Board of the Centre

75th Session, Turin, 17-18 October 2013

CC 75/5/1

FOR DECISION

FIFTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the financial year 1 January to 31 December 2012

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Financial report on the 2012 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 2012 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 2012 financial statements have been prepared on the basis of International Public Sector Accounting Standards (IPSAS). The 2012 financial statements include financial adjustments required by IPSAS.

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 2012 financial statements of the Centre will be consolidated with those of the ILO's.

Financial results for 2012

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 2012 and 31 December 2011. Employee benefit liabilities of EUR2.5 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 decreased by EUR145,000 or by one per cent as compared to 2011 restated net assets. As per the adoption of the International Public Sector Accounting Standards (IPSAS), net assets in 2011 were restated from EUR8.9 million to EUR14.9 million. The cost of the new conference centre and renovations on various buildings previously expensed is now recognized as assets. Detailed net assets by Fund have been presented in note 23.

The **Statement of financial performance, Statement II** shows the combined results of the Centre's operations, with a combined net deficit of EUR349,000 for 2012. Compared to 2011, revenue declined by EUR5.7 million or 14 per cent, while expenses declined by EUR5.1 million or 13 per cent. More detailed information on the results and information of revenue, expense and changes in net assets is presented in detail in the tables in note 23.

The **Statement of changes in net assets, Statement III** presents in summary the net accumulated fund balances and reserves at the beginning of 2012, and the impact on the reserves of the net results.

The **Statement of cash flow, Statement IV** presents the total cash and cash equivalents held by the Centre at the end of 2012 and 2011.

Regular Budget

The Board of the Centre at its 73rd Session (November 2011) approved an expenditure budget of EUR40.2 million and an income budget of EUR40.2 million for the 2012 financial period.

The overall budgetary results for the 2012 financial period are summarized in **Statement V**, with the details of voluntary contributions made by donors shown in note 14. The total budgetary revenue for 2012 amounted to EUR35.6 million. Staff costs under Chapter III of the budget during 2012 amounted to EUR17.8 million while fixed expenses under Chapter IV were EUR5.4 million. Variable expenditure under Chapter V amounted to EUR11.2 million. The budget surplus for 2012 amounted to EUR975,000 after provision for doubtful accounts and foreign exchange losses.

Significant differences between 2012 budget and actual amounts as presented on Statement V

(Expressed in thousands of Euros)

Line item in Statement V			Budget 2012	Actual 2012	Variance Amount	Variance %
Chapter	Line					
I	10	International Labour Organization	3,057	3,385	328	11%
I	14	Piedmont Region	400	200	(200)	(50%)
II	20	Revenue from activities	25,250	21,026	(4,224)	(17%)
II	21	Revenue from publications	1,100	990	(110)	(10%)
II	22	Other revenue	1,300	1,114	(186)	(14%)
II	23	Use of surplus	1,000	701	(299)	(30%)
III	30	Regular budget staff costs	15,631	14,682	949	6%
III	31	Project based staff costs	3,400	3,083	317	9%
IV	40	Consultants	588	418	170	29%
IV	41	Facilities	1,993	1,875	118	6%
IV	43	General operating expenses	906	705	201	22%
IV	45	Governance	373	168	205	55%
IV	46	Information technology	1,703	1,388	315	18%
IV	47	Depreciation of property and equipment	349	234	115	33%
V	50-57	Total variable expenses	14,620	11,160	3,460	24%
		Total variance explained			**1,159**	

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

The budget for 2012 with a budget surplus of EUR35,000 was approved by the Board at its Seventy-third Session held in November 2011. Favourable variances in staff costs and fixed expenses are the result of the continuing implementation of cost-saving measures in operating expenses.

Specific explanations of the significant differences

- *Voluntary contributions*: The US dollar contribution from the ILO is EUR328,000 above 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 EUR200,000.

- *Revenue from training activities*: The unfavourable variance in income from training activities is mostly due to decreased funding for training activities by the Italian government, European Union and the World Bank.
- *Revenue from publications*: The decrease in revenue from publications is due to deferral of UN funded projects for 2013.
- *Other revenue*: The decline in other revenue is mostly due to the lower revenue in residential facilities from self-paying guests and the UN Staff College.
- *Use of Surplus*: The lower use of surplus is due to savings in planned expenditure for the implementation of the main recommendations arising from the 2011 Business Process Review.
- *Project-based staff costs*: This expense is below budget due to lower volume of activities.
- *Consultants*: This budget line is below budget due to lower planned expenditure for consultants relating to the Business Process Review.
- *General operating costs*: The favourable budget variance is due to lower communication, transport and equipment maintenance costs.
- *Governance*: This budget line is below budget 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 EUR115,000 due to the new accounting policy of charging depreciation on assets acquired during the year starting on the month an asset becomes available for use instead of a full year's depreciation and to extend the useful lives of some asset classes.
- *Total variable costs*: This budget line is below budget by EUR3.46 million due to the overall decline in revenue from training activities and publications.

General Fund

The accumulated fund balance and reserves in the General Fund totalled EUR12.0 million at 31 December 2012. Details of the balances in this fund are summarized in the table in note 23.

Non-General Funds managed by the Centre

Non-General fund balances managed by the Centre totalled EUR2.7 million at 31 December 2012. They comprise of EUR1.7 million for the Italian Trust Fund and EUR1.0 million for the Campus Improvement Fund.

Ex-gratia payments

During the year 2012, the Centre made an ex-gratia payment to a staff member at separation in the amount of EUR12,000.

Approval of the financial statements for the period 1 January to 31 December 2012

The financial statements numbered I to V and the accompanying notes (Notes 1–24) are approved.

Patricia O'Donovan Director	Remedios Dungca Treasurer, Chief of Financial Services
26 March 2013	26 March 2013

Point for decision

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the International Training Centre of the International Labour Organization, which comprise the statements of financial position as at 31 December 2012 and 31 December 2011, and the statements of financial performance, statements of changes in net assets, statements of cash flow and statements of comparison of budget and actual amounts for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits 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.

I believe that the audit evidence I have obtained in my audits 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 2012 and 31 December 2011, and its financial performance, its cash flows and the comparison of budget and actual amounts for the years then ended in accordance with International Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Regulations* of the International Training Centre of the International Labour Organization, I report that, in my opinion, the accounting principles in International Public Sector Accounting Standards have been applied, after giving retrospective effect to the adoption of the new standards 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 audits of the financial statements have, in all significant respects, been in accordance with *Financial Regulations* and legislative authority of the International Training Centre of the International Labour Organization.

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

Michael Ferguson, FCA
Auditor General of Canada

26 March 2013
Ottawa, Canada

Financial statements and notes to the financial statements for the period 1 January to 31 December 2012

International Training Centre of the ILO

Statement of financial position as at 31 December

(In thousands of Euros)

	Note	2012	2011 restated
Assets			
Current assets			
Cash and cash equivalents	**4**	13,720	14,024
Accounts receivable	**6**	8,397	13,458
Contributions receivable	**5**	525	570
Due from the ILO		2,050	2,306
Other current assets	**8**	468	514
		25,160	**30,872**
Non-current assets			
Accounts receivable	**6**	1,113	2,429
Property and equipment	**9**	7,211	6,949
Intangible assets	**10**	50	-
		8,374	**9,378**
Total assets		**33,534**	**40,250**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**11**	2,650	3,796
Derivative liabilities	**7**	-	204
Due to donors		7,272	6,397
Deferred revenue	**12**	5,279	9,864
Employee benefits	**13**	188	230
		15,389	**20,491**
Non-current liabilities			
Employee benefits	**13**	2,313	2,466
Deferred revenue	**12**	1,113	2,429
		3,426	**4,895**
Total liabilities		**18,815**	**25,386**
Net assets			
Reserve for Working Capital Fund		1,911	1,872
Reserve for derivative liabilities		-	(204)
Total accumulated fund balances		12,808	13,196
Total net assets		**14,719**	**14,864**

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	2012	2011 restated
Revenue			
Training activities	**16**	20,561	24,392
Voluntary contributions	**14**	11,722	13,039
Other revenue	**17**	1,885	2,393
Exchange gain (loss) and revaluation, net		(269)	(134)
Interest		306	171
Total revenue		**34,205**	**39,861**
Expenses			
Staff costs		17,777	17,955
Sub-contracts		6,331	8,320
General operating expenses		1,522	2,511
Travel		2,921	3,701
Other costs related to training activities		2,874	3,601
Buildings and ground maintenance		1,687	1,643
Supplies		764	1,148
Depreciation		617	681
Bank charges		52	71
Other expenses		9	-
Total expenses		**34,554**	**39,631**
Net surplus/(deficit)		**(349)**	**230**

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)	Other Fund Balances	Net Assets
Balance as at 1 January 2011	1,852	-	6,804	8,656
Adoption of new accounting policies	-	-	6,182	6,182
Restated balance as at 1 January 2011	**1,852**	**-**	**12,986**	**14,838**
Surplus for 2011	20	-	448	468
2011 Surplus adjustment			(238)	(238)
Adjustment for derivative liabilities	-	(204)	-	(204)
Balance as at 31 December 2011 (restated)	**1,872**	**(204)**	**13,196**	**14,864**
Adjustment for derivative liabilities	-	204	-	204
Net surplus/(deficit) of 2012	39	-	(388)	(349)
Balance as at 31 December 2012	**1,911**	**-**	**12,808**	**14,719**

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)

	2012	2011 restated
Cash flows from operating activities		
Net surplus/(deficit) for the period	(349)	230
Effect of exchange rates on cash and cash equivalents	(15)	(23)
Non-cash items:		
Depreciation	617	681
Loss on disposals	17	-
(Increase) decrease in accounts receivable	6,377	1,154
Decrease in contributions receivable	45	325
(Increase) decrease in due from the ILO	256	(1,084)
(Increase) decrease in other current assets	46	(2)
Increase (decrease) in accounts payable and accrued liabilities	(1,146)	807
Increase (decrease) in deferred revenue	(5,901)	(1,940)
Increase (decrease) in due to donors	874	(1,871)
Increase (decrease) in employee benefit liabilities	(194)	232
IPSAS adjustments on property and equipment that impacted expenses		6
Net cash flows from operating activities [/1]	**627**	**(1,485)**
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	(946)	(496)
Sale of investments	-	3,508
Net cash flows from investing activities	**(946)**	**3,012**
Effect of exchange rates on cash and cash equivalents	15	23
Net increase (decrease) in cash and cash equivalents	**(304)**	**1,550**
Cash and cash equivalents, beginning of period	14,024	12,474
Cash and cash equivalents, end of period	**13,720**	**14,024**

/1 EUR277 in interest received is included under “surplus/(deficit) for the period” in the net cash flows from operating activities (2011 = EUR209).

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

International Training Centre of the ILO
Statement of comparison of budget and actual amounts
For the period 1 January to 31 December

(In thousands of Euros)

Budget Chapter	Budget Item	Title	2012 Budget	2012 Actual	Budget Variance[2]
		REVENUE			
I		**Voluntary contributions**			
	10	International Labour Organization	3,057	3,385	328
	11	Government of Italy	7,850	7,850	-
	12	Government of France	36	37	1
	13	Piedmont Region	400	200	(200)
	14	City of Turin	-	-	-
	15	Government of Portugal	250	250	0
		Total voluntary contributions (Chapter I)	**11,593**	**11,722**	**129**
II		**Earned revenue**			
	20	Revenue from training activities	25,250	21,026	(4,224)
	21	Revenue from publications	1,100	990	(110)
	22	Other revenue	1,300	1,114	(186)
		Total earned revenue	**27,650**	**23,130**	**(4,520)**
	23	Use of surplus	1,000	701	(299)
		Total Chapter II	**28,650**	**23,831**	**(4,819)**
		TOTAL BUDGET REVENUE	**40,243**	**35,553**	**(4,690)**
		EXPENDITURE			
III		**Fixed expenses**			
	30	Regular budget staff costs	15,631	14,682	(949)
	31	Project based staff costs	3,400	3,083	(317)
		Total staff costs (Chapter III)	**19,031**	**17,765**	**(1,266)**
IV		**Non Staff Costs**			
		Fixed expenses			
	40	Consultants	588	418	(170)
	41	Facilities	1,993	1,875	(118)
	42	Security	390	361	(29)
	43	General operating expenses	906	705	(201)
	44	Missions and representation	255	207	(48)
	45	Governance	373	168	(205)
	46	Information technology	1,703	1,388	(315)
	47	Depreciation of property and equipment	349	234	(115)
		Total fixed expenses (Chapter IV)	**6,557**	**5,356**	**(1,201)**
V		Variable expenses			
	50	External collaborators	5,210	4,172	(1,038)
	51	Missions	840	584	(256)
	52	Participants costs	5,060	4,568	(492)
	53	Books, training aids and materials	800	400	(400)
	54	Training facilities and services outside Turin	830	502	(328)
	55	Other variable costs	830	107	(723)
	56	Costs related to income from publications	750	650	(100)
	57	Other costs related to other income	300	177	(123)
		Total variable expenses	**14,620**	**11,160**	**(3,460)**
		TOTAL OPERATING EXPENSES	**40,208**	**34,281**	**(5,927)**
		BUDGET SURPLUS	**35**	**1,272**	**1,237**
		Other items			
	58	Provision for doubtful accounts	-	(28)	-
	61	Exchange gain (loss) and revaluation, net	-	(269)	-
		TOTAL OTHER ITEMS	**-**	**(297)**	**-**
		NET BUDGET SURPLUS [1]	**35**	**975**	**-**

/1 As referred to in Financial Regulations 7(4).
/2 Budget variances are explained in the accompanying financial report on the 2012 accounts.
The accompanying notes are an integral part of the financial statements.

INTERNATIONAL TRAINING CENTRE OF THE ILO
NOTES TO THE FINANCIAL STATEMENTS
for the period ending 31 December 2012

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 Article 17 of the Centre's Financial Regulations, the Board adopts the financial statements.

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

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

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

Five funds are maintained at the Centre:

1) The General Fund is the main operating fund of the Centre for training activities.
2) The Working Capital Fund was established in accordance with the Financial Regulations of the Centre to finance temporarily expenditure pending receipt of firmly pledged voluntary contributions and other income to be received under signed agreements. Its target level has been established at EUR2.0 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 Innovation Fund was created following the approval of the Board in November 2011 to promote innovation in learning and knowledge-sharing tools, develop new training activities in response to emerging ILO policies, and embed best practices and excellence in the Centre's learning and training activities.

Note 2 – Significant accounting policies

The financial statements of the Centre have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS). The Centre has not adopted the following new IPSAS that have been issued but are not yet effective:

		effective date
IPSAS-28	Financial Instruments: Presentation	01 January 2013
IPSAS-29	Financial Instruments: Recognition and Measurement	01 January 2013
IPSAS-30	Financial Instruments: Disclosures	01 January 2013
IPSAS-32	Service Concession Arrangements: Grantor	01 January 2014

The Centre intends to implement these Standards on the effective date of each Standard. The Centre is currently assessing the impact of these standards on the financial statements.

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 2011.

Financial Statement presentation

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

Functional currency and foreign exchange translation

The functional currency of the Centre is the Euro (EUR) 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 except for forward purchase agreements designated as a hedge, for which any foreign exchange gain or loss is deferred and presented as a separate component of reserves until realized, at which point the balance of accumulated gains or losses are recognized in the Statement of financial performance.

Cash and cash equivalents

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

Accounts receivable

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

Contributions receivable

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

Due from/to the ILO

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

Other current assets

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

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

Property and equipment

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

Vehicles, and office equipment and computer systems classified within the machinery and equipment category are depreciated over a 5-year life, while other equipment classified within the machinery and equipment category, as well as furniture and fixtures are depreciated over a 10-year life. Equipment is capitalized if its cost equals or exceeds the threshold of EUR4,000.

Leasehold improvements related to existing buildings on the campus are depreciated over a 15-year life and the major reconstruction is depreciated over a 30-year life. Costs of renovations and improvements are capitalized if the cost exceeds the threshold of EUR40,000.

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

Intangible assets

Intangible assets include software that is not an integral part of the related hardware, websites and computerized course materials acquired or developed by the Centre. Intangible assets are measured at historic cost less accumulated amortization and any impairment losses. Amortization is recognized on a straight line basis over a 5-year period. Intangible assets are capitalized if their cost exceeds the thresholds of EUR4,000 for externally acquired software and EUR40,000 for internally developed software.

Impairment

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

Payables and accrued liabilities

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

Due to donors

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

Deferred revenue

Funds receivable based on signed agreements from training participants and their sponsoring agencies in respect of future training activities and consultancy services that are subject to conditions related to specific performance and return of funds received to the transferor if they are not used in accordance with their intended purposes are carried as deferred revenue 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 a discount rate based on high grade corporate bonds.

Derivative assets/liabilities

Derivative financial instruments in the form of forward purchase agreements were used in 2011 for the purpose of hedging the Euro value of the US dollar denominated voluntary contribution received from the ILO. A forward purchase agreement was recognized at fair value at the reporting date as a derivative liability reflecting an unrealized loss. The estimated unrealized gain or loss was 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 were presented in a separate component of reserves in the period in which they occur and were presented as realized exchange gain or loss in 2012 when the contract was exercised. No derivative assets were acquired in 2012.

Employee benefits

The Centre recognizes the following categories of employee benefits:

- short-term employee benefits which fall due wholly within 12 months after the end of the accounting period in which employees render the related service;
- post-employment benefits;
- other long-term employee benefits; and
- termination 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 as the impact is not material.

Non-accumulating leave
For non-accumulating compensating absences, such as sick leave and maternity leave, an expense is recognized when the absence occurs.

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

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

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 2012. The non-current portion of the liability is not discounted as the impact is not material.

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

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

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

After-service medical benefits
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 retirees, with matching contributions made by the participating organizations. In the case of the retirees from the Centre, the ILO makes the required monthly contribution to the Staff Health Insurance Fund. Therefore, the Centre does not have any liability with regards to the after-service medical benefits nor does it record any expense.

United Nations Joint Staff Pension Fund
Through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The pension fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. The Centre, in line with the other participating organizations in the Fund, 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 treated this plan as if it was a defined contribution plan in line with the requirements of IPSAS 25. Contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Expenses

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

Revenue from exchange transactions

- *Other revenue*: Other revenue comprises non-training activities such as revenue from social life activities, 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 is an exchange transaction and is recognized as it is earned, on a time proportion basis that takes into account the effective yield.

Revenue from non-exchange transactions

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

Contingent assets

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

Contingent liabilities

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

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

Segment note

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

Measurement uncertainty

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

Note 3 – Changes in accounting policies

The Centre adopted IPSAS 17 Property, Plant and Equipment in 2012 as part of the final phase of the phased implementation of International Public Sector Accounting Standards (IPSAS). As a result, the Centre has changed its accounting policy related to leasehold improvements. Under the new policy, the cost of leasehold improvement previously expensed is now recognized as an asset.

The Centre also changed its accounting policy on capitalization of equipment, increasing the capitalization threshold from EUR1,000 to EUR4,000 to be consistent with that of its controlling entity. As a result, assets previously capitalized at an historical cost that is lower than the new threshold have been de-recognized and the carrying value has been expensed.

These changes in accounting policies were retrospectively applied, and the financial statements have been restated for 2011 to reflect these changes as follows:

(Expressed in thousands of Euros)

		2011 restated	2011 as previously stated	Change
Statement of financial position				
Current assets		**30,872**	**30,872**	**-**
Non-current assets				
Accounts receivable		2,429	2,429	-
Property and Equipment				-
Equipment		933	1,005	(72)
Cost	3,475		-	
Less: Accumulated depreciation	2,542			
Net	933			
Leasehold improvements		6,016	-	6,016
Cost	7,201			
Less: Accumulated depreciation	1,185			
Net	6,016			
		9,378	3,434	5,944
Total assets		**40,250**	**34,306**	**5,944**
Total liabilities		**25,386**	**25,386**	**-**
Net assets		**14,864**	**8,920**	**5,944**
Statement of financial performance				
Total revenue		**39,861**	**39,861**	**-**
Total expenses before depreciation, buildings and ground maintenance and supplies		**36,159**	**36,159**	**-**
Depreciation		681	449	232
Buildings and ground maintenance		1,643	1,739	(96)
Supplies		1,148	1,046	102
Total expenses		**39,631**	**39,393**	**238**
Net surplus		**230**	**468**	**(238)**

The provisions of IPSAS 31 related to the recognition of intangible assets have been recognized prospectively commencing on 01 January 2012 and, therefore, there is no related restatement.

Note 4 – Cash and cash equivalents

(Expressed in thousands of Euros)

	US dollar (EUR equivalent)	Swiss franc (EUR equivalent)	EUR	2012 total	2011 total
Current accounts and cash on hand	481	-	3,573	4,054	4,903
Short-term deposits	-	-	9,666	9,666	9,121
Total cash and cash equivalents	**481**	**-**	**13,239**	**13,720**	**14,024**

Of the total cash and cash equivalents held in 2011, EUR12.4 million was in Euros and the balance held in other currencies, primarily US dollars, EUR1,531,000 (Euro equivalent) and the Swiss Franc, EUR86,000 (Euro equivalent).

Note 5 – Contributions receivable

(Expressed in thousands of Euros)

	2012	2011
Government of France	25	50
Piedmont Region	200	220
City of Turin	300	300
Total contributions receivable	**525**	**570**

Of the above, EUR300,000 (2011 = EUR300,000) 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)

	2012	2011
Current accounts receivable		
Accounts receivable from invoiced training services	4,247	4,888
Accounts receivable from training services agreements due in 2013	5,108	9,509
Other accounts receivable	24	19
Less: provision for doubtful accounts – training services	(982)	(958)
Total current net accounts receivable	**8,397**	**13,458**
Non-current accounts receivable		
Accounts receivable from training services agreements due after 31 December 2013	1,113	2,429
Less: provision for doubtful accounts – training services	-	-
Total non-current net accounts receivable	**1,113**	**2,429**

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

During the year, the Centre wrote off EUR4,000 (2011 = EUR64,000) of accounts receivable.

Note 7 – Financial Instruments

Fair value of financial assets and liabilities

Financial assets and financial liabilities are valued at fair value using the market value where an active market exists (cash and cash equivalents, and derivative liabilities). Short-term accounts receivable approximate their fair value due to the short-term to maturity. Long-term accounts receivable that are not impaired are discounted to their present value to approximate their fair 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, Financial Regulations and Risk Register.

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 US dollar foreign currency exposure as at 31 December is as follows:

(Expressed in thousands of Euros)

	2012 USD	2012 EUR equivalent	2011 USD	2011 EUR equivalent
Cash and cash equivalents	638	481	1,977	1,531
Accounts receivable	731	551	618	478
Due from the ILO	1,439	1,085	1,210	937
Payables and accrued liabilities	(610)	(460)	(532)	(412)
Net exposure	**2,198**	**1,657**	**3,273**	**2,534**

Based on the net exposure as at 31 December 2012, and assuming all the other variables remain constant, a hypothetical five per cent change in the US dollar against the Euro would result in an increase or decrease in net results of EUR83,000 (EUR127,000 in 2011) or twenty-four per cent (twenty-seven per cent in 2011).

In 2012, the Centre did not hedge the Euro value of the 2013 ILO US dollar voluntary contribution.

In 2011, the Centre purchased foreign exchange forward agreements in order to hedge a portion of the Euro value of the 2012 US dollar ILO voluntary contribution as close to the budget rate of USD1.43. The face value of the agreements was EUR2.1 million, purchased at an average rate of EUR1 = USD1.419. The agreements matured on 12 January 2012 with a realized loss of EUR208,000 versus the UN operational rate of exchange. The market value of the agreements as reported by the contracting bank at 31 December 2011 was negative EUR204,000 which had been recognized in 2011 as a derivative liability with a corresponding amount in reserve for derivative liabilities. The total recognized loss of EUR208,000 in 2012 includes the cumulative loss of EUR204,000 from 2011 and an additional loss of EUR4,000 realized in 2012.

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 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 that would expose the Centre to market risk.

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

Cash equivalents including term deposits are spread over several banks in order to avoid an over-concentration of funds with few institutions. The total percentage of the Centre's cash, cash equivalents that may be placed with a single institution is determined according to its long-term credit rating. Investments are made only in term deposits, deposit certificates, bonds, sovereign treasury bills and notes, and floating rate notes. Funds are generally deposited or invested only with institutions maintaining a long-term credit rating of A or higher, except for an institution with a long-term credit rating of B that is processing credit card payments of training participants.

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

(Expressed in thousands of Euros)

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

2011	**AAA**	**AA+-AA-**	**A+-A-**	**BBB+-BBB-**	**Total**
Cash and Cash Equivalents	-	3,018	11,006	-	**14,024**

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

(Expressed in thousands of Euros)

2012	Less than 1 year	1-2 years	Over 2 years	Less provision for doubtful accounts	Total
Accounts receivable	9,517	80	895	(982)	9,510
Contributions receivable	225	300	-	-	525
Total receivable	**9,742**	**380**	**895**	**(982)**	**10,035**
2011					
Accounts receivable	15,809	137	899	(958)	15,887
Contributions receivable	245	325	-	-	570
Total receivable	**16,054**	**462**	**899**	**(958)**	**16,457**

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)

	2012	2011
Inventories	60	65
Prepaid expenses and advances	408	449
Total other current assets	**468**	**514**

Inventory recognized as expense under "Supplies" on the Statement of financial performance was EUR431,000 (EUR479,000 in 2011), while the total amount written-off in 2012 was EUR8,000 (EUR16,000 in 2011).

Note 9 – Property and Equipment

(Expressed in thousands of Euros)

	Equipment	Leasehold improvements	Total 2012	Total 2011 (restated)
Cost at 31/12	3,353	7,388	10,741	10,676
Accumulated depreciation at 31/12	1,955	1,575	3,530	3,727
Net book value at 31/12	**1,398**	**5,813**	**7,211**	**6,949**
Net book value at 31/12/2011 (restated)	**933**	**6,016**	**6,949**	

The carrying amount of leasehold improvements includes EUR68,020 in work in progress expenditures. Contractual commitments for the acquisition of property and equipment were EUR81,355 at the end of 2012.

Equipment

(Expressed in thousands of Euros)

	Vehicles	Machinery and equipment	Furniture and fixtures	Total 2012	Total 2011 (restated)
Cost at 01/01	75	3,358	42	3,475	3,094
Reclassifications	-	(83)	-	(83)	-
Additions	49	722	21	792	394
Disposals	(18)	(813)	-	(831)	(13)
Cost at 31/12	**106**	**3,184**	**63**	**3,353**	**3,475**
Accumulated depreciation at 01/01	68	2,467	7	2,542	2,228
Reclassifications	-	(25)	-	(25)	-
Depreciation	-	247	5	252	326
Disposals	(11)	(803)	-	(814)	(12)
Accumulated depreciation at 31/12	**57**	**1,886**	**12**	**1,955**	**2,542**
Net book value at 31/12	**49**	**1,298**	**51**	**1,398**	**933**
Net book value at 31/12/2011 (restated)	**7**	**891**	**35**	**933**	

Leasehold improvements

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

(Expressed in thousands of Euros)

	Conference Centre 2012	Conference Centre 2011 (restated)	Other Renovations 2012	Other Renovations 2011 (restated)	Total 2012	Total 2011 (restated)
Cost at 01/01	3,631	3,631	3,570	3,474	7,201	7,105
Reclassifications	-	-	83	-	83	-
Additions	-	-	104	96	104	96
Cost at 31/12	**3,631**	**3,631**	**3,757**	**3,570**	**7,388**	**7,201**
Accumulated depreciation at 01/01	182	61	1,003	770	1,185	831
Reclassifications	-	-	25	-	25	-
Depreciation	121	121	244	233	365	354
Accumulated depreciation at 31/12	**303**	**182**	**1,272**	**1,003**	**1,575**	**1,185**
Net book value at 31/12	**3,328**	**3,449**	**2,485**	**2,567**	**5,813**	**6,016**

Review of useful lives

The useful lives of some assets were extended in 2012 as a result of reclassification or re-evaluation of the useful life of particular asset classes. The change in estimate was applied prospectively and had the effect of reducing 2012 depreciation by EUR55,000. The effect on depreciation in future years is as follows:

(Expressed in thousands of Euros)

	2012	2013	2014	2015	2016	2017-2023
Total	**(55,385)**	**(37,037)**	**(37,037)**	**21,547**	**21,547**	**86,365**

Note 10 – Intangible assets

The capitalized value of the internally developed software excluding those costs related to research, maintenance and internal training was EUR50,000 in 2012 (nil in 2011).

Accumulated amortization is nil in 2012 (nil in 2011) as the intangible assets are not yet available for use.

Note 11 – Accounts payable and accrued liabilities

(Expressed in thousands of Euros)

	2012	2011
Accounts payable	2,096	2,591
Accrued liabilities	554	1,205
Total accounts payable and accrued liabilities	**2,650**	**3,796**

Note 12 – Deferred Revenue

(Expressed in thousands of Euros)

	2012	2011
Current deferred revenue		
European Commission	1,574	4,441
Governments and inter-governmental organisations	3,365	4,613
Others	340	810
Total current liabilities	**5,279**	**9,864**
Non-current deferred revenue		
European Commission	207	415
Governments and inter-governmental organisations	802	1,821
Others	104	193
Total non-current liabilities	**1,113**	**2,429**
Total deferred revenue	**6,392**	**12,293**

Note 13 – Employee benefits

(Expressed in thousands of Euros)	2012	2011
Current liabilities		
Accrued salaries	1	30
Accumulated leave	150	175
Repatriation travel and removal expenses	23	23
Home Leave	14	2
Total current liabilities	**188**	**230**
Non-current liabilities		
Accumulated leave	1,833	1,963
Repatriation travel and removal expenses	480	503
Total non-current liabilities	**2,313**	**2,466**
Total employee benefits liabilities	**2,501**	**2,696**

End-of-service payments and Repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2012 was EUR701,000 (EUR703,000 in 2011).

The liability for end-of-service was estimated at a nominal amount of EUR6.8 million (2011 = EUR7.8 million). The liability for repatriation grant was estimated at the nominal amount of EUR1.1 million at the end of 2012 (2011 = EUR1.1 million). These liabilities are recognized by the ILO in its consolidated financial statements.

After-service medical benefits

The liability for after-service medical benefits was estimated at EUR39.2 million at the end of 2012 (EUR39.6 million in 2011). This liability is recognized by the ILO in its consolidated financial statements.

United Nations Joint Staff Pension Fund

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

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

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

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

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

In July 2012, the Pension Board noted in its Report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012, the General Assembly authorized the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

During 2012, contributions paid to UNJSPF amounted to EUR3.80 million (2011 = EUR3.81 million). Expected contributions due in 2013 are EUR3.85 million.

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

Note 14 – Revenue from voluntary contributions

(Expressed in thousands of Euros)

	2012	2011
Government of Italy	7,850	9,450
International Labour Organization	3,385	3,014
Piedmont Region	200	220
Government of France	37	105
Government of Portugal	250	250
Total voluntary contributions	**11,722**	**13,039**

The ILO contribution of EUR3,385,000 (USD4,373,000) represents one half of the approved 2012-13 biennial contribution of USD8,746,000. In 2011 it was EUR2,895,000 (USD3,805,000). There were no ILO contributions toward the Masters' Programme in 2012 (EUR118,000 in 2011).

The Italian Government's general contribution to the Centre in 2012 was EUR7,850,000 (2011 = EUR7,850,000). This amount was received in 2012. There were no Italian Government contributions for training activities in 2012 (2011 = EUR1,600,000).

Note 15 – Goods and services in kind

The services in kind provided to the Centre by the ILO are described in the Related Party Transactions Note 21. The land and buildings of the Centre are provided by the City of Turin at a nominal rent including facilities constructed with funds provided by various donors. The financial value of these facilities is not recognized on the Statement of financial position nor has the annual value of the right to use been recognized on the Statement of financial performance. There were no goods in kind received during the year.

Note 16 – Revenue from training activities

(Expressed in thousands of Euros)

	2012	2011
Revenue producing activities		
Bilateral Donors / Direct Trust Funds	7,226	6,398
European Union (including the European Commission, the European Training Foundation and the European Social Fund)	3,171	3,742
Other multilateral agencies	2,009	2,642
Government of Italy and other Italian organizations (including the Ministry of Foreign Affairs and the Ministry of Labour)	1,537	4,170
Total revenue producing activities	**13,943**	**16,952**
Funds received under inter-organizational arrangements		
International Labour Organization – other	2,258	2,192
International Labour Organization – regular budget	2,881	3,915
Other UN Agencies	1,340	1,083
World Bank	139	250
Total funds received under inter-organizational arrangements	**6,618**	**7,440**
Total revenue from training activities	**20,561**	**24,392**

Note 17 – Other revenue

(Expressed in thousands of Euros)

	2012	2011
Non–exchange transactions		
Operating leases with other UN organizations	285	422
Use of facilities other than residential	103	83
Other miscellaneous income	154	182
Exchange transactions		
Use of residential facilities by non-participants attending training	224	337
Revenue from the sale of publications	990	1,243
Social life activities	129	126
Total other revenue	**1,885**	**2,393**

Note 18 – Commitments, leases and contingent liabilities

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

At 31 December 2012, the Centre has commitments of EUR4.4 million (2011 = EUR3.1 million) for contracts related to future services such as hardware and software maintenance, printing services and outsourced services such as cleaning of campus premises and hotel rooms, hotel reception, post office, security, catering and transport.

Most leases entered into by the Centre as a lessee for equipment rentals and use of software are cancellable operating leases. Only leases for mobile telephones are non-cancellable. Future minimum lease payments on these agreements are EUR4,000 (payable in 2013). Total expenses for equipment rentals were EUR181,000 (EUR165,000 in 2011) and EUR10,000 (EUR14,000 in 2011) for software licenses.

The Centre, acting as a lessor, has cancellable operating leases with United Nations Interregional Crime and Justice Research Institute (UNICRI) and the United Nations System Staff College (UNSSC). Revenue generated under these leases totalled EUR285,000 (EUR422,000 in 2011).

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 2012 budget was approved by the Board of the Centre in November 2011 and the period covered is the calendar year.
The budgetary basis is not the same as the basis used for the Statement of financial performance:

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

The basis of accounting for depreciation and information and technology costs are not the same in Statement II and Statement V. In Statements V, depreciation of assets previously expensed and capitalized in 2011 and prior years are not reflected. In Statement V, information and technology costs budgeted in 2012 that relate to future periods and were prepaid at 31 December 2012 or committed against the 2012 funding are included.

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)	**975**	**-**	**975**
Basis Differences			
Acquisition of fixed assets	-	(946)	(946)
ILO voluntary contribution for the Masters' Programme	(103)	-	(103)
Non-cash items	992	-	992
Italy Trust Fund (net deficit less interest)	(362)	-	(362)
Depreciation of property and equipment	(384)	-	(384)
IT costs	185	-	185
Use of Surplus	(701)	-	(701)
Subtotal Basis Differences	**(373)**	**(946)**	**(1,319)**
Entity Differences			
Working Capital Fund (net surplus)	39	-	39
Campus Improvement Fund (net surplus)	14	-	14
Investment Fund (expenses)	(45)	-	(45)
Italy Trust Fund (interest revenue)	32	-	32
Subtotal Entity Differences	**40**	**-**	**40**
Net increase in cash and cash equivalents (Statement IV)	**642**	**(946)**	**(304)**

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	35,553	34,205	1,348	-87	1,166	269
Total expenses	(34,281)	(34,554)	273	47	198	28
Total other items	(297)	-	(297)	-	-	(297)
Net budget surplus	**975**	**(349)**	**1,324**	**(40)**	**1,364**	**-**

Use of surplus in 2012

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

- In 2007, the Board approved the use of EUR592,000 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. In 2012, nil (2011 = EUR26,000) was spent for this purpose, leaving an unspent balance of EUR27,000 (2011 = EUR27,000).
- In 2008, the Board approved the use of EUR745,000 out of the 2007 surplus for works on the Campus in the amount of EUR445,000 and to improve training capabilities in the amount of EUR300,000. All funds earmarked for works on the Campus were utilized in prior years. In 2012, a total of EUR16,000 (2011 = EUR57,000) was spent on improving training capabilities leaving unspent balances of EUR18,000 (2011 = EUR34,000).
- In 2010, the Board approved the use of EUR500,000 out of the 2009 surplus to finance training activities for 2011. In 2012 EUR154,000 (2011 = EUR333,000) was spent for training activities, leaving an unspent balance of EUR13,000 (2011 = EUR167,000).
- In 2011, the Board approved a total of EUR1,800,000 in budgetary expenditure out of the 2010 surplus allocated as follows: EUR500,000 for core training activities of which the full amount was spent in 2012; EUR300,000 to the Innovation Fund for the development and testing of new training and learning methodologies, of which EUR45,000 was spent, leaving an unspent balance of EUR255,000; EUR650,000 to the Campus Improvement Fund; and EUR350,000 for the implementation of the main recommendations arising from the 2011 Business Process Review, of which EUR31,000 was spent, leaving an unspent balance of EUR319,000.

Note 20 – Contingent assets

(Expressed in thousands of Euros)

	2012	2011
ILO contribution	3,297	6,562
Government of Italy – Centre’s operations	7,850	7,850
Government of Portugal	250	500
Total contingent assets	**11,397**	**14,912**

Note 21 – Related party transactions

The ILO is the controlling entity of the International Training Centre. During 2012, the ILO made the following contributions to the Centre.

(Expressed in thousands of Euros)

	2012	2011
General operations of the Centre	3,385	2,900
Training activities	5,139	6,230
ASHI contribution for former employees	551	557
Repatriation grants	73	82
End-of-service benefits	1,536	195
Staff costs of ILO staff members assigned to Centre	159	194
Internal audit and legal services	185	132
Agreed termination and cessation of service	59	0
Total other revenue	**11,087**	**10,290**

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

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

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

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

	2012		2011	
Category	Individuals	Total remuneration (EUR)	Individuals	Total remuneration (EUR)
Key Management	10	1,677,000	10	1,675,000

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

Note 22 – Capital management

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

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

Note 23 – Financial information by fund

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

Inter-fund transfers include:

- EUR362,000 from the General Fund to the Italy Trust Fund to recognize expenses related to the Italy Trust Fund (2011 = EUR1,234,000);
- EUR45,000 from the General Fund to the Innovation Fund (formerly Investment Fund) to cover expenses of the Innovation Fund (2011 = EUR382,000);
- EUR165,000 from the General Fund to the Campus Improvement Fund to cover future costs of building renovations and improvements (2011 = EUR650,000).

International Training Centre of the ILO

Statement of financial position as at 31 December

(Expressed in thousands of Euros)

	2012 General Fund	2012 Working Capital Fund (Reserve)	2012 Campus Improvement Fund	2012 Innovation Fund	2012 Italian Trust Fund	2012 Total	2011 Total (Restated)
Assets							
Current assets							
Cash and cash equivalents	9,307	1,890	852	-	1,671	13,720	14,024
Accounts receivable	8,376	21	-	-	-	8,397	13,458
Contributions receivable	525	-	-	-	-	525	570
Due from the ILO	2,050	-	-	-	-	2,050	2,306
Other current assets	468	-	-	-	-	468	514
Interfund balances	(218)	-	165	8	45	-	-
	20,508	**1,911**	**1,017**	**8**	**1,716**	**25,160**	**30,872**
Non-current assets							
Accounts receivable	1,113	-	-	-	-	1,113	2,429
Property and equipment	7,211	-	-	-	-	7,211	6,949
Intangibles	50	-	-	-	-	50	-
	8,374	**-**	**-**	**-**	**-**	**8,374**	**9,378**
Total assets	**28,882**	**1,911**	**1,017**	**8**	**1,716**	**33,534**	**40,250**
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	2,642	-	-	8	-	2,650	3,796
Derivative liabilities	-	-	-	-	-	-	204
Due to donors	7,272	-	-	-	-	7,272	6,397
Deferred revenue	5,279	-	-	-	-	5,279	9,864
Employee benefits	188	-	-	-	-	188	230
	15,381	**-**	**-**	**8**	**-**	**15,389**	**20,491**
Non-current liabilities							
Employee benefits	2,313	-	-	-	-	2,313	2,466
Deferred revenue	1,113	-	-	-	-	1,113	2,429
	3,426	**-**	**-**	**-**	**-**	**3,426**	**4,895**
Total liabilities	**18,807**	**-**		**8**	**-**	**18,815**	**25,386**
Total net assets	**10,075**	**1,911**	**1,017**	**-**	**1,716**	**14,719**	**14,864**

International Training Centre of the ILO

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

(Expressed in thousands of Euros)

	2012 General Fund	2012 Working Capital Fund (Reserve)	2012 Campus Improvement Fund	2012 Innovation Fund	2012 Italian Trust Fund	2012 Intersegment	2012 Total	2011 Total (Restated)
Revenue								
Training activities	20,561	-	-	-	-	-	20,561	24,392
Voluntary contributions	11,722	-	-	-	-	-	11,722	13,039
Other revenue	1,885	-	-	-	-	-	1,885	2,393
Exchange gain (loss) and revaluation, net	(269)	-	-	-	-	-	(269)	(134)
Interest	221	39	14	-	32	-	306	171
Inter-segment revenue	362	-	-	45	-	(407)	-	
Total revenue	**34,482**	**39**	**14**	**45**	**32**		**34,205**	**39,861**
Expenses								
Staff costs	17,765	-	-	12	-	-	17,777	17,955
Sub-contracts	6,312	-	-	19	-	-	6,331	8,320
General operating expenses	1,513	-	-	9	-	-	1,522	2,511
Travel	2,919	-	-	2	-	-	2,921	3,701
Costs related to training activities	2,874	-	-	-	-	-	2,874	3,601
Buildings and ground maintenance	1,687	-	-	-	-	-	1,687	1,643
Supplies	761	-	-	3	-	-	764	1,148
Depreciation	617	-	-	-	-	-	617	681
Bank charges	52	-	-	-	-	-	52	71
Other expenses	9	-	-	-	-	-	9	-
Inter-segment expense	45	-	-	-	362	(407)	-	-
Total expenses	**34,554**	**-**	**-**	**45**	**362**	**-**	**34,554**	**39,631**
Net surplus	**(72)**	**39**	**14**	**-**	**(330)**	**-**	**(349)**	**230**

Note 24 – 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 2012

Auditor General of Canada
Vérificateur général du Canada

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

We have completed our audit of the 2012 financial statements of the Centre. This represents our fifth audit as external auditor. The following report contains all of the information that our audit plan indicated we would communicate to you at the conclusion of our audit, and where appropriate, other communications required under International Auditing Standards. We have addressed all of the matters that came to our attention during the course of the audit that we believe the Board of the Centre should be aware of in reviewing the Centre's financial statements. We will be pleased to elaborate on any of these points, to the extent you desire, during the Board meeting in October 2013.

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,

M McMahon

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

Ottawa, Canada
30 May 2013

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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Executive summary

We have performed our audit in a manner consistent with the Report to the Board – Annual Audit Plan, which was presented to the Board at its 74th meeting in November 2012.

We expressed an unqualified audit opinion on the Centre's financial statements for the years ended 31 December 2012 and 31 December 2011.

We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2012 and 31 December 2011, its financial performance, changes in net assets, cash flow, and the comparison of budget with actual amounts for the periods then ended in accordance with the International Public Sector Accounting Standards. We concluded that these accounting policies were applied on a basis consistent with that of the preceding period, except for the changes as explained in Note 3. We also concluded that the transactions of the Centre that have come to our notice have, in all significant respects, been in accordance with the Financial Regulations and the legislative authority of the Centre.

We examined the evaluations prepared by the Centre to determine the impact of the final year of the Centre's gradual adoption of International Public Sector Accounting Standards (IPSAS). For each IPSAS adopted in 2012, we reviewed the Centre's position papers and determined that the analysis of the standards was complete and that the standards were properly implemented. We also reviewed disclosures in the financial statements to ensure they are complete and accurate.

Now that IPSAS has been fully adopted by the Centre, it is important for the organization to identify any lessons learned from this experience. The Centre's management should identify areas where improvements are still required, and what lessons can be drawn from this project in order to mitigate difficulties in the implementation of new standards in the future.

We completed our audit work in March 2013. As part of the audit, we followed-up on the recommendations included in the management letter that was issued following the 2011 audit. We are generally satisfied with the progress made by management in this regard. We issued a management letter related to the 2012 audit in May 2013.

2012 Annual Audit Overview

Our Mandate

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

2. The OAG is widely involved in the activities of the Canadian, as well as the international, audit and accountancy profession. In Canada, the OAG is involved in many professional organizations, notably The Canadian Institute of Chartered Accountants which sets accounting and assurance standards. Internationally, the OAG has more than 50 years of experience collaborating with international partners in developing professional standards, building capacity, sharing knowledge, and conducting audits of international institutions.

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

Scope and objectives of the audit

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

5. An audit is an independent examination of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the Centre's compliance with significant authority instruments and considers whether, during the course of our examination, we have become aware of any other matters that, in our opinion, should be brought to the attention of the Board.

6. As noted in the Report to the Board – Annual Audit Plan, the objectives of our audit were to provide an independent opinion on whether:

   - the financial statements have been fairly presented, in all material respects, in accordance with International Public Sector Accounting Standards (IPSAS);

   - the accounting policies set out in Note 2 to the financial statements have been applied on a basis consistent with that of the preceding period; and

   - the transactions coming to our notice as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the Centre.

   Our auditor's report addresses each of our audit objectives. We express an opinion on the Centre's financial statements as at 31 December 2012 and as at 31 December 2011, because the 2011 financial statements had been prepared based on the United Nations System Accounting Standards (UNSAS) and have since been modified to be IPSAS compliant. We conducted audit work to ensure that the 2011 comparative figures have been presented for in accordance with IPSAS.

Audit approach and auditor's responsibilities

7. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall presentation of the financial statements.

8. When planning the audit, we acquired a sound understanding of the Centre; its business environment, the risks it faces, how the Centre manages those risks and its overall control environment. This understanding is based primarily on interviews with senior management and our audit knowledge of the Centre and its environment, including its internal controls. We obtained such an understanding in order to plan our audit and also to determine the nature, timing, and extent of audit procedures to be performed.

9. The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof. An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement, including those caused by fraud or error.

10. A detailed report summarizing the business risks identified and other audit risks and our planned procedures to address each of these risks was prepared and discussed with the Centre's management. We identified the key risks that could have an impact on the achievement of the fair presentation of the results of the Centre's operations and obtained an understanding of those risks that had implications for the financial statements. We focused on areas with a higher risk of a material error or non-compliance with significant authority instruments, based on our understanding of the Centre and its activities.

11. The audit plan was presented to the Centre's management and to the Board at its meeting in November 2012 in order to ensure that we had identified areas of significance and that our evaluation of the current operating environment of the Centre was complete.

Audit results

12. We issued an unqualified audit opinion on the Centre's 2012 and 2011 financial statements. We concluded that the financial statements present fairly, in all material respects, the Centre's financial position as at 31 December 2012 and 31 December 2013, and its financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the years then ended in accordance with International Public Sector Accounting Standards.

13. As required by the *Financial Regulations* of the Centre, we concluded that the accounting policies were applied on a basis consistent with that of the preceding period, except for the changes that are explained in Note 3 to the financial statements.

14. 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.

15. We are charged with reporting any disagreements with management over auditing, accounting, or disclosing matters that could, individually or in aggregate, significantly affect the financial statements or our independent auditor's report. We are also obliged to report whether we resolved any disagreements satisfactorily. We are pleased to report that there are no unresolved matters.

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

Audit completion

17. This was the OAG Canada's fifth audit of the Centre's financial statements. In 2012, we updated our description of the Centre's financial reporting framework and its overall control environment. We acknowledge the investment of time afforded to us by the Centre and wish to express our appreciation to the Director of the Centre, her officers and members of their staff for the excellent cooperation we received throughout the audit.

Detailed report on audit results

18. As required by International Standards on Auditing and the Centre's *Financial Regulations*, we report to those charged with governance of the organization whose financial statements are being audited. In particular, we report on significant changes in accounting policies, accounting estimates and financial statement disclosures, and other matters that in the auditor's judgment are significant to the oversight of the financial reporting process. We have prepared a detailed report for the Director of the Centre. Significant issues identified during our audit and their resolutions are presented below.

19. During the audit, we also identified opportunities to improve the Centre's financial controls. These opportunities have been discussed with the Centre's management. A management letter that summarizes these observations has been provided to management.

20. In our Annual Audit Plan presented to the Board in November 2012 we identified three business risks that had significant audit implications – these were in the areas of funding, the implementation of new accounting standards, and management estimates.

Funding

21. Due to the current economic climate in many countries, the Centre is facing a substantial reduction in its traditional sources of funding. We had identified this as a risk as it could have resulted in non-compliance with the Financial Regulations of the Centre if the Centre was not able to carry out certain activities, to respect its budget, or not fully meet its objectives. We reviewed whether sufficient controls were in place to mitigate the risk of non-compliance, and we found that the transactions we tested were in compliance with the authorities of the Centre.

International Public Sector Accounting Standards—Full adoption in 2012

22. For 2012, the Centre is reporting for the first time under a new reporting framework—the International Public Sector Accounting Standards (IPSAS). In the past, the Centre was reporting under the United Nations System Accounting Standards (UNSAS) while gradually implementing specific IPSAS standards, which was permitted, under UNSAS. This year, the financial statements were prepared by applying all relevant IPSAS standards.

23. During the 3 year implementation phase, the Centre recognized in its financial statements many new assets, liabilities, revenues, and expenses. In particular, the following new financial items are now part of the statements:

    - assessed and voluntary contributions receivable;
    - recognition of capital assets that were formerly expensed; and
    - full accrual for revenues, expenses, and employee benefits.

24. In addition, a significant amount of additional financial information is now included in the notes to the financial statements.

25. In 2012, the most significant standard adopted was IPSAS 17 – Property, plant and equipment. The implementation of this standard resulted in the recognition of capital assets that were previously expensed. More specifically, leasehold improvements that were expensed in prior years now appear as an asset in the statement of financial position. This change was adopted retrospectively; the impact was a €7.2M increase to capital assets and a €1.2 million increase to accumulated depreciation reported for 2011. We are satisfied with the presentation adopted by the Centre's management and that the required adjustments and disclosures under this IPSAS have been reflected in the notes.

26. In implementing IPSAS, the Centre carried out a significant amount of work to identify the information required to meet the standards. For example, in 2012, the capitalization of leasehold improvements that were previously expensed involved the evaluation of years of data to determine what items to capitalize and the appropriate value to assign to those assets, taking into account depreciation to date. This exercise also resulted in indirect benefits as the Centre took the opportunity to review its capital assets policy and make appropriate changes to better reflect their value and remaining useful lives.

27. In 2011 the Centre adopted IPSAS 23 – Revenue from non-exchange transactions. At that time there was no formalized process put in place to record on an ongoing basis the transactions

related to the Centre's training service agreements, nor to assess the collectability of existing agreements. As a result, information covering the entire year had to be gathered from multiple sources at year end in order to populate a manually maintained spreadsheet that is used for financial reporting purposes. This process continued in 2012 and our audit found a number of errors that had to be adjusted by the Centre. We understand that the Centre is in the process of evaluating the guarantees module in Oracle to automate this process.

28. In 2012, the Centre's management prepared pro forma financial statements at an early stage in the audit, which enabled us to perform a timely review and to provide early feedback. We encourage the Centre to continue with this practice.

International Public Sector Accounting Standards—Lessons Learned

29. The adoption of a new reporting framework resulted in a significant amount of new information being available and reported in the financial statements. Now that each individual section of IPSAS has been implemented, it is important to the Centre to monitor on an ongoing basis emerging IPSAS standards and assess the impact on their financial statements and internal processes. This would help the Centre in its ongoing implementation of new standards starting in 2013.

30. In order for the Centre to understand the full benefits of the new reporting framework now being used and how the additional information gathered from the various departments can serve them in managing the organization, it is important to identify the lessons learned from the implementation of IPSAS. Information on what went well and what did not go so well will be useful in assessing how the Centre did in comparison with what it expected and will highlight areas where further efforts might be required. It will also benefit them in implementing standards issued in the future or implementing changes to existing standards.

31. A lessons learned review can also highlight problems or limitations in obtaining information from the Centre's various information systems. This exercise may provide input in future work to streamline how the information is gathered. For example, the accrual of revenue from its training service agreements currently requires a significant amount of manual effort to gather information. The implementation of IPSAS has resulted in management's identification of the need for a more automated process to recognize revenue from these agreements.

32. The Centre needs to assess whether the information in its financial statements conveys the messages and the financial information useful to the Board in its governance role. The Centre should also assess how the IPSAS financial and non-financial information available could be used by management in carrying out its responsibilities.

33. Recommendation. The Centre should conduct a lessons learned from the implementation of IPSAS, including how the implementation went. It should identify the benefits to the organization, the areas where improvements are still required, how the new information created for the financial statements can be used by management in decision making, and what lessons can be drawn from this project in order to ensure that difficulties encountered are avoided in the future.

Centre's response

The Centre, in its phased implementation of IPSAS during the last three years learned many lessons. The Centre built in many IPSAS requirements in its business processes, which greatly strengthened internal controls and improve management of the Centre's assets and liabilities. Monthly soft closing of the books and financial statements preparation helped identified errors or misstatements to be addressed at an early stage. The Centre will document lessons learned and will continue to identify areas for improvement in staff training, systems and the streamlining of procedures to capture the required IPSAS information for financial reporting and disclosure.

Implementation of International Public Sector Accounting Standards (IPSAS) – Going Forward

34. IPSAS is an evolving reporting framework, and new standards are issued on a regular basis. As mentioned, it is important that management identify the impact of evolving standards on their financial statements as well as any resulting changes required to accounting procedures.

35. For 2013, three new IPSAS standards will be effective related to financial instruments:

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

36. These are complex standards that will require a significant amount of effort to assess the accounting and reporting implications for these types of transactions. In the past, the Centre has entered into forward contracts to hedge the impact of foreign exchange fluctuations. If the Centre is to continue to enter into this type of transaction, it is important to begin an early assessment of these standards on the Centre's accounting policies, procedures, and presentation and disclosure in the financial statements.

37. In addition, a number of IPSAS were amended as a result of the IPSASB's Improvements to IPSASs 2011 project. These amendments are effective for annual financial statements covering periods beginning on or after January 1, 2013.

Recommendation. The Centre should continue to monitor and prepare for the new IPSAS standards that will be applied in 2013 and future years and consider their impact, if any, on financial statements and information systems. This may include the development of accounting policies such as a new policy for the recognition and disclosure of financial instruments in compliance with IPSAS 28-30 and determining whether its information systems adequately capture financial information to facilitate the standards' accounting and reporting requirements. The Centre should also continue the practice to prepare pro-forma financial statements early to enable sufficient time to ensure disclosures are complete and in accordance with the standards.

Centre's response

The Centre will continue to monitor the new IPSAS standards that will be applied in future years and will ensure readiness to implement IPSAS 28-30 before the end of 2013. To ensure harmonization of accounting policy across the UN system wide organizations, the UN Accounting

Task Force will discuss during its September meeting in Geneva the IPSAS on financial instruments to be adopted in 2013.

Management Estimates

38. Preparing the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. Our audit plan identified the provisions for doubtful accounts and contingent liabilities as potentially the most significant estimates. We examined the reasonableness of the estimates by discussions with senior management and reviewed the key assumptions used to establish the estimates, as well as the accuracy and completeness of data used to make these assumptions.

39. Overall we found management's estimates to be reasonable, but noted some areas for improvement. We found that the non-current employee benefit liability is not discounted, as required by IPSAS 25. We also found in our review of training service agreements that some accounts receivable related to contracts were not likely collectable and should have been provisioned. These accounts receivable were subsequently adjusted in the financial statements.

Other Matters

Follow-up on previous recommendations

40. We reviewed the status of recommendations made in our Report to the Board on the 2011 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 2011 audit	Progress
<u>IPSAS</u>	
• 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.	
• The Centre's key finance personnel should pursue IPSAS learning activities in order to keep up to date with upcoming changes.	
• 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.	

Number of recommendations	Recommendations fully implemented
3	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

41. We reviewed the status of recommendations made in previous audits and we are generally satisfied with the progress made by management.

42. 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 have issued 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 notably to improvements to the procedures for accounting for training service agreements, changes to how the Centre awards and renews contracts, the establishment of a formal hedging policy, and the importance of a succession plan for key financial positions.

Conclusion

43. We are pleased with the results of the 2012 audit and with the Centre's adoption of IPSAS. We will continue to work with the Centre's management in 2013 to identify efficiencies and opportunities to improve the Centre's systems of internal controls.