INTERNATIONAL TRAINING
CENTRE OF THE ILO

CC 70/2

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Board of the Centre

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FOR DECISION

SECOND ITEM ON THE AGENDA

DIRECTOR'S REPORT ON THE ACTIVITIES OF THE CENTRE IN 2007-2008 AND PERSPECTIVES FOR 2009

Financial Statements and External Auditor's Report for the financial year 1 January to 31 December 2007

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INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2007

EXPRESSED IN US $ '000

	NOTES	GENERAL FUND		NOTES	WORKING CAPITAL FUND		NOTES	CAMPUS IMPROVEMENT FUND		NOTES	INVESTMENT FUND	
		2007	2006		2007	2006		2007	2006		2007	2006
ASSETS												
CASH AND TERM DEPOSITS	3	7,406	11,830	3	2,724	2,700	3	4,270	2,107			
ACCOUNTS RECEIVABLE	4	13,742	10,167									
LESS PROVISION FOR DOUBTFUL ACCOUNTS	4	(425)	(435)									
INTERFUND BALANCES		19	7				9		1,280			
OTHER ASSETS	5	533	573		15	7		5				
FIXED ASSETS	6	1,129	998									
TOTAL ASSETS		22,404	23,140		2,739	2,707	17	4,275	3,387		0	0
LIABILITIES												
PAYMENTS OR CONTRIBUTIONS RECEIVED IN ADVANCE	7	5,518	4,660				17	4,229	3,387			
UNLIQUIDATED OBLIGATIONS	8	2,006	2,213									
ACCOUNTS PAYABLE												
INTERFUND BALANCES	9	0	1,280			7		19				
OTHER	9	3,834	5,300				17	27	0			
OTHER LIABILITIES	9	954	362									
TOTAL LIABILITIES		12,312	13,815			7		4,275	3,387		0	0
RESERVES AND FUND BALANCES												
OPENING OPERATING RESERVES		9,325	8,306					0	0		0	0
WORKING CAPITAL FUND					2,700	2,700						
TRANSFER (TO) / FROM OTHER FUNDS		(582)										
TRANSFER WITHIN THE GENERAL FUND												
SURPLUS (DEFICIT)		1,349	1,019		39	0		0	0		0	0
TOTAL RESERVES AND FUND BALANCES	10	10,092	9,325		2,739	2,700		0	0		0	0
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		22,404	23,140		2,739	2,707		4,275	3,387		0	0

INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2007

EXPRESSED IN US $ '000

		GENERAL FUND			WORKING CAPITAL FUND			CAMPUS IMPROVEMENT FUND			INVESTMENT FUND	
		2007	2006		2007	2006		2007	2006		2007	2006
INCOME	NOTES			NOTES			NOTES			NOTES		
VOLUNTARY CONTRIBUTIONS	11	15,395	13,897					(445)	(173)			
OTHER INCOME												
REVENUE PRODUCING ACTIVITIES	12	25,779	26,282									
FUNDS RECEIVED UNDER INTER-ORGANIZATION ARRANGEMENTS	12	10,603	6,784									
ALLOCATION FROM OTHER FUNDS										10	582	
INTEREST INCOME		349	423		39			133	58			
CURRENCY EXCHANGE ADJUSTMENTS		(290)	28					460	212			
MISCELLANEOUS	13	1,516	2,344									
TOTAL INCOME		53,352	49,758		39	0	17	148	97		582	0
EXPENDITURE												
FIXED EXPENSES	14	27,280	26,110									
VARIABLE EXPENSES	15	24,896	22,720					148	97		582	
TOTAL EXPENDITURE		52,176	48,830		0	0	17	148	97		582	0
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		1,176	928		39	0		0	0		0	0
PROVISIONS FOR DOUBTFUL ACCOUNTS	4	(88)	(236)									
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	16	1,088	692		39	0		0	0		0	0
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS		261	327									
FINANCIAL SURPLUS / (DEFICIT)	16	1,349	1,019		39	0		0	0		0	0
								0	0			
TRANSFERS (TO)/FROM RESERVES OR OTHER FUNDS	10	(582)										
TRANSFERS WITHIN THE GENERAL FUND	10											
RESERVES AND FUND BALANCES, BEGINNING OF PERIOD		9,325	8,306		2,700	2,700		0	0		0	0
RESERVES + FUND BALANCES END PERIOD		10,092	9,325		2,739	2,700		0	0		0	0

INTERNATIONAL TRAINING CENTRE OF THE ILO
STATEMENT OF CASH FLOW FOR THE PERIOD ENDING 31 DECEMBER 2007

EXPRESSED IN US $ '000

	GENERAL FUND		WORKING CAPITAL FUND		CAMPUS IMPROVEMENT FUND		INVESTMENT FUND	
	2007	2006	2007	2006	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES								
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	1,088	692	39					
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(3,585)	(383)			0	0		
(INCREASE) DECREASE IN OTHER ASSETS	40	1	(8)	(7)	(5)			
INCREASE (DECREASE) IN CONTRIB. OR PAYMENTS RECEIVED IN ADVANCE	858	(1,309)			842	1,442		
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	(1,466)	1,849			27	(303)		
INCREASE (DECREASE) IN UNLIQUIDATED OBLIGATIONS	(207)	(1,496)						
INCREASE (DECREASE) IN OTHER LIABILITIES	592	(309)						
LESS: INTEREST INCOME	(349)	(423)	(39)		(133)	(58)		
PLUS: INTEREST EXPENSE	0	0						
CURRENCY EXCHANGE ADJUSTMENTS	290	(28)			(460)	(212)		
NET CASH FROM OPERATING ACTIVITIES	(2,739)	(1,406)	(8)	(7)	271	869	0	0
CASH FLOWS FROM INVESTING ACTIVITIES								
PLUS: INTEREST INCOME	349	423	39		133	58		
LESS: INTEREST EXPENSE	0	0						
(INCREASE) DECREASE IN FIXED ASSETS	(131)	(57)						
CURRENCY EXCHANGE ADJUSTMENTS	(290)	28			460	212		
NET CASH FROM INVESTING ACTIVITIES	(72)	394	39	0	593	270	0	0
CASH FLOWS FROM FINANCING ACTIVITIES								
SAVINGS ON OR CANCELLATIONS OF PRIOR PERIOD'S OBLIGATIONS	261	327						
(INCREASE) DECREASE IN INTERFUND BALANCES RECEIVABLE	(12)	18	(7)	(18)	1,280	(1,280)		
(INCREASE) DECREASE IN INTERFUND BALANCES PAYABLE	(1,280)	1,280			19			
TRANSFER WITHIN THE GENERAL FUND	(582)	0						
TRANSFERS (TO) / FROM OTHER RESOURCES OR FUNDS	0	0						
NET CASH FROM OTHER SOURCES	(1,613)	1,625	(7)	(18)	1,299	(1,280)	0	0
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(4,424)	613	24	(25)	2,163	(141)	0	0
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	11,830	11,217	2,700	2,725	2,107	2,248	0	0
CASH AND TERM DEPOSITS, END OF PERIOD	7,406	11,830	2,724	2,700	4,270	2,107	0	0

GENERAL FUND
STATEMENT OF APPROPRIATIONS
for the period ending 31 December 2007
(Expressed in thousands of US dollars)

Chapter	Item	Title		2007 BUDGET	2007 ACTUAL	BUDGET VARIANCE
		INCOME				
I		**Voluntary contributions**				
	10	International Labour Organization		3,043	3,043	0
	11	Government of Italy		10,013	11,151	1,138
	12	Government of France		118	163	45
	13	City of Turin		638	448	(190)
	14	Piedmont Region		255	590	335
		Total contributions	*Note*	14,067	15,395	1,328
II		**Earned income**				
	20	Income from training activities	*Note*	35,300	36,382	1,082
	21	Other income		1,313	1,865	552
		Total earned income		36,613	38,247	1,634
		TOTAL INCOME		**50,680**	**53,642**	**2,962**
		EXPENDITURE				
III		**Fixed expenses**				
	22	Staff		18,553	19,140	(587)
	23	External collaborators		527	433	94
	24	Buildings		2,909	2,600	309
	25	Transport and communications		760	714	46
	26	Specialized services		1,107	988	119
	27	Services provided by ILO Offices		220	150	70
	28	Official meetings		175	151	24
	29	Missions and representation		424	450	(26)
	30	Library and training resources		55	46	9
	31	Depreciation		690	519	171
	32	Other fixed costs		2,160	2,089	71
		Total fixed expenses	*Note*	27,580	27,280	300
IV		**Variable expenses**				
	33	Temporary assistance		10,300	10,664	(364)
	34	Missions		1,300	1,271	29
	35	Participants subsistence		3,900	4,588	(688)
	36	Participants travel		2,500	2,938	(438)
	37	External tuition fees		500	418	82
	38	Books, training aids, supplies		200	144	56
	39	Other variable costs		4,450	4,526	(76)
	39a	Other costs related to other income		300	347	(47)
		Total variable expenses	*Note 18d*	23,450	24,896	(1,446)
		TOTAL OPERATING EXPENSES		**51,030**	**52,176**	**(1,146)**
		OPERATING SURPLUS/(DEFICIT)		**(350)**	**1,466**	**1,816**
V		**Other items**				
	40	Provision for doubtful accounts	*Note 4*		(88)	(88)
	41	Gain / (Loss) on exchange			(290)	(290)
	42	Savings on or cancellations of prior period's obligations			261	261
		TOTAL OTHER ITEMS		0	**(117)**	**(117)**
		FINANCIAL SURPLUS / (DEFICIT)		**(350)**	**1,349**	**1,699**

NOTES TO THE FINANCIAL STATEMENTS

The Financial Statements have been prepared in accordance with the Financial Regulations of the Centre, using generally accepted financial reporting principles and procedures, and comprise a Statement of assets, liabilities, and reserves and fund balances, a Statement of income and expenditure and changes in reserves and fund balances, a Statement of cash flow and a Statement of appropriations.

1. STATEMENT OF OBJECTIVES AND ACTIVITIES

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

2. STATEMENT OF ACCOUNTING POLICIES

2.1. General accounting policies

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

2.2. Particular accounting policies

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

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

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

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

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

the respective years in proportion to the delivery of the activities in each of those years.

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

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

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

h) The Statement of Assets, Liabilities and Reserves and Fund Balances prepared at the end of the financial period does not contain provisions for termination payments made to officials upon their departure from the Centre because such payments are made by the ILO Terminal Benefits Fund, to which the Centre makes monthly contributions. Furthermore, in accordance with UN accounting practices, the Centre neither accrues for outstanding leave not taken by the end of the financial year nor the actuarial valuation of the liability for after-service medical benefits. The Centre discloses the potential liability of these costs in notes 20 and 21 of the financial statements.

2.3. Exchange rate translation policy

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

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

STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES

3. CASH AND TERM DEPOSITS

General Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2007	2006
Cash in imprest accounts	0	19
Bank current accounts	6,729	3,663
Term deposits	4,130	9,921
Sub-Total	10,859	13,603
Less: Amounts held on behalf of the Italian Government	(3,453)	(1,773)
TOTAL CASH AND TERM DEPOSITS	7,406	**11,830**

The term deposits made with the Centre's bank as at 31 December 2007 amounted to US$ 4,129,794, which matured on 15 January 2008.

The Centre also holds US$ 880,000 (2006 = US$ 229,000) of funds in bank current accounts drawn down from Italian Government funds to pay for project expenditure falling due.

Working Capital Fund

Total Cash and Term Deposits at 31 December comprise:

(Expressed in thousands of US dollars)

	2007	2006
Bank current account	24	0
Term deposits	2,700	2,700
TOTAL CASH AND TERM DEPOSITS	**2,724**	**2,700**

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

The term deposit made with the Centre's bank amounted to US$ 2,700,000 as at 31 December 2007 and matured on 2 January 2008.

Campus Improvement Fund

Total Cash and Term Deposits at 31 December 2007 represent the balance on the bank current account of Euro 279,452 equivalent to US$ 407,451 and a term deposit made with the Centre's bank of Euro 2,650,000 (US$ 3,862,974) that matured on 18 January 2008.

4. ACCOUNTS RECEIVABLE

General Fund

Total Accounts Receivable at 31 December comprise:

(Expressed in thousands of US dollars)

	2007	2006
Accounts receivable and accrued income	12,223	10,031
Less provision for doubtful accounts	(425)	(435)
Accounts receivable net	11,798	9,596
Other receivables	1,519	136
TOTAL ACCOUNTS RECEIVABLE NET	**13,317**	**9,732**

The Centre has provided for doubtful debts totalling US$ 425,000 (2006 = US$ 435,000) at the year end. The Centre provides for 50% of the value of all unpaid debts over one year old and 100% of the value of all unpaid debts over 2 years old except for amounts that have been recognised by the debtor and for which firm promises to pay have been received. During the year the Centre wrote off fully US$ 103,000 of debts over 3 years old provided for in previous years, which required an increase in the provision for doubtful debts of US$ 88,000.

Other receivables include the net balance due to the Centre by the ILO of US$ 1,521,000 (2006 US$ 123,000 due from the ILO).

5. OTHER ASSETS

Total Other Assets at 31 December comprise:

(Expressed in thousands of US dollars)

	2007	2006
Stock of consumable supplies	419	458
Less provision for obsolescence	(58)	(58)
Sub Total	361	400
Prepaid expenses and sundry advances	172	173
TOTAL OTHER ASSETS	**533**	**573**

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

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

6. FIXED ASSETS

Fixed assets

(Expressed in thousands of US dollars)

	Vehicles and Office Equipment	Computer Systems	Other Equipment and Furniture	TOTAL
Cost at 1/1/2007	1,066	2,132	755	3,953
2007 Additions	259	371	19	649
Disposals	(9)	(239)	0	(248)
Cost at 31/12/2007	1,316	2,264	774	4,354
Depreciation at 1.1.2007	752	1,483	720	2,955
2007 Depreciation	173	337	8	519
Disposals	(9)	(239)	0	(247)
Depreciation at 31/12/2007	916	1,581	728	3,225
Net book value at 31/12/2007	400	683	46	1,129
Net book value at 31/12/2006	*314*	*649*	*35*	*998*

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

7. CONTRIBUTIONS OR PAYMENTS RECEIVED IN ADVANCE

The amount of US$ 5,518,000 (2006 = US$ 4,660,000) mainly comprises contributions concerning future training activities. The largest contributions in advance were received from the Italian Ministry of Foreign Affaires for Project Palestine and the Bulgarian Foreign Ministry for capacity building.

8. UNLIQUIDATED OBLIGATIONS

The amount of US$ 2,006,000 (2006 = US$ 2,213,000) includes expenditure incurred or committed but not yet invoiced, for various activities; the amount includes expenses mainly associated with training courses and advisory services, plus various accruals for fixed costs. In accordance with note 2.2.e) for activities that span more than one financial period, the expenses are recorded in the period they occurred.

9. OTHER ACCOUNTS PAYABLE AND OTHER LIABILITIES

The amount of US$ 3,834,000 in respect of Accounts Payable Other (2006 = US$ 5,300,000) represents amounts due to suppliers for goods and services rendered

The Other Liabilities of US$ 954,000(US$ 362,000 in 2006) relates mainly to amounts transferred from the Italian Government Funds to meet project expenditure falling due.

10. ACCUMULATED GENERAL FUND RESERVE

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

The movements in the General Reserve are as follows:

(Expressed in thousands of US dollars)

	2007	2006
Opening balance at January 1st	9,325	8,306
Surplus for the year (net of the Special Reserve)	263	219
Special Reserve (see note 16)	1,086	800
Less transfer to Investment Fund	(582)	0
Less pension costs in respect of INPS contributions approved at the 65th session of the Board of the Centre	0	0
Closing balance at December 31	**10,092**	**9,325**

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

STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES

11. INCOME FROM VOLUNTARY CONTRIBUTIONS

General Fund

Income from voluntary contributions for the period ending 31 December 2006 are detailed below:

(Expressed in thousands of US Dollars)

	2007	2006
INTERNATIONAL LABOUR ORGANIZATION	3,043	3,043
GOVERNMENT OF ITALY	11,151	9,917
GOVERNMENT OF FRANCE	163	118
CITY OF TURIN	448	555
PIEDMONT REGION	590	264
TOTAL	**15,395**	**13,897**

a) The ILO contribution of US$ 3,043,000 represents one half of the approved 2006/2007 biennial contribution of US$ 6,086,000.

b) The Italian Government's contribution to the Centre in 2007 was Euro 7,850,000 (2006 = Euro 7,850,000) the equivalent of US$ 11,151,000 at the exchange rate on the date of receipt.

c) The French Government contributed Euro 120,000 (2006 = Euro 92,000) the equivalent of US$ 163,000 at the exchange rate on the date of receipt.

d) The City of Turin contributed Euro 500,000 the equivalent of US$ 737,000 accrued at the UN exchange rate at 31 December 2007 to cover cost of major maintenance cost in accordance with the agreements signed between the City and the ILO. This amount was paid in 2008. Out of the US$ 737,000 accrued in 2007 together with the balance carried forward from 2006 of US$ 81,000 (giving a total of US$ 818,000 available), US$ 529,000 was disbursed in 2007. The balance of US$ 289,000 was carried forward to 2008 to meet future expenditure.

e) The Piedmont Region contributed Euro 400,000 (2006 = Euro 200,000) the equivalent of US$ 590,000 that was accrued at December 31, 2007. This amount was paid in 2008.

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

General Fund

(Expressed in thousands of US Dollars)

REVENUE PRODUCING TRAINING ACTIVITIES	2007	2006
GOVERNMENT OF ITALY (voluntary contribution)	7,497	8,487
GOVERNMENT OF ITALY (other)	3,095	3,205
EUROPEAN UNION (including the European Commission, the European Training Foundation and the European Social Fund)	2,977	4,242
BILATERAL DONORS / DIRECT TRUST FUNDS	8,350	8,536
OTHER MULTILATERAL AGENCIES	3,860	1,812
TOTAL REVENUE-PRODUCING ACTIVITIES	**25,779**	**26,282**
FUNDS RECEIVED UNDER INTER-ORGANISATIONAL ARRANGEMENTS		
INTERNATIONAL LABOUR ORGANIZATION – REGULAR BUDGET	5,648	2,842
INTERNATIONAL LABOUR ORGANIZATION - OTHER	2,681	1,589
WORLD BANK	818	1,010
OTHER UN AGENCIES	1,456	1,343
TOTAL INTER-ORGANIZATION	**10,603**	**6,784**
TOTAL INCOME FROM TRAINING ACTIVITIES	**36,382**	**33,066**

Other multilateral agencies includes the amount of Euro 157,500 (equivalent to US$ 233,404) (2006 Euro 132,400 , US$ 168,900) received from the Compagnia di Sanpaolo, which is an arm's-length organization from the Centre's bankers, the Intesa Sanpaolo Bank, for specific training activities

13. MISCELLANEOUS INCOME

Miscellaneous income comprises:

(Expressed in thousands of US Dollars)

	2007	2006
Non-training activities and services	1,361	1,127
2006 Olympic Winter Games	0	923
Sundry receipts	155	294
TOTAL MISCELLANEOUS INCOME	**1,516**	**2,344**

Non-training activities and services income includes rentals, contribution to the Centre's costs from contractors, and receipts from the UNSSC, language courses and paying guests. The receipts from the 2006 Olympic Winter Games concern the revenue obtained from TOROC during the period that the Centre was used as a media village.

14. FIXED EXPENSES

Fixed expenses were US$ 1,170,000 (4.5%) higher than in 2006 mainly due to the weakening of the US dollar. This adversely affected all expenditure made in euros. The salaries were US$ 927,000 higher than the previous year as a direct result of the weakening of the US$. Other items of expenditure had only minor variations when compared from one year to another.

15. VARIABLE EXPENSES

Variable expenses were higher than 2006 due to the increased volume from training activities and exchange variations.

16. NET EXCESS OF INCOME OVER EXPENDITURE

The net excess of income over expenditure of US$ 1,088,000 (2006 US$ 692,000 excess), was further increased by savings on or cancellations of prior period obligations of US$ 261,000 (2006 US$ 327,000). This resulted in a surplus of US$ 1,349,000.

In accordance with Article 7 paragraph 4 of the Financial Regulations of the Centre, the Director decided to set aside for future years the amount of US$ 800,000 out of the 2006 surplus, to finance two P4 positions, together with the related operational expenses, for the years 2008 and 2009 to develop and promote activities in the field of a) employment and skills development and b) migration, forced labour and human trafficking. These costs will be identified in the respective budgets. The balance of US$ 219,000 was transferred to the General Reserve (see note 10). At the 69th session held in Geneva on 29 and 30 October 2007, the Board of the Centre approved this expenditure.

Furthermore, the officers of the Board met in Geneva on 7 March 2008 and approved additional budgetary expenditure of USD 1,086,000 out of the 2007 surplus to improve training capabilities (USD 437,000) and for improvement works on the campus (USD 649,000)

17. CAMPUS IMPROVEMENT FUND

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

In 2004, 2005, 2006 and 2007, the following additional funds were donated in order to adapt the buildings to current security standards and to cover exceptional expenses engendered by the works required to upgrade the hotel facilities, before the campus was used as a press centre during the 2006 Winter Olympics:

Date of receipt of funds	Origin of funds	Amount in Euro
01 December 2002	Government of Italy	516,500
27 January 2004	Compagnia di San Paolo	25,000
16 September 2004	Piedmont Region	1,000,000
04 November 2004	SanPaolo IMI S.p.A.	83,600
07 December 2004	Government of Italy	569,500
06 September 2005	Piedmont Region	1,000,000
01 October 2006	Piedmont Region	1,000,000
13 February 2007	Compagnia di San Paolo	150,000
27 July 2007	Compagnia di San Paolo	150,000

In 2007, US$ 148,000 was spent on improvements of the Campus bringing the total from the start of the project to US$ 2,173.000. The expenditure included the construction of a temporary reception building and furniture and fittings for the new hotel rooms and common areas, fees for the architect following the progress and quality of the works, and final cleaning of the hotel infrastructure at the end of the works.

This fund shows negative income as the exchange gains on the important Cash and Term Deposits exceeded the actual expenditure in USD.

The balance available of US$ 4,229,000 will be used in future years.

STATEMENT OF APPROPRIATIONS

18. STATEMENT OF APPROPRIATIONS

General Fund

a) Voluntary Contributions

The Italian Government's contribution was Euro 7,850,000 as planned in the budget. The excess of US$ 1,138,000 was entirely due to exchange differences.

The Government of France contributed Euro 120,000, which was 28,000 euros more than planned in the budget. This increase, together with favourable exchange differences resulted in a gain of US$ 45,000.

The Piedmont Region contributed Euro 400,000, which was 200,000 euros more than planned in the budget. This increase, together with favourable exchange differences resulted in a gain of US$ 335,000. This amount was paid in 2008.

The City of Turin contributed Euro 500,000 the equivalent of US$ 737,000 accrued at the UN exchange rate at December 31, 2007 to cover the cost of major maintenance in accordance with the agreements signed between the City and the ILO. This amount was paid in 2008. Out of the US$ 737,000 accrued in 2007 together with the balance carried forward from 2006 of US$ 81,000 (giving a total of US$ 818,000 available), US$ 529,000 was disbursed in 2007, the balance of US$ 289,000 was carried forward to 2008 to meet future expenditures

b) Earned Income

(Expressed in thousands of US Dollars)

TOTAL INCOME FROM TRAINING ACTIVITIES	**Budget 2007**	**Actual 2007**	**Budget Variance**
Group training, advisory services and publications	35,300	36,382	1,082

The total income from training activities was slightly higher than the budget, mainly due to favourable exchange variations.

Other income was USD 552,000 higher than budget as a direct result of the increase in the utilisation of the campus facilities by external entities.

c) Fixed Expenses

Fixed expenses were US$ 300,000 lower than budget (2006 = US$ 484,000 higher) as increased salary costs due to the weakness of the US$ were offset by savings on all other items.

d) Variable Expenses

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

Variable expenses were higher than budget mainly due to the increased volume.

ALL FUNDS

19. FUTURE COMMITMENTS

At 31 December 2007 the Centre had no future commitments under the General Fund for the purchase of fixed assets (2006 US$ 107,000).

20. ACCRUED LEAVE AND END OF SERVICE BENEFITS

The Centre, in accordance with UN accounting practices, does not accrue either for leave not taken by the end of the financial year or for amounts due to staff on termination. At 31 December 2007, the liability for outstanding leave is estimated at US$ 2,391,000 (2006 = US$ 2,419,000) and the liability for end of service benefits is estimated at US$ 12,414,000 (2006 = US$ 10,696,000).

21. AFTER SERVICE MEDICAL BENEFITS

On retirement, staff members are entitled, under certain conditions, to continue to benefit from the Staff Health Insurance Fund (SHIF) on paying a yearly contribution of 2.8% of the full retirement benefits received. The SHIF is not fully funded by contributions and an actuarial valuation made as at 31 December 2007 estimated the liability of the Centre for after-service medical benefits at US$ 33,523,000 for which, in accordance with UN accounting practices, no provision has been included in the accounts.

22. UNITED NATIONS JOINT STAFF PENSION FUND (UNJSPF)

The International Training Centre of the ILO is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial

deficiency payment under Article 26 of the regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. At the time of this report, the United Nations General Assembly has not invoked this provision.

23. UNITED NATIONS INTER-REGIONAL CRIME AND JUSTICE RESEARCH INSTITUTE RELOCATION FUND

UNICRI was transferred from Rome to Turin in 2000. The Centre has managed, on behalf of UNICRI, the funds necessary to cover the costs of the relocation from Rome and the costs of the restructuring of the Pavilion they now occupy. On 18 December 2007, the bank account was closed after all outstanding payments had been made.

24. CONTRIBUTIONS IN KIND (NOT AUDITED)

The ILO provided a total of 10 man months (2006 = 7 man months) of staff time free of charge.

The French Government provided a total of 18 man months of staff time free of charge (2006 = 15 man months).

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

APPROVAL OF THE FINANCIAL STATEMENTS

The Statements of Assets, Liabilities, and Reserves and Fund Balances (Statement I), of Income and Expenditure and Changes in Reserves and Fund Balances (Statement II), of Cash Flow (Statement III), of Appropriations (Statement IV) and Notes to the Financial Statements (Notes 1-24) are approved.

So far as the Director is aware, there is no relevant audit information of which the Centre's external auditors are unaware, and he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the external auditors are aware of that information.

(signed)

François Eyraud
Executive Director
Turin Centre

(signed)

Peter S. Jones
Treasurer and Director,
Financial Services

AUDIT OPINION OF THE EXTERNAL AUDITOR

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

I have audited the accompanying financial statements comprising Statements I to IV and Notes 1 to 23 of the International Training Centre of the International Labour Organization for the financial period ended 31 December 2007.

Respective responsibilities

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

Basis of Opinion

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2006 and the results of the operations and cash flows for the period then ended in accordance with the International Training Centre of the International Labour Organization's stated accounting policies set out in Note 2 of the financial statements.

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

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

T.J.Burr
Comptroller and Auditor General, United Kingdom
External Auditor

National Audit Office
London, 13 October 2008

NATIONAL AUDIT OFFICE

REPORT OF THE EXTERNAL AUDITOR FOR THE YEAR ENDED 31 DECEMBER 2007

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EXECUTIVE SUMMARY

Our audit provides the Centre with:

- ***an independent scrutiny and report to the Board supporting accountability and good governance;***
- ***an unqualified audit opinion on the financial statements for 2007; and***
- ***audit observations and recommendations to enhance the financial management of the Centre.***

Overall results of the audit

1. Our financial audit yielded satisfactory results and revealed no weaknesses or errors which we considered material to the accuracy, completeness and validity of the financial statements taken as a whole. The External Auditor has provided an unqualified audit opinion on the financial statements of the International Training Centre of the International Labour Organization (the Centre) for 2007.

2. The External Auditor audited the financial statements of the Centre in accordance with Articles 25 to 28 of the Financial Regulations and in conformity with International Standards on Auditing. The audit approach adopted is summarised in Annex 1.

Report of the External Auditor to the Board of the Centre

3. Within the developing United Nations governance framework, there is a heightened awareness of the importance of good financial management. We believe that strong financial management is at the core of good governance and supports sound decision making and the effective use of resources. Sound financial practices and procedures are essential to maintain control and accountability.

4. In the detailed findings of this Report we have identified three areas where we believe further improvement to the financial management of the Centre could be secured, in relation to high level, strategic financial management; budget monitoring; and the need to review and reconsider the extent of the influential role played by the Treasurer in the financial management and risk management of the Centre. Our recommendations are consistent with emerging best practice in the United Nations system which emphasises the importance of an executive management committee which takes collective responsibility for the delivery of agreed results. To achieve this, an executive committee will need to focus on ensuring managerial accountability, results based management, performance monitoring, risk management, oversight, management reporting and the capacity for change management.

5. We have also examined action taken by management in response to recommendations that we and Internal Audit have made in past years. In particular, we looked at the position in relation to important issues raised by Internal Audit in their 2006 report on allegations (which were not substantiated) in the Italian press made about one of the Centre's projects, and to which we referred in our Report last year. While action has been taken to address recommendations which were accepted, it took over a year for the Centre to implement Internal Audit's recommendations and some actions have still to be fully brought through.

6. Concerning detailed financial matters, we draw attention to the need for the Board to approve the Centre's decision to adopt, from 1 January 2010, International Public Sector Accounting Standards. This will be a beneficial change in the way in which the Centre accounts for and reports its income, expenditure, assets and liabilities; and should assist the Centre in getting best value from available financial resources. Although implementation is still some time away, it is important that preliminary work be undertaken now to identify the necessary changes to financial policies and procedures. Further, the Centre needs to maintain contact with the ILO Finance team to ensure that the Centre's accounts are consistent with the IPSAS requirements adopted by the ILO. A detailed and rigorously managed project plan will assist the Centre in ensuring that the implementation is a success; and will facilitate effective management and oversight of the transition by the Director and the Board of the Centre.

DETAILED REPORT FINDINGS

Financial Performance

7. The financial statements report an operating surplus of nearly US$ 1.5 million for 2007, which is similar to the Centre's financial results for 2006. The Centre's financial performance in 2007 reflected strong growth in income, which rose by almost US$ 3.6 million or 7.2 per cent. Income for 2007 included an additional US$ 1.5 million in voluntary contributions, and US$ 3.9 million from the International Labour Organization. However, this was moderated by a reduction of US$ 0.5 million in revenue producing activities. Fixed expenses rose by US$ 1.1 million (4.5 per cent) and variable costs rose by US$ 2.2 million (9.5 per cent). US$ 0.9 million of the increase in fixed costs arose mainly on salaries and reflected the weakening of the US Dollar against the Euro.

8. Under United Nations System Accounting Standards (UNSAS), the Centre is not required to recognise as operating costs the changes in future liabilities for accrued leave or after service medical benefits. Any costs arising from termination of employment are met by the International Labour Organization. Although the future recognition and reporting of liabilities between the Centre and the ILO under International Public Sector Accounting Standards (see further below) has yet to be confirmed, in 2007 the liabilities which could in future fall to be funded by the Centre rose by over US$ 3.3 million; and, if they had been recognised through the Statement of Income and Expenditure, the Centre's reported surplus of US$ 1.5 million would have been converted into a deficit of US$ 1.8 million.

9. Similarly, recognition of the expected future cost of accrued leave and after service medical benefits in the Statement of Assets and Liabilities is not required under UNSAS. While, again, the distribution of liabilities between the Centre and the ILO under IPSAS has yet to be confirmed, at 31 December 2007 these liabilities were in excess of US$ 35.9 million which, if recognised in the balance sheet, would far exceed the reserves and fund balances of the Centre, which at that date stood at US$ 12.8 million.

Recommendation 1:

We recommend that the Board of the Centre and management should continue to take careful note of the scale of these long term liabilities, and consider the establishment of appropriate arrangements to ensure the funding of these liabilities in the future.

The Adoption of International Public Sector Accounting Standards

10. The Centre are seeking the Board's approval for the adoption of International Public Sector Accounting Standards (IPSAS) as the basis for the Centre's accounting and financial reporting, with a target date for implementation of 1 January 2010. The benefits of IPSAS include helping to strengthen management's financial governance, as well as providing more complete, informative and consistent reporting of financial matters in the accounts. Greater transparency and consistency in the treatment of expenditure supports better governance through enhanced reporting and accountability to the Board.

11. The adoption of IPSAS will require major changes to the way in which the Centre manages financial resources, some of which will need to be reflected in the Financial Regulations. These changes will include:

    - changes in the recognition of income and expenditure;
    - the inclusion in operating costs and the balance sheet of the full cost of employee benefits, such as annual leave and possibly after-service health insurance; and
    - recognition where appropriate in the balance sheet of the value of the buildings on the campus.

12. The Centre's move to IPSAS is consistent with the decision of the ILO to adopt IPSAS from 1 January 2010. We anticipate that, from 2010, the financial statements of the ILO will need to consolidate the results and position of the Centre. This process will be simplified by the consistent adoption of IPSAS by both bodies.

13. IPSAS represents a major change initiative and getting the best from its implementation will require a multi-disciplinary approach and strong project management. We therefore endorse the action being taken by the Treasurer to establish an implementation plan. The Director of the Centre and the Board will wish to monitor project progress closely to ensure that the necessary preparations are taken forward on time and that the planned implementation date of 1 January 2010 is achieved.

Recommendation 2:

To ensure that the benefits of the change to IPSAS can be realised, we recommend that the IPSAS implementation plan should incorporate well-understood targets, agreed timelines and milestones, and risk assessments; and that the implementation team will require delegated authority to act.

Adoption of the Euro as the Accounting Currency of the Centre

14. Although many of the Centre's costs and outgoings, such as salaries, are incurred in Euros, the functional currency for budgeting and reporting has traditionally been in US Dollars. This has required transactions to be converted from Euros to US Dollars with attendant currency exchange adjustments. Dealing with these adjustments makes budgeting and financial management more difficult for the Centre to manage. To improve and simplify financial management, the Board agreed that the Centre should change its functional currency from US Dollars to Euros with effect from 1 January 2008.

15. A key part of the transfer from US Dollar accounting to the Euro will be the restatement of balances at 31 December 2007 from US Dollars to their equivalent value in Euros, in order to provide opening balances for 2008. This calculation needs to be performed at an individual transaction level, including each amount receivable and each account payable. This work is currently ongoing and will be subject to management review before finalisation.

Recommendation 3:

We recommend that the Treasurer should produce the balance sheet restated into Euros as a matter of urgency.

Financial Control

16. Our audit approach is a risk-based one, in which we consider the key financial and internal control systems in place at the Centre and focus our audit on areas where we believe there may be a risk of material error in the financial statements. It is the responsibly of management to ensure that the system of internal financial control is adequate to guard against the risk of irregularity, misstatement, fraud and error.

17. We use a range of audit techniques and tools to assist in identifying potential areas of audit risk; and to assess whether the key controls established by the Centre are sufficient to prevent material misstatements arising in the financial statements. We report to management any weaknesses we identify, together with our recommendations for improvements.

18. For 2007 we focused on the high level corporate financial controls that underpin the effective management of the Centre. The way in which an organisation collects, analyses and utilises financial management information when making decisions has a direct impact on the running of the organisation and the delivery of its objectives. Governing Bodies require assurances about financial management and that managers account for service success in terms of resources applied to given ends. Based on research within our client base of international and UN bodies, UK Government Departments and not-for-profit organisations, and from research on good practice elsewhere, we have developed a model which we believe captures the essence of good financial management practice at senior management level.

19. To allow the Centre's senior managers to fulfil their responsibilities effectively, the financial management information that they receive needs to be fit for purpose in terms of its scope, quality and presentation; and should be clearly linked to the Centre's

performance against its objectives. The Director holds prime responsibility for all aspects of management of the Centre. He is supported by a Senior Management Team (SMT) which includes the Deputy Director, the Treasurer, the Director of Programmes, and chiefs of units.

20. We have previously reported to the Board of the Centre concerning the unique position of the Treasurer in the design, supervision and functioning of the financial control system. The Treasurer is responsible for the design of the financial control system and advises the Director on responses to financial control recommendations made by internal and external audit. The Treasurer also has specific responsibilities within the financial control system for certain transactions and is joint signatory of substantial contracts. In addition, the Treasurer acts a Chair of the Finance Committee, Contracts Committee, Risk Committee and Accountability Committee. We consider that this is an exceptionally wide degree of influence and control to be vested in a single individual. The Director told us that he relies on the professional expertise and experience of the Treasurer, and that the limited number of senior officials available to chair committees justifies this wide span of control.

Audit Findings

21. Budget setting and monitoring of performance against the approved budget are key aspects of financial management. Each year the Treasurer prepares the budget for the Centre, based on information provided by operational units. This is considered and amended as necessary by the Director and Senior Management Team. The budget is approved by the governing Board of the Centre at their once-a-year meeting in November which precedes the start of the financial year.

22. As regards monitoring against the approved budget, all operational managers have access to financial information in the Oracle Financials accounting system, which was upgraded at the start of 2008. During the year the Training Department prepares regular reports to management on the training activities of the Centre. This report, known as the “pipeline” report, provides information on activities being undertaken and planned for the remainder of the year, compared with the position in the previous year. This information enables managers to monitor those parts of the Centre’s operations for which they are directly responsible.

23. At a corporate level, there is a Finance Committee, chaired by the Treasurer, which includes senior operational, support and financial managers. The Committee normally

meets three times a year – usually in February, July and September - to review the financial position of the Centre as a whole and address any financial risk identified. The Treasurer prepares financial reports and commentaries for the Director as necessary, who may seek the advice of the Senior Management Team.

Illustration: Financial Oversight
In April 2007, the Finance Committee undertook a review of the financial position of the Centre. This included an assessment of the level of contribution to fixed costs achieved to date and estimated for the remainder of the year. After considering the forecast deficit amounting to US$ 233,000, the Committee recommended that the replacement of a number of vacant staff posts be delayed. **Source**: Evidence provided by the Centre.

24. The illustration summarised above demonstrates the decisions taken by the Centre to monitor progress against budget, and take corrective action as necessary.

Audit Analysis

25. Although the Finance Department provides information to facilitate managers' monitoring of the financial position of the Centre, this is at a detailed level and does not include a management analysis identifying important corporate information such as unusual balances or unexpected trends. While individual managers may undertake financial analysis to meet their own programmatic needs, the lack of a coherent and corporate analysis to guide management judgements and decisions presents a risk of managers reaching different conclusions; and of SMT deliberations and decisions being inadequately supported. We would expect that, as a matter of good practice, the Director and Senior Management Team would receive a regular written financial status report relating to the Centre's operation as a whole, to support the collective responsibility of top management. Without adequate reporting and analysis to support decision making, it is more difficult for the Director and SMT to form a realistic overview of the financial position of the Centre, and monitor financial progress and performance against budget.

26. One of the key financial performance measures for the Centre is the aggregate surplus or deficit for the year. Quite rightly, during the year, the Treasurer regularly monitors the estimated outturn (financial performance against budget) for the year. Table 1 illustrates how, during 2007, the estimated operating surplus or deficit for the Centre varied as reviews were undertaken.

Table 1: Financial Monitoring of the Surplus/Deficit for 2007.

	Original Budget - August 2006	Estimated Outturn at July 2007	Anticipated Outturn at February 2008	Audited Outturn at July 2008
Operating Surplus or (Deficit).	$(350,000)	$371,000	$1,419,000	$1,466,000

Source: Treasurer's Reports

27. Table 1 shows that the original approved budget for 2007 anticipated a deficit of US$ 350,000 for the year as a whole. Based on the information available at the end of July 2007, the outturn for the year was revised to a surplus of US$ 371,000 (taking account of the moratorium on the filling of certain staff posts - see earlier illustration). After the year end, in February 2008, the expected surplus for the year was estimated at US$ 1,419,000, and the audited surplus for the year has been finalised at US$ 1,466,000. This pattern of a budgeted deficit followed by significantly varying forecasts of surplus is typical of the financial performance of the Centre. The Centre considers the variation to be acceptable during a period of rapid exchange rate movements and weakening of the US Dollar; and that the amounts involved are not significant as they represent less than 4 per cent of the turnover of the Centre. We consider that where budget monitoring and forecasting is insufficiently realistic or robust, it makes financial management more difficult, and inhibits best utilisation of available resources.

28. Given the importance of ensuring that the Centre operates with a financial surplus, we examined the reasons for the disparity in the estimates made during 2007. We observed that the Centre's budgets are prepared on the basis of the year as a whole and not all budgets are apportioned or profiled across the year – either by month, semester or other agreed period. This broad brush arrangement has limitations and hampers close and effective financial monitoring. Unless there is information as to how much income and expenditure is expected by a particular point in the year, it is inevitably difficult to assess whether financial performance is meeting expectations. And without this information, forecasting likely financial results for the year becomes wholly intuitive and problematic, with an inevitable large margin of error.

Audit Conclusion on Financial Controls

29. Our assessment of the financial controls operating in 2007 confirmed that in most areas the Centre had applied a satisfactory level of financial and management control to prevent and detect errors which could be material to the financial statements. In a number of areas, however, the risks we identified were not being fully mitigated by the controls established by management.

30. We identified the following weaknesses in controls established by management:

    - The preparation and review of adequate regular financial monitoring information would assist senior managers in their oversight of the financial performance of the Centre as a whole and make it easier to compare the financial position with that reported in previous periods;

    - Income and expenditure should be profiled across the year to facilitate improved financial monitoring; and

    - The Treasurer continues to play an overly influential role in key aspects of financial management of the Centre but without the benefit of either an effective deputy arrangement (to secure continuity) or effective senior management oversight (for purposes of accountability).

31. We have drawn these and similar control weaknesses to management's attention in previous years. Given the size of the Centre and Senior Management Team, the Centre considers that this situation represents an acceptable risk.

Follow-up to Prior Year Audit Recommendations

32. We have, as usual, carried out a follow-up review of action taken in response to our audit recommendations made in our last Report to the Board. The action which has been taken is summarised in Annex 2. We note the action which has been taken, but there remain areas where we believe controls remain to be strengthened, as reflected in the section above on Financial Control.

33. In addition to the formal recommendations we made in our Report for 2006, we drew attention to a review undertaken by the ILO's Office of Internal Audit and Oversight of allegations made against the Centre in an Italian magazine. Although the review concluded that the allegations were not substantiated, it identified weaknesses in the adequacy of monitoring and oversight of project operations by the Centre's management, and in the extent of compliance with the Centre's rules and established procedures relating to a specific project.

34. Internal Audit identified a number of areas where project management needed to be improved. The issues brought to attention were consistent with observations we had previously made to the Centre and included:

- The need to develop policies on the disclosure of conflicts, or potential conflicts, of interest by both staff and suppliers of goods and services; the requirement for financial disclosures for appropriate categories of the Centre's officials; and the desirability of whistle blowing arrangements and anti-fraud training. The ILO's policies on ethics and financial disclosure could be adopted and developed for use at the Centre.

  Response of the Centre:

  Four circulars, which address the concerns raised by Internal Audit, have been prepared by the Centre based on the ILO circulars covering the same subjects. The circulars will be distributed by mid-October after review by the Joint Negotiation Committee.

  The Centre has also conducted two courses for managers on the ethics involved in managing training activities.

- The importance of conducting formal risk assessments for major project proposals in order to determine significant risks to the Centre and any risk mitigation action required thereon, to enable management to make informed decisions on whether to accept or reject proposals.

Response of the Centre:

Under the standard procedures of the Centre, the programme manager is the risk owner. As they arise, major projects (a major project is considered to have a cost higher than 5% of the total revenue of the Centre) are scrutinised by the Risk Management Committee on a regular basis.

- The need for review of the procurement policies and procedures for major procurement actions, to ensure that no single official can be responsible for all aspects of the procurement process.

Response of the Centre:

Programme managers are the sole persons capable of selecting suppliers (especially external collaborators), negotiating the cost within the budget allowed and certifying the favourable conclusion of the action concerned.

Separation of duties is achieved through Finance controlling the accuracy of documents forwarded before payment.

- Ensuring that all stages of the procurement process are adequately documented in order to demonstrate transparency and accountability.

Response of the Centre:

Regular scrutiny by the Risk Management Committee of major projects will ensure that procurement is fully documented.

35. The Director of the Centre welcomed the report by Internal Audit and the paragraphs above indicate where steps are being taken to enhance the arrangements for prevention of fraud and implementation of effective safeguards. In particular, action is being taken related to clarifying programme managers' responsibilities in the prevention and detection of fraud; issuing guidance on project risk assessment and separation of duties; and designing fraud awareness training for programme managers and staff.

36. Our review of progress in implementing these agreed actions showed that guidance had been prepared by the Centre and was awaiting final review before being issued to staff, together with appropriate training. The new arrangements place emphasis on the role of the Risk Management Committee in monitoring the procurement process. In order to do so

effectively, we consider that the Committee will need to confirm the adequacy of the documentation supporting major procurement decisions.

37. We note that it has taken over a year to implement fully the recommendations made by Internal Audit and address the weaknesses identified. In this period the Centre has been left exposed to the risk of continuing inadequate project control and the potential for financial irregularities to occur. However, this did not in the event constitute a significant risk to the Centre, as no major projects commenced in the period.

Issues for the Board of the Centre to Address

38. Against the background of increasing expectations for the quality of financial governance in the United Nations system and the International Labour Organization, and the current challenges facing the Centre as it implements its financial management strategy, we believe there needs to be a strengthening of financial management to improve the collective oversight exercised by the Centre's Senior Management Team. The forthcoming appointment of a new Treasurer will provide the opportunity to review the allocation of responsibilities within the Senior Management Team.

39. Because good financial management is fundamental to the success of the Centre, we believe it is essential that these changes are addressed to maintain the status and financial integrity of the Centre over the coming years.

Recommendation 4:

We recommend that the financial management of the Centre be enhanced by:

- the preparation of improved commentaries and analysis for the Director and Senior Management Team to support them in forming a realistic overview of the financial position of the Centre;
- profiling of all budgets across the year to facilitate the monitoring of actual income and expenditure against budget;
- undertaking a review of the very influential role played by the Treasurer in financial management and risk management.

Acknowledgement

40. We are grateful for the assistance and co-operation received from the Centre, in particular from the Director, the Treasurer and their staff during the course of the audit.

T J BURR
Comptroller and Auditor General, United Kingdom
External Auditor

SCOPE AND AUDIT APPROACH

Audit scope and objectives

The audit covers the examination of the Centre's financial statements for the financial period ended 31 December 2007 in accordance with the Financial Regulations.

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

Auditing Standards

Our audit of the financial statements was carried out in accordance with International Standards on Auditing. These standards require us to plan the audit so as to obtain reasonable assurance that the financial statements are free of material misstatement. The Centre's management were responsible for preparing the financial statements and we are responsible for expressing an opinion on them, based on evidence collected in the audit.

Audit approach

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

This audit examination included a general review of the Centre's accounting procedures; a broad assessment of internal controls; and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an opinion on the Centre's financial statements. Consequently, the work did not involve a detailed review of all aspects of the Centre's budgetary and financial information systems and the results should not be regarded as a comprehensive statement on them.

ANNEX 2

FOLLOW-UP TO THE RECOMMENDATIONS MADE IN THE EXTERNAL AUDITOR'S 2006 REPORT TO THE BOARD.

Recommendation	Response from the Centre's management	External Audit Comment
Financial Issues		
Recommendation 1: We recommend that the Centre considers the establishment of an earlier deadline - potentially the end of April - for the production of the annual financial statements; and that a wider range of appropriate finance staff be involved in the accounts preparation, to enable the Treasurer to more effectively review and manage the accounts production process.	At present, with the actual project reporting system, it is difficult to envisage setting an earlier deadline for the preparation of the accounts. Various work areas are being examined with a view to accelerating the closure of the accounts. With the application of the IPSAS principles, the accounts of ITCILO will have to be consolidated into the ILO reports. This means that the accounts of ITCILO will have to be finalized by mid February. This will only be possible by changing one of the existing accounting principles. This will need to be done to be in line with IPSAS.	The financial statements were available for audit on 5 May 2008, some two months earlier than in previous years.
Recommendation 2: We recommend that internal financial control procedures be enhanced by: • The preparation of regular, high level financial information to management; • Strengthening financial and budgetary control; and • Formal sign-off of the payroll to confirm that it is accurate.	The Finance committee held normally at least three times a year, reviews the latest estimates prepared by the Treasurer and discusses any eventual corrective action required. The payroll is reviewed (and signed off on) by the Chief General Accounting and the Treasurer each month.	We continue to believe that high level financial management information and budgetary controls can be enhanced, and we refer to this in the body of our Report.
Recommendation 3: We recommend that the move from accounting in US$ to Euros should be the subject of a comprehensive project plan to ensure a successful outcome.	The move to euros as the reporting currency has been successfully completed in January 2008.	Agreed.
Recommendation 4: We recommend that the extent of internal audit coverage of the Centre should continue on a consistent basis to provide an appropriate level of assurance on the operation of internal controls at the Centre.	Now operational.	We note that Internal Audit are continuing to undertake audits at the Centre and provide advice on risk management.
Upgrade of the Oracle Financial Software Package		
Recommendation 5: We consider that, as a matter of good financial management and governance, major project	Noted.	Our Report refers.

Recommendation	Response from the Centre's management	External Audit Comment
decisions should be supported by appropriate cost-benefit analyses of alternative courses of action.		
Recommendation 6: We recommend that in future, all major projects approved by the Board should be supported by implementation plans which set out the scope of the work; and identify the roles and accountability arrangements for delivery.	Noted.	Our Report refers.
Recommendation 7: We recommend that all major projects should utilise a clear management process, such as PRINCE2, with training for project management staff as necessary.	The Centre has reviewed this recommendation and , while agreeing that a clear management process is required, considers the application of a project management process such as PRINCE too onerous for the size of the Centre. A draft "Guideline to Tenders and Competitive Bids" has been prepared and is under discussion by the management.	We recognise that management processes and procedures should not be unduly onerous and reflect the size of the Centre, but structured project management is important.
Recommendation 8: We further consider that all major projects would benefit from a detailed risk assessment prepared at inception. Risks should be assigned to risk owners who become accountable for the management of their risks, which should be reviewed regularly and updated to reflect changes in the risk environment.	Under the standard procedures of the Centre, the programme manager is the risk owner. Major projects (a major project is considered to have a cost higher than 5% of the total revenue of the Centre) will be under the scrutiny of the Risk Management Committee on a regular basis.	It remains important that, no matter what the size of the project, that there is clear documentation of the risks and actions taken to ameliorate those risks.
Risk Management at the Centre		
Recommendation 9: We welcome the action being taken and proposed to improve risk management and risk response. We consider that the Centre should additionally take steps to establish a clear, well-publicised anti-fraud policy with a presumption that all cases of alleged or actual fraud will be investigated and action taken, with consideration being given to whether cases should be reported to the appropriate civil authorities where justified. The policy should be supported by improved advice to staff on the action to take if fraud is identified or suspected.	The following Centre circulars have been prepared and will be distributed by mid October after review by the Joint Negotiation Committee. They are based on the ILO circulars covering the same subjects. Copies of the drafts are attached for your information: 1. Prevention and detection of Fraud in the Centre. 2. Ethics in the Centre. 3. Rules and approval procedures governing outside activities. 4. Register of Financial Interests.	We welcome the action taken in establishing polices tailored to the needs of the Centre, and look forward to their full implementation.
Recommendation 10: The Centre should press forward to remedy the project management control weaknesses identified by Internal Audit by: • Developing and implementing policies on ethics and financial disclosures; • Conducting formal risk assessments of novel, contentious or large projects; • Reviewing procurement policies and procedures; and • Reminding managers of the necessity to document all stages of the procurement process, within a framework of appropriate separation of duties and accountability.	See 8 and 9 above	See 8 and 9 above

Recommendation	Response from the Centre's management	External Audit Comment
Recommendation 11: The Centre needs to strengthen its corporate management procedures and develop a systematic and effective system of improved senior management oversight of the business. As a first step, the Centre should establish a corporate risk identification and management system.	See 8 and 9 above.	See 8 and 9 above
The Legacy of the 2006 Winter Olympic and Paralympic Games		
Recommendation 12: The Centre might usefully consider a review and monitoring of energy usage to identify opportunities for the reduction of energy bills and the carbon footprint of the Centre	Staff and participants are regularly reminded of the necessity of saving energy wherever possible. However the Centre's buildings, property of the City of Turin, do not lend themselves to rigorous energy management. The Centre is in contact with the local authorities with a view to installing solar panels on the roofs. The estimated cost of this project of euro 20,000,000 will have to be financed separately.	We note the response of the Centre, and the actions being considered to reduce energy bills.
Follow up to Previous Audit Recommendations		
Recommendation 13: We again recommend that, as a matter of good practice and to improve accountability, the Centre should provide a formal response and monitoring to the Board on action taken in respect of audit recommendations.	Noted.	We remain of the view that management should prepare a report on responses to audit recommendations as an element of accountability to the Board.