United Nations

Audited financial statements

for the biennium ended 31 December 1997 and

Report of the Board of Auditors

Volume III
International Trade Centre UNCTAD/WTO

General Assembly
Official Records
Fifty-third session
Supplement No. 5 (A/53/5)

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Note

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

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Letters of transmittal

7 July 1998

Dear Mr. Chairman,

In accordance with financial regulation 11.4, I have the honour to submit the accounts of the International Trade Centre UNCTAD/WTO for the biennium 1996–1997, which I hereby approve. The financial statements have been drawn up and certified as correct by the Controller.

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

(Signed) Kofi A. **Annan**

Mr. Vijay Krishna Shunglu
Chairman
United Nations Board of Auditors
New York

15 July 1998

Sir,

I have the honour to transmit to you the financial statements of the International Trade Centre UNCTAD/WTO for the biennium 1996–1997 ended 31 December 1997, which were submitted by the Secretary-General. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India
and Chairman
United Nations Board of Auditors

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

Chapter I
Report of the Board of Auditors

Summary

The Board of Auditors has audited the operations of the International Trade Centre UNCTAD/WTO (ITC) in Geneva. The Board has also validated the financial statements of ITC for the biennium ended 31 December 1997, and has conducted management audits of the Centre's technical cooperation projects and programmes and of its research and development activities.

The Board's main findings are as follows:

(a) ITC has yet to establish its resource mobilization strategy, which was intended to develop non-traditional funding sources and widen the Centre's funding base;

(b) Although ITC has made improvements in its more recent project documents, there continued to be shortcomings in needs assessments and the quality of measurable objectives, targets and success criteria;

(c) In four projects, with expenditures totalling nearly $5 million, evaluators concluded that the projects had limited or no impact in 7 of the 12 companies receiving assistance, and performance gains for the remaining 5 companies could not reliably be attributed to the projects;

(d) There is significant scope for improving proposals for publication to include a justification of why the publication is needed and the level of resources to be used;

(e) ITC has overproduced stocks of publications: in 23 out of 26 publications that have been in stock for more than two years, ITC still holds between 27 and 80 per cent of the original production run.

The Board's key recommendations are that ITC:

(a) Ensure that project documents are of a consistent standard, supported by assessments of needs, and incorporating frameworks to facilitate effective monitoring and evaluation;

(b) Ensure that, as a part of project design, suitable arrangements are made to collect basic data to help facilitate future assessments of project impact;

(c) Develop, as a priority, corporate performance indicators and a system through which achievements could be recorded and aggregated to provide an annual assessment of impact;

(d) Ensure that proposals for publications include justification of need and resource implications;

(e) Ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

A list of the Board's main recommendations is included at paragraph 10 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the International Trade Centre UNCTAD/WTO (ITC) for the period from 1 January 1996 to 31 December 1997 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit has been conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1996 to 31 December 1997 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of ITC presented fairly the financial position at 31 December 1997. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews primarily concern the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of ITC.

4. In 1996–1997, the Board examined the Centre's management of technical cooperation projects and programmes and its research and development programme.

5. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the Administration.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views, where appropriate, have been reflected in the present report.

7. The Board's main recommendations are reported in paragraph 10. The Board's detailed findings are in paragraphs 11 to 68.

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by ITC to implement the recommendations made in the Board's report relating to the biennium 1992–1993 and confirms that there are no outstanding matters.

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

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

(a) In liaison with United Nations Headquarters, review the accounting treatment of deferred charges and deferred income to ensure that it is consistent with best accounting practice (para. 13);

(b) Include in its resource mobilization strategy clear objectives for widening the Centre's funding base and targets against which to measure objectives; specify when and how ITC will engage existing and potential donors; and set clearly defined responsibilities for the strategy's implementation (para. 33);

(c) Ensure that project documents are of a consistent standard, supported by assessments of needs and incorporating frameworks to facilitate effective monitoring and evaluation (para. 38);

(d) Ensure that, as a part of project design, suitable arrangements are made to collect basic data to help facilitate future assessments of project impact (para. 43);

(e) Develop, as a priority, corporate performance indicators and a system through which achievements could be recorded and aggregated to provide an annual assessment of impact (para. 49);

(f) Ensure that proposals for publications include justification of need and resource implications (para. 55);

(g) Improve its planning and prioritization of research and development work, adopt a more prudent approach and strengthen its management of contractors to assure timely delivery of outputs (para. 61);

(h) Ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies (para. 65).

B. Financial issues

1. United Nations System Accounting Standards

11. The Board assessed the extent to which the Centre's financial statements for the biennium ended 31 December 1997 conform to the United Nations System Accounting Standards. The review indicated that their presentation is generally consistent with the standards.

12. The Board has, however, drawn to the Centre's attention the need to review the long-standing treatment of deferred charges and deferred income. The Centre's financial statements classified as deferred charges amounts totalling $2.2 million, which represented future commitments for technical cooperation activities and which should not therefore be reflected in the statement of assets and liabilities relating to the biennium 1996–1997. Similarly, the Centre's statement of assets and liabilities included amounts totalling $2.9 million, which represented amounts pledged by donors for future periods and had not been received during the biennium 1996–1997. ITC informed the Board that it had adopted those accounting treatments for the sake of consistency with the practices followed by the United Nations. The secretariat has agreed to review the matter during the biennium 1998–1999.

13. The Board recommends that ITC, in liaison with United Nations Headquarters, review the accounting treatment of deferred charges and deferred income to ensure that it is consistent with best accounting practice.

2. Non-expendable property

14. The Centre's inventory records at 31 December 1997 showed non-expendable property at $2.9 million, of which $1.18 million related to ITC technical cooperation projects. The Board reviewed ITC procedures for controlling non-expendable property and noted that in 1996 and 1997 the Centre had carried out a complete check of inventory held in Geneva. A full physical check of inventory held in the field had been carried out early in 1996.

15. The inventory checks carried out in Geneva revealed that equipment valued, at cost, at approximately $90,000 could not be located. The Board noted that the missing equipment included many portable and attractive items, such as six laptop computers and a video camera. ITC was conducting further investigations to establish the whereabouts of the equipment concerned.

16. The Board welcomes the checks on inventory performed at headquarters and in the field.

3. Write-off of losses of cash, receivables and property, and ex gratia payments

17. In accordance with financial rule 110.10 (b), ITC informed the Board that during the biennium 1996–1997 it had written off amounts totalling $969,402. These comprised $713,482 in equipment surplus to requirements or obsolete; $215,953 in items transferred to Governments or institutions upon completion of project activities; $10,441 of project equipment destroyed by fire; $7,581 of project equipment presumed to be stolen; and $21,945 in overpayments or other losses. No ex gratia payments were reported in the period.

C. Management issues

1. Technical cooperation projects and programmes

Introduction

18. ITC acts as the focal point for all United Nations technical cooperation activities concerning trade promotion and export development. Its aim is to help developing countries and countries with economies in transition increase their foreign exchange earnings, through the expansion and diversification of their exports, and make their import operations more economic and efficient. ITC provides assistance to enterprises and trade support institutions to help them translate trade potential into actual trade. It provides information, advisory services and training related to specific markets, products or trade functions, and, to help build up national capacities for trade promotion, it develops learning systems and practical and diagnostic guides for application at the country level.

19. Over the eight years from 1990 to 1997, there was a steep and continuous decline in the Centre's extrabudgetary expenditures on technical cooperation. Annual expenditure fell by $23 million (65 per cent) from a peak of $35.6 million in 1990 to $12.6 million in 1997.

20. Against this background, the Board of Auditors examined:

(a) Whether ITC had clearly defined strategies and policies for its technical cooperation programmes and projects;

(b) How well ITC had designed its projects;

(c) Whether projects and programmes had achieved their objectives and anticipated impacts.

21. As part of the review, the Board selected for detailed examination 4 of the 122 major projects that were operational during 1996. These projects had combined lifetime expenditures of some $4.8 million, equivalent to 19 per cent of ITC expenditure of $25.8 million on technical cooperation projects in 1996–1997. The Board supplemented its core

sample with other selected projects to review key aspects of the Centre's technical cooperation activities, where appropriate.

Management of the programme of work

22. In its report on ITC financial statements for the biennium 1992–1993, the Board of Auditors highlighted weaknesses in the management of the Centre's technical cooperation programme. These included the absence of quantifiable targets, outputs and time-frames for the achievement of objectives, the need for more specific programme priorities, inadequacies in the assessment of project proposals before approval and inadequate project monitoring and evaluation. In its report on the 1994–1995 financial statements, the Board noted that ITC had not assessed its achievements or impact of its programmes and projects.

23. ITC recognized that it needed to improve its operations, including priority setting, project development, fund raising and implementation, monitoring and evaluation. ITC took the following action to improve the performance, efficiency and transparency of its activities.

Actions by the Centre to improve its performance, efficiency and transparency

Establishing corporate priorities and a mission statement

- In 1994–1995, ITC identified six core services in which it would specialize: product and market development for exports; development of trade support services; trade information; human resource development; international purchasing and supply management; and needs assessment and programme design. In March 1996, ITC issued a mission statement to provide a clear and concise description of its mandate, strategy, services and values.

Establishing a new organizational structure

- In January 1996, ITC set up a Corporate Strategy and Quality Assurance Section to help develop a corporate approach to the delivery of services, strengthen the appraisal, monitoring and evaluation functions and promote technical competence and team work.

Establishing new planning and evaluation tools

- In January 1996, ITC decided to prepare an annual operating plan and an annually rolling three-year medium-term plan with specific targets and outputs, including performance indicators, to measure the achievement of objectives.

Strategies and policies

24. The Board noted that there was an absence of up-to-date and authoritative guidance concerning the management of projects. Although ITC adopted the United Nations Development Programme (UNDP) Manual for Programming, Project Design, Monitoring and Evaluation in September 1988, it has neither tailored it to meet the Centre's own specific needs nor updated it. The Manual remains extant though incomplete, lacking an important chapter on project implementation and management.

25. The Board noted that there had been a steady decline in the number of independent project evaluations in recent years, and that ITC needed to revise its guidance to ensure that monitoring and evaluation frameworks were included in project documents; and that a greater emphasis was placed on monitoring. This should involve the periodic collection of performance data to facilitate progress monitoring and the assessment of achievements at the end of projects' lives, as well as to provide information that would be required for the Centre's corporate performance indicators. In this respect the Board noted that in November 1997 ITC set up a working group to prepare guidance on needs assessment and programme design services.

26. Following a recommendation by the Board, ITC agreed that, for ease of reference, it would issue and keep up-to-date a compendium of procedures and guidelines covering project identification, formulation and monitoring and evaluation. This would include the UNDP Programming Manual as well as the UNDP handbook on result-oriented monitoring and evaluation.

27. Under an enterprise oriented approach, ITC implements projects that help selected companies develop their export products and markets and increase their export sales. ITC issued guidance on the enterprise oriented approach in November 1987 and, in 1992, set up a working group to examine its experience of using this approach. In March 1994, the group concluded that the guidelines were inadequate and had not been properly followed. Notably, there had been insufficient dissemination of experiences to other companies to spread the impact of the projects beyond the selected enterprises. The group concluded that these deficiencies had contributed to the projects' mixed results. These observations were consistent with the results of the Board's in-depth review of two projects.

28. The Board noted that in January 1998 ITC had outlined the main principles that would in future be used to guide the enterprise oriented approach. Moreover, ITC intended to elaborate on these in a policy paper on enterprise oriented approach during 1998.

29. The Board recommends that ITC issue guidance on the enterprise oriented approach to ensure that enterprise projects are designed and implemented on a clear and consistent basis.

Securing donor funds

30. During 1995 and 1996, ITC undertook or commissioned 86 missions involving some form of needs assessment and programming work. By February 1998, however, 53 (62 per cent) of them had not yet resulted in a funded project, and the prospects of securing financing from donors diminished as proposals aged.

31. ITC informed the Board that project funding was outside its control, but that as a matter of principle it did not undertake costly project formulation exercises unless there were reasonable funding prospects; however, it provided project formulation assistance as a service to ITC partner countries, which might themselves take the lead for resource mobilization and project implementation, with or without ITC assistance.

32. In April 1997, ITC drew up profiles of its 11 biggest donor countries. The profiles indicated donors' priorities and interests and were intended to help programme staff in the preparation of project proposals. ITC also prepared a schedule for the timely submission of proposals to donors, where donors specified particular dates. While the Board welcomes these developments, it considers that there is scope for further improvement. In particular, communication between resource mobilization and programme staff was on an ad hoc basis and there was no mechanism by which the resource mobilization section provided programme staff with systematic information about submissions to donors, donors' reactions and the

reasons for success or failure in securing financial support. The Board considers that programme staff would benefit from such information and the lessons that it would offer in the formulation of project proposals. ITC welcomed this suggestion, which it undertook to put into practice to the extent that donors provide useful feedback

33. ITC did not implement a draft resource mobilization plan prepared in 1997, but decided instead to develop a resource mobilization strategy based on three main elements: improving the quality of ITC work; obtaining feedback from donors' preferences and reactions; and developing new strategy alliances and non-traditional funding sources. **The Board recommends, and ITC agrees, that the resource mobilization strategy should include clear objectives for widening the Centre's funding base and targets against which to measure achievements; specify when and how ITC would engage existing and potential donors; and set out clearly defined responsibilities for the strategy's implementation and review.**

Project design

34. The Board of Auditors considers that projects should be clearly based on a thorough needs assessments and measurable objectives, baselines and success criteria. These criteria reflect the comments of several of the Centre's main donors.

35. At April 1997 ITC had 51 project proposals under consideration for financing and it had submitted 19 to donors, while the remaining 32 were ready for such submission pending approval by ITC senior management. The Board examined 20 (39 per cent) of the 51 proposals, and four of the seven project documents that ITC had developed during 1997–1998 for financing under the integrated technical assistance programme to assess the quality of ITC projects. The Board was pleased to see that ITC had made improvements with the most recent project documents. In particular, the integrated technical assistance programme projects were designed on the basis of recent needs assessment missions and experience gained from previous pilot programmes. Moreover, they contained performance criteria to measure the projects' achievements. The following weaknesses were identified in the 24 project documents and proposals examined.

Weaknesses in project design

Failure to demonstrate that projects were supported by appropriate needs assessments

- Of the 24 project documents and proposals, 13 provided either insufficient or no information about any needs assessments that might have been carried out to support their design.

- Five project documents were based on information that was between three and five years old. In addition, ITC had designed one project on the basis of a desk review, without the benefit of detailed appraisals of need, constraints and export potential at the country level.

Absence of measurable objectives, targets and success criteria

- Of the 24 project documents and proposals, 16 lacked a comprehensive framework for assessing project achievements, with baseline data, targets and performance measures.

36. Particular problems arose in the project that had been prepared on the basis of a desk review. ITC changed the objectives twice in the first three years of the project's life. In aiming to open up new export markets and expand existing ones, ITC had assumed that the country concerned could satisfy the increased demand. As the project progressed, however, ITC realized that the supply of goods offered for export was inadequate and would have to be improved as a prerequisite for export expansion. ITC therefore had to revise the project to help improve the quality and volume of exportable goods. The Board considered that the inadequacy of the country's export base was a fundamental constraint that ITC should have identified at the project design stage.

37. The Board considered that all of the project documents and proposals could have been improved by including a clearly defined monitoring and evaluation framework incorporating performance measures, baselines and targets and an explanation of how, where and when relevant quantitative and qualitative performance data would be collected during the projects' lives. The Board was also concerned that the lack of quantification in the project proposals precluded ITC from demonstrating that the expected benefits justified the proposed costs.

38. The Board recommends that ITC ensure that project documents are of a consistent standard, supported by assessments of need and incorporate frameworks to facilitate effective monitoring and evaluation.

Achievement of objectives and anticipated impacts

39. Expenditures on all four of the completed projects reviewed in detail were within budget. The Board also noted that three of these projects had been subjected to an external evaluation during their lifetimes, while an *ex post facto* evaluation had been planned for April 1999 for the fourth project. The Board reviewed the evaluation reports and other documentation to ascertain the projects' achievements. Although the documents suggested positive results, the projects had had limited or no impact in 7 of the 12 companies receiving assistance and the evaluators had difficulty measuring performance gains, and attributing them to the projects, with any reliability for the other 5 companies, as shown below.

Projects' quantitative impact

Project 1: $957,000 spent

- The evaluator considered that this project had contributed, together with other factors, to an improvement in the quality of products offered for export and an increase in export volumes of "approximately 20 per cent".

- One company had increased exports by $17,000 (9.3 per cent) in 1996; another two had planned or projected gains totalling $800,000. However, although the project had aimed to improve the supply of produce offered for export, the evaluation report concluded that supply was still insufficient in both quantitative and qualitative terms. The evaluation report did not consider the project's success in increasing the diversity of exports, although this was an objective of the project. ITC informed the Board that the Government had decided to concentrate on three export products, negating the project's aim of promoting export diversification.

Project 2: $1.6 million spent

- The evaluation report concluded that the progress of the enterprises concerned had been "excellent" in terms of export growth and that, although most of the credit was attributable to the entrepreneurs themselves, the project had certainly contributed. The report pointed to the project's limited financial gains for individual companies.

- One company achieved its largest increases in exports before the project started or through a joint venture, another met its export growth targets without ITC support and in a third country the project had had a limited impact on its expansion. Moreover, two of these companies were leading exporters before the project started.

- The evaluation report noted that a fourth company had estimated that it had made net gains of up to $200,000 from the project. However, the evaluation team considered that this was modest in light of the company's success in increasing annual exports by $2.5 million over the period 1989 to 1993.

Project 3: $1.5 million spent

- The evaluation report stated that this project had achieved "significant results" in terms of increased exports and foreign exchange earnings. The Board noted, however, that two companies had not increased their exports. Notably, one company did not have an export licence, and should therefore have been excluded from the project.

- The evaluation team considered that the project had been "instrumental" in one company achieving total sales of some $585,000 over the period from 1989 to 1991 and "fundamental" in helping another increase its annual exports from $300,000 to $2.5 million. The team noted that another company had increased its exports from $1 million in 1988 to $2.5 million in 1990 and that the project "had to be factored into this achievement". Although the team noted that a fourth company had increased its sales largely on its own strengths, it considered that the project could be credited for part of the increase. The evaluation report did not, however, quantify how much of these gains was attributable to the project.

Project 4: $842,000 spent

- This project had helped to establish and build up a Procurement and Logistics Management Association so that procurement and import management might be placed on a professional footing. Although it had helped to raise awareness and develop skills and knowledge in the field of import management, its overall objective was to reduce the high costs of imported materials and achieve savings in foreign exchange. ITC did not, however, have information about cost savings achieved through the project. Nor had it established a system for the collection of such data.

40. The Board recognizes the difficulties in quantifying the extent to which enterprises' direct gains are attributable to project activities, particularly where project inputs are on a small scale. The Board considered, however, that the absence of a structured monitoring and evaluation framework compounded these difficulties. None of the projects maintained periodic performance data. The evaluators of project 3 pointed out that they had had to "ferret out" available sales and export data by interviewing the entrepreneurs concerned. In addition, the evaluation report on project 2 highlighted the evaluation team's inability to pin-point the project's achievements as inadequate periodic reporting made it impossible to differentiate between project activities and enterprises' own actions. The Board considered that the absence of regular data collection and reporting compromised the credibility and completeness of the evaluation reports.

41. The Board was also concerned about the absence of comprehensive performance assessments covering the entire lifetime of projects 2 and 3. These projects had been evaluated in May 1991 and September 1993 respectively. Both, however, ran for several more years: project 3 until April 1996 and project 2 until August 1997. On the latter project, ITC spent $500,000 over the last four years of its life, representing one third of total project expenditure. The absence of a monitoring system, involving the regular collection of performance data, meant that ITC could not demonstrate the impact of the projects over the second half of their lives. In the case of project 3, in particular, this was despite the fact that the 1991 evaluation report had highlighted the need for enterprises to be required to keep relevant data on export sales, production volumes and value added and to make them available to ITC on a quarterly or six-monthly basis.

42. ITC informed the Board that its new guidelines on result-oriented monitoring and evaluation foresaw the regular collection of appropriate performance data, but emphasized the difficulty of obtaining meaningful measures of the impact of ITC work in client countries.

43. The Board accepts that routine collection of data is not, alone, sufficient to obtain a realistic measure of impact. However, the Board considers that, without basic data, collected routinely as part of project management, impact assessment is rendered significantly more difficult. **The Board therefore recommends that ITC ensure that, as part of project design, suitable arrangements are made to collect basic data to help facilitate future assessments of project impact.**

Impact at the programme and corporate level

44. Reports by the Board of Auditors in previous bienniums have highlighted the need for ITC to demonstrate its achievements and impacts at the programme and corporate levels. ITC recognized that it had no corporate view of the results achieved by its programme of work and intended to strengthen operational planning and management through the preparation of an annual operations plan and a three-year medium-term plan with specific targets and outputs, including performance indicators.

45. ITC issued its first annual operations plan and medium-term plan in April 1997. These plans did not contain, however, any means of measuring ITC performance other than through the delivery of planned outputs. In the medium-term plan, ITC stated that future plans, hopefully starting in 1999, would define objectives in terms of the expected developmental impact on beneficiaries, which would be measured with manageable performance indicators.

46. ITC had expected to introduce a corporate management information system in 1997 and to provide the first performance data in its annual report for 1998. ITC informed the Board that, owing to the high cost of developing a corporate management information system, it had decided to proceed on a modular basis, using readily available softwares, and expected the first two modules (the annual operations plan and the project development processes) to be operational in 1999.

47. ITC has decided to proceed with the identification of key performance indicators for the organization as a whole and the development of a manual system for gathering the requisite data. The Board considers that ITC should collect data on three main types of impact: quantified financial benefits; quantified non-financial impacts; and qualitative impacts. The Board identified 12 key indicators that ITC could use to measure the impact of its work. These reflect the Centre’s overall aim of helping countries increase their foreign exchange earnings, through the expansion and diversification of their exports, and make their import operations more economic and efficient. ITC informed the Board that it had some reservations about the extent to which it could construct those key indicators suggested under the heading “quantified financial benefits” shown below. It nonetheless appreciated the overall approach proposed.

48. The Board considers that ITC should record impacts claimed and validate them with Governments, enterprises and other parties concerned as projects progressed to ensure that they were reliable and attributable to ITC activities. The Board considers, in particular, that annual reports on ITC impacts would help to strengthen the organization’s resource mobilization efforts.

49. The Board recommends that ITC develop, as a priority, corporate performance indicators and a system through which achievements could be recorded and aggregated to provide an annual assessment of ITC impact. ITC welcomed this recommendation and assured the Board that it would give it closest consideration.

Twelve key indicators that the Centre could use to measure the impact of its work

Quantified financial benefits

- Increased export sales revenues earned
- Increased value added for each unit of output exported: selling goods at a higher margin, for example, owing to improved quality or design
- Savings in import management costs: lower quoted prices for imports; and lower transport, transit, warehousing, storage and stock management costs
- Reduced waste of imported goods and materials: less spoilage, damage and pilferage caused by poor warehousing, storage conditions and stock control

Quantified non-financial impact

- Increased diversification of exports and/or export markets
- Increased number of exporting firms
- Increased volume of goods offered for export
- Reduced waiting times in/duration of procurement and import management

Qualitative impact

- Improved availability of trade information for importers and/or exporters
- Improved quality of goods offered for export: meeting international quality standards
- Increased use of modern techniques and methods in procurement and import management
- Improved planning for the expansion of exports: targeting goods, services and markets that offer the best export potential

2. Research and development

Introduction

50. The Centre's research and development involves the development of new approaches to trade and export expansion, the collation and analysis of trade information and the dissemination of results to client countries. Such activities are intended to provide countries with up-to-date and effective techniques for the better management of trade and with quality, relevant and timely information to which they would otherwise not have access. Research and development activities can be categorized into three groups:

(a) Development of generic tools such as training curricula and self-assessment questionnaires to help exporters or importers diagnose their strengths and weaknesses and identify areas for improvement;

(b) Development and maintenance of databases and reference libraries covering such issues as export quality standards and export packaging and legal aspects of foreign trade;

(c) The ITC publications programme, including technical and training materials, to provide client countries with essential information for the management of trade.

ITC research and development activities are not pursued as a self-contained programme, but instead derive from, and contribute to, the objectives of individual subprogramme elements.

51. The Centre's annual operating plan for 1997 identified the full work programme proposed by each unit, including the research and development activities planned for the year with estimates of the resources that would be required. The Board's analysis of the 1997 annual operations plan showed that the substantive units planned to devote 200 staff months to research and development activities in 1997, with a further $2.7 million estimated for the costs of consultants, staff travel and translation and printing associated with research and development work.

52. Against this background, the Board examined the development and appraisal of the publications programme; and oversight and delivery of research and development outputs.

Development and appraisal of the publications programme

53. The ITC Publications Board is responsible for establishing publications policies, approving items for publication, agreeing on the overall publications budget and monitoring the progress of the publications programme. The Publications Board's criteria for deciding on whether a document should be included in the programme include whether it is of wide interest to the Centre's target audience; that it does not duplicate other publications; and that it reaches a standard of quality and usefulness that reflects credit on ITC. Also taken into consideration are ITC programme priorities and the need to achieve a balance among ITC core services. In February 1997, the Publications Board established a working group to review publications issues, including the quality of publications proposals.

54. The Board noted that the Publications Board approved all 51 of the proposals submitted to it by operational units in 1996–1997. The Board of Auditors reviewed the 51 proposals and considered that there was scope for improvement. In particular, none of the proposals explained why the publication was needed or identified the level of resources, including staff time and consultants' fees that would be used in the researching, developing and drafting of documents for publication.

55. The Board of Auditors concluded that ITC needed to improve its publication proposals. **The Board therefore recommends that ITC ensure that its publication proposals include justification of need and resource implications.**

Overproduction of copies of publications

56. The Centre's substantive units are responsible for estimating the number of copies of documents that should be printed, based on corporate standards for items that are expected to be in normal or high demand. The Board reviewed ITC stock records and focused on those publications that were at least two years old at the time of the audit in April 1998. The Board found that, after more than two years, ITC held stocks of between 27 and 80 per cent of the original production run for 23 of the 26 publications examined. For seven publications, ITC

held stocks of at least two thirds of the original publication run; for a further six, over half of the original run. The following table shows the five worst cases.

Examples of publications overstocked

Title of publication	*Publication date*	*Publication run*	*Stock level at April 1998*	*Excess stock (percentage)*	*Time since publication (months)*
Polonia: Un Interlocutor Comercial para los Paises en Desarrollo	30 August 1995	1 000	800	80	31
Frutos Tropicales Secos	28 March 1995	1 600	1 150	72	36
African Cases in International Business	8 May 1995	2 920	2 060	71	34
Fruits Tropicaux Seches	28 March 1995	1 740	1 210	70	36
Servicios Tecnicos para Proyectos y Plantas	25 July 1995	1 060	720	68	31

57. For a sample of 14 overstocked publications, the Board estimated that the printing cost of the excess stocks was some $35,000. ITC did not review the turnover or demand for its publications to ascertain whether it was publishing too many copies of certain publications.

58. ITC informed the Board that where a publication had a valid shelf-life of several years, it produced a sufficient number of copies to meet several years' need; a one-time print run had proved to be more economical than frequent reprints.

59. The Board recommends that ITC review its procedures for determining the number of publications to be printed, with a view to reducing the level of excess stocks.

Oversight and delivery of research and development outputs

60. The Board reviewed the 1997 annual operating plan to assess delivery of planned outputs and noted that ITC completed 84 (53 per cent) of the 159 research and development outputs planned for delivery in 1997; 60 (38 per cent) had slipped into 1998; and 15 (9 per cent) had been deleted. Reasons for shortfalls in delivery of research and development projects included:

(a) Poor planning, with underestimation of the scale of work required, and insufficient attention to design, methodology and setting of realistic timescales;

(b) Competing demands which diverted resources away from planned research and development work;

(c) Poor management of contractors and consultants commissioned to help with the development of research and development products;

(d) Changes in priorities or circumstances, such as staffing levels, which precluded the delivery of output.

With regard to the management of contractors and consultants, ITC issued guidelines in 1998 on contracting for desk officers that include sections on contract monitoring and follow-up. The guidelines were expected to improve the contract implementation process.

61. The Board recommends that ITC improve its planning and prioritization of research and development work, adopt a more prudent approach and strengthen its management of contractors to assure timely delivery of outputs.

Year 2000 issue

62. The Board undertook a study to assess the preparedness of ITC for managing the year 2000 issue, which threatens all information systems.

63. ITC informed the Board that the major applications, such as human resources, were covered by the Integrated Management Information Systems, which was year 2000 compliant. In February 1998, ITC implemented a new infrastructure for serving the year 2000 vulnerable systems and processes. The file server and e-mail would be made year 2000 compliant by December 1998, and the telephone system had already been upgraded to the year 2000 compliant version in March 1998.

64. ITC informed the Board that it had surveyed and assessed all its substantive databases, including those on trade statistics, library and contacts, and had planned for their transfer to alternative year 2000 compliant platforms and applications by September 1998. It is also undertaking a survey of administrative applications to be completed by September 1998, and implementing three new systems, the annual operation plan, project monitoring and ITC experts. ITC informed the Board that the Electronic Data Processing Unit was the focal point and was directly responsible for managing the year 2000 issue.

65. The Board recommends that ITC ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

3. Cases of fraud and presumptive fraud

66. The ITC secretariat reported no cases of fraud or presumptive fraud to the Board during the period.

67. ITC informed the Board of the outcome of actions taken by ITC on a fraud case reported for the biennium 1990–1991. The Board noted that, through follow-up action in collaboration with the Legal Liaison Office of the United Nations Office at Geneva, ITC had successfully recovered approximately $29,750 obtained fraudulently by a former employee.

68. The Board noted also that ITC had acted promptly and vigorously to protect the interests of the organization when it became aware that a member of staff had acted improperly, although no fraud was perpetrated against ITC. The staff member concerned had failed to declare personal involvement in a consultancy awarded by ITC. Following investigations by the secretariat and the Office of Internal Oversight Services, legal action was taken against the individual, who was subsequently dismissed.

D. Acknowledgment

69. The Board of Auditors wishes to express its appreciation for the co-operation and assistance extended by the Executive Director and the staff of the International Trade Centre UNCTAD/WTO during its audit.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(*Signed*) Osei Tutu **Prempeh**
Auditor-General of Ghana

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the year ended 31 December 1995 [a]

Recommendation 10 (a)

1. ITC should adhere more closely to the provisions of the administrative instruction (ST/AI/285) regarding the issuing of allotments prior to receipt of funds from donors.

Measures taken by the Administration

2. As a general practice, ITC follows the provisions of instruction ST/AI/285. However, the Centre considers that the varying practices of donors for approving projects and paying contributions, requires the adoption of specific procedures which, although not strictly complying with the administrative instruction, meet the objectives of the instruction.

Comments of the Board

3. The Board notes that control in this area has improved. While the Board does not condone the practice of issuing allotments prior to receipt of contributions, it notes that ITC restricts the practice to a limited number of donor Governments and that temporary shortfalls have always been covered by the operating reserve of ITC.

Recommendation 10 (b)

4. ITC should adhere to United Nations procedures and ensure that, before approving a payment, it obtains assurance that goods received are in accordance with the purchase order.

Measures taken by the Administration

5. The existing procedures have been followed by ITC without loss for many years. In a few cases where goods delivered have not conformed to the terms of the purchase order or have been damaged in transit, they have been replaced free of charge either by the supplier or under insurance arranged for each consignment. In view of experience on procurement actions for the field projects, which generally have a relatively long processing time, the recommended practices would delay payments to suppliers, and apart from creating a negative impression with good suppliers, will also result in a waste of limited resources (unfavourable prices, interest penalty etc.).

Comments of the Board

6. The Board will continue to monitor the instances of payments being made without confirmation of receipt of goods in 1998–1999.

[a] *Official records of the General Assembly, Fifty-first Session, Supplement No. 5* (A/51/5), vol. III, chap. I, para. 10.

Recommendation 10 (c)

7. ITC should augment the information contained in the consultants' roster to show previous assessments and experience, and key information such as technical skills and languages spoken.

Measures taken by the Administration

8. Key information such as technical skills and languages spoken is contained in the roster and the roster does not, and should not replace the more complete and confidential assessment of past work included in individual files which must always be consulted prior to any eventual recruitment. ITC is, however, considering refining further the information placed on the roster, resources permitting. In addition, ITC has been exploring the cost-effectiveness of transferring pertinent and non-confidential information from the personal history forms and other supporting documents to the roster.

Comments of the Board

9. The Board welcomes the Centre's assurance that key information is available to supplement the roster and that staff must use this during the selection of consultants. The Board considers, however, that there is scope for strengthening the roster and urges ITC to take further steps to improve it.

Recommendation 10 (d)

10. The consultants' roster should be updated on a more timely basis and those consultants who have consistently failed to provide updated personal histories should be removed from the records.

Measures taken by the Administration

11. This recommendation has been carried out and only candidates with updated personal history forms and acceptable track record are included.

Comments of the Board

12. The Board welcomes the Centre's assurance that the consultants' roster is now regularly updated.

Recommendation 10 (e)

13. Desk officers should define their likely future consultant needs in cases where specific specialists are in demand and determine a recruitment strategy.

Measures taken by the Administration

14. ITC technical officers are encouraged to inform the Personnel Section well in advance of any special needs within the projects for which they are responsible. This is done where possible.

Comments of the Board

15. The Board notes these developments.

Recommendation 10 (f)

16. The Centre's report drafting guidelines should be applied to all types of reports submitted to ITC as well as highlight the main faults to avoid when drafting a report.

Measures taken by the Administration

17. ITC technical officers have made vigorous efforts to ensure that consultants are informed of the standards expected of them in the preparation of their reports and those with problems in this area are provided with copies of model reports for their guidance.

Comments of the Board

18. The Board is pleased to see that ITC has taken action to improve the briefing of consultants with a view to raising the quality of their reports.

Recommendation 10 (g)

19. Wherever possible, contract terms of reference should define a clear deliverable output capable of objective measure. Where contract terms are based on a number of man-days worked, ITC should ensure that contract terms have been complied with.

Measures taken by the Administration

20. Particular vigilance has been exercised in this respect. The daily attendance record instituted by ITC to ensure careful control on the number of work days claimed to have been undertaken by the consultants is regularly cross-checked with the travel authorization to ensure that the number of days tallies.

Comments of the Board

21. The Board welcomes the action taken by ITC and noted during its 1996–1997 examination that the daily attendance record was being used appropriately.

Recommendation 10 (h)

22. ITC should review the structure of the consultant's assessment form and improve the extent of feedback on the quality of the consultant's work.

Measures taken by the Administration

23. The consultant's end-of-assignment evaluation form has been revised as recommended. However, the quality of a consultant's report/work has to be seen in the perspective of the overall objective of project activities.

Comments of the Board

24. The Board welcomes the Centre's assurance that the consultant's end-of-assignment evaluation form has been revised.

Recommendation 10 (i)

25. ITC should review its budgeting and programme reporting procedures in the light of the Board's comments and suggestions.

Measures taken by the Administration

26. The Centre's first medium-term plan and annual operations plan were issued in April 1997 and are regularly updated. Initially, these instruments allow for the measurement of performance at the output level only. ITC is currently reviewing again the level at which realistic corporate performance indicators could be specified on the basis of a recent study of performance measurement systems of other public sector and aid agencies. The issue will be further clarified concurrently with the development of the first module of the corporate management information system, which will include the annual operations plan. Due account will also be taken of the conclusions and recommendations of the recent audit of the technical cooperation projects and programmes in 1996–1997. The Centre's objective is to implement a rigorous, yet meaningful and realistic, set of criteria to measure the impact of its work.

Comments of the Board

27. Although the annual operations plan is a step forward for ITC, the Board considers that further improvements are necessary. In particular, in its review of the ITC technical cooperation programmes, the Board highlighted the pressing need for ITC to develop corporate performance indicators and a mechanism for gathering reliable data to be fed into them. The Board therefore urges ITC to develop appropriate measures and systems as a matter of priority.

Chapter II
Audit Opinion

We have audited the accompanying financial statements, comprising statements I to V, schedules 4.1 and 4.2 and the supporting notes of the International Trade Centre UNCTAD/WTO for the financial period ended 31 December 1997. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with the Centre's stated accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the Centre which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long form report on our audit of the Centre's financial statements.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(*Signed*) Osei Tutu **Prempeh**
Auditor-General of Ghana

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Chapter III
Certification of the financial statements

2 July 1998

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

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

Chapter IV

Financial statements for the biennium ended 31 December 1997

Statement I

Income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 1997[a]

(Thousands of United States dollars)

				Other Activities							
				Technical Cooperation Activities							
		General Fund		Trust Funds		UNDP		Programme Support Costs		Revolving Funds	
	Schedule or Note Reference	1997	1995	1997	1995	1997	1995	1997	1995	1997	1995
Income:											
Assessed contributions											
from WTO	3(a)	20 118	20 835	—	—	—	—	—	—	—	—
from United Nations	3(a)	20 118	20 835	—	—	—	—	—	—	—	—
Voluntary contributions	4(ii)	—	—	19 185	20 458	—	—	—	—	—	—
Other/miscellaneous income											
Funds received under inter-organization arrangements	4(iii), 5(a)	—	—	—	—	7 222	11 424	524	523	—	—
Income for services rendered	5(a)	—	—	—	—	—	—	3 486	4 285	324	175
Interest income	sch 4.2, 4(ii), 5(a)	127	198	1 579	557	—	—	113	44	36	13
Currency exchange adjustments	5(a)	—	—	—	—	—	—	—	209	—	—
Other/miscellaneous	sch 4.2, 5(a)	559	670	—	—	—	—	43	71	—	—
Total income		**40 922**	**42 538**	**20 764**	**21 015**	**7 222**	**11 424**	**4 166**	**5 132**	**360**	**188**
Expenditure:											
Expenditure	sch 4.1, 4(ii) & (iii), 5(a)	41 005	42 618	20 444	20 987	7 221	11 428	2 826	5 891	228	147
Total expenditure		**41 005**	**42 618**	**20 444**	**20 987**	**7 221**	**11 428**	**2 826**	**5 891**	**228**	**147**
Net excess (shortfall) of income over expenditure		**(83)**	**(80)**	**320**	**28**	**1**	**(4)**	**1 340**	**(759)**	**132**	**41**
Savings on or cancellation of prior periods' obligations	3(c)(iii), 5(c)	219	229	—	—	—	—	7	50	—	—
Savings on or cancellation of 1996 obligations		287	—	—	—	—	—	6	—	—	—
Reserves and fund balances, beginning of period	3(c)(iii), 5(c)	346	197	2 251	2 223	`(1)	3	140	849	200	159
Reserves and fund balances, end of period		**769**	**346**	**2 571**	**2 251**	**—**	**(1)**	**1 493**	**140**	**332**	**200**

[a] See note 2.

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

Statement II

Assets, liabilities, reserves and fund balances at 31 December 1997 [a]

(Thousands of United States dollars)

				Other Activities							
				Technical Cooperation Activities							
		General Fund		Trust Funds		UNDP		Programme Support Costs		Revolving Funds	
	Schedule or Note Reference	1997	1995	1997	1995	1997	1995	1997	1995	1997	1995
Assets											
Cash and term deposits	3, 4	1 182	896	13 730	7 437	2	402	1 057	37	—	—
Voluntary contributions receivable		—	—	2 908	8 853	—	—	—	—	—	—
Accounts receivable											
Inter-fund balances receivable	3, 4	54	—	2 123	1 348	375	6	516	—	332	200
Other	3, 4	783	382	638	655	2 728	2 089	29	128	—	—
Other assets											
Unspent allocations		—	—	—	—	3 926	5 169	—	—	—	—
Deferred charges and other assets	3, 4	154	153	1 751	1 991	558	828	3	1	—	—
Total assets		**2 173**	**1 431**	**21 150**	**20 284**	**7 589**	**8 494**	**1 605**	**166**	**332**	**200**
Liabilities											
Contributions or payments received in advance		—	80	9 252	4 385	—	89	—	—	—	—
Unliquidated obligations		1 321	844	1 968	1 090	570	843	112	7	—	—
Accounts payable											
Inter-fund balances payable	3, 4	—	28	1 277	200	2 123	1 308	—	19	—	—
Other	3, 4	83	133	1 437	1 575	441	276	—	—	—	—
Other liabilities	4	—	—	4 645	10 783	4 455	5 979	—	—	—	—
Total liabilities		**1 404**	**1 085**	**18 579**	**18 033**	**7 589**	**8 495**	**112**	**26**	**—**	**—**
Reserves and fund balances											
Operating reserves	5(c)	—	—	1 088	1 088	—	—	392	140	—	—
Balances relating to projects funded by donors		—	—	1 483	1 163	—	—	—	—	—	—
Cumulative surplus (deficit)	3(c)(iii), 5(c)	769	346	—	—	—	(1)	1 101	—	332	200
Total reserves and fund balances		**769**	**346**	**2 571**	**2 251**	**—**	**(1)**	**1 493**	**140**	**332**	**200**
Total liabilities, reserves and fund balances		**2 173**	**1 431**	**21 150**	**20 284**	**7 589**	**8 494**	**1 605**	**166**	**332**	**200**

[a] See note 2.

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

Statement III

General Fund: cash flow for the biennium ended 31 December 1997

(Thousands of United States dollars)

	1 January 1996–31 December 1997	*1 January 1994–31 December 1995*
Cash flows from operating activities		
Net excess (shortfall of income over expenditure) (Statement 1)	(83)	(80)
(Increase) decrease in other accounts receivable	(401)	(150)
(Increase) decrease in other assets	(1)	(41)
Increase (decrease) in unliquidated obligations	477	(655)
Increase (decrease) in accounts payable	(50)	114
Increase (decrease) in other liabilities	(80)	(728)
Less: Interest income	(127)	(198)
Net cash from operating activities	**(265)**	**(1 738)**
Cash flows from investing and financing activities		
(Increase) decrease in inter-fund balances receivable	(54)	—
Increase (decrease) in inter-fund balances payable	(28)	(572)
Plus: Interest income	127	198
Net cash from investing and financing activities	**45**	**(374)**
Cash flows from other sources:		
Savings on or cancellation of prior periods' obligations	506	229
Net cash from other sources	**506**	**229**
Net increase (decrease) in cash and term deposits	**286**	**(1 883)**
Cash and term deposits at beginning of period	**896**	**2 779**
Cash and term deposits at end of period	**1 182**	**896**

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

Statement IV

General Fund: appropriations for the biennium ended 31 December 1997

(Thousands of United States dollars)

	Appropriations				Expenditures			
	Original	*Supplementary/ Other adjustments*	*Transfers*	*Revised*	*Disbursements*	*Unliquidated obligations*	*Total*	*Balance*
Section 16 –Trade Promotion								
Programme A – Policy-making organ	500	(162)	—	338	229	—	229	109
Programme B – Executive direction and management	1 460	(119)	—	1 341	1 246	31	1 277	64
Programme C – Programme of work	23 860	(1 171)	—	22 689	22 510	357	22 867	(178)
Programme D – Programme support	18 228	(1 453)	—	16 775	15 699	933	16 632	143
Total	**44 048**	**(2 905)**	**—**	**41 143**	**39 684**	**1 321**	**41 005**	**138**

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

Notes to the financial statements

Note 1. The International Trade Centre UNCTAD/WTO and its activities

On 12 December 1967, the General Assembly adopted resolution 2297 (XXII) approving the establishment of the International Trade Centre "to be jointly operated by the United Nations Conference on Trade and Development and the General Agreement on Tariffs and Trade on a continuing basis and in equal partnership" with effect from 1 January 1968. These arrangements had previously been endorsed by the Council of the General Agreement on Tariffs and Trade (GATT) on 22 November 1967. Governmental supervision of the International Trade Centre is exercised by the members of the World Trade Organization (previously the Contracting Parties to GATT) and by the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD). The Joint Advisory Group is responsible for advising on the work programme and activities of the Centre. In 1995, the Secretary-General of the United Nations and the Director-General of the World Trade Organization (WTO) agreed to recommend to the responsible intergovernmental organs that the present arrangements governing the status of the Centre as a joint body be confirmed and renewed with WTO, subject to revised budgetary arrangements, as called for by the General Council of WTO.

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

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

(a) The Centre's accounts 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 Administration and Management or the Controller, and in conformity with generally accepted accounting principles. They also take fully into account the United Nations System Accounting Standards as adopted by the Administrative Committee on Coordination. The General Assembly took note of these standards in its resolution 48/216 C of 23 December 1993. The Centre follows the international accounting standard 1 on the disclosure of accounting policies, as modified and adopted by the Consultative Committee on Administrative Questions at its fifty-fourth session, as shown below:

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

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

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

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

(v) Financial statements should show corresponding figures for the preceding 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 and 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) Income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Centre are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Controller. In respect of such currencies, the financial statements prepared at such intervals as may be prescribed by the Controller under delegation of authority from the Under-Secretary-General for Administration and Management, shall reflect the cash, investments, unpaid contributions and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements.

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

(g) The results of the Centre's operations presented in statements I and II are shown at the summary level by general type of activity. 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.

(h) Certain reclassifications have been made to some of the comparative figures shown in the financial statements for the period from 1 January 1994 to 31 December 1995 in order for them to conform to the new financial statement formats. None of these reclassifications of the 1995 figures represents any real change in the financial results for that period.

(i) The Centre is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments which mights become payable pursuant to article 26 of the Regulations of the Pension Fund.

(j) General Fund

(i) General Fund income is recognized for financial statement purposes when the appropriations have been approved by the United Nations and by WTO;

(ii) Other/miscellaneous income includes income from the rental of premises, sales of publications, subscription to the market news service, interest earned on various bank accounts and time deposits, refunds of prior years' expenditures and other miscellaneous items, including sales of obsolete equipment;

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

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

(v) Savings on liquidation of prior periods' obligations are credited directly to the fund balance.

Assets

(vi) Cash and term deposits comprise funds on deposit in interest-bearing bank accounts, certificate of deposits and call accounts. They are shown in the statements of assets and liabilities as cash, and apart from changes in value arising from the retranslation of currencies as provided for in paragraph (e) above, all amounts are stated at cost;

(vii) Deferred charges comprise expenditure items which are not properly chargeable in the current financial period and which will be charged as expenditure in the subsequent financial period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 110.6. 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;

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

(ix) Furniture, equipment and other non-expendable property are not included in the assets of the Centre. Acquisitions are charged against allotments in the year of purchase.

Liabilities and reserves and fund balances

(x) Reserves are considered to be one component of a new category encompassing both reserves and fund balances, and they are accordingly included in the totals for "Reserves and fund balances" shown in the financial statements;

(xi) Commitments of the Centre relating to the current financial period are shown as unliquidated obligations which remain valid for 12 months following the end of the year to which they relate;

(xii) Deferred income includes pledged contributions received for future periods and other income received but not yet earned;

(xiii) No provision is made in the General Fund for repatriation grant entitlement, as funds are provided for in budget appropriations;

(xiv) 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. This provision is disclosed in the United Nations General Fund;

(xv) Liabilities do not include any provision for benefits payable to staff on termination of service.

(k) Technical cooperation accounts

(i) Statements I and II include the technical cooperation activities financial reports on the activities financed by the trust funds and UNDP;

(ii) Funds received under interorganization arrangements – UNDP. The figures for allocation income from UNDP are the same as reported for total expenditure in line with UNDP procedures, which require that allocations be adjusted to equal actual expenditure;

(iii) Voluntary contributions – trust funds. Contributions from Governments or other donors are recorded upon receipt of the contribution or upon approval of the project by the donor. 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 project approved by the donor and the recipient country;

(iv) Interest and miscellaneous income arising from UNDP activities are credited to the operating fund accounts maintained with that organization. Interest accruing from the short-term investment of trust funds is credited first to the operating reserve to maintain that reserve at the agreed level (see subpara. (xi)), then to support costs to meet any annual deficit attributable to currency fluctuations and thereafter to donors' funds. Trust fund miscellaneous income accruing from the sale of surplus property or refunds of expenditure are credited to the project from which the purchase or expenditure was originally financed. If the project is closed, this income is credited to the donor;

(v) Unspent allocations/other liabilities – UNDP. The unspent balance of allocations issued for the current year, together with allocations issued for future years, is reflected as an asset and as other liabilities. Unspent allocations for UNDP-financed projects are based on the project budgets. Unspent allocations for UNDP-administered trust funds are based on allocation advices issued by UNDP;

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

(vii) Unliquidated obligations for the current period in respect of trust funds and UNDP financed activities remain valid for 12 months following the end of the 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; in such cases liabilities are reported as accounts payable in the financial statements. Savings in the liquidation of prior period obligations are credited to individual projects as a reduction of current period expenditure in accordance with UNDP reporting requirements;

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

(ix) A system of standard costs is applied to trust fund projects. Projects are charged at standard costs for the provision of experts' services, the annual difference between the standard costs applied and the actual costs incurred being transferred to the operating reserve (see subpara. (xi));

(x) Gain or loss on exchange. Any exchange difference incurred in respect of UNDP projects is debited or credited to the operating fund maintained with that organization. Any differences accruing on trust fund projects in respect of normal day-to-day transactions are borne by the appropriate project budgets. Those currency fluctuations which cannot be attributed to any particular project are debited/credited to the operating reserve (see subpara. (xi));

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

(xii) Trust fund donors' fund balances. These funds comprise the unobligated balance of allocations, contributions not yet allocated, residual balances of closed projects, interest, and miscellaneous income, including those items described under subparagraph (iv). 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;

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

(xiv) Provision to meet contingent liabilities for compensation under appendix D to the staff rules of the United Nations for personnel financed by technical cooperation trust funds is calculated on the basis of 1 per cent of the net base pay and charged to the project allocations. This provision is disclosed in the United Nations General Fund.

(l) Support costs

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

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

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

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

(m) Training Packs Revolving Fund

Income accruing from the sale of any training pack or similar item financed from trust fund resources is credited to the Training Packs Revolving Fund and utilized to finance the costs of reprinting, translation and other related costs.

(n) Electronic Data Processing/International Computing Centre (EDP/ICC) Revolving Fund

Income accruing from the sale of electronic data-processing services financed from trust fund and other resources is credited to the EDP/ICC Revolving Fund and utilized to finance the provision of further services.

(o) Trade Flow Analysis Revolving Fund

Income accruing from the sale of trade data analyses at the global, regional, national and enterprise levels is credited to the Trade Flow Analysis Revolving Fund and utilized to finance the provision of further services.

Note 3. General Fund (statements I and II)

(a) Income

Under the terms of General Assembly resolution 2297 (XXII) of 12 December 1967 and the decision of the Contracting Parties to the General Agreement on Tariffs and Trade dated 22 November 1967, the regular budget of the International Trade Centre should be shared equally between the United Nations and GATT (now WTO).

The total contribution received from each of the parent bodies during the biennium 1996–1997 was $20,117,829.

(b) Assets

(i) *Cash and term deposits* represent the total of all cash balances. The amount of $1,181,673 ($895,817 in 1995) includes $1,169,480 ($732,628 in 1995) held in interest-bearing deposits;

(ii) *Accounts receivable* comprise:

a. *Inter-fund balances* reflect transactions between the Centre's funds participating in the United Nations general accounting system.

b. *Others:*

	1997	*1995*
	(United States dollars)	
Advances to staff	241 583	225 261
ICC costs paid in advance	436 994	—
Value added tax (VAT) to be reimbursed by Governments	2 250	122 852
Accrued interest	39 304	30
Miscellaneous items	62 828	33 842
Total	**782 959**	**381 985**

(iii) *Deferred charges* comprise:

	1997	1995
	(United States dollars)	
Education grant advances to staff (note 2 (j) (viii))	118 000	115 805
Miscellaneous items paid in advance	36 277	37 090
Total	**154 277**	**152 895**

(iv) *Non-expendable property*: in accordance with the United Nations accounting policies, non-expendable property is not included in the fixed assets of the Centre but is charged against the current appropriations when acquired. The inventory records as at 31 December 1997 totalled to $2,904,814, which includes $1,180,407 for ITC technical cooperation projects.

(c) Liabilities

(i) *Accounts payable* comprise:

	1997	1995
	(United States dollars)	
Balances due to staff	43 081	81 516
Other items	40 511	51 701
Total	**83 592**	**133 217**

(ii) In addition to the above-mentioned liabilities, ITC has financial commitments in respect of leases extending beyond the financial period ended 31 December 1997. The estimated costs of these arrangements to be met from the appropriations of the bienniums 1998–1999 and 2000–2001 are:

	1998–1999	2000–2001
	(United States dollars)	
Lease of ITC headquarters building	2 178 040	2 178 040
Rental of reprographic equipment	307 199	103 521
Rental of photocopiers	70 648	70 648
Rental of fax machines	14 146	—

(iii) *Reserves and fund balances*

The surplus account of the Centre's General Fund represents funds available for the credit of the United Nations and WTO arising from the unobligated balance of appropriations for the biennium 1996–1997 and the savings on the liquidation of obligations for the prior period. During the biennium, a surplus of $564,715, comprising $345,879 brought forward from the biennium 1994–1995, and $218,836 representing the savings on the liquidation of 1994–1995 obligations was offset against the contributions of the United Nations and WTO.

Note 4. Technical cooperation activities (statements I and II)

(a) The UNDP sectoral support and the UNDP administered trust funds projects, previously included in the technical cooperation activities trust funds, are now presented in the UNDP accounts. Certain reclassifications have therefore been made to the comparative figures shown in the financial statements for the period 1 January 1994 to 31 December 1995.

(b) *Trust funds*

(i) *Income* during the biennium comprises:

	1996–1997	*1994–1995*
	(United States dollars)	
Voluntary contributions	19 184 998	20 458 590
Interest	1 579 144	556 957
Total	**20 764 142**	**21 015 547**

(ii) *Expenditure* during the biennium comprises:

	1996–1997	*1994–1995*
	(United States dollars)	
Salaries and common staff costs	12 885 224	13 022 130
Travel	1 532 923	1 412 725
Contractual services	1 317 146	693 069
General operating expenses	818 896	859 744
Acquisitions	303 282	1 281 328
Fellowships, grants, other	1 241 113	1 311 206
Total project costs	**18 098 584**	**18 580 202**
Programme support costs	2 345 167	2 407 153
Total expenditure	**20 443 751**	**20 987 355**

(iii) *Assets*

a. *Cash* comprises:

	1997	*1995*
	(United States dollars)	
Cash at banks	378 297	442 296
Interest-bearing deposits	13 348 705	6 994 364
Held by imprest holders	2 829	400
Total	**13 729 831**	**7 437 060**

b. *Inter-fund balances receivable* comprise:

	1997	1995
	(United States dollars)	
Due from ITC programme support costs	—	19 235
Due from ITC General Fund	—	27 696
Inter-fund balances receivable	2 123 327	1 301 064
Total	**2 123 327**	**1 347 995**

c. *Other accounts receivable* comprise:

	1997	1995
	(United States dollars)	
Advances to staff members	205 509	86 236
INTERNATIONAL COMMUNITY costs paid in advance	—	220 055
Accrued interest	402 343	62 010
VAT recoverable from Governments	10 427	24 356
Amounts billed to various organizations	2 915	25 212
Other items	17 058	237 242
Total	**638 252**	**655 111**

d. *Deferred charges and other assets* comprise:

	1997	1995
	(United States dollars)	
Unliquidated obligations for future periods	1 736 443	1 929 778
Inter-office vouchers in suspense	4 830	40 270
Education grant advances to staff (note 2 (j) (viii))	7 443	1 417
Miscellaneous items	1 818	19 390
Total	**1 750 534**	**1 990 855**

(iv) *Liabilities*

a. *Inter-fund balances payable* comprise:

	1997	1995
	(United States dollars)	
Due to ITC General Fund	54 043	—
Due to ITC support costs	516 399	—
Due to Training Packs Revolving Fund	80 974	55 834
Due to INTERNATIONAL COMMUNITY/EDP Revolving Fund	165 711	144 495
Due to Trade Flow Analysis Revolving Fund	85 765	—
Due to UNDP	374 611	—
Total	**1 277 503**	**200 329**

b. *Other accounts payable* comprise:

	1997	1995
	(United States dollars)	
Due to United Nations General Fund	1 253 331	1 354 094
Report processing account [a]	13 980	8 531
Outdated cheques	115	334
Fund balance payable to donors	—	137 965
Payable to staff	70 012	74 340
Miscellaneous items	99 064	—
Total	**1 436 502**	**1 575 264**

[a] A system of standard costs is applied for charging technical cooperation projects with costs for reports which are drafted by project personnel consultants. The standard rates used per report were $910 in 1996 and $930 in 1997. On 1 January 1996, the balance of the account was $8,531. During the biennium 1996–1997, $431,902 was credited in respect of report processing costs charged to projects and $2,661 representing interest earned on investment of fund. The expenditures incurred against this account amounted to $429,114 including $54,685 for the costs of stationery and materials used in document reproduction. Expenditures covered mainly administrative staff costs involved in editing and reproduction. At 31 December 1997, the balance of this account amounted to $13,980 which is included in "Other accounts payable" above.

c. *Other liabilities* comprise:

	1997	1995
	(United States dollars)	
Contributions receivable for future years	2 908 343	8 853 332
Commitments for future years	1 736 443	1 929 778
Total	**4 644 786**	**10 783 110**

(v) *Operating reserve*

This reserve is maintained to meet contingencies arising from the termination of employment of experts, etc. As reflected in the summary of significant accounting policies (note 2 (k) (xi)), it is the Centre's policy to maintain this reserve at a predetermined level ($1,087,816 for the biennium 1996–1977), and, with the general agreement of the donors, the first charge upon interest accruing from the investment of funds is to maintain this reserve at that level.

(c) *United Nations Development Programme*

(i) *Expenditure* during the biennium comprises:

	1996–1997	*1994–1995*
	(United States dollars)	
Salaries and common staff costs	4 142 875	5 902 800
Travel	334 485	730 797
Contractual services	134 494	407 196
General operating expenses	410 209	646 392
Acquisitions	387 937	827 347
Fellowships, grants, other	670 713	1 035 215
Total project costs	**6 080 713**	**9 549 747**
Programme support costs	1 140 663	1 878 153
Total expenditure	**7 221 376**	**11 427 900**

(ii) *Assets*

a. *Cash* comprises:

	1997	*1995*
	(United States dollars)	
Cash at banks	—	399 082
Held by imprest holders	2 070	3 055
Total	**2 070**	**402 137**

b. *Other accounts receivable* comprise:

	1997	*1995*
	(United States dollars)	
VAT recoverable from Governments	471	—
Due from UNDP	2 476 756	591 009
Due from other agencies	44 060	1 344 788
Due from staff	182 353	139 478
Miscellaneous items	23 877	13 510
Total	**2 727 517**	**2 088 785**

c. *Deferred charges* comprise:

	1997	1995
	(United States dollars)	
Unliquidated obligations for future periods	528 823	810 149
Inter-office vouchers in suspense	13 612	—
Education grant advances to staff (note 2 (j) (viii))	—	6 792
Other items	15 402	11 612
Total	**557 837**	**828 553**

(iii) *Liabilities*

a. *Inter-fund balances payable* comprise:

	1997	1995
	(United States dollars)	
Inter-fund balances payable	2 123 327	1 307 478
Total	**2 123 327**	**1 307 478**

b. *Other accounts payable* comprise:

	1997	1995
	(United States dollars)	
Unliquidated obligations billed to other agencies	374 611	252 221
Payable to staff	43 162	—
Miscellaneous items	23 470	23 779
Total	**441 243**	**276 000**

c. *Other liabilities* comprise:

	1997	1995
	(United States dollars)	
Unspent allocations for future years	3 925 767	5 169 252
Commitments for future years	528 823	810 149
Total	**4 454 590**	**5 979 401**

(iv) Statement I excludes expenditure of $2,584,834 on projects executed by the Centre for various organizations as an implementing agency for the biennium 1996–1997. Those expenditures are reported fully in the executing agencies' own financial statements. The programme support cost income earned from these activities, $523,575 ($523,013 in 1994–1995), is included in statement I.

Note 5. Special account for programme support costs (statements I and II)

(a) *Income* during the biennium comprises:

	1996–1997	1994–1995
	(United States dollars)	
Support costs on trust fund projects	2 345 167	2 407 153
Support costs on UNDP projects	1 140 663	1 878 153
Support costs on associated agency projects	523 575	523 013
Interest	113 152	44 041
Compensation for exchange loss	—	209 000
Miscellaneous	42 845	70 982
Total	**4 165 402**	**5 132 342**

(b) *Expenditure* during the biennium comprises:

	1996–1997	1994–1995
	(United States dollars)	
Salaries and common staff costs	2 472 149	5 300 067
Travel	—	9 935
Contractual services	106 680	57 057
General operating expenses	7 231	6 268
Fellowships, grants, other	239 960	518 285
Total	**2 826 020**	**5 891 612**

(c) *Reserves and fund balances*

The reserves and fund balances totalled $1,492,956 at 31 December 1997 and reflected the following movements during the biennium (in United States dollars):

Fund balance at 1 January 1996	—
Savings on liquidation of prior period obligations	13 455
Transfers to operating reserve	(251 957)
Excess of income over expenditure	1 339 381
Fund balance at 31 December 1997	**1 100 879**
Operating reserves as at 1 January 1996	140 120
Transfers from surplus account	251 957
Reserve balance at 31 December 1997	**392 077**

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