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Financial report and audited financial statements

for the biennium ended 31 December 2011

and

Report of the Board of Auditors

Volume III
International Trade Centre

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

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Volume III
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Note

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

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Letter of transmittal

30 March 2012

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the International Trade Centre for the biennium ended 31 December 2011, 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. **Liu** Jiayi
Chair
Board of Auditors
New York

30 June 2012

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the International Trade Centre for the biennium ended 31 December 2011.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the International Trade Centre for the biennium ended 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves and fund balances (statement II), the statement of cash flows (statement III), the statement of appropriations (statement IV), the schedule and the notes to the financial statements.

Management's responsibility for the financial statements

The Controller of the United Nations is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the International Trade Centre as at 31 December 2011 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the International Trade Centre 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.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

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

30 June 2012

Chapter II
Long-form report of the Board of Auditors

Summary

The International Trade Centre (ITC) is a technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO), working to stimulate exports by small and medium-sized enterprises in developing countries and countries with economies in transition.

In 2011 it operated some 224 active projects and programmes in over 110 countries, directly employing some 266 Geneva-based staff, and supplementing this capacity with over 400 consultants and contractors. The regular budget ($72 million in 2010-2011) is approved by the United Nations General Assembly and the WTO General Council. It provides the infrastructure for ITC to operate. Extrabudgetary expenditure from donors ($86 million in 2010-2011) funds technical assistance and projects.

The Board of Auditors has audited the financial statements and reviewed the operations of ITC for the biennium ended 31 December 2011. The audit was carried out through an examination of financial transactions and operations at ITC headquarters in Geneva.

Opinion

The Board issued an unmodified audit opinion for the biennium 2010-2011.

Overall conclusion of the Board

ITC is making gradual progress in improving the informed management of its resources and results. It has strengthened the way it initiates its projects, although significant scope remains to build on and enhance the controls implemented thus far. Although the organization continues to develop a revised results-based management framework that better represents the range of its activities, it has challenges to overcome in ensuring the consistent collection and presentation of performance information. To further improve its overall financial management, ITC could enhance its validation of financial information, including performing more active validation of its material receivables balance, challenging the findings of its actuary and enhancing its controls over the selection and recruitment of consultants.

ITC is a relatively small organization and it believes that many developments, including implementation of International Public Sector Accounting Standards (IPSAS), are reliant on the complete and timely delivery of the new United Nations enterprise resource management system (Umoja). However, the Board considers that ITC is well placed to deliver financial statements that are compliant with IPSAS and some further initial benefits without the implementation of the system-wide enterprise resource planning solution.

Key findings and recommendations

IPSAS implementation

While progress has been made in the ITC IPSAS implementation project, the Board considers that financial statements that are compliant with IPSAS, together with some of the initial benefits of enhanced financial information, can be delivered without reliance on the new United Nations-wide enterprise resource planning system, and that it should be possible for ITC to address many identified issues with practical solutions. With appropriate support to the project, ITC is well placed to deliver shadow financial statements that are compliant with IPSAS before 2014. ITC is well placed with other initiatives, such as results-based budgeting and management, to gain significant benefits from the adoption of IPSAS, but has not formally set out the benefits it expects from the project.

Financial management

During the period under review, ITC did not systematically review and challenge the information included in the financial statements. It did not review the accuracy of the information provided to its actuary on its staff and former staff, or review, or seek an understanding of, the assumptions used by the actuary to calculate the end-of-service benefits to ensure that they were reasonable in the context of the current staff and retirees of ITC. The Board also noted that ITC did not actively seek confirmation of the long-outstanding receivable balance from the United Nations Development Programme or consider whether this asset should have been impaired at 31 December 2011.

Results-based management

While progress by ITC in developing a revised results-based management framework has been noted, ITC will need to mitigate the risk of inconsistencies in data collection and presentation. The key challenge of linking results to costs remains largely dependent on the timely and functional delivery of the United Nations resource management system, Umoja, and on further preparatory work undertaken by ITC in 2013.

Project management

The Board concluded overall that the ITC project design approach is straightforward and reflects good practice; and that the introduction of the quality assurance and related project initiation processes strongly increases the maturity of ITC project management; however, the Board found significant scope in the following areas to build on and enhance the improvements thus far.

Though ITC procedures draw on recognized project management practice, it has not adopted a recognized industry standard or code used in public and private sectors, such as PRojects IN Controlled Environments (PRINCE2), for the whole life cycle management of its projects. The Board considers that adoption of such a standard or code would bring further benefits, including greater access to common practice and practitioners. A generally accepted key role, namely, that of project sponsor or "owner", is not defined in the ITC approach.

The Board noted the need for better consideration of risk in project design and peer review. Risks were clearly set out in business cases, but specific plans for mitigation were often absent and generally hampered by diffuse sharing of risk among multiple parties. The potential financial and time implications were not strongly evident in the project plans and budgets examined.

The Board found that documentation on project justification, purposes and context was much more extensive than that covering the practicalities and risks of delivery. Activity planning was generally at a summary level and linkages and dependencies between activities were not shown. More detailed delivery plans would provide reviewers and management with additional assurance that a project will proceed to approved time, cost and specification.

In the light of the above findings, in the main body of the present report, the Board makes detailed recommendations which reflect comments received from ITC management. In summary the main recommendations are that ITC should:

- **Continue to develop solutions for the identified IPSAS risks that are not wholly dependent on the United Nations Umoja project and identify more thoroughly the benefits of the IPSAS project and develop a methodology to track and manage benefits realization**
- **Develop robust and documented quality-control procedures to validate the integrity of the data supplied to its actuaries**
- **Work towards greater consistency and objectivity in data collection for, and presentation of, its key achievement indicators**
- **Consider moving towards an industry-standard project management approach, including a clear delineation of the project manager and project sponsor roles**
- **Require project managers and peer reviewers to consider whether project risk has been adequately assessed and quantified, and mitigated by clear allocation of lead responsibility for management**
- **Require that peer reviewers and senior management seek evidence of detailed planning of implementation for at least the early phases of work following initiation**

Previous recommendations

Of the nine recommendations made for the previous biennium, three were fully implemented, four were under implementation and two were not implemented (compared to one implemented and three under implementation in the previous biennium). The Board is broadly satisfied but considers that ITC needs to consider how it could improve the rate of implementation.

A. Background

1. Since 1964, the International Trade Centre (ITC) has helped developing and transition economies achieve sustainable development through exports by activating, supporting and delivering projects with an emphasis on achieving competitiveness. It does this by providing trade-development services to the private sector, trade support institutions and policymakers, and by working with national, regional and international bodies.

2. ITC remains an organization in transition. Management continues to prioritize the implementation of results-based management, in pursuit of building a more performance-orientated culture. In 2011 activities focused on training staff in project design, with further initiatives planned to follow to enhance other stages in the ITC project management cycle. ITC is preparing for implementation of IPSAS, in coordination with the United Nations.

3. The capacity of ITC to deliver its technical services and support is constrained by a high staff vacancy rate, which was 25 per cent as at December 2011, albeit substantially lower than the 38 per cent reported in 2010. Management is examining the causes of delay in recruiting, and taking various remedial measures, including training to help managers better understand the recruitment and selection system and their role within it.

B. Mandate, scope and methodology

4. The Board of Auditors has audited the financial statements of ITC and has reviewed its operations for the financial period ended 31 December 2011 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

5. 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 2011 and the results of its operations and cash flows for the financial period, 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 intended and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit 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.

6. The Board also reviewed ITC operations under United Nations financial regulation 7.5 which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of ITC operations. The Board focused on an examination of project initiation in ITC, including recent changes to arrangements.

7. The Board's audit was performed at ITC headquarters in Geneva where all its functions are based. The Board coordinated with the Office of Internal Oversight Services (OIOS) to avoid duplication of efforts.

8. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions.

9. The Board's observations and conclusions were discussed with ITC, the views of which have been appropriately reflected in the report. The recommendations contained in the present report do not address steps that ITC may wish to consider in respect of officials for instances of non-compliance with its Financial Regulations and Rules, administrative instructions and other related directives.

C. Findings and recommendations

1. Follow-up of previous recommendations

10. As at 31 March 2012, of the nine recommendations made for the previous biennium, three recommendations (33 per cent) were fully implemented, four recommendations (44 per cent) were under implementation and two recommendations (22 per cent) were not implemented.

Recommendations partially implemented or not implemented

11. One recommendation on which the Board considers that there is not yet sufficient progress is the need for ITC to review its policy for the annual leave accrual and align it with IPSAS 25 on employee benefits. The Board also believes that ITC could go further in developing its policy for funding its end-of-service liabilities regarding the element of the liability related to its technical cooperation programme.

12. The Board has reiterated most of the unimplemented recommendations in the relevant sections. The recommendation on the review of the budgetary process and highlighting the impact of one parent organization approving a lower amount was raised with WTO and the United Nations Secretariat and it was agreed that one budget document would be presented to both organizations providing WTO members with more detailed and timely budget information. Following those consultations, ITC had concluded that it would be too difficult to deviate from the principle of equal sharing of the ITC budget.

2. Financial overview

Overall financial position

13. ITC is a joint technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO). Its general fund is financed on an equal basis by the United Nations and WTO. For the current biennium, ITC received assessed contributions of $72.8 million, an increase of $11.2 million over the previous biennium (2008-2009: $61.6 million). Voluntary contributions totalled $80 million (2008-2009: $72.8 million). Other sources of income remained constant at $7.1 million. Overall the Centre's income increased from $141.6 million to $159.9 million. Over the same period, ITC expenditure grew

from $129.5 million to $157.8 million, owing mostly to the $19.7 million increase in staff and personnel costs and the $4.1 million increase in contractual services resulted from additional grant agreements under the enlarged technical cooperation programme.

14. At 31 December 2011, ITC reported a deficit in its reserves of $10.6 million, due mainly to the $58.9 million of unfunded employee benefit liabilities which are not fully offset by surpluses in other funds. However, ITC has sufficient reserves to meet its current liabilities and has assessed funding of some $76 million agreed for the following biennium. It therefore has adequate resources to continue its normal operations for the foreseeable future.

15. The reported cash balances of ITC of $56.1 million are mainly held in the United Nations cash pool. Some $42.6 million relates to cash held on technical cooperation projects, of which some $35.5 million was unencumbered and $4.3 million was the operating reserve as at 31 December 2011. The operating reserve was established to cover delays in the payment of pledged contributions and to meet any shortfalls of income in the trust funds. Its target level is 15 per cent of annual technical cooperation expenditure.

16. In response to the Board's previously reiterated recommendation that ITC pursue its efforts to increase the level of operating reserves until the level prescribed by the United Nations Controller is reached, the reserve was increased by $1.4 million, but owing to the increased technical cooperation activity this reserve represents 10.0 per cent of the net expenditure of $42.7 million for 2011. However, the Board notes that, when taken with the unencumbered balance, ITC has ample total technical cooperation reserves of some $39.8 million, equivalent to 85 per cent of the 2011 expenditure.

17. **ITC accepts the Board recommendation that it review the operating reserves requirements, including whether the 15 per cent ceiling for the reserve balance is required. ITC will review the level of the sufficiency of the operating reserve and submit a proposal to the United Nations.**

3. Financial management

Appointment of consultants

18. The Board reviewed ITC expenditure, identifying some $23.0 million paid to consultants. The Board examined 24 payments to consultants and the selection process applied. While ITC was able to provide explanations justifying the selection of each candidate, the Board found no systematic basis for the identification of consultants (such as a roster or database of potential candidates) and frequent failure to evaluate at least three candidates. There was no evidence that ITC was reviewing the reasons why it could not identify at least three acceptable candidates. The Board considers that the systematic failure to identify sufficient suitable candidates exposes ITC to increased risks of poor value for money and fraud.

19. **The Board recommends that ITC maintain an up-to-date database of consultants and their performance and that it follow the recommended United Nations policies for the appointment of consultants.**

Amount receivable from the United Nations Development Programme

20. The ITC statement of assets and liabilities shows a receivable of $1.02 million from the United Nations Development Programme (UNDP) (the amount not yet reimbursed for expenditure ITC has incurred on UNDP implemented projects) outstanding for more than one year. It represents over half of the total accounts receivable balances. The Board found that, while ITC had pursued this balance with UNDP, it had received no responses to its dunning actions and without positive confirmation that UNDP recognizes the same amount as due, ITC should consider the asset for impairment.

21. **The Board recommends that ITC: (a) manage its accounts receivable by regularly pursuing such significant outstanding debts and, where necessary, regularly seeking agreement on significant balances; and (b) actively consider the need to impair assets where no positive confirmation has been obtained.**

22. **To address this issue, the ITC has proposed further follow-up action with the UNDP office.**

Unliquidated obligations

23. As a result of unliquidated obligations amounting to $4,064 which are not automatically closed, the Board previously recommended that ITC should examine deficiencies in the end-of-year automated processing which led to such invalid obligations remaining in the financial statements. Through a review carried out by both ITC and the Board of unliquidated obligations in the 2010-2011 biennium financial statements, it was confirmed that none had remained open longer than the permitted time. While ITC should now clear the residual trivial balances of the 2005-2007 obligations, the Board considers this recommendation closed.

4. End-of-service liabilities

24. End-of-service liabilities are employee benefits payable after the completion of employment. The 2010-2011 ITC financial statements report end-of-service and post-retirement liabilities of $60.1 million (2008-2009: $41.6 million). Of this, $54.8 million represented after-service health insurance for existing and retired staff. The liabilities are determined by an actuarial valuation using a discount rate based on high-quality corporate bond yields of 4.5 per cent (6.0 per cent as at 31 December 2009). The liability increased by $13.3 million (charged as an expense in the ITC financial statements) due to a change in discount rate given movements in the relevant bond market and an assumption of higher health-care cost escalation rates for plans outside of the United States of America, where all ITC retirees are currently located.

25. The Board reviewed the actuarial valuation exercises and concluded that the actuaries were professionally qualified to undertake the valuations and that the actuarial assumptions used to calculate a discount rate and the measurement of the actuarial gains and losses were in line with International Public Sector Accounting Standard 25, on employee benefits. However, the actuaries’ non-United States data was limited. In addition, while it is the responsibility of ITC management to ensure that the data that it supplies to the actuaries are both accurate and complete, the Board found that the data reviewed by ITC was not the data that was subsequently supplied to the actuary and no explanations were available for the differences in the

data sets. We therefore performed additional audit testing and were able to confirm that the data supplied to the actuary was materially accurate.

26. **The Board recommends that ITC develop robust and documented quality-control procedures to validate the integrity of the data supplied to its actuaries concerning staff end-of-service liabilities.**

27. The actuarial valuation included a liability of $1.8 million for untaken annual leave. This is not just the existing liability as at 31 December 2011, but includes a projection of additional annual leave earned by staff after 1 January 2012. While the approach adopted is consistent with the previous biennium and fairly stated in accordance with the existing accounting policy, going forward it will not be consistent with the requirements of IPSAS 25 or generally accepted accounting practice and may have a material impact on the Centre's IPSAS financial statements. The Board notes the interpretation of ITC and the United Nations administration's of IPSAS 25 in this respect, and will discuss it further with the United Nations IPSAS implementation team.

28. The Board previously recommended that ITC, in conjunction with the United Nations, consider a review of its policy for the valuation of leave liability in the implementation of IPSAS. The Board considers this recommendation to be no longer relevant and replaces it with the recommendation below.

29. **The Board recommends that ITC fully align its disclosures regarding end-of-service liabilities with IPSAS 25 for 2012-2013 (including, for example, by providing more information in its note disclosures of the impact of changes in discount rates on its stated liabilities).**

30. The Board has previously recommended that ITC establish a funding plan for its end-of-service liabilities. ITC has deferred a decision on this until the United Nations has established such a policy. While ITC charges programme support costs on all technical cooperation activities, these do not currently charge an element in respect of end-of-service liabilities and this will need to be reviewed in the light of the scale of those liabilities. The Board considers that its previous recommendation remains valid. It also considers that technical cooperation projects should meet the full costs of the staff employed.

31. **ITC agreed with the Board recommendation that it review the methodology for charging programme support and ensure that the full costs of staff are charged to all projects. ITC will review the amount accrued and consider increasing the rate to include the funding of end-of-service liabilities.**

5. Non-expendable and expendable property

Non-expendable property

32. As at 31 December 2011, ITC reported non-expendable property at the original cost of $3.7 million in its financial statements (note 11), of which some $700,000 related to assets in the field with the balance supporting the regular activities of ITC at its Geneva headquarters.

33. During the biennium, ITC, in response to a previous Board recommendation, undertook concerted efforts to cleanse its field inventory and reconcile the inventory records to the assets held. As a result, ITC identified assets (often purchased many years prior) with an original cost of $1.8 million that were obsolete, had been

transferred to the beneficiary or were no longer required and it regularized the disposal of those assets through formal property survey boards. At 31 December 2011, ITC reported a further $675,000 of disposals awaiting finalization, of which $325,000 related to obsolete information technology equipment and $350,000 related to the assets of seven projects. Those disposals should be finalized as soon as is practicable and certainly by 31 December 2012.

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

Project governance and risk management

34. ITC has established an IPSAS project team with the Executive Director acting as the sponsor, to champion the IPSAS benefits within the organization. The IPSAS team consists of the IPSAS Coordinator who is the Director of the Division of Programme Support, a project manager and 18 other staff drawn from finance, common services, human resources, information technology, communications and the Division of Market Development, including their alternative members.

35. The project manager maintains a project risk register which contains five identified risks to the successful implementation, three of which are considered to carry both a high impact and probability:

- The United Nations will not provide an enterprise resource planning solution to enable ITC to also report on its functional currency basis of Swiss francs as required by IPSAS
- There are no systems to capture the development costs of intangible assets, for example software, which are likely to be material to the ITC
- The United Nations will not provide an enterprise resource planning solution to enable ITC to revalue monthly its share of the United Nations pool of investment, cash and bank balances in Swiss francs

36. ITC considers that these three risks need to be resolved through the development by the United Nations of the new enterprise resource planning system (Umoja). Furthermore, in the detailed analysis of the IPSAS standards and how these will affect ITC, many of the issues identified rely on the new enterprise resource planning system for capturing the required data or performing the necessary calculations or reconciliations.

37. The Board considers that ITC responses to the risks identified and the actions required to implement IPSAS are too reliant on the enterprise resource planning system and that the Centre has not considered the possibility of addressing the issues with practical solutions without total reliance on the United Nations enterprise resource planning project. For example, to capture the costs of the development of its intangible assets, an unsophisticated time-recording system, coupled with the identification of any direct costs, such as consultants' costs, should suffice. ITC has not identified the risks related to data integrity or change management in its risk register, nor has the Board seen any evidence that these key aspects of the project have been addressed.

38. ITC has subsequently informed the Board that it has now incorporated its risks in the United Nations IPSAS risk register and the first formal submission of this updated risk register was presented to the IPSAS team in April 2012.

39. **The Board recommends that ITC continually review its risks and IPSAS gap analysis and identify alternative mitigating solutions within the control of ITC management for the outstanding issues.**

40. ITC informed the Board that it is planning to track the intangible assets manually and that the United Nations IPSAS Task Force is developing an enterprise-wide approach to capture this information. In addition, ITC informed the Board that the United Nations is also reviewing options for an ITC functional currency.

Development of draft model financial statements

41. A model set of accounts represents a template of an IPSAS-compliant format of financial statements and includes the core statements, planned disclosures to be made in the notes supporting the core statements and the accounting policies to be adopted. These provide an early opportunity for audit scrutiny to identify potential weaknesses in the statements, either because of incomplete disclosure or misinterpretation of accounting standards and policies. Such an early review would provide sufficient opportunity for ITC to develop a set of financial statements to achieve full IPSAS compliance.

42. Under IPSAS there will be some significant changes to the presentation of the financial statements, which will no longer be presented on the basis of separate funds, but prepared on the entity basis in accordance with IPSAS 1 — presentation of financial statements — presenting a single view of the revenues, expenses, assets and liabilities of the organization. There is a need to consider whether different aspects of the entities' operations meet the definitions of segments, as defined by the Standards.

43. Other key changes to the financial statements will include:

- An additional statement detailing changes in net assets and equity and a more detailed statement on the reconciliation of budget to expenditure
- More detailed accounting policies and more comprehensive notes to the financial statements enhancing the transparency of financial reporting
- More extensive analysis of the nature of expenditures incurred during the year in the statement of financial performance (the statement of income and expenditure)
- Expenditure recognized only where goods and services have been received, meaning that obligations are reported longer
- Long-term assets are reported in the statement of financial position (the statement of assets and liabilities) and their costs are spread evenly over their life by means of an annual charge rather than being fully charged when purchased

44. While some of the changes required in a move from the United Nations system accounting standards to IPSAS have already been addressed by ITC, for example, the recognition of certain employee benefits, such as liability for after-service health insurance and the development of some IPSAS accounting policies and revised disclosures, there will be significant additional changes to the format and content of the financial statements. ITC would benefit from the early preparation of a set of

IPSAS pro forma financial statements, populated with real accounting data to test the appropriateness of the proposed presentation, for discussion with the Board.

45. **The Board recommends that ITC develop a set of pro forma IPSAS financial statements which are internally reviewed, using an appropriate IPSAS disclosure guide prior to discussion with the Board.**

46. ITC informed the Board that it is developing and continually improving its model financial statements and that it expects to present its first IPSAS-compliant financial statements, with accompanying notes, by the end of 2012, and that by mid-2014 these will be populated with IPSAS-compliant accounting data.

Managing the delivery of the full benefits from the International Public Sector Accounting Standards

47. The Board found limited evidence that the intended benefits of IPSAS adoption were formally linked to the objectives of the project and were being tracked, or that ITC had a detailed benefits realization plan. The Board notes that ITC has contributed its initial thoughts on benefits to the United Nations-wide IPSAS Task Force, as part of the latter's ongoing work to identify United Nations-wide IPSAS dividends. If ITC is to successfully realize the intended benefits of adopting IPSAS, it is essential that the benefits be adequately documented and quantified at inception, and thereafter actively managed, monitored and reviewed to ensure that they remain current.

48. Once compliance with IPSAS is achieved, ITC will have more accurate, timely and comparable information on its full costs, and on the status and value of its inventory, tangible and intangible assets and liabilities. If that information is not used for better-informed decision-making on resource deployment and to identify opportunities for improved cost-effectiveness, the full benefits of IPSAS adoption will be lost. It is therefore important that operational areas engaged with IPSAS adoption be prepared now about how they can use this new information to drive cost-effectiveness.

49. The Board recognizes that the full benefits of IPSAS will come over time, but planning for their realization should start as soon as possible. It is currently unclear who in ITC is accountable for the delivery of benefits. Business owners have not signed up to deliver quantifiable benefits attributable to their area of the business, and cannot say how benefits will be achieved or measured. Without a clear vision of benefits realization and clear accountability for delivery at the business unit level, there is a risk that potential benefits will be unnecessarily delayed or lost. Without clear and formally agreed plans specifying what business changes will be implemented, there is a risk that business owners or other stakeholders will resist or reject the changes needed to achieve benefits.

50. **The Board recommends that ITC clearly identify the objectives and envisaged benefits of the IPSAS project and develop a methodology to track and manage benefits realization.**

51. **The Board recommends that ITC enhance its organization-wide change management programme for IPSAS by specifying how senior management in each business unit must take ownership of and drive the delivery of the intended benefits during and after IPSAS implementation.**

52. ITC informed the Board that its senior management will be engaged in developing the benefits realization plans and will take ownership, but in the Centre's view, that can only be after the United Nations has developed its plans.

7. Results-based management/budgeting

53. Results-based management and budgeting is a process in which:

- Programmes are designed and initiated through a set of predetermined objectives and expected results
- Expected results are derived from and are linked to outputs
- Performance is measured by objectives and performance indicators, using a logical framework, in which expected results are defined so as to be specific, measurable, attainable, realistic and time-bound (SMART)

54. The goal of ITC is to promote sustainable human development and contribute to the achievement of the Millennium Development Goals in developing or transition countries by developing trade and enterprise through three main business lines:

- Assisting decision makers in integrating the private sector into the global economy
- Reinforcing the capacities of trade promotion institutions which provide support for businesses
- Improving the international competitiveness of businesses

55. Since the biennium 2008-2009, ITC has maintained eight indicators to assess results under these three lines. This involves measuring the number of: trade development strategies; national networks; improved negotiating positions; trade promotion institutions which have progressed; proposals submitted by the promotion institutions; and businesses which are able to formulate commercial strategies, are able to export or have met potential customers and then finalized contracts. All the indicators are quantified and associated with targets.

Design and implementation of new results-based indicators

56. The Board nevertheless noted in its previous report (A/65/5 (Vol. III) and Corr.1) that ITC merely measured the number of organizations or businesses concerned but did not attempt to assess the impacts on international trade. ITC agreed with the Board's recommendation to refine its indicators of achievement and associated targets with a view to better assessing the qualitative impact of its projects.

57. Currently the same eight indicators remain in use in ITC for the purpose of corporate level reporting of results to donors, partners, General Assembly and other stakeholders. However, ITC has shared with the Board its plans for a phased transition to reporting on revised indicators by 2014-2015 and incorporation of reporting on outcomes by 2015-2016. The proposals await endorsement by the main funders of ITC and United Nations stakeholders. The Board considers the main potential improvements in the proposed arrangements to be:

- Better coverage across the span of the work of ITC, from trade intelligence services through work with national trade bodies and governments, to its work with individual enterprises. As a result the new framework will for the first time include usage of ITC trade information services and the statistical data it provides on export markets
- Increased differentiation of business results by gender, reflecting international development goals for the advancement of women, which require structured reporting to many ITC stakeholders
- Development of an online results dashboard by early 2013 to enhance external reporting to key stakeholders such as donors
- Preparatory work to develop, and to populate with baselines by 2015-2016, indicators of project impacts, such as generation of exports, jobs supported and environmental sustainability

58. The Board notes key challenges that will need to be effectively managed if the Centre’s intent is to be largely achieved, and within limited resources (a direct budget for implementation of some $500,000). These include:

- **Managing the risks of perverse incentives.** Most of the ITC proposed key indicators track the number of institutions or entities reporting improvements through ITC help. There is an inherent risk that the pursuit of such targets could dissipate ITC resources across multiple marginal bodies rather than maximizing work in key institutions offering the greatest return on investment. This would run counter to the continuing efforts of ITC to focus its relatively small resources on priority programmes and less developed countries. Management has controls which should mitigate this risk, such as more robust challenge at programme inception (noted in sect. 10 below), but the risk remains current. Management considers that this risk will be significantly reduced as ITC rolls out new arrangements, currently under development, for country needs assessment and for integrated support to trade institutions and exporters.
- **Managing the risks of subjectivity and unclear attribution in responses.** Most indicators are self-reported by the entities assisted, and comprise statements that the entity achieved improvements as a result of the ITC input. Such standard indicators will not demonstrate the objectivity of these responses, establish how substantive the improvements were and how far they were secured through the work of ITC. Such issues normally require independent detailed evaluation. ITC has a policy requiring such evaluation.
- **Reducing inconsistency in data collection.** The Board noted previous problems with ITC collection of data for indicators, producing misleading or ambiguous trends. In 2010-2011, the Centre’s outturn indicators relating to businesses were at levels that were between 5 and 27 times those targeted. ITC confirmed to the Board that the results were heavily affected by changes in the interpretation of when improvements should be counted. In 2011 ITC produced guidance to improve consistency of practice in this area, and has initiated training on project design for project managers, but the same inherent risk applies to the new indicators.

- **Reducing inconsistency in data presentation.** The Board noted that the Centre's proposed indicators include a mix of presentations, some of which count the absolute number of entities reporting improvements, while others present only the increase in entities reporting improvements. While we understand that ITC is following United Nations Headquarters requirements, using different bases across a portfolio of measures can increase difficulty in interpretation. Recording only the increase leaves the reader unclear about the base above which an increase is achieved, and also implies that maintaining achievement at the past year's level (which is sometimes a deliberate ITC choice), represents nil achievement.

- **Moderating reporting burdens on partners in less developed countries.** Institutional and data system capacity in less developed countries is constrained, and it is a recognized principle in international development that donors and agencies should coordinate and harmonize their information requests. The challenge for ITC is to harmonize its new indicators effectively with those of other partners. ITC confirmed to the Board that this remains a key objective within their ongoing development of results-based management.

59. **The Board recommends that ITC: (a) when reporting its achievement indicators, provide accompanying commentary and data which illustrates the extent to which the number of entities reporting improvements attributable to ITC are located in priority or less developed countries; (b) integrate its selected performance indicators with published synthesis reporting of its periodic detailed evaluation of programmes, to provide deeper insight and assurance on the existence of improvements and their attribution to ITC input; and (c) reduce the inconsistency and variation in the reported achievement indicators by producing detailed data definitions and guidance notes as soon as possible after the agreement of the indicators and well before 1 January 2014.**

60. **The Board also recommends that ITC consult with its stakeholders and other trade promotion agencies to ensure harmonization of reporting, and that the burdens implied by its own requirements are sustainable.**

Linking costs to results

61. In its previous report, the Board noted the absence in ITC performance reporting of a clear link between achievements and the resources allocated. Underachievement did not entail consequences in terms of the reallocation of funds and no comparison was made between financial and programming data. This in part reflected the lack of interface between the underlying data systems. The Board previously recommended that ITC consider ways of creating links between budgetary resources and results. Management has informed the Board of its first step in that direction in operational planning for 2012, through the introduction of a percentage penalty to be applied when operational divisions rephrase their extrabudgetary resources.

62. The current ITC enterprise resource planning system dates from the early 1990s and does not effectively link the outputs, outcomes and impact of the organization's work to the expenditure of resources. ITC existing systems report costs mainly on accounting lines (e.g. staff, consultants or accommodation), or as divisional cost totals. The Board notes the dependence of ITC on the development of

the new United Nations enterprise resource planning system to enable it to link costs to results.

63. The Board notes that ITC has prioritized work on results rather than cost capture in 2011-2012, although there has been some work to begin to capture costs through new ways of working, such as manual cost collection templates, pending the delivery of the new United Nations enterprise resource planning system. ITC Management informed the Board that it intends to establish a cost-to-results link for 10 to 20 per cent of its portfolio by the end of 2012. In this context, the Board sees the main challenges and uncertainties for ITC as:

- Establishing systems to capture central overhead costs, such as information technology, procurement or legal services, and reallocate these where applicable to specific projects and programmes. ITC intends to prioritize this in 2013.

- Enhancing its capacity to capture staff costs and apportion these accurately to different projects and programmes. The Board notes that ITC, though, effectively a consultancy business with over 80 per cent of its costs representing human resources, lacks a staff time recording system to underpin this. The Board understands that the plan is for the United Nations enterprise resource planning project to deliver a time-recording module.

64. Informed judgements on cost-effectiveness are key to the success of ITC, as a small organization fielding multiple calls on its resources from well over 100 countries, and having to make difficult decisions on resource allocation in consultation with donors.

65. **The Board reiterates its recommendation to establish a link between achievements and the resources allocated and to use data on underachievement to inform the reallocation of funds.**

66. **The Board recommends that ITC engage with the implementation team of the United Nations enterprise resource planning project (Umoja) to secure the adoption of human resources time capture.**

8. Project initiation

Background

67. The Board examined the ITC approach to project initiation as part of its audit of management issues for the biennium 2010-2011 under United Nations financial regulation 7.5.

68. The Board has concluded from its work that the ITC project design approach reflects the incorporation of good professional practice and that the introduction of the quality assurance and related project initiation processes has increased the maturity of ITC project management. Annex II sets out the key criteria used by the Board, based on professionally recognized good practice and our assessment of ITC practices. The Board's recommendations which follow are designed to build on and enhance the improvements made thus far.

69. In July 2009, ITC senior management approved new project design arrangements aimed at improving the quality and consistency of new project proposals. Central to the new arrangements is an in-house peer review mechanism,

to achieve quality assurance in the documentation produced during the project design before it is presented for approval by management. ITC envisages that better project design will lead to more effective and efficient project planning, implementation, progress monitoring and evaluation, as well as improved alignment with ITC strategic objectives and United Nations procurement rules.

70. ITC projects are generally not major capital projects. None exceed $10 million and most cost under $3 million. The main expenditures are on individual contractors, ITC staff, travel and training. Although not large, projects have complexities and risks: the five reviewed by the Board involved multiple participants in public and private sectors, dispersed geographic locations, multiple languages and diverse cultures and business practices.

71. Although ITC project managers travel frequently to beneficiary countries, much of their role is performed at a distance, from Geneva. This demands high-quality project design and in-house expert scrutiny early in the project life cycle. Mistakes or inadequate detail in project design phases would lead to ill-conceived plans and ambiguous roles and responsibilities, making remote work more difficult, and increasing the risk of cost and time overruns and missed objectives.

Establishing consistent project initiation and quality assurance

72. The Board noted that, although ITC procedures draw on recognized industry practice, it has not adopted a recognized project management standard or code in use in the private and public sectors, such as PRINCE2 or Project Management Institute statements of practice, for the whole life cycle management of its projects. The Board considers that adoption of a recognized project management standard or code would provide a proven pathway for future enhancements in project management, more commonality of approach and understanding across ITC and with outside project management practitioners, and greater access to off-the-shelf training for project managers and peer reviewers.

73. **The Board recommends that ITC consider the case for moving to a recognized project management code or standard within three years.**

74. Without a recognized project management methodology ITC runs a greater risk of inconsistent review coverage. In-house peer reviewers have recourse to basic guidance on what should be included in each component of a project submission. However, when using this template, the reviewers draw primarily on their individual experience or frames of reference when conducting scrutiny. Standardization with a recognized code would facilitate consistent classification of ITC projects according to prescribed risk and complexity criteria. Smaller or less complex projects might therefore warrant a “lighter touch” during their passage through the peer review process.

75. The scope of peer review is limited to project initiation and therefore fulfils its stated remit. The Board notes, however, that the Office of Internal Oversight Services review of ITC work identified issues with post-design changes to key project parameters, including budget, scope, activities; without evident review and approval for those changes. The Board considers that this indicates limitations with ITC project change procedures and a case for peer review or other change review involvement.

76. **The Board recommends that ITC scrutinize any significant changes in projects' key project management documentation (such as alterations to budgets, scope and outputs) during the "implementation-monitoring phase" through evidenced review by at least one member of senior management, quality reviewers or a project sponsor.**

Strengthening management accountability

77. It is recognized good practice in project management to define separate roles for the project manager and for a project sponsor. The sponsor is usually an executive in an organization (usually below board level) who is made responsible to the business for the success of the project and who has sufficient authority and time to support it. In practice, the sponsor will champion the project, help to remove barriers to its successful implementation, such as insufficient resources, keeping an overview but not becoming immersed in its day-to-day management, which remains the responsibility of the project manager. Sponsors are often better placed to assess longer-term outcomes from projects, as opposed to the immediate outputs and deliverables on which project managers tend to focus. The level of the manager acting as sponsor should vary according to the scale, risk and complexity of the project. Where possible it should be aligned with and reinforce existing management responsibilities and accountabilities.

78. **The Board recommends that ITC define a specific project sponsor role in its project management process and for each project responsible for confirming that: (a) sufficient staff and financial resources are in place to deliver the project; (b) arrangements are in place to manage interdependencies between projects in multi-project programmes; and (c) appropriate arrangements are in place to track project outcomes in terms of the achieved effects on beneficiaries, beyond the actual delivery of the project.**

Enhancing assurance on project deliverability

79. The Board found that documentation on projects' justification, purposes and context was much more extensive than that covering the practicalities and risks of delivery. In general, activity planning was at a summary level, with project schedules represented by high-level Gantt (time bar) charts. Linkages and dependencies between activities were not shown in the Gantt charts. While this summary level of detail might adequately define a project, it would likely be insufficient to control the project work over time. More detailed plans would provide reviewers and management with additional assurance that a project will proceed to approved time, cost and specification.

80. **The Board recommends that ITC, with immediate effect, require both peer reviewers and senior management to seek evidence of detailed planning for at least the early phases of work following initiation.**

81. ITC project plans (and logical frameworks) tended to focus on the approach and outputs for delivering changes and solutions to beneficiaries. More generally we noted that less depth was evident in the narratives relating to how projects were to be monitored, managed and governed, and the project management reports to be produced, reviewed and approved during the implementation-monitoring phase in order to track project progress. A checklist, for example, would enhance consistency between reviews and clarify what planning, reporting, control and specification

documentation is to be produced, reviewed and agreed by ITC and participants over the project life cycle. The associated indicators would additionally align participants to the overall time, cost and quality objectives of the project.

82. **The Board recommends that ITC define for each project at the initiation stage its detailed project management processes and outputs, including the project progress reports that will be used to track progress against milestones in terms of:**

(a) **The detailed project management activities to be completed;**

(b) **Measures of earned value or outputs;**

(c) **Actual and anticipated expenditure.**

Assessing and managing project risks

83. The potential financial and time implications of project risk and uncertainty was not strongly evident in the project plans and budgets inspected. Risks were clearly set out in business cases, but specific plans for mitigation were often absent. It was unclear from project initiation documents whether risk mitigation responses had been incorporated into the project strategy and workplan by the project manager. Improvement in future plans may be achieved with the Centre’s recent introduction of an improved risk management plan format, which has fields for risk probability and impact.

84. **The Board recommends that ITC project managers and Quality Assurance Group reviewers specifically consider whether: (a) risk has been adequately assessed, including whether its impact has been quantified in monetary terms (where the risk has a financial consequence); (b) how far identified risks are addressed by mitigation/contingency arrangements; and (c) allocated clear responsibility and accountability for managing the identified risk.**

D. Disclosures by management

1. Write-off of losses of cash, receivables and property

85. ITC informed the Board that it had formally written off receivables of $56,000 (compared with $24,000 in the previous biennium), related to long-outstanding staff and travel advances that were no longer recoverable ($40,000) and irrecoverable travel costs of ITC technical experts to a meeting in 2007 ($16,000). ITC also wrote off non-expendable property valued at $3,000 (2008-2009: $2,000) related to non-expendable items lost during the biennium.

2. Ex gratia payments

86. ITC has reported no ex gratia payments for the biennium 2010-2011. None were identified through our audit work.

3. Cases of fraud and presumptive fraud

87. ITC has reported no cases of fraud or presumptive fraud for the biennium 2010-2011. None were identified through our audit work.

E. Acknowledgement

88. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director, the Director for Programme Support, and members of their staff.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

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

30 June 2012

Annex I

Analysis of the status of implementation of the Board's recommendations for the biennium ended 31 December 2009

Summary of recommendation	*Paragraph*	*Financial period first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
Analyse the impact of applying IPSAS to its administrative and financial procedures.	22	2008-2009		X		
In the review of the budgetary process required by the Committee on Budget, Finances and Administration of WTO, it highlights the principle of equal sharing of the regular budget in the event that one parent organization approves a lower amount.	29	2008-2009	X			
Examine any deficiencies in the end-of-year automated processing of IMIS which have led to invalid obligations remaining in the financial statements.	38	2008-2009	X			
Pursue its efforts to increase the level of operating reserve until the prescribed level is reached.	41	2004-2005		X		
Review its policy for the valuation of leave liability in its implementation of IPSAS.	63	2008-2009			X	
Develop a funding plan for the end-of-service liabilities for the consideration of and approval by the General Assembly and the General Council of WTO.	67	2006-2007			X	
To refine its indicators of achievement and associated targets with a view to better assessing the qualitative impact of its projects.	76	2008-2009		X		
Consider ways of creating links between budgetary resources and results.	78	2008-2009		X		
(a) Field inventory records are correctly managed and updated; and (b) non-expendable property relating to projects completed in the field has been removed from field inventory and entrusted to other users or disposed of, if appropriate.	85	2008-2009	X			
Total			**3**	**4**	**2**	**0**
Percentage share of total			**33**	**44**	**22**	**0**

Annex II

International Trade Centre project management process assessed against good practice principles

Project management good practice principles	*Project Quality Assurance Group process — main areas of compliance in ITC*
The project should have a business case	Project plan, sections 1. Background and context, 2. Rationale, and 6. Budget
The project should be managed against succinct time, cost and quality objectives (progress and the success of the project should thereafter be judged against these objectives, as well as the business case)	Project plan, annex I, Logical framework “indicators” and annex II, Workplan
Project progress should be reported against an agreed milestone schedule	Project plan, template section 7 M and E, and annex IV, Monitoring plan
Work should be controlled through a work breakdown structure	Project plan, annex I, Logical framework “indicators” and annex II, Workplan
The project life cycle should be broken down into stages to aid progress monitoring	Project plan, section 3, Strategy, annex II, Workplan, and annex IV, Monitoring plan
Procedures should exist for managing risks and problems (including options for their escalation to identified managers)	Project plan, section 3, Strategy, annex II, Workplan, annex IV, Monitoring plan and annex V, Risk management plan
Deliverables should meet quality criteria before being accepted into use	Project plan, annex I, Logical framework “indicators”
The process of managing the project should itself be subject to defined standards and quality criteria	Project plan, section 3, Strategy, section 5, Organization and management, annex I, Logical framework “indicators”
	Service level agreements established in the context of certain projects
	“Role of project manager” paper
	“Role of the country manager” document
Requests for project changes should be formally managed	Project plan, section 3, Strategy, section 5, Organization and management, annex I, Logical framework “indicators”

Project management good practice principles	*Project Quality Assurance Group process — main areas of compliance in ITC*
The reviews and approvals of project deliverables should be defined	The three-step Project Quality Assurance Group process
	Project plan, section 3, Strategy, section 5, Organization and management, annex I, Logical framework "indicators"
Project managers should report to a project sponsor who owns the project's business case and is ultimately accountable for the project success or failure	Project plan, section 3, Strategy, section 5, Organization and management, annex VI, Communication plan

Chapter III
Certification of the financial statements

The financial statements of the International Trade Centre for the biennium ended 31 December 2011 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 as notes to the financial statements. The notes provide additional information on and clarification of the financial activities undertaken by the Centre during the period covered by the statements, for which the Secretary-General has administrative responsibility.

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

(*Signed*) Maria Eugenia **Casar**
Assistant Secretary-General, Controller

29 March 2012

Chapter IV
Financial report for the biennium ended 31 December 2011

A. Introduction

1. The International Trade Centre (ITC) is a 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 private sector, trade support institution 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, and is responsible for the implementation of subprogramme 6, Operational aspects of trade promotion and export development, of programme 10, Trade and development, of the strategic framework for the period 2010-2011. During the biennium 2010-2011, the programme maintained a strong focus on clients served by ITC and worked towards achieving the principal goals established in the 2009-2012 strategic plan, as approved in December 2009 at the forty-third meeting of the Joint Advisory Group: (a) strengthen the integration of the business sector into the global economy through enhanced support to policymakers; (b) increase the capacity of trade support institutions to support businesses; and (c) strengthen the international competitiveness of enterprises through ITC training and support.

2. In terms of the organization's programme delivery responses for the biennium 2010-2011, ITC focused its efforts on six main areas: (a) contributing to sustainable development by targeting the Millennium Development Goals; (b) focusing on the needs of least developed countries, landlocked developing countries, small island developing States and sub-Saharan Africa, the priority to which ITC continued its commitment to devote at least 50 per cent of its extrabudgetary resources; (c) export capacity-building through integrated country solutions; (d) regionally structured solutions; (e) global public goods for globally accessed solutions; and (f) focus on outputs and impact. A key factor in the strategy of ITC has been the continuous refinement of its tools and methodologies to ensure that the technical assistance provided is constantly aligned with the rapidly evolving needs of the world trading system. The second key factor has been the implementation of a quality assurance system to ensure the measurement and improvement of the project management system. In line with our commitments in the strategic framework for 2010-2011, priority was placed on ensuring high quality at the design phase of project and services, on the basis of the understanding that good project design leads to easier and improved implementation and in turn to a greater chance of achieving the required outputs and impacts. In order to support its delivery responses, ITC focused on five internal organizational areas, as follows:

(a) Leveraging more resources, with the implementation of the following three complementary tracks in resource mobilization: (i) securing the current flow of extrabudgetary resources with traditional donors, in view of the current economic crisis and the difficulties faced by several traditional donor governments; (ii) mobilizing resources to expand activities in regions where ITC has no significant funding, such as the Pacific area, where Australia announced a three-year contribution for ITC during the December 2011 WTO Ministerial Conference in Geneva; and (iii) tailoring approach to the specific requirements of emerging donors. In this context, talks have been progressing with China and Turkey. It is expected that an overall resource-mobilization strategy will be developed during the next biennium to face such a fast-changing environment. In spite of the difficult economic environment, ITC managed to extend its extrabudgetary annual expenditure to $47.8 million during 2011, exceeding its initial commitment to increase it to $40 million by 2013;

(b) Upgrading financial management. With continuing efforts to implement measures for IPSAS and the new enterprise resource planning project readiness, ITC improved monthly financial reporting to management, which have resulted in more efficient management of extrabudgetary resources, and better cash-flow forecasting to enhance resource planning and availability;

(c) Investing in people, with improved human resources monitoring and reporting, strong focus on achieving the goals laid out in the ITC people strategy, including the launch of a recruitment monitoring tool, a new staff selection system aligned to the United Nations Staff Rules and Regulations, the roll out of a learning and development strategy and the establishment of an ITC Learning Advisory Board, as well as continued efforts to support ITC business delivery with the streamline of administrative processes;

(d) Improving communications, with the launching of a new ITC website with a client-focused architecture, the purchase of a platform for ITC customer relationship management to improve client service and information-sharing across the organization;

(e) A more effective organization, with continuous efforts to learn from experience with work carried out to produce a good practices platform and the launching of a pilot for a corporate e-learning platform, which is expected to contribute to more efficient delivery of ITC programmes in the field.

3. Key results of this continuous improvement process have included the increase of the Centre’s impact on the poorest and most vulnerable countries (least developed countries, landlocked developed countries and small island developing States), with a delivery level of 55 per cent of its technical assistance in 2011, high rates of satisfaction of beneficiaries, with more than three quarters of the respondents to a 2011 survey indicating that the quality of ITC projects and services had evolved positively over the past three years, the increase of the level of oversight over the project design phase through a project quality assurance system, the training of 80 ITC project managers on results-based management principles, and generally moving towards embedding results-based management at all levels of its reporting structure. A critical development at the end of the biennium 2010-2011 was the preparation of the four-year strategic plan for 2012-2015 and a new ITC corporate logical framework for the biennium 2014-2015, which will be submitted for approval in May 2012 at the forty-sixth meeting of the Joint Advisory Group. The key features of the new framework are threefold: (a) it initiates a gradual move from outcome to impact measurement; (b) it integrates “gender”, “inclusiveness” and “sustainability” into project reporting; and (c) it embeds a significant gender-mainstreaming ambition by committing to monitor on a gender-basis a significant number of its outcomes and impact indicators.

4. The trade environment has continued to go through waves during the biennium 2010-2011. In spite of world trade having rebounded strongly in 2010, major markets have remained burdened by persistent high unemployment, unsustainable levels of sovereign debt and fiscal unbalances, with the associated risk of another global economic recession. Least developed countries and other vulnerable economies still struggle to compete internationally with undiversified export portfolios. The instability and uncertainty about world economic prospects directly affect demands for exports and development cooperation aid and are therefore detrimental to small and medium-sized enterprises in developing and transition-economy countries. They are also lagging behind in the innovative globalization means implemented by the private sector within the context of fragmentation of production processes and globalization of value chains. The Doha Round of trade negotiations at WTO is yet to be concluded and its fate is uncertain, although WTO remains the principal forum in which developing and transition-economy countries have the bargaining power to negotiate and enforce commitments and rules governing international trade for the ultimate benefit of their respective private sectors. Developing and transition-economy countries, however, face increasing challenges with the decrease in tariff barriers being increasingly replaced by a number of non-tariff requirements, to which small and medium-sized enterprises must comply in order to achieve export success. The ITC response to these challenges is aligned to five strategic axes, namely: building awareness; strengthening trade support institutions; enhancing policies; supporting enterprises; and mainstreaming inclusiveness and sustainability.

5. ITC realizes that achieving commercial development of productive sectors of an economy while focusing on social inclusion, reduced environmental impact and equitably benefiting small and medium-sized enterprises, youth and poor communities, as well as promoting gender parity, can only be the result of an inclusive approach and the development of durable partnerships. Examples of this approach in the biennium 2010-2011 have been the continued partnership with three African regional economic communities, namely the Common Market for Eastern and Southern Africa, the Economic Community of West African States, and the Economic Community of Central African States, to foster alliances between different sectors for trade development and promotion; and alliances with the International Organization of la Francophonie, UNDP, and the International Organization for Standardization. ITC also engaged significantly with the United Nations Chief Executives Board cluster on Trade and Productive Capacities, the Enhanced Integrated Framework and the “Delivering as one” process. It also worked with the World Bank, UNCTAD and the African Development Bank to produce global public goods and services, and it continued to improve access to trade information services through a partnership with the Dutch Centre for the Promotion of Imports from Developing Countries. Finally, ITC has entered into numerous partnerships bringing together buyers, development agencies and producers, as well as with actors in the supply side of the value chain, particularly in agrifood sectors.

6. During the biennium 2010-2011, ITC developed activities according to its mandate focusing on trade information and export promotion solutions. The continued efforts of ITC to increase its impact on the poorest and most vulnerable countries is evidenced by the fact that 55 per cent of delivery of its technical assistance in 2011 went to least developed countries, landlocked developing countries and small island developing States, as a result of which policymakers in

sub-Saharan Africa expressed 83 per cent satisfaction regarding ITC support. ITC has also considerably increased the oversight over the quality of projects and its efforts in terms of training ITC staff in results-based management. In 2011, 64 per cent of ITC project value was fully compliant with results-based management. This probably explains why 68 per cent of trade support institutions that have benefited from an ITC project/training positively rate the Centre's performance in supporting their organizations to improve their services over the past three years (2009-2011) and why 72 per cent of enterprises consider that the quality of ITC products and services evolved positively over the past three years (2009-2011). During the biennium, ITC has made considerable efforts in terms of building awareness and disseminating knowledge, through enhanced monitoring with a view towards increased transparency. As a result, it achieved a 98 per cent rate of delivery of its mandated outputs (including technical cooperation outputs), representing about 10 per cent of the total of the outputs of the United Nations Secretariat, which is a higher proportion than the relative size of ITC within the Secretariat. Finally, the organization has focused on ensuring inclusiveness in trade information and export promotion technical assistance activities. For example, women account for 44 per cent of the participants in ITC training courses and seminars. This represents 8,056 women, or 16 per cent of the total number of women trained by the United Nations Secretariat.

7. The forty-fifth annual meeting of the ITC Joint Advisory Group on ITC, held on 30 June and 1 July 2011, brought together 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 2011 Joint Advisory Group meeting, ITC was commended on its technical assistance programmes and its progress in implementing results-based management. Delegates also said that ITC was on track in establishing a strategic approach to project design and delivery and was commended for its ongoing efforts in delivering high-quality demand-driven programming. Delegates applauded the Centre's increased focus on delivery to the most vulnerable countries — least developed countries, landlocked developing countries, small island developing States and the sub-Saharan African States. The impact of the Arab Spring on the work of ITC was discussed and delegates expressed their belief that the changes would make the work of the agency even more important in helping the countries to rebuild their economies. Many countries emphasized the continuing importance of the work of ITC in mainstreaming gender into its activities at headquarters and in the field, and welcomed the launch of the Women and Trade programme, which for some donors was a key element in the work programmes of ITC. The next biennium begins with a view to further improving results-based management reporting and extending results-based management training on all aspects of the project management cycle, including evaluation, as well as with a focus on quality of delivery versus increase of resources, with a firm commitment to having a positive impact on exports and contributing to the achievement of the Millennium Development Goals.

B. Overview

8. 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

9. More than half of the Centre's activities are financed by extrabudgetary funds and the remainder are financed by the regular budget. Under the administrative and budgetary arrangements between the United Nations and WTO that were 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.

10. Total resources expended, by source of funds, during the biennium ended 31 December 2011, compared with the previous biennium, were as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*	*Increase (decrease)*
Regular budget	72 103	62 024	10 079
Technical cooperation activities[a]	85 597	64 579	21 018
Programme support costs	7 573	7 095	478
Revolving funds and other funds	2 382	3 957	(1 575)
End-of-service and post-retirement liabilities	222	190	32
All funds eliminations	(10 108)	(8 392)	(1 716)
Total expenditure	**157 769**	**129 453**	**28 316**

[a] Includes activities carried out under the integrated framework where UNDP acts as trust fund manager on behalf of the integrated framework. It also includes projects funded under the "Delivering as one" initiative.

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.

11. Compared with the biennium ended 31 December 2009, the Centre's regular budget expenditure overall increased by $10.1 million to $72.1 million, owing mainly to the higher costs of the approved posts, establishment of new posts, inflation and exchange rate fluctuations.

12. Technical cooperation expenditure amounted to $38.7 million in 2010 and $46.9 million in 2011, totalling $85.6 million for the biennium 2010-2011. This represents a 32 per cent increase compared to total technical cooperation expenditure of $64.6 million for the biennium 2008-2009. This increase resulted mainly from exchange rate movements and higher spending resulting from implementing a greater number of large programmes.

Assets, liabilities and reserves and fund balances

13. The Centre's share of the United Nations offices away from Headquarters cash pool totalled $56,081,000 as at 31 December 2011, and comprised cash and term deposits of $6,374,000, short-term investments of $16,017,000, long-term investments of $33,553,000 and accrued interest receivable of $137,000. Of that amount, $42,565,000 pertains to technical cooperation activities.

14. The Centre's accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits and unused vacation days. All three liabilities were determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm. The Centre's accrued liability for after-service health insurance, repatriation benefits and unused vacation days as of 31 December 2011 were estimated at $54,839,000, $3,496,000 and $1,781,000, respectively, totalling $60,116,000. This represents an increase of $18,547,000, compared to the total of $41,569,000 as at 31 December 2009, explained primarily by the use of a lower discount rate by the actuary from 6 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011.

15. The Centre's general fund balance of $695,000 as at 1 January 2010 was refunded equally to the United Nations and WTO in 2011. Contributions of $72,823,000 received from the United Nations and WTO, investment income of $143,000 and miscellaneous income of $536,000 resulted in total funds available of $73,502,000 for the biennium 2010-2011. Expenditure, including unliquidated obligations of $2,852,000, amounted to $72,103,000, and the prior-period adjustments amounted to $36,000. Taking into account the above, as well as the cancellation of prior-period obligations of $428,000, the balance of the general fund as at 31 December 2011 was $1,791,000.

16. The consolidated reserves and fund balances show a cumulative deficit of $10,629,000 as at 31 December 2011 as the end-of-service and post-retirement benefits of $60,116,000 recognized on the basis of actuarial valuation were not funded. Whereas the "pay-as-you-go" principle is currently applied towards the end-of-service and post-retirement benefits, the General Assembly, in its resolution 64/241, requested the Secretary-General to submit to it at its sixty-seventh session a report on managing after-service health insurance liabilities.

Annex

Supplementary information

1. The present annex includes the information that the Secretary-General is required to provide.

Write-off of losses of cash and receivables

2. In accordance with financial rule 106.8, receivables of $56,027 were written off during the biennium 2010-2011.

Write-off of losses of property

3. In accordance with financial rule 106.9, a loss of property amounting to $3,114 was written off during the biennium 2010-2011.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2010-2011.

Chapter V
Financial statements for the biennium ended 31 December 2011

Statement I

International Trade Centre

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2011[a]

(Thousands of United States dollars)

	General fund	*Technical cooperation activities*[b]	*Programme support costs*	*Revolving funds and other funds*	*End-of-service and post-retirement liabilities*	*All funds eliminations*[c]	*Total 2011*	*Total 2009*[d]
Income								
Assessed contributions[e]								
World Trade Organization	36 565	–	–	–	–	–	36 565	30 824
United Nations	36 258	–	–	–	–	–	36 258	30 813
Voluntary contributions	–	80 046	–	–	–	–	80 046	72 767
Funds received under inter-organizational arrangements	–	3 701	–	–	–	–	3 701	2 916
Income for services rendered	–	–	9 345	1 005	–	(9 469)	881	943
Interest income	143	1 418	118	72	32	–	1 783	2 479
Other/miscellaneous	536	143	8	–	663	(639)	711	828
Total income	**73 502**	**85 308**	**9 471**	**1 077**	**695**	**(10 108)**	**159 945**	**141 570**
Expenditure								
Staff and other personnel costs	57 792	54 567	6 622	1 660	222	(639)	120 224	100 515
Travel	703	3 212	–	26	–	–	3 941	2 660
Contractual services	2 876	8 224	91	31	–	–	11 222	7 119
Operating expenses	6 303	1 633	21	66	–	(20)	8 003	7 113
Acquisitions	1 615	1 015	–	229	–	(52)	2 807	2 527
Other	2 814	7 875	839	96	–	(52)	11 572	9 519
Total direct expenditure	**72 103**	**76 526**	**7 573**	**2 108**	**222**	**(763)**	**157 769**	**129 453**
Programme support costs	–	9 071	–	274	–	(9 345)	–	–
Total expenditure	**72 103**	**85 597**	**7 573**	**2 382**	**222**	**(10 108)**	**157 769**	**129 453**
Excess (shortfall) of income over expenditure	**1 399**	**(289)**	**1 898**	**(1 305)**	**473**	**–**	**2 176**	**12 117**

	General fund	Technical cooperation activities[b]	Programme support costs	Revolving funds and other funds	End-of-service and post-retirement liabilities	All funds eliminations[c]	Total 2011	Total 2009[d]
Non-budgeted accrued income (expenses) for end-of-service and post-retirement benefits[f]	–	–	–	–	(18 547)	–	(18 547)	17 419
Prior-period adjustments	(36)	90	(2)	–	–	–	52	158
Net excess (shortfall) of income over expenditure	**1 363**	**(199)**	**1 896**	**(1 305)**	**(18 074)**	**–**	**(16 319)**	**29 694**
Cancellation of prior-period obligations	428	–	24	–	–	–	452	480
Transfers (to) from other funds	–	(1 126)	(15)	1 141	–	–	–	–
Refund to donors	(695)	(2 047)	–	–	–	–	(2 742)	(2 026)
Other adjustments to reserves and fund balances	–	72	–	(72)	–	–	–	–
Reserves and fund balances, beginning of period	695	43 106	2 801	2 225	(40 847)	–	7 980	(20 168)
Reserves and fund balances, end of period	**1 791**	**39 806**	**4 706**	**1 989**	**(58 921)**	**–**	**(10 629)**	**7 980**

[a] See note 2.
[b] Includes projects financed by the United Nations Development Programme (UNDP).
[c] See note 2 (i).
[d] Comparative figures have been restated to conform to the current presentation.
[e] See note 3 (a).
[f] Represents net increase in accrued liabilities for after-service health insurance costs of $17,695,000, for repatriation benefits of $712,000, and for unused vacation days of $140,000; see note 9.

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

Schedule 1.1
International Trade Centre

Schedule of voluntary contributions received for technical cooperation activities for the biennium ended 31 December 2011

(Thousands of United States dollars)

	2010	*2011*	*Total 2010-2011*	*Total 2008-2009*
Government				
Australia	–	–	–	261
Belgium-Flemish Government	–	–	–	1 212
Brazil	–	–	–	1 344
Cambodia	39	–	39	30
Canada	7 111	7 969	15 080	13 389
China	90	100	190	350
Denmark	2 297	2 459	4 756	5 028
Egypt	–	–	–	130
Finland	2 323	3 000	5 323	3 573
France	323	210	533	1 172
Germany	2 864	3 217	6 081	6 493
India	–	–	–	120
Ireland	1 110	1 284	2 394	3 060
Italy	140	–	140	150
Japan	226	107	333	66
Mali	97	–	97	220
Mauritius	–	–	–	201
Mexico	–	–	–	60
Netherlands	–	1 182	1 182	8 288
New Zealand	596	391	987	339
Norway	2 465	2 754	5 219	7 533
Romania	–	–	–	134
South Africa	136	142	278	–
Spain	–	–	–	585
Sudan	47	–	47	–
Sweden	4 248	4 543	8 791	7 371
Switzerland	2 716	4 382	7 098	4 769
United Kingdom of Great Britain and Northern Ireland	3 465	3 255	6 720	596
United States of America	45	63	108	111
Subtotal	**30 338**	**35 058**	**65 396**	**66 585**
Other Government and multilateral organizations				
Centre for Investment Promotion and Export Development	47	104	151	–

	2010	*2011*	*Total 2010-2011*	*Total 2008-2009*
Commonwealth Secretariat	–	–	–	56
European Commission	5 937	6 471	12 408	3 287
International Labour Office	5	–	5	41
International Organization of la Francophonie	161	86	247	359
Islamic Development Bank	–	–	–	287
Syrian Enterprise and Business Center	–	–	–	57
UNIDO	–	775	775	370
World Bank	740	–	740	1 500
World Trade Organization	55	32	87	56
Subtotal	**6 945**	**7 468**	**14 413**	**6 013**
Public donations				
African Management Services Company	217	–	217	–
Integration International Management Consultants	–	–	–	119
International Institute for Trade and Development	–	–	–	50
Malaysian Herbal Corporation	20	–	20	–
Subtotal	**237**	**–**	**237**	**169**
Total	**37 520**	**42 526**	**80 046**	**72 767**

Statement II

International Trade Centre

Statement of assets, liabilities and reserves and fund balances as at 31 December 2011[a]

(Thousands of United States dollars)

	General fund	*Technical cooperation activities[b]*	*Programme support costs*	*Revolving funds and other funds*	*End-of-service and post-retirement liabilities[c]*	*All funds eliminations[d]*	*Total 2011*	*Total 2009[e]*
Assets								
Cash and term deposits	–	5	–	–	–	–	5	9
Offices away from Headquarters cash pool[f]	5 379	42 565	4 711	2 101	1 325	–	56 081	55 417
Inter-fund balances receivable	57	1 242	50	–	14	(1 363)	–	–
Receivable from funding sources	–	1 019	–	–	–	–	1 019	1 072
Other accounts receivable	590	868	48	–	–	–	1 506	1 515
Deferred charges	6 463	1 672	16	139	–	–	8 290	4 069
Total assets	**12 489**	**47 371**	**4 825**	**2 240**	**1 339**	**(1 363)**	**66 901**	**62 082**
Liabilities								
Unliquidated obligations — prior period	–	84	–	–	–	–	84	334
Unliquidated obligations — current period	2 852	4 321	64	88	–	–	7 325	7 332
Unliquidated obligations — future periods	6 190	1 467	–	139	–	–	7 796	3 613
Inter-fund balances payable	–	1 419	–	8	–	(1 427)	–	–
Other accounts payable	109	274	55	16	144	64	662	1 254
Deferred income	1 547	–	–	–	–	–	1 547	–
End-of-service and post-retirement liabilities[g]	–	–	–	–	60 116	–	60 116	41 569
Total liabilities	**10 698**	**7 565**	**119**	**251**	**60 260**	**(1 363)**	**77 530**	**54 102**

	General fund	*Technical cooperation activities*[b]	*Programme support costs*	*Revolving funds and other funds*	*End-of-service and post-retirement liabilities*[c]	*All funds eliminations*[d]	*Total 2011*	*Total 2009*[e]
Reserves and fund balances								
Operating reserves	–	4 261[h]	1 008	–	–	–	5 269	3 656
Balances related to projects funded by donors	–	35 545	–	–	–	–	35 545	40 217
Cumulative surplus (deficit)	1 791	–	3 698	1 989	(58 921)	–	(51 443)	(35 893)
Total reserves and fund balances	**1 791**	**39 806**	**4 706**	**1 989**	**(58 921)**	**–**	**(10 629)**	**7 980**
Total liabilities, reserves and fund balances	**12 489**	**47 371**	**4 825**	**2 240**	**1 339**	**(1 363)**	**66 901**	**62 082**

[a] See note 2.
[b] Includes projects financed by UNDP.
[c] See note 9.
[d] See note 2 (i).
[e] Comparative figures have been restated to conform to current presentation. Future year commitments in respect of technical cooperation staff are no longer included as part of the “Deferred charges” and “Unliquidated obligations — future periods” lines.
[f] Represents share of the United Nations offices away from Headquarters cash pool and comprises cash and term deposits of $6,373,785, short-term investments of $16,017,507 (market value $16,047,131), long-term investments of $33,552,624 (market value $33,609,464) and accrued interest receivable of $137,109. See note 8.
[g] Represents accrued liabilities as at 31 December 2011 for after-service health insurance costs of $54,839,000, for repatriation benefits of $3,496,000 and for unused vacation days of $1,781,000. See note 9.
[h] See note 4 (b).

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

Statement III
International Trade Centre

Statement of cash flows for the biennium ended 31 December 2011[a]

(Thousands of United States dollars)

	General fund	*Technical cooperation activities[b]*	*Programme support costs*	*Revolving funds and other funds*	*End-of-service and post-retirement liabilities[c]*	*All funds eliminations[d]*	*Total 2011*	*Total 2009[e]*
Cash flows from operating activities								
Net excess (shortfall) of income over expenditure (statement I)	1 363	(199)	1 896	(1 305)	(18 074)	–	(16 319)	29 694
(Increase) decrease in inter-fund balances receivable	(57)	(533)	(50)	–	87	553	–	–
(Increase) decrease in receivable from funding sources	–	53	–	–	–	–	53	(452)
(Increase) decrease in other accounts receivable	(41)	82	(32)	–	–	–	9	169
(Increase) decrease in other assets	(3 505)	(796)	(10)	90	–	–	(4 221)	3 471
Increase (decrease) in unliquidated obligations	3 425	778	(83)	(194)	–	–	3 926	(4 129)
Increase (decrease) in payables due to funding sources	–	–	–	–	–	–	–	–
Increase (decrease) in inter-fund balances payable	–	(8)	(4)	(56)	–	68	–	–
Increase (decrease) in other accounts payable	1 538	66	(13)	16	(31)	(621)	955	696
Increase (decrease) in end-of-service and post-retirement liabilities	–	–	–	–	18 547	–	18 547	(17 419)
Less: interest income	(143)	(1 418)	(118)	(72)	(32)	–	(1 783)	(2 535)
Net cash flows from operating activities	**2 580**	**(1 975)**	**1 586**	**(1 521)**	**497**	**–**	**1 167**	**9 495**
Cash flows from investing activities								
Interest income	143	1 418	118	72	32	–	1 783	2 535
Net cash flows from investing activities	**143**	**1 418**	**118**	**72**	**32**	**–**	**1 783**	**2 535**
Cash flows from financing activities								
Provisional cancellation of prior obligations	428	–	24	–	–	–	452	480
Transfers (to) from other funds	–	(1 126)	(15)	1 141	–	–	–	–
Refunds to donors	(695)	(2 047)	–	–	–	–	(2 742)	(2 026)

	General fund	*Technical cooperation activities*[b]	*Programme support costs*	*Revolving funds and other funds*	*End-of-service and post-retirement liabilities*[c]	*All funds eliminations*[d]	*Total 2011*	*Total 2009*[e]
Other adjustments to reserves and fund balances	–	72	–	(72)	–	–	–	–
Net cash flows from financing activities	**(267)**	**(3 101)**	**9**	**1 069**	**–**	**–**	**(2 290)**	**(1 546)**
Net increase (decrease) in cash and term deposits and cash pool	**2 456**	**(3 658)**	**1 713**	**(380)**	**529**	**–**	**660**	**10 484**
Cash and term deposits and cash pool, beginning of period	2 923	46 228	2 998	2 481	796	–	55 426	44 942
Cash and term deposits and cash pool, end of period	**5 379**	**42 570**	**4 711**	**2 101**	**1 325**	**–**	**56 086**	**55 426**

[a] See note 2.
[b] Includes projects financed by UNDP.
[c] See note 9.
[d] See note 2 (i).
[e] Comparative figures have been restated to conform to current presentation.

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

Statement IV

International Trade Centre

General fund: statement of appropriations for the biennium ended 31 December 2011

(Thousands of United States dollars)

	Appropriations[a]			Expenditures			
	Original	*Changes*	*Revised*	*Disbursements*	*Unliquidated obligations*	*Total*	*Unencumbered balance*
International Trade Centre							
Programme of activities	61 728	11 268	72 996	69 251	2 852	72 103	893

[a] Represents original appropriation of $61,727,961 for the biennium 2010-2011, which was initially increased to $64,255,816, and subsequently to $72,995,500. The General Assembly authorized the United Nations share in its resolutions 64/244, 65/260 and 66/245.

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

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), thereby approving the establishment of the International Trade Centre “to be operated jointly 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 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, took note of the revised administrative arrangements for the International Trade 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 providing advice 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 the United Nations Development Programme (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 therefor;

(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 approved and assessed 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 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 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 pool. 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 pool 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 the donors without a specified purpose and other miscellaneous items;

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

(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) The cash pool comprises 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 pool. The investments in the cash pool include marketable securities and other negotiable instruments acquired to produce income. Short-term investments in the cash pool are stated at lower of cost or market value; long-term investments in the cash pool are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in the cash pool is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in footnote f to the statement of assets, liabilities and reserves and fund balances. Currently, the Centre participates in the United Nations offices away from Headquarters cash pool only. Additional details are provided in note 8;

(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) Accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits and unused vacation days. The liabilities of all three groups of accrued liabilities for end-of-service and post-retirement benefits are determined on an actuarial basis;

(vii) The Centre accrues income to the repatriation grant reserve fund with respect to extrabudgetary funds on the basis of 8 per cent of the net base pay of eligible personnel financed by its technical cooperation trust funds, programme support costs and revolving funds;

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

(ix) 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, multi-employer defined benefit plan.

An actuarial valuation of the assets and pension benefits of the Pension Fund is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, the Centre is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus the Centre's share of the related net liability/asset position of the Pension Fund is not reflected in the financial statements.

The Centre's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, which is currently 7.9 per cent for the participant and 15.8 per cent for the Organization, respectively, of the applicable pensionable remuneration, 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 a 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 reporting date of the current financial statements, the General Assembly had not invoked that 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;

(ii) Voluntary contributions are recorded as income upon receipt of cash, including amounts received pending the identification of specific projects. Schedule 1.1 to the financial statements provides the list of voluntary contributions received during the biennium;

(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) Subject to donors' agreements, interest accruing from trust funds is credited first to the operating reserve to maintain that reserve at the agreed level, and thereafter to donors' funds or to increase the operating reserve (see subpara. (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 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. 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 which 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. 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. Since the biennium 2006-2007, in consultation with donor governments, the Centre decided to gradually increase the level of operating reserve to 15 per cent of the annual estimated expenditure by retaining the exchange gain on investments and the donor governments' share of interest earned, and by crediting to it any lump sum contributions received for the reserve;

(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 subparagraph (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.

(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 funds and other funds:

(i) Revolving funds initially funded with seed money from extrabudgetary sources are established to carry out specific activities in support of the achievement of the ITC strategic objectives that result in a repayment to the fund. 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) Building awareness through trade intelligence revolving funds:

Sale of trade data analyses, tools and services at the global, regional, national and enterprise levels are utilized to finance the provision of further services;

(iii) Strengthening trade support institutions and policy revolving funds:

Sales of standard output, ready-made and tailor-made advisory and operational services, training materials, matchmaking and related services are utilized to finance the provision of further services and updated materials to strengthen trade support institutions and improve the business environment;

(iv) Supporting enterprises' revolving funds:

Sales of materials, tools and related services for ongoing research, development and dissemination of up-to-date materials on enterprise competitiveness and sector development are utilized to finance the provision of new and updated materials.

Note 3
General fund

(a) Income during the biennium 2010-2011:

Under the terms of General Assembly resolution 2297 (XXII) and the decision of the Contracting Parties to the 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

ITC budget is assessed in Swiss francs and shared equally between the United Nations and WTO.

The revised budget of the Centre for the biennium 2010-2011, as established by General Assembly resolution 66/245, provided for estimated expenditure of $72,995,500, equivalent to SwF 69,551,300, as compared with SwF 66,606,900 for the biennium 2008-2009, thus reflecting an increase of 4.4 per cent in Swiss francs. Miscellaneous income was estimated at $480,500 (equivalent to SwF 463,940), thus requiring a contribution of $36,257,500 (equivalent to SwF 34,543,680), each from the United Nations and WTO.

During the biennium 2010-2011, the contributions received from the United Nations and WTO were $36,258,000 (equivalent to SwF 34,987,204) and $36,565,000 (equivalent to SwF 34,987,204) respectively, totalling $72,823,000.

Other income comprised (in thousands of United States dollars):

	2010-2011	*2008-2009*
Income from rental of premises	207	183
Sale of publications	58	28
Refund of prior-year expenditure	61	134
Exchange gain	156	–
Other	54	21
Total	**536**	**366**

(b) Deferred charges:

Deferred charges as at 31 December 2011 and 2009 comprised (in thousands of United States dollars):

	2011	*2009*
Unliquidated obligations — future periods (note 2 (1) (iii))	6 190	2 714
Education grant advances to staff (note 2 (1) (iv))	273	215
Other	–	29
Total	**6 463**	**2 958**

(c) Reserves and fund balances:

The surplus balance in the Centre's general fund at the end of a biennium is credited to the United Nations and WTO in the following biennium. Accordingly, the fund balance of $695,100 brought forward from the biennium 2008-2009 was refunded in equal amount to the United Nations and WTO in 2011. The surplus account of $1,791,000 as at 31 December 2011 arose from the excess of income over expenditure for the biennium 2010-2011 of $1,399,000, the cancellation of prior-period obligations of $428,000, less the adjustment of prior-period expenditure of $36,000.

Note 4
Technical cooperation activities

(a) Deferred charges:

Deferred charges as at 31 December 2011 and 2009 comprised (in thousands of United States dollars):

	2011	*2009*[a]
Unliquidated obligations for future periods (note 2 (1) (iii))	1 467	670
Education grant advances to staff (note 2 (1) (iv))	95	118
Other	110	88
Total	**1 672**	**876**

[a] Comparative figures for unliquidated obligations for future periods have been restated to conform to current presentation.

(b) Operating reserve:

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 2010-2011, with the agreement of donor governments, the level of the operating reserve was increased from $2,889,000 as at 31 December 2009, to $4,261,000 as at 31 December 2011, which is equivalent to a level of approximately 10 per cent of the estimated annual expenditure.

Note 5
Special account for programme support costs

Reserves and fund balances totalled $4,706,000 as at 31 December 2011. The movements in reserves and fund balances were as follows (in thousands of United States dollars):

	2010-2011	*2008-2009*
Fund balances, beginning of period	2 034	1 341
Excess (shortfall) of income over expenditure	1 898	716
Prior-period adjustments	(2)	3
Cancellation of prior-period obligations	24	36
Transfers to revolving funds	(15)	(28)
Transfers to operating reserve	(241)	(34)
Fund balances, end of period	**3 698**	**2 034**

	2010-2011	2008-2009
Operating reserves, beginning of period	767	733
Transfers from surplus account	241	34
Operating reserve balances, end of period	**1 008**	**767**
Total reserves and fund balances	**4 706**	**2 801**

Note 6
Revolving funds and other funds

Income for services rendered comprised (in thousands of United States dollars):

	2010-2011	2008-2009[a]
Building awareness through trade intelligence revolving funds	466	595
Strengthening trade support institutions and policy revolving funds	32	16
Supporting enterprises revolving funds	507	601
Total	**1 005**	**1 212**

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

Note 7
Expenditure — other

"Other" expenditure during the biennium ended 31 December 2011 comprised (in thousands of United States dollars):

	General fund	*Technical cooperation activities*	*Programme support costs*	*Revolving funds and other funds*	*All funds eliminations*	*2010-2011*	*2008-2009*
Joint administrative activities	348	–	–	–	–	348	312
Joint general services	1 151	–	691	–	–	1 842	1 297
Joint medical services	55	–	55	–	–	110	96
Security services	1 260	–	79	–	–	1 339	1 208
Associated agencies support costs	–	–	14	–	–	14	42
Group training	–	7 875	–	96	(52)	7 919	6 564
Total	**2 814**	**7 875**	**839**	**96**	**(52)**	**11 572**	**9 519**

Note 8
Cash pool

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the United Nations Secretariat, including the Centre. Such surplus funds are combined in one of three internally managed cash pools, which invest in major segments of the money and fixed income markets. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities;

(ii) Investment activities are guided by the principles contained in the Investment Management Guidelines ("Guidelines"). An Investment Committee periodically assesses compliance with the Guidelines and makes recommendations for updates thereto, and also reviews performance of the various cash pools.

(b) Investment management objectives:

Further to the Guidelines, investment objectives of all the cash pools, in order of priority, are the following:

(i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations to readily meet all operating requirements. Only assets which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return taking into account investment risk constraints, and the cash flow characteristics of the pool. Benchmarks determine whether satisfactory market returns are being achieved in the cash pool.

(c) Financial information pertaining to the offices away from Headquarters cash pool:

(i) The Centre participates only in the offices away from Headquarters cash pool, which invests in a variety of securities. Such securities may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. All of the securities are denominated in United States dollars. The offices away from Headquarters pool does not invest in derivative instruments, asset-backed, mortgage-backed or equity products;

(ii) Investment transactions are accounted for on a settlement date basis. Investment income is recognized on the accrual basis; transaction costs that are directly attributable to the investment activity of the offices away from Headquarters pool are expensed as incurred in the offices away from Headquarters pool and the net income is distributed proportionately to the funds participating in the offices away from Headquarters pool;

(iii) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the offices away from Headquarters pool participants;

(iv) As at 31 December 2011, the offices away from Headquarters pool held assets of $1,571.6 million; of that amount, $56.1 million was due to the International Trade Centre, as reflected against the offices away from Headquarters pool line in statement II, Statement of assets, liabilities and reserves and fund balances;

(v) Financial information of the offices away from Headquarters pool as at 31 December 2011 is summarized in table 1.

Table 1
Summary of assets and liabilities of the offices away from Headquarters pool as at 31 December 2011
(Thousands of United States dollars)

	Offices away from Headquarters pool
Assets	
Short-term investments[a]	627 484
Long-term investments[b]	940 267
Total investments	**1 567 751**
Cash	2
Accrued investment income	3 842
Total assets	**1 571 595**
Liabilities	
Payable to International Trade Centre	56 081
Payable to other funds participating in the offices away from Headquarters pool	1 515 514
Total liabilities	**1 571 595**
Net assets	**–**

Summary of net income of the offices away from Headquarters pool for the biennium ended 31 December 2011
(Thousands of United States dollars)

	Offices away from Headquarters pool
Net income	
Interest income	40 714
Realized gains on sales of securities	10 080

	Offices away from Headquarters pool
Securities lending income[c]	559
Net income from operations	**51 353**

[a] Lower of book value or fair value.
[b] Book value.
[c] Securities lending refers to the short-term loan of securities owned by the United Nations to other parties, and for which a fee is paid to the United Nations. The terms of the loan are governed by an agreement, which requires the borrower to provide the United Nations with collateral of a value greater than the loaned security.

(d) Composition of the offices away from Headquarters pool:

Table 2 shows a breakdown of the investments held in the offices away from Headquarters pool by type of instrument:

Table 2
Investments of the offices away from Headquarters pool by type of instrument as at 31 December 2011
(Thousands of United States dollars)

Offices away from Headquarters pool	*Book value*	*Fair value[a]*
Bonds		
Government agencies	989 127	990 001
Non-United States sovereigns and supranationals	325 031	326 577
Subtotal	**1 314 158**	**1 316 578**
Discounted instruments[b]	74 978	74 981
Term deposits	178 615	178 615
Total investments	**1 567 751**	**1 570 174**

[a] Fair value is determined by the independent custodian based on valuations of securities that are sourced from third parties.
[b] Includes United States Treasury bills and discount notes.

(e) Financial risk management:

The offices away from Headquarters pool is exposed to a variety of financial risks, including credit risk, liquidity risk, and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk:

The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Individual Rating is used to rate term deposits.

The credit ratings of the issuers whose securities were held in the offices away from Headquarters pool as at 31 December 2011 are shown in table 3:

Table 3
Investments of the offices away from Headquarters pool by credit ratings as at 31 December 2011
(Thousands of United States dollars)

Offices away from Headquarters pool	*Total*[a]	*Ratings*
Bonds	1 314 158	S&P: 41.4% AAA and 58.6% AA+/AA-; Moody's: 94.7% Aaa and 5.3% Aa1/Aa3.
Discounted instruments[b]	74 978	S&P: A-1+; Moody's: P-1.
Term deposits	178 615	Fitch: 60.8% A/B and 39.2% B.
Total investments	**1 567 751**	

[a] Represents the book value of securities as at 31 December 2011.
[b] Includes United States Treasury bills and discount notes.

(ii) Liquidity risk:

The offices away from Headquarters pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet United Nations commitments as and when they fall due. The major portion of the pool's cash and cash equivalents and investments are available within one day's notice to support operational requirements. Hence, the offices away from Headquarters pool is able to respond to withdrawal needs in a timely manner, and liquidity risk is considered to be low.

(iii) Interest rate risk:

Interest rate risk is the risk of variability in investments' values due to change in interest rates. In general, as interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk;

The offices away from Headquarters pool is exposed to interest rate risk as its holdings comprise interest-bearing securities. As at 31 December 2011, the offices away from Headquarters pool invested primarily in securities with shorter terms to maturity, with the maximum term being less than four years. The average duration of the offices away from Headquarters pool was 0.89 years, which is considered to be an indicator of low interest rate risk.

Table 4 shows how the fair value of the offices away from Headquarters pool as at 31 December 2011 would increase or decrease should the overall yield curve shift in response to changes in interest rates. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative.

Table 4
Sensitivity of the offices away from Headquarters pool to interest rates as at 31 December 2011

Shift in yield curve (Basis points)	*Change in fair value (Millions of United States dollars)*
-200	28
-150	21
-100	14
-50	7
0	0
50	-7
100	-14
150	-21
200	-28

(iv) Other price risk:

The offices away from Headquarters pool is not exposed to significant other price risk, as it does not sell short, or borrow securities, or purchase securities on margin, all of which limits the potential loss of capital.

Note 9
End-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits and commutation of unused vacation days. As disclosed in note 2 (m) (vi), all three liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm.

(b) After-service health insurance:

(i) Upon end of service, staff members and their dependants may elect to participate in a defined benefit United Nations health insurance plan, provided they have met certain eligibility requirements, including ten years' participation in a United Nations health plan for those who were recruited after 1 July 2007, and five years' participation for those who were recruited prior to that date. This benefit is referred to as after-service health insurance;

(ii) The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2011 were a discount rate of 4.5 per cent; health-care escalation rates of 8.0 per cent in 2012, grading down to 4.5 per cent in 2027 and later years; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. The main changes as compared to the 31 December 2009 valuation were: (i) a decline in the assumption for the discount rate from 6.0 per cent to 4.5 per cent, reflecting a broad decline in interest rates of the benchmark which is based on rates for high quality corporate bonds; and (ii) an assumption for higher health-care escalation rates for plans outside of the United States of America;

(iii) Another factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the Centre's residual liability. Thus, contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the Centre's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Centre's share not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the Medical Insurance Plan;

(iv) On the basis outlined in (ii) and (iii) above, the present value of the accrued liability as at 31 December 2011 was estimated at $54,839,000, net of contributions from plan participants.

(Thousands of United States dollars)

After-service health insurance	*Accrued liability*
Gross liability	109 660
Offset by contributions from plan participants	(54 821)
Net liability	**54 839**

The above net liability of $54,839,000 compares to an estimate of $37,144,000 as at 31 December 2009. The increase of $17,695,000 is mainly owing to an actuarial loss of $13,292,000 which is primarily due to the change in the assumption for discount rates, from 6.0 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011.

(v) Further to the assumptions in (ii) above, it is estimated that the present value of the liability would increase by 20 per cent and decrease by 15 per cent if the medical cost trend increased or decreased by 1 per cent, respectively, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 21 per cent and decrease by 16 per cent if the discount rate decreased or increased by 1 per cent, respectively, all other assumptions remaining constant.

(c) Repatriation benefits:

(i) Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits;

(ii) As referred to in note 2 (m) (vi), a consulting actuary was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2011. The major assumptions used by the actuary were a discount rate of 4.5 per cent; and annual salary increases ranging from 9.1 per cent to 4.0 per cent, based on age and category of staff members, and travel cost increases of 2.5 per cent per annum;

(iii) On the basis of these assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2011 was estimated at $3,496,000, comprising $2,129,000 for the general fund, $1,090,000 for technical cooperation activities (including revolving and other funds), and $277,000 for programme support costs.

(d) Unused vacation days:

(i) Upon end of service, staff members may commute unused vacation days up to a maximum of 60 working days for those holding fixed-term or continuing appointments;

(ii) As referred to in note 2 (m) (vi), a consulting actuary was engaged to carry out an actuarial valuation of unused vacation days as at 31 December 2011. The major assumptions used by the actuary were a discount rate of 4.5 per cent; and an annual rate of increase in accumulated annual leave balances of 12.5 days in each of the first three years, 3.0 days per year in the fourth to sixth year, and 0.1 days annually thereafter, capping at an accumulation of 60 days. Salary is assumed to increase annually at rates ranging from 9.1 per cent to 4.0 per cent based on age and category of the staff members;

(iii) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2011 was estimated at $1,781,000, comprising $1,266,000 for the general fund, $349,000 for technical cooperation activities (including revolving and other funds), and $166,000 for programme support costs.

Note 10
Contributions in kind

During the biennium 2010-2011 ended 31 December 2011, the value of the contributions in kind received is estimated to be $1,284,000, based on methodology developed by the Centre. The contributions in kind consist mainly of conference-servicing facilities provided by governments and other counterparts for the organization of the local events/workshops. In addition, the Centre received a rental subsidy of $6,449,000 for the biennium 2010-2011 representing the difference between the market value and the actual amount paid for the rental of a building occupied by the Centre.

Note 11
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. The movement in non-expendable property, valued at historical cost, was as follows (in thousands of United States dollars):

	2010-2011	*2008-2009*
Balance as at 1 January 2010	4 947	4 338
Acquisitions	549	969
Less: write-offs — accidents, theft and damages	(3)	(1)
Less: dispositions	(1 791)	(359)
Balance as at 31 December 2011	**3 702**	**4 947**

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