INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

74th Session, Turin, 1 - 2 November 2012 **CC 74/4/1**

FOR DECISION

FOURTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the financial year 1 January to 31 December 2011

TABLE OF CONTENTS

Financial report on the 2011 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 2011 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 2011 financial statements have been prepared on the basis of the United Nations System Accounting Standards (UNSAS) and presented utilizing the format prescribed by the International Public Sector Accounting Standards (IPSAS). As part of the phased adoption of IPSAS, the 2011 financial statements include the adoption of 24 IPSAS addressing elements such as provisions, contingent liabilities and contingent assets; related party disclosures; presentation of budgetary information; employee benefits; revenue from exchange transactions; events after the reporting date; disclosure and presentation of financial instruments; segment reporting; revenue from non-exchange transactions, inventories and leases. The 2011 financial statements include financial adjustments required by these IPSAS. Additional adjustments will be implemented in future years. Full implementation of IPSAS is planned for 2012.

The International Labour Organization (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 2011 financial statements of the Centre will be consolidated with those of the ILO's.

Financial results for 2011

The **Statement of financial position, Statement I** shows the combined assets, liabilities and reserves plus accumulated fund balances of the Centre as at 31 December 2011 and 31 December 2010. Employee benefit liabilities of €2.7 million for home leave, compensatory overtime, annual leave, repatriation travel and shipping costs of eligible employees of the Centre are included.

The organization's net assets increased by €264,000 or by three percent as compared to 2010. Detailed net assets by Fund have been presented in note 22.

The **Statement of financial performance, Statement II** shows the combined results of the Centre's operations, with a combined net surplus of €468,000 for 2011. Compared to 2011, revenue increased by €2.5 million or seven percent, while expenses declined by €645,000 or 1.6 percent. More detailed information on the results and information of revenue, expense and changes in net assets is presented in detail in note 22.

The **Statement of changes in net assets, Statement III** presents in summary the net accumulated fund balances and reserves at the beginning of 2011, the impact on the reserves of the net results and the adjustment for derivative liabilities.

The **Statement of cash flow, Statement IV** presents the total cash and cash equivalents held by the Centre at the end of 2011 and 2010.

Regular Budget

The Board of the Centre at its 72st Session (November 2010) approved an expenditure budget of €40.0 million and an income budget of €40.0 million for the 2011 financial period.

The overall budgetary results for the 2011 financial period are summarized in **Statement V**, with the details of voluntary contributions made by donors shown in note 14. Using the accrual method of accounting, total budgetary income for 2011 amounted to €40.0 million. Fixed expenditure under Chapter III of the budget during 2011 amounted to €20.9 million. Variable expenditure under Chapter IV amounted to €18.0 million. The budget surplus for 2011 amounted to €765,000 after provision for doubtful accounts and foreign exchange losses.

Significant differences between 2011 budget and actual amounts as presented on Statement V

(Expressed in thousands of Euros)

Line item in Statement V			Budget 2011	Actual 2011	Variance Amount	Variance %
Chapter	**Line**					
I	10	International Labour Organization	3,116	2,895	(221)	(7%)
I	13	Piedmont Region	400	220	(180)	(45%)
I		Portugal	-	250	250	100%
II	20	Revenue from training activities	26,600	26,884	284	1%
II	20A	Other revenue	1,400	1,291	(109)	(8%)
III	22	Staff	14,944	14,720	224	1%
III	27	Services provided by ILO Offices	220	-	220	(100%)
III	31	Depreciation	590	449	141	(24%)
III	32	Other fixed costs	2,227	2,392	(165)	7%
IV	33	Temporary assistance	8,900	9,049	(149)	2%
IV	36	Participants travel	2,100	1,694	406	(19%)
IV	39	Other variable costs	3,100	3,252	(152)	5%
Total significant variances					**549**	

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

The budget for 2011 with a budget surplus of €30,000 was approved by the Board at its Seventy-second Session held in November 2010. Favourable variances in fixed costs are the result of cost reduction measures implemented in 2011 such as budget cuts in missions and travel, the continuing implementation of cost-saving measures in general operating expenses and the favourable exchange rate of the Euro on US dollar denominated expenditure.

Specific explanations of the significant differences

Voluntary contributions: The US dollar contribution from the ILO is €221,000 below budget due to exchange difference between the budget rate and the exchange rate at the time of receipt of this contribution. Piedmont Region reduced its contribution by €180,000. The donor agreement from Portugal for €250,000 voluntary contribution to the Centre was signed and received after the budget has been approved by the Board, which explains this favourable variance.

Revenue from training activities: The increase in income from training activities is mostly due to the increase in training activities funded by the Italian government.

Other revenue: The decrease in other income is mostly due to the lower revenue from non-residential facilities.

Staff: This expense is below budget by €224,000 due to the savings in professional staff salaries as a result of favourable Euro exchange rates vis-a-vis the US dollar and ILO paying for a portion of salaries of ILO staff assigned to the Centre.

Services provided by ILO Offices: There is no expenditure in this budget line due to ILO absorbing the Centre's share in the costs of internal audit and legal services.

Depreciation: This budget line is below budget by €141,000 due to the fact that the planned change in the capitalisation threshold of assets from €1,000 to €4,000, which was incorporated into the 2011 budget has been deferred to 2012 to coincide with the implementation of IPSAS 17 – Plant, Property and Equipment.

Other fixed costs: This budget line is above budget by €165,000 due to the purchase of computer and residential equipment that were deferred from 2010.

Temporary assistance: This budget line is above budget by €149,000 due to the changing mix of projects requiring large service contracts with partners instead of project-based staff and external lecturers.

Participants travel: This budget line is below budget by €406,000 due to fewer study visits in 2011.

Other variable costs: This budget line is above budget by €152,000 due to the introduction of evaluation costs in 2011 and the higher publication costs as a result of increased revenue from publications.

General Fund

The accumulated fund balance and reserves in the General Fund totalled €6.0 million at 31 December 2011. Details of the balances in this fund are summarized in note 22.

Non-General Funds managed by the Centre

Non-General fund balances managed by the Centre totalled €2.9 million at 31 December 2011. They comprise of €2.1 million for the Italian Trust Fund and €0.8 million for the Campus Improvement Fund.

Ex-gratia payments

During the year 2011, there were no ex-gratia payments made.

Approval of the financial statements for the period 1 January to 31 December 2011

The financial statements numbered I to V and the accompanying notes (Notes 1–23) are approved.

Patricia O'Donovan
Director

29 March 2012

Remedios Dungca
Treasurer and Chief, Financial Services

29 March 2012

Auditor General of Canada
Vérificateur général du Canada

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 2011, 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 United Nations System 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.

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the International Training Centre of the International Labour Organization as at 31 December 2011, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with United Nations System 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 United Nations System Accounting Standards have been applied, after giving retroactive effect to the changes as explained in Note 3 to the financial statements, 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 the *Financial Regulations* and legislative authority of the International Training Centre of the International Labour Organization.

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

Michael Ferguson, FCA
Auditor General of Canada

29 March 2012
Ottawa, Canada

Financial statements and notes to the financial statements for the period 1 January to 31 December 2011

International Training Centre of the ILO

Statement of financial position as at 31 December

(In thousands of Euros)

	Note	2011	2010 Restated
Assets			
Current assets			
Cash and cash equivalents	**4**	14,024	12,474
Investments	**7**	-	3,508
Accounts receivable	**6**	13,458	13,199
Contributions receivable	**5**	570	895
Due from the ILO		2,306	1,222
Other current assets	**8**	514	512
		30,872	**31,810**
Non-current assets			
Accounts receivable	**6**	2,429	3,842
Fixed assets	**9**	1,005	958
		3,434	**4,800**
Total assets		**34,306**	**36,610**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**10**	3,796	2,989
Derivative liabilities	**7**	204	-
Due to donors	**11**	6,397	8,268
Deferred revenue	**12**	9,864	10,391
Employee benefits	**13**	230	309
		20,491	**21,957**
Non-current liabilities			
Employee benefits	**13**	2,466	2,155
Deferred revenue	**12**	2,429	3,842
		4,895	**5,997**
Total liabilities		**25,386**	**27,954**
Net assets			
Reserve for Working Capital Fund	**22**	1,872	1,852
Reserve for derivative liabilities		(204)	-
Total accumulated fund balances		7,252	6,804
Total net assets		**8,920**	**8,656**

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	2011	2010
Revenue			
Training activities	**16**	24,392	21,054
Voluntary contributions	**14**	13,039	13,909
Other revenue	**17**	2,393	2,023
Exchange gain (loss) and revaluation, net		(134)	255
Interest		171	115
Total revenue		**39,861**	**37,356**
Expenses			
Staff costs		17,955	17,974
Sub-contracts		8,320	6,862
General operating expenses		2,511	4,374
Travel		3,701	3,784
Other costs related to training activities		3,601	3,379
Buildings and ground maintenance		1,739	2,106
Supplies		1,046	1,045
Depreciation		449	438
Bank charges		71	58
Other expenses		-	18
Total expenses		**39,393**	**40,038**
Net surplus/(deficit)		**468**	**(2,682)**

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)

	Reserve (Working Capital Fund)	Reserve (Derivative liabilities)	Accumulated Fund Balances	Net Assets
Balance as at 31 December 2010	**1,852**	**-**	**6,804**	**8,656**
Net Surplus of 2011	20	-	448	468
Adjustment for derivative liabilities	-	(204)	-	(204)
Balance as at 31 December 2011	**1,872**	**(204)**	**7,252**	**8,920**

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)

	2011	2010 Restated
Cash flows from operating activities		
Surplus/(Deficit) for the period	468	(2,682)
Effect of exchange rates on cash and cash equivalents	(23)	54
Non-cash items:		
Depreciation	449	438
Loss on disposals	-	12
(Increase) decrease in accounts receivable	1,154	(70)
Decrease in contributions receivable	325	5
(Increase) in due from the ILO	(1,084)	(1,222)
(Increase) in other current assets	(2)	(40)
Increase in accounts payable and accrued liabilities	807	547
Increase (decrease) in deferred revenue	(1,940)	1,304
Increase (decrease) in due to the ILO	-	(281)
Increase (decrease) in due to donors	(1,871)	1,884
Increase in employee benefit liabilities	232	2,464
Adjustment to net assets related to employee benefits	-	(2,457)
Net cash flows from operating activities /1	**(1,485)**	**(44)**
Cash flows from investing activities		
Acquisitions of fixed assets	(496)	(566)
Acquisition of investments	-	(3,508)
Sale of investments	3,508	-
Net cash flows from investing activities	**3,012**	**(4,074)**
Effect of exchange rates on cash and cash equivalents	23	(54)
Net increase (decrease) in cash and cash equivalents	**1,550**	**(4,172)**
Cash and cash equivalents, beginning of period	12,474	16,646
Cash and cash equivalents, end of period	**14,024**	**12,474**

The accompanying notes are an integral part of the financial statements.

/1 €209 in interest received is included in the net cash flows from operating activities (2010 = €70).

International Training Centre of the ILO

Statement of comparison of budget and actual amounts
For the period of 1 January to 31 December
(In thousands of Euros)

Budget Chapter	Budget Item	Title	2011 BUDGET	2011 ACTUAL	BUDGET VARIANCE /2
		REVENUE			
I		**Voluntary contributions**			
	10	International Labour Organization	3,116	2,895	(221)
	11	Government of Italy	7,850	7,850	-
	12	Government of France	100	105	5
	13	Piedmont Region	400	220	(180)
		Government of Portugal	-	250	250
		Total voluntary contributions	**11,466**	**11,320**	**(146)**
II		**Earned revenue**			
	20	Revenue from training activities	26,600	26,884	284
	20a	Other revenue	1,400	1,291	(109)
		Total earned revenue	**28,000**	**28,175**	**175**
	21	Use of surplus	500	416	(84)
		TOTAL BUDGET REVENUE	**39,966**	**39,911**	**(55)**
		EXPENDITURE			
III		**Fixed expenses**			
	22	Staff	14,944	14,720	(224)
	23	External collaborators	453	381	(72)
	24	Buildings	1,815	1,740	(75)
	25	Transport and communications	443	388	(55)
	26	Specialized services	540	490	(50)
	27	Services provided by ILO Offices	220	-	(220)
	28	Official meetings	120	97	(23)
	29	Missions and representation	350	255	(95)
	30	Library and training resources	34	19	(15)
	31	Depreciation	590	449	(141)
	32	Other fixed costs	2,227	2,392	165
		Total fixed expenses	**21,736**	**20,931**	**(805)**
IV		**Variable expenses**			
	33	Temporary assistance	8,900	9,049	149
	34	Missions	830	853	23
	35	Participants subsistence	2,800	2,834	34
	36	Participants travel	2,100	1,694	(406)
	37	External tuition fees	10	-	(10)
	38	Books, training aids, supplies	160	126	(34)
	39	Other variable costs	3,100	3,252	152
	39a	Other costs related to other income	300	225	(75)
		Total variable expenses	**18,200**	**18,033**	**(167)**
		TOTAL OPERATING EXPENSES	**39,936**	**38,964**	**(972)**
		BUDGET SURPLUS	**30**	**947**	**917**
		Other items			
	40	Provision for doubtful accounts	-	(48)	(48)
	41	Exchange gain (loss) and revaluation, net	-	(134)	(134)
		TOTAL OTHER ITEMS	**-**	**(182)**	**(182)**
		NET BUDGET SURPLUS /1	**30**	**765**	**735**

/1 As referred to in Financial Regulations 7(4).
/2 Budget variances are explained in the accompanying financial report on the 2011 accounts.
The accompanying notes are an integral part of the financial statements.

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. However, they are entitled to reimbursement of travel expenses incurred in the performance of their duties. 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 the Centre's Financial Regulations, article 17, 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.

4) The Italian Trust Fund was established to receive funds from the Italian government for training activities.

5) The Investment Fund was created following the approval of the Board in November 2006 for the upgrade and development of curricula and training materials and other projects to improve the overall capacity of the Centre.

Note 2 – Significant accounting policies

The financial statements of the Centre have been prepared in accordance with the United Nations System Accounting Standards (UNSAS) and the Centre's Financial Regulations. Pursuant to UNSAS, the Centre has adopted and applied to the financial statements the following International Public Sector Accounting Standards (IPSAS):

IPSAS-2 Cash Flow Statements
IPSAS-3 Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS-4 The Effects of Changes in Foreign Exchange Rates
IPSAS-9 Revenue from Exchange Transactions
IPSAS-12 Inventories
IPSAS-13 Leases
IPSAS-14 Events after the Reporting Date
IPSAS-15 Financial Instruments: Disclosure and Presentation
IPSAS-18 Segment Reporting
IPSAS-19 Provisions, Contingent Liabilities and Contingent Assets
IPSAS-20 Related Party Disclosures
IPSAS-23 Revenue from Non-Exchange Transactions (partial adoption)
IPSAS-24 Presentation of Budgetary Information in Financial Statements
IPSAS-25 Employee Benefits

IPSAS 4, 9, 14, 15, 18, 19, 20, 23 (adopted for voluntary contributions and other revenue), 24, and 25 were applied to the 2010 financial statements. IPSAS 2, 3, 12, 13 and 23 (adopted for revenue from training activities) have been applied to the 2011 financial statements. All IPSAS that have been adopted are reflected in the 2010 comparative information.

The following IPSAS have been reviewed and have no impact on the Financial Statements:

IPSAS-5 Borrowing Costs
IPSAS-6 Consolidated Financial Statements and Accounting for Controlled Entities
IPSAS-7 Investments in Associates
IPSAS-8 Interests in Joint Ventures
IPSAS-10 Financial Reporting in Hyperinflationary Economies
IPSAS-11 Construction Contracts
IPSAS-16 Investment Property
IPSAS-22 Disclosure of Information about the General Government Sector
IPSAS-26 Impairment of Cash Generating Assets
IPSAS-27 Agriculture

Transitional Provisions: For IPSAS-23 "Revenue from Non-Exchange Transactions," the Centre has elected to apply the three-year transitional provisions provided in the Standard. For 2010, this Standard was applied to revenue from voluntary contributions for all funds. In 2011, this Standard has been applied to revenue from training activities. For 2011, the standard has not been applied to revenue from contributions of goods in kind. The Centre expects to be fully compliant with IPSAS 23 by 2012.

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 2010.

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. As a transitional measure, these financial statements are presented in the format provided for in IPSAS 1, although the Centre has not adopted IPSAS 1 in 2011.

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.

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.

Investments: Investments are held until maturity and are valued at fair value, at 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 utilizing the discount rate used by the actuary in the calculation of the ILO After Service Health Insurance liability.

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. Inventories are measured at the lower of cost, using the "first-in-first-out" cost formula, and net realizable value. However, in the case of unfinished items held for sale or for free distribution, as they are not interchangeable, they are 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.

Fixed assets: Fixed assets are measured at cost. Vehicles, office equipment and computer systems are depreciated on a straight line basis over a 5-year life, while other equipment and furniture are depreciated on a straight line basis over a 10-year life. The value of leasehold improvements related to the buildings of the Centre has not been recognized in the accounts pending the scheduled adoption of IPSAS-17 Plant, Property and Equipment in 2012.

Intangible assets: Cost of intangibles, including software developed and utilized internally by the Centre in its operations, and copyrights on publications have been expensed when incurred pending the adoption of IPSAS-31 Intangible Assets in 2012.

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 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 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 twelve months or longer from the reporting date are recognized as non-current liabilities and are discounted utilizing the discount rate used by the actuary in the calculation of the ILO After Service Health Insurance liability.

Derivative assets/liabilities: Derivative financial instruments in the form of forward purchase agreements have been acquired for the purpose of hedging the Euro value of the US dollar denominated voluntary contribution received annually from the ILO. A forward purchase agreement is recognized at fair value at the reporting date as a derivative asset if there is an unrealized gain or derivative liability if there is an unrealized loss. The estimated unrealized gain or loss is calculated utilizing the market spot and the forward exchange rates at the reporting date. All changes in the unrealized gain or loss on forward purchase agreements are presented in a separate reserve in the period in which they occur and are presented as realized exchange gain or loss in the financial period in which the contract is sold, terminated or exercised.

Employee benefits:

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.

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.

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

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.

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 2011. In 2010, this estimate was calculated based on an estimated average cost. The impact on future financial periods of the change in the measurement basis for estimating the liability has not been calculated as it will depend on the eligible staff members existing at each reporting date. The non-current portion of the liability is not discounted.

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% 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% 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 and the ILO accounts for them on a defined benefit basis in its consolidated financial statements. Therefore, a liability is recognized only if the monthly contribution to the ILO in respect of employee services rendered remains to be paid at the reporting date.

After-service medical benefits
The Centre does not recognize any liability in its accounts for after-service medical benefits to which staff members (and their dependants) 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 insured, 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.

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. The pension fund is a funded, multi-employer defined benefit plan.

Actuarial valuations are prepared every two years for the UNJSPF using the Open Group Aggregate method. The latest actuarial valuation for the UNJSPF will be prepared as of 31 December 2011. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in plan. The Centre, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes and hence, has accounted for this plan as if it were a defined contribution plan.

The Centre's contribution to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly, together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF. Such deficiency payments are payable only 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 UNJSPF at the valuation date. At the time of the finalization of the financial statements, the United Nations General Assembly had not invoked this provision.

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.

Other revenue: Other revenue comprises non-training activities such as revenue from social life activities, revenue generated by the use of residential facilities other than participants attending training, revenue from the sale of publications and revenue from the rental of facilities to other UN organizations. They are recognized as services are provided. All leases with other UN organizations 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.

Interest revenue: Interest revenue generated from short-term deposits and investments 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 accounts. Such services in kind include the right to use land and buildings of the Centre that are provided by the City of Turin at a nominal rent.
- *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.

Contingent assets: Probable inflows of revenue from voluntary contributions and training activities that have not been recorded 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.

Note 3 – Changes in accounting policies

As disclosed in note 2, the Centre adopted IPSAS 23 in 2011 for its training activities as part of the phased adoption of International Public Sector Accounting Standards (IPSAS). As a result, the Centre has changed its accounting policy related to training services. Under the new policy, amounts related to signed agreements for which the Centre has full control, including conditions requiring the delivery of training services to third parties in future financial periods as well as the implicit or explicit obligation to return funds if such conditions are not met are recognized as accounts receivable offset by equal amounts recognized as deferred revenue. In addition, this change resulted in the reclassification of the amounts presented in 2010 as deferred revenue to due to donors and from due to donors to deferred revenue.

In accordance with the change in accounting policy that was retrospectively applied, the Statement of financial position for the year 2010 has been restated as follows (expressed in thousands of euros):

	2010 Restated	2010 as previously stated	Change
<u>**Statement of financial position**</u>			
Total assets	**36,610**	**22,726**	**13,884**
Current assets	31,810	21,768	10,042
Accounts receivable	13,199	3,157	10,042
Non-current assets	4,800	958	3,842
Accounts receivable	3,842	-	3,842
Total liabilities	**27,954**	**14,070**	**13,884**
Current liabilities	21,957	11,915	10,042
Due to donors	8,268	349	7,919
Deferred revenue	10,391	8,268	2,123
Non-current liabilities	5,997	2,155	3,842
Deferred revenue	3,842	-	3,842

As part of the adoption of IPSAS 12 (Inventories) in 2011, the valuation of the inventory of unfinished items held for sale or for free distribution has been modified to the lower of cost and current replacement cost. There was no impact from this change for 2011 and 2010. In addition, the value of administrative supplies, previously classified as inventory, has been reclassified to prepaid expenses since they do not meet the definition of inventory under IPSAS 12.

Note 4– Cash and cash equivalents

(Expressed in thousands of Euros)

	US dollar (Euro equivalent)	Swiss franc (Euro equivalent)	Euro	2011 total	2010 total
Current accounts and cash on hand	1,531	86	3,286	4,903	12,474
Short-term deposits	-	-	9,121	9,121	-
Total cash and cash equivalents	1,531	86	12,407	14,024	12,474

Of the total cash and cash equivalents held in 2010, €11.560 million was in the functional currency and the balance held in other currencies, primarily US dollars and the Swiss Franc, was €596,000 (Euro equivalent) and €318,000 (Euro equivalent).

Note 5 – Contributions receivable

(Expressed in thousands of Euros)

	2011	2010
Government of France	50	25
Piedmont Region	220	370
City of Turin	300	500
Total contributions receivable	**570**	**895**

Of the above, €300,000 (2010= €500,000) is subject to conditions requiring use for expenses related to extraordinary maintenance and landscaping of the property occupied by the Centre. All of the above contributions receivable relate to non-exchange transactions.

Note 6– Accounts Receivable

(Expressed in thousands of Euros)

	2011	2010 Restated
Current accounts receivable		
Accounts receivable from invoiced training services	4,888	4,080
Accounts receivable from training services agreements due in 2012	9,509	10,042
Other accounts receivable	19	51
Less: provision for doubtful accounts – training services	(958)	(974)
Less provision for doubtful accounts – other	-	-
Total current net accounts receivable	**13,458**	**13,199**

	2011	2010 Restated
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2012	2,429	3,842
Less: provision for doubtful accounts – training services	-	-
Total non-current net accounts receivable	**2,429**	**3,842**

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

During the year, the Centre wrote off €64,000 (2010= €102,000) of accounts receivable.

Note 7– Financial Instruments

Fair value of financial assets and liabilities

All financial assets and financial liabilities are valued at fair value, either a market value for assets for which an active market exists (cash and cash equivalents, investments and derivative liabilities) or reflecting impairment through provisions for doubtful accounts for accounts receivable. As at the end of the year and the preceding year, the fair value of all financial assets and liabilities equal their carrying value.

There are no unrecognized financial instruments in the Financial Statements.

The Centre's activities are exposed to the following financial risks: price risk, credit risk and liquidity risk. Financial risk management is carried out in conjunction with the Centre's investment policy and Financial Regulations.

Price Risk

Price risk comprises three types of risk: currency risk, interest rate risk and market risk. The Centre is exposed to all these risks.

Currency risk

This is the risk that the value 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 USD foreign currency exposure as at 31 December is as follows (in thousands of Euros):

	2011 USD	**2011 Euro equivalent**	**2010 USD**	**2010 Euro equivalent**
Cash and cash equivalents	1,977	1,531	782	595
Accounts receivable	618	478	781	594
Due from the ILO	1,210	937	1,302	991
Payables and accrued liabilities	(532)	(412)	(89)	(68)
Net exposure	**3,273**	**2,534**	**2,776**	**2,112**

Based on the net exposure as at 31 December 2011, and assuming all the other variables remain constant, a hypothetical five percent change in the US dollar against the Euro would result in an increase or decrease in net results of €127,000 (€107,000 in 2010) or twenty-seven per cent (four percent in 2010).

A major source of the Centre's funding comes from a voluntary contribution provided by the International Labour Organization from funds appropriated in the ILO's Regular Budget. These funds are received in United States dollars which is the ILO's functional currency. In order to limit the risk of loss on conversion of the US dollar contribution to the euro, the Centre's functional currency, the Centre purchased foreign exchange forward agreements in order to hedge a portion of the euro value of the 2012 voluntary contribution. The face value of the agreements is €2.1 million, purchased at an average rate of €1.00 = US $1.419. The agreements mature on 12 January 2012. The market value of the agreements as reported by the contracting bank at 31 December 2011 was negative €204,000 which has been recognized as a derivative liability with a corresponding amount in reserve for derivative liabilities.

Interest Rate Risk

This is the risk that the value 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 short-term investments 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.

Market Risk

This is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

There are no outstanding fixed term investments at the reporting date (€3.5 million in 2010).

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. The maximum exposure to credit risk is represented by the carrying value of these assets. Details are provided below.

Cash and Cash Equivalents and Investments

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 Organization 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 in order to avoid an over-concentration of funds with few institutions. The total percentage of the Centre's cash, cash equivalents and investments 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.

The credit rating for cash and cash equivalents and investments are as follows as at 31 December (in thousands of Euros):

2011	AAA	AA+ - AA-	A-AA	A+-A-	Total
Cash and Cash Equivalents	-	3,018	7,485	3,521	**14,024**

2010	AAA	AA+ - AA-	A-AA	A+-A-	Total
Cash and Cash Equivalents		12,149		325	12,474
Government bond			2,008		2,008
Sovereign bond	1,500				1,500
Total Cash and Cash Equivalents and Investments	**1,500**	**12,149**	**2,008**	**325**	**15,982**

Accounts receivable

The aging of the Centre's receivables at 31 December is as follows (in thousands of Euros):

2011

	Less than 1 year	1-2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	15,809	137	899	(958)	15,887
Contributions receivable	245	325	-	-	570
Total receivable	**16,054**	**462**	**899**	**(958)**	**16,457**

2010

	Less than 1 year	1-2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	16,678	340	997	(974)	17,041
Contributions receivable	895	-	-	-	895
Total receivable	**17,573**	**340**	**997**	**(974)**	**17,936**

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.

Note 8 - Other current assets

(Expressed in thousands of Euros)

	2011	2010 Restated
Inventories	65	87
Prepaid expenses and advances	449	425
Total other current assets	**514**	**512**

Inventory recognized as expense on the Statement of financial performance was €479,000 (€567,000 in 2010), while the total amount written off in 2011 was €16,000 (€12,000 in 2010).

Note 9 – Fixed assets

(Expressed in thousands of Euros)

	Vehicles and Office Equipment	Computer Systems	Other Equipment and Furniture	Total
Cost at 01/01/2011	1,637	1,665	634	3,936
2011 additions	101	356	39	496
2011 disposals	(13)	-		(13)
Cost at 31/12/2011	**1,725**	**2,021**	**673**	**4,419**
Accumulated depreciation at 01/01/2011	1,050	1,417	511	2,978
2011 depreciation	216	212	21	449
2011 disposals	(13)			(13)
Accumulated depreciation at 31/12/2011	**1,253**	**1,629**	**532**	**3,414**
Net book value at 31/12/2011	**472**	**392**	**141**	**1,005**
Net book value at 31/12/2010	**587**	**248**	**123**	**958**

Note 10 – Accounts payable and accrued liabilities

(Expressed in thousands of Euros)

	2011	2010
Accounts payable	2,591	2,133
Accrued liabilities	1,205	856
Total accounts payable and accrued liabilities	**3,796**	**2,989**

Note 11 – Due to Donors

(Expressed in thousands of Euros)

	2011	2010 Restated
European Commission	1,404	1,792
Italian Presidency of Consiglio	327	1,341
Ministry of Social Policy, Bulgaria	985	1,244
Italian Ministry of Foreign Affairs, Palestine	497	731
Government of Brazil	506	373
Spanish Labour and Immigration Ministry	273	267
Ministry of Labour and Social Solidarity, Portugal	464	234
UN Women	284	-
Others	1,657	2,286
Total due to donors	**6,397**	**8,268**

Note 12 – Deferred Revenue

(Expressed in thousands of Euros)

	2011	2010 Restated
Current deferred revenue		
European Commission	4,441	3,884
Governments	4,613	5,825
Others	810	682
Total	**9,864**	**10,391**

	2011	2010 Restated
Non current deferred revenue		
European Commission	415	2,231
Governments	1,821	1,312
Others	193	299
Total	**2,429**	**3,842**

Note 13 – Employee benefits

(Expressed in thousands of Euros)

	2011	2010
Current liabilities		
Accrued salaries	30	6
Accumulated leave	175	259
Repatriation travel and removal expenses	23	35
Home Leave	2	9
Total current liabilities	**230**	**309**
Non-current liabilities		
Accumulated leave	1,963	1716
Repatriation travel and removal expenses	503	439
Total non-current liabilities	**2,466**	**2,155**
Total employee benefits liabilities	**2,696**	**2,464**

<u>End-of-service payments and Repatriation grant</u>

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2011 was €703,000 (€696,000 in 2010).

The liability for end-of-service was estimated at €7.8 million at the end of 2011 (2010= €7.4 million). The liability for repatriation grant in the amount of €1.1 million was estimated at the end of 2011 (2010= €841,000). These liabilities are recognized by the ILO in its financial statements.

<u>After-service medical benefits</u>

The liability for after-service medical benefits was estimated at €39.6 million at the end of 2011 (€30.6 million in 2010). This liability is recognized by the ILO in its financial statements.

<u>United Nations Joint Staff Pension Fund</u>

The Centre makes contributions on behalf of its staff (currently payable by the participants and the Centre at 7.9 percent and 15.8 percent respectively, of the staff member’s pensionable remuneration). Total retirement plan contributions made for staff to UNJSPF by the Centre amounted to €3.81 million of which €2.54 million represented the employer contribution (€3.82 million in 2010 of which €2.55 million represented the employer contribution).

Note 14 – Revenue from voluntary contributions

(Expressed in thousands of Euros)

	2011	2010
Government of Italy	9,450	10,350
International Labour Organization	3,014	2,819
Piedmont Region	220	370
City of Turin	-	266
Government of France	105	104
Government of Portugal	250	-
Total voluntary contributions	**13,039**	**13,909**

The ILO contribution of €2,895,000 (US$3,805,000) represents one half of the approved 2010-11 biennial contribution of US$7,610,000. In 2010 it was €2,819,000 (US$3,805,000). The ILO also provided €118,000 toward the Masters Programme.

The Italian Government general contribution to the Centre in 2011 was €7,850,000 (2010=€7,850,000). This amount was received in 2011. The Italian Government also provided €1,600,000 in 2011 (2010= €2,500,000) for training activities. In total, the Italian Government provided a total contribution of €9,450,000 in 2011 (2010=€10,350,000).

The French Government agreed to contribute €105,000 (2010=€104,000).

In 2011, no amount was recognized as revenue from contributions provided by the City of Turin (2010 = €266,000). The 2010 contribution of €500,000 has been reduced by the City of Turin to €300,000 and has not yet been received.

The Piedmont Region agreed to contribute €220,000 in 2011 (2010= €370,000). This amount had not been received as at 31 December 2011.

In 2011, the Government of Portugal agreed to contribute and paid €250,000.

Note 15 – Services in kind

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 the Government of Italy. 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.

Note 16 – Revenue from training activities

(Expressed in thousands of Euros)

	2011	2010
Revenue producing activities		
Bilateral Donors / Direct Trust Funds	6,398	6,019
European Union (including the European Commission, the European Training Foundation and the European Social Fund)	3,742	3,834
Other multilateral Agencies	2,642	1,728
Government of Italy and other Italian Organizations (including the Ministry of Foreign Affairs and the Ministry of Labour)	4,170	1,614
Total Revenue producing activities	**16,952**	**13,195**
Funds received under inter-organizational arrangements		
International Labour Organization – other	2,192	3,569
International Labour Organization – regular budget	3,915	2,675
Other UN Agencies	1,083	1,467
World Bank	250	148
Total Funds received under inter-organizational arrangements	**7,440**	**7,859**
Total Revenue from training activities	**24,392**	**21,054**

Note 17 – Other revenue

(Expressed in thousands of Euros)

	2011	2010
Non–exchange transactions		
Operating leases with other UN organizations	422	488
Use of facilities other than residential	83	151
Recovery of past years write off	-	88
Other miscellaneous income	182	112
Exchange transactions		
Use of residential facilities by non-participants attending training	337	251
Revenue from the sale of publications	1,243	804
Social life activities	126	129
Total other revenue	**2,393**	**2,023**

Note 18 – Commitments, leases and contingent liabilities

Possible obligations exist which could lead to a significant future outflow of resources. These possible obligations may become an actual liability by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the Centre. The Centre is not currently in a position to determine whether a present obligation exists nor to reliably measure the likely outflow of resources and therefore no amount is recorded or disclosed in the financial statements.

At 31 December 2011, the Centre has commitments of €3.1 million (2010= €3.9 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.

Leases entered into by the Centre as a lessee for equipment rentals and use of software are all cancellable operating leases and there are no future minimum lease payments. Total expenses for equipment rentals were €160,000 (€167,000 in 2010) and €282,000 (€176,000 in 2010) 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 totaled €422,000 (€488,000 in 2010).

Note 19 – 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 2011 budget was approved by the Board of the Centre in November 2010 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 are 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.

In addition, there are differences in the classification basis between Statement V and Statement II:

- On Statement II the exchange gain (loss) and revaluation, net is presented as part of revenue but on Statement V it is presented as Other items.

- The provision for doubtful accounts is presented as Other items on Statement V and as part of expenses on Statement II.

Reconciliation between Statement V and Statement IV

(Expressed in thousands of Euros)

	Operating	Investing	Total
Net budget surplus (Statement V)	**765**	**-**	**765**
Basis Differences			
Acquisition of fixed assets		(496)	(496)
Sales of investments		3,508	3,508
ILO voluntary contribution for the Masters Programme	103		103
Non-cash items	(1,928)		(1,928)
Italian Trust Fund (net surplus less interest)	366		366
Use of Surplus	(416)		(416)
Subtotal Basis Differences	**(1,875)**	**3,012**	**1,137**
Entity Differences			
Working Capital Fund (net surplus)	20	-	20
Campus Improvement Fund (net surplus)	1	-	1
Investment Fund (expenses)	(382)	-	(382)
Italian Trust Fund (interest revenue)	9	-	9
Subtotal Entity Differences	**(352)**	**-**	**(352)**
Net increase in cash and cash equivalents (Statement IV)	**(1,462)**	**3,012**	**1,550**

Reconciliation between Statement V and Statement II

(Expressed in thousands of Euros)

	Statement of comparison of budget and actual amounts (Statement V)	Statement of financial performance (Statement II)	Difference	Entity differences	Basis differences	Classification differences
Total revenue	39,911	39,861	50	(30)	(54)	134
Total expenses	(38,964)	(39,393)	429	381	-	48
Total other items	(182)	-	(182)	-	-	(182)
Net budget surplus	**765**	**468**	**297**	**351**	**(54)**	**0**

<u>Use of surplus in 2011</u>

In accordance with Article 7 paragraph 4 of the Financial Regulations of the Centre, the Director decided to set aside for future years the amount of US$800,000 (€592,000) out of the 2006 surplus, to finance two P4 positions, together with the related operational expenses, to develop and promote activities in the fields of a) employment skills and development and b) migration, forced labour and human trafficking. At the 69th session held in Geneva on 29 and 30 October 2007, the Board of the Centre approved this use of the 2006 surplus. In 2011, €26,000 (2010= €267,000) was spent for this purpose, leaving an unspent balance of €27,000 (2010= €53,000).

The officers of the Board met in Geneva on 7 March 2008 and approved additional budgetary expenditure of US$1,086,000 (€745,000) out of the 2007 surplus to improve training capabilities in the amount of US$437,000 (€300,000) and for improvement works on the campus in the amount of US$649,000 (€445,000). In 2011, a total of €57,000 (2010= €119,000) was spent on improving training capabilities and nil (2010= €247,000) on campus improvement works, leaving unspent balances of €34,000 (2010= €91,000) and nil on Campus improvement.

Furthermore the officers of the Board met in Geneva on 24 September 2010 and approved €500,000 of the 2009 surplus to finance training activities for 2011, partly filling the gap of the reduced Italian contribution in 2011. In 2011 €333,000 was spent for training activities, leaving an unspent balance of €167,000.

Note 20 – Contingent assets

(Expressed in thousands of Euros)

	2011	2010 (Restated)
ILO contribution	6,562	2,895
Government of Italy – Centre's operations	7,850	7,850
Government of Italy – Training activities	-	1,600
Government of Portugal	500	750
Total contingent assets	**14,912**	**13,095**

Note 21 – Related party transactions

The ILO is the controlling entity of the International Training Centre. During 2011, the ILO contributed €2.90 million for the general operations of the Centre (€2.82 million in 2010) and provided €6.23 million (€6.24 million in 2010) to the Centre for its training activities. In addition, the ILO paid the full employer contribution for the after service health insurance of former staff members of the Centre which amounted to €557,000 in 2011 (€519,000 in 2010). In 2011, ILO also paid €82,000 (2010= €52,000) in repatriation grant, €195,000 (2010= €512,000) in end of service benefits to staff members, €194,000 (2010=€67,000) in staff costs of ILO staff members assigned to the Centre, €132,000 (2010=nil) for the share of the Centre in internal audit and legal services and nil in agreed termination (2010= 86,000). In total, the ILO provided €10.3 million (2010= €10.3 million) to support the Centre's operations and training activities. 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 consist 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 Industrial Union 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 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:

	2011		2010	
Category	Individuals	Total remuneration (Euro)	Individuals	Total remuneration (Euro)
Key Management	10	1,675,000	8	1,319,000

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.

There were no related party transactions involving key management personnel or their close family members in 2011 (2010= €26,000).

Note 22 – Segment reporting

The following statements present information on the basis of the funds managed by the Centre and described in note 1. The information is presented in order to comply with the requirements of UNSAS, which is also in accordance with IPSAS-18 Segment Reporting. Inter-segments transfers are eliminated in the column "Inter-segment" on the following financial statements. Inter-segment transfers include:

- €1,234,000 from the General Fund to the Italy Trust Fund to recognize expenses related to the Italy Trust Fund;
- €382,000 from the General Fund to the Investment Fund to cover expenses of the Investment Fund.

International Training Centre of the ILO

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

	2011 General Fund (including Reserve for Derivative Liabilties)	2011 Working Capital Fund (Reserve)	2011 Campus Improvement Fund	2011 Investment Fund	2011 Italian Trust Fund	2011 TOTAL	2010 TOTAL Restated
Assets							
Current assets							
Cash and cash equivalents	9,891	1,872	836	-	1,425	14,024	12,474
Investments	-	-	-	-	-	-	3,508
Accounts receivable	13,456	-	1	-	1	13,458	13,199
Contributions receivable	570	-	-	-	-	570	895
Due from the ILO	2,306	-	-	-	-	2,306	1,222
Other current assets	514	-	-	-	-	514	512
Interfund balances	(647)	-	-	28	619	-	-
	26,090	**1,872**	**837**	**28**	**2,045**	**30,872**	**31,810**
Non-current assets							
Accounts receivable	2,429	-	-	-	-	2,429	3,842
Fixed assets	1,005	-	-	-	-	1,005	958
	3,434	**-**	**-**	**-**	**-**	**3,434**	**4,800**
Total assets	**29,524**	**1,872**	**837**	**28**	**2,045**	**34,306**	**36,610**
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	3,768	-	-	28	-	3,796	2,989
Derivative liabilities	204	-	-	-	-	204	-
Due to the ILO	-	-	-	-	-	-	-
Due to donors	6,397	-	-	-	-	6,397	8,268
Deferred revenue	9,864	-	-	-	-	9,864	10,391
Employee benefits	230	-	-	-	-	230	309
	20,463	**-**	**-**	**28**	**-**	**20,491**	**21,957**
Non-current liabilities							
Employee benefits	2,466	-	-	-	-	2,466	2,155
Deferred revenue	2,429	-	-	-	-	2,429	3,842
	4,895	**-**	**-**	**-**	**-**	**4,895**	**5,997**
Total liabilities	**25,358**	**-**	**-**	**28**	**-**	**25,386**	**27,954**
Total net assets	**4,166**	**1,872**	**837**	**-**	**2,045**	**8,920**	**8,656**

International Training Centre of the ILO

Statement of financial performance
For the period 1 January to 31 December
(Expressed in thousands of Euros)

	2011 General Fund (including Reserve for Derivative Liabilities)	2011 Working Capital Fund (Reserve)	2011 Campus Improvement Fund	2011 Investment Fund	2011 Italian Trust Fund	2011 Inter-Segment	2011 TOTAL	2010 TOTAL
Revenue								
Training activities	24,392	-	-	-	-		24,392	21,054
Voluntary contributions	11,439	-	-	-	1,600		13,039	13,909
Other revenue	2,393	-	-	-	-		2,393	2,023
Exchange gain (loss) and revaluation, net	(134)	-	-	-	-		(134)	255
Interest	141	20	1	-	9		171	115
Inter-Segment Revenue	1,234	-	-	382	-	(1,616)	-	-
Total revenue	**39,465**	**20**	**1**	**382**	**1,609**	**(1,616)**	**39,861**	**37,356**
Expenses								
Staff costs	17,723	-	-	232	-		17,955	17,974
Travel	3,700	-	-	1	-		3,701	3,784
Sub-contracts	8,236	-	-	84	-		8,320	6,862
Costs related to training activities	3,572	-	-	29	-		3,601	3,379
Buildings and ground maintenance	1,739	-	-	-	-		1,739	2,106
General operating expenses	2,477	-	-	34	-		2,511	4,374
Supplies	1,044	-	-	2	-		1,046	1,045
Depreciation	449	-	-	-	-		449	438
Bank charges	71	-	-	-	-		71	58
Other expenses	-	-	-	-	-		-	18
Inter-Segment Expense	382	-	-	-	1,234	(1,616)	-	-
Total expenses	**39,393**	**-**	**-**	**382**	**1,234**	**(1,616)**	**39,393**	**40,038**
Net surplus/(deficit)	**72**	**20**	**1**	**-**	**375**	**-**	**468**	**(2,682)**
Net assets, beginning of period	4,948	1,852	186	-	1,670	-	8,656	13,795
Change in reserve for derivative liabilities	(204)	-	-	-	-	-	(204)	-
Adjustment to net assets	-	-	-	-	-	-	-	(2,457)
Transfers to other funds	(650)	-	650	-	-	-	-	
Net assets, end of period	**4,166**	**1,872**	**837**	**-**	**2,045**	**-**	**8,920**	**8,656**

Note 23 – Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted this year.

International Training Centre of the ILO

REPORT TO THE BOARD
ANNUAL AUDIT RESULTS

FOR THE YEAR ENDING 31 DECEMBER 2011

Table of Contents

Auditor General of Canada
Vérificateur général du Canada

To the Board of the International Training Centre of the ILO,

We have completed our audit of the 2011 financial statements of the Centre. This represents our fourth 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.

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,

Michael Ferguson, FCA
Auditor General of Canada
External Auditor

Ottawa, Canada
29 March 2012

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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 73rd meeting in November 2011.

We expressed an unqualified audit opinion on the Centre's 2011 financial statements. Specifically, in our report, we state that the financial statements present fairly, in all material respects, the Centre's financial position, financial performance, changes in net assets, cash flows and the comparison of budget and actual amounts in accordance with United Nations System Accounting Standards. We also concluded that these accounting policies were applied on a basis consistent with that of the preceding year, except for the changes explained in Note 3. In addition, we concluded that the transactions of the Centre that have come to our notice as part of our audit were, in all significant respects, in accordance with the *Financial Regulations* and legislative authority of the Centre.

We completed our audit work in March 2012. As part of the audit, we followed-up on the recommendations included in the management letter that was issued following the 2010 audit. We are generally satisfied with the progress made by management in this regard. We plan to issue a management letter related to the 2011 audit in the spring of 2012.

In accordance with its plan to gradually implement the International Public Sector Accounting Standards (IPSAS), the Centre assessed five standards in 2011. One of these (IPSAS 23 - Revenue from non-exchange transactions), which was applied to revenue from training activities, had a significant impact on the Centre's financial statements. We are satisfied with the application of the new standards and we encourage management to continue to adequately plan for the standards that will be implemented for the 2012 financial statements and to analyze early the impacts of the changes.

About the Office of the Auditor General

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.

Scope and objectives of the audit

3. The scope of the audit was determined in compliance with Chapter IX of the Centre's *Financial Regulations*.

4. 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.

   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 United Nations System Accounting Standards;
   - these standards have been applied on a basis consistent with that of the preceding year; 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 independent auditor's report addresses each of our audit objectives.

Independent Auditor's Report

5. We issued an unqualified audit opinion on the Centre's 2011 financial statements. Consistent with the Report to the Board – Annual Audit Plan, the form and content of our auditor's report has been prepared in accordance with International Standards on Auditing.

6. We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2011, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with the United Nations System Accounting Standards.

7. We concluded that that the United Nations System Accounting Standards were applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes as explained in Note 3 to the financial statements.

8. 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.

Audit results

Business and audit risks, audit implications and related audit results

9. Our audit was risk based. We identified the key business and audit risks that could have an impact on the achievement of the Centre's objectives, and we obtained an understanding of the risks that had implications for the financial statements. We focused on areas with higher risks of a material misstatement or non-compliance with *Financial Regulations* of the Centre, based on our understanding of the Centre and its business.

10. For the 2011 audit, we identified the following business and audit risks that had significant audit implications:

Business and audit risks areas	Financial statement or authority implication	Audit implication and results
The adoption of several new standards (IPSAS), in particular IPSAS 23 Revenue from Non-exchange Transactions, could result in significant adjustments at year-end. The risk involves management's understanding, interpretation and application of the standards, as well as the availability of information.	Risk of errors in the financial statements as a result of significant adjusting entries affecting the current year as well as prior year restatement. Risk that the required disclosures in the financial statements are inaccurate or incomplete.	For each IPSAS adopted in 2011, we reviewed the Centre's position papers. We are satisfied with the Centre's assessment of the requirements of the standards. We examined the adjusting entries required for the standards implemented in 2011. We are satisfied that they were properly accounted for. We reviewed disclosures in the financial statements and are satisfied that they are complete and accurate.
The preparation of financial statements requires the use of accounting estimates. Certain accounting estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from	Risk that management accounting estimates are not complete and accurate if due diligence is not exercised in the determination of these amounts.	We reviewed the key assumptions used to establish the estimates, the accuracy and completeness of data used to make these assumptions and disclosures made in the financial statements.

Business and audit risks areas	Financial statement or authority implication	Audit implication and results
management's expectations. We have identified the following significant estimates for the Centre: - employee benefits liability; - accrued liabilities and provisions (liabilities, contingent assets and contingent liabilities); - expected useful life of fixed assets; - allowance for doubtful accounts.		We are satisfied that the estimates are reasonable and that disclosures made in the financial statements are complete and accurate.
There is a risk of possible non-compliance with *Financial Regulations*. In particular, there is a requirement that the reported results be within the approved budget.	This could result in a qualification on the auditor's report with regards to compliance with *Financial Regulations*.	Transactions tested as part of our audit were in compliance with the *Financial Regulations* of the Centre.

11. The preparation of financial statements requires management to select accounting policies involving judgments that can have a significant impact on the Centre's reported results. We are responsible for discussing with the Board our views regarding significant qualitative aspects of the Centre's accounting practices, including the appropriateness of accounting policies, the reasonableness of key judgments, as well as the adequacy of financial statement disclosures. We reviewed the accounting policies, including the new policies adopted in 2011. We are satisfied that they are appropriate and in compliance with the United Nations System Accounting Standards and requirements of the IPSAS adopted thus far. We also obtained sufficient evidence as to the adequacy of financial statements disclosures.

Communication of significant audit and accounting matters

12. We are responsible for communicating audit findings to the Board of the Centre. Accordingly, the following table identifies significant audit and accounting matters and the results of our audit.

Significant audit and accounting matters	Results of our audit
Audit approach	We performed our audit in accordance with the approach previously communicated to you in our Report to the Board - Annual Audit Plan presented in November 2011. Furthermore, as previously communicated, we planned our audit based on quantitative materiality set at €800,000. During the audit, no significant developments or new information came to our attention to indicate that a change in quantitative materiality was warranted.

Significant audit and accounting matters	Results of our audit
Significant difficulties encountered in performing the audit	We did not encounter any difficulties or disagreements with the Centre's management while performing our audit.
Management representations	We have received a letter of representation from management confirming representations made to us during the audit.
Auditors' independence	We confirm that the Office of the Auditor General of Canada remained independent of the Centre throughout the audit.
Summary of unadjusted differences	We are required to communicate to the Board unadjusted misstatements and the effect that they, individually or in aggregate, may have on our opinion in the Independent Auditor's Report. As a result of our audit, we identified certain misstatements and have discussed them with management. Management has adjusted the financial statements to reflect these items, which mostly related to the adoption of IPSAS 23 - Revenue from non-exchange transactions for revenue from training activities. We have no unadjusted misstatements to report. We are also required to communicate the effects on the current year's results of any unadjusted items that relate to prior periods. We did not identify any such items. We have concluded that the financial statements taken as a whole are free of material misstatement and we have issued an unmodified opinion on the financial statements.
Fraud communication to the Board	During the course of our audit, no fraud involving senior management or employees with a significant role in internal control, or that would cause a material misstatement in the financial statements, came to our attention as the result of our audit procedures. Additionally, we have observed no other matters related to fraud that should be brought to the attention of management or the Board. 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 activities.
Significant deficiencies in internal control	Auditing standards require us to communicate control weaknesses identified during the audit that we consider to be significant deficiencies. A significant deficiency in internal control is a deficiency or combination of deficiencies, which in the auditor's judgement, are of enough importance to merit being reported to the Board. Again this year, we adopted a control-reliant approach to audit the payroll expenses. Based on the audit work performed, we did not identify any significant deficiencies in internal control.

Follow-up on previous recommendations

13. We reviewed the status of recommendations made in our Report to the Board on the 2010 audit and we are satisfied with the progress made by management in addressing our recommendations. The following table presents the progress on each recommendation made.

Recommendations included in the Report to the Board on the 2010 audit	Progress
Risk management	
• Management should conduct a risk assessment to identify the Centre's risks. The risks should be measured, systems and practices is place to mitigate risks should be identified, and risks should be monitored and reporting to the Board should take place on a timely basis.	◒
IPSAS	
• We encourage the Centre to monitor the developments of the UN Task Force on IPSAS in order to ensure comparability and a consistent application of the IPSAS with other UN organizations.	●
• The Centre should plan and prepare early for the standards that will be applied in the future. A position paper needs to be prepared for each standard, including an analysis of all requirements of the standard. Position papers should be prepared on a timely basis in order to give sufficient time for review and feedback from the ILO as well as other interested parties. Discussions should be held with the ILO to ensure consistency of interpretation where applicable. Pro forma financial statements should also be prepared before year-end in order to ensure timely review and discussion.	●
Internal audit	
• The IAO should complete its comprehensive risk assessment and work plan and submit the plan to the Director for endorsement prior to the beginning of the period to which it relates.	◒
• When developing a work plan, the IAO should ensure it has sufficient resources to complete the projects identified, on a timely basis.	◒
• The Centre should ensure that IAO delivers on its work plan.	●

Number of recommendations	Recommendations fully implemented
6	3

Legend of progress:

● 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

14. We reviewed the status of recommendations made in previous audits and we are generally satisfied with the progress made by management. Recommendations that management has begun to address and are ongoing relate to the review of processes surrounding revenue generating activities in order to improve efficiencies, the automation of leave forms, and the review of the estimated useful lives of the capital assets.

15. During this year's audit, we also identified opportunities for changes in procedures that would improve systems of internal control, streamline operations, and /or enhance financial reporting practices. We have discussed our observations with management and will issue a management letter summarizing our observations, making recommendations to realize these opportunities and asking for management's written response to the matters we raise. These observations relate to improvements to the monitoring controls related to the costing of training activities, opportunities to improve the Finance staff capacity, improvements to the procedures followed at the end of the year to establish the accrued liabilities, possible efficiencies in treasury management, and compliance with the Centre's delegation of signing authorities. We expect the management letter to be finalized in spring of 2012.

Implementation of International Public Sector Accounting Standards (IPSAS) – progress to date

16. In 2011, management decided to adopt five standards, one of which had a significant impact on the financial statements. This standard relates to the adoption of IPSAS 23 for revenue from training activities. This second year of partial adoption of IPSAS 23 is in compliance with the transitional provisions included in the Standard, which permits a three year progressive application. The adoption of IPSAS 23 for all revenue is expected to be completed in 2012.

17. As a result of the standards applied in 2011, changes in accounting policies and new disclosures in the financial statements were made.

18. The accounting policy related to training activities has been changed as a result of the application of IPSAS 23 (Revenue from non-exchange transactions). Under the new policy, amounts related to signed agreements, including conditions requiring the delivery of training services to third parties in future financial periods and the obligation to return funds if such conditions are not met, are recognized as accounts receivable. An equal offsetting amount is recognized as deferred revenue. We agree with the change made to this accounting policy.

19. The Centre also changed its accounting policy related to inventory as a result of the adoption of IPSAS 12 (Inventories). This change did not result in any significant adjustment in the financial statements. We agree with the change made.

20. The changes in accounting policies discussed above have been applied retrospectively with restatement of comparative information for 2010. These changes are explained in note 3 to the Financial Statements.

21. For the 2011 audit, pro forma financial statements were prepared before the end of the year which permitted timely review and feedback from the ILO and the external auditors. We encourage the Centre to continue with this practice.

Implementation of International Public Sector Accounting Standards (IPSAS) – next steps

22. Four new standards are expected to be adopted in 2012 as part of the objective of the Centre to be fully compliant with IPSAS by the end of 2012. With the experience gained in the last two years of phased implementation, we believe it remains important for the Centre to prepare early for the standards that will be applied. It is also essential for the Centre to continue to hold discussions with the ILO on the accounting policy decisions and on the resulting reporting implications.

23. **Recommendations**:

a) The Centre should continue to plan and prepare early for the standards that will be applied in 2012. A position paper needs to be prepared for each standard, including an analysis of all requirements of the standard. Position papers should be prepared on a timely basis in order to give sufficient time for review and feedback. Discussions should be held with the ILO to ensure consistency of interpretation where applicable. Pro forma financial statements should also be prepared before year-end in order to ensure timely review and discussion.

b) The Centre's key finance personnel should pursue IPSAS learning activities in order to keep up to date with upcoming changes.

Centre's responses:

a) The Treasurer had a planning meeting in April 2012 with the ILO on the 2012 IPSAS implementation. Position papers concerning the IPSAS planned for 2012 implementation are being updated and planned to be sent to the external auditors not later than the end of May to allow for their early review and feedback. Pro forma financial statements will be submitted well in advance before year-end to the external auditors.

b) To date, all Financial Services (FinServ) staff members have received orientation training on IPSAS covering accrual accounting concepts and principles and the impact of IPSAS adoption on the Centre. Three staff members have also completed three of the seven modules of the computer-based IPSAS training courses developed for UN system organizations. All staff of FinServ will be mandated to complete all of the seven online IPSAS computer-based training modules by end of August 2012. Once all FinServ staff has completed this training, an information session is planned in September 2012 to address accounting questions or clarifications that are specific to the Centre's business. An IPSAS information session is likewise planned for non-Finance staff to explain the changes in business processes that affect them as a result of IPSAS implementation at the Centre.

24. In order to ensure a consistent implementation of IPSAS across the United Nations, the various organisations affected formed a task force. This task force provides interpretation

of various IPSAS in relation to the unique UN environment. The Centre hosted a meeting of the UN Task Force on IPSAS in September 2011. In our view, there are outstanding issues that the various UN organisations (including the Centre) must evaluate. One of these issues relates to donated rights to use premises. This is a significant issue for the Centre since the land and buildings of the Centre are provided by the City of Turin at nominal rent. This issue is not specifically addressed by the IPSAS. It is therefore important for the Centre to monitor the developments made by the UN task force in order to ensure comparability of application with other UN organisations.

25. **Recommendation:**

The Centre should identify issues to be addressed by the UN task force and continue to monitor the developments of the task force in order to ensure comparability and consistent application of the IPSAS with other UN organisations, where appropriate.

Centre's response:

The Treasurer, as a member of the UN Accounting Task Force participated in its most recent meeting in April 2012 via videoconference and also plans to attend the face-to-face meeting in September 2012. She will continue to participate in its meetings and monitor not only the developments of the task force but also share and learn from the experiences of UN organizations that have fully implemented IPSAS to ensure consistent application of IPSAS with other UN organizations.

With respect to the issue on donated rights to use premises, the UN Accounting Task Force has not resolved this outstanding issue. While all UN organizations recognized donated rights to use as services in kind, the accounting treatment and financial statement presentation varied.

26. We will continue to monitor and report on the Centre's progress in its implementation of the IPSAS.

Other work conducted at the Centre

27. As the external auditor of the Centre, we have been engaged to perform agreed-upon procedures regarding financial information related to two contracts between the Centre and the European Commission. Our work in this area is conducted in accordance with International Standards on Related Services applicable to agreed-upon procedures engagements. The second engagements related to these two contracts have been completed and reports on factual findings were issued in the winter of 2012. The next engagement related to one of these contracts is scheduled for summer 2012.

Conclusion

28. We are pleased with the results of the 2011 audit and with the Centre's progress in its gradual adoption of IPSAS. We will continue to work with the Centre's management in 2012 to ensure a successful completion of its adoption of IPSAS and identify efficiencies and opportunities to improve the Centre's systems of internal controls.