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Financial report and audited financial statements

for the biennium ended 31 December 2003 and

Report of the Board of Auditors

Volume III
International Trade Centre UNCTAD/WTO

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Fifty-ninth Session
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International Trade Centre UNCTAD/WTO

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

2 April 2004

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the International Trade Centre UNCTAD/WTO for the biennium 2002-2003, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Kofi A. **Annan**

Mr. Shauket A. Fakie
Chairman
United Nations Board of Auditors
New York

9 July 2004

I have the honour to transmit to you the financial statements of the International Trade Centre for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Secretary-General. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa and Chairman
United Nations Board of Auditors

The President of the General
Assembly of the United Nations
New York

Chapter I
Financial report for the biennium ended 31 December 2003

A. Operations

1. The International Trade Centre UNCTAD/WTO is a technical cooperation organization whose mission is to support developing countries and transition economies, particularly their business sectors, in their efforts to realize their full potential for developing exports and to improve import operations with the ultimate goal of achieving sustainable development. As a joint subsidiary organ of the World Trade Organization (WTO) and the United Nations — the latter acting through the United Nations Conference on Trade and Development (UNCTAD) — the Centre deals specially with the operational aspects of trade promotion and export development. It acts as the focal point for all United Nations technical cooperation activities in trade promotion, as affirmed by the Economic and Social Council in its resolution 1819 (LV) of 9 August 1973. Within the medium-term plan of the United Nations for the period 2002-2005,[1] the Centre is responsible for the implementation of subprogramme 6, "Operational aspects of trade promotion and export development" of programme 9, "Trade and development".

2. The programme had five principal goals during the biennium 2002-2003: facilitating integration into the multilateral trading system; supporting the design of trade development strategies; reinforcing trade support services; improving sector performance; and building enterprise competitiveness. In order to maximize impact and to become more cost effective, three approaches for cooperation have been adopted. They are global coverage through networking; an integrated multi-country/multi-agency programme approach; and tailor-made trade development projects. Priority was given to least developed countries and to the special needs of small and medium-sized enterprises. During the biennium, the Centre launched two new programmes, the e-Trade Bridge Programme and the Export-Led Poverty Reduction Programme, and continued implementation of the following programmes: World Tr@de Net; capacity-building and networking for business information services (CAPNET/BIS); competitiveness improvement of small and medium-sized enterprises; and South-South trade promotion. The Centre also continued to play an active role in the implementation of the following programmes: the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries and, in selected least developed and other African countries, the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme.

3. During the biennium 2002-2003, the Centre implemented 123 programmes and projects comprising 45 interregional, 17 regional and 61 country-specific projects. The level of activities financed by trust funds continued to grow, rising by 44 per cent from the 2000-2001 level to reach 36.9 million United States dollars ($) in 2002-2003. Overall, ITC project delivery in 2002-2003 reached $40.2 million. The Centre continued to concentrate on multi-agency ventures, which led to new avenues of technical cooperation, particularly in the area of trade strategy development and enterprise competitiveness. Simultaneously, the Centre remained actively engaged in developing a technical cooperation response to e-trade, which is emerging as one of the most important challenges to exporters in developing and

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[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 6* (A/55/6).

transition economies. National partner institutions continued to act as multiplier agents for ITC products and services under a “product-network” approach.

4. Annual meetings as well as special technical meetings and informal sessions of the Joint Advisory Group of ITC, which brings together ITC’s parent bodies, States members of the United Nations Conference on Trade and Development (UNCTAD) and members of the World Trade Organization, donors and beneficiaries, provided for the regular review of the Centre’s work and guidance on strategies and priorities. At the thirty-fifth session of the Joint Advisory Group in 2002, the Group noted that the Centre had maintained its role as a key niche player in trade-related technical assistance and had delivered uniformly high-quality service to its clients in developing countries and transition economies. Its contribution to trade development and to development overall remained significant. The Centre’s “exemplary” approach to nurturing national and regional partnerships was highlighted. At its thirty-sixth session in 2003, ITC received unprecedented support from donors and beneficiaries. Countries receiving the Centre’s support endorsed its strategy for growth and continued commitment to focusing technical assistance on the competitiveness needs of Africa and the least developed countries. Those countries also confirmed support of the Centre’s efforts in helping the business community understand how it could benefit from the Doha Development Agenda. Regular consultations with donors and beneficiaries also took place within the framework of the Consultative Committee on the ITC Global Fund.

B. Financial results

5. Financial statements I, II, III and IV show the financial results of the Centre’s activities. The notes to the financial statements explain the Centre’s accounting and financial reporting policies and provide additional information on the individual funds.

6. Approximately half of the Centre’s activities are financed by extrabudgetary funds and the other half by the regular budget. The regular budget is assessed to the United Nations and to the World Trade Organization in equal shares. The current administrative and budgetary arrangements between the two organizations were established by the General Assembly in its decision 53/411. The contributions by the respective organizations, net of miscellaneous income, are fixed in Swiss francs (SwF). Statement IV provides summary information on the regular budget appropriation and expenditure.

7. Total resources expended during 2002-2003 by source of funds were as follows (in United States dollars):

Regular budget	41 911 415
Trust funds	36 925 595
United Nations Development Programme	3 314 841
Programme support costs	4 872 710
Revolving funds and other funds	2 134 982
Inter-fund eliminations	(5 432 167)
Total	**83 727 376**

Details of the expenditures are in statement I and in the notes to the financial statements. Resources in all the funds, except for the General Fund, are earmarked for special purposes and are not available to cover the costs of the Centre's core programmes.

8. The Centre's General Fund balance as at 1 January 2002 was $498,802. That amount, together with the contributions of $41,207,053 received from the United Nations and the World Trade Organization, investment income of $152,893, miscellaneous income of $522,448 and the savings on/or cancellation of prior period obligations of $692,953, resulted in funds available totalling $43,074,149. Expenditures, including unliquidated obligations of $1,404,857, amounted to $41,911,415. Taking into account the preceding information, the fund balance of the General Fund as at 31 December 2003 reflected a net surplus of $1,162,734, which will be available for the credits to the United Nations and the World Trade Organization in the biennium 2004-2005.

9. The Centre has a total of $27,257,648 cash and term deposits at the end of the biennium. Of that amount, $21,341,532 has been earmarked to cover future years' activities for the technical cooperation trust funds.

Annex

Supplementary information

1. The present annex includes an explanation of the double-counting contained in the financial statements along with the information that the Secretary-General is required to report.

Double-counting in the financial statements

2. The Centre's financial statements for individual funds contain elements of double-counting of income and expenditure totalling $5,432,167. Those amounts have been eliminated from the income and expenditure figures shown in the "total" columns of statement I. Similarly, the Centre's financial statements for individual funds in the current report contain elements of double-counting of inter-fund indebtedness totalling $861,138. Those amounts have been eliminated from the total asset and liability figures shown in statement II.

Write-off of losses of cash and receivables

3. In accordance with financial rule 106.8, write-offs of receivables totalling $18,380 were approved for the biennium 2002-2003.

Write-off of losses of property

4. In accordance with financial rule 106.9, losses of property amounting to $5,015 were written off during the biennium 2002-2003. The losses are based on the original cost of the properties and include write-offs arising from shortfalls, thefts, damages and accidents. The write-offs bring the recorded balances of the properties to the same levels as those shown in the property records for the actual quantities on hand. The details of the amounts written off were provided to the Board of Auditors in accordance with the provisions of financial rule 106.9.

Ex gratia payments

5. There were no ex gratia payments during the biennium 2002-2003.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the International Trade Centre (ITC) and audited its financial statements for the biennium ended 31 December 2003. The Centre is funded jointly and equally by the United Nations and the World Trade Organization.

The Board's main findings are as follows:

(a) The growth of funds available was due not only to the increasing interest of donors in the Centre's activities but also to currency fluctuations and changes in accounting methods;

(b) Unearmarked reserves at the end of 2003 ($4.7 million) were insufficient to cover the liabilities for annual leave, end-of-service benefits and post-retirement benefits, estimated at $38.7 million;

(c) The Centre developed an efficient and user-friendly interface with the Integrated Management Information System (IMIS) (project portal), which could be adopted by other United Nations entities;

(d) The Centre has not documented a comprehensive information and communications technology strategy.

The Board's main recommendations are that the Centre disclose the impact of currency exchange fluctuations on the reported amount of assessed contributions; address, in conjunction with the United Nations Secretariat, the issue of unfunded liabilities for end-of-service and post-retirement benefits; improve the monitoring and documentation of payments of grants; and further develop its information and communications technology strategies. By July 2004, the Administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations appears in paragraph 13 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the International Trade Centre UNCTAD/WTO (ITC) for the biennium 2002-2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the international standards on auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the governing bodies; whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of ITC presented fairly its financial position as at 31 December 2003 and the results of operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 7.5 of the Financial Regulations and Rules. The reviews primarily focused on the efficiency of procedures, the internal financial controls and, in general, the administration and management of ITC.

4. The audit was carried out at the headquarters in Geneva.

5. The General Assembly requested, in its resolution 57/278, paragraph 6, of 20 December 2002, that the Secretary-General and the executive heads of the funds and programmes of the United Nations examine governance structures, principles and accountability throughout the United Nations system. ITC was of the view that it was bound to follow the Secretariat and had not been requested to take action.

6. The General Assembly also requested the Board to follow up on previous recommendations and to report to it accordingly. Those matters are addressed in paragraphs 11 and 12 below.

7. The present report addresses resolution 58/270 of 23 December 2003, in which the General Assembly requests the Board of Auditors to examine the recosting methodology. The Board’s comments are included in paragraphs 47 and 48 of the present report.

8. The Board continued its practice of reporting the results of specific audits through management letters containing audit findings and recommendations to the Administration. That practice allowed for an ongoing dialogue with the Administration.

9. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board’s observations and

conclusions were discussed with the Administration, the views of which have been appropriately reflected in the report.

10. A summary of the Board's main recommendations is contained in paragraph 13 below. The detailed findings and recommendations are reported in paragraphs 15 to 78.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999[1]

11. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999. There are no significant outstanding matters.

Biennium ended 31 December 2001[2]

12. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001. All recommendations have been implemented, as summarized in the annex to the present chapter.

2. Main recommendations

13. The Board's main recommendations are that ITC:

(a) **Disclose in a note to its financial statements the impact of currency exchange fluctuations on the reported amount of assessed contributions (para. 22);**

(b) **Address, in conjunction with the United Nations Secretariat and with proper funding, the issue of unfunded liabilities for end-of-service and post-retirement benefits (para. 32);**

(c) **Review and develop the completeness of its information and communications technology strategy documents in a cost-effective manner (para. 60);**

(d) **Adopt with other United Nations organizations a common methodology for determining the total cost of ownership of information and communications technology (para. 65);**

(e) **Develop a plan against the risk of internal corruption and fraud (para. 78).**

14. The Board's other recommendations appear in paragraphs 43, 54, 67, 69 and 72.

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[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5* (A/55/5), vol. III, chap. II.

[2] Ibid., *Fifty-seventh Session, Supplement No. 5* (A/57/5 and Corr.2), vol. III, chap. II.

B. Financial issues

1. Financial overview

15. The regular budget of the Centre is financed jointly and equally by the United Nations and the World Trade Organization ($20.6 million for each entity for the biennium 2002-2003). In addition, the Centre received voluntary contributions of $40.6 million for its technical cooperation activities during the period. The total income for the biennium ended 31 December 2003 reached $88.9 million for regular and voluntary resources and miscellaneous income (including interest income, funds received from the United Nations Development Programme (UNDP) under inter-organizational arrangements, income for services rendered and others). This represented an increase of 34 per cent as compared with the previous biennium.

16. Table 1 provides the figures of the statement on income and expenditure and changes in reserves and fund balances over the past three bienniums.

Table 1
Statement of income and expenditure and changes in reserves and fund balances for the years 1999-2003
(Millions of United States dollars)

	1998-1999	*2000-2001*	*2002-2003*
Total income (cash basis since 1 January 2002)	72.2	66.3	88.9
Total expenditure (accrual basis)	70.8	67.1	83.7
Excess (shortfall) of income over expenditure	1.7	-0.8	5.1
Prior year adjustments	0.3	0.5	0.1
Impact of changes in accounting policy	-	-	10.8
Reserve and fund balances, end of year	7.2	6.9	22.9

17. In 2002-2003, regular budget resources grew by 22 per cent over the previous biennium, in dollar terms, after a 9 per cent decrease between the 1998-1999 and 2000-2001 bienniums. The value of total voluntary contributions, which had remained stable during the two previous bienniums, increased by 49 per cent in 2002-2003, to $40.6 million as at 31 December 2003, as compared with $27.2 million[3] during the previous biennium. The figure of $27.2 million for the 2000-2001 biennium does not include interest. The corresponding figure for the 2002-2003 biennium is $40.6 million.

18. The growth was amplified by currency fluctuations recorded in 2002 and 2003. Some 58 per cent of voluntary contributions received by the Centre are paid in currencies other than the United States dollar, the decline of which had a positive impact on the total income reported in the financial statements.

[3] For comparative purposes, the total amount of voluntary contributions received by the Centre during the biennium 2000-2001 and reported in its financial statements for the biennium ended 31 December 2001 ($23.4 million) was restated to conform to the cash basis accounting for revenue introduced in January 2002.

19. The growth of the Centre income from voluntary contributions during the biennium 2002-2003 also reflected the implementation of new programmes (123 programmes implemented in 2002-2003, against 98 during the biennium 2000-2001), as well as the increase of the donors' interest in the Centre activities.

20. The total approved regular budget for the biennium 2002-2003 amounted to SwF 61.4 million, as compared with SwF 59.4 million for the previous biennium, reflecting an increase of only 3.2 per cent in local currency.

21. To ensure that proper information is provided to the stakeholders, the impact of the conversion of assessed contributions from Swiss francs to United States dollars should be described in a note to the financial statements, since it affects comparability over time. Such disclosure would be consistent with United Nations system accounting standard 11, according to which "financial statements should have the qualitative characteristics required to make the information provided useful to readers. The four principal qualitative characteristics are understandability, relevance, reliability (accuracy, neutrality and completeness), and comparability over time". ITC, considering that the responsibility for the final format of the financial statements rests with the United Nations Controller, planned by June 2004 to consult with him in order to determine how to implement standard 11 with regard to currency exchange.

22. **The Centre agreed with the Board's recommendation that ITC disclose in a note to its future financial statements the impact of currency exchange fluctuations on the reported amount of assessed contributions.**

23. The financial statements disclose an insignificant shortfall of income over expenditure for the General Fund in the biennium 2002-2003, amounting to $29,000 (on income of $41.8 million), a decrease by 95 per cent from 2000-2001.

24. The shortfall occurred because the Centre "reimbursed" to the United Nations and to the World Trade Organization $499,000, the equivalent of the previous biennium's fund balance, through a reduction in the amount of the contributions of both parties for the year 2002.

25. Similarly, the Centre ended the biennium 2002-2003 with a General Fund balance of $1.2 million, an increase of 133 per cent as compared with the previous biennium's fund balance. The balance was to be used to reduce the 2004 contributions required from the United Nations and the World Trade Organization.

26. Trust fund accounts showed a net excess of income over expenditure of $4.5 million, largely due to the receipt of $2.9 million in December 2003 for 2004 activities. Trust fund balances at the end of the biennium amounted to $17.8 million.

27. As at 31 December 2003, the trust fund operating reserve amounted to $1.1 million. It represented 6.4 per cent of the 2002 expenditure and 5.4 per cent of the 2003 expenditure, while a level of 15 per cent is normally required by administrative instructions ST/AI/284 and ST/AI/285 of 1 March 1982, which are currently under review. The operating reserve has been maintained in current dollars at the same level since 1993. The Centre indicated that it was considering the possibility of increasing it, pending concurrence by the donors.

28. The increase of $16 million in the level of the Centre reserve and fund balances at the end of the biennium 2002-2003 is not only a result of the $4.5 million excess of income over expenditure for technical cooperation activities

but also a direct consequence of the change, decided by the United Nations, in recognition of income to the cash basis effective 1 January 2002. That change required the reclassification of 2001 figures and resulted in the restatement of the value of reserve and fund balances at the beginning of the biennium 2002-2003 for technical cooperation activities, as shown below (in United States dollars):

Table 2
Restatement of fund balances as at 1 January 2002

Trust fund balances at the end of 2001	3 454 137
Deferred income (statement II, 2000-2001)	10 870 855
Contributions receivable (statement II, 2000-2001)[a]	(132 000)
Total corrected trust fund balances at the beginning of 2002	**14 192 992**

[a] Out of a total of $7.2 million reported as receivable in the financial statements for 2000-2001, $132,000 was due as at 31 December 2001, while the remaining balance corresponded to receivables for future years, as per note 4 (iv) (c) to the financial statements for 2000-2001.

29. As shown in table 3 below, almost 80 per cent of the $22.9 million in reserves and fund balances as at the end of 2003 was earmarked for technical cooperation activities or specific activities in revolving funds, as per donor agreements. Reserves under the technical cooperation trust fund are either earmarked to fund future activities, or returned to donors if unspent. They cannot be co-mingled with the General fund or reserves, except if authorized by donor.

Table 3
Reserves and fund balances as at 31 December 2003
(Millions of United States dollars)

		(Percentage)
General fund	1.163	
Programme support costs	2.452	
Technical cooperation activities — operating reserve	1.088	
Total non-earmarked funds	**4.703**	**21**
Revolving funds	1.418	
Technical cooperation activities	16.754	
Total earmarked funds	**18.172**	**79**
Total reserves and fund balance	**22.875**	**100**

30. The Centre, as mandated by the General Assembly, followed the procedures and accounting methods of the United Nations Secretariat, but the Board noted that its non-earmarked reserves were therefore not sufficient to cover the organization’s long-term liabilities for after-service health insurance, accrued annual leave and termination benefits, estimated at $38.7 million at the end of 2003, as indicated in

note 8 to the financial statements and summarized in table 4 below. The largest part of the liability is related to regular budget financed staff. The Centre's after-service health insurance liabilities were estimated on the basis of an actuarial valuation carried out in 2003. Figures displayed in table 4 show accrued liabilities, which represent those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Benefits for active staff members are fully accrued on the date on which they become fully eligible for benefits. No assets have been segregated and restricted to provide for post-retirement benefits so far.

Table 4
Liabilities for end-of-service and post-retirement benefits for the years 2001-2003
(Millions of United States dollars)

	2001	*2003*
After-service health insurance	40.6	31.2
Accrued annual leave	1.0	2.2
Termination benefits	2.7	5.3
Total	**44.3**	**38.7**

31. The Board noted that, in its resolution 58/249 of 20 February 2004, the General Assembly had requested the Secretary-General to report to it "on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities".

32. **The Board reiterates its recommendation that the Centre address, in conjunction with the United Nations Secretariat and with proper funding, the issue of unfunded liabilities for end-of-service and post-retirement benefits.**

2. United Nations system accounting standards

33. The Board assessed the extent to which the financial statements of ITC for the financial period ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards.

3. Presentation and disclosure of the financial statements

34. The General Assembly, in its resolution 55/220 A of 23 December 2000, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes. The Board has conducted a preliminary review of the general presentation and disclosure in the financial statements for the year ended 31 December 2003.

35. The Board did not review governance issues, but noted that the governance principles presented below may have already been applied in documents issued as

part of its normal reporting process. The documents include, inter alia, the annual report of the Executive Director, including the statistical tables, the summary reviews of the technical cooperation projects, the report of the Consultative Committee on the ITC Global Trust Fund and the three-year business plan.

Financial report

36. No mandatory format or specific guidelines apply to the contents of the financial report in chapter I, and the United Nations system accounting standards do not address that issue. The Centre stated that it is bound to follow the format decided by the United Nations Secretariat regarding the following issues, which are not mentioned in its financial report.

Performance reporting and non-financial information

37. Note 1 to the Centre’s financial statements and chapter I to the Board’s report summarize the organizational objectives and mandate. The key objectives include supporting developing countries and transition economies in their efforts to realize their full potential for developing exports and improve import operations with the ultimate goal of achieving sustainable development. The Centre’s overall performance and delivery of projects are summarized in chapter I. Detailed expenditure per project and/or country or group of countries was not disclosed in the financial statements or related documents, although it was provided to the Board. Such reporting is done at the level of the Governing Council. The Centre indicated that it would bring this observation to the attention of the United Nations Controller.

Social accounting issues

38. “Social accounting” issues are increasingly considered beneficial to users of financial statements and reports. The Centre does not include such data in its financial report or related documents.

Risk management, continuity and internal control

39. The constant identification of risks and continuous development of systems and controls to address those risks is critical to most organizations. Accordingly, risk information disclosures are relevant to the needs of financial statement users. Such disclosures would usually deal at a minimum with the measures put in place to address financial risks, to safeguard assets and financial records, and to ensure continuity in case of a disaster.

40. While the financial report provides a summary of the financial statements of 2002-2003 (budget and expenditure and financial results), no key indicators or ratios are included, such as current ratio and current liabilities as a percentage of total liabilities.

41. The Centre does not mention the existence of a disaster management and recovery plan, although a business continuity plan is part of the Centre’s business plan; internal measures to manage risks; internal code of ethics and conduct and enforcement thereof among employees; the internal audit function; details of any oversight committee reviewing the work of internal audit; or measures put in place to safeguard the integrity of management and financial information.

42. The Board is of the view that the provision of additional information would be subject to, inter alia, the benefit of providing the information being greater than the cost thereof, as well as its meeting the general qualitative characteristics of relevance, reliability, comparability and understandability as stated in the United Nations system accounting standards. ITC planned to consult the United Nations Controller on the issue.

43. **The Board recommends that ITC consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, ITC could revert to paragraph 6 of resolution 57/278, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.**

Inter-fund balances

44. The Board found a difference of $896,000 between the actual inter-fund balances at the end of the biennium as recorded in the accounting system and the information disclosed in the financial statements under the lines “inter-fund balances”, “receivable” and “payable”, as summarized in table 5 below:

Table 5
Inter-fund balances as at 31 December 2003
(Thousands of United States dollars)

			Financial statements as at 31 December 2003			
Inter-fund balances	*General fund*	*Trust funds*	*UNDP*	*Programme support costs*	*Revolving and other funds*	*Total*
Receivable	40	818	0	0	3	861
Payable	0	43	790	28	0	861
Balance	**40**	**775**	**-790**	**-28**	**3**	**0**
			IMIS records as at 31 December 2003			
Receivable	40	452	1 427	0	3	1 922
Payable	0	573	2 217	28	0	2 818
Balance	**40**	**-121**	**-790**	**-28**	**3**	**-896**
Difference		**-896**				**-896**

45. The instructions received by ITC from the Secretariat on the presentation of the financial statements specify that inter-fund balances should show the amounts due to or from funds within ITC accounts exclusively. Amounts due to or from other organizations (including the balance of the United Nations Office at Geneva) must be shown as “other accounts receivable” or “other accounts payable”.

46. Previously, under the United Nations Office at Geneva accounting system used by ITC, inter-fund balances for ITC funds were consolidated under the trust funds,

with the Office's inter-fund acting as the "banker". The same presentation was followed in the 2002-2003 financial statements, although such consolidation was no longer required since the implementation of IMIS had enabled ITC to calculate the amounts due to or from the Office at the transactional level.

4. Recosting policy

47. The Centre has agreed with the secretariats of the United Nations and the World Trade Organization to follow the latter's recosting methodology, which is to apply the inflation rate selectively and only to non-post items, and not to include currency fluctuations.

48. The adjustments for inflation accounted for 0.3 per cent of the Centre's overall budget for 2002-2003, or SwF 157,600. With regard to exchange rates, since the Centre budget is presented and approved in Swiss francs, the effect of the exchange rate is limited to the portion of the budget in United States dollars (pension contributions for professional staff, external audit costs and representation allowances, estimated at around 8 per cent of the total budget), while expenditure in euros is minimal. Currency fluctuations were significant,[4] but their net impact was minimal. For example, while the dollar weakened against the Swiss franc by 14 per cent, the impact on the 8 per cent of the expenditures, which are denominated in dollars, was 1.1 per cent of the total budget.

5. Write-offs of losses of cash, receivables and property

49. The Administration informed the Board that the total amount of write-offs was $23,395: $16,880 relating to an irrecoverable amount due from a former short-term staff member; stolen project equipment of $5,015; and $1,500 relating to an irrecoverable amount due from a consultant. The write-offs do not include such factors as obsolescence and wear and tear as compared with previous reports.

6. Ex gratia payments

50. ITC informed the Board that no ex gratia payments had been made during the financial period ended 31 December 2003.

C. Management issues

1. Assessment of the revised budgetary arrangements United Nations/World Trade Organization

51. As already mentioned, the regular budget is funded in equal parts by the United Nations and the World Trade Organization. The budget cycle is biennial for the United Nations and in dollars, while annual and in Swiss francs for the World Trade Organization. Both use different exchange rates and statistical data on inflation. Their budgets are formatted differently in terms of general presentation

[4] At the beginning of 2002, the exchange rate of dollars to euros was one dollar for €1.136 (one dollar for SwF 1.68). At the end of December 2003, the respective figures were 0.801 and 1.25. In purchasing power terms, the dollar part of the budget spent in euros would have had to increase by nearly 42 per cent, and that of the dollar part of the budget spent in Swiss francs by 35 per cent, to fulfil the same expenditure objectives in December 2003 as in January 2002.

and structure. In order to meet the requirements of both organizations, the Centre had to introduce budgetary arrangements requiring a duplication of procedures.

52. In its decision 55/483 of 14 June 2001, the General Assembly requested information from the Administration on its experience in applying the revised administrative arrangements, approved in 1998 by the General Assembly in its decision 53/411 B and by the World Trade Organization, which became effective for the biennium 2000-2001. In his report to the General Assembly, the Secretary-General stated that "the process for the approval of the ITC component of the United Nations programme budget for the biennium 2002-2003 and of the annual budgets of WTO for 2002 and 2003 resulted in numerous documents having to be produced by ITC, and translated and distributed by the United Nations and WTO … Experience has demonstrated, however, that the revised arrangements have not done away with the need for the ITC to prepare two separate budget documents … The number of steps in the budgetary approval process also appears to be excessive".[5] The report concluded that the budgetary arrangements had to be simplified and that a joint review of the arrangements should be conducted. The Advisory Committee on Administrative and Budgetary Questions approved the recommendations (A/57/7/Add.10). The General Assembly endorsed the recommendations in its decision 57/572 of 20 December 2002, and in 2003 the Centre initiated consultations with the secretariats of the United Nations and the World Trade Organization. A report to be submitted to the General Assembly in 2004 should take into account the recent decision of the World Trade Organization secretariat to adopt a biennial budget cycle.

2. Monitoring of grants

53. ITC manually tracked grants paid. Procedures for approval and payment of grants were issued in 2003. Since September 2003, all grants have been posted to a specific budget line, and the actual status of grants has become available through Integrated Management Information System reports. The Board found that the established procedures were on the whole appropriate and followed. However, payment monitoring and reporting were not systematically documented. An officer from the technical division certified the final payment, but no reports or invoices were included in the file, although a monitoring of invoices should be made before such payment.

54. **ITC agreed with the Board's recommendation that it should maintain complete supporting documentation on grant payments.**

3. Information and communications technology management

55. The implementation of the Integrated Management Information System at the Centre started in 1997 with human resources (releases 1 and 2), followed by payroll in June 2002 (release 4) and finance (release 3) in April 2003. The implementation of release 3 included a Centre-specific Swiss francs/United States dollar conversion module which was operational on 31 March 2003, enabling the Centre to have an automated accounting in both currencies. Out of the $327,800 relating to IMIS release 3, $117,967 represents the cost of the conversion module.

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[5] A/C.5/57/14.

56. Regarding the strategy in this field, the Board recommended in its report on the United Nations for 2000-2001[6] that the United Nations Secretariat, in conjunction with all concerned United Nations entities, undertake a coordinated information and communications technology effort with respect to such components as information and communications technology management, security, continuity and disaster plans. To assess the situation two years later, the Board reviewed the documents on information and communication technology strategies across the 23 departments, funds, programmes and institutes covered in the Board's annual or biennial reports to the General Assembly, including ITC.

57. The aggregated reported expenditures for information and communications technologies at the Centre were $3 million for 2003, representing less than 1 per cent of the overall ICT expenditure of more than $350 million reported per year in 2002 and 2003 by the above-mentioned entities, including the Centre. The latter figure was derived from United Nations documents, and the Administration and the Board agree that it is only an approximation. It does not include indirect costs related to ICT management.

58. The Centre considered that a formal strategy may not be necessary, and instead prepared a medium-term plan. In addition, ITC considered that in view of its limited activities the cost of performing the analysis listed in table 6 may offset by far its benefits.

Table 6
Information and communication technology strategy documents

Date of issue *Reference*	*2002* *Medium-term plan*
SWOT[a] analysis	No
ICT governance	No
Time horizon of the strategy	Short
Coordination and synergies	No
Information management	Yes
Information security	No
Systems for mission support	Yes
Systems for administrative support	Yes
Web strategies (Intranet/Extranet)	Yes
Knowledge work: dissemination	Yes
Knowledge work: sharing	Yes
Knowledge work: capacities	Yes

[6] A/57/5 (vol. 1) and Corr.1, para. 177.

Date of issue	*2002*
Reference	*Medium-term plan*
Proposed priorities	No
Estimated costs	No
Discussion of known constraints	No
Risk analysis	No
Benefits: description	No
Benefits: quantification	No
Infrastructure standards	Some
Infrastructure improvements	
– computing	Yes
– networking	Yes
Consolidation/rationalization	No
Disaster recovery/business continuity	No
Sourcing operational work	No

[a] SWOT refers to one of the main tools for comprehensive analysis of ICT (strengths, weaknesses, opportunities and threats).

59. The missing items ("no") in the checklist create the risk that ICT expenditures may not be focused enough on adding value to the Centre and therefore will not appropriately support the achievement of its objectives. The Centre cannot ascertain on this basis that its ICT organization will deliver all results with the resources available (time, funding and people).

60. **The Board recommends that the Centre review the completeness of its information and communication technology strategic documents in a cost-effective manner.**

61. Regarding coordination, the Centre has participated in several ICT inter-agency boards and related initiatives, including the former Information Systems Coordination Committee and the Information and Communication Technology (ICT) Network. The Centre has demonstrated its new project portal to departments and offices at United Nations Headquarters (the Department of Economic and Social Affairs, the Office of Programme Planning, Budget and Accounts, the Office of Human Resources Management, the Office of Central Support Services and the Department of Peacekeeping Operations) as well as to the United Nations Conference on Trade and Development, the United Nations Office at Geneva, the Office of the United Nations High Commissioner for Human Rights, the Economic Commission for Europe and the United Nations Framework Convention on Climate Change, and has indicated its readiness to share the system at no charge with other entities of the United Nations system.

62. In paragraphs 23 and 63 of its report on the 1998-1999 biennium[1] and paragraph 31 of its report on the 2000-2001 biennium,[2] the Board of Auditors recommended that the Centre streamline its Corporate Management Information System (CMIS) with a view to improving its monitoring system on projects. Since the implementation of IMIS release 3 in April 2003, data from CMIS have been integrated into a new database containing all project information for the Centre, the project portal, which is available online through the Intranet. The project portal integrates IMIS data and project information into the same information system. Updated and comprehensive data required by project management are thus readily available in a user-friendly environment.

63. The Centre is a member of the ICT Network. Part of the Chief Executives Board (CEB) structure, the Network is the body currently charged with the task of coordinating ICT activities across the entire United Nations system. To the Centre's credit, it has undertaken initiatives for the implementation of a United Nations Extranet and of a United Nations system search engine, and it reported work in progress in other areas, including information security, procurement and knowledge sharing.

64. For budget monitoring, there is no agreed model within the United Nations, its funds and programmes to define what is included under "the cost of ICT" — for example, whether a webmaster in a functional department is part of that cost or not. The ICT Network recognized this as a problem, but so far has not provided a solution. Similarly, there was no United Nations formal method for the evaluation of ICT investments and expenditures.

65. **The Board recommends that the Centre adopt, with other United Nations organizations, a common methodology for determining the total cost of ownership of ICT.**

66. Except for a review of the support services and help desk conducted by the Office of Internal Oversight Services in 2003, the Centre's ICT activities have not been subject to an internal audit in recent years. The Centre could not provide any reports or examples of post-implementation benefit reviews, which would help ascertain that completed projects conformed to what was originally approved and that the expected reviews were achieved.

67. **The Board recommends that the Centre subject all significant ICT projects to a post-implementation benefit review.**

68. The Centre has not implemented peer reviews that could improve the benefits to be gained through lessons learned. However, the Centre has, to a very limited extent, benchmarked against best practices.

69. **The Board recommends that the Centre join other United Nations organizations in instituting project peer reviews for significant projects, with a view to limiting in the long term the cost of the multiplicity of solutions answering to similar strategies and needs.**

Standards and operational practices

70. Regarding standards and operational practices, the Centre has adopted neither of the two formal standards relating to ICT execution matters that have been in use for many years, ISO 9001 for total quality management and ISO 17799, a model for

managing information security. Nor does the Centre use the Control Objectives for Information Technology (COBIT) set of guidelines, which, while well known, are not a formal international standard. However, by May 2004, consolidated guidelines concerning information security and business continuity were under preparation, following ISO 17799 and BS 7799.

71. The Centre did not adopt a set of operational best practices for ICT, such as the Information Technology Infrastructure Library (ITIL) widely used across the world. The ICT Network, of which the Centre is a member, indicated that there is work in progress to compile such best practices and disseminate them. However, no target date for the completion of the work was provided.

72. **The Board recommends that the Centre establish and maintain standards and operational practices in line with best practices, in common with other United Nations organizations, with a view to reducing risks and costs, in particular for significant projects.**

73. The Centre agreed with the recommendations of the Board on ICT strategies, but underlined the fact that with its small budget and share of overall ICT expenditures in the United Nations system, it was unlikely that it could influence the process. It also indicated that it could not implement all or most of the recommendations with its current level of staffing.

4. Fraud and presumptive fraud

74. The Centre has not reported any case of fraud during the biennium 2002-2003. Regarding anti-fraud and fraud-awareness policies, the Centre relies on the rules and procedures applicable within the United Nations and adheres strictly to the policy and rules defined in the memorandum from the Controller dated 6 November 2001 recirculating the instructions on procedures to be followed in case of fraud or presumptive fraud.

75. In addition, for investigation actions in case of fraud or presumptive fraud, the Centre relies on the Office of Internal Oversight Services, and a memorandum of understanding was signed on 31 January 2001 for that specific purpose. During the biennium 2002-2003, the Office of Internal Oversight Services conducted one investigation at the request of the Centre management, which showed no evidence of wrongdoing on the part of ITC staff.

76. However, the Centre does not have a comprehensive internal anti-fraud and anti-corruption infrastructure and did not include anti-corruption and anti-fraud elements in various rules, procedures and internal controls. It does not have a proactive anti-fraud and anti-corruption strategy and plan, which means that such internal risks are not properly addressed. The absence of a plan may limit donor confidence. Owing to the lack of a comprehensive anti-fraud plan, the Centre has no effective framework and coordination point for prevention, detection, resolution and reporting; no formal corruption and fraud risk-assessment mechanism; and no anti-corruption and fraud-prevention committee; nor has it conducted any ethics, anti-corruption and fraud-awareness training sessions or workshops. For reported and detected incidents and allegations of corruption and fraud, ITC noted that the resolution mechanisms in place are based on investigations by the Office of Internal Oversight Services, whose recommendations and measures to implement them are discussed at the Senior Management Committee level.

77. In response to a request from the General Assembly in its resolution 57/282, section IV, of 20 December 2002, for a review of the practice of involving programme managers in investigative processes, with specific attention to independence, training and proper guidelines, the Office of Internal Oversight Services contacted the Centre for information on its practices. The Centre indicated that it had a memorandum of understanding with the Office of Internal Oversight Services and, as a consequence, did not conduct investigations on its own. Whenever the need arose, the Centre management requested the Office of Internal Oversight Services to conduct the required investigations and the Centre management cooperated with the Office of Internal Oversight Services. The Centre participated in all initiatives of the Secretariat it was invited to and, after the audit, planned to inquire about the steps taken by the Secretariat in this respect.

78. **The Board recommends that the Centre develop a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and the other funds and programmes, to obtain the benefit of best practices, where available.**

D. Acknowledgement

79. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of the International Trade Centre UNCTAD/WTO.

Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Annex

Summary of the status of implementation of recommendations for the financial period ended 31 December 2001

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
United Nations accounting standards	Para. 20	-	-	1
Project management	Para. 28	-	-	1
Corporate Management Information System	Para. 31	-	-	1
Delegation of authority	Para. 33	-	-	1
Total				
Number	**4**	**0**	**0**	**4**
Percentage	**100**	**0**	**0**	**100**

Chapter III
Audit opinion

We have audited the accompanying financial statements of the International Trade Centre UNCTAD/WTO, comprising statements numbered I to IV and the supporting notes for the biennium ended 31 December 2003. The financial statements are the responsibility of the Secretary-General. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and in conformity with the international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis and where considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended, in accordance with the stated accounting policies of the International Trade Centre UNCTAD/WTO set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the International Trade Centre UNCTAD/WTO that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the International Trade Centre UNCTAD/WTO financial statements.

Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Chapter IV
Certification of the financial statements

1. The financial statements of the International Trade Centre UNCTAD/WTO for the biennium 2002-2003 ended 31 December 2003 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

3. I certify that appended financial statements of the International Trade Centre UNCTAD/WTO, numbered I to IV, are correct.

(*Signed*) Jean-Pierre **Halbwachs**
Assistant Secretary-General
Controller

2 April 2004

Chapter V
Financial statements for the biennium ended 31 December 2003

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Notes to the financial statements

Note 1
International Trade Centre and its activities

(a) On 12 December 1967, the General Assembly adopted resolution 2297 (XXII) approving the establishment of the International Trade Centre to be jointly operated by the United Nations Conference on Trade and Development (UNCTAD) and the General Agreement on Tariffs and Trade on a continuing basis and in equal partnership with effect from 1 January 1968. This arrangement had previously been endorsed by the General Agreement on Tariffs and Trade (GATT) Council on 22 November 1967. In 1995, GATT responsibilities were assumed by the World Trade Organization (WTO). The WTO General Council then requested its secretariat to negotiate with the United Nations Secretariat for revised budgetary arrangements with regard to the International Trade Centre. On 18 December 1998, the General Assembly, in its decision 53/411 B, endorsed the recommendation of the Secretary-General of the United Nations and the Director-General of the World Trade Organization that the present arrangements governing the status of the Centre as a joint body be confirmed and renewed with the World Trade Organization, and approved the revised administrative arrangements of the Centre as set out in paragraph 11 of the report of the Advisory Committee on Administrative and Budgetary Questions (A/53/7/Add. 3). Governmental supervision of the Centre is exercised by the members of the World Trade Organization and by the Trade and Development Board of UNCTAD. The Joint Advisory Group is responsible for advising on the work programme and activities of the Centre.

(b) The Centre is a technical cooperation organization the mission of which is to support developing and transition economies, and particularly their business sectors, in their efforts to realize their full potential for developing exports and improving import operations, with the ultimate goal of achieving sustainable development. The Centre deals specifically with the operational aspects of trade promotion and export development. Its regular budget is financed jointly and equally by the United Nations and WTO, and technical cooperation projects are financed by voluntary contributions from trust fund donors and by allocations from the United Nations Development Programme.

Note 2
Summary of significant accounting and financial reporting policies of the International Trade Centre

(a) The accounts of the Centre are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the former Administrative Committee on Coordination. The Committee has since been replaced by the United Nations System Chief Executives Board for Coordination (CEB). The Centre follows International Accounting Standard 1, “Presentation of financial statements, on the disclosure of accounting policies, as modified and adopted by the CEB as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. Those policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Centre's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts.

(c) The financial period of the Centre is a biennium and consists of two consecutive calendar years.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Centre are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, current accounts receivable and payable in currencies other than the United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Centre's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement (statement III) is based on the "indirect method" of cash flow as referred to in the United Nations system accounting standards.

(h) The Centre's financial statements are presented in accordance with the ongoing recommendations of the Working Party on Accounting Standards to the CEB.

(i) The results of the Centre's operations presented in statements I, II and III are shown at the summary level by general type of activity, after the elimination of all inter-fund balances and instances of double-counting of income and expenditure. Their presentation in a summarized format does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) General Fund:

Income

(i) General Fund income reflects the actual contributions received from the United Nations and from the World Trade Organization during the biennium;

(ii) Interest income includes all interest earned on various bank accounts and term deposits;

(iii) Other/miscellaneous income includes income from the rental of premises, sales of publications, refunds of prior years' expenditures, sales of obsolete equipment and other miscellaneous items;

(iv) Refunds of expenditures that are charged in the same financial period against the budgetary accounts are credited to the same accounts, but refunds of expenditure relating to the prior financial periods are credited to miscellaneous income;

(v) Gain or loss on exchange. On the closing of the accounts at the end of each financial period, the balance for loss or gain on exchange is charged to the budget if there is a net loss; if there is a net gain, the gain is credited to miscellaneous income.

Expenditure

(vi) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(vii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(viii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in item (x).

Assets

(ix) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits, certificate of deposits and call accounts;

(x) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(xi) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(xii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Centre. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements.

Liabilities, reserves and fund balances

(xiii) Operating and other types of reserves are included in the totals for “Reserves and fund balances” shown in the financial statements;

(xiv) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(xv) Deferred income includes income received but not yet earned;

(xvi) Commitments of the Centre relating to the current and future financial periods are shown as unliquidated obligations, which owing to WTO requirements remain valid for twelve months following the end of the year, rather than the biennium, to which they relate;

(xvii) No provision is made in the General Fund for end-of-service and post-retirement benefits. See note 8;

(xviii) Provision to meet contingencies under appendix D to the Staff Rules of the United Nations for personnel is calculated on the basis of 1 per cent of the net base pay and charged to the budget appropriations;

(xix) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(xx) The Centre is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Centre to the Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. As at the date of the current financial statement, the General Assembly has not invoked that provision.

(k) Technical cooperation accounts:

(i) Statements I, II and III include the financial reports on technical cooperation activities financed by the trust funds and the United Nations Development Programme;

(ii) Funds received under inter-organizational arrangements — UNDP. The allocation income from UNDP is determined by taking into account interest income and other miscellaneous items against total expenditures;

(iii) Effective 1 January 2002, UNDP projects for which the Centre is acting as an associated agency and/or cooperating agency are reflected in the main body of the financial statements, rather than in the notes, as in previous reports;

(iv) Voluntary contributions — trust funds. Effective 1 January 2002, the accounting policy on recognition of voluntary contributions for technical cooperation trust funds has been changed to the cash basis of accounting, including amounts received pending the identification of specific projects. The change was made in order to keep the accounting policies of the Centre in line with those of the United Nations, which adopted a similar change effective 1 January 2002. Amounts for the previous biennium have been restated to reflect the change in accounting policy. The effect of the accounting change was to increase net income for the 2002-2003 biennium by $4,679,000 and to increase the fund balance as of 1 January 2002 by $10,739,000;

(v) All monies accepted for purposes specified by the donor are treated as trust funds or special accounts. Separate trust funds are set up for each donor for projects approved by the donor and the recipient country;

(vi) Interest accruing from trust funds is credited first to the operating reserve to maintain that reserve at the agreed level (see paragraph (k) (xii)), then to support costs to meet any annual deficit attributable to currency fluctuations and thereafter to donors' funds. Trust fund miscellaneous income accruing from the sale of surplus property or refunds of expenditure is credited to the project from which the purchase or expenditure was originally financed. If the project is closed, this income is credited to the donor;

(vii) Contributions received in advance for trust funds comprise contributions received in respect of project budgets which extend beyond the current period, including the programme-support income relating to those project budgets;

(viii) Unliquidated obligations for the current period in respect of trust funds and UNDP-financed activities remain valid for 12 months following the end of the calendar year, rather than the biennium, to which they relate. However, in accordance with UNDP reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists. Savings on or cancellations of prior-period obligations are credited to individual projects as a reduction of current period expenditure in accordance with UNDP reporting requirements;

(ix) Unliquidated obligations for future financial periods are reported both as deferred charges and as future-year unliquidated obligations;

(x) A system of average costing is used for UNDP and trust fund projects whereby those elements of experts' actual costs that are unique to the individual expert are charged to projects at average cost. This is calculated by apportioning those costs over all technical cooperation projects in respect of which expert-months have been delivered in the current period;

(xi) Gain or loss on exchange. Any differences accruing on trust fund projects in respect of normal day-to-day transactions are borne by the appropriate project budgets. Those currency fluctuations, which cannot be attributed to any particular project, are debited/credited to the operating reserve (see paragraph (k) (xii));

(xii) Operating reserve — trust funds. The Centre's policy is to maintain the reserve at a predetermined level, and agreement has been reached with donors that the first charge upon interest should be for the purpose of maintaining the reserve at that level. Since 1993, in consultation with donor Governments, the operating reserve has been maintained at $1,087,816;

(xiii) Trust-fund donors' fund balances. These funds comprise the unobligated balance of allocations, contributions not yet allocated, residual balances of closed projects, interest and miscellaneous income, including those items described under paragraph (k) (vi). The funds are held pending instructions from the donor as to their disposal and are constantly under review in the course of continuing discussions, which are maintained with all donors;

(xiv) Miscellaneous income. All monies accepted for purposes specified by the donors are treated as trust funds or special accounts. However, monies accepted in respect of which no purpose is specified are treated as miscellaneous income;

(xv) Provision to meet contingent liabilities for compensation under appendix D to the Staff Rules of the United Nations for personnel financed by technical cooperation trust funds is calculated on the basis of 1 per cent of the net base pay and charged to the project allocations.

(l) Support costs:

(i) Reimbursement for programme support costs is provided for in respect of extrabudgetary technical cooperation activities and accounted for in the support-costs fund. The reimbursement is calculated as a percentage of the programme resources expended;

(ii) Unliquidated obligations in respect of special accounts for programme support costs are accounted for on the same basis as for the General Fund;

(iii) Any balance in the support costs fund is carried forward to the next biennium;

(iv) An operating reserve at 20 per cent of estimated support cost income is required to be maintained to meet contingent liabilities in accordance with administrative instruction ST/AI/285.

(m) Revolving funds and other funds:

(i) Training materials revolving fund. Income accruing from the sale of any training pack or similar item is credited to the training materials revolving fund and utilized to finance the costs of reprinting, translation and other related costs;

(ii) Trade information services revolving fund. Income accruing from the sale of services is credited to the trade information services revolving fund and utilized to finance the provision of further services;

(iii) Trade flow analysis and market research revolving fund. Effective 1 January 2003, the market news service fund was merged with the trade flow analysis revolving fund, and the combined fund was called the trade flow analysis and market research revolving fund. Income accruing from the sale of trade data analyses at the global, regional, national and enterprise levels is credited to the trade flow analysis and market research revolving fund and is utilized to finance the provision of further services;

(iv) Enterprise competitiveness tools and related support services revolving fund. Income accruing from the sale of services for ongoing research, development and dissemination of up-to-date materials on enterprise competitiveness is credited to the fund and utilized to finance the provision of new and updated materials.

Note 3
General Fund

(a) Income during the biennium 2002-2003. Under the terms of General Assembly resolution 2297 (XXII) of 12 December 1967 and the decision of the Contracting Parties to the General Agreement on Tariffs and Trade dated 22 November 1967, and the new administrative arrangements between the United Nations and the World Trade Organization as endorsed by the General Assembly at its fifty-third session (decision 53/411), the regular budget of the ITC is assessed in Swiss francs and shared equally between the United Nations and WTO.

The revised budget of the Centre for the biennium 2002-2003, as established by General Assembly resolution 58/267 (section 11B), provided for estimated expenditures of $41,321,800 (equivalent to SwF 61,370,700), including estimated income of $578,300 (equivalent to SwF 823,900), thus requiring a contribution of $20,371,750 (equivalent to SwF 30,273,400), each from the United Nations and WTO.

During the biennium 2002-2003, the contribution received from the United Nations and the World Trade Organization was $20,582,319 (equivalent to SwF 29,878,857) and $20,624,734 (equivalent to SwF 29,878,857) respectively, totalling $41,207,053.

Other income during the biennium 2002-2003 comprises (in United States dollars):

	2003	2001
Income from rental of premises	258 618	320 957
Sale of publications	167 780	16 319
Refund of prior years' expenditures	68 003	9 045
Miscellaneous	28 047	193 927
Total	**522 448**	**540 248**

(b) Expenditure during the biennium 2002-2003 comprises (in United States dollars):

	2003	2001
Salaries and other personnel costs	32 669 231	28 087 231
Travel	428 742	386 832
Contractual services	2 302 628	1 706 851
Operating expenses	4 491 652	3 748 676
Acquisitions	1 280 081	1 045 440
Other	739 081	-
Total	**41 911 415**	**34 975 030**

(c) Assets:

(i) Cash and term deposits represent the total of all cash balances. The amount of $2,295,433 was held in interest-earning deposits.

(ii) Accounts receivable comprise:

a. Inter-fund balances resulting from transactions between the Centre's funds;

b. Other accounts receivable (in United States dollars):

	2003	2001
Advances to staff	193 716	146 730
International Computing Centre costs paid in advance	-	151 839
Value-added tax to be reimbursed by Governments	304	2 055
Accrued interest	11 143	10 968
Miscellaneous items	71 732	22 655
Total	**276 895**	**334 247**

(iii) Deferred charges comprise (in United States dollars):

	2003	*2001*[a]
Unliquidated obligations — future periods	5 275 804	4 188 828
Education grant advances to staff (see note 2 (j) (xi))	93 193	75 159
Miscellaneous items paid in advance	-	61 415
Total	**5 368 997**	**4 325 402**

[a] Comparative figures restated to conform to current presentation.

(d) Liabilities:

(i) Other accounts payable comprise (in United States dollars):

	2003	*2001*
Balances due to staff	93 350	-
Other items	44 452	6 570
Total	**137 802**	**6 570**

(ii) The estimated costs of the Centre's future year commitments in respect of leases extending beyond the financial period ending 31 December 2003 that are to be met from the appropriations of the following two bienniums comprise (in United States dollars):

	2004-2005	*2006-2007*	*Total*
Lease of ITC headquarters building	2 513 536	2 513 536	5 027 072
Rental of reprographic equipment	89 998	-	89 998
Rental of photocopiers	71 500	71 500	143 000
Rental of fax machines	15 734	-	15 734
Total	**2 690 768**	**2 585 036**	**5 275 804**

(iii) Reserves and fund balances:

The surplus account of the Centre's General Fund of $1,162,734 represents funds available for credit to the United Nations and the World Trade Organization. The surplus account arose from savings on the liquidation of obligations for the prior period of $692,953 and a balance of $498,802 brought forward from the biennium 2000-2001, which were offset against the shortfall of income over expenditures of $29,021in the biennium 2002-2003.

Note 4
Technical cooperation activities

(a) Trust funds:

(i) Income during the biennium 2002-2003 comprises (in United States dollars):

	2003	*2001*[a]
Voluntary contributions	40 625 968	27 229 437
Interest	797 262	1 458 847
Total	**41 423 230**	**28 688 284**

[a] Comparative figures restated to conform to current presentation.

(ii) Expenditure during the biennium 2002-2003 comprises (in United States dollars):

	2003	*2001*
Salaries and common staff costs	21 315 091	14 506 677
Travel	1 836 821	1 759 974
Contractual services	2 887 819	2 927 412
General operating expenses	1 430 240	695 219
Acquisitions	904 369	508 965
Other	4 353 528	2 288 743
Total project costs	**32 727 868**	**22 686 990**
Programme support costs	4 197 727	2 941 989
Total expenditure	**36 925 595**	**25 628 979**

(iii) Assets:

a. Cash comprises (in United States dollars):

	2003	*2001*
Cash at banks	13 123	90 000
Interest-bearing deposits	20 792 415	18 220 571
Held by imprest holders	5 256	1 158
Total	**20 810 794**	**18 311 729**

b. Other accounts receivable comprise (in United States dollars):

	2003	2001
Advances to staff members	295 394	261 117
Accrued interest	71 640	109 426
Value-added tax recoverable from Governments	-	8 170
Other items	15 634	28 212
Total	**382 668**	**406 925**

c. Deferred charges comprise (in United States dollars):

	2003	2001
Unliquidated obligations for future periods	2 133 108	2 672 721
Education grant advances to staff (see note 2 (j) (xi))	45 971	42 094
Allocations to WTO and UNCTAD	1 055 007	335 196
Miscellaneous items	1 385	4 057
Total	**3 235 471**	**3 054 068**

(iv) Liabilities:

Other accounts payable comprise (in United States dollars):

	2003	2001
Due to United Nations General Fund	896 960	2 468 083
Payable to staff	255 465	382 610
Miscellaneous items	374 131	232 272
Total	**1 526 556**	**3 082 965**

(v) Operating reserve:

The operating reserve is maintained to meet contingencies, including those arising from the termination of employment of experts. As reflected in the summary of significant accounting policies (see note 2 (k) (xii)), it is the Centre’s policy to maintain this reserve at a predetermined level ($1,087,816 for the biennium 2002-2003), and with the general agreement with the donors, the interest accruing from the investment of funds is first utilized to maintain the reserve at that level.

(b) United Nations Development Programme

(i) Expenditure during the biennium 2002-2003 comprises (in United States dollars):

	2003	*2001* [a]
Salaries and common staff costs	1 473 310	1 766 671
Travel	139 156	295 410
Contractual services	353 126	375 124
General operating expenses	107 198	144 067
Acquisitions	513 178	225 432
Other	453 938	304 530
Total project costs	**3 039 906**	**3 111 234**
Programme support costs	274 935	277 396
Total expenditure	**3 314 841**	**3 388 630**

[a] Comparative figures restated to conform to current presentation.

(ii) Assets

a. Other accounts receivable comprise (in United States dollars):

	2003	*2001*
Due from other agencies	4 090	7 356
Due from staff	25 430	18 050
Miscellaneous items	-	8 494
Total	**29 520**	**33 900**

b. Other assets comprise (in United States dollars):

	2003	*2001*
Unliquidated obligations for future years	-	128 090
Other items	20 008	4 372
Total	**20 008**	**132 462**

Note 5
Special account for programme support costs

(a) Income during the biennium 2002-2003 comprises (in United States dollars):

	2003	2001
Support costs on trust fund projects	4 197 727	2 941 989
Support costs on revolving fund projects	188 192	111 066
Support costs on UNDP projects	209 873	186 243
Support costs on associated agency projects	65 062	91 153
Interest	162 339	178 562
Miscellaneous	226 245	37 791
Total	**5 049 438**	**3 546 804**

(b) Expenditure during the biennium 2002-2003 comprises (in United States dollars):

	2003	2001
Salaries and common staff costs	4 002 527	2 407 894
Travel	9 251	2 798
Contractual services	78 754	61 534
General operating expenses	102	2 520
Other	782 076	562 080
Total	**4 872 710**	**3 036 826**

(c) Reserves and fund balances:

The reserves and fund balances totalled $2,451,654 as at 31 December 2003 and reflected the following movements during the biennium 2002-2003 (in United States dollars):

Fund balances as at 1 January 2002	1 887 594
Savings on or cancellation of prior-period's obligations	53 587
Transfers to Revolving Funds	(33 219)
Transfers to Operating Reserve	(141 735)
Excess of income over expenditure	176 728
Fund balances as at 31 December 2003	**1 942 955**
Operating reserves as at 1 January 2002	366 964
Transfers from surplus account	141 735
Reserve balances as at 31 December 2003	**508 699**
Total reserves and fund balances	**2 451 654**

Note 6
Revolving funds and other funds

(a) Income during the biennium 2002-2003 comprises (in United States dollars):

	2003	*2001*
Training materials revolving fund	286 472	71 184
Trade information services revolving fund	72 565	53 421
Trade flow analysis and market research revolving fund	2 191 815	899 458
Enterprise competitiveness tools and related support services revolving fund	20 413	-
Report processing account	-	95 764
Interest	45 636	58 580
Total	**2 616 901**	**1 178 407**

(b) Expenditure during the biennium 2002-2003 comprises (in United States dollars):

	2003	*2001*
Training materials revolving fund	142 533	17 422
Trade information services revolving fund	67 256	63 932
Trade flow analysis and market research revolving fund	1 917 319	884 063
Enterprise competitiveness tools and related support services revolving fund	7 874	-
Report processing account	-	108 633
Total	**2 134 982**	**1 074 050**

Note 7
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Centre but is charged against current appropriations when acquired. The non-expendable property valued at historical cost, according to the cumulative inventory records, is $2,871,134 as at 31 December 2003, which includes $834,758 for ITC technical cooperation projects.

Note 8
Liabilities for end-of-service and post-retirement benefits

(a) The Centre has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payments, which will be owed when staff members leave the Centre. Actual payments made in each financial period are reported as current expenditures. In order to gain a better understanding of the financial dimensions of the Centre's liabilities for after-service health insurance, a consulting actuary was engaged to carry out an actuarial valuation of post-retirement health insurance benefits. It is estimated that the Centre's liability as at 31 December 2003 is as follows (in thousands of United States dollars):

	Present value of future benefits	*Accrued liability*
Gross liability	48 962	41 540
Offset from retiree contributions	(12 241)	(10 385)
Net liability	**36 721**	**31 155**

(b) The present value of future benefits figures shown above are the discounted values of all benefits to be paid in the future to all current retirees and active employees expected to retire. The accrued liabilities represent those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits.

(c) Staff members who separate from the Centre are entitled to be paid for any unused vacation days they may have accrued up to a maximum limit of 60 days. The Centre's total liability for such unpaid accrued vacation compensation as of 31 December 2003 is estimated to be $2.2 million.

(d) Some staff members are entitled to repatriation grants and related expenditures of relocation upon their termination from the Centre based on the number of years of service. The Centre's total liability for such unpaid repatriation and relocation entitlement as of 31 December 2003 is estimated to be $5.3 million.

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