at 31 December 2016 in order to present fairly the balances of the affected accounts and improve the presentation and disclosure requirements in compliance with IPSAS at year-end.

B.1. FINANCIAL MATTERS

B.1.1. Audit of financial statements

Opinion on the financial statements

21. 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 2016, 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.

Application of accounting policies and test of transactions

22. In addition, as required by the Centre's Financial Regulations, we concluded that 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.

23. 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 accountability and transparency and, financial reporting mechanisms.

B.1.2. Financial management and reporting

B.1.2.1 Absence of a formal IPSAS Manual, Finance Manual and formal Chart of Accounts

24. The Centre has no IPSAS and Finance Manuals that compile and integrate all the standards, policies, process flowcharts being adopted and the mechanism for review, updates and approval to comply with the requirements of IPSAS, as well as the formal chart of accounts and other matters affecting financial management. The manuals as pervasive control mechanisms will ensure efficiency and effectiveness in financial management and reporting.

25. **We recommended and Management acknowledged that the Centre 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.

26. Management acknowledged the recommendation of having a Finance Manual but emphasized that at this time, it is not one of the Centre's priorities in view of the very limited resources and other on-going projects. The Centre, being a small organization, is giving priority to the streamlining of processes, the review of policies, rules and procedures at this time which would add value to the Centre's operations and result in streamlining of the current processes. Management further stressed that all policies and necessary information are listed and can be found in a specific area of the FINSERV website on the intranet which is considered to be the new "virtual manual" to reduce the use of paper or no "paper manual". The process for review, update and approval will also be included. At this time, the lack of such Corporate and IPSAS manuals have not had any impact on the financial management and reporting of the Centre which has received unmodified audit opinions every year and few errors have been noted.

27. While we consider the comments of the Management, we reiterate that a Manual, whether virtual or in hard copy, is a very vital control mechanism that ensures the existence of clearly established policies, rules and procedures that formally demonstrate ownership and provide more stable support and reference to process owners. The size of the organization and the receipt of an unmodified audit opinions every year are not valid reasons for not establishing this pervasive control mechanism.

B.2. GOVERNANCE MATTERS

28. In line with our mandate to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Centre, we reviewed the corporate governance mechanisms in the Centre. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Centre.

B.2.1. Corporate governance

29. It is widely recognized that effective corporate governance promotes positive management culture, enhance the implementation of management policies and procedures and support the development of an infrastructure for managing and reporting in the work place. The concept of governance, however, has become more complex with the recognition that established accountabilities, risk management practices and internal control infrastructure influence the overall governance process. Thus, the obvious dependencies of these three governance components define how governance will be played up within an entity. In a logical sense, accountability accords roles and responsibilities including the management of risks while risk management allows an entity to identify the most critical impediments to achieve its operating objectives. Internal control, in turn, is embedded to arrest the identified critical risks.

30. Corporate governance is not just one structure though. Instead, it consists of the various duties, obligations, and rights emanating from frameworks that control and direct an entity, from accountability to risk management and internal control. The point of these frameworks is to properly distribute the responsibilities that those who participate in the entity have, such as the managers, stakeholders, creditors, regulators, staff and of course those in the board. In addition to informing them of their responsibilities, it also informs them of their rights within the Centre. These frameworks allow any entity including the Centre to operate on a more solid foundation.

31. We reviewed the corporate governance of the Centre to determine whether accountability and accountability roles and responsibilities are properly and completely defined; and accountability tools and mechanisms, as well as the internal controls are adequate. The results of our review are presented below.

B.2.1.1 Accountability

32. Accountability is a relationship based on the obligation to demonstrate and take responsibility for performance in the light of agreed expectations. It requires a relationship of conferring responsibility and reporting back on the expected and agreed performance and on the manner in which the responsibility was fulfilled. The rendering of account, whether obligatory or on a voluntary basis, establishes the relationship of accountability.

33. It is the obligation of each and every staff member of the Centre to be answerable for his actions and decisions and to accept responsibility for them. We believe that accountability has always been embedded in the structure of the Centre as evident in its operational policies and procedures. However, due to the evolving environment and to support the Centre's results-based management approach in delivering its mandate, we deemed it vital to review the Centre's accountability framework.

Embedding of a clear definition of accountability in the Accountability Framework

34. The review of the accountability framework revealed that the definition of accountability in the Centre's circular on accountability framework needs enhancement. Said framework mainly describes the standards and mechanisms, which comprise the Accountability Framework of the Centre, and clarifies the duties and responsibilities of its officials. However, the framework does not provide the meaning of accountability to which the whole framework should be anchored in the context of the Centre's operations.

35. The Centre's operational definition of accountability is basic and necessary because the framework: a) describes the various elements of the Accountability Framework itself; b) identifies the key standards which govern the performance and conduct of officials; and c) describes the various mechanisms in place to promote and monitor compliance.

36. **We recommended that the Centre embed in the Accountability Framework a clear, particular and appropriate definition of accountability as it purports in the framework to**

highlight the meaning and limitations of accountability in the context of the Centre's operation.

37. Management agreed that the term of "accountability" is very important as it sets the tone of the organization. Management will undertake a review of the definition of the term as part of its on-going work and how this applies to the Centre.

Inclusion of a well-defined Accountability roles and responsibilities and related mechanisms and tools

38. Scrutiny of the Centre's accountability framework further revealed that it includes descriptions of roles and responsibilities of senior managers, different committees, and even the auditors. This is a good step towards compliance with the basic elements of accountability framework. However, partial compliance renders the policy less effective, since the framework does not include those roles and responsibilities for other key stakeholders, like the governing body and its officers and other vital process and risk owners in the Centre, which are critical in reinforcing their defined roles.

39. Moreover, we also determined that the Centre's accountability mechanism only defines the function of the respective offices/functions but does not lay down specific tools, which can be used to measure, report and assess performance. We were informed that performance of personnel is monitored through the work plans of each department of the Centre. These work plans support the Programme and Budget for a particular biennium. The framework however appears to be wanting of reference to general tools, such as terms of reference, risk registers, reports, performance evaluation system, among others, that will be link accountability aspirations with reality.

40. **We recommended that the Centre 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; and**

- **b. the accountability mechanism and tools to effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency.**

41. Management commented that, as part of future work on the direction of the Centre it will undertake a review of the accountability framework to include all relevant roles and responsibilities. The Centre has started its review of some processes and internal controls and the identification of roles and responsibilities of key stakeholders are now included in the policies, rules and procedures.

Enhancement of asset management policy on lost assets, write off and asset disposal

42. For an asset management policy to be effective, it must clearly define levels of

circumstances such as simple negligence, gross negligence and willful misconduct for asset loss. This piece of accountability information provides enough bases for the eventual defining of fiscal responsibility, an issue that is the main contention of Accountability Committee cases for loss of attractive items. With clearer circumstances, the Centre can proceed to further enhance its accountability measures particularly those pertaining to asset loss due to willful misconduct or gross negligence where disciplinary actions against the guilty individual can be exacted apart from asset recovery measures.

43. In consonance, an asset write-off policy is imperative to keep the Centre on course toward accountability, sound internal control and the fair presentation of the financial statements. The procedures to be undertaken prior to obtaining write-off such as determination, approval, recording and; monitoring and disposal of written-off tangible assets are important to be included.

44. We noted that the Centre's policy provisions on losses or theft of an asset merely describes the responsibilities of staff members and not the possible underlying circumstances for the loss. On the other hand, the Centre's existing policies on write off and asset disposal revealed that it lacks comprehensive procedures to clearly indicate the start and end points of the process where basic questions of when, why, how and what assets are to be disposed and written off.

45. **We recommended and Management agreed to 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.**

46. Management commented that they will review their policies regarding the asset management to assess whether further clarifications are required on asset loss. Since there are very few cases where the Centre has found itself with assets stolen, lost or damaged by staff or participants, Management has so far, taken the view that it would deal with individual cases when they arise. They will also assess the risk that the Centre faces with such items and review thresholds as well as the procedures needed when such asset loss is identified. Management further commented that they will review the official documents to ensure alignment to the Financial Rules including impairment and write-off rules.

B.2.1.2 Risk management

47. Risk Management is an essential element of good organizational governance and accountability. Its prime objectives are to help ensure the sustainability of an organization's

operations and its ability to deliver its mandate and achieve objectives. Given its innate complexity, it is always a challenge for any organization to demonstrate its value beyond traditional management metrics. Value creation in risk management points toward increasing stakeholders' confidence, elimination of fragmented operations and more pronounced risk mitigation.

48. In the Risk Management Framework, we noted that a step-by-step approach was adopted by the Centre in the drafting and finalization of its Corporate Risk Register (CRR) on the basis of all individual Unit Risk Registers. To provide sufficient information as well as explain the policy, rules and procedures, the Treasurer provided a half-day training session to all Chiefs of units as well as members of the Contracts and Risk Committees.

49. We recognize the initial activities undertaken by the Centre to embed risk management in its work. However, while concrete steps in adopting risk management are now made apparent based on the above representation made by Management, we have identified several opportunities for improvements that could be made to the Centre's Risk Management Framework.

Risk management framework - specific definitions for critical risk terminologies

50. The Centre's RM Rules and Procedures define risk as "the uncertainty that an event will occur or a circumstance will arise that affects the achievement of the Centre's objectives. The uncertainty can impact positively (opportunity) or negatively (threat) on the achievement of our objectives." However, other terms should also be defined and be included in the document, understanding the risk related terminologies is vital to acquire the conceptual understanding of risk management.

51. Apart from the definition of risk itself, the definition of Inherent risk as it applies to the Centre is basic and should be included in the framework. Most importantly, the template of the Units' Risk Registers requires the description of inherent risk. In addition, the Centre's Risk Management Policy and Framework (RMFP) states that if a mitigation action is not yet in place, this should be clearly indicated and documentation of the deadline by which this will be completed is needed.

52. Further, while the external and internal sources of risks are enumerated in the Rules and Procedures, they are not specifically defined to better guide each unit and every risk owner in the identification and sourcing of risks. Nonetheless, related training materials provide for additional guidance to users. We also observed that most of the risks are not categorized by source in the Unit Risk Registers as described in the Framework. A reason for identifying risk categories is to help in the future consolidation of the activities required for risk mitigation plans. Relatedly, as the Centre`s risk management matures, additional sources of risk may be identified. In addition, the Framework also needs to have the definition and statement of the Centre's risk appetite and risk tolerance for both drive the crafting of risk mitigation strategies and actions.

53. **We recommended and Management agreed to:**

a. **include in its Framework the definition of critical and key terms to assist in the implementation of its ERM policy, rules and procedures thus better guide the risk owners;**

b. **adhere to the categorization of the risks by source as prescribed by the Framework; and**

c. **develop a risk appetite statement as an effective way to communicate to all officials the level of acceptable risk and subsequently the basis to evaluate and monitor the level of risk that the Centre consents and faces is within an acceptable range.**

54. Management will expand the Framework, Rules and Procedures to include the missing definitions, add further links to the necessary information on classification of risks and will clearly state the Centre's acceptable risks appetite.

Formulation of risk statements and risk communication structure

55. The RM Rules and Procedures provide for the standard wording to formulate and document each risk. The risk statement should contain the cause, the risk event and the result/impact. Our review of the unit risk registers showed inconsistencies in the template used and the formulation of each risk. Some risk statements only addressed the cause and are worded in a manner that omits the uncertain event, the impact or both.

56. The RM Framework further stated that only risk with a final residual risk assessment of medium and high rating should be escalated for discussion in the Risk Management Committee (RMC). Inquiry with the Chair of the Risk Management Committee revealed that regular meeting were held and all risks with medium and high assessments are fully reviewed and discussed in details. A final report of the discussions of the meeting is then prepared and provided to the Director, as required in the RMC terms of reference. The Framework, however, is silent on the procedures to be followed to escalate the risks to the corporate level and the timing of reporting for the consolidation of all risks within the corporate risk register and subsequently, its evaluation by the RMC.

57. A risk statement, when adequately constructed and defined, will offer effective guidance to the risk owners and more so to the Risk Management Committee in classifying and communicating risks across the Centre, thereby enhancing the ability of the Centre to communicate in a common risk language and facilitate escalation to the corporate risk register. On the other hand, structured communication lines and arrangements encourage accountability. Service units may share similar challenges and are likely to make greater progress by collectively addressing risks encountered which correspondingly strengthen existing mechanisms on risk management.

58. **We recommended and Management agreed to:**

a. adhere to the defined template and standard formulation of risk statements as prescribed in the Centre's Framework for risk documentations; and

b. incorporate within the RMF, Rules and Procedures, a well-structured risk communication structure to facilitate the completion of an accurate risk inventory within the corporate risk register, for the efficient and effective escalation of information to foster better coordination and expedite evaluation in the establishment of a Corporate Risk Register.

59. Management commented that further communication on this matter will be completed to all Chiefs/heads of Units and that Rules and Procedures will further be expanded to address the escalation of communication from the units to the RMC while the process for the RMC will be summarized.

B.2.1.3 Internal control

60. Internal control is described as a summary of all smaller systems within an organization that are put in place to control risks. Moreover, internal control is considered a process where specific controls within critical processes are logically embedded and undertaken to achieve the organization's operating objectives. In whatever form it may take, internal control is always framed by an entity in a manner that will make that entity function as expected.

Internal control framework

61. Internal control is an important part of the Centre's corporate governance. The External Auditor's Report for the year ended 31 December 2015 encouraged the Centre to consider taking steps toward the certification of internal controls as some UN organizations have done and more importantly align itself with the future plans of the ILO. This will also support organizational learning, improve accountability, and strengthen the credibility of information used for making decisions and managing the Centre.

62. It is noteworthy that with regard to the above-mentioned report, Management informed us that certification of internal control can only come after the Centre has completed the upgrade of the Oracle Application and the automation of the Purchasing Workflow within Oracle, as the full process is manually done at the present time.

63. Nonetheless, given the varying control activities spread across several layers of authority in the Centre and the interrelated objectives and fundamentals of control objectives across these management layers, we underline that more effective controls are better achieved through a coherent guide that is expected to raise awareness among control owners on the importance of control and the eventual enhancement of control competencies. The need for the Centre to have a formal and tangible internal control framework is contained in a value propositions that the delivery of internal governance frameworks for accountability and risk management is not

manifested elsewhere but on how internal controls are crafted based on assessed risks and on the roles and responsibilities clarified in the framework of accountability.

64. Internal control is always relevant to whatever nature, size and complexity of a reporting entity. Smaller entities will ordinarily have more informal controls that are carried out by one or few persons. While the basic components of internal control should be present in any entity regardless of size, the principles will ordinarily be subjectively included in an entity's design and operation of internal controls. Thus, the Centre can also take a significant step toward having a more effectively understood internal control with a formal framework.

65. **We recommended that the Centre 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.**

Institution of travel handbook

66. Travel activities in the Centre are vital in the pursuit of its mission to be a global provider of learning and training to the world of work. In 2016, travel expenses totaled €3,500,000 for both staff and participants. With such cost driven activity, the appropriate controlling of the travel process is therefore vital.

67. We took notice of several instances where amendments to travel policies were effected through the issuance of circulars which from the onset do not seem to have jurisdiction over the policies it intends to amend. Moreover, the sheer number of relevant policies for travel activities poses challenges not only in its implementation but also in tracking which are still in force or had already been superseded. Consequently, travel activities, such as: a) requisition of concerned units for travel proposals; b) approval/authorization of officials holding signature authority to approve expenditures; c) payment of travel allowances; and d) reimbursement for travel expenses (submission of travel claims) are governed by a number of various inconsistent circulars coming from different offices.

68. Management shared that policies were mingled since different offices had issued travel related policies without clear delineation of authority or scope. Examples are several FINSERV Circulars which were updated by an ADMIN Circular and vice versa, resulting in confusing references related to travel. This is undoubtedly inconsistent with the overarching intention of the Centre's Financial Rules to ensure effective internal financial control.

69. **We recommended that Management:**

   a. **prepare 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; and**

b. **document the classification and categorization of all circulars published in order to identify the level of authority and scope.**

C. DISCLOSURES BY MANAGEMENT

70. 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:

C.1. Receipt of donor's contributions for prior years

71. The Centre's accounting policy is that voluntary contribution revenue is recognized as revenue when it is probable that the contribution will be received and if the amount can be measured reliably. The annual contributions of the City of Turin of €250,000 per year for the years 2013, 2014 and 2015 totaling €750,000 are included as revenue of the current year. Management informed us that said amounts were not recognized during the years they related to in view of the uncertainty of collection. The amounts were also not included in the approved budgets.

C.2 Receivables

72. Receivables of €3,214,000 (€4,709,000 for 31 December 2015) 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 2016. Receivables classified as current asset do not include any material amounts that are collectible after one year. A provision for doubtful accounts of €155,000 (€129,000 for 31 December 2015) has been made to reflect the Centre's best estimate of accounts impaired.

73. The balance due from the ILO of €2,238,000 (€4,781,000 for 31 December 2015) as shown on the statement of financial position represents the net balance of the current account with the ILO to record transactions including ILO's voluntary contribution for the general operations of the Centre, staff costs and disbursements for the Centre's training activities incurred by the ILO on behalf of the Centre, as well as remittances made by the Centre to the ILO.

C.3 Payables

74. Payables and accrued liabilities and deferred revenue for a total of €8,076,000 (€9,317,000 for 31 December 2015) are included in the financial statements as at 31 December 2016 and represent the total obligations of the Centre as required to be recorded by IPSAS other than employee benefits.

C.4. Cases of fraud and presumptive fraud

75. Management is not aware of any reported cases of fraud and presumptive fraud in the financial year 2016 and is not aware of 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.

C.5. Ex-gratia payments

76. Management reported that there were no ex-gratia payments made by the Centre in financial year 2016.

D. IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

77. The following audit observations and recommendations are contained in the audit report of the External Auditor for the year 2015:

Land and buildings

78. In 2013, the previous External Auditor concluded that the accounting treatment of the land and buildings used by the Centre for its operations and provided at a nominal cost by the City of Turin, Italy was in accordance with IPSAS. However, IPSAS offers various options to better reflect the true cost of such a service.

79. Management was encouraged and has concurred to continue monitoring the discussions held in the United Nations System on recognizing the nominal cost of this service. The inclusion of such a cost in the Centre's financial statements would make the financial information more transparent.

Accounting for employee future benefits

80. The Centre does recognize the discounting of the non-current portion of the liability of future benefits related to accumulated leave as well as the repatriation grant and travel expenses as required by IPSAS 25. The Centre assessed the impact and concluded that it was not material. The Centre was encouraged to continue to monitor the impact of not recording the discounting as it may become material in the future and the needed correction would then impact the Centre's surplus.

81. Management replied that it has continued to monitor this item and has done so for 2016. An analysis was carried out to assess the impact of the discounting on the non-current portion in 2016 and this was again not material to the financial statements and therefore, management did not adjust the liability and expense.

Financial statement disclosures

82. The Centre prepared pro forma financial statements in the summer of 2016 and these were provided to the External Auditor for their review. This revealed that the financial statements' disclosures and notes were complete and in accordance with IPSAS. The Centre was encouraged to continue its review of the financial statements' presentation and consider a table that clearly documents the flow of deferred revenues from the statement of financial position to the statement of financial performance, since this represents a significant amount of the Centre's activities. Management had committed to implementing this change in 2016 and this was completed.

83. Management further commented that the Centre's financial statements have been revised and improved every year since IPSAS was adopted. They continue to strive to highlight significant items and eliminate all information that is not material and/or not useful to the readers and that the information appears to meet the needs of readers.

84. We noted significant improvements on financial statement disclosures.

E. ACKNOWLEDGEMENT

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

List of Acronyms

Acronym		Description
COSO	-	Committee of Sponsoring Organizations of the Treadway Commission
CRR	-	Corporate Risk Register
ERM	-	Enterprise Risk Management
FINSERV	-	Financial Services
FIS	-	Facilities and Internal Services
HRS	-	Human Resource Services
ILO	-	International Labour Organization
ITC	-	International Training Centre
IPSAS	-	International Public Sector Accounting Standards
NPA	-	Notice of Personal Action
RM	-	Risk Management
RMC	-	Risk Management Committee
RMF	-	Risk Management Framework
RMFP	-	Risk Management Framework and Plan
UN	-	United Nations