

Registered number: 03616935
Charity number: 1073051

**THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE
(VERTIC)**

(A company limited by guarantee)

TRUSTEES REPORT AND FINANCIAL STATEMENTS

For the year ended 31 October 2006



THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

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THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

LEGAL AND ADMINISTRATIVE INFORMATION For the year ended 31 October 2006

Trustees

Dr M Anderson

Sir W G H Beach, Co-Chair

Mr D Brack

Mr L Challenor-Chadwick (resigned 05/10/2006)

Dr O J Greene, Co-Chair

Mr N Sims

Professor D M Wolfe

Ms S M Willett

Company Registered Number

03616935

Charity Registered Number

1073051

Registered Office

Development House, 56 - 64 Leonard Street, London, EC2A 4JX

Company Secretary

Angela Woodward

Chief Executive

Michael Crowley

Auditors

haysmacintyre, Fairfax House, 15 Fulwood Place, London, WC1V 6AY

Bankers

NatWest, Covent Garden Branch, PO Box 411, 34 Henrietta Street, London, WC2E 8NN

CAF Bank Limited, Kings Hill, West Malling, Kent, ME19 4TA

Solicitors

Bircham Dyson Bell, 50 Broadway, Westminster, London, SW1H 0BL

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT For the year ended 31 October 2006

The Trustees, who are also directors of the charity for the purposes of the Companies Act, submit their annual report and the financial statements of the Verification Research, Training and Information Centre (the company) for the year ended 31 October 2006. The Trustees confirm that the annual report and financial statements of the company comply with current statutory requirements, the requirements of the company's governing document and the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" revised in 2005.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Constitution and organisation structure

The company is registered as a charitable company limited by guarantee and is governed by its Memorandum and Articles of Association as incorporated on 17 August 1998, and subsequently amended on 2 October 2000.

Directors and Trustees

The directors of the charitable company are its trustees for the purpose of charity law. There are no other trustees. The trustees who served throughout the period and at the date of this report are set out on page 1. A Board of Directors governs the company. In accordance with VERTIC's constitution, the maximum number of Board members is determined by the company in general meeting and the minimum number in office at any given time must be three. At the Annual General Meeting on 14 February 2006 all of the existing Board members resigned and were eligible for reappointment. The Board of Directors has the power to appoint new Board members at any time up to the maximum fixed amount, currently eight persons.

The Board of Directors is responsible for overall control of VERTIC's operations and meets regularly to review the performance of VERTIC, and to plan and authorise strategic decisions. The Executive Director, Michael Crowley is responsible for the day-to-day administration of the charity.

Trustee induction, training and recruitment policy

The trustees have recognised the importance of ensuring that the governance systems in place reflect good practice and Charity Commission guidance, and are workable for an organisation of VERTIC's size, resources and range of activities. In particular, the related issues of trustee induction, training and recruitment have been highlighted as areas where policy needs to be expanded and are currently under review.

Risk assessment

A review of VERTIC's activities, risks and opportunities was conducted by the trustees and staff as part of the charity's strategic planning process which in turn gave rise to the organisation's current three year Strategic Plan (developed over the course of this year). The organisation is currently updating its Risk Assessment Register.

Our responses to the external risks identified play a key part in shaping our strategy and our operational plans. Internal risks are addressed by periodic reviews of internal controls and improvements in systems designed to minimise risks. Examples include:

- Written procedures governing the delegation of authority to the Director and to other staff.
- Formal limits of authorised expenditure for each staff member and the requirement for at least two signatories to approve transactions above specified levels.
- Segregation of duties of staff as far as possible.
- Regular reviews of the accounts by the Director and the Board.
- Responding to control issues highlighted by our auditors.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

Risk assessment (continued)

It should be noted that during this year, VERTIC's Administrator resigned (in December 2005) and a new Administrator came into post in March 2006 - with some loss in organisational memory. Internal control processes were subsequently reviewed and expanded taking into account the advice of the auditors.

VERTIC is a small but expanding charity in an ever-changing environment and the trustees are very much aware that the risks facing the charity are not constant. Consequently the monitoring of risk is a high priority for the trustees and the staff.

OBJECTIVES AND ACTIVITIES

The company is established:

- To conduct research and obtain information on verification, monitoring and implementation of international and intra national agreements, arrangements and related issues; and
- To publish such information both indirectly through the media channels and directly through its own publications.

There have been no changes in the objects since the last annual report.

Over the course of this year - following an internal and external environmental review and analysis - VERTIC developed and refined its three year Strategic Plan. Under this plan, the organization set itself the following objectives:

Overall organizational objective/mission statement

VERTIC is an independent, non-profit making non-governmental organization. Its mission is to promote effective and efficient verification as a means to ensuring confidence in the implementation of international agreements and intra-national agreements with international involvement. It works to fulfil this mission primarily in three programme areas: arms control and disarmament; peace accords; and environmental issues. VERTIC aims to achieve its mission by means of: research, training, dissemination of information, and interaction with relevant political, diplomatic, technical, scientific, inter-governmental and non-governmental communities.

Research objective

- To maintain and enhance VERTIC's reputation as an impartial and authoritative research institute by ensuring the production of timely, relevant, objective and comprehensive policy-oriented research of the highest quality which critically analyses implementation and verification of international agreements - highlighting weaknesses and recommending solutions, where appropriate.

Influence and change objectives

- To maintain and improve VERTIC's interaction with existing key constituencies and explore the development of links to new target constituencies in order to promote, influence and facilitate the effective implementation and verification of international agreements.
- To help set and inform the agendas for public and wider political debate related to VERTIC's mission statement.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

Public profile, information dissemination and awareness raising objectives

- To develop VERTIC's profile and reputation as the leading independent research, training and public information organisation and clearinghouse in the field of verification.
- To promote greater awareness and understanding by governments and civil society of the role and importance of verification in effective implementation of international agreements.

Capacity building and training objectives

- To enhance VERTIC's ability to develop capacity building materials, facilitate and provide training packages for governments on implementation and verification of international agreements.
- Where appropriate, promote and facilitate civil society engagement in monitoring and verification activities.

Organizational funding objective

- To secure adequate, stable and sustainable funding to ensure VERTIC has the resources to carry out its mission.

Management, administration and governance objectives

- To maintain and improve organizational and management systems to ensure that VERTIC is programmatically effective as well as being a cost-effective, results-orientated organization that respects and nurtures its staff.
- To maintain and improve systems to ensure that there is effective Board oversight and governance of VERTIC activities.

ACHIEVEMENTS AND PERFORMANCE

This has been a year of intense and highly productive activity across the organization, with the Arms Control & Disarmament Programme and the Environment Programme delivering well-regarded research and policy analysis, and undertaking a range of technical and awareness-raising seminars and workshops that have been very well received by the governmental, inter-governmental and non-governmental communities. This work has been greatly facilitated by the steady development of the organization's outreach, networking and information dissemination systems. VERTIC's public profile has also increased during this year, partly due to its programme activities but also as a result of its increased responsiveness to media enquiries. However, despite successful fund raising activities - particularly with regard to programme and project work - the organization still faces strict financial constraints.

Arms control and disarmament programme

(i) Nuclear weapons

Led by Andreas Persbo, the nuclear research programme was expanded and strengthened with the recruitment in February 2006 of nuclear physicist, Dr James Acton, to work on the scientific and technological aspects of nuclear research and policy development. A major research project was launched into verification of nuclear research and development (specifically weaponization of nuclear materials) which resulted in a report by Dr Acton and Carter Newman, IAEA verification of military research and development, Verification Matters 5, July 2006. The report was positively received by the governmental and non-governmental communities, as well as the IAEA itself. VERTIC is currently developing the next stage of this research project in collaboration with Professor Peter Zimmerman of Kings College London.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

(i) Nuclear weapons (continued)

VERTIC continued its close collaboration with the Comprehensive Nuclear Test Ban Treaty Organization (CTBTO), working closely with CTBTO personnel, contributing articles to CTBTO publications and holding a seminar at the request of the CTBTO to mark their 10th anniversary, immediately following the CTBTO Secretary General's report to the General Assembly in New York, in October 2006. Programme staff produced a comprehensive compendium of CTBT-related source documents and an accompanying DVD for the 60 governmental, UN and IGO representatives who attended the seminar.

VERTIC closely monitored developments in the North Korean nuclear weapons programme in the run-up to and aftermath of North Korea's nuclear test in October 2006. The organization subsequently advised UN, IGO, governmental and NGO representatives of the test's potential implications for international peace and security, and responded to numerous media requests for information on verifying the nuclear test. VERTIC is currently conducting a dedicated six-month research and policy analysis project into the Iranian nuclear programme. The results are scheduled to be published in spring 2007.

Over the year, programme staff have advised governments on verification approaches towards for the proposed Fissile Material Cut-Off Treaty. Andreas Persbo has also written a policy paper for the Norwegian Institute for Foreign Affairs on the verification of nuclear disarmament.

(ii) Biological and chemical weapons

VERTIC's biological weapons related research and advocacy activities, led by VERTIC's Deputy Director, Angela Woodward, increased dramatically over the course of this year, with the aim of informing and influencing deliberations during the Biological Weapons Convention 6th Review Conference, held from 20 November to 8 December 2006. Two major publications were published and widely distributed to conference delegates:

- (i) A new strategy: strengthening the biological weapons regime through modular mechanisms, Verification Matters Report No. 6, October 2006. Designed to feed into the BWC 6th Review Conference and anticipated subsequent inter-sessional process, this report elaborated a range of modular mechanisms to strengthen implementation, compliance clarification and verification of the biological weapons regime.
- (ii) BWC 6th Review Conference Briefing Book: This comprehensive resource publication contains a wide range of official documents and other texts relating to the biological weapons regime with accompanying explanatory notes. It was compiled by VERTIC, BASIC and the Harvard Sussex Programme primarily for delegates to the Review Conference, although it is also proving popular with a range of government officials involved in national implementation of the BWC.

VERTIC also collaborated with Interpol to draft a model law to prohibit and prevent bioterrorism (Model legislation to prohibit biocrimes and to promote biosafety and biosecurity). A draft version was launched at the Interpol side meeting held on the margins of the BWC Review Conference in Geneva in December 2006. Angela Woodward also gave presentations on BWC national implementing legislation at a number of regional workshops organized by Interpol and by the International Committee of the Red Cross throughout the year.

VERTIC has continued to undertake activities as part of the Bioweapons Prevention Project (BWPP), with VERTIC's Director replacing the Deputy Director as BWPP Chair in January 2006. In February 2006, Angela Woodward, was appointed (part-time) Legal Coordinator at the BWPP to work on the European Union Joint Action on the BWC, for which the BWPP is the technical implementing agency. The EUJA seeks to promote universality and support implementation of the BWC through national legislation.

While biological weapons have taken priority this year, VERTIC has also maintained a watching brief on chemical weapons concerns and began preparations for research, policy and advocacy work in advance of the Chemical Weapons Convention 2nd Review Conference in April 2008.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

(iii) National implementation measures (NIM) for NBC weapons obligations

During 2006, VERTIC dramatically increased the range of activities and products under its NIM project, to raise awareness and build capacity among states to implement nuclear, chemical and biological weapons treaties, norms and UN Security Council resolutions (specifically UNSCR 1540) through national measures, including laws and regulations. Under this project VERTIC has:

(a) Conducted the following awareness raising seminars specifically targeted at the intergovernmental diplomatic community

- Technical Assistance for BWC implementation: This seminar was held on the margins of the BWC Meeting of States Parties, in Geneva, in December 2005 and attracted 55 delegates drawn from states and international organizations participating in the BWC/MSP.
- Approaches to national legislation for nuclear and biological weapons treaties, norms and UN Security Council Resolutions: This seminar, which was sponsored by the UK Mission to the UN, was held in April 2006, in New York, on the margins of the UN Disarmament Commission. Seventy representatives from states, UN Agencies and international and nongovernmental organizations were in attendance.
- Approaches to national implementation of nuclear, biological and chemical weapons agreements: Co-sponsored by the UK FCO, and held in the FCO buildings in June 2006, the event was attended by 35 representatives of the diplomatic community in London.

(b) Organized the following regional workshops for states to explore NBC national implementing legislation-related issues in depth, taking into account and learning from specific regional experiences and approaches:

- Gulf Regional Workshop, Dubai, United Arab Emirates from 2-3rd May 2006: Organized by VERTIC in conjunction with the Gulf Research Centre, the workshop explored national implementation measures in the context of the development of a WMD free zone in the Gulf Region. Representation was secured from the following states: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the UAE and Yemen. The level of delegates represented was high and included the Deputy Foreign Minister of Iraq, senior advisors to the Iranian Expediency Council together with senior representatives of Gulf State foreign ministries and high ranking members of the armed forces.
- Middle East Regional Workshop, Amman, Jordan, 29-30 August 2006: Organized in conjunction with the Cooperative Monitoring Centre, the workshop attracted the participation of governmental representatives on NBC weapons policy from Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Syria and Turkey.

(c) Published, or prepared for publication, the following titles:

- Guide to national implementation measures for nuclear, biological and chemical weapons treaties and UN Security Council resolutions. A draft version of this guide was completed and circulated for peer review and feedback from governmental, IO and NGO experts during 2006. Final revisions are currently being incorporated.
- NIM treaty fact sheets: a range of professionally designed fact sheets highlighting NIM obligations with regard to the major nuclear, biological and chemical treaties and UNSCR 1540.
- 'The relationship between the Biological Weapons Convention and UNSCR 1540', Angela Woodward. A chapter for *Global non-proliferation and counter-terrorism: The impact of UNSCR 1540*, (Editors: Olivia Bosch and Peter van Ham), Clingendael, The Hague, Chatham House, London and The Brookings Institution Press, December 2006).
Following a review of VERTIC's NIM activities, the UK FCO Global Opportunities Fund awarded VERTIC a substantial two year grant to continue and build upon this project.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

(iv) Conventional weapons

- Although VERTIC has received no dedicated funding for work on conventional arms and antipersonnel landmine issues for several years, the organization has maintained a low level of engagement in this area, with the organization contributing to UNIDIR's project on "European Action on Small Arms, Light Weapons and Explosive Remnants of War" and continuing its active membership of IANSA and the UK Working on Conventional Arms. In December 2007, VERTIC was invited by Saferworld to develop a report analyzing options for compliance verification, transparency and enforcement measures for the Arms Trade Treaty (ATT), and in February 2007, Michael Crowley will attend the ATT Steering Group meeting as an advisor.

Environment Programme

During 2006, in the run-up to the Kyoto Protocol's first commitment period, VERTIC's Environment Programme concentrated on activities promoting and facilitating improved standards in greenhouse gas monitoring, reporting and accounting. This work, coordinated by Larry MacFaul, VERTIC's Climate Change Researcher, culminated in a major technical assistance and capacity building workshop organized by VERTIC and the Regional Environmental Center for Central and Eastern Europe (REC) in Budapest, Hungary on 9-10 October 2006. The technical workshop was designed to assist the invited States Parties in their efforts to fulfil their monitoring and reporting requirements under the UNFCCC and Kyoto Protocol. Government participation in this workshop was high, with nearly 40 national focal points and/or inventory focal points of the following countries in attendance: Albania, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Turkey and the Ukraine. In addition to government representation, senior officials from the UNFCCC Secretariat and leading experts from research and international organizations together with independent environmental consultants were also in attendance, chairing sessions and giving presentations.

Larry MacFaul also participated in a series of governmental and non-governmental climate change meetings throughout the year, as well as attending the twelfth session of the UN Conference of the Parties to the Climate Change Convention (COP 12) and the second meeting of the Parties to the Kyoto Protocol (MOP 2), held in Nairobi, Kenya from 6 November to 17 November 2006. During this conference, as well as contributing to a range of Climate Action Network (CAN) activities, VERTIC and REC held a side event presenting the results of the Hungary workshop and further follow up work.

The second major climate change project VERTIC has undertaken during 2006 concerns the development of proposals for an effective and equitable post 2012 regime. In October 2006, the initial research and analysis was published in: 'Developing the climate change regime: the role of verification' by Larry MacFaul, which appeared as a chapter in the European Safeguards Research and Development Association (ESARDA) publication: Verifying Treaty Compliance: Limiting Weapons of Mass Destruction and Monitoring Kyoto Protocol Provisions, edited by R. Avenhaus, N. Kyriakopoulos, M. Richard and G. Stein. Further research on the functionality of existing post 2012 regime proposals is currently underway with a view to publishing a major publication on this issue for the 2007 COPMOP. Larry MacFaul has begun to build a group of experts to work with us on this project.

Throughout the year, the Climate Change Researcher has kept a watching brief on developments in other multilateral environmental agreements and is currently finalizing preparations for a research project on greenhouse gas monitoring to be undertaken by a VERTIC Science Fellow in March 2007.

Peace and human security Programme

Although VERTIC had no dedicated staff or funding for its Peace and Human Security Programme, the organization maintained a watching brief in this area.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

Public profile, publications & information dissemination

During 2006, VERTIC's public profile rose considerably with staff quoted and/or organizational activities highlighted in the media on the following issue areas:

- (i) Iranian nuclear programme: BBC Radio 4 (News bulletins), BBC 1 (10pm News), IRIB (Islamic Republic of Iran Broadcasting News Network), Sky News.
- (ii) NBC National Implementation Measures: Global Security Newswire, Khaleej Times, Al Arabiya and the BBC Arabic and Persian services.
- (iii) North Korean nuclear weapon test: AFP (Agence France-Presse), Korean Times (front page), The Guardian, Nature, New Scientist, Toronto Globe and Mail, BBC Radio 4 News, LBC, Radio Netherlands and Radio France.

VERTIC's profile was also raised following the professional re-design and re-launch of the organization's website. The newly designed website has garnered much praise from the governmental and non-governmental community. NIM project staff are currently working with the same web-designer to construct a dedicated NIM web-site, which is due to be launched in March 2007.

VERTIC's information dissemination, networking and awareness raising activities have continued apace - primarily in support of the major environment and arms control programme activities. Throughout 2006, VERTIC's online Verification Organizations Directory (VOD) was updated and expanded, and now contains the contact details of over 550 national and international entities based in 193 countries involved in verification activities in the field of arms control and disarmament.

This year, VERTIC's in-house publications included two major Verification Matters research reports together with a substantial BWC Briefing Book co-produced with BASIC and HSP. In addition, a range of NIM fact-sheets were published as was, Trust & Verify, the organization's newsletter. Due to lack of funds, work on the Verification Yearbook was postponed until further funding is forthcoming. VERTIC staff have also produced a number of commissioned reports and articles in a wide range of external publications.

Staffing

In February 2006, Dr James Acton was recruited as a Science Fellow - under a grant from Polden Puckham. He subsequently has been employed as VERTIC's Science and Technology Researcher under a project funded by the Joseph Rowntree Charitable Trust. In March 2006, Unini Tobun joined VERTIC as the organization's administrator. In September 2006, Jez Smith left VERTIC following the completion of his one year contract as the organization's Assistant Information Officer and Networker.

VERTIC is currently recruiting an 18 month Research Assistant to work on our NBC national implementation measures (NIM) project. This post is funded by the UK and Dutch governments.

A steady stream of interns continued to be attracted to VERTIC. While interns make an important contribution to VERTIC's work and work ambience, it could not be said that VERTIC's operations were dependent on them.

Fundraising

During this year, VERTIC secured significant new grants from the UK Foreign and Commonwealth Office Global Opportunities Fund and the Netherlands Ministry of Foreign Affairs to continue its NBC national implementation measures project for a further two years. VERTIC also received a substantial three year grant from the Joseph Rowntree Charitable Trust to contribute to core funding, as well as dedicated funding for a six month research project. Further major project funding was also forthcoming from the MacArthur Foundation and the Ploughshares Fund. VERTIC also received smaller funds from UNIDIR and the Governments of Germany, New Zealand, the Netherlands and Norway.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

Fundraising (continued)

Despite these significant grants, the financial situation is still not satisfactory. Whilst project fundraising, this year, has been very successful, the organization has had continuing difficulty in obtaining enough unrestricted funds to sustain its core activities. Fund raising continues to be the top priority for the Executive Director with emphasis placed upon securing unrestricted funding and upon ensuring that all project costs (including organizational core costs) are fully met.

FINANCIAL REVIEW

Although the organisation was £52,786 in surplus with a positive balance of £87,310 on restricted funding it had a deficit of £34,524 with regard to unrestricted funding, as of 31 October 2006.

The Director, staff and Trustees have been working with our accountants to develop and implement a coordinated funding strategy to address this imbalance, which includes:

1. Ensuring that all project funding applications include sufficient budget lines to fully cover the complete organisational costs for VERTIC;
2. Securing further unrestricted grants from a wider range of funding sources including: charitable foundations, governments and private philanthropists;
3. Undertaking more consultancy projects for a wider range of customers, ensuring payment for such projects will be unrestricted funding;
4. Reviewing existing core costs and seeking ways in which such costs can be reduced.

Following the development of these measures there has been an improvement in VERTIC's financial position - with the organisation's overall bank balance increasing to £87,373, as of 31st January 2007. This followed the receipt of the first component of funds under a substantial two year grant from the UK Government Global Opportunities Fund. As well as funding VERTIC's National Implementation Measures (NIM) activities, the grant will make a significant contribution to the organisation's core costs over the next two years. Further applications are currently being made to funders for both restricted and unrestricted funds - with an application for unrestricted funding currently in the final stages of approval.

Reserves policy

VERTIC seeks to maintain a level of unrestricted reserves that would be adequate to meet all current and known future liabilities. In practice the trustees consider that holding unrestricted reserves equivalent to three months core costs equivalent to approximately £60,000 on current costs.

VERTIC's income was £ 332,041 in the year ended 31 October 2006 compared to £265,473 for the year ended 31 October 2005. The total expenditure was £384,979 for the year to 31 October 2006 compared to £301,854 for the year ended 31 October 2005. The fund balance carried forward at 31 October 2006 was (£34,524) on unrestricted general reserves. The restricted reserves balance on ongoing projects was 87,310 at 31 October 2006. The full Statement of Financial Activities is set out on page 13 of these accounts.

VERTIC holds no significant assets apart from fixtures and fittings, office and computer equipment.

Details of the restricted projects are given in note 13 to the accounts. The trustees are confident that adequate resources are available to enable completion of these projects.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

TRUSTEES' REPORT (continued) For the year ended 31 October 2006

Investment policy and performance

The Memorandum and Articles of Association provides that the company invests moneys not immediately required for its own purposes in or upon such investments, securities or property, as may be thought fit. At the present time the trustee's policy is to maintain all such monies on deposits earning a market rate of interest.

TRUSTEE'S RESPONSIBILITIES

The Trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice applicable to smaller charities.

Company and charity law applicable to charities in England and Wales requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements the Trustees have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on a going concern basis (unless it is inappropriate to presume that the company will continue in operation)

The Trustees have overall responsibility for ensuring that the company has an appropriate system of controls, financial and otherwise. They are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Trustient, having merged with haysmacintyre are willing to be re appointed in accordance with section 385 of the Companies Act 1985 under the name of haysmacintyre.

This report was approved by the Trustees on 14 February 2007 and signed on its behalf, by:



Sir W G H Beach, Co-Chair



Dr O J Greene, Co-Chair

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

We have audited the financial statements of The Verification Research, Training and Information Centre (VERTIC) for the year ended 31 October 2006 set out on pages 13 to 25. These financial statements have been prepared in accordance with the accounting policies set out therein, the Statement of Recommended Practice: 'Accounting by Charities' and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2005)

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

RESPECTIVE RESPONSIBILITIES OF THE TRUSTEES AND AUDITORS

As described in the Statement of Trustees' Responsibilities the charity's Trustees (who also act as company directors of The Verification Research, Training and Information Centre (VERTIC)) are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Report is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Trustees' remuneration and other transactions is not disclosed.

We report to you whether in our opinion the information given in the Trustees' report is consistent with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to smaller charities, of the state of the company's affairs as at 31 October 2006 and of its incoming resources and application of resources in the year then ended;
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Trustees' report is consistent with the financial statements.



haysmacintyre
Chartered Accountants
Registered Auditors
Fairfax House
15 Fulwood Place
London
WC1V 6AY

Date: 14 February 2007

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

STATEMENT OF FINANCIAL ACTIVITIES
(incorporating income and expenditure account)
For the year ended 31 October 2006

	Note	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
INCOMING RESOURCES					
<i>Incoming resources from generated funds</i>					
Voluntary income and core funding	2	-	30,652	30,652	64,310
Investment income		-	1,974	1,974	2,173
<i>Incoming resources from charitable activities</i>					
Verification research, training and provision of information	3	285,372	14,043	299,415	198,990
TOTAL INCOMING RESOURCES		<u>285,372</u>	<u>46,669</u>	<u>332,041</u>	<u>265,473</u>
RESOURCES EXPENDED					
<i>Costs of generating funds:</i>					
Generating voluntary income	5	-	5,112	5,112	4,162
<i>Charitable expenditure:</i>					
Verification research, training and provision of information	4	285,558	83,465	369,023	285,687
<i>Governance</i>	6	-	10,844	10,844	12,005
TOTAL RESOURCES EXPENDED		<u>285,558</u>	<u>99,421</u>	<u>384,979</u>	<u>301,854</u>
NET (EXPENDITURE)/INCOME FOR THE YEAR					
TOTAL FUNDS AT 1 NOVEMBER 2005		<u>87,496</u>	<u>18,228</u>	<u>105,724</u>	<u>142,105</u>
TOTAL FUNDS AT 31 OCTOBER 2006		<u><u>87,310</u></u>	<u><u>(34,524)</u></u>	<u><u>52,786</u></u>	<u><u>105,724</u></u>

There were no recognised gains or loss for 2006 and 2005 other than those included in the Statement of Financial Activities.

The notes on pages 15 to 25 form part of these financial statements.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

BALANCE SHEET
As at 31 October 2006

	Note	£	2006 £	£	2005 £
FIXED ASSETS					
Tangible fixed assets	9		12,058		6,276
CURRENT ASSETS					
Debtors	10	36,565		50,337	
Cash at bank		20,705		58,332	
			<u>57,270</u>	<u>108,669</u>	
CREDITORS: amounts falling due within one year	11	(16,542)		(9,221)	
			<u>40,728</u>	<u>99,448</u>	
NET ASSETS	14		<u><u>52,786</u></u>	<u><u>105,724</u></u>	
CHARITY FUNDS					
Restricted Funds	13		87,310		87,496
Unrestricted - General Funds	13		(34,524)		18,228
			<u>52,786</u>	<u>105,724</u>	

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

The financial statements were approved by the Trustees on 14 February 2007 and signed on their behalf, by:


Sir W G H Beach, Co-Chair


Dr O J Greene, Co-Chair

The notes on pages 15 to 25 form part of these financial statements.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005). The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" revised in 2005 and, applicable accounting standards and the Companies Act 1985.

The comparatives have been restated in accordance to SORP 2005.

1.2 Company status

The charity is a company limited by guarantee. The members of the company are the trustees named on page 1. In the event of the company being wound up, each member is liable to contribute a sum not exceeding £1.

1.3 Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the company and which have not been designated for other purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors which have been raised by the company for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

1.4 Incoming resources

All incoming resources are included in the Statement of Financial Activities when the company is legally entitled to the income and the amount can be quantified with reasonable accuracy. Income from donations and grants is included in incoming resources when these are receivable.

Donated services are included at the value to the company where this can be quantified and a third party is bearing the cost. No amounts are included in the financial statements for services donated by volunteers.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

1. ACCOUNTING POLICIES (continued)

1.5 Resources expended

All expenditure is accounted for on an accruals basis and has been included under expense categories that aggregate all costs for allocation to activities. Where costs cannot be directly attributed to particular activities they have been allocated on a basis consistent with the use of the resources.

Direct costs, including directly attributable salaries, are allocated on an actual basis to the key strategic areas of activity. Overheads and other salaries are allocated between the expense headings on the basis of time spent.

Fund raising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities.

Support costs are those costs incurred directly in support of expenditure on the objects of the Charity and are allocated on the basis of staff cost.

Governance costs are those costs incurred in connection with enabling the charity to comply with external regulation, constitutional and statutory requirements and in providing support to the Trustees in the discharge of their statutory duties.

1.6 Cash flow

The financial statements do not include a cash flow statement because the charitable company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective January 2005).

1.7 Tangible fixed assets and depreciation

All assets costing more than £200 are capitalised.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Furniture and Fittings	-	25%	reducing balance
Office Equipment	-	25%	reducing balance
Computer Equipment	-	25%	reducing balance

Computer equipment funded through restricted project funding has been written off over the duration of the project.

1.8 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the SOFA as incurred.

1.9 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the net income/(expenditure)result.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

1. ACCOUNTING POLICIES (continued)

1.10 Pensions

The charity subscribes to individual pension plans covering all its permanent employees. The staff contract stipulates that the charity will make contribution of at least 3% of basic pay provided the employee also contributes. Such contributions are held in funds administered by Friends Provident completely independently of the charity's finances. The charity's contributions are defined and no further liabilities accrue to the charity. Pension costs charged in the Statement of Financial Activities represent the contributions payable by the charity in the year.

1.11 Value Added Tax

The charity is not registered for VAT. In common with many other registered charities, The Verification Research, Training and Information Centre's expenses are inflated by VAT, which cannot be recovered.

1.12 Tax status

The company is a registered charity and is not subject to corporation tax on its current activities.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

2. VOLUNTARY INCOME AND CORE FUNDING

	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
The Joseph Rowntree Charitable Trust	-	15,000	15,000	50,000
Quakers (donation in kind - see note 11)	-	14,094	14,094	14,137
Other income	-	1,558	1,558	173
Total	-	30,652	30,652	64,310

3. VERIFICATION RESEARCH, TRAINING AND PROVISION OF INFORMATION

	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
Grants receivable and service agreements:				
Blix Commission	-	-	-	10,503
Ploughshares Fund	27,444	-	27,444	-
Esmée Fairbairn Foundation	24,239	-	24,239	48,479
John D. and Catherine T. MacArthur Foundation	52,797	-	52,797	81,078
Polden-Puckham Charitable Foundation	10,000	-	10,000	-
The Netherlands Government - Ministry of Foreign Affairs	-	-	-	1,450
The Norwegian Government - Royal Ministry of Foreign Affairs	-	-	-	1,444
The Joseph Rowntree Charitable Trust	34,760	-	34,760	-
Foreign & Commonwealth Office - Global Opportunities Fund	63,145	-	63,145	45,097
Ford Foundation	70,987	-	70,987	-
CTBT funders	2,000	5,949	7,949	-
Canadian Government - Foreign Affairs Canada	-	-	-	5,058
United Nations Institute for Disarmament Research	-	7,799	7,799	1,957
Overseas Development Institute	-	-	-	3,000
Total grants and service agreements	285,372	13,748	299,120	198,066
Publications, yearbook and subscriptions	-	295	295	924
Total	285,372	14,043	299,415	198,990

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

4. RESOURCES EXPENDED

	Direct staff costs £	Other direct costs £	Support costs £	2006 £	2005 £
Cost of generating voluntary income	3,867	-	1,245	5,112	4,162
Verification Research, Training and provision of Information	177,014	102,135	89,874	369,023	285,687
Governance	2,792	5,411	2,641	10,844	12,005
Total	<u><u>183,673</u></u>	<u><u>107,546</u></u>	<u><u>93,760</u></u>	<u><u>384,979</u></u>	<u><u>301,854</u></u>

5. COST OF GENERATING VOLUNTARY INCOME

	Total Funds 2006 £	Total Funds 2005 £
Staff costs	3,867	2,874
Support costs	1,245	1,288
Total	<u><u>5,112</u></u>	<u><u>4,162</u></u>

6. GOVERNANCE

	Total Funds 2006 £	Total Funds 2005 £
Staff costs	2,792	2,663
Audit fees	4,359	3,626
Other costs	1,052	2,001
Support costs	2,641	3,715
Total	<u><u>10,844</u></u>	<u><u>12,005</u></u>

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 October 2006

7. SUPPORT COSTS COMPRISE OF:

	Staff costs £	Premises costs £	Office costs £	2006 £	2005 £
Cost of generating voluntary income	252	786	207	1,245	1,288
Verification Research, Training and provision of Information Governance	18,169	56,718	14,987	89,874	88,404
	534	1,667	440	2,641	3,715
Total	<u>18,955</u>	<u>59,171</u>	<u>15,634</u>	<u>93,760</u>	<u>93,407</u>

8. NET EXPENDITURE

This is stated after charging:

	2006 £	2005 £
Depreciation of tangible fixed assets: - owned by the charity	4,021	2,092
Auditors' remuneration - as auditors	4,359	3,596
- other services	1,762	1,297
Pension costs	1,876	2,970
	<u>12,018</u>	<u>10,955</u>

During the year, no Trustees received any remuneration (2005 - £NIL).

During the year, no Trustees received any benefits in kind (2005 - £NIL).

During the year, 3 Trustees received £1,052 for reimbursement of travel expenses (2005 - 6 Trustees received £2,001 for travel and subsistence).

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 October 2006

9. TANGIBLE FIXED ASSETS

	Furniture and fittings £	Computer equipment £	Office equipment £	Total £
Cost				
At 1 November 2005	4,251	18,180	15,606	38,037
Additions	25	9,778	-	9,803
At 31 October 2006	<u>4,276</u>	<u>27,958</u>	<u>15,606</u>	<u>47,840</u>
Depreciation				
At 1 November 2005	3,629	14,828	13,304	31,761
Charge for the year	162	3,283	576	4,021
At 31 October 2006	<u>3,791</u>	<u>18,111</u>	<u>13,880</u>	<u>35,782</u>
Net book value				
At 31 October 2006	<u>485</u>	<u>9,847</u>	<u>1,726</u>	<u>12,058</u>
At 31 October 2005	<u>622</u>	<u>3,352</u>	<u>2,302</u>	<u>6,276</u>

10. DEBTORS

	2006 £	2005 £
Due within one year		
Trade debtors	-	142
Prepayments	959	1,716
Grants Receivable	35,606	48,479
	<u>36,565</u>	<u>50,337</u>

**11. CREDITORS:
Amounts falling due within one year**

	2006 £	2005 £
Trade creditors	-	162
Social security and other taxes	5,403	4,499
Other creditors	390	436
Accruals	10,749	4,124
	<u>16,542</u>	<u>9,221</u>

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

12. STAFF COSTS AND NUMBERS

Staff costs were as follows:

	2006	2005
	£	£
Wages and salaries	169,233	145,456
Social security costs	17,425	14,964
Pension costs	1,876	2,970
Internship costs - in kind	14,094	14,137
	<u>202,628</u>	<u>177,527</u>

The Quaker Peace and Social Witness Society financed the provision of an intern to VERTIC in the year of review. The charity has borne no direct cost for this internship. The value included in the financial statements above as a donation in kind, reflects the cost that have been incurred by Vertic had they funded the internship from their own finances.

The average number of full-time equivalent employees during the year was as follows:

	2006	2005
	No.	No.
Executive Director	1	1
Administrator	1	1
Project staff	4	3
Information officer/Networker	1	1
	<u>7</u>	<u>6</u>

No employee received remuneration amounting to more than £60,000 in either year.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

13. STATEMENT OF FUNDS

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
UNRESTRICTED FUNDS				
General Funds	18,228	46,669	99,421	(34,524)
	<u>18,228</u>	<u>46,669</u>	<u>99,421</u>	<u>(34,524)</u>
 RESTRICTED FUNDS				
	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
Kyoto Protocol Project	48,479	24,239	60,590	12,128
Arms Control and Disarmament Programme	24,707	188,336	185,449	27,594
Information/Networking Programme	13,273	52,797	28,677	37,393
VERTIC Science Fellowship	301	10,000	7,440	2,861
Relocation Costs	736	-	736	-
IT Project	-	10,000	2,666	7,334
	<u>87,496</u>	<u>285,372</u>	<u>285,558</u>	<u>87,310</u>

Each of the projects is described in more detail below:

Kyoto Protocol Project

This project promotes effective verification of the Kyoto Protocol to the United Nations Framework Convention on Climate Change. This is the second year of a 2 year grant from the Esmée Fairbairn Foundation.

Arms Control & Disarmament Programme

In this programme, funded by various funders, Ploughshares Fund, the Foreign & Commonwealth Office, the Ford Foundation, the Joseph Rowntree Charitable Trust and the Canadian, Norwegian and Netherlands Governments. VERTIC promotes effective verification measures for, and monitors the implementation of and compliance with all major arms control and disarmament regimes, including:

- nuclear (notably the Nuclear Non-Proliferation Treaty, including International Atomic Energy Agency nuclear safeguards, the Comprehensive Nuclear Test Ban Treaty)
- biological (the Biological Weapons Convention)
- chemical (the Chemical Weapons Convention) and small arms and light weapons, including landmines.

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

Information/Networking Programme

Funded by the John D. and Catherine T. MacArthur Foundation, this programme involves expanding VERTIC's network of contacts and collaborators in the verification field generally, increasing VERTIC's media presence and developing its publications activities, including its website. It also provides for conferences and workshops on key verification issues.

VERTIC Science Fellowship

Funding received in the financial year from Polden-Puckham Charitable Foundation was used to provide for two Fellowships.

Relocation Costs

VERTIC relocated to new premises during the previous year. The costs related to the relocation were partially funded by the Joseph Rowntree Charitable Trust. The balance of funding was used this financial year.

IT Project

The Joseph Rowntree Charitable Trust have provided a capital grant to be used to improve the IT infrastructure at VERTIC. A number of computer equipment were brought this year. The value shown in the fund balance represents the net book value of those assets.

SUMMARY OF FUNDS

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
General Funds	18,228	46,669	99,421	(34,524)
Restricted Funds	87,496	285,372	285,558	87,310
	<u>105,724</u>	<u>332,041</u>	<u>384,979</u>	<u>52,786</u>
Total of Funds	<u>105,724</u>	<u>332,041</u>	<u>384,979</u>	<u>52,786</u>

14. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
Tangible fixed assets	9,074	2,984	12,058	6,276
Current assets	88,267	(30,997)	57,270	108,669
Creditors due within one year	(10,031)	(6,511)	(16,542)	(9,221)
	<u>87,310</u>	<u>(34,524)</u>	<u>52,786</u>	<u>105,724</u>
Total	<u>87,310</u>	<u>(34,524)</u>	<u>52,786</u>	<u>105,724</u>

THE VERIFICATION RESEARCH, TRAINING AND INFORMATION CENTRE (VERTIC)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2006

15. SHARE CAPITAL

The Verification Research, Training and Information Centre (VERTIC) is a company limited by Guarantee and having no share capital. Each member is liable to contribute a sum not exceeding £1 in the event of the charity being wound up.

16. OPERATING LEASE COMMITMENTS

At 31 October 2006 the company had annual commitments under non-cancellable operating leases as follows:

	2006 £	2005 £
Expiry date:		
Between 2 and 5 years	<u>38,046</u>	<u>37,302</u>