A/63/5 (Vol. III)

United Nations

Financial report and audited financial statements

for the biennium ended 31 December 2007

and

Report of the Board of Auditors

Volume III
International Trade Centre UNCTAD/WTO

General Assembly
Official Records
Sixty-third Session
Supplement No. 5

General Assembly
Official Records
Sixty-third Session
Supplement No. 5

Financial report and audited financial statements

for the biennium ended 31 December 2007

and

Report of the Board of Auditors

Volume III
International Trade Centre UNCTAD/WTO

United Nations • New York, 2008

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.

ISSN 0257-0815

[5 June 2008]

Contents

Letters of transmittal

31 March 2008

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 ended 31 December 2007, 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*) **Ban** Ki-moon

Mr. Philippe Séguin
Chairman
United Nations Board of Auditors
New York

30 June 2008

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the International Trade Centre UNCTAD/WTO for the biennium ended 31 December 2007.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

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

Chapter I
Financial report for the biennium ended 31 December 2007

A. Operations

1. The International Trade Centre UNCTAD/WTO (ITC) is the joint technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) for business aspects of trade development. The mission of ITC is to make small business export success possible in developing and transition countries by providing, with partners, inclusive and sustainable trade development solutions to the private sector, trade support institutions and policymakers. Co-sponsored by UNCTAD and WTO, 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. As stipulated in the Secretary-General's report to the General Assembly on the proposed strategic framework for the period 2006-2007 (A/59/6 (Prog. 10)), ITC is responsible for the implementation of subprogramme 6, "Operational aspects of trade promotion and export development". The programme had five principal goals during the biennium 2006-2007: (i) facilitating the integration of enterprises into the multilateral trading system; (ii) supporting the design of trade development strategies; (iii) strengthening key trade support services, both public and private; (iv) improving sector performance and (v) building enterprise competitiveness. Priority of programme delivery was given to least developed countries and Africa, and to special needs of small and medium-sized enterprises.

2. The 2006-2007 biennium was characterized by major changes to both the organization and its delivery operations. These changes had begun in the previous biennium pursuant to recommendations of the ITC external evaluation in 2005 sponsored by a group of donors. During 2006 there was a complete turnover in the senior management team and a longer-term change process was begun. ITC concentrated on four main elements to drive its change process, namely, (i) greater focus on impact and results, (ii) greater emphasis on building managerial and technical competencies within the organization, (iii) a greater country/regional focus in ITC technical assistance and (iv) re-engineering ITC business processes, including a more efficient utilization of information technology-enabled technical assistance. In a strongly participative approach, a number of thematic working groups of ITC staff were set up to review various aspects of the process. This has resulted in refinement of the ITC mission and vision and a revised set of three strategic objectives. The strategic objectives of ITC are (i) to support policymakers in integrating the business sector into the global economy; (ii) to develop the capacity of trade service providers to support businesses and (iii) strengthen the international competitiveness of enterprises. Results of the change process to date include identifying the core values of ITC, organizational restructuring, and redefining organizational core competencies along five business lines (exporter competitiveness, export strategy, business in trade policy, trade support institutional strengthening, and trade intelligence). With regard to delivery of trade-related technical assistance in particular, results include defining the strategic approach of ITC to implementing multidisciplinary country and regional interventions, the identification and development of eight large country programmes and several

significant regional initiatives, the definition of performance indicators at the project/programme level, as well as at the corporate level, and the systematic use of the logical framework approach.

3. As part of its commitment to performance improvement, ITC conducted its first in-depth client survey during September and October 2007 to determine how well current offerings corresponded to clients' needs. Over 1,500 respondents from all regions, representing trade support institutions, business enterprises and Government agencies, completed the survey. On the whole, clients appreciated ITC products and services, with a significant percentage rating ITC positively in terms of helping their organization to achieve positive results in export development. The detailed results of the survey continue to be analysed and fed into product, project and programme development. During the biennium 2006-2007, ITC undertook an extensive programme of evaluations and strengthened its relationships with existing partners. Major evaluations were undertaken of the joint integrated technical assistance programme, the Asia Trust Fund, the European Commission-funded project in Pakistan, the export-led poverty reduction programme and multilateral trading system-related activities of ITC.

4. ITC is committed to working in collaboration with a wide range of organizations in order to maximize its impact and contribution. It has continued to intensify its existing partnerships with organizations such as the World Intellectual Property Organization (WIPO), the World Bank and the United Nations Industrial Development Organization (UNIDO), as well as with its parent bodies, UNCTAD and WTO. ITC staff were invited to make presentations at several World Bank events, including events in the field, and potential joint projects were discussed. The Executive Director of ITC addressed the United Nations Industrial Development Organization (UNIDO) Industrial Development Board and ITC worked proactively with UNIDO to categorize and undertake a United Nations system-wide inventory of trade-related technical assistance activities. Joint programmes were also implemented with WTO, the World Intellectual Property Organization (WIPO) and UNIDO in Bangladesh, Pakistan, Sri Lanka and West Africa. ITC signed a new memorandum of understanding with the Economic Commission for Africa and maintained close contact with the African Union Secretariat. Collaboration with regional economic groupings, particularly those in Africa, reached its highest level ever, with prospects for several joint projects. The Inter-American Development Bank (IDB) confirmed funding for a regional project in Latin America to enable small and medium-sized enterprise exporters in developing countries to have greater access to the aid procurement market. With European Union (EU) support, a comprehensive programme for the development of commodities was put in place in collaboration with the Secretariat of the African, Caribbean and Pacific Group of States.

5. While implementing all of these improvements and developments, ITC managed to maintain the growth in its activities and in the impact of its work. ITC implemented 188 projects and programmes (53 interregional, 42 regional and 93 country-specific) during the biennium. The organization produced 354 publications, of which 235 were recurrent. Nearly 1,000 training events were organized (a 30 per cent increase over the previous biennium) for over 42,900 participants, of whom 35 per cent were women, compared with 30 per cent in the biennium 2004-2005. Some 3,210 advisory missions were carried out, a 60 per cent increase over the biennium 2004-2005. ITC achieved or surpassed 8 of its 10 indicators of

achievement during the reporting period. These statistics reflect the increased scale of ITC technical assistance. The results achieved and the impact of these increased activities are captured in several ITC documents, including its annual report.

6. Over the biennium 2006-2007, donors boosted their contributions to projects supporting the Millennium Development Goals and least developed countries. As a result, ITC was able to further develop its Millennium Development Goal programme. With regard to poverty reduction (Millennium Development Goal 1), in Latin America, increased exports of coffee and the expansion of sustainable tourism have benefited local communities. In 11 African countries, growth in exports of essential oils, spices, cocoa, paprika, honey, chillies, ginger, Aloe Ferox and coffee, as well as in tourism services, has lifted thousands of people out of poverty. In Asia, poor communities have benefited from exports of silk, wool and felted products. ITC gender-focused interventions (Millennium Development Goal 3) helped countries mainstream gender issues into national trade development strategies, created capacities within trade support institutions for women-focused trade development services and linked women entrepreneurs in high-potential export sectors to global markets. The majority of ITC work to ensure environmental sustainability (Millennium Development Goal 7) involved initiatives in Eastern and Southern Africa to stimulate the export of organic products and integrate the principles of sustainable development into country policies and programmes. ITC initiatives to develop a global partnership for development (Millennium Development Goal 8) ranged from helping Governments and business communities to create action frameworks supporting regional integration, to assisting pharmaceutical companies in Latin American countries to enter international markets for medicines against HIV/AIDS, malaria and tuberculosis, to helping business people and trade support providers use mobile telephony to access just-in-time price information and market alerts.

7. Reducing poverty through trade remained the top priority of ITC. Over the programme period, ITC played a decisive role in partnering policymakers and trade support institutions to develop export strategies and in giving small and medium-sized enterprises practical advice on how to benefit from the multilateral trading system. One hundred and eighteen new export development strategies were developed and implemented during the biennium, 39 per cent of them in sub-Saharan Africa and 36 per cent in Asia and the Pacific. Special emphasis was put on supporting the least developed countries; 46 per cent of all the strategies developed and implemented concerned these countries. Eighty-seven per cent of the strategies were sector specific. Of particular note was work done in 2006 for the Sri Lankan spice sector. Over 200 sector stakeholders participated in the creation and implementation of a strategic plan that, after 18 months of implementation, resulted in a 20 per cent increase in exports and a consequent rise in employment. During the biennium, 1,136 new enterprises participated in the ITC buyer-seller meetings and matchmaking activities, resulting in new exports exceeding US$ 35 million and the creation of new jobs in key sectors for poverty reduction: aid relief items, cotton, fashion, food, leather, pharmaceuticals and services. The majority of new enterprises benefiting from the programme were in sub-Saharan Africa and the Arab States, representing 30 per cent and 29 per cent of the total respectively.

8. The biennium ended with the December 2007 meeting of the Joint Advisory Group on ITC, which brings together the ITC parent bodies, member States of UNCTAD and members of WTO, donors and beneficiaries. Regular consultations

with donors and beneficiaries were also held within the framework of the Consultative Committee of the ITC Global Trust Fund. At the fortieth and forty-first sessions of the Joint Advisory Group held in April and December 2007 respectively, delegates endorsed the strategic thrust of ITC and during the December session expressed strong support for the revised consolidated programme document. The consolidated programme document outlined specific components of the proposed programme of work of ITC for the biennium 2008-2009, based on identified business needs in developing countries. Programmes include regional and subregional programmes, comprehensive integrated country initiatives and targeted country interventions. The programmes in the consolidated programme document were developed and validated through consultation with the ITC stakeholders. The next biennium begins with ITC in stronger shape, continuing to adapt and improve, and with a firmer commitment to having a positive impact on export and on the Millennium Development Goals.

B. Financial results

9. 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.

Income and expenditure

10. More than half of the Centre's activities are financed by extrabudgetary funds and the rest are financed from the regular budget. Under administrative and budgetary arrangements between the United Nations and WTO endorsed by the General Assembly in its decision 53/411 and its resolution 59/276, the regular budget of the Centre is assessed in Swiss francs and shared equally between the United Nations and WTO. The contributions of the respective organizations, net of miscellaneous income, are also fixed in Swiss francs. Statement IV provides summary information on the regular budget appropriation and expenditure.

11. Total resources expended, by source of funds, during the biennium ended 31 December 2007, compared with the previous biennium, are as follows:

	2006-2007	*2004-2005*
	(United States dollars)	
Regular budget	54 603 000	51 514 000
Technical cooperation activities[a]	61 678 000	49 831 000
Programme support costs	7 441 000	6 157 000
Revolving funds and other funds	4 033 000	3 479 000
All funds eliminations	(71 949 000)	(6 833 000)
Total expenditure	**119 806 000**	**104 148 000**

[a] Includes activities carried out under the Integrated Framework where UNDP acts as trust fund manager on behalf of the Integrated Framework.

Details of this expenditure are shown in Statement I. It should be noted that resources in all the funds (except for the General Fund and programme support costs) are earmarked for special purposes and are not available to cover the costs of the Centre's core programmes.

12. Compared to the biennium ended 31 December 2005, the Centre's regular budget expenditure overall increased by $3.1 million, owing mainly to the higher costs of the approved posts, inflation and exchange rate fluctuations.

13. Technical cooperation expenditure increased to $29.6 million in 2006 and $32.1 million in 2007, totalling $61.7 million for the biennium 2006-2007. This represents a 24 per cent increase compared to total technical cooperation expenditure of $49.8 million for the biennium 2004-2005. This growth of $11.9 million resulted, in part, from accessing increased financial support via trust funds. Expenditure rose owing to change management initiatives, an increase in activities focusing on the Millennium Development Goals and additional projects in Asia, Africa and the least developed countries, in line with the Centre's strategic objectives.

Assets, liabilities and reserves and fund balances

14. The Centre's share of the United Nations offices away from Headquarters cash pools totalled $44,938,354 as at 31 December 2007, comprising cash and term deposits of $24,430,552, short-term investments of $12,436,566, long-term investments of $7,888,133 and accrued interest receivable of $183,103. Of this amount, $35,668,986 pertain to technical cooperation activities.

15. The Centre has reflected its accrued liabilities for end-of-service and post-retirement benefits, comprising those for after-service health insurance, unused vacation days and repatriation benefits on its statement of assets, liabilities and reserves and fund balances effective the biennium 2006-2007. The Centre's total accrued liability for after-service health insurance on the basis of actuarial valuation amounted to $50,827,000 as at 31 December 2007. The accrued liabilities for unused vacation days were estimated at $2,368,981 and the accrued liabilities for repatriation benefits were estimated at $5,792,307 as at 31 December 2007.

16. The Centre's General Fund balance as at 1 January 2006 was $523,034, which was refunded equally to the United Nations and WTO in December 2006. Contributions of $55,130,072 received from the United Nations and WTO, investment income of $329,644 and miscellaneous income of $435,950 resulted in total funds available of $55,895,666 for the biennium 2006-2007. Expenditure, including unliquidated obligations of $2,767,394, amounted to $54,603,229. Taking into account the above, as well as savings on cancellation of prior-period obligations of $325,267, the balance of the General Fund as at 31 December 2007 was $1,617,704.

Annex

Supplementary information

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

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 $7,998,000. These amounts have been eliminated from the income and expenditure figures shown in the "total" columns of statement I. Similarly, elements of double-counting of inter-fund indebtedness totalling $1,685,000 have also been eliminated from the total asset and liability figures shown in statement II.

Write-off of losses of cash and receivables

3. There was no write-off of receivables in accordance with financial rule 106.8 during the biennium 2006-2007.

Write-off of losses of property

4. In accordance with financial rule 106.9, losses of property amounting to $3,000 were written off during the biennium 2006-2007. The losses are based on the original cost of the properties and include write-offs arising from shortfalls, theft, damage and accidents. The write-offs bring the recorded balances for the property 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 2006-2007.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the International Trade Centre UNCTAD/WTO for the biennium ended 31 December 2007. The audit was carried out on the financial transactions and operations at the headquarters in Geneva.

The Board issued a modified opinion, with one emphasis of matter, on the financial statements for the period under review, as reflected in chapter III.

Follow-up of previous recommendations

As requested by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and in line with paragraph 7 of General Assembly resolution 59/264 A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial period in which such recommendations were first made.

Out of a total of 13 recommendations made in the audit report for the biennium ended 31 December 2005, as at 31 December 2007, 10 had been implemented and three partially implemented. Two of the three partially implemented recommendations involved coordination with the United Nations Secretariat.

Financial overview

For the period under review, total income was $124 million, compared with $117.3 million for the previous biennium, an increase of 5.7 per cent. Total expenditure amounted to $119.8 million, compared with $104.1 million for the previous biennium, an increase of 15.1 per cent. This resulted in an excess of income over expenditure of $4.2 million, compared with an excess of $13.2 million in the preceding biennium.

However, after taking into consideration, for the first time, the non-budgeted accrued expenses of $11.4 million for end-of-service liabilities for the current period, the funding of which has not yet been decided, and after prior-period adjustment, the adjusted net result as at 31 December 2007 represented a deficit of $7.1 million.

End-of-service liabilities

As requested by the General Assembly in its resolution 61/264, the Board has validated the after-service health insurance liabilities raised in the financial statements. This was achieved through reliance on the external actuarial valuation and the Board's own procedures. As at 31 December 2007, after-service health insurance liabilities totalled $58.988 million and liabilities for unused vacation leave and accrued repatriation benefits totalled $8.161 million. However, they remain unfunded. Therefore, liabilities exceeded available funds and reserves by $20.1 million, and non-earmarked reserves by $53.2 million.

Progress towards the implementation of the International Public Sector Accounting Standards

ITC, in coordination with the International Public Sector Accounting Standards (IPSAS) Task Force is actively preparing for transfer to the new accounting standards, including through training of its staff.

Write-offs and disposals

The Administration reported write-offs of two stolen computers.

Cases of fraud and presumptive fraud

No case of fraud or presumptive fraud was reported by the Administration. ITC has made efforts to raise awareness among staff regarding the risks of fraud. Further efforts are required, in particular in the area of training.

Recommendations

The Board has made four recommendations based on its audit. These recommendations are set out in paragraph 6 below.

A. Introduction

1. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the International Trade Centre UNCTAD/WTO and has reviewed its operations for the financial period from 1 January 2006 to 31 December 2007, 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, as well as 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 financial statements presented fairly the financial position of ITC as at 31 December 2007 and the results of its operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing body and whether income and expenditure had been properly classified and recorded in accordance with the United Nations Financial Regulations and Rules. The audit also included a general review of financial systems and internal controls and a test examination of the 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 of ITC operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of ITC operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report on it accordingly. Those matters are addressed in paragraphs 7 to 9 below.

4. The Board continued to report the results of the interim audit to the Administration in the form of a management letter containing detailed observations and recommendations. This practice allowed for ongoing dialogue with the Administration. In this regard, one management letter was issued covering the 2006 financial year.

5. 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, whose views have been appropriately reflected in the report.

2. Recommendations

6. The Board's recommendations are that:

(a) **The Secretary-General of the United Nations, in furtherance of General Assembly resolution 61/264, propose to the Assembly options to address the negative impact on the financial statements of the recognition of end-of-service liabilities;**

(b) **ITC pursue its efforts to increase the level of the operating reserve until the prescribed level is reached;**

(c) **ITC include its share in the United Nations offices away from Headquarters cash pool, in the statement of cash flows;**

(d) **ITC record software as non-expendable property so that it is entered into its inventory.**

B. Detailed findings and recommendations

1. Follow-up of previous recommendations

7. Of the total of 13 recommendations that were made previously, 10 (77 per cent) have been fully implemented while three (23 per cent) have been partially implemented. Two of the latter involved coordination with the United Nations Secretariat. These are shown in the annex to the present chapter.

Ageing of previous recommendations

8. The Board also evaluated the ageing of its previous recommendations that had been partially implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8).

9. All three partially implemented recommendations relate to the biennium 2004-2005, as shown in the annex to the present chapter.

2. Financial overview

Key financial indicators

10. As illustrated by the ratios set out in table 1 A below, at the end of the biennium 2006-2007 the total value of ITC assets was lower than its total liabilities, leading to a negative reserves and fund balance.

11. As shown in table 1 B, the negative ratio is not the result of a troubled financial situation at ITC but of the inclusion for the first time in the financial statements of the end-of-service liabilities to former and active ITC staff. End-of-service liabilities were not previously accounted for on the face of the financial statements, but rather disclosed in the notes.

Table 1
Key financial indicators

A. End-of-service liabilities included in the financial statements for the biennium 2006-2007

	All funds		*General Fund*		*Technical cooperation activities*	
Description of ratio	*2004-2005*	*2006-2007*	*2004-2005*	*2006-2007*	*2004-2005*	*2006-2007*
Cash/liabilities[a]	2.00	0.60	0.35	0.87	2.37	2.92
Assets/liabilities[b]	2.85	0.73	1.07	1.38	3.33	3.61
Accounts receivable/total assets[c]	0.12	0.04	0.05	0.08	0.14	0.04
Unliquidated obligations/total liabilities[d]	0.92	0.20	0.97	0.97	0.75	0.84

B. End-of-service liabilities not included in the financial statements for the biennium 2006-2007

	All funds		*General Fund*		*Technical cooperation activities*	
Description of ratio	*2004-2005*	*2006-2007*	*2004-2005*	*2006-2007*	*2004-2005*	*2006-2007*
Cash/liabilities[a]	2.00	2.81	0.35	0.87	2.37	2.92
Assets/liabilities[b]	2.85	3.43	1.07	1.38	3.33	3.61
Accounts receivable/total assets[c]	0.12	0.04	0.05	0.08	0.14	0.04
Unliquidated obligations/total liabilities[d]	0.92	0.20	0.97	0.97	0.75	0.84

[a] A high indicator reflects the extent of cash available to settle debts.
[b] A high indicator reflects a positive solvency situation.
[c] A low indicator depicts a healthy financial situation.
[d] A low indicator indicates that obligations are settled regularly.

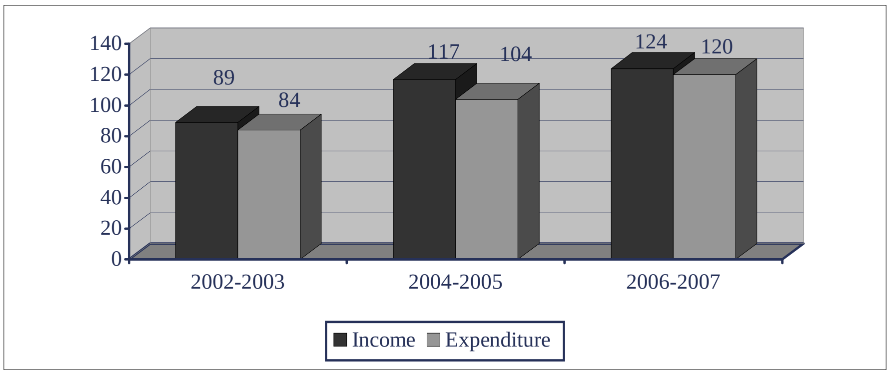
12. The financial position of ITC has not deteriorated from that in the previous biennium. However, accounting for the end-of-service liabilities led to a negative position that has to be addressed in the future.

13. **The Board recommends that the Secretary-General of the United Nations, in furtherance of General Assembly resolution 61/264, propose to the Assembly options to address the negative impact on the financial statements of ITC of the recognition of end-of-service liabilities, including after-service health insurance liabilities.**

3. Statement of income and expenditure

14. Total income for the period under review amounted to $124 million, while total expenditure amounted to $119.8 million, giving an excess of income over expenditure of $4.2 million. However, the entry into the accounts for the first time of the non-budgeted accrued expenses of $11.4 million for end-of-service liabilities led to a net deficit of $7.1 million for the biennium (after prior-period adjustment). Comparative income and expenditure (without end-of-service liabilities) for the financial periods 2002-2003, 2004-2005 and 2006-2007 are shown in figure 1 below.

Figure 1
Comparative income and expenditure
(Millions of United States dollars)



4. Statement of assets, liabilities and reserves and fund balances

15. The ITC regular budget for the biennium 2006-2007 was jointly assessed to the United Nations, through UNCTAD, and WTO, in equal shares of $27.5 million each. In addition, ITC received voluntary contributions totalling $58.7 million for its technical cooperation activities. As at 31 December 2007, receivables totalling $620,000 from the United Nations Development Programme (UNDP) for technical cooperation projects remained outstanding, representing 1 per cent of voluntary contributions for technical cooperation activity for the biennium and 0.5 per cent of all contributions.

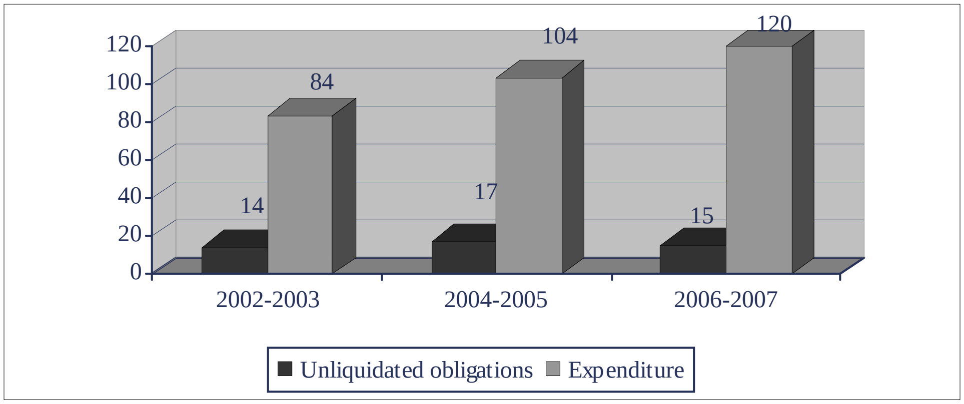
Unliquidated obligations

16. As at 31 December 2007, unliquidated obligations amounted to $15.408 million, representing 12.8 per cent of total expenditure, a reduction of $2.024 million or 11.6 per cent compared to the previous biennium. Figure 2 shows unliquidated obligations against total expenditure for the financial periods 2002-2003, 2004-2005 and 2006-2007. The amount of unliquidated obligations is stable from one biennium to the next and represents approximately 10 months of expenditure (excluding payroll costs).

17. It should be noted that the figure of $15.408 million includes future-period unliquidated obligations. The prior and current period unliquidated obligations

amounted only to $8.226 million, representing 7.3 per cent of the total expenditure of the biennium 2006-2007.

Figure 2
Unliquidated obligations against total expenditure
(Millions of United States dollars)



Financial situation of funds

18. As at 31 December 2007, the total reserves and fund balances of the General Fund stood at $1.62 million, compared to $0.52 million at the end of the previous biennium. In accordance with the administrative arrangements for ITC, the end-of-period balance of the General Fund is to be returned to UNCTAD and WTO, and cannot be accumulated by ITC.

Table 2
Financial overview by fund
(Excluding expenditure for programme support, revolving funds and other funds)
(Thousands of United States dollars)

	General Fund		
	2004-2005	*2006-2007*	*Percentage change*
Total income	51 804	55 896	7.9
Total expenditure	51 514	54 603	6
Net excess of income over expenditure	290	1 293	346
Reserve and fund balances, end of financial period	523	1 618	209
	Technical cooperation activities		
	2004-2005	*2006-2007*	*Percentage change*
Total income	62 657	65 165	4
Total expenditure	49 831	61 678	23.8
Net excess of income over expenditure	12 842	3 562	-72
Reserve and fund balances, end of financial period	29 429	31 846	8.21

19. The technical cooperation activities of ITC expanded during the biennium. It completed 188 projects and programmes during the biennium 2006-2007 (compared with 111 projects in 2002-2003 and 204 in 2004-2005), of which 53 were interregional, 42 regional and 93 specific to one country.

20. At the end of the financial period, the technical cooperation activities balance was $31.8 million (or half the value of expenditure incurred against trust funds during the biennium), but was earmarked for future trust fund activities and could not be commingled with the General Fund or reserves.

21. Although the level of General Fund reserves and balances had tripled and trust fund reserves and balances had increased by 8 per cent compared to the previous biennium, provision for end-of-service liabilities resulted in a shortfall of $20.168 million.

Table 3
Reserves and fund balances
(Thousands of United States dollars)

	2004-2005	*2006-2007*	*Percentage increase*
Reserves and fund balances			
Total non-earmarked funds	3 644	5 583	53.2
Total earmarked funds	31 287	33 038	5.5
Total reserves and fund balances	**34 931**	**38 621**[b]	**10.5**
End-of-service liabilities[a]			
After-service health insurance	41 187	50 827	23.4
Other end-of-service liabilities	6 400	8 161	27.5
Total end-of-service liabilities	**47 587**	**58 988**	**23.9**
Non-earmarked funds/end-of-service liabilities	8%	9%	

[a] See note 8 to the financial statements for the biennium 2004-2005 (A/61/5 (Vol. III), chap. V) and note 7 in chap. V below to those for the biennium 2006-2007.
[b] Restated figure, excluding end-of-service and post-retirement liabilities.

Operating reserve

22. Since 1993, and as described in note 2 to the financial statements, ITC had maintained an operating reserve under technical cooperation trust funds amounting to $1,087,815, aimed at meeting contingencies, including those arising from the termination of employment of experts. In consideration of the recommendation[1] contained in the Board’s previous report, concerning the level of the operating reserve, ITC increased it to $1,890,649 as at 31 December 2007, representing 7 per cent of expenditure pertaining to trust fund technical cooperation activities in 2007. In order to reach the operating reserve of 15 per cent level referred to in administrative instruction ST/AI/284 concerning the management of trust funds,

[1] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5* (A/61/5 (Vol. III)), paras. 14 (a) and 24.

ITC requested the approval of its donors to increase the level of this reserve progressively over several years through the allocation of gains on exchange from investments, the distribution of interest or by a contribution. Most donors have yet to give their response.

23. **ITC agreed with the Board's recommendation that it pursue its efforts to increase the level of the operating reserve until the prescribed level is reached.**

5. Statement of cash flows

24. The ITC cash and term deposits account amounted to only $4,000 as at the end of the biennium under review, compared with $37,815,000 in the preceding biennium, a decrease of $37,811,000. This significant decrease was brought about by the participation of ITC in the United Nations offices away from Headquarters cash pools. As reported in its statement of assets, liabilities and reserves and fund balances as at 31 December 2007 (statement II), the ITC cash pools balance of $44,938,354 was composed of the following: (a) cash and term deposits, $24,430,552; (b) short-term investments, $12,436,566; (c) long-term investments, $7,888,133; and (d) accrued interest receivable, $183,103.

25. In the ITC statement of cash flows for the biennium ended 31 December 2007 (statement III), its share in the offices away from Headquarters cash pools was not considered in the determination of the cash balance as at biennium-end. The Board is of the view that it would be more appropriate to reflect the ITC share of the offices away from Headquarters cash pools in the statement of cash flow, in accordance with the United Nations system accounting standards.

26. **The Board recommends that the statement of cash flows include the ITC share in the United Nations offices away from Headquarters cash pools.**

6. End-of-service liabilities

27. End-of-service and post-retirement liabilities consist of ITC liabilities pertaining to after-service health insurance coverage and other benefits due to eligible staff members at the end of their service for unused vacation (capped at 60 days) and repatriation.

28. As at 31 December 2007, ITC had introduced a new liability item into its financial statements for the biennium 2006-2007, entitled "end-of-service and post-retirement liabilities", estimated to total $58,988,000 as at 31 December 2007 (see table 4). As requested by the General Assembly in its resolution 61/264, the Board has validated the after-service health insurance liabilities disclosed in the financial statements. This was achieved through reliance on the external actuarial valuation and the Board's own procedures.

29. The last actuarial estimation of the after-service health insurance liabilities dates from the biennium 2004-2005, where they appear in note 8 to the financial statements[2] in the amount of $41,187,000. Liabilities for unused annual leave were valued at $1.9 million and those for repatriation benefits at $4.5 million.

---

[2] See *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5* (A/61/5 (Vol. III)), chap. V.

30. Accrued liabilities under after-service health insurance were estimated as at 31 December 2007 at $50,827,000. The estimation of accrued liabilities under unused annual leave and repatriation benefits and connected expenses was carried out by ITC on the basis of information available in the Integrated Management Information Service (IMIS) database.

Table 4
Estimated end-of-service liabilities as at 31 December 2007
(Thousands of United States dollars)

Accrued liabilities	*General Fund*	*Trust funds*	*All funds*	*Total*
After-service health insurance			50 827	50 827
Unused vacation days	1 577	792		2 369
Repatriation benefits	3 449	2 343		5 792
Total	**5 026**	**3 135**		**8 161**

Source: Note 7 to the financial statements.

7. Progress towards implementation of the International Public Sector Accounting Standards

31. In accordance with General Assembly resolution 61/233 and in response to the comments of ACABQ in its report (A/61/350), the Board undertook a gap analysis relating to the implementation of the International Public Sector Accounting Standards (IPSAS) as well as new or upgraded enterprise resource planning systems. ACABQ had commented on the desirability of such systems taking fully into account the detailed requirements of IPSAS.

32. ITC applies the United Nations Financial Regulations and Rules and its financial statements are the responsibility of the Assistant Secretary-General and Controller in New York. Consequently ITC adheres to the calendar and project requirements established by the United Nations relative to the presentation of its financial statements for the financial period beginning in 2010. The Head of Finance participates in United Nations working groups, which report regularly to the High-Level Committee on Management.

33. Staff of the Finance Section of ITC received training on IPSAS and more sessions were planned to enable them to become familiar with the standards and acquire a better understanding of accrual accounting. ITC plans to provide training to a wider group over the second half of 2009 and will consider pooling training with the United Nations Office at Geneva.

8. Asset management

34. Note 9 to the financial statements indicates the movement in non-expendable property during the biennium 2006-2007, summarized in table 5 below (in thousands of United States dollars):

Table 5
Non-expendable property
(Thousands of United States dollars)

	2007
Balance as at 1 January 2006	3 828
Acquisitions	1 564
Less write-offs — accidents, theft and damage	(3)
Less dispositions and other adjustments[a]	(1 051)
Balance as at 31 December 2007	4 338

[a] Includes sale of obsolete equipment and transfers to various UNDP offices and institutions upon closure of projects.

35. Hardware acquired by ITC is entered into the inventory, pursuant to the rules laid down in a United Nations administrative instruction ST/AI/2003/5 of 19 May 2005. It was found, however, that software acquired by ITC was not considered as non-expendable property, regardless of its initial cost. As a result, it is not entered into the inventory under assets belonging to ITC.

36. **The Board recommends that ITC record software as non-expendable property so that it is entered into its inventory.**

9. Write-offs and disposals

37. Two write-offs were reported in connection with the accounts for the biennium 2006-2007. Two computers, costing $1,354 and $1,560, were reported by two staff members as stolen while on mission in South Africa and France.

10. Ex gratia payments

38. The Administration reported that there were no ex gratia payments for the period under review.

11. Cases of fraud and presumptive fraud

39. The Administration informed the Board that ITC had had no cases of fraud or presumptive fraud in the biennium 2006-2007.

40. The Administration also reported that, with regard to its policy concerning the fight against fraud and the raising of awareness of fraud, ITC followed the rules and procedures applicable in the United Nations system and applied the rules and measures set forth in the Controller’s memorandum of 6 November 2001 recalling the procedures to be followed in the event of fraud or presumption of fraud.

41. Whenever an enquiry is deemed necessary, ITC hands the case over to the Office of Internal Audit Services, pursuant to a memorandum of understanding to this effect signed on 31 January 2001.

42. As a small organization, ITC does not have at its disposal a full internal infrastructure to detect and counteract fraud. Nonetheless, in 2007 it organized an information session for staff on these questions and on ethics with its own lawyer.

C. Acknowledgement

43. The Board of Auditors wishes to express its appreciation of the cooperation and assistance extended to its staff by the Executive Director and the staff of ITC.

Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

Terence **Nombembe**
Auditor-General of the Republic of South Africa

Reynaldo A. **Villar**
Chairman, Commission on Audit, Republic of the Philippines

30 June 2008

Annex

Summary of follow-up to the recommendations issued by the Board in its report for the biennium ended 31 December 2005

Subject	*Corresponding paragraph in the previous report*[a]	*Biennium in relation to which the question was first raised*	*Implemented*	*Partially implemented*	*Not implemented*
Review the level of the operating reserve maintained under technical cooperation trust funds	Para. 24	2004-2005	X		
Improve the geographical and gender balance of consultants and experts	Para. 38	2004-2005	X		
Comply with applicable rules on the limited duration of contracts for consultants	Para. 41	2004-2005	X		
Consider several qualified candidates for each assignment	Para. 44	2004-2005	X		
Continue to improve the functionalities of the IMDIS portal developed by ITC	Para. 51	2004-2005		X	
Issue guidelines on the evaluation of project performance	Para. 57	2004-2005	X		
Expedite the adoption of policies and practices prescribed in ST/SGB/2004/15 in respect of information and communication technology	Para. 65	2004-2005	X		
Organize training sessions on fraud-related issues for staff	Para. 69	2004-2005	X		
	Recommendations requiring cooperation with the United Nations or intervention by one of its offices				
Issue revised instructions on the management of trust funds	Para. 25	2004-2005		X	
Improve disclosure in the financial statements regarding the value of the appropriations received by ITC	Para. 29	2004-2005	X		
Review and update the provisions of administrative instruction ST/AI/297 on technical cooperation personnel	Para. 46	2004-2005	X		
Conduct a feasibility study on the development of interfaces between IMDIS and other organizations' integrated monitoring tools	Para. 54	2004-2005		X	
Organize joint training sessions on fraud for UNOG and the other organizations based in Geneva	Para. 71	2004-2005	X		
Total	**13**		**10**	**3**	**0**
Percentage	**100**		**77**	**23**	**0**

[a] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5* (A/61/5 (vol. III)), chap. II.

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 2007. These financial statements are the responsibility of the Secretary-General of the United Nations. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the Secretary-General, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Trade Centre UNCTAD/WTO as at 31 December 2007 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Without qualifying our opinion above, we draw attention to the fact that an amount of $20.168 million is shown as negative reserves and fund balances in the financial statements of the International Trade Centre UNCTAD/WTO. This situation has arisen out of initial recognition of end-of-services liabilities in the financial statements, in accordance with General Assembly resolution 61/264. Despite this situation with regard to reserves, the International Trade Centre UNCTAD/WTO does not face an immediate funding problem as it meets its obligations for current payments for end-of-service liabilities through ongoing budgetary allocations. Nevertheless, the Board is of the view that ITC should address this issue as early as possible.

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

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

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Reynaldo A. **Villar**
Chairman, Commission on Audit, Republic of the Philippines

30 June 2008

Chapter IV
Certification of the financial statements

The financial statements of the International Trade Centre UNCTAD/WTO for the biennium ended 31 December 2007 have been prepared in accordance with financial rule 106.10.

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

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

(*Signed*) Warren **Sach**
Assistant Secretary-General
Controller

28 March 2008

Chapter V
Financial statements for the biennium ended 31 December 2007

Contents

Statement I

International Trade Centre UNCTAD/WTO
Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007[a]

(Thousands of United States dollars)

	General fund	Technical cooperation activities b/	Programme support costs	Revolving and other funds	End-of-service and post retirement liabities c/	All funds eliminations	Total 2007	Total 2005
Income								
Assessed contributions d/								
WTO	27,597	-	-	-	-	-	27,597	25,586
United Nations	27,533	-	-	-	-	-	27,533	25,630
Voluntary contributions	-	58,669	-	-	-	-	58,669	59,678
Funds received under inter-organization arrangements	-	2,971	-	-	-	-	2,971	2,338
Income for services rendered	-	-	6,891	2,859	-	(7,802)	1,948	2,036
Interest income	330	3,038	233	277	2	-	3,880	1,575
Other/miscellaneous	436	487	439	46	196	(196)	1,408	476
Total income	**55,896**	**65,165**	**7,563**	**3,182**	**198**	**(7,998)**	**124,006**	**117,319**
Expenditure								
Staff and other personnel costs	43,732	33,223	6,070	3,143	-	(204)	85,964	73,018
Travel	578	2,286	1	55	-	(4)	2,916	1,885
Contractual services	2,108	9,439	92	(47)	-	(61)	11,531	10,835
Operating expenses	5,140	1,764	-	126	-	(1)	7,029	7,054
Acquisitions	1,257	1,951	51	206	-	(642)	2,823	3,228
Other	1,788	6,588	1,227	86	-	(146)	9,543	8,128
Total direct expenditure	54,603	55,251	7,441	3,569	-	(1,058)	119,806	104,148
Programme support costs	-	6,427	-	464	-	(6,891)	-	-
Total expenditure	54,603	61,678	7,441	4,033	-	(7,949)	119,806	104,148
Excess (shortfall) of income over expenditure	1,293	3,487	122	(851)	198	(49)	4,200	13,171
Non-budgeted accrued expenses for end-of-service and post-retirement benefits	-	-	-	-	(11,402)	-	(11,402)	-
Prior period adjustments	-	75	-	1	-	-	76	22
Net excess (shortfall) of income over expenditure	**1,293**	**3,562**	**122**	**(850)**	**(11,204)**	**(49)**	**(7,126)**	**13,193**
Savings on or cancellation of prior periods' obligations	325	-	23	-	-	-	348	276
Transfers (to)/ from other funds	-	(933)	(104)	988	-	49	-	-
Refund to donors	(523) e/	(212)	-	-	-	-	(735)	(1,413)
Other adjustments to reserves and fund balances	-	-	-	-	(47,586) f/	-	(47,586)	-
Reserves and fund balances, beginning of period	523	29,429	2,033	2,946	-	-	34,931	22,875
Reserves and fund balances, end of period	**1,618**	**31,846**	**2,074**	**3,084**	**(58,790)**	**-**	**(20,168)**	**34,931**

a/ See note 2.

b/ Includes UNDP financed projects, which were shown separately in previous financial statements.

c/ See note 7.

d/ See note 3 (a).

e/ Represents return of surplus as of 31 December 2005 to the United Nations and WTO.

f/ Represents accrued liabilities as of 31 December 2005 for after-service health insurance (ASHI) costs of $41,187,000, for unused vacation days of $1,881,554 and for repatriation benefits of $4,517,408. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See Note 7.

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

Statement II

International Trade Centre UNCTAD/WTO
Statement of assets, liabilities and reserves and fund balances as at 31 December 2007[a]

(Thousands of United States dollars)

	General fund	Technical cooperation activities b/	Programme support costs	Revolving and other funds	End-of-service and post retirement liabities c/	All funds eliminations	Total 2007	Total 2005 d/
Assets								
Cash and term deposits	-	4	-	-	-	-	4	37,815
OAH cash pools e/	3,717	35,669	2,025	3,325	202	-	44,938	-
Inter-fund balances receivable	117	1,414	86	-	68	(1,685)	-	-
Receivable from funding sources	-	620	-	-	-	-	620	1,590
Other accounts receivable	477	1,064	68	75	-	-	1,684	4,975
Deferred charges	1,587	5,276	11	666	-	-	7,540	9,438
Total assets	**5,898**	**44,047**	**2,190**	**4,066**	**270**	**(1,685)**	**54,786**	**53,818**
Liabilities								
Unliquidated obligations - prior period	-	668	-	7	-	-	675	1,178
Unliquidated obligations - current period	2,767	4,404	95	285	-	-	7,551	7,236
Unliquidated obligations - future periods	1,389	5,129	-	664	-	-	7,182	9,018
Inter-fund balances payable	-	1,921	-	26	-	(1,947)	-	-
Other accounts payable	124	79	21	-	72	262	558	1,455
End-of-service and post-retirement liabilities f/	-	-	-	-	58,988	-	58,988	-
Total liabilities	4,280	12,201	116	982	59,060	(1,685)	74,954	18,887
Reserves and fund balances								
Operating reserves	-	1,891 g/	733	-	-	-	2,624	1,652
Balances related to projects funded by donors	-	29,955	-	-	-	-	29,955	28,341
Cumulative surplus (deficit)	1,618	-	1,341	3,084	(58,790)	-	(52,747)	4,938
Total reserves and fund balances	1,618	31,846	2,074	3,084	(58,790)	-	(20,168)	34,931
Total liabilities, reserves and fund balances	**5,898**	**44,047**	**2,190**	**4,066**	**270**	**(1,685)**	**54,786**	**53,818**

a/ See note 2.

b/ Includes UNDP financed projects, which were shown separately in previous financial statements.

c/ See note 7.

d/ Comparative figures have been reclassified to conform to current presentation.

e/ Represents share of the United Nations Offices away from Headquarters (OAH) US Dollar and Euro cash pools of $41,299,449 and $3,638,905 respectively, totalling $44,938,354. The total comprises cash and term deposits of $24,430,552, short-term investments of $12,436,566 (market value $12,439,628), long-term investments of $7,888,133 (market value $7,882,432) and accrued interest receivable of $183,103.

f/ Represents accrued liabilities as of 31 December 2007 for after-service health insurance (ASHI) costs of $50,827,000, for unused vacation days of $2,368,981 and for repatriation benefits of $5,792,307. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See Note 7.

g/ See note 4 (b).

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

Statement III

International Trade Centre UNCTAD/WTO
Statement of cash flows for the biennium ended 31 December 2007[a]

(Thousands of United States dollars)

	General fund	*Technical cooperation activities b/*	*Programme support costs*	*Revolving and other funds*	*End-of-service and post retirement liabities c/*	*All funds eliminations*	*Total 2007*	*Total 2005*
Net excess (shortfall) of income over expenditure (Statement I)	1,293	3,562	122	(850)	(11,204)	(49)	(7,126)	13,193
(Increase) decrease in interfund balances receivable	(83)	522	(86)	135	(68)	(420)	-	-
(Increase) decrease in receivable from funding sources	-	970	-	-	-		970	(446)
(Increase) decrease in other accounts receivable	(121)	3,433	(1)	(20)	-	-	3,291	(3,154)
(Increase) decrease in other assets	3,313	(1,204)	1	(212)	-	-	1,898	(1,391)
Increase (decrease) in unliquidated obligations	(2,972)	788	(37)	197	-	-	(2,024)	3,728
Increase (decrease) in interfund balances payable	-	(979)	(101)	26	-	1,054	-	-
Increase (decrease) in other accounts payable	(116)	(230)	12	(1)	72	(634)	(897)	(235)
Increase (decrease) in end-of-service and post-retirement liabilities	-	-	-	-	58,988	-	58,988	-
Less: Interest income	(330)	(3,038)	(233)	(277)	(2)	-	(3,880)	(1,575)
Net cash flows from operating activiteis	984	3,824	(323)	(1,002)	47,786	(49)	51,220	10,120
Cash flows from investing activities								
(Increase) in OAH cash pools	(3,717)	(35,669)	(2,025)	(3,325)	(202)	-	(44,938)	-
Plus: Interest income	330	3,038	233	277	2	-	3,880	1,575
Net cash from investing activities	(3,387)	(32,631)	(1,792)	(3,048)	(200)	-	(41,058)	1,575
Cash flows from financing activities								
Savings on or cancellation of prior periods' obligations	325	-	23	-	-	-	348	276
Transfers (to)/ from other funds	-	(933)	(104)	988	-	49	-	-
Refunds to donors	(523)	(212)	-	-	-	-	(735)	(1,413)
Other adjustments to reserves and fund balances	-	-	-	-	(47,586)	-	(47,586)	-
Net cash flows from financing activities	(198)	(1,145)	(81)	988	(47,586)	49	(47,973)	(1,137)
Net increase/(decrease) in cash and term deposits	**(2,601)**	**(29,952)**	**(2,196)**	**(3,062)**	**-**	**-**	**(37,811)**	**10,558**
Cash and term deposits, beginning of period	2,601	29,956	2,196	3,062	-	-	37,815	27,257
Cash and term deposits, end of period	**-**	**4**	**-**	**-**	**-**	**-**	**4**	**37,815**

a/ See note 2.

b/ Includes UNDP financed projects, which were shown separately in previous financial statements.

c/ See note 7.

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

Statement IV

International Trade Centre UNCTAD/WTO General Fund: statement of appropriations for the biennium ended 31 December 2007

(Thousands of United States dollars)

		Expenditures			
	Appropriation a/	*Disbursements*	*Unliquidated obligations*	*Total expenditures*	*Unencumbered balance*
International Trade Centre UNCTAD/WTO					
Programme of activities	55,406	51,836	2,767	54,603	803

a/ Represents original appropriation of $52,190,400 for the biennium 2006-2007 as authorized by the General Assembly in its resolution 60/247, which was increased to $54,175,400 as per General Assembly resolution 61/253, and subsequently to $55,406,100 as per resolution 62/235.

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

Notes to the financial statements

Note 1
The 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 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 (the "Centre"). On 18 December 1998, the General Assembly, in its resolution 53/411 B, endorsed the recommendation of the Secretary-General of the United Nations and the Director-General of WTO that the arrangements governing the status of the Centre as a joint body be confirmed and renewed with WTO, 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). The General Assembly, in part I of resolution 59/276 of 23 December 2004, took note of the revised administrative arrangements for the Centre as set out in the report of the Secretary-General (A/59/405). Governmental supervision of the Centre is exercised by the members of WTO 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 the joint technical cooperation agency of UNCTAD and WTO for business aspects of trade development. Its mission is to contribute to sustainable development through technical assistance in export promotion and international business development. The Centre's strategic objectives are (i) to support policymakers in integrating the business sector into the global economy; (ii) to develop the capacity of trade service providers to support businesses; and (iii) to strengthen the international competitiveness of enterprises. 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 UNDP.

Note 2
Summary of significant accounting and financial reporting policies

(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 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 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. These 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 regular budget of the Centre is assessed and approved in Swiss francs. 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 dollar, 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 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 Task Force on Accounting Standards to the High-level Committee on Management.

(i) The results of the Centre's operations presented in statements I, II and III are shown 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) Income:

(i) General Fund income reflects the actual contributions received from the United Nations and from WTO during the financial period;

(ii) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pools. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;

(iii) Other/miscellaneous income includes income from the rental of premises, sales of publications, refunds of prior years' expenditure, sales of obsolete equipment, monies accepted from donors in respect of which no purpose was specified and other miscellaneous items;

(iv) Refunds of expenditure which are charged in the same financial period against the budgetary accounts are credited to the same accounts, but refunds of expenditure relating to 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.

(k) Expenditure:

(i) Expenditure is incurred against authorized allotments. Total expenditure reported includes unliquidated obligations and disbursements;

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

(iii) Expenditure for future financial periods is not charged to the current financial period and is recorded as deferred charges, as referred to in paragraph (l) (iii) below.

(l) Assets:

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

(ii) Cash pools comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools include marketable securities and other negotiable instruments acquired to produce income. Short-term investments in the cash pools are stated at lower of cost or market value; long-term investments in the cash pools are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in the cash pools is reported separately in each participating fund's statement, and its composition and the market value of its investments are disclosed in footnote[e] to the statement of assets, liabilities and reserves and fund balances;

(iii) 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;

(iv) 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 statements 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;

(v) 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 the notes to the financial statements.

(m) Liabilities and reserves and fund balances:

(i) Operating and other types of reserves are included in the totals for "reserves and fund balances" shown in the financial statements;

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

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

(iv) Commitments of the Centre relating to the current and future financial periods are shown as unliquidated obligations, which remain valid for 12 months following the end of the biennium to which they relate;

(v) 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;

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

(vii) The Centre is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the United Nations 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 only payable if and when the United Nations General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the date of the current financial statement, the United Nations General Assembly has not invoked this provision.

(n) Technical cooperation accounts:

(i) Statements I, II and III include the financial reports on technical cooperation activities financed by the trust funds and UNDP. In the financial statements for the biennium 2004-2005 activities financed by UNDP were shown separately from trust funds. However, given that both are technical cooperation activities and given the relative immateriality of activities financed by UNDP, effective 1 January 2006, the two are shown together in the "technical cooperation activities" column;

(ii) Voluntary contributions are recorded as income upon receipt of cash, including amounts received pending the identification of specific projects;

(iii) Funds received under inter-organization arrangements represent allocations receivable from UNDP which are determined taking into account interest and other miscellaneous income against total expenditure;

(iv) 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;

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

(vi) Unliquidated obligations for the current period in respect of technical cooperation 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 cancellation of prior-period obligations are credited to individual projects as a reduction of current-period expenditure;

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

(viii) A system of average costing is used for technical cooperation activities 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;

(ix) 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 that cannot be attributed to any particular project are debited or credited to the operating reserve (see subpara. (n) (x) below);

(x) Operating reserve. Up to 2005, the Centre's policy had been to maintain an operating reserve at a predetermined level and agreement was reached with donors that the interest accruing from the investment of funds was first utilized to maintain the reserve at that level. Accordingly, since 1993, the operating reserve had been maintained at $1,087,816. During the biennium 2006-2007, in consultation with donor Governments, the Centre decided to increase the level of the operating reserve to 15 per cent of the annual estimated expenditure, by retaining the exchange gain on investments, the donor Governments' share of interest earned or by making a lump-sum contribution. With the concurrence of donors, the level of the operating reserve had increased to $1,890,649 as at 31 December 2007;

(xi) Trust fund donors' fund balances. These balances comprise the unobligated balance of allocations, contributions not yet allocated, residual balances of closed projects, interest and miscellaneous income, including those items described in paragraph (j) (iii) above. These 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;

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

(o) Programme 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 the level of 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.

(p) Revolving and other funds:

(i) Revolving funds initially funded with seed money from extrabudgetary sources are established for the purpose of carrying on specific activities or attaining certain objectives. The income derived from the revolving fund's activities is credited to the fund and is used to cover all related costs of its activities. Revolving funds are operated in accordance with the established terms of reference and operational and financial objectives;

(ii) Business advisory services revolving fund
Sale of materials, tools and related services for ongoing research, development and dissemination of up-to-date materials on enterprise competitiveness are utilized to finance the provision of new and updated materials;

(iii) International purchasing and supply chain management revolving fund
Sales of training materials and related services are utilized to finance the costs of reprinting and translation and other related costs;

(iv) Strategic and operational market research revolving fund
Sales of trade data analyses, tools and services at the global, regional, national and enterprise levels are utilized to finance the provision of further services;

(v) South-South trade promotion revolving fund
Sales of standard output, ready-made and tailor-made advisory and operational services, training materials, matchmaking and related services are credited to: (a) South-South trade promotion and (b) market development activities and are utilized to finance the provision of further services and updated materials.

(q) End-of-service and post-retirement liabilities:

(i) Accrued liabilities for end-of-service and post-retirement benefits, comprising those for after-service health insurance, unused vacation days and repatriation benefits, which were previously disclosed in the notes to the financial statements, are, effective 1 January 2006, included as liabilities in the statement of assets, liabilities and reserves and fund balances. The change in presentation is made in order to recognize such liabilities when incurred and is in accordance with General Assembly resolution 60/255 with respect to recognition of after-service health insurance liabilities. See note 7;

(ii) Effective 1 January 2007, the Centre has established a repatriation grant reserve fund. Income accrued to this fund is calculated on the basis of 8 per cent of the net base pay of eligible personnel financed by its technical cooperation trust funds activities, programme support costs and revolving funds.

Note 3
General Fund

(a) Income during the biennium 2006-2007:

Under the terms of General Assembly resolution 2297 (XXII) of 12 December 1967 and the decision of the Contracting Parties GATT dated 22 November 1967, and the new administrative arrangements between the United Nations and WTO as endorsed by the General Assembly in its decision 53/411 and its resolution 59/276, the regular budget of the International Trade Centre is assessed in Swiss francs and shared equally between the United Nations and WTO.

The revised budget of the Centre for the biennium 2006-2007, as established by the General Assembly in its resolution 62/235, provided for estimated expenditure of $55,406,100 (equivalent to SwF 68,174,300 at an average rate of SwF 1.23 to the dollar), as compared with SwF 64,121,200 for the previous biennium, thus reflecting an increase of 6.32 per cent in Swiss francs. Miscellaneous income was estimated at $615,600 (equivalent to SwF 752,400), thus requiring a contribution of $27,395,300 (equivalent to SwF 33,710,950) each from the United Nations and WTO.

During the biennium 2006-2007, the contributions received from the United Nations and WTO were $27,533,046 (equivalent to SwF 33,809,700) and $27,597,026 (equivalent to SwF 33,809,700) respectively, totalling $55,130,072 at an average United Nations exchange rate of SwF 1.23 to the dollar.

Other income during the biennium 2006-2007 comprised (in thousands of United States dollars):

	2006-2007	*2004-2005*
Income from rental of premises	164	165
Sale of publications	68	126
Refund of prior-years' expenditure	138	95
Miscellaneous	66	74
Total	**436**	**460**

(b) Deferred charges

Deferred charges comprised (in thousands of United States dollars):

	2006-2007	*2004-2005*
Unliquidated obligations — future periods	1 389	4 673
Education grant advances to staff (note 2 (l) (iv))	174	88
Miscellaneous items paid in advance	24	139
Total	**1 587**	**4 900**

(c) Future years' commitments

The estimated costs of the Centre's future years' commitments in respect of leases extending beyond the financial period ending 31 December 2007 that are to be met from the appropriations of the following biennium comprise (in thousands of United States dollars):

	2008-2009
Lease of ITC headquarters building	953
Rental of reprographic equipment	381
Rental of photocopiers and fax machines	55
Total	**1 389**

(d) Reserves and fund balances

The surplus account of the Centre's General Fund of $1,617,700 represents funds available for the credit of the United Nations and WTO. The surplus account arose from the savings on the liquidation of obligations for the prior period of

$325,300 and the excess of income over expenditure for the biennium 2006-2007 of $1,292,400. The fund balance of $523,000 brought forward from the biennium 2004-2005 has been refunded equally to the United Nations and WTO.

Note 4
Technical cooperation activities

(a) Deferred charges

Deferred charges comprised (in thousands of United States dollars):

	2006-2007	*2004-2005*[a]
Unliquidated obligations for future periods	5 129	3 893
Education grant advances to staff (note 2 (l) (iv))	40	37
Miscellaneous items paid in advance	107	—
Total	**5 276**	**3 930**

[a] Comparative figures have been reclassified to conform to current presentation.

(b) Operating reserve

The operating reserve is maintained to cover delays in payment of pledged contributions and to meet shortfalls of income over final expenditure of the trust funds, including any liquidating liabilities. As reflected in the summary of significant accounting policies (note 2 (n) (x)), the Centre decided to increase this reserve so that, over the years, it reaches a level of 15 per cent of the annual estimated expenditure. During the biennium 2006-2007, with the agreement of the donor Governments, the level of the operating reserve was increased from $1,087,816 to $1,890,649.

Note 5
Special account for programme support costs

The reserves and fund balances totalled $2,074,000 as at 31 December 2007 and reflected the following movements during the biennium 2006-2007 (in thousands of United States dollars):

	2006-2007	*2004-2005*
Fund balances, beginning of period	1 469	1 943
Excess (shortfall) of income over expenditure	122	(318)
Savings on or cancellation of prior period's obligations	23	43
Transfers to revolving funds	(104)	(144)
Transfers to operating reserve	(169)	(55)
Fund balances, end of period	**1 341**	**1 469**
Operating reserves, beginning of period	564	509
Transfers from surplus account	169	55
Operating reserve balances, end of period	733	564
Total reserves and fund balances	**2 074**	**2 033**

Note 6
Revolving and other funds

Income for services rendered during the biennium 2006-2007 comprised (in thousands of United States dollars):

	2006-2007	*2004-2005*
Business advisory services revolving fund	469	183
International purchasing and supply chain management revolving fund	386	290
Strategic and operational market research revolving fund	1 931	2 462
South-South trade promotion revolving fund	73	105
Other fund — Meet in Africa	—	105
Total	**2 859**	**3 145**

Note 7
Accrued liabilities for end-of-service and post-retirement benefits

(a) Upon end of service, eligible staff members are entitled to after-service health insurance coverage and to be paid for any unused vacation days up to a maximum of 60 days and repatriation benefits based on the number of years of service. Effective 1 January 2006, all these three types of liabilities are recognized in the financial accounts. The liabilities have been recorded through an adjustment to reserves and fund balances as shown in statement I. Previously, these liabilities were disclosed in the notes to the financial statements. The increase in liabilities during the biennium 2006-2007, less amounts provided for during the biennium (see note 2 (q) above), represents an expenditure of the current biennium and is also shown in a separate line in statement I: “Non-budgeted accrued expenses for end-of-service and post-retirement benefits”.

(b) In order to gain a better understanding of the financial dimensions of the Centre’s liabilities for after-service health insurance, which is a defined benefit plan, a consulting actuary was engaged to carry out an actuarial valuation of after-service health insurance benefits. The major assumptions used by the actuary were a discount rate of 5.5 per cent; health care escalation rates of 9.5 per cent in 2008, grading down to 5 per cent in 2015 and later years for United States medical plans, and of 5.7 per cent in 2008, grading down to 4.5 per cent in 2012 and later years for medical plans outside of the United States; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation. On the basis of these assumptions, it is estimated that the Centre’s liability as at 31 December 2007 for after-service health insurance benefits covering all participants, regardless of funding source, is as follows (in thousands of United States dollars):

After-service health insurance liability	*Present value of future benefits*	*Accrued liability*
Gross liability	85 563	67 770
Offset from retiree contributions	(21 391)	(16 943)
Net liability	**64 172**	**50 827**

(c) The present value of the future benefits figures shown above are the discounted values of all benefits to be paid in future to all current retirees and active employees eligible for after-service health insurance upon their retirement. The net accrued liability represents those portions of the present values of benefits that have accrued from 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 the benefits.

(d) The Centre's total liability for unused vacation days and accrued repatriation benefits has been recorded as at 31 December 2007 and is estimated as follows (in thousands of United States dollars):

	Unused vacation days	*Accrued repatriation benefits*	*Total*
General Fund	1 577	3 449	5 026
Technical cooperation activities	514	1 746	2 260
Programme support costs	245	540	785
Revolving and other funds	33	57	90
Total	**2 369**	**5 792**	**8 161**

Note 8
Contributions in kind

During the biennium ended 31 December 2007, the value of the contributions in kind received are estimated at $1,788,807, based on standard costs methodology developed by the Centre. The contributions in kind consist mainly of conference-servicing facilities provided by Governments and other organizations/counterparts for the organization of local events/workshops.

Note 9
Non-expendable property

In accordance with the Centre's accounting policies, non-expendable property is charged against the current allotment in the year of purchase. During the biennium 2006-2007 the movement in non-expendable property, valued at historical cost, was as follows (in thousands of United States dollars):

	2006-2007
Balance as at 1 January 2006	3 828
Acquisitions	1 564
Less write-offs — accidents, theft and damage	(3)
Less dispositions and other adjustments[a]	(1 051)
Balance as at 31 December 2007	4 338

[a] Includes sale of obsolete equipment and transfers to various UNDP offices and institutions upon closure of projects.