INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

75th Session, Turin, 17 - 18 October 2013

CC 75/5/2

FOR INFORMATION

FIFTH ITEM ON THE AGENDA

External Audit Plan 2013

International Training Centre of the ILO

REPORT TO THE BOARD OF THE CENTRE
17-18 October 2013

ANNUAL AUDIT PLAN

FOR THE YEAR ENDING 31 December 2013

About the Office of the Auditor General of Canada

The Office of the Auditor General of Canada is the legislative audit office of the federal government and the three territories. We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, territorial legislatures, governments, and Canadians. Through our reports and testimony at parliamentary hearings, we assist Parliament in its work on the authorization and oversight of government spending and operations.

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

To the members of the Board of the International Training Centre of the ILO:

We are pleased to present a summary description of our plan for the annual audit of the transactions and financial statements of the International Training Centre of the ILO (the Centre) for the year ending 31 December 2013.

This report is intended for the use of the Board of the Centre and provides information on our audit mandate and objectives, our responsibilities as auditor in relation to the responsibilities of the Board and management, the significant audit areas identified and our plans to address them, a description of information we intend to report to you at the conclusion of the audit, and other relevant matters.

We look forward to working with the members of the Board and are available for consultation at any time. During your upcoming meeting, we will be pleased to discuss any matters of interest and provide any additional information relating to the audit that you may require.

Yours sincerely,

Marian McMahon, CPA, CA, CFA
Assistant Auditor General

Ottawa, 27 August 2013

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Our mandate

The Auditor General of Canada is the external auditor of the International Training Centre of the ILO (the Centre) in accordance with the Financial Regulations of the Centre whereby the external auditor of the International Labour Organization is the external auditor of the Centre.

The Auditor General of Canada is the external auditor of the ILO following appointment by the Governing Body for a period of four years commencing on 1 April 2008. This period was extended for an additional four years until the completion of the 31 December 2015 financial statement audit.

Scope of our audit

Our audit objectives

Our primary responsibility is to form and express an opinion on the financial statements based on an audit. The financial statements are prepared by management with the oversight of the Board of the Centre.

An audit of the financial statements does not relieve management of their responsibilities. We will conduct our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable, but not absolute assurance, on whether the financial statements are free of material misstatement, including those misstatements caused by fraud or error.

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

- the financial statements present fairly, in all material respects, the financial position of the Centre as at 31 December 2013, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS);

- the accounting standards have been applied on a basis consistent with that of the preceding year; and

- the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, been in accordance with the *Financial Regulations* and legislative authority of the Centre (the Statute of the Centre).

Terms of the engagement

As required by our professional standards, we periodically obtain a written confirmation from management outlining our common understanding of, and our agreement on, the terms of the engagement for this audit. Our most recent engagement letter is included in Appendix A. We will be pleased to discuss matters of interest relating to the terms of the engagement that you may require.

Our deliverables

At the conclusion of the audit, we will provide the following reports:

- **Independent Auditor's Report.** A standard auditor's report is included in Appendix B for your reference.
- **Report to the Board of the Centre and Report to the Director —Audit Results.** These reports are prepared to assist the members of the Board and the Director in their review of the financial statements. The reports provide disclosures required by professional standards and other information we believe will be useful to the members of the Board and the Director in their work.

In addition to our reports, we expect to provide a management letter**.** This is a derivative communication, on issues that do not require Board involvement, that identifies opportunities for changes in procedures that would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.

Our audit approach

Overview

Our audit is conducted in accordance with International Standards on Auditing. Our audit approach is designed to allow us to execute a good quality and efficient audit. We do this by:

(a) gaining an understanding of the Centre and its environment by focusing on new developments and key business issues affecting the Centre, as well as management's monitoring of controls and business processes;

(b) identifying significant audit risks, sharing our perspectives, obtaining feedback, and ensuring our audit is tailored to these risks;

(c) reviewing the work of the actuary, hired by the ILO, to determine the liability related to After-Service Health Insurance (ASHI) - although the liability is recorded in the ILO's financial statements, the portion that is attributable to the Centre is disclosed in the Centre's financial statements (the ILO audit team will review the work of the actuary and assess management's assumptions used in the calculations);

(d) using well-reasoned professional judgment, especially in areas that are subjective or that require estimates;

(e) leveraging reliance where possible on the Centre's internal controls, information technology, and data systems, we intend to adopt a controls-reliant approach for the payroll cycle; and

(f) to the extent we consider it practicable, relying on the work of the ILO's Office of Internal Audit and Oversight (IAO) which is also the Centre's internal auditor.

Our approach will include a mixture of key controls reliance, substantive analytics, and detailed testing. Our understanding of the Centre also drives our assessment of materiality and the identification of audit risks.

Throughout the audit, we will scale our work based on the size of an account balance, its complexity, and its impact on the financial statements. As a result, we will always discuss key issues with you.

Risk analysis

Our audit is risk-based. Significant risks are those risks of material misstatement or non-compliance with significant authority instruments that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the Centre, and current developments in your environment, including your internal controls.

They are the most important risks from our perspective. We request your input on the following significant risks, and whether there are any other areas of concern that you have identified.

The following table summarizes the most important risks, from our perspective, that we want to share with you:

Risk area(s) (including key judgments and estimates)	Financial Statement Impact	Our audit approach
Funding As in prior years, the Centre continues to face funding challenges due to the ongoing economic climate in many countries. This may result in the Centre not being able to carry out certain activities, not being able to respect its budget, and could lead to the Centre not fully meeting its objectives.	This could result in non-compliance with the *Financial Regulations* of the Centre.	We will review whether sufficient controls are in place to mitigate the risk of non-compliance, and we will ensure that the transactions we test are in compliance with the authorities of the Centre. In addition, we will ensure that funds are being used for their designated purpose.
Adoption of accounting standards The adoption of IPSAS related to financial instruments (IPSAS 28, 29 and 30) could result in significant adjustments at year-end. The risk involves management's understanding, interpretation and application of the standards.	This could result in misstatements in the financial statements due to errors in the measurement and/or recognition of financial instruments. This could also result in inaccurate or incomplete note disclosure.	We will review the Centre's position paper in order to determine whether the standards are implemented properly. We will examine the adjusting entries required for the standards implemented in 2013 in order to ensure they are properly accounted for. We will also review disclosures in the financial statements to ensure they are complete and accurate.
Accounting for Contracts The Centre's implementation of a module in Oracle was completed this year to enable a more systematic process for recognizing contract revenue. New systems always involve the risk that transactions may not be properly processed or complete.	This could result in errors in contract revenue, and/or deferred revenues.	We will test a sample of contracts as accounted for by the new system to verify the accuracy and completeness of contract revenue and deferred revenues.
Management estimates The preparation of financial statements requires the use of accounting estimates. Certain accounting estimates are	This could result in errors in the financial statements (over or understatement of accounts receivable, liabilities and/or	We will examine the reasonableness of the estimates by discussions with senior management and review the key

particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. We have identified the following potentially significant estimates that represent a higher risk : - Provision for doubtful accounts - Provisions for contingent liabilities	expenses) if due diligence is not exercised in the determination of the estimates.	assumptions used to establish the estimates, as well as the accuracy and completeness of data used to make these assumptions. We will also review disclosures made in the financial statements.

Materiality

Materiality represents our judgment on the degree of significance of a misstatement(s) that could influence the decision of a knowledgeable user relying on the financial statements. In determining materiality, both quantitative and qualitative factors are considered.

We have set our preliminary materiality for the audit as follows:

	Basis	31 December 2013
Overall materiality	2 % of the total expenses of the Centre in 2012	€ 700,000
Unadjusted and adjusted items in excess of this amount will be reported to management	5 % of overall materiality	€ 35,000

We considered the following factors in establishing materiality: the needs of the Centre and other contributors, representatives of governments, employers and workers, the United Nations and other multilateral agencies and the recipients of training services. This is consistent with the materiality used for the 2012 financial statement audit.

We would like to make you aware, however, that the quantitative measure of materiality is not the only factor we consider in evaluating misstatements. Relatively small misstatements may have material effect on the financial statements because of qualitative considerations. For example, misstatements that have the effect of altering performance trends, turning operating losses into operating income, or that increase compensation could be considered material, even though they might be less than our quantitative measure of materiality.

We will update you at year-end on our final determination of materiality.

Fraud and error

When planning and conducting the audit, we consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. Accordingly, we maintain an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.

In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:

- Inquire of management, internal auditor, and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process, and how fraud risks are addressed.
- Inquire about matters raised before the Accountability Committee regarding fraud and alleged fraud, dishonesty, negligence and disregard of established Centre procedures or directives.
- Consider whether fraud risk factors exist as part of our client acceptance and continuance procedures.
- Analytical procedures, primarily over revenue, and considering unusual or unexpected relationships identified in performing analytical procedures in planning the audit.
- Incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed annually.
- Perform additional required procedures to address the risk of management's override of controls, including:
  - examining journal entries and other adjustments for evidence of possible material misstatement due to fraud;
  - reviewing accounting estimates for biases that could result in material misstatement due to fraud (including a retrospective review of significant prior years' estimates); and
  - evaluating the business rationale of significant unusual transactions.

If you have knowledge of any actual, suspected, or alleged fraud affecting the Centre, please disclose this matter to us as soon as practicable.

If, at any point throughout the audit, we become aware of suspected fraud involving management, employees who have significant roles in internal controls, and other cases where fraud results in a material misstatement in the financial statements, we will advise you on a timely basis. We will discuss with you the nature, timing, and extent of the audit procedures necessary to complete the audit. We will also communicate any other matters related to fraud that are, in our judgment, relevant to your responsibilities.

Compliance with authorities

All transactions which we review for the purpose of expressing an opinion on the Centre’s financial statements are also reviewed for compliance with the *Financial Regulations* and legislative authority of the Centre. We integrate this work with our other audit procedures. The results of this work are included in a separate paragraph of the auditor’s report.

Reliance on internal control

We have assessed the overall control environment and the control activities relevant to the audit of the Centre and will therefore be adopting a controls-reliant approach for the payroll cycle.

Our professional standards require us to communicate in writing any significant deficiencies in internal control to management and those charged with governance on a timely basis. This includes deficiencies that may have been previously communicated, yet remain unresolved.

During the 2012 audit, we identified opportunities to improve systems of internal control, streamline operations, and enhance financial reporting practices. We will update this information as appropriate when we report back to you at the end of the 2013 audit.

Internal audit

The *Financial Regulations* of the Centre require the Director of the Centre to maintain an internal audit that provides an effective current examination and/or review of financial transactions. We identify areas where internal audit work could provide us with audit assurance and determine the impact on the external audit procedures.

The Office of Internal Audit and Oversight (IAO) of the ILO provides internal audit services to the Centre. We obtained the IAO’s 2013 Audit Planning Memorandum for the Centre which includes an updated risk register. In 2013, the IAO planned to conduct internal audits in two areas:

- internal governance and accountability and
- segregation of duties and implementation of Oracle access and application controls

In addition, a review of the allocation of administrative costs to courses and a review of the implementation of e-banking for payroll was completed during the year. While there is no direct impact on the 2013 financial statements, we will review this work to augment our knowledge of systems and processes of the Centre for the current year’s audit.

Our responsibilities relating to other information in the annual report and similar documents

The Centre may wish to publish the financial statements, including our audit reports, in other documents, such as in an annual report. International Standards on Auditing require us to review publications before they are published to ensure that the financial statements and our auditor's report have been reproduced accurately. We also read other information within the publications for the purpose of identifying material inconsistencies, if any, with the audited financial statements or material misstatements of fact. We will also expand the review described above to include the Internet version of the publications.

Other services provided

As the external auditor of the Centre, we have been engaged to perform agreed-upon procedures regarding financial information related to one contract between the Centre and the European Commission. Our work in this area is conducted in accordance with International Standards on Related Services applicable to agreed-upon procedures engagements. The fourth engagement related to this contract is planned to be completed over the fall 2013.

Developments in accounting

1. Developments in International Public Sector Pronouncements

We have identified the following recent developments as being potentially significant to the Centre:

New/emerging developments	Implication to the entity	Financial audit implication
IPSAS 28 – Financial Instruments: Presentation Effective for years beginning on or after January 1, 2013	There are two main components to IPSAS 28: • The concept of offsetting: IPSAS 28 is converged with IPSAS 15 on this matter and therefore there are no impacts for ITC. • Presentation of financial instruments issued	We will review the financial statement presentation of any financial instruments outstanding at 31 December 2013.
IPSAS 29 – Financial Instruments: Recognition and Measurement	The Centre will need to identify all financial instruments, determine their fair value at the date of inception, classify its	We will review the Centre's position paper on financial instruments: recognition and measurement and re-perform

New/emerging developments	Implication to the entity	Financial audit implication
Effective for years beginning on or after January 1, 2013	financial instruments, and determine on-going measurement (i.e. fair value or amortized cost). The Centre will need to review existing contracts in order to identify all embedded derivatives. If embedded derivatives are identified, the Centre will need to classify and measure the derivatives.	measurement calculations. We will also review a sample of existing contracts in order to identify potential embedded derivatives.
IPSAS 30 – Financial Instruments: Disclosures Effective for years beginning on or after January 1, 2013	Additional disclosures regarding classification and measurement will be required.	We will review the Centre's position paper on financial instruments: disclosure as well as review financial statement note disclosures.
IPSAS 32 – Service Concession Arrangements: Grantor Effective for years beginning on or after January 1, 2014	This standard impacts the recognition, measurement, and disclosure of service concession assets and related liabilities, revenues, and expenses by the grantor. The Centre will need to review its contracts in order to determine whether there exists any service concession arrangements.	No audit implication for 2013.

Auditor Reporting

The International Auditing and Assurance Standards Board (IAASB) undertook a project that considers revision of ISA 700, *Forming an Opinion and Reporting on Financial Statements,* as well as proposed amendments to related ISAs. The premise under this project is that a good quality audit should be accompanied by an informative auditor's report that delivers value to the entity's stakeholders.

The IAASB has reached general agreement on a number of improvements to auditor reporting that it believes in principle should be promulgated internationally.

- Additional information in the auditor's report to highlight matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit, referred to as "Auditor Commentary"

- Auditor conclusion on the appropriateness of management's use of the going concern assumption in preparing the financial statements and an explicit statement as to whether material uncertainties in relation to going concern have been identified

- Auditor statement as to whether any material inconsistencies between the audited financial statements and other information have been identified based on the auditor's reading of other information, and specific identification of the information read by the auditor

- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report

- Further suggestions to provide transparency about the audit performed, and enhance the description of the respective responsibilities of the auditor, management, and those charged with governance in an ISA audit

We anticipate that with the 2015 auditor's report some if not all of these changes will see an expanded report and the information will be shared will all readers of the auditor's report.

Independence

The Office of the Auditor General of Canada's *Code of Values, Ethics and Professional Conduct,* the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario (Canada), and the International Federation of Accountants' *Code of Ethics for Professional Accountants* require us to maintain independence from the Centre. The latter requires that we communicate with you regarding all relationships between the Centre and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario (Canada) and applicable legislation, covering such matters as:

- holding a financial interest, either directly or indirectly, in the Centre;

- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of the Centre;

- personal or business relationships of immediate family, close relatives, senior officials, or retired senior officials, either directly or indirectly, with the Centre; and

- over familiarity with the Centre due to a long-standing relationship.

To provide further assurance, our quality management system requires us to ensure safeguards are applied to eliminate identified threats to independence, or reduce them to an acceptable level to ensure that we complied with relevant ethical requirements regarding independence. Our audit staff is required to annually declare any personal relationships that could be perceived as placing them in a conflict of interest position. We also have policies designed to ensure that auditors do not remain on the same audit for excessive periods of time.

At this time, we are not aware of any relationships between the Centre and our audit staff that, in our professional judgment, may reasonably be thought to bear on our independence.

Audit management

Audit team

The audit of the Centre's 2013 year-end will be completed by a team composed of senior personnel from our Office who are involved in the planning, coordination, and direction of the audit and staff members who perform detailed procedures during our on-site visits. The Auditor General of Canada is consulted by the audit team on sensitive, complex, and/or difficult issues.

The Audit Principal is responsible for audit quality and ensures that audits are carried out in compliance with Office policies, professional standards, and the Office's system of quality control.

Senior staff involved in this year's audit includes:

Michael Ferguson	Auditor General
Marian McMahon	Assistant Auditor General
Carla Nash	Audit Principal
Tammy Meagher	Director

Audit timetable

After consulting with management, we have established the following timetable that highlights the timing of the audit's major activities.

Board of the Centre Meeting—presentation of audit plan	17-18 October 2013
Interim Audit Visits	4 to 16 November 2013

Year-end Audit	10 to 26 February 2014
Clearance meeting with management	25 February 2014
Finalization of audit, including audit adjustments	15 March 2014
Signed audit opinion	End of March 2014
Board of the Centre Meeting – presentation of audit results	To be determined

Audit hours and costs

Fees, including travel costs, for the 2013 financial statements audit have been set at 142,500 USD. We are pleased to note that this is a decrease of 5% over the fees incurred for the 2012 financial statement audit. These fees are calculated on the basis of the time we anticipate spending on the audit of the Centre, and on the levels of skill and responsibilities involved. The various components of the fees were discussed with management of the Centre in determining the most economical alternatives and an agreement was reached that estimates for the various travel components are the lower of the best rates available to the Centre or the Office of the Auditor General of Canada.

Appendix A—Engagement letter

27 August 2013

Patricia O'Donovan
Director
International Training Centre of
the International Labour Organization
Viale Maestri del Lavoro, 10
10127 Turin, Italy

Dear Ms. O'Donovan:

The purpose of this letter is to confirm our understanding of the terms of the audit engagement with your organization.

In accordance with Article 24 of the Financial Regulations of the International Training Centre of the International Labour Organization (the Centre), the Auditor General of Canada is the External Auditor of the Centre as it is the External Auditor of the International Labour Organization. In accordance with the Financial Regulations, we will audit the financial statements of the Centre as at December 31, 2013 and for the year then ending, prepared in accordance with International Public Sector Accounting Standards.

Our audit is designed to enable the Auditor General of Canada to issue a report indicating whether, in his opinion:

(a) the financial statements are presented fairly, in all material respects, in accordance with the International Public Sector Accounting Standards;

(b) the accounting policies have been applied on a basis consistent with that of the preceding year; and

(c) the transactions of the Centre that have come to his attention in the course of the audit were in accordance with the Financial Regulations and legislative authority of the Centre.

We also have an obligation to call attention to any other matter falling within the scope of the audit for the report that, in our opinion, should be brought to the attention of the Board of the Centre.

The form and content of this auditor's report will be in accordance with International Standards on Auditing. There may be circumstances where our auditor's report will differ from the expected form and content. This will be communicated to those charged with governance in the Report to the Board - Audit Results at the end of the audit.

2. Our responsibilities

We will conduct our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The scope of our audit will include obtaining, to the extent necessary to effectively carry out our work, an understanding of the Centre and

- its business environment;
- the business risks it faces;
- other relevant risks not derived from business risks;
- how the Organization manages those risks; and
- its overall control environment.

In making our risk assessments, we will obtain an understanding of internal control to identify types of potential misstatements. We will consider factors that affect the risks of material misstatement and will design the nature, timing, and extent of further audit procedures. The scope of our review of internal controls will not be sufficient to express an opinion on the effectiveness or efficiency of the Centre's internal controls. However, while conducting our audit, we will be alert for internal control weaknesses, and, should we become aware of significant deficiencies, we will inform the Centre's management, as well as those charged with governance, in writing.

The audit is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements, taken as a whole, are free of material misstatement, including those caused by fraud or error. Owing to the inherent limitation of an audit, there is an unavoidable risk that some misstatements in the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed. In planning and conducting the audit, we consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. Accordingly, we maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.

Because of the nature of fraud, which could include attempts at concealment through collusion and forgery, an audit designed and executed in accordance with the International Standards on Auditing may not detect a material fraud. Furthermore, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot guarantee that fraud, error, and illegal acts, if present, will be detected.

The Office's Code of Values, Ethics, and Professional Conduct; the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants; and the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario (Canada) require us to maintain independence from the Centre. The International Standards on Auditing require that we communicate with those charged with governance regarding all relationships between the Centre and us that, in our professional judgment, may reasonably be thought to bear on our independence. Accordingly, we will communicate in writing to you and the Board about any such relationships with the Centre that, in our professional judgment, may reasonably be thought to bear on our independence. This communication will also include the related safeguards that have been applied to eliminate those identified threats to our independence or to reduce them to an acceptable level. Furthermore, we will confirm our independence with respect to the Centre.

One of the underlying principles of our profession is a duty of confidentiality with respect to client affairs. Accordingly, except for information that is in or enters the public domain, we will not provide any third party with confidential information concerning the affairs of the Centre without your prior consent—unless we are required to do so by legal authority or by the Rules of Professional Conduct/Code of ethics of the Institute of Chartered Accountants of Ontario (Canada). We will inform the Centre's Legal Advisor, in advance, should we be subject to any legal process requiring the production of Centre documentation or information.

The objective of our audit is to obtain reasonable assurance that the financial statements are free of material misstatement. However, if we identify any of the following matters, we will inform the appropriate level of management:

- misstatements, resulting from error (other than trivial errors), and the request to correct those misstatements;
- fraud or any information obtained that indicates that a fraud may exist;
- any evidence obtained that indicates non-compliance, or suspected non-compliance, with the Financial Regulations and legislative authority;
- significant weaknesses in the design or implementation of internal control to prevent and detect fraud or error; and
- related party transactions identified by us that are significant and outside the normal course of operations.

The matters communicated will be those that we identify during the course of our audit. However, audits do not usually identify all matters that may be of interest to management in carrying out its responsibilities. The type and significance of the matter to be communicated will determine the level of management to whom the communication is directed.

As the Centre's external auditor, we are required to review designated public documents containing the audited financial statements and our auditor's report, prior to their publication, to ensure that other information in these documents is consistent with the financial statements and does not appear to contain any material misstatements of facts. We will also expand our review to include the Internet version of such documents.

3. Management responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that it has certain responsibilities, including

- preparing the financial statements in accordance with International Public Sector Accounting Standards, including their fair presentation;
- responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies;
- safeguarding assets;
- complying with the Financial Regulations and legislative authority; and
- taking all reasonable measures to prevent and detect error and fraud.

It is the responsibility of management to establish a control environment and maintain policies and procedures to ensure the orderly and efficient conduct of the Centre's business. In preparing the financial statements, management is responsible for exercising sound judgment in selecting and applying accounting policies in accordance with the International Public Sector Accounting Standards.

Management is responsible for providing us, on a timely basis, with complete financial records and related data that are relevant to the preparation of the financial statements, as well as with copies of all minutes of meetings of directors and committees of directors. It is also responsible for providing us with all information related to

- any known or probable instances of non-compliance with the Financial Regulations and legislative authority, including financial reporting requirements;
- any illegal or possibly illegal acts, and all facts related thereto; and
- all related parties and related party transactions.

In order to do our work, management will be asked to provide our staff with free and unrestricted access, at convenient times, to information that relates to the fulfillment of our responsibilities and to persons within the Centre, from whom the auditor determines it necessary to obtain audit evidence. Management will also be asked to provide our staff with schedules and analyses supporting the financial statements, with dates to be mutually agreed upon each year.

It is management’s responsibility to provide us with information related to fraud and error, including information on

- the design and implementation of internal controls to prevent and detect fraud and error;
- an assessment of the risk that the financial statements may contain material misstatements as a result of fraud;
- fraud or suspected fraud affecting the Centre and involving management; and
- employees who have significant roles in internal control or others, where the fraud could have a non-trivial effect on the financial statements.

Management must also provide to the audit team information relating to any allegations of fraud or suspected fraud affecting the Centre's financial statements, communicated by employees, former employees, or others.

Management is responsible for adjusting the financial statements to correct material misstatements. Management is also responsible for assuring us that any uncorrected misstatements we discover during the current engagement, pertaining to the year under audit, are immaterial, individually and in the aggregate, to the financial statements taken as a whole. In addition, we expect management will correct all known non-trivial errors.

As part of our audit process, we will require a letter of representation from you and the Treasurer and Chief, Financial Services confirming representations that have been provided in response to our specific inquiries regarding the Centre’s financial statements and transactions. Those representations will include significant matters that are

- directly related to items that are material, either individually or in the aggregate, to the financial statements;
- not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- relevant to your judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

Management's representations are integral to our audit evidence. We require them to be submitted in writing so that we have appropriate documentation to support the contents of our report.

4. Other engagement matters

Fees, including travel costs, for the 2013 financial statements audit have been set at $142,500 USD. These fees are calculated on the basis of the time we anticipate spending on the audit of the Centre, and on the levels of skill and responsibilities involved. The various components of the fees were discussed with management of the Centre in determining the most economical alternatives and an agreement was reached that estimates for the various travel components are the lower of the best rates available to Centre or the Office of the Auditor General of Canada. Fees are established on the basis that the Centre will meet its obligations outlined in this engagement letter. It is our intention to present invoices for work done at appropriate intervals during the course of the audit. These invoices will be payable upon presentation.

All working papers and files, other materials, reports, and work that we create, develop, or perform during the course of the engagement will remain our property.

These terms of engagement will be effective from year to year until amended or terminated in writing.

If the arrangements outlined in this letter meet your requirements and the terms are acceptable to you, please sign the duplicate of this letter in the space provided and return it to us. Your signature also indicates that you agree to acknowledge and understand your management responsibilities, as outlined in this letter.

Yours sincerely,

Marian McMahon, CPA, CA, CFA
Assistant Auditor General

Accepted on behalf of the International Training Centre of the ILO:

Patricia O'Donovan Director	Date
Remedios Dungca Treasurer and Chief, Financial Services	Date

Appendix B—Standard Auditor's Report

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the International Training Centre of the International Labour Organization, which comprise the statement of financial position as at 31 December 2013, and the statement of financial performance, statement of changes in net assets, statement of cash flow and the statements of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the International Training Centre of the International Labour Organization as of 31 December 2013, and the results of its financial performance, cash flows and the comparisons of budget and actual amounts for the year then ended in accordance with the International Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Regulations* of the International Training Centre of the International Labour Organization, I report that, in my opinion, the accounting policies in the International Public Sector Accounting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the International Training Centre of the International Labour Organization that have come to my notice as part of my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Regulations* and legislative authority of the International Training Centre of the International Labour Organization.

In accordance with Article 27 of the *Financial Regulations* of the International Training Centre of the International Labour Organization, I will also issue a detailed report on my audit of the International Training Centre of the International Labour Organization's financial statements to the Board.

Michael Ferguson, CPA, CA
FCA (New Brunswick)
Auditor General of Canada

Date
Ottawa, Canada