INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

73rd Session, Turin, 3-4 November 2011

CC 73/5/1

FOR DECISION

FIFTH ITEM ON THE AGENDA

Financial Statements and External Auditor's Report for the financial year 1 January to 31 December 2010

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Financial report on the 2010 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 18. The report of the External Auditor on the audit of the 2010 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 18 of the Financial Regulations.

The 2010 financial statements have been prepared on the basis of the United Nations System Accounting Standards (UNSAS) and presented utilizing the format prescribed by the International Public Sector Accounting Standards (IPSAS). As part of the phased adoption of IPSAS, the 2010 financial statements include the adoption of 20 IPSAS addressing elements such as provisions, contingent liabilities and contingent assets; related party disclosures; presentation of budgetary information; employee benefits; revenue from exchange transactions; events after the reporting date; disclosure and presentation of financial instruments; segment reporting; and revenue from non-exchange transactions (for voluntary contributions). The 2010 financial statements include financial adjustments required by these IPSAS. Additional adjustments will be implemented in future years. Full implementation of IPSAS is planned for 2012.

The International Labour Organization (ILO) is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board of Directors chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. As an ILO controlled entity, the 2010 financial statements of the Centre will be consolidated with ILO's.

Financial results for 2010

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 2010 and 31 December 2009. Employee benefit liabilities of €2.5 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 declined by €5.1 million or by 37 percent as compared to 2009. Detailed net assets by Fund have been presented in note 22.

The **Statement of financial performance, Statement II** shows the combined results of the Centre's operations, with a combined net deficit of -€2.7 million for 2010. Compared to 2009, revenue and expenses declined by €2.3 million or 6 percent and by €68,000 or 0 percent respectively. The net deficit is a result of a change in accounting policy during the year on voluntary contributions, with no impact on total net assets. The net deficit is funded by accumulated fund balances. More detailed information on the results and information of revenue, expense and changes in net assets is presented in detail in notes 22.

A new **Statement of changes in net assets, Statement III** presents in summary the net accumulated fund balances and reserves at the beginning of 2010, the impact on the reserves of the net results of the previous two years and the IPSAS adjustments implemented to date.

The **Statement of cash flow, Statement IV** also presents the total cash and cash equivalents held by the Centre at the end of each of the two years.

Regular Budget

The Board of the Centre at its 71st Session (November 2009) approved an expenditure budget of €38.6 million and an income budget of €37.4 million for the 2010 financial period.

The overall budgetary results for the 2010 financial period are summarized in **Statement V**, with the details of voluntary contributions made by donors shown in note 18. Using the accrual method of accounting, total budgetary income for 2010 amounted to €39.1 million. Fixed expenditure under Chapter III of the budget during 2010 amounted to €20.8 million. Variable expenditure under Chapter IV amounted to €16.8 million. The budget surplus for 2010 amounted to €1.9 million.

<u>Significant differences between the 2010 budget and actual amounts as presented on Statement V</u>

(Expressed in thousands of Euros)

Line item in Statement V			Budget 2010	Actual 2010	Variance Amount	Variance %
Chapter	**Line**					
I	13	Voluntary contributions - City of Turin	500	266	(234)	-47%
I	20	Income from training activities	24,000	25,749	1,749	7%
III	22	Staff	14,901	14,489	412	3%
III	24	Buildings	2,515	2,106	409	16%
III	25	Transport and communications	730	532	198	27%
III	29	Missions and representation	400	264	136	34%
III	31	Depreciation	604	438	166	27%
III	32	Other fixed costs	2,029	1,628	401	20%
IV	33	Temporary assistance	7,200	7,981	(781)	-11%
IV	35	Participants subsistence	2,880	2,570	310	11%
IV	39	Other variable costs	2,740	3,219	(479)	-17%
Total variance explained					**2,287**	

<u>General explanation of the overall variance between the budget and the actual</u>

The budget for 2010 with a budget deficit of -€1.25 million was approved by the Board at its Seventy-first Session held in November 2009. In a meeting with the Officers of the Board in January 2010, the Centre presented cost reduction measures to balance the budget. Hence, significant favourable variances in fixed costs are the result of cost reduction measures implemented in 2010 such as budget cuts in missions and travel, deferral of expenditures in information technology, suspension of capital assets and expendable materials purchases, and deferral of ordinary maintenance.

<u>Specific explanations of the significant differences</u>

Voluntary contributions - City of Turin: The City of Turin advised the Centre that its payment of the 2010 voluntary contribution of €500,000 will be deferred to 2011. It is in this context that management decided to defer the required extraordinary maintenance related to this contribution. This explains the variance in the income related to the City of Turin.

Income from training activities: The increase in income from training activities was mostly due to the increase in training activities funded by bilateral donors and the European Union.

Staff: This expense is below budget by €412,000 due to the freezing of and delaying the recruitment of vacant post, suspension of staff meal allowance and deferral of planned staff development.

Buildings: This expense is below budget by €409,000 due to savings in heating, electricity, gas, water and cleaning bills with the conscious effort to contain general operating costs of the Centre and deferral of office and classroom renovations planned in 2010.

Transport and communications: This budget line is below budget by €198,000 due to €142,000 in budget cuts and savings in telephone and communication costs and of €56,000 budget cuts and savings in vehicle running costs and internal removals.

Missions and representation: This budget line is below budget by €136,000 due to budgetary cuts and savings in travel.

Depreciation: This budget line is below budget by €166,000 due to the deferral of the planned equipment purchases of € 378,000 in 2009 and €440,000 in 2010 due to the anticipated budgetary deficit in 2009 and 2010.

Other fixed costs: This budget line is below budget by €401,000 due to the deferral of renewal of software licenses of €255,000, budget cuts and savings in consumables by €60,000, budget cuts and savings in maintenance of equipment of €90,000 and a €4,000 in excess of budget in other fixed costs.

Temporary assistance: This budget line is above budget by €781,000 due to the increasing number of training activities requiring language interpretation and external lecturers.

Participants subsistence: This budget line is below budget by €310,000 due to fewer study visits in 2010.

Other variable costs: This budget is above budget by €479,000 due to a combination of increase in external services, decrease in use of training facilities in the field and increase in internal reproduction and miscellaneous training expenses.

General Fund

The accumulated fund balance and reserves in the General Fund totalled €6.8 million at 31 December 2010. Details of the balances in this fund are summarized in note 22.

Non-General Funds managed by the Centre

Non-General fund balances managed by the Centre totalled €1.9 million at 31 December 2010. They comprise of €1.7 million in trust funds held on behalf of the Italian government and €0.2 million for the Campus Improvement Fund.

Ex-gratia payments

During the year 2010, there were no ex-gratia payments made.

Approval of the financial statements for the period 1 January to 31 December 2010

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

Patricia O'Donovan
Director

11 April 2011

Remedios Dungca
Treasurer and Chief,
Financial Services

11 April 2011

Point for decision:

The Board is requested to approve the attached 2010 Annual Financial Statements of the Centre, together with the Report of the External Auditor, pursuant to Article 18.2 of the Financial Regulations.

Turin, 19 July 2011.

Auditor General of Canada
Vérificatrice générale du Canada

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the International Training Centre of the International Labour Organization, which comprise the statement of financial position as at 31 December 2010, and the statement of financial performance, statement of changes in net assets, statement of cash flow and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the International Training Centre of the International Labour Organization as at 31 December 2010, and its financial performance, its cash flows and the comparison of budget and actual amounts for the year then ended in accordance with United Nations System Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Regulations* of the International Training Centre of the International Labour Organization, I report that, in my opinion, the United Nations System Accounting Standards have been applied, after giving retroactive effect to the changes as explained in Note 4 to the financial statements, on a basis consistent with that of the preceding year.

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

In accordance with Article 28 of the *Financial Regulations* of the International Training Centre of the International Labour Organization, I will also issue a detailed report on my audit of the International Training Centre of the International Labour Organization's financial statements to the Board.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

11 April 2011
Ottawa, Canada

Financial statements and notes to the financial statements for the period 1 January to 31 December 2010

International Training Centre of the ILO

Statement of financial position as at 31 December

(In thousands of Euros)

	Note	2010	2009 Restated
Assets			
Current assets			
Cash and cash equivalents	**5**	12,474	16,646
Investments	**8**	3,508	-
Accounts receivable	**7**	3,157	4,157
Contributions receivable	**6**	895	900
Due from the ILO		1,222	-
Other current assets	**9**	512	472
		21,768	**22,175**
Non-current assets			
Fixed assets	**10**	958	842
		958	**842**
Total assets		**22,726**	**23,017**
Liabilities			
Current liabilities			
Payables and accrued liabilities	**12**	2,989	2,442
Due to the ILO		-	281
Due to Donors		349	115
Deferred revenue	**11**	8,268	6,384
Employee benefits	**13**	309	-
		11,915	**9,222**
Non-current liabilities			
Employee benefits	**13**	2,155	-
		2,155	**-**
Total liabilities		**14,070**	**9,222**
Net assets			
Total reserve	**22**	1,852	1,852
Total accumulated fund balances	**22**	6,804	11,943
Total net assets		**8,656**	**13,795**

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 2010 to 31 December
(In thousands of Euros)

	Note	2010	2009 Restated
Revenue			
Income from training activities	**16**	21,858	22,943
Voluntary contributions	**14**	13,909	15,402
Other income	**17**	1,219	1,223
Exchange gain (loss) and revaluation, net		255	(71)
Interest income		115	139
Total revenue		**37,356**	**39,636**
Expenses			
Staff costs		17,974	18,482
Sub-contracts		6,762	6,310
General operating expenses		4,303	3,561
Travel		3,784	4,419
Costs related to training activities		3,340	3,593
Buildings and ground maintenance		2,106	2,064
Supplies		1,254	1,187
Depreciation		438	384
Bank charges		58	77
Other expenses		19	29
Total expenses		**40,038**	**40,106**
Net deficit		**(2,682)**	**(470)**

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 2010 to 31 December
(In thousands of Euros)

	Note	Reserve (Working Capital Fund)	Accumulated Fund Balances	Net Assets
Balance as at 1 January 2009 as previously reported		**1,901**	**6,152**	**8,053**
Prior period adjustments due to changes in accounting policies:				
Expenses	4	-	418	418
Income from training activities	4	-	(483)	(483)
Voluntary contributions	4	-	6,277	6,277
Restated balance as at 1 January 2009		**1,901**	**12,364**	**14,265**
Net change due to restated deficit for 2009	4	(49)	(421)	(470)
Restated balance as at 31 December 2009		**1,852**	**11,943**	**13,795**
Deficit of 2010		-	(2,682)	(2,682)
Changes in accounting policies for 2010:				
Recognition of employee benefits liabilities	4	-	(2,457)	(2,457)
Balance as at 31 December 2010		**1,852**	**6,804**	**8,656**

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 2010 to 31 December
(In thousands of Euros)

	2010	2009 Restated
Cash flows from operating activities		
Deficit for the period	(2,682)	(470)
Non-cash items:		
Depreciation	438	384
Loss on disposals	12	3
Decrease in accounts receivable	1,000	882
Decrease in contributions receivable	5	-
(Increase) decrease in due from the ILO	(1,222)	822
(Increase) decrease in other current assets	(40)	150
Increase (decrease) in payables and accrued liabilities	547	(1,836)
Increase in deferred revenue	1,884	2,151
Increase (decrease) in due to the ILO	(281)	281
Increase in due to donors	234	115
Increase in employee benefits	2,464	-
Adjustment to net assets related to employee benefits	(2,457)	-
Net cash flows from operating activities	**(98)**	**2,483**
Cash flows from investing activities		
Acquisitions of fixed assets	(566)	(268)
Increase in investments	(3,508)	-
Net cash flows from investing activities	**(4,074)**	**(268)**
Net increase (decrease) in cash and cash equivalents	**(4,172)**	**2,215**
Cash and cash equivalents, beginning of period	16,646	14,431
Cash and cash equivalents, end of period	**12,474**	**16,646**

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 of 1 January 2010 to 31 December
(in thousands of Euros)

Budget Chapter	Budget Item	Title	2010 BUDGET	2010 ACTUAL	BUDGET VARIANCE /2
		INCOME			
I		**Voluntary contributions**			
	10	International Labour Organization	2,728	2,819	91
	11	Government of Italy	7,850	7,850	0
	12	Government of France	100	104	4
	13	Piedmont Region	400	370	(30)
	14	City of Turin	500	266	(234)
		Total contributions	11,578	11,409	(169)
II		**Earned income**			
	20	Income from training activities	24,000	25,749	1,749
	20a	Other income	1,500	1,303	(197)
		Total earned income	25,500	27,052	1,552
	21	Use of surplus	327	633	306
		TOTAL BUDGET INCOME	**37,405**	**39,094**	**1,689**
		EXPENDITURE			
III		**Fixed expenses**			
	22	Staff	14,901	14,489	(412)
	23	External collaborators	400	333	(67)
	24	Buildings	2,515	2,106	(409)
	25	Transport and communications	730	532	(198)
	26	Specialized services	746	712	(34)
	27	Services provided by ILO Offices	197	210	13
	28	Official meetings	135	91	(44)
	29	Missions and representation	400	264	(136)
	30	Library and training resources	44	20	(24)
	31	Depreciation	604	438	(166)
	32	Other fixed costs	2,029	1,628	(401)
		Total fixed expenses	22,701	20,823	(1,878)
IV		**Variable expenses**			
	33	Temporary assistance	7,200	7,981	781
	34	Missions	750	793	43
	35	Participants subsistence	2,880	2,570	(310)
	36	Participants travel	1,940	1,862	(78)
	37	External tuition fees	10	1	(9)
	38	Books, training aids, supplies	130	164	34
	39	Other variable costs	2,740	3,219	479
	39a	Other costs related to other income	300	256	(44)
		Total variable expenses	15,950	16,846	896
		TOTAL OPERATING EXPENSES	**38,651**	**37,669**	**(982)**
		BUDGET (DEFICIT) SURPLUS	**(1,246)**	**1,425**	**2,671**
		Other items			
		Provision for doubtful accounts		(140)	(140)
		Exchange gain (loss) and revaluation, net		255	255
		Savings on and cancellations of prior period's obligations		397	397
		TOTAL OTHER ITEMS		**512**	**512**
		NET BUDGET (DEFICIT) SURPLUS /1	**(1,246)**	**1,937**	**3,183**

/1 As referred to in Financial Regulations 7(4).
/2 Budget variances between budget and actual are explained in the accompanying financial report on the 2010 accounts.
The accompanying notes are an integral part of the financial statements.

Note 1 – Objectives and Activities

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

The ILO is the controlling entity of the Centre. The Centre was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is governed by a Board of Directors chaired by the Director-General of the ILO. The Board has 33 members, 24 of whom are appointed by the Governing Body of the ILO. A meeting of the Board is convened annually. The members of the Board do not receive any remuneration from the Centre for their services. However, they are entitled to reimbursement of travel expenses incurred in the performance of their duties. At its annual meeting, the Centre adopts its budget in accordance with the Centre's Financial Regulations on the recommendation of the members of the Board. Under the Centre's Financial Regulations, article 18, 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 € 1,852,200.

3) The Campus Improvement Fund was established by the Director of the Centre to receive funds specifically for the refurbishment of the campus.

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

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

Note 2 – Significant accounting policies

The financial statements of the Centre have been prepared in accordance with the United Nations System Accounting Standards (UNSAS).

Pursuant to UNSAS, the Centre has adopted and applied to the financial statements for the 2010 financial period the provisions of the following International Public Sector Accounting Standards (IPSAS):

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

The following IPSAS have also been adopted in 2010 but they have no impact on the Financial Statements:

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

IPSAS-25 was adopted earlier than required by the standard which becomes effective on 1 January 2011.

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

Financial period: The Centre's financial period for budgetary purposes is the calendar year and its financial statements are prepared annually. Comparative information reflects the full 12 months of the calendar year 2009.

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 of 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 Fund. As a transitional measure, these financial statements are presented in the format provided for in IPSAS 1, although the Centre has not adopted IPSAS 1 in 2010.

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

Monetary balances maintained in currencies other than the Euro are converted to Euro at the United Nations operational rate of exchange as at 31 December 2010.

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

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

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

Investments: Investments include short-term investments in Euro bonds that are held until maturity and are valued at fair value, at the reporting date.

Accounts receivable: The Centre's accounts receivables are derived from invoices for training related services, and from the sale of publications. The Centre establishes a general provision for doubtful accounts equal to 50% of the balance of receivables aged from one year to two years and 100% of the balance for all receivables over two years unless there is reasonable expectation of full payment of the outstanding balance.

Contributions receivable: The Centre's contributions receivable are derived from voluntary contributions. The Centre establishes a provision for doubtful accounts equal to 100% of contributions outstanding for more than two years that reflects the estimated impairment of its accounts receivable from these donors. So far, no provision for doubtful accounts has been considered necessary for voluntary contributions receivable.

Due to/from the ILO: The Centre has an inter-office transactions current account with its controlling entity, the ILO, to record transactions due to and from 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 to or due from the ILO is reflected as appropriate.

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. Inventories consists mainly of materials and goods used for the production process of training materials as well as other goods held either for sale or for internal use. They are valued at the lower of cost, using the "first-in-first-out" method, and their net realizable value.

Fixed assets: Fixed assets, except for leasehold improvements related to the buildings of the Centre, have been recognized as assets and initially measured at cost. They have been depreciated on a straight-line basis at rates of 20% or 10% per annum, depending on their estimated useful life. Vehicles, office equipment and computer systems are given a 5-year life, while other equipment and furniture are given a 10-year life. The capitalization of these fixed assets reflects more accurately the cost of the utilization of these assets.

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

Payables and accrued liabilities: Payables represent invoices for which good 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.

Deferred revenue: Funds received from training participants and their sponsoring agencies in respect of future training activities and consultancy services are carried as deferred revenue and not recognized as revenue until the Centre's performance obligation in providing the related services is fulfilled.

Employee benefits:

<u>Short-term benefits</u>
Short-term employee benefits liabilities are recognized at an undiscounted amount when an employee has rendered a service to the Centre. They include non-resident allowance, family allowance, post adjustment allowance, education grant, language allowance, home leave and compensated absences.

Compensated absences: 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. Overtime rendered in lieu of payment, calculated at time and a half for ordinary overtime and double time for special overtime, is allowed as compensatory time which is added to the available annual leave balance of staff members. Compensatory time should be used within four weeks from the time the overtime is earned. For non-accumulating compensating absences, such as sick leave and maternity leave, an expense is recognized when the absence occurs.

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 was calculated by multiplying the actual number of days accumulated by each staff member by the staff member's net salary plus post adjustment for eligible professional staff and net pensionable salary and allowances for general services staff.

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: These benefits are expensed as part of payroll and a liability is recorded at year-end if an amount remains unpaid.

<u>Repatriation travel and removal expenses</u>
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

multiplying the average cost paid to staff during the three-year period ending the reporting date by the number of staff members' eligible for reimbursement as at 31 December 2010.

End-of-service payments and repatriation grant

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

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

The Centre does not recognize any liability in its accounts for end-of-service payments and repatriation grant. In March 1980, the ILO Governing Body made a decision that the payments related to end-of-service and repatriation grant made to the Centre's staff from 1 July 1980 be charged to the ILO terminal benefits account and that monthly contributions be made by the Centre to the ILO. Apart from paying these monthly contributions to the ILO, which is expensed on an ongoing basis, no further obligation to the Centre exists. A liability is recognized only to the extent that a contribution to the ILO remains to be paid in respect of employee services rendered.

After-service medical benefits

The Centre does not recognize any liability in its accounts for after-service medical benefits to which staff members (and their dependants) retiring from service at the age of 55 or later are eligible if they have at least ten years of service with an agency of the United Nations system and have been a participant in the Staff Health Insurance Fund for the five years immediately preceding separation from service. The Staff Health Insurance Fund is a multi-employer defined benefit plan providing medical coverage to all staff, retirees and their dependants. The Centre is one of the participating members of that Fund. Monthly contributions towards this Fund are made by the insured, with matching contributions made by the participating organizations. In the case of the retirees from the Centre, the ILO makes the required monthly contribution to the Staff Health Insurance Fund. Therefore, the Centre does not have any liability with regards to the after-service medical benefits.

United Nations Joint Staff Pension Fund

Through the ILO, the Centre is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The pension fund is a funded, multi-employer defined benefit plan.

Actuarial valuations are prepared every two years for the UNJSPF using the Open Group Aggregate method. The latest actuarial valuation for the UNJSPF was prepared as of 31 December 2009. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in plan. The Centre, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability for accounting purposes and hence, has recorded this plan as if it were a defined contribution plan.

The Centre's contribution to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly, together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF. Such deficiency payments are payable only if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the UNJSPF at the valuation date. At the time of the finalization of the financial statements, the United Nations General Assembly had not invoked this provision.

Other income: Other income comprises of non-training activities such as income from social life activities, and revenue generated by the use of residential facilities other than participants attending training. These are exchange transactions since equal value is exchanged. They are recognized as services are provided.

Other income also includes income from other UN organizations for the use of the Centre's facilities, and recovery of receivables that have been written off in previous years.

Interest income: Interest income generated from short-term deposits and investments is an exchange transaction and is recognized as it is earned, on a time proportion basis that takes into account the effective yield.

Revenue from non-exchange transactions:

- *Voluntary contributions:*
    - Voluntary contributions are provided by the Government of Italy, the Government of France, the Piedmont Region and the ILO to support the general operations of the Centre. Voluntary contributions are also received from various donors for campus improvement and from the Government of Italy for training activities. These contributions contain no stipulations in the nature of "conditions" that require the return of any unexpended funds should they have not been used for their intended purposes. They are recognized as an asset and revenue when (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and (b) the fair value of the asset can be measured reliably.
    - Voluntary contributions are also received from the City of Turin to meet the 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 (Due to donors) when (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and (b) the fair value of the asset can be measured reliably. As and when the funds are utilized for extraordinary maintenance and landscaping costs, the liability (Due to donors) is reduced by a corresponding amount and recognized as revenue.

- *Contributions in kind*: The Centre does not recognize contributions in kind in the accounts. Contributions in kind include the land and buildings of the Centre that are provided by the City of Turin at a nominal rent. All expenses related to the improvements of the buildings of the Centre are recorded as expenditure, not as capital assets. Contributions in kind are disclosed in the notes to the financial statements.

- *Income from training activities:* Revenue related to the provision of training activities is recognized and measured on the proportion that expenses incurred to date bear to the estimated total expenses of the training activity.

- *Expenses:* General Fund and other funds expenses are recorded on the basis of goods and/or services received during the reporting period.

Note 3 – Changes to the 2010 financial statement presentation

Certain figures contained in the 2009 published financial statements have been reclassified to ensure consistency with the current financial period results. The reclassification of the 2009 results, form part of the overall effort to provide a more appropriate presentation of the financial statements. With the adoption of certain IPSAS effective for the calendar year 2010, the comparative figures for the calendar year 2009 have been restated.

The major changes related to the presentation are:

- The financial statements are now shown on a combined basis instead of by fund.
- Expenditure previously reported as variable and fixed costs are now classified by nature of expenditure.
- An additional segment for the Italian Trust Fund that was previously disclosed in the notes to the financial statements has been added and is now shown within the assets and liabilities of the combined financial statements.
- The balance of the Due from/to the ILO is now shown separately on the Statement of financial position.
- Receivable pertaining to voluntary contributions are now shown separately in the Statement of financial position.

Note 4 – Changes in accounting policies in 2010

As part of the phased adoption of International Public Sector Accounting Standards (IPSAS), the Centre has changed a number of accounting policies. These changes are permitted under the United Nations System Accounting Standards (UNSAS). They represent a move toward full accrual accounting and they result in a more appropriate presentation in the financial statements.

<u>Expenses</u>

The accounting policy related to expenses recognition was changed to remove committed expenditure relating to goods and services that have not been received or delivered. This change was applied retrospectively. As a result, for the year 2009, liabilities were reduced by €1,099,000, expenses were reduced by €681,000 and opening fund balance (net assets) was increased by €418,000.

The accounting policy related to the savings on and cancellations of prior year period's obligations, which consist of unused balances of purchase orders from previous years that had been recognized as accrued expenses, was changed to recognize them as a reduction of expenses instead of a net assets transaction. This change was applied retrospectively. As a result, for the year 2009, expenses and savings on and cancellations of prior period's obligations (net assets transaction) were reduced by €193,000.

<u>Income from training activities</u>

As the accounting policy for the recognition of expenses was changed in 2010, the income from training activities was restated. The accounting policy related to income from training activities is to recognize and measure them on the basis of the proportion that expenses incurred to date bear to the estimated total expenses of the training activity. This change was applied retrospectively. As a result, for the year 2009, income from training activities was reduced by €391,000, accounts payable and accrued liabilities were increased by €268,000, deferred revenue was increased by €606,000 and opening fund balance (net assets) was reduced by €483,000.

Voluntary contributions

City of Turin: Voluntary contributions related to the City of Turin are conditional non-exchange transactions according to IPSAS 23. These contributions are related to the extraordinary maintenance and landscaping costs of the property that the City has permitted the Centre to occupy. These contributions are recognized as an asset with a corresponding liability (Due to donors) when (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and (b) the fair value of the asset can be measured reliably. As and when the funds are utilized for extraordinary maintenance and landscaping costs, the liability (Due to donors) is reduced by a corresponding amount and recognized as revenue. As the accounting policy for the recognition of expenses was changed in 2010, the voluntary contributions recognized in 2009 were restated. This change was applied retrospectively. As a result, for the year 2009, voluntary contributions were reduced by €115,000 and the corresponding liability (Due to donors) was increased by the same amount.

Campus Improvement Fund: Voluntary contributions related to the campus improvement fund are non-exchange transaction according to IPSAS 23. As they contain no stipulations in the nature of “conditions” that require the return of any unexpended funds should they have not been used for their intended purposes, the accounting policy was changed to recognize them as an asset and revenue when it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and the fair value of the asset can be measured reliably. These contributions were previously recognized as an asset and corresponding liability and as the funds were utilized to improve the campus, the liability was reduced to recognize the corresponding revenue. This change was applied retrospectively. As a result, for the year 2009, revenue from voluntary contributions was reduced by €939,000, deferred revenue was reduced by €2,422,000 and opening fund balance was increased by €3,361,000.

Italy Trust Fund: The unspent voluntary contributions related to the funds received from the Government of Italy for training activities were previously disclosed in the notes to the financial statements. This is now included in the financial statements and a new segment was added to the segment information presented in the notes. In addition, as these contributions are non-exchange transaction according to IPSAS 23 and since they contain no stipulations in the nature of “conditions” that require the return of any unexpended funds should they have not been used for their intended purposes, the accounting policy was changed to recognize them as an asset and revenue when it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and the fair value of the asset can be measured reliably. These contributions were previously recognized as income from training activities as the funds were utilized for training activities. This change was applied retrospectively. As a result, for the year 2009, cash was increased by €1,954,000, accounts payable and accrued liabilities were reduced by €1,024,000, deferred revenue was reduced by €70,000, revenue from voluntary contributions was increased by €4,000,000, interest income was increased by €22,000, income from training activities were reduced by €3,890,000 and opening fund balance (net assets) was increased by €2,916,000.

Employee benefits

As part of the adoption of IPSAS 25, the Centre recognized in 2010 its liabilities related to employee benefits. They include accumulated leave, repatriation travel and removal expenses. Some of these liabilities were previously disclosed in the notes to the financial statements. As permitted by the Standard, this change was applied retrospectively without restatement of comparative information for 2009. The impact of this change was an increase of liabilities by €2,457,000 in 2010 and a decrease in net assets by €2,457,000.

As a result of the changes in accounting policies that were retrospectively applied, the financial statements for the year 2009 have been restated as follows (expressed in thousands of euros):

	2009 Restated	2009 As previously stated	Change
Statement of financial position			
Total assets	23,017	22,954	63
Total liabilities	9,222	14,739	(5,517)
Total net assets	13,795	8,215	5,580
Statement of financial performance			
Voluntary contributions	15,402	12,455	2,947
Income from training activities			
Revenue-producing activities	12,435	16,506	(4,071)
Funds received under inter-organizational arrangements	10,508	10,717	(209)
	22,943	27,223	(4,280)
Other income	1,223	1,222	1
Interest income	139	116	23
Exchange gain (loss) and revaluation, net	(71)	-	(71)
Total expenses	40,106	41,049	(943)
Net deficit	(470)	(33)	(437)

Note 5– Cash and cash equivalents

Cash required for immediate disbursement is maintained in cash and bank accounts. Cash equivalent balances in term deposits are available at short notice. Of the total cash held at the reporting date, €11.6 million was in the functional currency (2009 = €16.3 million) and the balance held in other currencies, primarily US dollars and the Swiss Franc, was US$782,000 and CHF397,000 (2009 = US$337,000 and CHF171,000). All short-term deposits held by the Centre in 2010 matured by the end of the year.

Note 6 – Contributions receivable

Voluntary contributions that have not been received at the reporting date are broken down as follows:

(Expressed in thousands of Euros)

	2010	2009 Restated
Government of France	25	-
Piedmont Region	370	400
City of Turin	500	500
Total voluntary contributions receivable	**895**	**900**

Note 7– Accounts Receivable

Accounts receivable as at 31 December comprises of:

(Expressed in thousands of Euros)

	2010	2009 Restated
Accounts receivable other than voluntary contributions	4,131	5,092
Less: provision for doubtful accounts	(974)	(935)
Total accounts receivable, net	**3,157**	**4,157**

Of the above net accounts receivable, €3,022,000 (2009 =€4,016,000) relate to non-exchange transactions.

The Centre has increased the provision for doubtful accounts by €140,000 (2009 = reduction of €92,000) at year end. Also, during the year, the Centre wrote off €102,000 (2009 = € 50,000) of accounts receivable which represented mostly accounts receivable over three years old and which were provided for in previous years.

Note 8– Financial Instruments

The Centre's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. Financial risk management is carried out in conjunction with the Centre's investment policy and Financial Regulations. The Centre does not use hedge accounting. There are no unrecognized financial instruments in the Financial Statements.

Fair value of financial assets and liabilities

All financial assets and financial liabilities are valued at fair value, either a market value for assets for which an active market exists (cash, cash equivalents and investments) or reflecting impairment through provisions for doubtful accounts for accounts receivable.

(Expressed in thousands of Euros)

Instrument	2010 Carrying Value	2010 Fair Value	2009 Restated Carrying Value	2009 Restated Fair Value	Valuation Method
Cash and cash equivalents	12,474	12,474	16,646	16,646	Market value
Investments	3,508	3,508	-	-	Quoted market value at 31 December
Contributions receivable	895	895	900	900	Euro equivalents of amounts as per agreements with no provision for doubtful accounts
Due from the ILO	1,222	1,222			Euro equivalent of receivables
Other receivables	4,131	4,131	5,092	5,092	Euro equivalent of receivables
Less provision for doubtful accounts	974	974	935	935	At 50% if older than one year, 100% if older than 2 years unless confirmed by debtor
Net other receivables	3,157	3,157	4,157	4,157	
Net financial assets	21,256	21,256	21,703	21,703	
Accounts payable and accrued liabilities	2,989	2,989	2,442	2,442	Euro equivalent of liabilities
Due to the ILO			281	281	Euro equivalent of liabilities
Employee benefit liabilities	101	101	-	-	Euro equivalent of liabilities
Net financial liabilities	3,090	3,090	2,723	2,723	

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 relates to US dollar transactions.

The Centre’s net foreign currency exposure as at 31 December 2010 is as follows:

	USD (in thousands)	Euro equivalent (in thousands)
Cash and cash equivalents	782	595
Accounts receivable	781	594
Due from the ILO	1,302	991
Payables and accrued liabilities	(89)	(68)
Net exposure	**2,776**	**2,112**

Based on the net exposure as at 31 December 2010, and assuming all the other variables remain constant, a hypothetical five percent change in the US dollar against the Euro would impact on the Centre through an estimated increase or decrease in net results of €107,000 or four per cent of the 2010 net deficit of €2.7 million.

Interest Rate Risk

This is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Centre does not charge interest on its accounts receivable nor is it charged interest on its liabilities and does not have borrowings. However, the Centre invests in short-term deposits and short-term investments; it 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.

The Centre's investments of €3,508,000 are fixed term investments. These investments are subject to market risk should they be sold before maturity. Since these investments are short-term in nature with the intention of holding these until maturity, the exposure to market risk is minimal.

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

Cash and Cash Equivalents and Investments

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

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

Funds are generally deposited or invested only with institutions maintaining a long-term credit rating of A or higher. The credit rating for cash and cash equivalents and investments are as follows as at 31 December 2010:

Composition of cash and cash equivalents and investments by credit rating (fair value) in thousands of Euros:

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

Accounts Receivable

The Centre's accounts receivable are derived mainly from invoices for training related services rendered, interest receivable on investments and term deposits and from the sale of publications. The Centre establishes a general allowance equal to 50% of the balance of receivables aged from one year to two years and 100% of the balance for all receivables over two years unless the there is a reasonable expectation of the full payment of the outstanding balance. The provision for doubtful accounts is adjusted to reflect information provided from the aging of accounts receivable.

The balance of the Centre's accounts receivable is derived from voluntary contributions. The Centre establishes a provision for doubtful accounts equal to 100% of contributions outstanding for more than two years that reflects the estimated impairment of its accounts receivable from these donors. So far, no provision for doubtful accounts has been considered necessary for voluntary contributions receivable.

An aging of the Centre's receivables at 31 December 2010 is as follows, expressed in thousands of Euros:

	Less than 1 year	1-2 years	Over two years	Less Provision for doubtful accounts	Total
Accounts receivable	2,794	340	997	(974)	3,157
Contributions receivable	895				895
Total receivable	**3,689**	**340**	**997**	**(974)**	**4,052**

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's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. The Centre also manages liquidity risk by continuously monitoring actual and estimated cash flows.

Note 9 - Other current assets

Other current assets are as follows:

(Expressed in thousands of Euros)

	2010	2009 Restated
Inventories	304	305
Prepaid expenses and advances	208	167
Total other current assets	**512**	**472**

Note 10 – Fixed assets

The following fixed assets acquired since July 1980, except for leasehold improvements related to the buildings of the Centre, have been recorded in the accounts:

(Expressed in thousands of Euros)

	Vehicles and Office Equipment	Computer Systems	Other Equipment and Furniture	Total
Cost at 01/01/2010	1,219	2,351	621	4,191
2010 additions	522	24	20	566
2010 disposals	(104)	(710)	(7)	(821)
Cost at 31/12/2010	**1,637**	**1,665**	**634**	**3,936**
Accumulated depreciation at 01/01/2010	923	1,931	495	3,349
2010 depreciation	227	194	17	438
2010 disposals	(100)	(708)	(1)	(809)
Accumulated depreciation at 31/12/2010	**1,050**	**1,417**	**511**	**2,978**
Net book value at 31/12/2010	**587**	**248**	**123**	**958**
Net book value at 31/12/2009	**296**	**420**	**126**	**842**

Note 11 – Deferred revenue

The amount of € 8,268,000 (2009 = € 6,384,000) mainly comprises advances received for training activities. They are as follows:

(Expressed in thousands of Euros)

	2010	2009 Restated
European Commission	1,792	1,758
Italian Presidency of Consiglio	1,341	0
Ministry of Social Policy, Bulgaria	1,244	1,574
Italian Ministry of Foreign Affairs, Palestine	731	952
Government of Brazil	373	0
Spanish Labour and Immigration Ministry	267	0
Ministry of Labour and Social Solidarity, Portugal	234	409
Others	2,286	1,691
Total deferred revenue	**8,268**	**6,384**

Note 12 – Payables and accrued liabilities

The amount of € 3.0 million (2009 = € 2.4 million) includes expenses mainly associated with training activities, plus various accruals for fixed costs such as heating and electricity, salaries, maintenance costs and supplies.

Note 13 – Employee benefits

(Expressed in thousands of Euros)

	2010
Current liabilities	
Accrued Salaries	6
Accumulated leave	259
Repatriation travel and removal expenses	35
Home Leave	9
Total current liabilities	**309**
Non-current liabilities	
Accumulated leave	1,716
Repatriation travel and removal expenses	439
Total non-current liabilities	**2,155**
Total employee benefits liabilities	**2,464**

End-of-service payments and Repatriation grant

The total amount paid to the ILO, both for end of service payments and repatriation grant in 2010 was € 696,000 (€ 687,000 in 2009).

The liability for end-of-service was estimated at € 7.433 million at the end of 2010 (2009 = € 7.311 million). The liability for repatriation grant in the amount of € 841,000 was estimated at the end of 2010 (2009 = € 772,000). These liabilities are recognized by the ILO in its financial statements.

After-service medical benefits

The liability for after-service medical benefits was estimated at € 30.6 million at the end of 2010 (€ 22.2 million in 2009). This liability is recognized by the ILO in its financial statements.

United Nations Joint Staff Pension Fund

The Centre makes contributions on behalf of its staff (currently payable by the participants and the Centre at 7.9 percent and 15.8 percent respectively, of the staff member's pensionable remuneration) and would be liable for its share of the unfunded liability, if any. Total retirement plan contributions made for staff to UNJSPF by the Centre amounted to € 3.78 million of which € 2.52 million represented the employer contribution (€ 3.80 million in 2009 of which € 2.53 million represented the employer contribution).

Note 14 – Voluntary contributions

(Expressed in thousands of Euros)

	2010	**2009 Restated**
Government of Italy	10,350	11,850
International Labour Organization	2,819	2,267
Piedmont Region	370	400
City of Turin	266	385
Government of France	104	50
Compagnia Di San Paolo	-	450
Total voluntary contributions	**13,909**	**15,402**

The ILO contribution of €2,819,000 (US$3,805,000) represents one half of the approved 2010/2011 biennial contribution of US$ 7,610,000. In 2009 it was €2,267,000 (US$ 3,160,000).

The Italian Government general contribution to the Centre in 2010 was €7,850,000 (2009= €7,850,000). This amount was received in 2010. The Italian Government also provided €2,500,000 in 2010 (2009 = €4,000,000) for training activities. In total, the Italian Government provided a total contribution of €10,350,000 in 2010 (2009 =€11,850,000).

The French Government agreed to contribute €104,000 (2009 = €50,000).

In 2010, the City of Turin agreed to contribute €500,000 (2009 = €500,000) to cover costs of extraordinary maintenance and landscaping costs. Of this amount, €266,000 was utilized and recognized as revenue in 2010 (2009 = €385,000). The contribution had not been received as at 31 December 2010.

The Piedmont Region agreed to contribute €370,000 (2009 = €400,000). This amount had not been received as at 31 December 2010.

Note 15 – Contributions in kind

Services in-kind in the form of legal, audit and staff time provided by the ILO and the Government of France have not been recognized in the financial statements and are as follows:

The ILO provided a total of 6.5 man months of staff time free of charge, valued at €69,000 (2009 = 4 man months, valued at €47,000). There were no free of charge legal and audit services provided in 2010 (2009 = €112,000 - US$ 162,000).

The Government of France provided a total of four man months of staff time free of charge, valued at €11,000 (2009 = 12 man months, valued at €33,000).

The land and buildings of the Centre are provided by the City of Turin at a nominal rent. The valuation of the land and buildings has not been determined.

Note 16 – Income from training activities

(Expressed in thousands of Euros)

	2010	2009 Restated
Revenue producing activities		
Bilateral Donors / Direct Trust Funds	6,033	4,939
European Union (including the European Commission, the European Training Foundation and the European Social Fund)	3,942	4,561
Other multilateral Agencies	1,728	1,409
Government of Italy and other Italian Organizations (including the Ministry of Foreign Affairs and the Ministry of Labour)	1,614	1,526
Total Revenue producing activities	**13,317**	**12,435**
Funds received under inter-organizational arrangements		
International Labour Organization – other	3,569	3,131
International Labour Organization – regular budget	3,069	5,590
Other UN Agencies	1,755	1,479
World Bank	148	308
Total Funds received under inter-organizational arrangements	**8,541**	**10,508**
Total Income from training activities	**21,858**	**22,943**

Note 17 – Other income

(Expressed in thousands of Euros)

	2010	2009 Restated
Non–exchange transactions		
Use of Centre's facilities by other UN organizations	488	545
Use of facilities other than residential	151	205
Recovery of past years write off	88	12
Other miscellaneous income	112	87
Exchange transactions		
Use of residential facilities by non-participants attending training	251	276
Social life activities	129	98
Total other income	**1,219**	**1,223**

Note 18 – Future Commitments

At 31 December 2010, the Centre has future commitments of €3.8 million (2009 = €3.8 million) for contracts related to 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.

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 2010 budget was approved by the Board of the Centre in November 2009 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 is presented as budgetary income in the Statement V while it is not presented on the Statement II.

- The basis of accounting for income related to the Italy Trust Fund is not the same in Statement II and Statement V. In Statement V, income related to the Italy Trust Fund is recognized as income from training activities as the funds are utilized for training activities and in Statement II, it is recognized as voluntary contributions when (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre and (b) the fair value of the asset can be measured reliably.

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

- The savings on and cancellations of prior period's obligations are presented as reduction of expenditure and exchange gain (loss) and revaluation, net are presented as part of income in Statement II and as Other items in Statement V.

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

Reconciliation between budgetary surplus (Statement V) and Statement of cash flow (Statement IV)

(Expressed in thousands of Euros)

	Operating	Investing	Total
Net budget surplus	**1,937**	**-**	**1,937**
Basis Differences			
Acquisition of fixed assets		(566)	(566)
Increase in investments		(3,508)	(3,508)
Non-cash items	2,584		2,584
Italy Trust Fund (income)	(1,391)		(1,391)
Use of Surplus	(633)		(633)
Subtotal Basis Differences	**560**	**(4,074)**	**(3,514)**
Entity Differences			
Working Capital Fund	12		12
Campus Improvement Fund	(2,236)		(2,236)
Investment Fund	(384)		(384)
Italy Trust Fund	13		13
Subtotal Entity Differences	**(2,595)**	**-**	**(2,595)**
Net decrease in cash and cash equivalents	**(98)**	**(4,074)**	**(4,172)**

Reconciliation between Statement II and Statement V

(Expressed in thousands of Euros)

	Statement of comparison of budget and actual amounts (Statement V)	Statement of financial performance (Statement II)	Difference	Entity differences	Basis differences	Classification differences
Total revenue	39,094	37,356	1,738	(31)	2,024	(255)
Total expenses	(37,669)	(40,038)	2,369	2,626	-	(257)
Total other items	512	-	512	-	-	512
Net budget surplus/ (net deficit)	**1,937**	**(2,682)**	**4,619**	**2,595**	**2,024**	**-**

<u>Use of surplus in 2010</u>

In accordance with Article 7 paragraph 4 of the Financial Regulations of the Centre, the Director decided to set aside for future years the amount of US$ 800,000 (€ 592,000) out of the 2006 surplus, to finance two P4 positions, together with the related operational expenses, for the years 2008 and 2009 to develop and promote activities in the fields of a) employment skills and development and b) migration, forced labour and human trafficking. At the 69th session held in Geneva on 29 and 30 October 2007, the Board of the Centre approved this use of the 2006 surplus. In 2010, €267,000 (2009 = € 258,000) was spent for this purpose, leaving an unspent balance of €53,000 (2009 = €320,000).

Furthermore, the officers of the Board met in Geneva on 7 March 2008 and approved additional budgetary expenditure of US$ 1,086,000 (€ 745,000) out of the 2007 surplus to improve training capabilities in the amount of US$ 437,000 (€300,000) and for improvement works on the campus in the amount of US$ 649,000 (€445,000). In 2010, a total of €119,000 (2009 = €8,000) was spent on improving training capabilities and €247,000 (2009 = €29,000) on campus improvement works, leaving unspent balances of €91,000 (2009 = €210,000) and nil (2009 = € 247,000) respectively.

Note 20 – Contingent assets

Contingent assets relating to signed agreements and contributions that are likely to be received in 2011, and which have not been recognized as assets, are shown in the table below:

(Expressed in thousands of Euros)

	2010	2009
ILO Contribution	2,896	2,637
Government of Italy – Centre's operations	7,850	7,850
Government of Italy – Training activities	1,600	2,500
City of Turin	-	500
European Commission	7,684	3,042
Governments	5,619	3,525
Others	643	3,167
Total contingent assets	**26,292**	**23,221**

Note 21 – Related party transactions

As the ILO is the controlling entity of the International Training Centre, it is related to the Centre.

During 2010, the ILO contributed €2.82 million for the general operations of the Centre (€2.27 million in 2009) and provided €6.37 million (€8.57 million in 2009) to the Centre for its training activities. In addition, the ILO paid the full employer contribution for the after service health insurance of former staff members of the Centre which amounted to €519,000 in 2010 (€502,000 in 2009). In 2010, ILO also paid €52,000 (2009 = €106,000) in repatriation grant, €512,000 (2009 = €824,000) in end of service benefits to staff members and agreed termination of €86,000 (2009 = nil). In total, the ILO provided €10.36 million (2009= €12.27 million) to support the Centre's operations and training activities. All other transactions between the ILO and the Centre occur within a normal supplier or client/recipient relationship.

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

The aggregate remuneration paid to key management personnel includes salaries and benefits established in accordance with the Centre's Staff Regulations and approved by the Board of Directors for 2010. Key management personnel are members of the UN Joint Service Pension Fund (UNJSPF) to which the personnel and Centre contributes and are also eligible for participation in the Staff Health Insurance Fund (SHIF) including the After Service Medical if they meet the eligibility requirements in the SHIF Regulations and Administrative Rules. Both the SHIF and the UNJSPF are defined benefit plans.

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

	2010		2009	
Category	Individuals	Total remuneration (Euro)	Individuals	Total remuneration (Euro)
Key Management	8	1,319,000	7	1,095,000

The Centre compensated the services of a close family member of one of the key management personnel for the provision of training in the amount of €26,000 in 2010 (€25,000 in 2009).

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

There were no related party transactions involving key management personnel in 2010 or 2009.

Note 22 – Segment reporting

The Centre has prepared the financial statements using the combined format, presenting information based upon the funds managed by the Centre and described in note 1. The design of the funds is based upon the requirements of UNSAS, which is also in accordance with IPSAS-18. Inter-segments transfers are eliminated in the column "Inter-segment" on the following financial statements. Inter-segment transfers include:

- €3,891,000 from the General Fund to the Italy Trust Fund to recognize expenses related to the Italy Trust Fund;
- €12,000 from the Working Capital Fund to the General Fund to bring the Working Capital Fund to its target level of € 1,852,200;
- €384,000 from the General Fund to the Investment Fund to cover expenses of the Investment Fund.

International Training Centre of the ILO

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

	2010 General Fund	2010 Working Capital Fund (Reserve)	2010 Campus Improvement Fund	2010 Investment Fund	2010 Italian Trust Fund	2010 TOTAL	2009 Restated TOTAL
Assets							
Current assets							
Cash and cash equivalents	8,678	1,879	186	-	1,731	12,474	16,646
Investments	3,508	-	-	-	-	3,508	-
Accounts receivable	3,157	-	-	-	-	3,157	4,157
Contributions receivable	895	-	-	-	-	895	900
Due from the ILO	1,222	-	-	-	-	1,222	-
Other current assets	512	-	-	-	-	512	472
Interfund balances	68	(27)	-	20	(61)	-	-
	18,040	**1,852**	**186**	**20**	**1,670**	**21,768**	**22,175**
Non-current assets							
Fixed assets	958	-	-	-	-	958	842
	958	**-**	**-**	**-**	**-**	**958**	**842**
Total assets	**18,998**	**1,852**	**186**	**20**	**1,670**	**22,726**	**23,017**
Liabilities							
Current liabilities							
Payables and accrued liabilities	2,969	-	-	20	-	2,989	2,442
Due to the ILO	-	-	-	-	-	-	281
Due to donors	349	-	-	-	-	349	115
Deferred revenue	8,268	-	-	-	-	8,268	6,384
Employee benefits	309	-	-	-	-	309	-
	11,895	**-**	**-**	**20**	**-**	**11,915**	**9,222**
Non-current liabilities							
Employee benefits	2,155	-	-	-	-	2,155	-
	2,155	**-**	**-**	**-**	**-**	**2,155**	**-**
Total liabilities	**14,050**	**-**	**-**	**20**	**-**	**14,070**	**9,222**
Total net assets	**4,948**	**1,852**	**186**	**-**	**1,670**	**8,656**	**13,795**

International Training Centre of the ILO

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

	2010 General Fund	2010 Working Capital Fund (Reserve)	2010 Campus Improvement Fund	2010 Investment Fund	2010 Italian Trust Fund	2010 Inter-Segment	2010 TOTAL	2009 Restated TOTAL
Revenue								
Income from training activities	21,858	-	-	-	-	-	21,858	22,943
Voluntary contributions	11,409	-	-	-	2,500	-	13,909	15,402
Other income	1,219	-	-	-	-	-	1,219	1,223
Exchange gain (loss) and revaluation, net	255	-	-	-	-	-	255	(71)
Interest income	84	12	6	-	13	-	115	139
Inter-Segment Revenue	3,903	-	-	384	-	(4,287)	-	-
Total revenue	**38,728**	**12**	**6**	**384**	**2,513**	**(4,287)**	**37,356**	**39,636**
Expenses								
Staff costs	17,735	-	-	239	-	-	17,974	18,482
Travel	3,782	-	-	2	-	-	3,784	4,419
Sub-contracts	6,670	-	-	92	-	-	6,762	6,310
Costs related to training activities	3,340	-	-	-	-	-	3,340	3,593
Buildings and ground maintenance	2,106	-	-	-	-	-	2,106	2,064
General operating expenses	2,011	-	2,242	50	-	-	4,303	3,561
Supplies	1,253	-	-	1	-	-	1,254	1,187
Depreciation	438	-	-	-	-	-	438	384
Bank charges	58	-	-	-	-	-	58	77
Other expenses	19	-	-	-	-	-	19	29
Inter-Segment Expense	384	12	-	-	3,891	(4,287)	-	-
Total expenses	**37,796**	**12**	**2,242**	**384**	**3,891**	**(4,287)**	**40,038**	**40,106**
Net surplus/(deficit)	**932**	**-**	**(2,236)**	**-**	**(1,378)**	**-**	**(2,682)**	**(470)**
Net assets, beginning of period	6,473	1,852	2,422	-	3,048	-	13,795	14,265
Adjustments to net assets (Note 4)	(2,457)	-	-	-	-	-	(2,457)	-
Net assets, end of period	**4,948**	**1,852**	**186**	**-**	**1,670**	**-**	**8,656**	**13,795**

Note 23 – Campus improvement fund

In December 2002, the Government of Italy made an extraordinary initial contribution to the Centre for the urgent needs to adapt the buildings in order to meet security standards. During the following years, additional funds were donated in order to adapt the buildings to current security standards and to cover exceptional expenses incurred to upgrade the hotel facilities and other structures of the Centre. The funds were used to refurbish its main conference building (pavilion L) in order to improve its capacity and address security and safety concerns.

The contributions received and utilized by the Centre are detailed below:

Date of receipt of funds	Origin of funds	Amounts in euro
01 December 2002	Government of Italy	516,500
27 January 2004	Compagnia di San Paolo	25,000
16 September 2004	Piedmont Region	1,000,000
04 November 2004	SanPaolo IMI S.p.A.	83,600
07 December 2004	Government of Italy	569,500
06 September 2005	Piedmont Region	1,000,000
01 October 2006	Piedmont Region	1,000,000
13 February 2007	Compagnia di San Paolo	150,000
27 July 2007	Compagnia di San Paolo	150,000
12 February 2008	Compagnia di San Paolo	225,000
11 July 2008	Compagnia di San Paolo	225,000
27 April 2009	Compagnia di San Paolo	225,000
28 October 2009	Compagnia di San Paolo	225,000
	Total contributions received	**5,394,600**
	Less: Total expenses incurred	5,565,400
	Add: Interest earned	357,000
	Fund Balance at 31 December 2010	**186,200**

In June 2010, the renovation works for Pavilion L was completed for a total of €3,879,500.

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 2010

Auditor General of Canada
Vérificatrice générale du Canada

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

On 26 March 2007, at its 298th session, the Governing Body of the International Labour Organization (the ILO) appointed the Auditor General of Canada as the external auditor for a period of four years. On 25 March 2011, at its 310th Session, the Governing Body extended our mandate for the 73 th and 74th financial periods ending on 31 December 2015.

Under the Financial Regulations of the International Training Centre of the ILO (the Centre), the external auditor of the ILO is the external auditor of the Centre. In accordance with Article 28 of the Financial Regulations, a detailed report shall be issued on the audit, in addition to the Independent Auditor's Report.

The audit of the 2010 financial statements of the Centre represents our third audit as external auditor. The following report contains the results of our audit and includes observations arising from our audit of the 2010 financial statements.

My mandate as Auditor General comes to an end on 30 May 2011. The Auditor General of Canada has a fixed non-renewable mandate of 10 years. The Centre's audit work on the 2010 financial statements was completed during my mandate and I have signed the Independent Auditor's Report and the attached detailed report. The meeting of the Board at which this report is presented falls after my term. Ms. Marian McMahon, Assistant Auditor General responsible for the Centre's audit, will present my report.

We wish 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.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada
External Auditor

Ottawa, Canada
18 May 2011

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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Executive summary

We expressed an unqualified audit opinion on the Centre's 2010 financial statements. Specifically, in our report, we state that the financial statements present fairly, in all material respects, the Centre's financial position, financial performance, changes in net assets, cash flows and the comparison of budget and actual amounts in accordance with United Nations System Accounting Standards. We also concluded that these accounting policies were applied on a basis consistent with that of the preceding year, except for the changes explained in Note 4. In addition, we concluded that the transactions of the Centre that have come to our notice as part of our audit were, in all significant respects, in accordance with the *Financial Regulations* and legislative authority of the Centre.

We completed our audit work in April 2011. As part of the audit, we followed-up on the issues raised in the management letter that was issued following the 2008 audit and the observations identified during the 2009 audit. We are generally satisfied with the progress made by management in this regard. We plan to issue a management letter related to the 2010 audit in the summer of 2011.

In accordance with its plan to gradually implement the International Public Sector Accounting Standards (IPSAS), the Centre assessed 20 standards in 2010, of which 10 had an impact on the Centre's financial statements. One of these standards was partially adopted (IPSAS 23 – Revenue from non-exchange transactions). This partial adoption is permitted by the transitional provisions provided for in the Standard. While we are generally satisfied with the application of the new standards, we have noted a few areas of improvements which are discussed in details in the section entitled "Implementation of the International Public Sector Accounting Standards (IPSAS)". We encourage management to adequately plan for the standards that will be implemented for the 2011 financial statements, to analyze early the impacts of the changes and to continue its cooperation with the ILO.

About the Office of the Auditor General

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

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

Scope and objectives of the audit

3. The scope of the audit was determined in compliance with Chapter VIII of the Centre's *Financial Regulations* and in accordance with the additional terms of reference governing the external audit, which are presented in Appendix II to those Regulations.

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

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

   - the financial statements have been fairly presented, in all material respects, in accordance with United Nations System Accounting Standards;
   - the accounting policies have been applied on a basis consistent with that of the preceding year; and
   - the transactions coming to our notice as part of our audit were, in all significant respects, in accordance with the *Financial Regulations* and legislative authority.

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

Audit approach and auditor's responsibilities

5. 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.

6. When planning the audit, we updated our knowledge of the Centre and its environment, the risks it faces, how the Centre manages those risks, and its overall control environment. We updated our understanding in order to plan our audit and also to determine the nature, timing and extent of audit procedures to be performed.

7. 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.

8. Owing to the inherent limitation of an audit, there is an unavoidable risk that some misstatements in the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

9. Our audit plan, which summarized the main risks areas identified for the audit, was discussed with the Centre's management on 3 November 2010. 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.

Audit results

10. We confirm that the Office of the Auditor General of Canada remained independent of from the Centre throughout the audit.

11. We issued an unqualified audit opinion on the Centre's 2010 financial statements. We concluded that they present fairly, in all material respects, the Centre's financial position as at 31 December 2010, and its financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended in accordance with the United Nations System Accounting Standards.

12. We concluded that that the United Nations System Accounting Standards were applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes as explained in Note 4 to the financial statements.

13. 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.

14. We are required to communicate to the Board unadjusted misstatements and the effect that they, individually or in aggregate, may have on our opinion in the Independent Auditor's Report. As a result of our audit, we identified certain misstatements and have discussed these with management. Management has adjusted the financial statements to reflect these items, which mostly related to the adoption of some International Public Sector Accounting Standards. We have no unadjusted misstatements to report.

15. We did not encounter any difficulties or disagreements with management while performing our audit that would require the attention of the Board.

16. We are required to report on fraud and illegal acts involving senior management or employees with a significant role in internal control that would cause a material misstatement in 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 activities. Our audit procedures did not identify any matters related to fraud that should be brought to the attention of management or the Board.

17. The preparation of financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that involve significant judgment and measurement uncertainty, which can have a significant impact on the Centre's reported results. We are responsible for discussing our views with the Board about significant qualitative aspects of the Centre's accounting practices, including the appropriateness of accounting policies, the reasonableness of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

18. We reviewed the accounting policies, including the new policies adopted in 2010. We are satisfied that they are appropriate and in compliance with the United Nations System Accounting Standards and requirements of the IPSAS applied in 2010. We also reviewed accounting estimates, notably accrued liabilities, provision for doubtful accounts, estimated useful lives of fixed assets, and liabilities related to employee benefits. When considering the reasonableness of these estimates, we reviewed the supporting working papers and documentation, performed recalculations, and performed other such tests and procedures as we considered necessary in the circumstances. We accepted management's judgments and found them consistent with the corroborating evidence. We also obtained sufficient evidence as to the adequacy of financial statement disclosures. For additional information on this, refer to the section on IPSAS implementation.

19. For the first time, we adopted a control-reliant approach to audit the payroll expenses. We did not identify any significant control weaknesses but have identified some opportunities for improvements which we have discussed with management and which will be included in our management letter.

20. We performed specific audit procedures related to travel and hospitality expenses of key management personnel and Board members. We did not note any matters that we feel should be brought to the attention of the Board. However, opportunities for improvements to the hospitality policy were identified and they will be included in our management letter.

21. The identification and monitoring of risks faced by the Centre is an important and ongoing exercise. We noted during our audit a lack of risk management and formal reporting to the Board. We expected management to have identified and documented the risks that could have an impact on the operations of the Centre as well as the systems and practices that have been put in place to mitigate these risks. While management has yet to conduct a full risk assessment, it has addressed some key risks, notably the risks related to IT systems. Also, management has informed us that the new Chief of administration will be responsible to coordinate the development of business continuity plans. We

encourage management to continue its efforts in the assessment of risks and in the development and implementation of business continuity plans.

22. **Recommendation:** Management should conduct a risk assessment to identify the Centre's risks. The risks should be measured, systems and practices is place to mitigate risks should be identified, and risks should be monitored and reporting to the Board should take place on a timely basis.

Centre's response: The Risk Management Committee will meet at least 3 times a year to prepare and review a formal risk log. If we need expert advice on how to do that, then we can consider it once we understand what we need.

Audit completion

23. For the 2010 audit we performed our year-end work in February and March 2011. This timing was advanced by three weeks from the previous audit but due to the Centre's late start in assessing and implementing several new standards, financial statements were not finalized before April 2011, and these were required to complete our audit work. This was a challenging year as the Centre decided to adopt several IPSAS late in the year. The implementation of new standards required extensive analysis, information gathering, calculations by management, and subsequent audit procedures which delayed the completion of the audit.

Management Letter

24. We reviewed the status of the management letter issued following the 2008 audit, as well as the observations noted during the 2009 audit, and we are generally satisfied with the progress made by management. The remaining observations and recommendations that have not been addressed relate to business continuity plans and update to the signing authority policy. Management agreed with our recommendations and has begun to address them.

25. During this year's audit, we also identified opportunities for changes in procedures that would improve systems of internal control, streamline operations, and /or enhance financial reporting practices. We have discussed our observations with management and will issue a management letter summarizing our observations, making recommendations to realize these opportunities and asking for management's written response to the matters we raised. These observations relate notably to updating policies, improving estimates made in relation to employee benefits, reviewing the processes for training activities and completing the central database of agreements. We expect the management letter to be finalized in summer of 2011. As per our normal practice, we only report the most significant observations and recommendations regarding weaknesses in internal controls in our Report to the Board. We have no major observations to report to the Board at this time.

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

26. Late in 2010, Management decided to adopt a phased implementation of IPSAS which began with the adoption of 20 standards in 2010, out of which 10 had an impact on the financial statements. One of these standards was partially adopted (IPSAS 23). This partial adoption of IPSAS 23 is in compliance with the transitional provisions included in the Standard, which permits a three year progressive application.

27. As a result of the standards applied in 2010, presentation of the financial statements has significantly changed, and changes in accounting policies and new disclosures in the financial statements were made.

28. The accounting policies on recognition of voluntary contributions related to the Campus Improvement Fund and the Italy Trust Fund have been changed as a result of the application of IPSAS 23 (Revenue from non-exchange transactions). These contributions used to be recognized as revenue as the funds were used. In accordance with IPSAS 23, these contributions are now recorded as revenue when it is probable that the future economic benefits or service potential associated with the asset will flow to the Centre, when the fair value of the asset can be measured reliably and when there are no conditions to be fulfilled by the Centre on the voluntary contributions. This usually happens when a signed agreement is in place. We agree with the changes made to these accounting policies.

29. As a result of the adoption of IPSAS 25 (Employee benefits) in 2010, the Centre now recognizes its liabilities related to employee benefits, such as accumulated leave and repatriation travel and removal expenses. The other employee liabilities (end-of-service payments, repatriation grant, and after-service medical benefits) are the responsibility of the ILO and therefore have not been recorded in the Centre's financial statements. We agree with the liabilities recorded on employee benefits. However, we noted that the requirement under IPSAS 25 to discount the long-term portion of the employee benefits liability was not complied with. While discounted results might not provide a significant difference in the liability recorded for these employee benefits, the Centre should ensure that this is the case. In addition, we noted that the methodology used for calculating the liability on repatriation travel and removal expenses could be improved. The use of an average of the costs incurred in the previous three years might not be the best method to use for the Centre who has few employees entitled to this benefit. A more accurate approach would be to estimate a liability for each employee and we encourage management to evaluate this option.

30. The Centre also decided in 2010 to change its accounting policy related to the recognition of expenses. Expenditures relating to goods and services that have not been received or delivered at year-end are no longer reported as expenses incurred. We agree with this change.

31. In 2010, the accounting policy related to income from training activities was also changed. Income from training activities is now recognized and measured on the basis of the proportion that expenses incurred to date bear to the estimated total expenses of the training activity. Once IPSAS 23 is applied for income from training activities, this new

accounting policy on income from training activities will need to be reviewed. A thorough review of each type of agreement will need to be performed in order to determine how they should be accounted for. The Centre will also need to review its accounting policy on expenses related to training activities when IPSAS 23 is applied since they are interrelated.

32. The changes in accounting policies discussed above have been applied retrospectively with restatement of comparative information for 2009, except in the case of employee benefits (IPSAS 25) for which no restatement of comparative information was made. We agreed with this as it was permitted by the Standard and the Centre did not think it was cost effective to restate the comparative information for 2009. These changes are explained in note 4 to the Financial Statements.

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

33. We continue to strongly support the United Nations System's move to adopt IPSAS. This change in accounting framework will improve the quality, comparability and credibility of United Nations System financial reporting, resulting in improvements with respect to accountability, transparency and governance.

34. In order to ensure a consistent implementation of IPSAS across the United Nations, a task force was formed. This task force provides interpretation of various IPSAS in relation to the unique UN environment. In our view, there are outstanding issues that the various UN organisations (including the Centre) must evaluate. For example, the view taken by the task force is that UN organizations and their specialized agencies are not considered related parties. While this issue is not addressed by the IPSAS as they are written, the underlying principles would consider that UN organizations and their specialized agencies are related parties and disclosing the extent of transactions with them would be appropriate.

35. The adoption of IPSAS is a major undertaking that requires significant and ongoing project management, staff training, development of accounting policies and procedures, and investment in systems to capture required information.

36. **Recommendation:** We encourage the Centre to monitor the developments of the UN Task Force on IPSAS in order to ensure comparability and a consistent application of the IPSAS with other UN organizations.

    Centre's response: The Centre will not only continue to monitor the developments of the UN Task Force on IPSAS, but will also continue to participate actively in its work and will maintain close collaboration with the ILO to ensure a harmonized application of the IPSAS with them and with other UN organizations.

37. Our experience with the 2010 audit highlights how the implementation of new standards can be very time consuming and resource intensive. It is important for the Centre to adequately plan for the future implementation of standards and to prepare early. In addition, as the Centre's financial statements are consolidated with those of the ILO, it is

essential for the Centre to continue to hold discussions with the ILO on the accounting policy decisions and on the resulting reporting implications.

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

    Centre's response: Ongoing discussions and dialogue with the ILO will be continued in the next phase of the Centre's IPSAS implementation. A face to face meeting is being planned in early June with ILO key staff for this purpose. Pro-forma financial statements will be prepared before year-end for timely review.

39. It is vital to both the successful implementation and timely realization of the benefits from improved financial reporting that all departments are engaged in the redesign of the business processes as well as the accounting policies. In addition, senior management needs to evaluate how to best use the new information that is generated from the application of these new standards to improve the delivery of its programs.

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

Internal audit

41. The Office of Internal Audit and Oversight (IAO) of the ILO provides internal audit services to the Centre. The purpose of the work of IAO is to provide the Director of the Centre with independent examinations in order to ensure the regularity of the receipt, custody and disbursements of all funds and other resources of the Centre, and the economical use of the resources of the Centre.

42. In order to fulfill its mission, the IAO carries out a comprehensive risk assessment of its audit environment and develops its work plan, which is submitted to the Director for endorsement. The 2010-12 work plan was submitted to the Director in September 2010.

43. To ensure that endorsement is received on a timely basis, so that the plans are operationalized (timing is determined and staff are scheduled) for the entire period, IAO should be finalizing the work plan strategy before the period to which it relates begins.

44. **Recommendation:** The IAO should complete its comprehensive risk assessment and work plan and submit the plan to the Director for endorsement prior to the beginning of the period to which it relates.

Centre's response: The Centre will coordinate with the IAO to ensure that a comprehensive risk assessment and internal audit work plan is submitted for the Director's review and endorsement prior to the period to which it relates.

IAO's response: IAO updated its strategic work plan in September 2010. However, IAO shall aim to prepare a work plan for submission to the Director of the Center prior to the beginning of the period to which it relates.

46. The IAO had planned to work on two projects in 2010: IT audit and Management of income-generating activities and related invoicing system. The second project had been requested by management. The IAO informed us that these two projects were postponed due to the reallocation of internal audit resources to other projects.

47. **Recommendations:**

a) When developing a work plan, the IAO should ensure it has sufficient resources to complete the projects identified, on a timely basis.

b) The Centre should ensure that IAO delivers on its work plan.

IAO's response:

a) Since 2006, it has been IAO's practice to establish its workplan based on a calculation of available resources. IAO is currently undertaking a review of management of training income, and plans to undertake an IT audit for later in the year. Should IAO not be able to meet its plan, or if circumstances warrant a change, IAO shall inform and consult with the Director of the Centre.

Centre's response:

b) The Centre will plan with the IAO well in advance to ensure that the IAO work plan is adhered to.

Other work conducted at the Centre

48. As the external auditor of the Centre, we have been engaged to perform agreed-upon procedures regarding financial information related to two contracts between the Centre and the European Commission. Our work in this area is conducted in accordance with International Standards on Related Services applicable to agreed-upon procedures engagements. The first engagements related to these two contracts will be completed in the spring of 2011 and report on factual findings will be issued. The second engagements are planned to be performed in the fall 2011.

Conclusion

49. In summary, we encourage management to adequately plan for the IPSAS that will be implemented for the 2011 financial statements, to analyze early the impacts of the changes and to continue its cooperation with the ILO.