

Board of the Centre

76th Session, Geneva, 28 May 2014

CC 76/2

FOR DECISION

SECOND ITEM ON THE AGENDA

**Financial Statements and External Auditor's Report
for the financial year 1 January to 31 December 2013**

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Financial report on the 2013 accounts

Introduction

These financial statements are prepared in accordance with article 14 of the Financial Regulations of the International Training Centre of the International Labour Organization (the Centre) and they are submitted to the Board in accordance with article 17. The report of the External Auditor on the audit of the 2013 financial statements of the Centre, together with the Auditor's opinion on the financial statements, are also submitted to the Board of the Centre in accordance with article 27 of the Financial Regulations.

The 2013 financial statements have been prepared on the basis of International Public Sector Accounting Standards (IPSAS) and is the second year in which they have been fully compliant. These financial statements prepared under IPSAS recognizes voluntary contributions for the general operations of the Centre not carrying stipulations in the nature of conditions in the year to which the contribution relates while contributions related to training activities that have conditions are recognized as revenue when the services are delivered to the donor, rather than when cash is received. Expenses are recognized when goods and/or services are received or delivered, rather than when cash is paid. The value of employee benefits relating to accumulated leave, repatriation shipping and travel is recognized in the financial statements when the Centre staff earn these benefits, rather than when they are paid. The liability for after-service health insurance (ASHI) is recognized by the International Labour Organization (ILO) in its consolidated financial statements.

The implementation of IPSAS has no impact on the preparation of the budget, which is still presented on a modified accrual basis. As the basis and scope of the budget and the financial statements differ, a reconciliation between the budget and the IPSAS Statement of financial performance is presented in note 17 to the financial statements.

The ILO is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board of Directors chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. As an ILO controlled entity, the 2013 financial statements of the Centre will be consolidated with those of the ILO's.

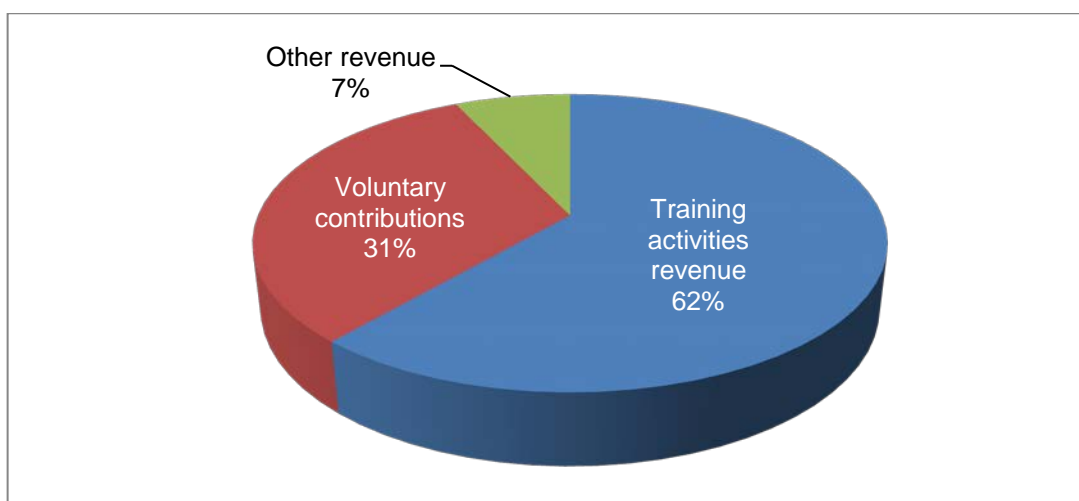
Financial results for 2013

The year 2013 marks a gradual recovery from declining revenue, contributing to the continuation of a positive financial situation of the Centre. The 2013 financial results are as follow:

2013 financial highlights (in thousands of Euros)

	2013	2012
Total revenue	42 091	34 205
Total expenses	38 756	34 554
Net surplus/(deficit)	3 335	(349)
Net assets	18 054	14 719

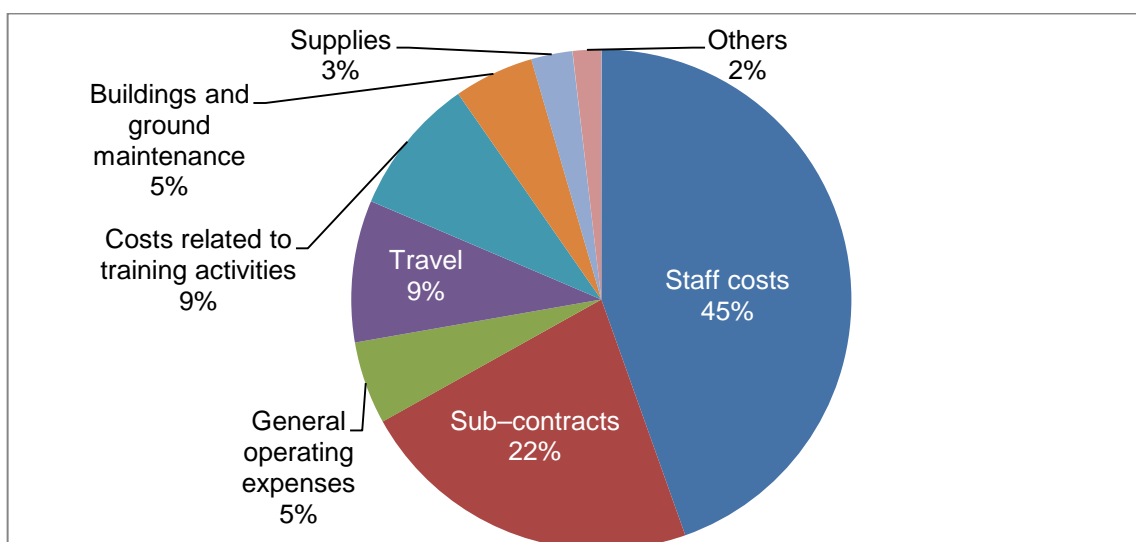
Total revenue: revenue of €42.1 million in 2013 (€34.2 million in 2012) are as follow:



The two major sources of revenue, representing 93 per cent of total revenue, are voluntary contributions and revenue from training activities. Total revenue increased by 23 per cent, as compared to 2012 due to:

- an increase of €5.5 million in training revenue;
- an increase of €1.4 million in voluntary contributions, mainly due to the receipt of the Italian voluntary contribution for training activities; and
- an increase of €1.0 million in other revenue.

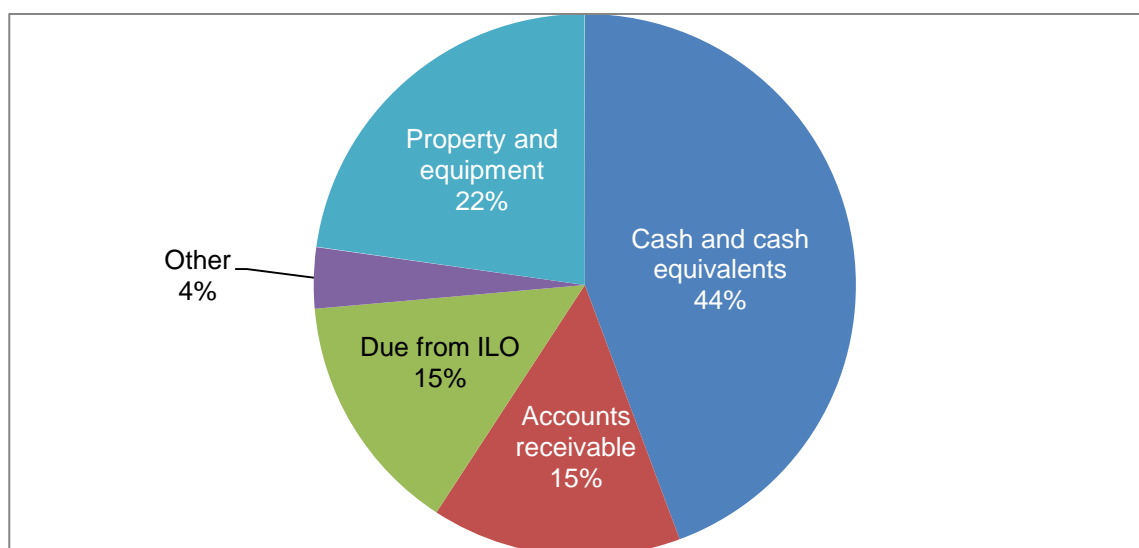
Total expenditure: expenses of €38.8 million in 2013 are as follow:



The principal expense groupings are staff costs of €17.3 million, sub-contracts of €8.7 million, travel of €3.6 and other costs related to training activities of €3.5 million. The increase in total expenditure was mainly due to the increase in training activities.

Operating result: the net surplus of revenue over expenditure in 2013 as measured under IPSAS, was €3.3 million compared to a net deficit of €349,000 in 2012.

Assets: assets of €33.7 million as of 31 December 2013 (€33.5 million as at 31 December 2012) are as follow:

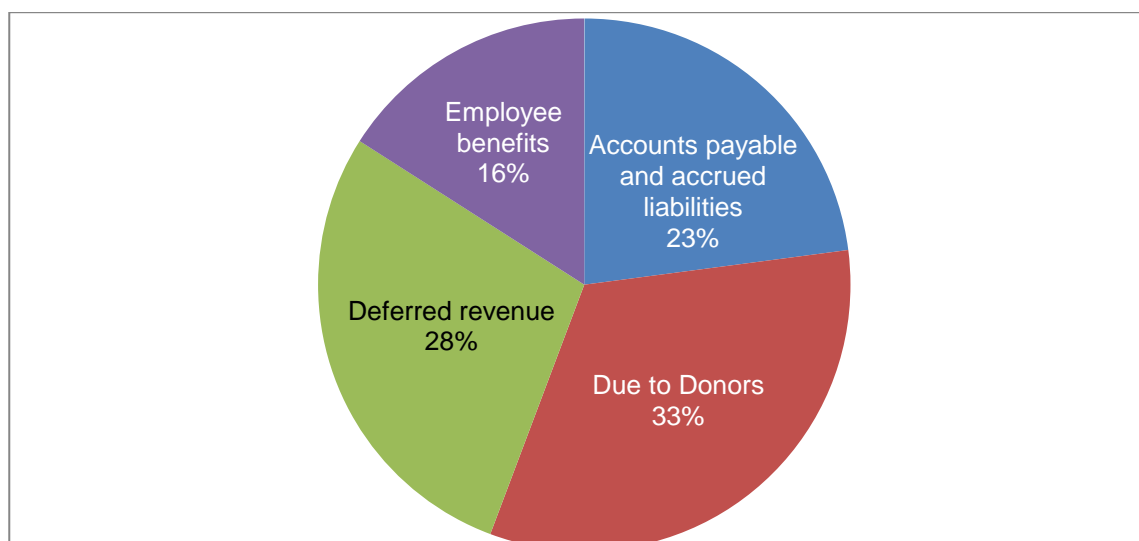


The major assets as at 31 December 2013 are cash and cash equivalents of €14.4 million, accounts receivable of €5.1 million, due from ILO of €4.8 million and property and equipment of €7.4 million.

Cash and cash equivalents: cash and term deposits of €14.4 million increased by 5 per cent over the balance held at the end of 2012 mainly due to the increase in the net surplus.

Total interest of €165,000 (€306,000 in 2012) on term deposits and current accounts declined by 46 per cent as a result of lower interest rates in 2013.

Liabilities: liabilities of €15.6 million as of 31 December 2013 (€18.8 million) are as follow:



The most significant liabilities representing 33 per cent is due to donors. This represents the amount advanced by donors and sponsors for specific projects. The remaining liabilities consist of deferred revenue of €4.4 million, employee benefits of €2.5 million and accounts payable and accrued liabilities of €3.6 million.

Net assets: the changes in net assets during the year showed a €3.3 million increase as follows:

(In thousands of Euros)

	General Fund	Reserve (Working Capital Fund)	Campus Improvement Fund	Italy Trust Fund	Net Assets
Balance as at 1 January 2013	10 075	1 911	1 017	1 716	14 719
Net surplus/(Deficit) of 2013	2 127	18	(12)	1 202	3 335
Transfers to/(from)	(200)	–	200	–	–
Balance as at 31 December 2013	12 002	1 929	1 205	2 918	18 054

Detailed net assets by Fund have been presented in the table in note 21.

Regular Budget

The Board of the Centre at its 74th Session (November 2012) approved an expenditure budget of €36.6 million and an income budget of €36.6 million for the 2013 financial period.

The overall budgetary results for the 2013 financial period are summarized in **Statement V**, with the details of voluntary contributions made by donors shown in note 13. The total budgetary revenue for 2013 amounted to €40.8 million. Staff costs under Chapter III of the budget during 2013 amounted to €17.3 million while fixed expenses under Chapter IV were €5.9 million. Variable expenditure under Chapter V amounted to €14.8 million. The budget surplus for 2013 amounted to €2.9 after provision for doubtful accounts and foreign exchange losses.

Significant differences between 2013 budget and actual amounts as presented on Statement V:

(In thousands of Euros)

Line item in Statement V			Budget 2013	Actual 2013	Variance Amount	Variance %
Chapter	Line					
I	10	International Labour Organization	3 527	3 297	(230)	(7%)
II	20	Revenue from activities	21 400	26 358	4 958	23%
II	21	Revenue from publications	1 450	1 723	273	19%
II	22	Other revenue	1 300	1 154	(146)	(11%)
II	23	Use of surplus	800	81	(719)	(90%)
III	30	Regular–budget staff costs	15 183	14 657	(526)	(3%)
III	31	Project–based staff costs	2 862	2 600	(262)	(9%)
IV	41	Facilities	2 010	2 251	241	12%
IV	45	Governance	424	200	(224)	(53%)
IV	46	Information technology	1 546	1 386	(160)	(10%)
IV	50–57	Total variable expenses	12 278	14 798	2 520	21%
Total variance explained			5 725			

General explanation of the overall variance between the budget and the actual

Favourable variances in staff costs and fixed expenses are the result of the continuing implementation of cost-saving measures in operating expenses.

Specific explanations of the significant differences

- **Voluntary contributions:** the US dollar contribution from the ILO is €230,000 below budget due to exchange difference between the budget rate and the exchange rate at the time of receipt of this contribution.
- **Revenue from training activities:** the favourable variance in income from training activities is mostly due to increased funding for training activities by the ILO and the Italian government.
- **Revenue from publications:** the increase in revenue from publications is due to the increase in volume of work orders for 2013 from the ILO.
- **Other revenue:** the decline in other revenue is mostly due to the lower interest income in 2013.
- **Use of surplus:** the lower use of surplus is due to the deferral of the use of the 2011 surplus.
- **Regular-budget staff costs:** this budget line is below budget due to staff retirements and extended staff leave without pay.
- **Project-based staff costs:** this budget line is below budget due to staff reclassification from project-based to regular budget.
- **Facilities:** the increase in facilities costs is due to additional investments in accommodation facilities that were deferred in 2012.
- **Governance:** this budget line is below budget due to ILO absorbing the Centre's share in the costs of internal audit and legal services.
- **Information technology:** this budget line is below budget due to savings realized in external services for technical assistance.
- **Total variable costs:** This budget line is above budget by €2.5 million due to the overall increase in revenue from training activities and publications.

General Fund

The accumulated fund balance and reserves in the General Fund totalled €13.9 million at 31 December 2013. Details of the balances in this fund are summarized in the table in note 21.

Non-General Funds managed by the Centre

Non-General fund balances managed by the Centre totalled €4.1 million at 31 December 2013. They comprise of €2.9 million for the Italian Trust Fund and €1.2 million for the Campus Improvement Fund.

Ex-gratia payments

There were no ex-gratia payments made in 2013.

Approval of the Financial Statements for the period 1 January to 31 December 2013

The Financial Statements numbered I to V and the accompanying notes (Notes 1–21) are approved.



Patricia O'Donovan
Director
21 March 2014



Remedios Dungca
Treasurer, Chief of Financial Services
21 March 2014

Point for decision

The Board is requested to adopt the Financial Statements as submitted in accordance with article 17.2 of the Financial Regulations.



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 statement 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 International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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. 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.

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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 International Training Centre of the International Labour Organization 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.

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 principles in 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 during my audit of the financial statements have, in all significant respects, been in accordance with *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.

A handwritten signature in black ink, appearing to read "Michael Ferguson".

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

21 March 2014
Ottawa, Canada

Financial Statements and notes to the Financial Statements for the period 1 January to 31 December 2013

International Training Centre of the ILO

Statement of financial position as at 31 December

(In thousands of Euros)

	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents	4	14 364	13 720
Accounts receivable	6	5 115	8 397
Contributions receivable	5	669	525
Due from the ILO		4 792	2 050
Other current assets	8	509	468
		25 449	25 160
Non-current assets			
Accounts receivable	6	749	1 113
Property and equipment	9	7 377	7 211
Intangible assets	10	82	50
		8 208	8 374
Total assets		33 657	33 534
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	3 589	2 650
Due to donors		5 074	7 272
Deferred revenue		3 690	5 279
Employee benefits	12	207	188
		12 560	15 389
Non-current liabilities			
Employee benefits	12	2 294	2 313
Deferred revenue		749	1 113
		3 043	3 426
Total liabilities		15 603	18 815
Net assets			
Reserve for Working Capital Fund		1 929	1 911
Total accumulated fund balances		16 125	12 808
Total net assets		18 054	14 719

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of financial performance for the period 1 January to 31 December

(In thousands of Euros)

	Note	2013	2012
Revenue			
Training activities		26 022	20 561
Voluntary contributions	13	13 134	11 722
Other revenue	15	2 779	1 885
Exchange loss and revaluation, net		(9)	(269)
Interest		165	306
Total revenue		42 091	34 205
Expenses			
Staff costs		17 267	17 777
Sub-contracts		8 659	6 331
General operating expenses		2 068	1 522
Travel		3 559	2 921
Other costs related to training activities		3 450	2 874
Buildings and ground maintenance		2 004	1 687
Supplies		1 032	764
Depreciation		669	617
Bank charges		48	52
Other expenses		—	9
Total expenses		38 756	34 554
Net surplus/(deficit)		3 335	(349)

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of changes in net assets for the period 1 January to 31 December

(In thousands of Euros)

	General Fund	Reserve (Working Capital Fund)	Campus Improvement Fund	Italy Trust Fund	Net Assets
Balance as at 1 January 2013	10 075	1 911	1 017	1 716	14 719
Net surplus/(deficit) of 2013	2 127	18	(12)	1 202	3 335
Transfers to/(from) ^{/1}	(200)	—	200	—	—
Balance as at 31 December 2013	12 002	1 929	1 205	2 918	18 054

^{/1} Transfer from General Fund to the Campus Improvement Fund as approved by the Board in 2013.

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Statement of cash flow for the period 1 January to 31 December

(In thousands of Euros)

	2013	2012
Cash flows from operating activities		
Net surplus/(deficit) for the period	3 335	(349)
Effect of exchange rates on cash and cash equivalents	(124)	(15)
Non-cash items:		
Depreciation	669	617
Loss on disposals	—	17
Decrease in accounts receivable	3 646	6 377
(Increase)/decrease in contributions receivable	(144)	45
(Increase)/decrease in due from the ILO	(2 742)	256
(Increase)/decrease in other current assets	(41)	46
Increase/(decrease) in accounts payable and accrued liabilities	939	(1 146)
Decrease in deferred revenue	(1 953)	(5 901)
Increase/(decrease) in due to donors	(2 198)	874
Decrease in employee benefit liabilities	—	(194)
Net cash flows from operating activities ^{/1}	1 387	627
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(867)	(946)
Net cash flows from investing activities	(867)	(946)
Effect of exchange rates on cash and cash equivalents	124	15
Net increase (decrease) in cash and cash equivalents	644	(304)
Cash and cash equivalents, beginning of period	13 720	14 024
Cash and cash equivalents, end of period	14 364	13 720

^{/1} €136 in interest received is included under "surplus/(deficit) for the period" in the net cash flows from operating activities (2012=€277).

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO
Statement of comparison of budget and actual amounts
for the period 1 January to 31 December
(In thousands of Euros)

Budget Chapter	Budget Item	Title	2013 Budget	2013 Actual	Budget Variance ^{/2}
REVENUE					
I		Voluntary contributions			
	10	International Labour Organization	3 527	3 297	(230)
	11	Government of Italy	7 850	7 850	–
	12	Government of France	25	25	–
	13	Piedmont Region	–	100	100
	14	Government of Portugal	250	250	–
		Total voluntary contributions (Chapter I)	11 652	11 522	(130)
II		Earned revenue			
	20	Revenue from training activities	21 400	26 358	4 958
	21	Revenue from publications	1 450	1 723	273
	22	Other revenue	1 300	1 154	(146)
		Total earned revenue	24 150	29 235	5 085
	23	Use of surplus	800	81	(719)
		Total Chapter II	24 950	29 316	4 366
		TOTAL BUDGET REVENUE	36 602	40 838	4 236
EXPENDITURE					
III		Staff Costs			
	30	Regular–budget staff costs	15 183	14 657	(526)
	31	Project–based staff costs	2 862	2 600	(262)
		Total staff costs (Chapter III)	18 045	17 257	(788)
IV		Non Staff Costs			
		<u>Fixed expenses</u>			
	40	Consultants	447	430	(17)
	41	Facilities	2 010	2 251	241
	42	Security	375	372	(3)
	43	General operating expenses	866	793	(73)
	44	Missions and representation	251	202	(49)
	45	Governance	424	200	(224)
	46	Information technology	1 546	1 386	(160)
	47	Depreciation of property and equipment	360	285	(75)
		Total fixed expenses (Chapter IV)	6 279	5 919	(360)
V		<u>Variable expenses</u>			
	50	External collaborators	4 778	5 219	441
	51	Missions	670	797	127
	52	Participants costs	3 990	5 360	1 370
	53	Books, training aids and materials	890	612	(278)
	54	Training facilities and services outside Turin	650	1 385	735
	55	Other variable costs	70	190	120
	56	Costs related to income from publications	1 030	1 003	(27)
	57	Other costs related to other income	200	232	32
		Total variable expenses	12 278	14 798	2 520
		TOTAL OPERATING EXPENSES	36 602	37 974	1 372
		BUDGET SURPLUS^{/1}	–	2 864	2 864
		Other items			
	58	Decrease in provision for doubtful accounts	–	19	–
	61	Exchange gain (loss) and revaluation, net	–	(8)	–
		TOTAL OTHER ITEMS	–	11	–
		NET BUDGET SURPLUS^{/1}	–	2 875	–

^{/1} As referred to in Financial Regulations 7(4).

^{/2} Budget variances are explained in the accompanying financial report on the 2013 accounts.

The accompanying notes are an integral part of the Financial Statements.

International Training Centre of the ILO

Notes to the Financial Statements for the period ending 31 December 2013

Note 1 – Objectives and Activities

The objective of the International Training Centre of the International Labour Organization (the “Centre”) is, in keeping with the principles set forth in the Preamble of the Constitution of the International Labour Organization (ILO) and in the Declaration of Philadelphia, to provide training activities at the service of economic and social development in accordance with, and through the promotion of international labour standards. Its training activities are elaborated within the framework of the technical co-operation of the ILO, the United Nations System and other international organizations.

The ILO is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board of Directors chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. A meeting of the Board is convened annually. The members of the Board do not receive any remuneration from the Centre for their services. At its annual meeting, the Centre adopts its budget in accordance with the Centre’s Financial Regulations on the recommendation of the members of the Board. Under Article 17 of the Centre’s Financial Regulations, the Board adopts the financial statements.

The Centre is based in Turin, Italy. In accordance with the complementary agreement on the privileges and immunities of the Centre with the Italian government, the Centre is exempt from most taxes and customs duties imposed by the Italian government.

The Centre is principally financed from voluntary contributions from the ILO regular budget and the Government of Italy and from revenues generated by training services provided.

Under the terms of the Statute of the Centre adopted by the ILO Governing Body, the funds and assets of the Centre are accounted for separately from the assets of the ILO (article VI, paragraph 6). The accounts of the Centre, which are produced on an annual basis, are audited by the External Auditor of the ILO. Should the Centre be dissolved, the Governing Body of the ILO has the authority under the Statute (article XI) to dispose of the Centre’s assets and remaining funds. With the ILO as the controlling entity of the Centre, the financial statements of the Centre are consolidated with the ILO’s financial statements.

Five funds are maintained at the Centre:

- 1) the General Fund is the main operating fund of the Centre for training activities;
- 2) the Working Capital Fund was established in accordance with the Financial Regulations of the Centre to finance temporarily expenditure pending receipt of firmly pledged voluntary contributions and other income to be received under signed agreements. Its target level has been established at €2.0 million;
- 3) the Campus Improvement Fund was established by the Director of the Centre to receive funds specifically for the refurbishment of the campus;

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- 4) the Italian Trust Fund was established to receive funds from the Italian government for training activities;
 - 5) the Innovation Fund was created following the approval of the Board in November 2011 to promote innovation in learning and knowledge-sharing tools, develop new training activities in response to emerging ILO policies, and embed best practices and excellence in the Centre's learning and training activities.

Note 2 – Basis of preparation

The financial statements of the Centre have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS), using historical costs, except for financial instruments that are measured at fair value through surplus or deficit.

The Centre has adopted the following new IPSAS effective 01 January 2013:

- IPSAS–28, Financial Instruments: Presentation;
- IPSAS–29, Financial Instruments: Recognition and Measurement;
- IPSAS–30, Financial Instruments: Disclosures.

Financial period: the Centre's financial period for budgetary purposes is the calendar year and its financial statements are prepared annually. Comparative information reflects the full 12 months of the calendar year 2012.

Financial statement presentation: the financial statements are presented on a combined basis which includes all of the Centre's funds. All transactions between funds are eliminated. The financial statements comprise a Statement of financial position, a Statement of financial performance, a Statement of changes in net assets, a Statement of cash flow and a Statement of comparison of budget and actual amounts for the General and Italy Trust funds.

Functional currency and foreign exchange translation: the functional currency of the Centre is the Euro (€) and the financial statements are prepared in that currency. The United Nations operational rates of exchange are used in the translation of transactions and balances in currencies other than the Euro. These rates approximate the spot rates. Monetary balances maintained in currencies other than the Euro are converted to Euro at the United Nations operational rate of exchange as at 31 December.

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

The net gain or loss arising from the conversion of transactions and balances in currencies other than the Euro is presented as exchange gain (loss) and revaluation, net in the Statement of financial performance in the period in which the gains and losses arise.

Use of estimates and critical judgments

The preparation of financial statements in accordance with IPSAS requires the Centre management to render judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities,

revenue and expenses. Since uncertainty is inherent in the application of estimates and assumptions, actual results may differ significantly from management estimates.

Review of estimates and assumptions are carried out on an on-going basis. Adjustments in accounting estimates are recognized in the period in which the estimates are adjusted and in any affected future period. Examples of significant estimates and assumptions that may result in any material adjustments in future years include: actuarial measurement of employee benefit liabilities such as staff turn-over, disability, mortality and medical rates; selection of useful lives of property and equipment and intangible assets; provisions for doubtful accounts, impairment on assets and loss contingencies; and discount rates applied to accounts receivable.

Note 3 – Significant accounting policies

Cash and cash equivalents: cash and cash equivalents include cash in banks and short-term deposits maturing within three months from the end of the reporting date.

Accounts receivable: the Centre's accounts receivable are mainly derived from training activities, and from the sale of publications. The Centre establishes a provision for doubtful accounts based on a review of accounts to determine the amounts that are expected to be recovered. Any accounts receivable due twelve months or longer from the reporting date are presented as non-current assets and are discounted to reflect the net present value utilizing a discount rate based on long-term yields on high grade corporate bonds.

Contributions receivable: the Centre's contributions receivable are derived from voluntary contributions for the general operations of the Centre.

Due from/to the ILO: the Centre has an inter-office transactions current account with its controlling entity, the ILO, to record transactions due from and to the ILO representing the ILO voluntary contribution for the general operations of the Centre, staff costs and disbursements for the Centre's training activities incurred by the ILO, both in the ILO's external offices or headquarters, on behalf of the Centre, as well as remittances made by the Centre to the ILO. The net balance due from or due to the ILO is reflected as appropriate in the Statement of financial position.

Other current assets: other current assets include advances made to employees as well as payments made to suppliers in advance of goods or services being received and goods held for internal use.

Other current assets also include inventories consisting mainly of materials, consumable goods and subcontracted work that have either not gone into the production process of printed materials or that have gone into the production process without completion of the printed materials. Inventory available for sale is measured at the lower of cost, using the "first-in-first-out" cost formula, and net realizable value. Inventory held for free distribution is measured at the lower of cost, using the "first-in-first-out" cost formula, and current replacement cost. Cost includes all purchase costs and conversion costs (materials, labour, equipment leases and external printing costs) to bring the inventory to its present location and condition.

Property and equipment: property and equipment is comprised of equipment and leasehold improvements that are measured at historic cost and depreciated on a straight line basis.

Vehicles, and office equipment and computer systems classified within the machinery and equipment category are depreciated over a five-year life, while other equipment classified within the machinery and equipment category, as well as furniture and fixtures are depreciated over a 10-year life. Equipment is capitalized if its cost equals or exceeds the threshold of €4,000.

Leasehold improvements related to existing buildings on the campus are depreciated over a fifteen-year life and the major reconstruction is depreciated over a thirty-year life. Costs of renovations and improvements are capitalized if the cost exceeds the threshold of €40,000

Property and equipment are reviewed annually to determine if there is any impairment in their value.

Intangible assets: intangible assets include software that is not an integral part of the related hardware, websites and computerized course materials acquired or developed by the Centre. Intangible assets are measured at historic cost less accumulated amortization and any impairment losses. Amortization is recognized on a straight line basis over a five-year period. Intangible assets are capitalized if their cost exceeds the thresholds of €4,000 for externally acquired software and €40,000 for internally developed software.

Impairment: assets that are subject to depreciation or amortization are reviewed annually to determine that the carrying amount is still considered to be recoverable. Impairment occurs due to complete loss, major damage or obsolescence. When the asset's carrying amount exceeds its recoverable service amount (the higher of the asset's value in use and its fair value less costs to sell), the impairment is recognized on the Statement of financial performance.

Payables and accrued liabilities: payables represent invoices for which goods and/or services have been received but not paid as of the reporting date. Accrued liabilities consist of goods and/or services received during the reporting period for which no invoice has been received as of the reporting date.

Due to donors: funds received from training participants and their sponsoring agencies in respect of future training activities and consultancy services that are subject to conditions are carried as due to donors. They are not recognized as revenue until the Centre's performance obligation in providing the related services is fulfilled.

Deferred revenue: funds receivable based on signed agreements from training participants and their sponsoring agencies in respect of future training activities and consultancy services that are subject to conditions related to specific performance and return of funds received to the transferor if they are not used in accordance with their intended purposes are carried as deferred revenue at amortized cost and recognized as revenue when the Centre's performance obligation in providing the related services is fulfilled. Agreements providing for amounts to be received in 12 months or longer from the reporting date are recognized as non-current liabilities and are discounted utilizing a discount rate based on high grade corporate bonds.

Derivative assets/liabilities: derivative financial instruments in the form of cross currency swaps were used for the purpose of increasing the net return from interest revenue on funds held in US dollars. The cross currency swaps have been valued at fair value through surplus or deficit and any realized gain or loss incurred on exercising the swaps and any unrealized gain or loss at the reporting date is recognized in Exchange gain (loss) and revaluation, net revenue on the Statement of financial performance. Interest on the cross currency swaps is accrued when earned on a time proportion basis

that takes into account the effective yield and is paid to the Centre in the following financial year.

Employee benefits: the Centre recognizes the following categories of employee benefits:

- Short-term employee benefits: short-term employee benefits fall due wholly within twelve months after the end of the accounting period in which employees render the related service and include the following:

- Accumulated leave: accumulating compensated absences, such as annual leave and compensatory time, are recognized as expenses and liabilities when employees render a service that increases their entitlement to future compensated absences.

In accordance with the Centre's Staff Regulations, Centre officials earn annual leave of 30 working days per year. Officials may accumulate up to 60 working days which is payable on separation from service. The value of leave payable at the reporting date is calculated by multiplying the actual number of days accumulated by each staff member by the staff member's base salary plus post adjustment for eligible professional staff and base salary and language allowance for general services staff.

The non-current portion of the liability is not discounted as the impact is not material.

- Non-accumulating leave: for non-accumulating compensating absences, such as sick leave and maternity leave, an expense is recognized when the absence occurs.
- Home leave: in accordance with the Centre Staff Regulations, non-locally recruited Centre officials are entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter every second year. A liability exists related to the value of home leave entitlements that have been earned by officials but not taken at the reporting date. The value of home leave earned and payable at the reporting date has been calculated on the basis of last year's cost of home leave adjusted for price increases in air fare.
- Other short-term employee benefits: other short-term employee benefits are expensed as part of payroll and a liability is recorded at year-end if an amount remains unpaid. They include non-resident allowance, family allowance, post adjustment allowance, education grant, and language allowance.

Overtime is calculated at time and a half for ordinary overtime and double time for special overtime. Overtime can be taken as compensatory time in lieu of payment.

- Other long-term employee benefits
 - Repatriation travel and removal expenses: the officials of the Centre, their spouses and dependent children are entitled to the reimbursement of costs of travel and transport of personal effects upon termination. The expense related to repatriation travel and transport of personal effects is calculated by estimating the nominal value of the cost attributable to each eligible staff member at 31 December 2013. The non-current portion of the liability is not discounted as the impact is not material.

-
- End-of-service payments and repatriation grant: in accordance with the Centre's Staff Regulations, staff in the General Services category is entitled to an end-of-service payment on separation or on promotion to the Professional category or above. The Centre makes a defined contribution of 7.5 per cent of the General Services salaries every month to the ILO.

In accordance with the Centre's Staff Regulations, non-locally recruited Centre officials are entitled to a grant on separation from service if they have completed at least one year of service outside their home country. The Centre makes a defined contribution of 6.0 per cent of compensation paid to eligible employees during the financial period to the ILO.

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

- Post-employment benefits

- After-service medical benefits: the Centre does not recognize any liability in its accounts for after-service medical benefits to which staff members (and their dependents) retiring from service at the age of 55 or later are eligible if they have at least ten years of service with an agency of the United Nations system and have been a participant in the Staff Health Insurance Fund for the five years immediately preceding separation from service. The Staff Health Insurance Fund is a multi-employer defined benefit plan providing medical coverage to all staff, retirees and their dependants. The Centre is one of the participating members of that Fund. Monthly contributions towards this Fund are made by the retirees, with matching contributions made by the participating organizations. In the case of the retirees from the Centre, the ILO makes the required monthly contribution to the Staff Health Insurance Fund. Therefore, the Centre does not have any liability with regards to the after-service medical benefits nor does it record any expense.
- United Nations Joint Staff Pension Fund: through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The pension fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialised agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialised agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. The Centre and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify the Centre's

proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes, and hence the Centre has treated this plan as if it was a defined contribution plan in line with the requirements of IPSAS–25. The Centre's contributions to the plan during the financial period are recognized as expenses in the Statement of financial performance.

Expenses: expenses are recorded on the basis of goods and/or services received during the reporting period. Expenses related to leases that do not transfer to the Centre substantially all risks and rewards incidental to ownership are recognized in the Statement of financial performance on a straight–line basis over the lease term.

Revenue from exchange transactions

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

Revenue from non–exchange transactions

- Voluntary contributions
 - Voluntary contributions are provided to support the general operations of the Centre, for campus improvement and for training activities. These contributions contain no stipulations in the nature of “conditions” that require specific performance and the return of funds not used for their intended purposes. They are recognized as an asset and revenue in the year to which the contribution relates if it is probable that the contribution will be received and if the amount can be measured reliably. Unconditional contributions relating to future financial periods are disclosed as contingent assets if receipt is considered probable.
 - Voluntary contributions are also received from the City of Turin to meet expenses related to the extraordinary maintenance and landscaping costs of the property that the City permits the Centre to occupy. These contributions are recognized as an asset with a corresponding liability (deferred revenue) in the year to which the contribution relates when it is probable that the contribution will be received and the amount can be measured reliably. As the funds are utilized for extraordinary maintenance and landscaping costs, the liability (deferred revenue) is reduced and a corresponding amount is recognized as revenue.
- Goods and services in kind: the Centre does not recognize services in kind in the financial statements. Contributions of goods in kind are recognized at fair value at the date of acquisition.
- Training activities: agreements related to training activities are subsidized by non–conditional voluntary contributions which provide support to the Centre's operations. These agreements are considered non–exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds

if such conditions are not met, are recognized as assets (accounts receivable) and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion that expenses incurred bear to the estimated total expenses of the training activity.

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

Contingent assets: probable inflows of revenue from voluntary contributions and training activities that have not been recognized as assets are disclosed as contingent assets.

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

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

Segment note: the Centre is a single purpose entity with the purpose of providing training activities that support the mandate of the ILO. Therefore, under IPSAS-18 it is considered a single segment and no segment note disclosure has been presented. However, in order to provide information for senior management and members of the Board of Directors on the status of the various sources of funds available to the Centre, separate information is provided on the financial position and financial performance of each of the funds administered by the Centre.

Measurement uncertainty: the preparation of financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Accruals, derivatives, property and equipment and employee benefit liabilities are the most significant items where estimates are used. Actual results could differ significantly from these estimates.

Note 4 – Cash and cash equivalents

(In thousands of Euros)

	US dollar (€equivalent)	Euro	2013 total	2012 total
Current accounts and cash on hand	184	3 213	3 397	4 054
Short-term deposits	2 030	8 937	10 967	9 666
Total cash and cash equivalents	2 214	12 150	14 364	13 720

Of the total cash and cash equivalents held in 2012, €13.2 million was in Euros and the balance held in US dollars €481,000 (Euro equivalent).

Note 5 – Contributions receivable

(In thousands of Euros)

	2013	2012
Compagnia di San Paolo	369	–
Chamber of Commerce	200	–
Government of France	–	25
Piedmont Region	100	200
City of Turin	–	300
Total contributions receivable	669	525

Of the above, €569,000 (2012=€300,000) is subject to conditions requiring use of funds for the renovation of Pavilion Europe. All of the above contributions receivable relate to non-exchange transactions.

Note 6 – Accounts Receivable

(In thousands of Euros)

	2013	2012
Current accounts receivable		
Accounts receivable from invoiced training services	2 738	4 247
Accounts receivable from training services agreements due in 2014	2 743	5 108
Other accounts receivable	12	24
Less: provision for doubtful accounts – training services	(378)	(982)
Total current net accounts receivable	5 115	8 397
	2013	2012
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2014	749	1 113
Less: provision for doubtful accounts – training services	–	–
Total non-current net accounts receivable	749	1 113

All of the above net accounts receivable relate to non-exchange transactions. Amounts due for more than twelve months from the reporting date have been discounted to reflect the net present value using a discount rate for high grade corporate bonds. The net impact of discounting was €24,000 (€42,000 in 2012) offset by a similar discount to the value of the offsetting liability for deferred revenue.

(In thousands of Euros)

	2013	2012
Movements in provision for doubtful accounts		
Balance 01/01	982	958
Amounts written off during the year as uncollectible	(579)	(4)
Impairment losses reversed	–	–
Increase in allowance for new impairments	(25)	28
Balance 31 December 2013	378	982

Note 7 – Financial Instruments

Categories of financial assets and liabilities

Financial assets and financial liabilities are categorized as follow:

- financial assets and liabilities designated at fair value through surplus and deficit are cash, cash equivalents, accounts receivable less than 12 months, contribution receivable, accounts payable and accrued liabilities;
- financial assets and liabilities that are categorized as loans and receivables and are measured at amortized cost are accounts receivable outstanding for more than 12 months and deferred revenue.

There are no financial assets that are classified as held-for-trading and available for sale.

Fair value of financial assets and liabilities

Financial assets and financial liabilities are measured using a fair value hierarchy that reflects their fair values based on:

- level 1: an active market for identical assets and liabilities;
- level 2: quoted prices for similar assets and liabilities or pricing model where all inputs that have a significant effect on the valuation are directly or indirectly based on observable market data; and.
- level 3: prices or valuation techniques where inputs are not based on observable market data.

Cash and cash equivalents are valued at level 1. Short-term accounts receivable, contributions receivable, other receivables, accounts payable and other liabilities approximate their fair value due to their short-term maturity and are valued at level 2. Long-term accounts receivable, that are not impaired are discounted to their present value to approximate their fair value and are valued at level 2.

There are no unrecognized financial instruments in the financial statements.

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

Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk or other price risk.

Currency risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Centre has exposure to currency risk on transactions occurring in currencies other than the Euro, which mainly relate to US dollar transactions. The Centre's net US dollar foreign currency exposure as at 31 December is as follows:

(In thousands of Euros)

	2013 USD	2013 €equivalent	2012 USD	2012 €equivalent
Cash and cash equivalents	3 054	2 214	638	481
Accounts receivable	1 815	1 316	731	551
Due from the ILO	3 528	2 558	1 439	1 085
Payables and accrued liabilities	(108)	(78)	(610)	(460)
Net exposure	8 289	6 010	2 198	1 657

Based on the net exposure as at 31 December 2013, and assuming all the other variables remain constant, a hypothetical 5 per cent change in the US dollar against the Euro would result in an increase or decrease in net results of €300,000 (€83,000 in 2012) or 9 per cent (24 per cent in 2012).

Interest Rate Risk

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

Derivative financial instruments in the form of cross currency swaps were used in 2013 for the purpose of increasing the net return from interest revenue on funds held in US dollars. The cross currency swaps have been valued at fair value through surplus or deficit. The net interest revenue earned from the swaps in 2013 was €28,200 which compares favourably to the estimated revenue of €3,300 which would have been earned had the funds held in US dollars been invested in short-term deposits in that currency. The swap agreements with the contracting bank provide for a guaranteed return of the original amount of US dollars invested. An exchange risk could occur if the Centre were required to repurchase the US dollars before the date specified in the

agreement. The Centre mitigates this risk by holding the cross currency swaps for periods of less than one calendar month. There were no cross currency swaps outstanding at the reporting date.

At an average investment deposits of €9.3 million (€9.2 million in 2012) and an average rate of return of 1.8 per cent (3.3 per cent in 2012), a 50 basis points change in interest rate on deposits would result in €46,500 (€46,200 in 2012) increase or decrease in net results of €3.34 million (-€349,000 in 2012) or 1.4 per cent (13.2 per cent in 2012).

Other price risk

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

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

Liquidity Risk

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

Credit Risk

This is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Centre is exposed to credit risk through its cash and cash equivalents and accounts receivable. With respect to cash and term deposits, a minimum credit quality requirement including the amount of credit exposure for any counterparty is established in the Centre's Investment Policy. The bulk of the Centre's accounts receivable pertain to governments and supra-nationals with established credit rating. The maximum exposure to credit risk is represented by the carrying value of these assets. Details are provided below. The Centre manages its exposure to derivative counterparty risk by contracting with reputable financial institutions with a long-term credit rating of A or higher.

Cash and Cash Equivalents

The Centre has deposited cash with reputable financial institutions from which management believes the risk of loss to be remote. The Centre's investments are managed via an investment policy which guides the Centre in its investment decisions. The Centre invests surplus funds to earn investment income with the objective of maintaining safety of principal and providing adequate liquidity to meet cash flow requirements.

Cash equivalents including term deposits are spread over several banks in order to avoid an over-concentration of funds with few institutions. The total percentage of the Centre's cash, cash equivalents that may be placed with a single institution is determined according to its long-term credit rating. Investments are made only in term deposits, deposit certificates, bonds, sovereign treasury bills and notes, and floating

rate notes. Funds are generally deposited or invested only with institutions maintaining a long-term credit rating of A or higher, except for an institution with a long-term credit rating of B that is processing credit card payments of training participants.

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

(In thousands of Euros)

2013	AAA	AA+-AA-	A+-A-	BBB+-BBB-	Total
Cash and Cash Equivalents	–	–	10 967	3 397	14 364

2012	AAA	AA+-AA-	A+-A-	BBB+-BBB-	Total
Cash and Cash Equivalents	–	–	13 624	60	13 684

Accounts receivable

The aging of the Centre's receivables at 31 December is as follows:

(In thousands of Euros)

2013	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	5 733	105	404	(378)	5 864
Contributions receivable	669	–	–	–	669
Total receivable	6 402	105	404	(378)	6 533

2012	Less than 1 year	1–2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	9 517	80	895	(982)	9 510
Contributions receivable	225	300	–	–	525
Total receivable	9 742	380	895	(982)	10 035

Note 8 – Other current assets

(In thousands of Euros)

	2013	2012
Inventories	38	60
Prepaid expenses and advances	471	408
Total other current assets	509	468

Inventory recognized as expense under “Supplies” on the Statement of financial performance was €590,000 (€431,000 in 2012), while the total amount written-off in 2013 was €13,000 (€8,000 in 2012). There were no reversal of inventory written-off and inventory recognized as an expense reduction under “Supplies” for the year (nil in 2012).

Note 9 – Property and Equipment

(In thousands of Euros)

	Equipment	Leasehold improvements	Total 2013	Total 2012
Cost at 31/12	3 726	7 772	11 498	10 741
Accumulated depreciation at 31/12	2 171	1 950	4 121	3 530
Net book value at 31/12/2013	1 555	5 822	7 377	7 211
Net book value at 31/12/2012	1 398	5 813	7 211	

The carrying amount of leasehold improvements includes €97,000 in work in progress expenditures. Contractual commitments for the acquisition of property and equipment were €2.2 million at the end of 2013.

Equipment

(In thousands of Euros)

	Vehicles	Machinery and equipment	Furniture and fixtures	Total 2013	Total 2012
Cost	106	3 184	63	3 353	3 475
Reclassifications	–	–	–	–	(83)
Additions	–	427	13	440	792
Disposals	–	(67)	–	(67)	(831)
Cost at 31/12/2013	106	3 544	76	3 726	3 353
Accumulated depreciation at 01/01	57	1 886	12	1 955	2 542
Reclassifications	–	–	–	–	(25)
Depreciation	10	266	7	283	252
Disposals	–	(67)	–	(67)	(814)
Accumulated depreciation at 31/12/2013	67	2 085	19	2 171	1 955
Net book value at 31/12/2013	39	1 459	57	1 555	

Leasehold improvements

The Centre is located on land and in buildings provided by the City of Turin at a nominal rent. The covenant between the City of Turin and the ILO signed on 29 July 1964 provides the Centre with the right to refurbish and improve the buildings on the site along with the responsibility to provide routine maintenance of the buildings, park, roads and paths on the site. The City assumes responsibility for major repairs and extraordinary maintenance, while the Centre is responsible for minor routine maintenance and repairs.

The carrying value of these improvements is as follows:

(In thousands of Euros)

	Conference Centre 2013	Other Renovations 2013	Total 2013	Total 2012
Opening balance at 01/01	3 631	3 757	7 388	7 201
Reclassification	–	(67)	(67)	83
Additions	322	129	451	104
Cost at 31/12/2013	3 953	3 819	7 772	7 388
Accumulated depreciation at 01/01	302	1 273	1 575	1 185
Reclassifications	–	–	–	25
Depreciation	125	250	375	365
Accumulated depreciation at 31/12/2013	427	1 523	1 950	1 575
Net book value at 31/12/2013	3 526	2 296	5 822	

Note 10 – Intangible assets

The capitalized value of software excluding those costs related to research, maintenance and internal training was €93,000 in 2013 (€50,000 in 2012).

Accumulated amortization in 2013 was €11,000 (nil in 2012).

Note 11 – Accounts payable and accrued liabilities

(In thousands of Euros)

	2013	2012
Accounts payable	2 354	2 096
Accrued liabilities	1 235	554
Total accounts payable and accrued liabilities	3 589	2 650

Note 12 – Employee benefits

(In thousands of Euros)

	2013	2012
Current liabilities		
Accrued salaries	29	1
Accumulated leave	141	150
Repatriation travel and removal expenses	20	23
Home Leave	17	14
Total current liabilities	207	188

	2013	2012
Non-current liabilities		
Accumulated leave	1 787	1 833
Repatriation travel and removal expenses	507	480
Total non-current liabilities	2 294	2 313
Total employee benefits liabilities	2 501	2 501

End-of-service payments and repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2013 was €663,000 (€699,000 in 2012).

The present value of the defined benefit obligation for end-of-service was estimated at €6.1 million (2012=€6.2 million). The present value of the defined benefit obligation for repatriation grant was €800,000 at the end of 2013 (2012=€1.0 million). These liabilities are recognized by the ILO in its consolidated financial statements.

After-service medical benefits

The liability for after-service medical benefits was estimated at €37.1 million at the end of 2013 (€39.2 million in 2012). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

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

The Centre's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent of pensionable remuneration for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The actuarial valuation performed as of 31 December 2011 revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years. The next actuarial valuation will be conducted as of 31 December 2013.

At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2011, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

In July 2012, the Pension Board noted in its Report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age will be reflected in the actuarial valuation of the Fund as of 31 December 2013.

During 2013, the Centre's contributions paid to UNJSPF amounted to €3.63 million (2012=€3.80 million). Expected contributions due in 2014 are €3.24 million.

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

Note 13 – Revenue from voluntary contributions

(In thousands of Euros)

	2013	2012
Government of Italy	9 350	7 850
International Labour Organization	3 409	3 385
Piedmont Region	100	200
Government of France	25	37
Government of Portugal	250	250
Total voluntary contributions	13 134	11 722

The ILO contribution of €3,297,000 (US\$4,373,000) represents one half of the approved 2012–13 biennial contribution of US\$8,746,000. In 2012 it was €3,385,000 (US\$4,373,000). The ILO's contributions toward the Masters' Programme in 2013 was €112,000 (2012=nil).

The Italian Government's general contribution to the Centre in 2013 was €7,850,000 (2012=€7,850,000). This amount was received in 2013. The Italian Government's contribution for training activities in 2013 was €1,500,000 (2012=nil).

Note 14 – Goods and services in kind

The services in kind provided to the Centre by the ILO are described in the Related Party Transactions–Note 19. The land and buildings of the Centre are provided by the City of Turin at a nominal rent including facilities constructed with funds provided by various donors. The financial value of these facilities is not recognized on the Statement of financial position nor has the annual value of the right to use been recognized on the Statement of financial performance. There were no goods in kind received during the year.

Note 15 – Other revenue

(In thousands of Euros)

	2013	2012
Non-exchange transactions		
Operating leases with other UN organizations	451	285
Use of facilities other than residential	173	103
Other miscellaneous income	147	154
Exchange transactions		
Use of residential facilities by non-participants attending training	146	224
Revenue from the sale of publications	1 723	990
Social life activities	139	129
Total other revenue	2 779	1 885

Note 16 – Commitments, leases and contingent liabilities

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

At 31 December 2013, the Centre has commitments of €4.4 million (2012=€4.4 million) for contracts related to future services such as hardware and software maintenance, printing services and outsourced services such as cleaning of campus premises and hotel rooms, hotel reception, post office, security, catering and transport.

Most leases entered into by the Centre as a lessee for equipment rentals and use of software are cancellable operating leases. Only leases for mobile telephones and warehouse document hosting are non-cancellable. The minimum lease payments on these agreements are €10,000 for 2014. The existing agreement on mobile phones is the only lease payment required for future years. Total expenses for equipment rentals were €170,000 (€181,000 in 2012) and €38,000 (€10,000 in 2012) for software licenses.

The Centre, acting as a lessor, has cancellable operating leases with United Nations Interregional Crime and Justice Research Institute (UNICRI) and the United Nations System Staff College (UNSSC). Revenue generated under these leases totalled €451,000 (€285,000 in 2012).

Note 17 – Statement of comparison of budget and actual amounts

The Statement of financial position (Statement I), Statement of financial performance (Statement II), Statement of changes in net assets (Statement III) and Statement of cash flow (Statement IV) include all funds while the Statement of comparison of budget and actual amounts (Statement V) includes only the General Fund and the Italy Trust Fund for which a budget is adopted by the Centre. The 2013 budget was approved by the Board of the Centre in November 2012 and the period covered is the calendar year.

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

- the use of surplus from prior periods is presented as budgetary income in Statement V while it is not presented on Statement II;
- the basis of accounting for income related to the Italy Trust Fund and the ILO grants for the Masters' Programme are not the same in Statement II and Statement V. In Statement V, income related to the Italy Trust Fund and the ILO grants for the Master's Programme is recognized as income from training activities as funds are utilized for training activities. In Statement II, they are recognized as voluntary contributions in the year to which these contributions relate if it is probable that these contributions will be received and if the amounts can be measured reliably.

The basis of accounting for depreciation and information and technology costs are not the same in Statement II and Statement V. In Statements V, depreciation of assets previously expensed and capitalized in 2011 and prior years are not reflected. In Statement V, information and technology costs incurred in 2013 but budgeted in prior periods and prepaid or committed at that time are not included.

Reconciliation between Statement V and Statement IV

(In thousands of Euros)

Net budget surplus (Statement V)	2 875
Items not included in the Statement of comparison of budget and actual amounts (Statement V) but included in the Statement of cash flows (Statement IV)	
<u>Basis Differences</u>	
Acquisition of fixed assets	(867)
Changes in non-cash items	(1 824)
Depreciation of property and equipment for assets expensed prior to 2012	(384)
<u>Entity Difference</u>	
Net surplus/(deficit) from funds not included in the budget	1 060
	(2 015)
Items included in Statement V but not included in Statement IV	
<u>Basis Differences</u>	
Use of surplus	(81)
Information technology costs for future periods	(135)
	(216)
Net increase in cash and cash equivalents (Statement IV)	644

Reconciliation between Statement V and Statement II

(In thousands of Euros)

Net budget surplus per Statement V	2 875
Items included in Statement V but not in the Statement of financial performance (Statement II)	
<u>Basis Differences</u>	
Use of prior year surplus	(81)
Information technology costs of prior period	(135)
	(216)
Items included in Statement II but not in Statement V	
<u>Basis Difference</u>	
Depreciation of property and equipment for assets expensed prior to 2012	(384)
<u>Entity Difference</u>	
Net surplus/(deficit) from funds not included in the budget	1 060
	676
Net income per Statement of financial performance	3 335

Use of surplus in 2013

In accordance with Article 7 paragraph 4 of the Financial Regulations of the Centre, the Director has allocated the financial surplus from certain prior completed financial periods and these budgets were approved by the Board of the Centre as follow:

- in 2008, the Board approved the use of €300,000 to improve training capabilities. In 2013, a total of €18,000 (2012=€16,000) was spent on improving training capabilities fully spending this allocation (2012 remaining balance=€18,000);
- in 2010, the Board approved the use of €500,000 out of the 2009 surplus to finance training activities. In 2013 €13,000 (2012=€154,000) was spent for training activities, fully spending this allocation (2012 remaining balance=€13,000);
- in 2011, the Board approved a total of €1,800,000 in budgetary expenditure out of the 2010 surplus allocated as follows: €500,000 for core training activities of which the full amount was spent in 2012; €300,000 to the Innovation; €650,000 to the Campus Improvement Fund; and €350,000 for the implementation of the main recommendations arising from the 2011 Business Process Review, of which €51,000 was spent in 2013 (2012=€31,000), leaving an unspent balance of €268,000 (2012=€319,000);
- in 2012, the Board approved a total of €765,000 in budgetary expenditure out of the 2011 surplus, allocated as follows: €500,000 for core training activities (unspent in 2013); €100,000 to the Innovation Fund, adding to the previous balance of €255,000, of which €299,000 was spent (2012=€45,000); €165,000 to the Campus Improvement Fund.

Note 18 – Contingent assets

(In thousands of Euros)

	2013	2012
ILO contribution	5 974	3 297
Government of Italy – Centre's operations	7 850	7 850
Government of Portugal	–	250
Total contingent assets	13 824	11 397

Note 19 – Related party transactions

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

(In thousands of Euros)

	2013	2012
General operations of the Centre	3 297	3 385
Training activities	10 905	5 139
ASHI contribution for former employees	604	551
Repatriation grants	24	73
End-of-service benefits	650	1 536
Staff costs of ILO staff members assigned to Centre	57	159
Internal audit and legal services	181	185
Agreed termination and cessation of service	–	59
Total related party transactions	15 718	11 087

All other transactions between the ILO and the Centre occur within a normal supplier or client/recipient relationship.

Key management personnel of the Centre are the Director and the nine members of the Management Team. The Board of Directors consists of representatives of member States of the ILO Governing Body, and a member each from the Italian Government, City of Turin, Piedmont Region and the Unione Industriale of Turin, who serve without compensation from the Centre.

The aggregate remuneration paid to key management personnel includes salaries and benefits established in accordance with the Centre's Staff Regulations and approved by the Board of Directors. Key management personnel are members of the UN Joint Service Pension Fund (UNJSPF) to which the personnel and Centre contributes and are also eligible for participation in the Staff Health Insurance Fund (SHIF) including the After Service Medical Insurance if they meet the eligibility requirements in the SHIF Regulations and Administrative Rules. Both the SHIF and the UNJSPF are defined benefit plans.

During the reporting period, salaries and benefits in the following amounts were paid to key management personnel:

Category	2013		2012	
	Individuals	Total remuneration (Euro)	Individuals	Total remuneration (Euro)
Key Management	10	1 775 000	10	1 677 000

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

Note 20 – Capital management

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

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

Note 21 – Financial information by fund

The Centre's objective is to provide training and related services to develop human resources and institutional capabilities in support of ILO's goal of decent work for all. To provide information useful to management and users of the financial statements, the following information is provided on the financial status of funds managed by the Centre as described in Note 1 in pursuit of this objective. Inter-fund transfers are eliminated in the column "Inter-fund" on the following tables.

Inter-fund transfers include:

- €330,000 from the General Fund to the Italy Trust Fund to recognize expenses related to the Italy Trust Fund (2012=€362,000); and
- €254,000 from the General Fund to the Innovation Fund (formerly Investment Fund) to cover expenses of the Innovation Fund (2012=€45,000).

International Training Centre of the ILO
Statement of financial position as at 31 December
(In thousands of Euros)

	2013 General Fund	2013 Working Capital Fund (Reserve)	2013 Campus Improvement Fund	2013 Innovation Fund	2013 Italian Trust Fund	2013 Total	2012 Total
Assets							
Current assets							
Cash and cash equivalents	7 882	1 927	1 637	–	2 918	14 364	13 720
Accounts receivable	5 113	2	–	–	–	5 115	8 397
Contributions receivable	100	–	569	–	–	669	525
Due from the ILO	4 792	–	–	–	–	4 792	2 050
Other current assets	500	–	9	–	–	509	468
Inter-fund balances	(5)	–	–	5	–	–	–
	18 382	1 929	2 215	5	2 918	25 449	25 160
Non-current assets							
Accounts receivable	749	–	–	–	–	749	1 113
Property and equipment	7 280	–	97	–	–	7 377	7 211
Intangibles	82	–	–	–	–	82	50
	8 111	–	97	–	–	8 208	8 374
Total assets	26 493	1 929	2 312	5	2 918	33 657	33 534
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	3 562	–	22	5	–	3 589	2 650
Due to donors	4 706	–	368	–	–	5 074	7 272
Deferred revenue	2 973	–	717	–	–	3 690	5 279
Employee benefits	207	–	–	–	–	207	188
	11 448	–	1 107	5	–	12 560	15 389
Non-current liabilities							
Employee benefits	2 294	–	–	–	–	2 294	2 313
Deferred revenue	749	–	–	–	–	749	1 113
	3 043	–	–	–	–	3 043	3 426
Total liabilities	14 491	–	1 107	5	–	15 603	18 815
Total net assets	12 002	1 929	1 205	–	2 918	18 054	14 719

International Training Centre of the ILO

Statement of financial performance for the period 1 January to 31 December

(In thousands of Euros)

	2013 General Fund	2013 Working Capital Fund (Reserve)	2013 Campus Improvement Fund	2013 Innovation Fund	2013 Italian Trust Fund	2013 Intersegment	2013 Total	2012 Total
Revenue								
Training activities	26 022	–	–	–	–	–	26 022	20 561
Voluntary contributions	11 634	–	–	–	1 500	–	13 134	11 722
Other revenue	2 779	–	–	–	–	–	2 779	1 885
Exchange gain (loss) and revaluation, net	(9)	–	–	–	–	–	(9)	(269)
Interest	98	18	17	–	32	–	165	306
Inter-segment revenue	330	–	–	254	–	(584)	–	–
Total revenue	40 854	18	17	254	1 532	(584)	42 091	34 205
Expenses								
Staff costs	17 256	–	–	11	–	–	17 267	17 777
Sub-contracts	8 517	–	–	142	–	–	8 659	6 331
General operating expenses	1 969	–	29	70	–	–	2 068	1 522
Travel	3 535	–	–	24	–	–	3 559	2 921
Costs related to training activities	3 450	–	–	–	–	–	3 450	2 874
Buildings and ground maintenance	2 004	–	–	–	–	–	2 004	1 687
Supplies	1 025	–	–	7	–	–	1 032	764
Depreciation	669	–	–	–	–	–	669	617
Bank charges	48	–	–	–	–	–	48	52
Other expenses	–	–	–	–	–	–	–	9
Inter-segment expense	254	–	–	–	330	(584)	–	–
Total expenses	38 727	–	29	254	330	(584)	38 756	34 554
Net surplus	2 127	18	(12)	–	1 202	–	3 335	(349)

International Training Centre of the ILO

REPORT TO THE BOARD

ANNUAL AUDIT RESULTS

28 May 2014

FOR THE YEAR ENDED 31 December 2013

About the Office of the Auditor General of Canada

The Office of the Auditor General of Canada is an independent audit office and a world leader in legislative and environmental auditing. We promote good financial and environmental management and sustainable development by the federal government.



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 have completed our audit of the 2013 financial statements of the Centre. This represents our sixth audit as external auditor. The following report contains all of the information that our audit plan indicated we would communicate to you at the conclusion of our audit, and where appropriate, other communications required under International Auditing Standards. We have addressed all of the matters that came to our attention during the course of the audit that we believe the Board of the Centre should be aware of in reviewing the Centre's financial statements. We will be pleased to elaborate on any of these points, to the extent you desire, during the Board meeting in May 2014.

We would like to take this opportunity to express our appreciation to the Director of the Centre, her officers and members of their staff for the cooperation and assistance received during our audit. We also wish to express our appreciation to the Board of the Centre and the Governing Body of the ILO for the support and interest shown in the work of our Office.

Yours sincerely,

Marian McMahon, CPA, CA, CFA
Assistant Auditor General
for the Auditor General of Canada
External Auditor

Ottawa, Canada
31 March 2014

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Executive summary

We have performed our audit in a manner consistent with the Report to the Board – Annual Audit Plan, which was presented to the Board at its 75th meeting in October 2013.

We expressed an unqualified audit opinion on the Centre's financial statements for the year ended 31 December 2013.

We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2013, its financial performance, changes in net assets, cash flow, and the comparison of budget with actual amounts for the period then ended in accordance with the International Public Sector Accounting Standards. We concluded that these accounting policies were applied on a basis consistent with that of the preceding period. We also concluded that the transactions of the Centre that have come to our notice have, in all significant respects, been in accordance with the Financial Regulations and the legislative authority of the Centre.

We completed our audit work in March 2014. As part of the audit, we followed-up on the recommendations included in the management letter that was issued following the 2012 audit. We are generally satisfied with the progress made by management in this regard.

This is the second year the Centre has been fully compliant with IPSAS. These financial statements should provide the Board with a better understanding of the Centre's operations for 2013. Going forward, IPSAS compliant financial statements could be used by management to explain the results of its activities undertaken in the year, the sources of its funding, and how it was used during the year to achieve the Centre's objectives.

2013 Annual Audit Overview

Our Mandate

1. The Office of the Auditor General of Canada (the OAG) is an independent audit office and a world leader in legislative and environmental auditing. We promote good financial and environmental management and sustainable development.
2. The OAG is widely involved in the activities of the Canadian, as well as the international, audit and accountancy profession. In Canada, the OAG is involved in many professional organizations, notably The Canadian Institute of Chartered Accountants which sets accounting and assurance standards. Internationally, the OAG has more than 50 years of experience collaborating with international partners in developing professional standards, building capacity, sharing knowledge, and conducting audits of international institutions.

3. The Auditor General of Canada was appointed external auditor of the Centre for the financial period beginning on 1 January 2008 for a four year term which was extended an additional four years to December 2015. The Centre's *Financial Regulations*, chapter IX, elaborate on the terms of reference governing the external audit. The regulations require that the external auditor report to the Board on the audit of the financial statements of the Centre and on other such matters that should be brought to its attention.

Scope and objectives of the audit

4. The scope of the audit was determined in compliance with Chapter IX of the Centre's Financial Regulations.
5. An audit is an independent examination of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the Centre's compliance with significant authority instruments and considers whether, during the course of our examination, we have become aware of any other matters that, in our opinion, should be brought to the attention of the Board.
6. As noted in the Report to the Board – Annual Audit Plan, the objectives of our audit were to provide an independent opinion on whether:
 - the financial statements have been fairly presented, in all material respects, in accordance with International Public Sector Accounting Standards (IPSAS);
 - the accounting policies set out in Note 3 to the financial statements have been applied on a basis consistent with that of the preceding period; and
 - the transactions coming to our notice as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the Centre.

Our auditor's report addresses each of our audit objectives.

Financial statement highlights

7. Management has informed us that they will review the financial statements with the Board and outline the important differences from the approved budget and the results of the previous year. We will be available to answer any questions the Board may have.

Audit approach and auditor's responsibilities

8. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in

the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall presentation of the financial statements.

9. When planning the audit, we acquired a sound understanding of the Centre; its business environment, the risks it faces, how the Centre manages those risks and its overall control environment. This understanding is based primarily on interviews with senior management and our audit knowledge of the Centre and its environment, including its internal controls. We obtained such an understanding in order to plan our audit and also to determine the nature, timing, and extent of audit procedures to be performed.
10. The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof. An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement, including those caused by fraud or error.
11. A detailed report summarizing the business risks identified and other audit risks and our planned procedures to address each of these risks was prepared and discussed with the Centre's management. We identified the key risks that could have an impact on the achievement of the fair presentation of the results of the Centre's operations and obtained an understanding of those risks that had implications for the financial statements. We focused on areas with a higher risk of a material error or non-compliance with significant authority instruments, based on our understanding of the Centre and its activities.
12. The audit plan was presented to the Centre's management and to the Board at its meeting in October 2013 in order to ensure that we had identified areas of significance and that our evaluation of the current operating environment of the Centre was complete.

Audit results

13. We issued an unqualified audit opinion on the Centre's 2013 financial statements. We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2013, and its financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards.
14. As required by the *Financial Regulations* of the Centre, we concluded that the accounting policies were applied on a basis consistent with that of the preceding period.
15. We also concluded that the transactions of the Centre that came to our notice as part of our audit of the financial statements were, in all significant respects, in accordance with the *Financial Regulations* and legislative authority of the Centre.
16. We are charged with reporting any disagreements with management over auditing, accounting, or disclosing matters that could, individually or in aggregate, significantly

affect the financial statements or our independent auditor's report. We are also obliged to report whether we resolved any disagreements satisfactorily. We are pleased to report that there are no unresolved matters.

17. We are required to report on fraud and illegal acts involving senior management, as well as fraud and illegal acts (whether by senior management or other employees) that cause a more-than-trivial misstatement of the financial statements. We emphasize that it is management's responsibility to establish a control environment and maintain policies and procedures to help ensure the orderly and efficient conduct of the Centre's business. Our audit procedures did not identify any matters related to fraud and/or error that should be brought to the attention of management or the Board.

Audit completion

18. This was the OAG Canada's sixth audit of the Centre's financial statements. In 2013, we updated our description of the Centre's financial reporting framework and its overall control environment. We acknowledge the investment of time afforded to us by the Centre and wish to express our appreciation to the Director of the Centre, her officers and members of their staff for the excellent cooperation we received throughout the audit.

Detailed report on audit results

19. As required by International Standards on Auditing and the Centre's *Financial Regulations*, we report to those charged with governance of the organization whose financial statements are being audited. In particular, we report on significant changes in accounting policies, accounting estimates and financial statement disclosures, and other matters that in the auditor's judgment are significant to the oversight of the financial reporting process. We have prepared a detailed report for the Director of the Centre. Significant issues identified during our audit and their resolutions are presented below.
20. In our Annual Audit Plan presented to the Board in October 2013, we identified four business risks that had significant audit implications – these were in the areas of funding, the implementation of new accounting standards, accounting for contracts, and management estimates.
21. We are responsible for discussing our views with the Board about the significant qualitative aspects of the Centre's accounting practices, including the appropriateness of accounting policies, the reasonableness of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.
22. Our comments and views included in this report should be taken in the context only of the financial statements as a whole and are not meant to express an opinion on any

individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Funding

23. In preparing our audit plan, funding challenges were identified as a risk due to the ongoing economic climate in many countries. We had identified this as a risk as it could have resulted in non-compliance with the Financial Regulations of the Centre if the Centre was not able to carry out certain activities, to respect its budget, or not fully meet its objectives. We reviewed whether sufficient controls were in place to mitigate the risk of non-compliance, and we found that the transactions we tested were in compliance with the authorities of the Centre.

Implementation of New Accounting Standards

24. In the current year, the Centre adopted three new accounting standards (IPSAS 28, 29 and 30) related to the recognition and disclosure of financial instruments that resulted in a number of additional disclosures in the financial statement notes. We reviewed the related disclosures in the financial statements, made a number of recommendations for modifications and additional disclosures which were implemented by the Centre. We are satisfied that the disclosures are complete, accurate and IPSAS compliant.

Accounting for Contracts

25. In 2013 the Centre implemented of a module in Oracle to enable a more systematic process for recognizing deferred revenue, which, in prior years was mainly a manual year-end adjusting process. New systems always involve the risk that transactions may not be properly processed or complete. We tested a sample of contracts as accounted for by the new system to verify the accuracy and completeness of contract revenue and deferred revenues and found that while most transactions were accurately reported and complete, our audit work identified some adjustments to revenues at year end that were required.

Management Estimates

26. Preparing the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. Our audit plan identified the provisions for doubtful accounts and contingent liabilities as potentially the most significant estimates.

27. In determining the provision for doubtful accounts, management reviews the accounts receivable to determine the amounts that are expected to be recovered. In 2013 the Finance Committee began to receive quarterly reports to monitor the status of overdue accounts receivable. Provisions for doubtful accounts are determined for each outstanding account receivable. We examined the reasonableness of the estimates by discussions with senior management and reviewed the key assumptions used to establish the provision for doubtful accounts, as well as the accuracy and completeness of data used to make these assumptions.
28. Contingent liabilities are recognized when the Centre determines it has a present legal or constructive obligation as a result of past events and it is likely it will be settled in an amount that can be reliably estimated. If a contingent liability is uncertain but can be measured, or if there is a present obligation that cannot be reliably measured, they are disclosed in the notes to the financial statements. We examined the reasonableness of management's assumptions in determining the likelihood and amount of contingent liabilities. We also obtained the Centre's legal counsel's assessment of any future liabilities. Through these procedures as well as discussions with senior management we determined that management's assessment for contingent liabilities is reasonable.
29. We do not consider the risks of material misstatement in these estimates to be high, nor did we find indicators of possible management bias. The significant assumptions used are reasonable. There have been no significant changes to estimates or processes made by management to the critical accounting estimates in the year under audit.

Future International Public Sector Accounting Standards

30. For fiscal 2014, there is one new standard that comes into effect, IPSAS 32 – Service Concession Arrangements: Grantor. This standard impacts the recognition, measurement, and disclosure of service concession assets and related liabilities, revenues, and expenses by the grantor. A service concession agreement provides for an entity to provide a public service on behalf of the grantor for a specified period of time where the entity is compensated by the grantor for its services over the period of the service concession arrangement. The Centre will need to review its contracts in order to determine whether any service concession arrangements exist and determine the impact, if any, on the financial statements.

Other Matters

31. In our review of accounting policies, we identified two other risk areas that were not included in our Annual Audit Plan which could have had a material impact on the financial statements. This is in respect of the accounting for land and buildings from which the Centre conducts its operations and accounting for the employee future benefits.
32. Land and Buildings According to IPSAS, when an asset is provided at no cost (or nominal), the value of that asset should be recognized in the financial statements. Under

IPSAS, there are options for recognizing the assets, depending on whether the provision of those assets is considered as a good or a service. This standard would apply to the land and buildings used by the Centre that were provided at a nominal charge from the City of Turin. The full value of the land and buildings is currently not recognized in the financial statements.

33. In 2012, when IPSAS 17 (Property, Plant and Equipment) was adopted, management capitalized the value of the leasehold improvements made to the buildings. Since it is approximately 50 years since the date of acquisition, any remaining value of the original buildings that would have been capitalized in 1964 would likely be fully amortized. Therefore we are satisfied that most, if not all of the value of the buildings have been capitalized and that the impact of not capitalizing the original buildings is not significant.
34. With respect to the land, there are two options. If the provision of the land is considered a donated asset, it should be recognized as an asset on the statement of financial position. If it is considered a service, the value of the service received should be recognized as revenue to recognize that the City of Turin is providing it at a nominal cost. This would be offset by an expense to show the cost of using the asset. The note disclosure that describes the agreement with the City of Turin is considered acceptable, however we will follow up to encourage recognition of the land next year.
35. Accounting for employee future benefits In the past two years, we have raised the issue that the Centre is not fully compliant with the standard for accounting for employee future benefits (IPSAS 25). This standard requires the non-current portion of the liability related to future benefits such as accumulated leave, the repatriation grant and travel expenses to be discounted to their present value. The Centre has not discounted accumulated leave or the repatriation grant and travel costs as it has determined that the impact of not discounting is not material. We would encourage the Centre to determine a present value of these employee future benefits in future years, and adjust the financial statements accordingly.

Benefits of IPSAS Financial Statements




36. Now that the Centre has fully adopted IPSAS, management needs to assess how the IPSAS financial and non-financial information available could be used in carrying out its responsibilities. In addition, management should assess whether the information in the financial statements conveys the messages and the financial information useful to the Board in its governance role.
37. The financial statements should provide the Board with a better understanding of the activities undertaken during the year and their impact on the financial results, any changes in the sources of its funding, and how those funds were used during the year to achieve the Centre's objectives.
38. The Financial report on the accounts that precede the financial statements that is prepared by management can be used to explain year-to-year variances in financial

information. For example, this section could be used to describe new training initiatives, new agreements with funding partners, major contract awards, new capital projects undertaken during the year and any unusual activities that may have impacted the financial results. Board members would then have better information from a financial perspective on whether the Centre is managing its resources in line with the Centre's priorities and objectives.

Recommendation The Centre should identify how the IPSAS financial statements can be used by management carrying out its responsibilities and also determine how that information (financial and operational) can be conveyed to Board members in a consolidated manner that assists them in carrying out their oversight role.

Management's response The Centre produces an Annual Implementation Report to the Board setting out the progress of its implementation of the operational and financial targets and objectives for the completed year as established in the results-based Strategic Plan approved by the Board. In this report to the Board, the audited IPSAS financial statements are used as the basis for reporting the financial performance of the Centre, budgetary results, expenditure reporting, revenue breakdown and analyses and comparisons with previous year's performance.

The Annual Implementation Report focuses more on the operational results of the Centre and the financial report section of the report to the Board on the financial statements concentrates more on the financial highlights and performance during the year. For the first time, the Board will consider both the 2013 Annual Implementation Report and the 2013 financial statements at an additional Board meeting to be held in May thereby allowing them to review these items together in recognition of the inter-relationship between the operational and financial reports. This decision has been taken to assist the Board in carrying out its oversight role.

Recommendations included in the Report to the Board on the 2012 audit	Progress
<p>The Centre should conduct a lessons learned from the implementation of IPSAS, including how the implementation went. It should identify the benefits to the organization, the areas where improvements are still required, how the new information created for the financial statements can be used by management in decision making, and what lessons can be drawn from this project in order to ensure that difficulties encountered are avoided in the future.</p>	
<p>The Centre should continue to monitor and prepare for the new IPSAS standards that will be applied in 2013 and future years and consider their impact, if any, on financial statements and information systems. This may include the development of accounting policies such as a new policy for the recognition and disclosure of financial instruments in compliance with IPSAS 28-30 and determining whether its information systems adequately capture financial information to facilitate the standards' accounting and reporting requirements. The Centre should also continue the practice to prepare pro-forma financial statements early to enable sufficient time to ensure disclosures are complete and in accordance with the standards.</p>	
<p>The Centre monitored and prepared for the new IPSAS standards applicable to 2013, and provided pro-forma financial statements on a timely basis. During our audit we made a number of recommendations for additional disclosures that were required by the standards. The standards require the Centre to categorize its financial instruments which determines how those assets and liabilities are accounted for. We found that at year-end, the financial instruments had not been categorized, nor was there a documented policy on the rationale for the categorization. Management included additional disclosures in the financial instrument note which is now compliant with IPSAS disclosure requirements.</p>	

Number of recommendations	Recommendations fully implemented
3	2

- Full implementation: Fully addressed with implementation of a plan or a new process and expected results achieved.
- ◐ Ongoing implementation: Formal plans created for organizational changes with appropriate resources and a reasonable timetable. Implementation had partially achieved the expected results.

Management Letter

40. We reviewed the status of recommendations made directly to management in previous years and we are generally satisfied with the progress made. As in prior years we still have concerns with respect to plans to manage key human resource issues of the Centre in light of the fact that some senior management will be retiring in the near future. While we are aware the Centre is working on identifying replacements for key positions, it is important to have a succession plan to find candidates with the appropriate background and experience and that allows enough time to allow for the transfer of knowledge of the Centre's operations.

Conclusion

41. We are pleased with the results of the 2013 financial statement audit. We will continue to work with the Centre's management in 2014 to identify how the financial statements can be improved in order to assist the Board members in their review of the financial results.