United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2005 and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-first Session
Supplement No. 5J (A/61/5/Add.10)

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United Nations • New York, 2007

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 and certification

25 January 2007

I have the honour to submit the financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2005, which I hereby approve.

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

I acknowledge that:

(a) The management is responsible for the integrity and objectivity of the financial information included in this report;

(b) The financial statements have been prepared in accordance with the United Nations system accounting standards and include certain amounts that are based on the management's best estimates and judgements;

(c) Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, and the policies and procedures are implemented by qualified personnel with an appropriate segregation of duties. UNOPS internal auditors continually review the full range of UNOPS activities and the related accounting and control systems;

(d) The management provided the United Nations Board of Auditors and UNOPS internal auditors with full and free access to all accounting and financial records;

(e) The recommendations of the United Nations Board of Auditors and internal auditors were reviewed by the management. Control procedures have been implemented or revised, as appropriate, in response to these recommendations.

I certify that to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Jan **Mattsson**
Executive Director
United Nations Office for Project Services

The Chairman of the Board of Auditors
United Nations
New York

29 June 2007

I have the honour to transmit to you the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 2005, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

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

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

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

Chapter I

Financial report for the biennium ended 31 December 2005

1. The Executive Director of the United Nations Office for Project Services (UNOPS) has the honour to submit his financial report for the biennium ended 31 December 2005, together with the audited financial statements for the biennium. This submission is made in conformity with the Financial Regulations of UNOPS. The financial statements consist of three statements and two schedules, accompanied by notes which are an integral part of the financial statements, and cover all funds for which the Executive Director is responsible.

A. A brief history of UNOPS

2. Until 31 December 1994, the Office for Project Services was part of the United Nations Development Programme (UNDP). As such, its financial activities for periods up to 31 December 1994 were reported by UNDP.

3. In June 1994, in its decision 94/12, the Executive Board recognized the need for a self-financing Office for Project Services and recommended to the General Assembly that the Office for Project Services should become a separate and identifiable entity in a form that did not create a new agency.

4. Following the above recommendation, the General Assembly, in its decision 48/501 of 19 September 1994, decided that the United Nations Office for Project Services should become a separate and identifiable entity. Subsequently, as authorized by the Executive Board in its decision 94/32 of 10 October 1994, UNOPS became operational as a self-financing entity within the United Nations development system on 1 January 1995.

5. In January 1995, in its decision 95/1, the Executive Board approved the UNOPS Financial Regulations as contained in document DP/1995/7/Add.1 as an annex to the Financial Regulations and Rules of UNDP. In conformity with its Financial Regulations, UNOPS maintains separate accounting and other financial records for:

(a) The “UNOPS account”, to which all income to UNOPS derived from its services is credited and against which all operational costs of UNOPS are charged; and

(b) Separate “special accounts”, as required by UNOPS activities, for the identification, administration and management of resources entrusted to the charge of UNOPS by a funding source.

B. Accounting practices and policies

Financial Regulations and Rules

6. As indicated above, UNOPS was established effective 1 January 1995. UNOPS financial statements and schedules have been prepared in accordance with the UNOPS Financial Regulations and UNDP Financial Rules which are applicable to UNOPS.

Presentation of financial statements

7. The financial statements have been prepared in accordance with the United Nations system accounting standards, with due consideration given to the fact that UNOPS is self-financed, i.e. its administrative expenditures are financed entirely by the income it earns.

8. The statement of assets, liabilities, and reserves and unexpended resources, statement II, for the biennium ended 31 December 2005 amounts to $130,539,000 as compared to $88,478,000 for the biennium ended 31 December 2003, an increase of about 48 per cent.

Accounting policies

9. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 2 to the financial statements. The policies are consistent with those which UNOPS applied in prior years.

C. United Nations Office for Project Services account

10. As shown in statement I, for the biennium ended 31 December 2005 UNOPS income from all sources totalled $118,671,000, and its administrative expenditure amounted to $115,939,000. Therefore, in 2004-2005, income exceeded administrative expenditure by $2,732,000. In the biennium ended 31 December 2005, provision and write-off of receivables of $10,182,000 and prior-period adjustments of $11,340,000 were recorded. Therefore, the net shortfall of income over expenditure was $18,790,000. Comparative figures for the biennium ended 31 December 2003 were as follows: income and administrative expenditure totalled $109,956,000 and $92,484,000 respectively; therefore, the excess of income over expenditure was $17,472,000. The write-off amounted to $557,000 and prior-period adjustments to $1,208,000. Therefore, the net excess of income over expenditure was $18,123,000.

United Nations Office for Project Services income

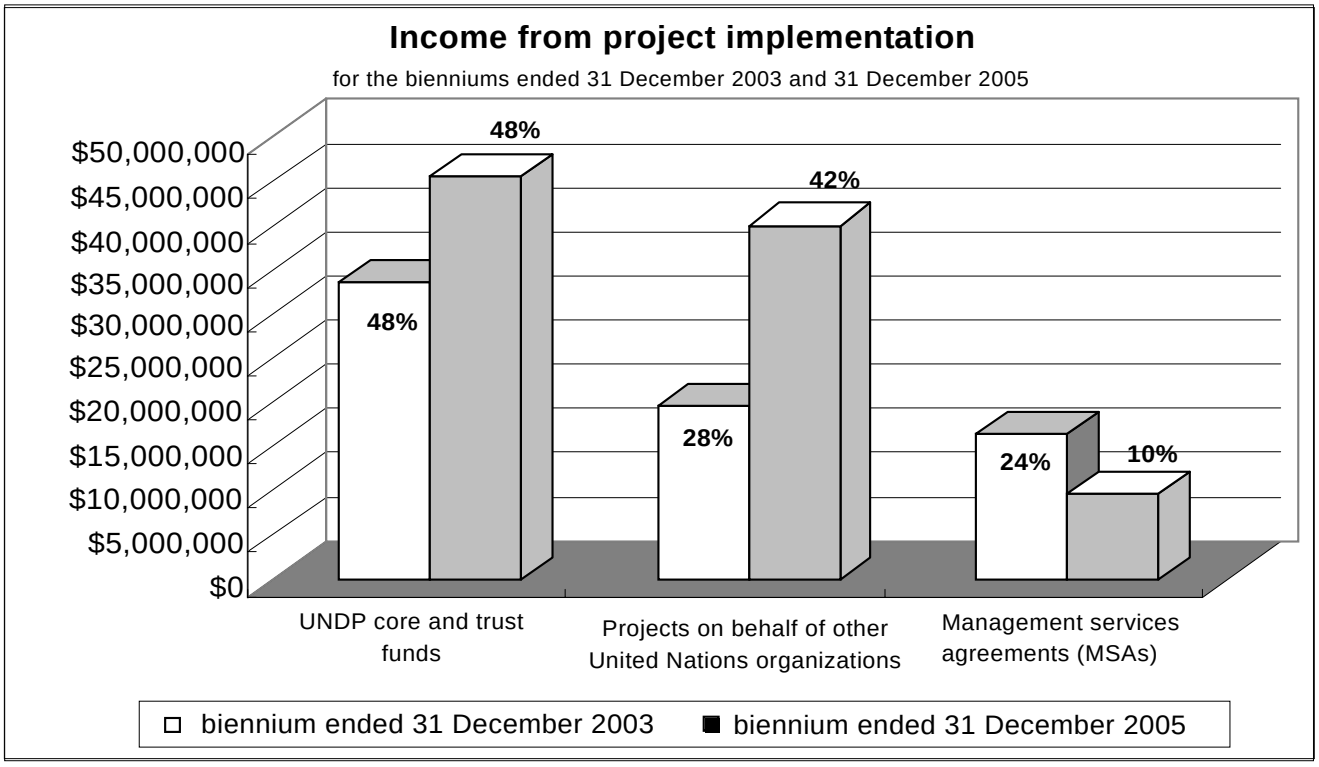
11. The total income of $118,671,000 earned for the biennium ended 31 December 2005 was derived from the following sources: $95,474,000, or 80 per cent of the total, from project implementation services; $18,575,000, or 16 per cent of the total, from services provided to other United Nations agencies; $4,622,000, or 4 per cent of the total, from interest income and other miscellaneous income.

12. Compared to the income of $109,956,000 for the biennium ended 31 December 2003, UNOPS income for the biennium ended 31 December 2005 increased by $8,715,000, or 8 per cent.

1. Income from project implementation

13. The sources of income related to project implementation ($95,474,000) are provided in schedule 1 of the financial statement. This income is the total of support costs and management fees which UNOPS earned for the biennium ended 31 December 2005 and was derived as follows: $45,631,000, or 48 per cent of the total, from the projects funded by UNDP and UNDP-administered trust funds; $40,139,000, or 42 per cent of the total, from projects on behalf of other United

Nations organizations; and $9,704,000, or 10 per cent of the total, from management fees for projects funded under the management service agreement modality. Schedule 1 also shows that for the biennium ended 31 December 2003, $33,718,000, or 48 per cent of the total, derived from the projects funded by UNDP and UNDP-administered trust funds; $19,718,000, or 28 per cent of the total, from projects implemented on behalf of other United Nations organizations; and $16,510,000, or 24 per cent of the total, from management fees for projects funded under the management service agreement modality.



2. Other income

14. During the biennium ended 31 December 2005, UNOPS also earned the following other income: $18,575,000 advisory and reimbursable service income from the International Fund for Agricultural Development (IFAD), the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Programme of Assistance to the Palestinian People; and $4,622,000 in miscellaneous income. For comparison purposes, in the biennium ended 31 December 2003 UNOPS earned $37,488,000 advisory and reimbursable service income and $2,522,000 in miscellaneous income.

Administrative budget and expenditure of the United Nations Office for Project Services

15. The budget estimates approved by the Executive Board are not “appropriations”, nor does UNOPS take such approved budgets as authorizations to spend. The budgets approved by the Executive Board represent the best estimates of

expenditures to be incurred; actual expenditures are incurred only when sufficient income is projected to be available.

16. As shown in statement I and detailed further in schedule 2, for the biennium ended 31 December 2005 UNOPS incurred administrative expenditures totalling $115,939,000 ($56,565,000 in 2004 and $59,374,000 in 2005), provision and write-off of receivables totalling $10,182,000, and prior-period adjustments totalling $11,340,000 against total income of $118,671,000, resulting in a net shortfall of income over expenditure of $18,790,000.

Operational reserve

17. The Executive Board, in its decision 2001/14 of 13 September 2001 (see DP/2002/2), approved the proposal to change the basis for the calculation of the level of the operational reserve of the United Nations Office for Project Services to 4 per cent of the rolling average of the combined administrative and project expenditures for the three previous years, 4 per cent of which is $22,532,000. For the biennium ended 31 December 2005, statement I shows reserves and fund balances of $4,362,000.

Ex gratia payments, write-offs and prior-period adjustments of cash and receivables

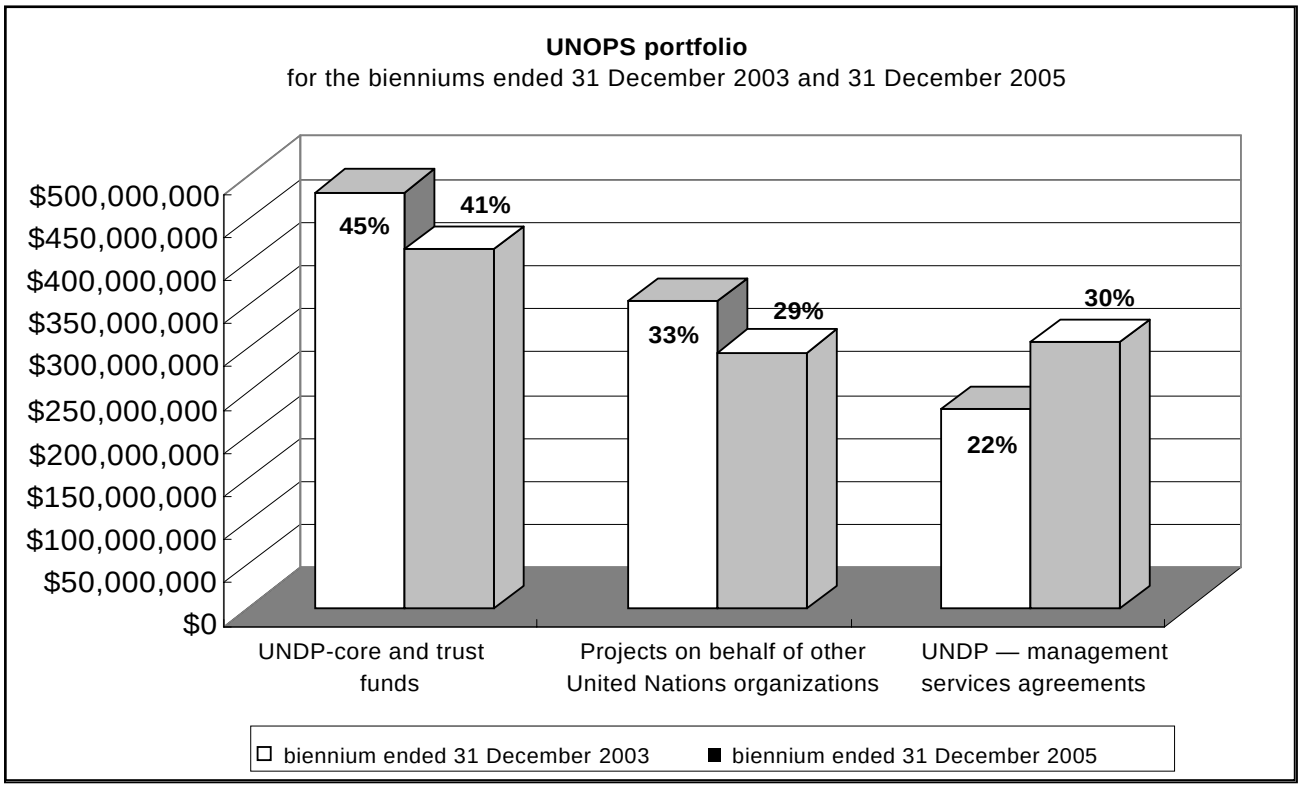
18. During the biennium ended 31 December 2005 no ex gratia payments were made. Write-offs of receivables during the biennium totalled $1,383,000. For comparison purposes, during the biennium ended 31 December 2003 ex gratia payments totalled $1,234 and there were no write-offs of receivables.

D. Special accounts

19. As required by its Financial Regulations, UNOPS maintains separate “special accounts” for the identification, administration and management of resources entrusted to its charge, i.e. to account for project budgets (UNOPS portfolio) entrusted to UNOPS for implementation; project expenditures (project delivery); and support costs and management fees earned (UNOPS income) from the implementation of such projects.

United Nations Office for Project Services portfolio

20. The “UNOPS portfolio” consists of all the projects accepted by UNOPS for implementation and the total value of their budgets. The value of the UNOPS portfolio changes constantly as new projects are accepted for implementation and the budgets of existing projects are revised either to reflect the actual yearly expenditures (mandatory revision) or to bring the budgets to realistic levels, as dictated by ever-changing circumstances.



21. For the biennium ended 31 December 2005, the total value of the portfolio amounts to $1,020,390,000 and was derived as follows: $416,172,000 or 41 per cent of the total, from UNDP-funded and UNDP-administered trust fund projects; $296,070,000, or 29 per cent, from projects implemented on behalf of other United Nations organizations; $308,148,000, or 30 per cent, from projects funded under the management service agreement modality. For comparison purposes, the portfolio for the biennium ended 31 December 2003 totalled $1,068,500,000 and was derived as follows: $481,800,000, or 45 per cent of the total, from UNDP-funded and UNDP-administered trust fund projects; $355,600,000, or 33 per cent of the total, from projects on behalf of other United Nations organizations; and $231,100,000 or 22 per cent of the total, from projects funded under the management services agreement modality.

Project expenditures (United Nations Office for Project Services delivery)

22. For the biennium ended 31 December 2005, schedule 1 shows that UNOPS incurred project expenditure (including support costs and management fees) totalling $1,494,144,000, of which $699,238,000, or 47 per cent, was derived from UNDP-funded and UNDP-administered trust fund projects; $613,179,000, or 41 per cent, from projects implemented on behalf of other United Nations organizations; and $181,727,000, or 12 per cent, from projects funded under the management service agreement modality. Schedule 1 also shows that, for the biennium ended 31 December 2003, UNOPS incurred project expenditure (including support costs and management fees) totalling $1,045,637,000, of which $447,106,000, or

43 per cent was derived from UNDP-funded and UNDP-administered trust fund projects; $336,048,000, or 32 per cent, from projects implemented on behalf of other United Nations organizations; and $262,123,000 or 25 per cent, from projects funded under the management services agreement modality.

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors (the Board) has audited the financial statements of the United Nations Office for Project Services (UNOPS) for the biennium ended 31 December 2005. In addition, the Board has reviewed, under United Nations financial regulation 7.5, the operations of UNOPS.

The Board has issued a qualified opinion on the financial statements for the financial period ended 31 December 2005, as set forth in chapter III. The qualification relates to the interfund account receivable. UNOPS conducts business with UNDP whereby each entity acts as an implementing agent for the other on projects with significant transactions. As reported by the Board in the prior biennium, the two entities have not been properly reconciling the amount due/payable to each other. As at 31 December 2005, an amount of $9.9 million reflected as a receivable from UNDP could not be confirmed with UNDP. UNOPS has raised a provision of $5 million against this receivable in its 2004-2005 financial statements, while the balance of $4.9 million remained unprovided. While the agencies were in the process of reconciling the $9.9 million, the Board was unable to assess the recoverability of the unconfirmed balance, or the adequacy of the provision raised. Furthermore, the Board has raised emphasis of matter paragraphs. These matters of concern are:

(a) Note 12 to the financial statements indicated that UNOPS had reserves of $4.36 million as at 31 December 2005, which were below the desired level of operational reserves (as approved by the Executive Board) of $27.3 million. This condition, along with other matters set forth in detail in chapter II, indicates a material uncertainty which may affect the ability of UNOPS to continue as a going concern, or its ability to absorb future losses. The UNOPS reform process, which commenced in 2003, has not significantly improved its financial position, and therefore it may not be able to fund in full any future deficits from the operational reserve.

(b) The Board issued a disclaimer of opinion in its report on its audit of UNOPS for the biennium 2002-2003, citing concerns about imprest accounts, the UNDP and the United Nations Population Fund (UNFPA) interfund account, non-expendable equipment and staff separation costs. These matters were addressed by UNOPS in the preparation of the current biennium's financial statements, although no adjustment has been made to the comparative information disclosed in the financial statements for the biennium 2004-2005.

(c) Significant weaknesses were noted in the accounting and internal control system. The Board was presented in May 2006 with financial statements in which many balances were either not corroborated by supporting documents or were not in accordance with the accounting records of UNOPS. With the assistance of consultants, UNOPS embarked on a clean-up exercise to correct the accounting records, prepare supporting documents and make adjustments to the financial statements. The Board is concerned about this significant break-down in internal controls and financial reporting, as well as the costs and delays that arose from it.

(d) UNOPS has made provision for losses of $2.76 million relating to project costs incurred without authorized budgets. UNOPS has also declared to the Board write-offs of $1.38 million relating to project costs that could not be recovered. Coupled with the incidence of overexpenditure, and slow closure of projects on Atlas (the enterprise resource planning (ERP) system of UNOPS), the Board is concerned about the effectiveness of the cost control of projects and the potential for further losses or under-recoveries.

(e) The internal auditor's review of the operations of UNOPS cited concerns about certain activities at UNOPS which affected the control environment and project deliverables. These included some incidents of lack of donor authorization for UNOPS to incur expenditure; inadequate accounting controls over expenditure and non-expendable property; lack of transparency and consistency in the funding and fee-setting process for UNOPS projects; and instances of lack of adequate controls over the management of procurement.

(f) Owing to the inaccuracy and incompleteness of the non-expendable equipment registers and the inadequate controls over these assets, the Board was unable in the prior biennium to reach a conclusion on the accuracy of the balance of $10 million for non-expendable equipment, as disclosed in note 14 to the financial statements. This incorrect amount continues to be disclosed as the comparative amount in the financial statements for the biennium 2004-2005.

(g) UNOPS has not regularly reconciled its bank and imprest accounts. The UNOPS bank account is managed by the UNDP Treasury based on a service-level agreement with UNDP. UNDP performed the final December 2005 reconciliation for all bank accounts at the time of the audit. This reconciliation spanned the entire biennium, as monthly reconciliations were not prepared. This resulted in a key control not being performed during the biennium, which could have resulted in fraud and errors going undetected. Furthermore, the Board noted that imprest accounts were closed before the year-end, resulting in transactions not being recorded. Other imprest accounts were also not reconciled regularly during the biennium.

Implementation of previous recommendations

The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented (as requested by the Advisory Committee on Administrative and Budgetary Questions, A/59/736, para. 8 and A/60/387, paras. 12 and 20). This evaluation is shown in annex I to the present chapter. The financial period in which such recommendations were first made is also indicated in annex I. Of a total of 39 recommendations, 18 (46 per cent) had been implemented, while 20 (51 per cent) were under implementation and one (3 per cent) had been overtaken by events.

Financial overview for the biennium 2004-2005

UNOPS had a net shortfall of $18.8 million of income over expenditure for the biennium 2004-2005 (for 2002-2003, a surplus of $18.1 million), including provisions and write-offs of receivables of $10.2 million and prior-period adjustments of $11.3 million. The shortfall resulted in a decrease in the operational reserve from $23.2 million in the biennium 2002-2003 to $4.4 million in the biennium 2004-2005. Income in the biennium 2004-2005 increased by 8 per cent, to $118.7 million, from $110 million in the biennium 2002-2003. Total administrative

expenditure before provisions and prior-period adjustments amounted to $116 million in the biennium 2004-2005 compared with $93 million in the biennium 2002-2003. Administrative expenditure not directly related to projects is reflected in schedule 2 of the financial statements; while the project expenditure is reflected in schedule 1.

Recommendations

The Board has made several recommendations based on its audit observations. The main recommendations are set out in paragraph 10 of the report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the period from 1 January 2004 to 31 December 2005, in accordance with General Assembly resolutions 74 (I) of 7 December 1946, 47/211 of 23 December 1992 and 49/233 A of 23 December 1994. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto (see ST/SGB/2003/7), as well as the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements of UNOPS presented fairly its financial position as at 31 December 2005 and the results of operations and cash flows for the period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditure recorded in the financial statements for the period from 1 January 2004 to 31 December 2005 had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5. The reviews primarily focused on the financial procedures, the internal financial controls and, in general, the administration and management of UNOPS. The audit was carried out at UNOPS headquarters in New York and at two regional offices, in Copenhagen and Bangkok.

4. The Board issued a qualified opinion on the financial statements for the financial period ended 31 December 2006. Furthermore, the Board has issued emphasis of matter paragraphs.

5. The Board continued its practice of reporting to UNOPS the results of specific audits in three management letters containing detailed observations and recommendations. This practice allowed for an ongoing dialogue with UNOPS.

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 have been appropriately reflected in the report.

1. Previous recommendations not fully implemented

Period ended 31 December 2003

7. In accordance with General Assembly resolutions 48/216 B of 23 December 1993 and 59/264 A of 23 December 2004, the Board reviewed the measures taken by

the Administration to implement the recommendations made in its report for the biennium ended 31 December 2003.[1] Details of the action taken and the comments of the Board are included in the present report and have been summarized in annex I. Of a total of 39 recommendations, 18 (46 per cent) had been implemented, while 20 (51 per cent) were under implementation and one (3 per cent) had been overtaken by events.

Ageing of previous recommendations

8. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (see A/59/736 and A/60/387). This evaluation and the financial period in which those recommendations were first made is indicated in annex I to the present chapter.

9. The Board's further comments on these specific outstanding recommendations are provided elsewhere in the present report.

2. Main recommendations

10. **The Board's main recommendations are that UNOPS:**

(a) **Supplement its strategic review Action Plan by formulating and implementing a long-term operational and financial recovery plan (para. 35);**

(b) **Take steps to fund its operational reserve to the specified level in a timely manner (para. 40);**

(c) (i) **Improve its financial statements preparation process and (ii) submit certified financial statements for audit in a timely manner (para. 45);**

(d) **Fully reconcile and clear all suspense accounts in a timely manner (para. 48);**

(e) **Conduct ongoing reviews of its accounts payable balances (para. 50);**

(f) **Reconcile the Global Payroll Services charges in a timely manner (para. 52);**

(g) **Analyse and allocate the debit balances to the correct accounts and disclose the prior-period adjustment (para. 59);**

(h) **Review the recoverability of long-outstanding debtor balances (para. 62);**

(i) **Ensure that bank reconciliations are performed on a monthly basis (para. 74);**

(j) **Reconcile the imprest accounts regularly (para. 77);**

(k) **Review processes regarding the imprest accounts (para. 80);**

(l) **Review the cut-off procedures for bank accounts so that all transactions are accounted for (para. 84);**

[1] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5J* (A/59/5/Add.10), chap. II.

(m) **Implement measures to ensure a reconciliation of the balances at the fund level (para. 89);**

(n) (i) **Reassess the recoverability of the UNDP debt of $9.9 million; (ii) assess the adequacy of the $5 million provision for write-off; and (iii) ensure that all interfund reconciliations are performed regularly (para. 95);**

(o) (i) **Evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs are identified and recovered, (ii) implement a system that addresses all shortcomings identified in the existing workload system and (iii) consider the feasibility of using a fixed minimum margin to be able to better control fluctuations in cost recovery rates, while ensuring that UNOPS remains cost-effective (para. 101);**

(p) Expedite the data clean-up exercise and constantly monitor open purchase orders to ensure that they are reconciled and cleared in a timely manner (para. 103);

(q) (i) Conduct more regular reviews of all unliquidated obligations and (ii) ensure that project offices raise only valid obligations (para. 106);

(r) Ensure that there is a reconciliation of prior-year unliquidated obligations (para. 109);

(s) Expedite its consideration of the funding of end-of-service liabilities (para. 111);

(t) Implement controls over project budgets to ensure that proper monthly reviews of project budgets and expenditure are implemented (para. 120);

(u) Address cost monitoring of its projects (para. 123);

(v) Obtain formal authorizations for budget increases on a timely basis (para. 125);

(w) Secure authorizations for excess project expenditures and revise budgets in a timely manner (para. 130);

(x) Review and certify monthly payroll reconciliations (para. 134);

(y) Implement procedures to improve filing and access to records (para. 141);

(z) Take appropriate measures to address the Board's procurement-related observations (para. 145);

(aa) Develop a risk-based internal audit plan to provide assurance to the organization on financial procedures and take steps to implement the formation of an audit committee (para. 149);

(bb) Update the Integrated Management Information System (IMIS) leave records to reflect accurate information and implement appropriate control measures for recording leave (para. 154);

(cc) (i) Update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals; (ii) ensure that valid, accurate and complete opening balances are included in the Atlas system; and

(iii) provide the Board with all the documentation regarding the reclassification of assets (para. 169);

(dd) Perform regular physical asset counts to verify the existence of assets and the completeness and accuracy of the asset records and obtain confirmation from the storage company of all inventory items kept in storage (para. 183);

(ee) That the Asia-Pacific Regional Office identify, in consultation with UNOPS headquarters, dispose of and write off all non-expendable equipment assessed to be redundant or obsolete to ensure a fairer presentation of the non-expendable balances disclosed in the financial statements and that steps be taken to avoid any fruitless expenditure on photocopier rentals (para. 186);

(ff) (i) Develop a detailed information and communications technology (ICT) strategic plan and (ii) consider the benefits of adopting international standards and best practices to be applied to its ICT environment (para. 195);

(gg) Through its memorandum of understanding with UNDP, be involved in the development and finalization of the mitigation plan and the action plans to address all risks highlighted in the BearingPoint report (para. 199).

11. The Board's other recommendations appear in paragraphs 55, 67, 69, 71, 86, 92, 139, 157, 160 and 176 of the present report.

B. Background to audit and period-end accounting issues

12. In its previous report,[1] the Board addressed in detail concerns regarding the deteriorating financial situation of UNOPS and its ability to continue in the foreseeable future. Accordingly, the Board again followed up on the implementation of its previous recommendations, primarily in the context of assessing the financial position of UNOPS.

13. UNOPS has encountered significant difficulty and delays in the submission of financial statements which are the subject of this audit. During the Board's scheduled audit visits, audit work could not be performed as scheduled because of the poor state of record-keeping.

14. The Board suspended the audit in May 2006, because certified financial statements for the biennium 2004-2005, were not provided to the Board in accordance with the Financial Regulations and Rules.

15. At its meeting of 22 June 2006, the Executive Board of UNOPS, noting that the certified financial statements were not available, requested UNOPS to ensure the availability of certified financial statements by 30 November 2006.[2]

16. UNOPS undertook a comprehensive clean-up exercise during the period July 2006-December 2006. This initiative resulted in the identification and correction of extensive errors committed in the period 1999-2005, enabling UNOPS to prepare certified financial statements for the audit. UNOPS worked with a consulting firm to conduct this exercise.

17. The certified financial statements were submitted to the Board on 21 November 2006. On the basis of audit observations, they were revised and were

[2] See DP/2007/2, resolution 2006/17.

resubmitted on 25 January 2007, with adjustments made mainly for doubtful debts previously disclosed as contingent liabilities.

C. Coordination among oversight bodies

18. The Project Services Audit Section of the Office of Audit and Performance Review of UNDP performed the internal oversight function for UNOPS under an outsourcing arrangement. The Board recommended, in paragraph 128 of its previous report,[1] that UNOPS provide for internal oversight coverage on financial procedures, controls and data.

19. During the biennium ended 31 December 2005, the Office of Audit and Performance Review completed a number of internal audits, investigations and advisory assignments at UNOPS, the majority of them focused on projects. The results of the audits as more fully described in document DP/2006/32 were shared with the Board.

20. Because of the limited coverage by the internal auditors of accounting and financial statement issues, the Board of Auditors did not obtain relevant audit comfort from the internal auditors in its audit of the financial statements, although much work was performed by the internal auditors in other areas.

21. In August 2006, UNOPS announced that it would consider the initiative of establishing an internal audit function, which would report to the Executive Director. It was subsequently formally decided to implement this initiative effective July 2007.

D. Detailed findings and recommendations

1. Financial overview

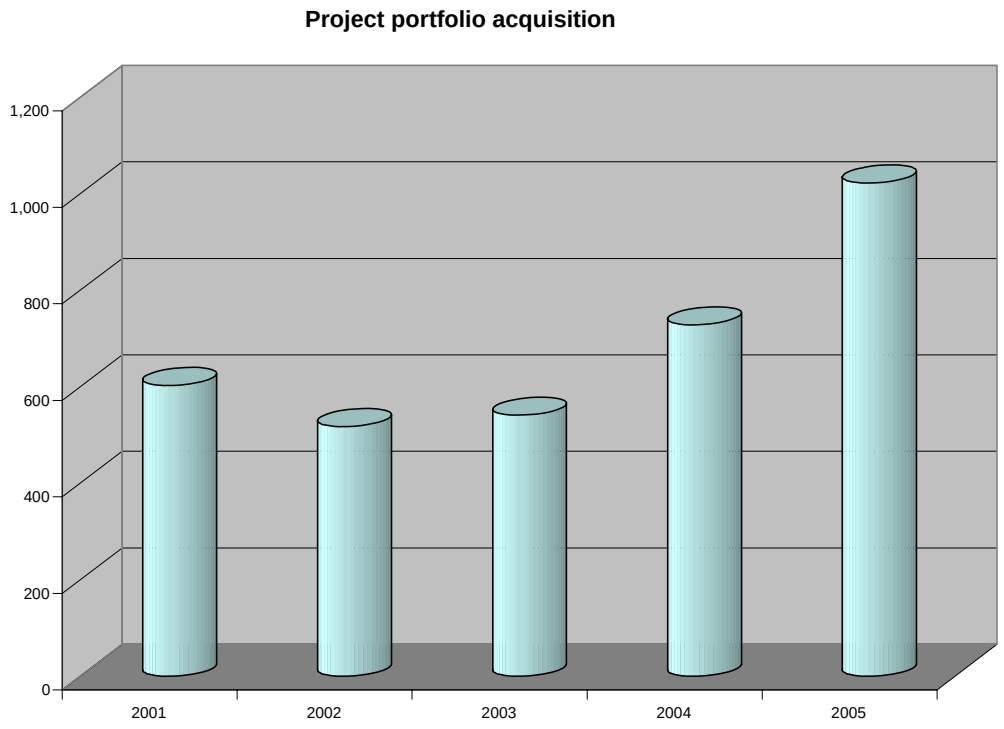
22. UNOPS prepared its financial statements in accordance with the United Nations system accounting standards, version VII, on the basis that the organization has neither the intention nor the necessity to curtail materially the scale of its operations.

23. UNOPS recorded a net shortfall of $18.8 million for the biennium 2004-2005 (for 2002-2003, a surplus of $18.1 million). This shortfall was arrived at after the inclusion of provisions and write-offs of receivables of $10.2 million and net prior-period adjustments of $11.3 million. Income for the biennium increased by eight per cent, to $118.7 million, from $110 million in the biennium 2002-2003. Total administrative expenditure amounted to $116 million in 2004-2005 compared with $93 million in the biennium 2002-2003. The deficit resulted in a decrease in the operational reserve from $23.1 million in the biennium 2002-2003 to $4.4 million in the biennium 2004-2005. Administrative expenditure not directly related to projects is reflected in schedule 2, while the project expenditure is reflected in schedule 1 of the financial statements.

24. During the audit, the management provided to the Board the internal management accounts for the year ended 31 December 2006, which reflected a surplus and an improvement in reserves. The Board did not audit these results.

25. A review of the projects accepted during the reporting period compared with the corresponding data for prior years (see figure 1) shows that the annual level of business acquisition by UNOPS declined by 14 per cent in 2002, but improved by 5 per cent in 2003, 35 per cent in 2004 and 40 per cent in 2005.

Figure 1
Project acquisition
(Millions of United States dollars)



Source: Data supplied by UNOPS.

2. Going concern and level of operational reserve

26. In an accounting framework, one of the fundamental accounting concepts in the preparation of a set of financial statements is the assumption of going concern. This matter is reinforced by paragraph 4 (i) of the United Nations system accounting standards, as follows:

> "The organization is normally viewed as a going concern, that is, as continuing in operation in the foreseeable future. It is assumed that the organization has neither the intention nor the necessity of liquidation or curtailing materially the scale of its operations."

Paragraph 4 of the United Nations system accounting standards also states that where the fundamental accounting assumptions (going concern, prudence and consistency) are not followed, this fact should be disclosed in the financial statements.

27. In paragraphs 62 and 63 of its audit report for the biennium 2002-2003 (A/59/5/Add.10, chap. II), the Board expressed concern regarding the financial position of UNOPS and cautioned about factors that could have an impact on the appropriateness of its going-concern assumption. The current audit of UNOPS also included a review of the going-concern assumption. In evaluating this fundamental assumption, the Board took into account indicators (financial, operating and compliance) that would possibly have an impact on UNOPS ability to continue as a going concern and the management's actions to address the risk stemming from any negative indicators.

28. UNOPS indicated that it had considered the Board's comments on the financial statement for the biennium 2002-2003 regarding the financial position of UNOPS, and the Board's concern about factors that could have an impact on the appropriateness of the UNOPS going-concern assumption. UNOPS informed the Board that it had been reviewing its overall strategy to continue to strengthen its financial position. Several initiatives had been considered or implemented, including diversification of its client base, revision of its pricing policy and relocation of its headquarters, which could realize economic benefits in future periods.

29. Prior to the accounting clean-up exercise, the Board noted certain factors that affected the going-concern assumption. The financial information presented for audit in May 2006 was not reliable, as the UNOPS financial position could not be verified. The Board was concerned about the significant variance in the interfund account balance with UNDP, as well as the fact that certain balances could not be appropriately substantiated and the unknown effect on the income statement of transactions in suspense, clearing and the deferred expenditure accounts that needed to be investigated and corrected. Similar significant matters had been raised by the Board in its report for the biennium 2002-2003.

30. As part of its review of the financial statements, the Board made other observations, which raise concerns about the history of financial management, the control environment and risk management and its ongoing negative impact on the financial health of UNOPS. These observations were:

(a) Regular cash-flow forecasts were not performed throughout the biennium. The absence of cash-flow information made reliable financial analysis difficult to perform, although the situation has improved and such forecasts have been made more regularly since 2006;

(b) Many clients make advance payment on projects. This earmarked cash was in some cases used by UNOPS to pay creditors or in other cases used temporarily to make disbursements for other projects in advance of the receipt of funds, which is not a sound cash-management practice. In December 2006, the management issued an organizational directive on advance financing to address this practice;

(c) Delays were noted in the processing of imprest transactions and payroll transactions to the general ledger, throughout the biennium. Accordingly, monthly account closures and reconciliations could not be performed throughout the biennium. This was only rectified in 2006;

(d) UNOPS relies on UNDP for approximately 45 per cent of its revenue. In recent years, UNOPS has diversified its client portfolio, but maintains a key partnership with UNDP. This dependency on UNDP poses a risk to UNOPS;

(e) UNOPS project budgets and forecasts were not prepared for the full project life cycle, but only covered periods of one or two years. Therefore, decisions could be effected on the basis of incomplete analysis;

(f) UNOPS' own analysis in August 2006 of projects in Atlas (the UNOPS ERP system) revealed that there were many projects which still needed to be operationally and/or financially closed. UNOPS has since committed resources to closing projects;

(g) Some senior posts (Executive Director; Deputy Executive Director; Chief, Finance Office) remained vacant or were not filled by a permanent appointment during periods in this biennium. Such vacancies have a negative impact on strategy and operations. The vacancies have since been filled between June 2006 and February 2007;

(h) UNOPS does not match all project income with project expenditure over the lifetime of a project. This treatment gives rise to uneven recognition of project revenue over the period of implementation of the project, which UNOPS has begun to address in 2007;

(i) The Board also noted that there was a declining trend in the percentage fee UNOPS earned on its project portfolio. The average fee rate (margin) UNOPS earned from project services decreased from 7.65 per cent in 2001 to 6.81 per cent in 2005. Further declines could affect the profitability of UNOPS.

31. The above observations, together with the detailed matters noted in the present report and the audit report for the previous biennium, highlight the financial and operational risks that UNOPS faces. The Board noted that the revised UNOPS budget estimates for the biennium 2006-2007 anticipated a surplus of $18 million. However, the ability of UNOPS to continue as a going concern is dependent on its reporting surpluses, improving the level of reserves and maintaining or improving its overall margins.

32. UNOPS explained that it had continued to increase its revenue from new projects, had focused on strengthening controls by establishing a Corporate Controls Centre, had made a number of new senior management team appointments and was investing in establishing a professional finance department.

Strategic review

33. The Board noted that the Executive Board had commissioned an independent review of UNOPS (see DP/2003/39, para. 8) with a view to formulating a strategy for the organization. This review was performed by a consultant, whose report was issued on 6 August 2003. The report contained many recommendations, including a more comprehensive pricing policy. The UNOPS action plan was only submitted for approval in July 2005.

34. UNOPS indicated that the consultant's report resulted in a strategy for UNOPS embodied in an action plan (DP/2005/39) and supplement to that action plan (DP/2005/CRP.14), which are currently being implemented. However, the slow rate

of action in respect of the implementation of the measures to address the viability of UNOPS increased the risk of UNOPS not being a going concern.

35. **UNOPS agreed with the Board's recommendation that it supplement its strategic review action plan by formulating and implementing a long-term operational and financial recovery plan.**

36. UNOPS responded that although the rate of implementation of the action plan might appear slow, UNOPS was confident that it had made significant headway in a number of areas, including the move of UNOPS headquarters from New York to Copenhagen, an ongoing review of its pricing policy, and a number of other initiatives relating to accounting policies and practices, information technology, procurement, human resources and project management. UNOPS indicated that the increase in revenues and in the number of clients was proof not only that the implementation of the action plan was ongoing, but also that it had already produced positive results for UNOPS and strengthened the financial position of the organization.

Level of operational reserve

37. The present formula for calculating the operational reserve was approved by the Executive Board in its decision 2001/14. In the fall of 2006, the Executive Director engaged a consultant to review the existing methodology in the light of experience gained since 2001 and to explore any changes in the risk pattern facing UNOPS. The consultant concluded that the formula remained relevant and should be retained as is.

38. A factor that contributes to the risk of UNOPS being unable to continue as a going concern was the level of its operational reserve. The level of the reserve is adjusted annually to represent 4 per cent of the average total expenditure over the previous three years. Based on this requirement and a three-year average of $684.4 million for delivery and administrative expenditure, the biennium 2004-2005 operational reserve balance should have been at a level of approximately $27.4 million. UNOPS fell short of this level by $23 million. Furthermore, based on the total of the delivery and administrative expenditure projections for the biennium 2006-2007 (2006: $834.2 million; 2007: $654.4 million), the UNOPS operational reserve was required to be $32.6 million, but was projected to be only $18.9 million. The current and projected levels of the operational reserve might thus not be adequate to fund UNOPS liabilities.

39. UNOPS indicated that if certain projections were achieved during the biennium 2008-2009, the operational reserve would have been restored to the level required by the Executive Board by 31 December 2009.

40. **UNOPS agreed with the Board's recommendation that it take steps to fund its operational reserve to the specified level in a timely manner.**

41. While UNOPS agreed that adequate operational reserves were essential to ensure ongoing financial stability, it was of the view that the current level of reserves did not have any immediate impact on UNOPS continuing as a going concern. UNOPS explained that the reduced level of reserves was due to the exceptional decision which required UNOPS to return $14.5 million of reserves to the oil-for-food programme (as explained in note 5 to the 2004-2005 financial statements). Moreover, UNOPS had provided for some $14.2 million of long-term

health and end-of-service benefits. In the absence of those items, UNOPS reserves would have been in excess of the required reserves of $27.3 million.

3. United Nations system accounting standards

42. The Board assessed the extent to which the financial statements of UNOPS for the biennium ended 31 December 2005 conformed to the United Nations system accounting standards. Except as reported in chapter III below, the financial statements were consistent with those standards in all material respects.

4. Presentation and disclosure of financial statements

Submission of financial statements

43. As mentioned in section B below, under the terms of the Financial Regulations, UNOPS is required to submit financial statements to the Board by 15 April of the year following the end of the biennium. On 10 and 12 April 2006, UNOPS submitted incomplete and draft sets of financial statements. The Board received a third set of unsigned financial statements on 8 May 2006. Table 1 indicates some material changes that were effected to the two unsigned sets of financial statements submitted for audit on 12 April and 8 May 2006:

Table 1
Changes made to uncertified financial statements
(United States dollars)

Account description	*Financial statements 12 April 2006 ($)*	*Financial statements 8 May 2006 ($)*	*Difference ($)*
Cash	30 469 464.54	32 746 394.06	(2 276 929.52)
Accounts receivable and deferred charges	16 940 760.05	21 474 678.49	(4 533 918.44)
Due to/from UNDP	62 721 562.78	52 554 535.17	10 167 027.61
Due to/from UNFPA	9 568 712.42	13 127 070.63	(3 558 358.21)
Accounts payable	(60 616 442.55)	(57 670 449.70)	(2 945 992.85)
Due to other United Nations organizations	(68 092 933.78)	(71 241 105.19)	3 148 171.41

44. In view of the variances identified by the audit, UNOPS further investigated the account balances for the biennium 2004-2005. This effort resulted in UNOPS preparing revised financial statements for the biennium 2004-2005 which were submitted to the Board for audit on 21 November 2006. A further revised and certified set of financial statements was submitted to the Board on 25 January 2007.

45. **UNOPS agreed with the Board's reiterated recommendation that it (a) improve its financial statements preparation process; and (b) submit certified financial statements for audit in a timely manner.**

Financial statements: comparative information

46. The Board noted that certain comparative information was not disclosed in schedule 1 of the financial statements as the details could not be determined from the accounting records.

Account reconciliations and suspense accounts

47. Various material, old suspense and clearing account balances included in the general ledger receivables account were not cleared at the end of the financial period and remained uncleared at the time of the year-end audit. They were subsequently investigated and substantially cleared during the accounting clean-up exercise.

48. **UNOPS agreed with the Board's reiterated recommendation that it fully reconcile and clear all suspense accounts in a timely manner.**

5. Accounts payable

Refunds pending to donors (account 21030)

49. Included in account 21030 in the uncertified financial statements was an incorrect debit amount of $579,626 in respect of interest earned on project funds. This entry was subsequently investigated and cleared in the accounting "clean-up" exercise.

50. **UNOPS agreed with the Board's recommendation that it conduct ongoing reviews of its accounts payable balances.**

Medical insurance; appointments of limited duration (account 23020)

51. UNOPS informed the Board that the balance on account 23020 comprised entries in respect of UNDP and UNFPA that had been posted to the UNOPS accounts in error by the UNDP Global Payroll Services. At the end of the financial period an adjustment entry could not be posted to the UNDP and UNFPA due to/from account as those bodies had already closed off their general ledgers. The correcting entry was then made against receivables.

52. **UNOPS agreed with the Board's recommendation that it reconcile the Global Payroll Services charges in a timely manner.**

Entries in account 21005

53. The following accounts within general ledger account 21005 (Accounts payable) were identified as having no activity in the biennium 2004-2005. UNOPS indicated that these accounts represented the balances from the 2003 IMIS to Atlas conversion and the corresponding entry was lying in another Atlas fund.

Table 2
Unmatched entries in account 21005

Fund (GLAN 2110)	*Description (IMIS)*	*31 December 2005 Closing balance (United States dollars)*
4102	UNDP/Global, Interregional	45 059.07
51003	TF Assist Haitian Nat Police	379 764.19
G1310	United Nations Capital Development	(21 505.71)
KA001	GL Bal conversion	(415 371.47)

54. After the clean-up exercise, the Board performed further testing on this account and noted that, as at 25 January 2007, although UNOPS had managed to effect adjustments to rectify mismatched and incorrect entries, a debit balance of $481,387.93 still remained on this account, which the Board could not validate. UNOPS was continuing to review these accounts and UNOPS expects to complete the clean-up exercise during 2007.

55. **UNOPS agreed with the Board's recommendation that it analyse and reconcile account 21005.**

Accounts payable, debit balances

56. After the clean-up exercise, the Board noted that certain debit balances still existed on the payables accounts. Accordingly, these debit balances were followed up. The explanations provided by UNOPS and the Board's observations follow.

Account number 23010, MIP contributions

57. The balance remaining in the account at 31 December 2005 was $49,904.91. UNOPS explained that contributions paid are recorded in account 23010 first as debits and an adjustment is then made to allocate amounts to projects. The debit balance relates to a difference in the amount received for 2004 and the amounts allocated to projects. The analysis of the projects to which the balance relates is currently under way and thus this amount remains on the balance sheet.

Account number 23045, Appendix D, Other experts

58. The debit balance of $62,767.13 is due to the non-allocation of insurance expenditure to specific projects in the biennium 2002-2003. The amount had still not been allocated to the specific projects at the end of the biennium 2004-2005. As a result, project expenditures and revenue earned were understated for the projects affected by this balance. UNOPS has made the appropriate adjusting entries in 2007.

59. **UNOPS agreed with the Board's recommendation that it analyse the debit balances, allocate them to the correct accounts and disclose the prior-period adjustment.**

6. Accounts receivable

60. An age analysis of the accounts receivable balances as at 31 December 2005 revealed that there was no activity on 13 fund codes totalling $1,221,310.15.

61. UNOPS had cleared $700,000, approximately 60 per cent of the above amount, and was still in the process of clearing the remaining balance of approximately $550,000.

62. **UNOPS agreed with the Board's recommendation that it review the recoverability of long-outstanding debtor balances.**

Debt recovery

63. UNOPS records rental income receivables due in the next accounting year in account 14060, Receivables due in one year. At the time of the audit, an amount of $1,226,500 (2004: $820,000; 2005: $406,500) was outstanding in respect of space let to the Department of Political Affairs.

64. UNOPS indicated that it had identified fund transfers received from the United Nations that had not been applied to the rental income receivable of $313,500 owing to lack of information. UNOPS was reviewing other remittances with the relevant documentation to identify those to be applied against the remaining outstanding balance of $913,000.

65. Account 14040, Staff receivable — education grant, includes an amount of $88,779.69 that pertains to 2003 and earlier. During its clean-up exercise UNOPS was not able to identify a matching offset or movement in the balance since the initial entry.

66. UNOPS obtained the detailed breakdown of the $88,779.69 by staff member. All the staff members identified with an outstanding balance in account 14040, Staff receivable — education grant, are still on active duty with UNOPS. Accordingly, UNOPS expects recovery or resolution of the balance starting in 2007.

67. **UNOPS agreed with the Board's recommendation that it implement effective measures to collect all funds due to it and assess the recoverability of outstanding balances.**

Unmatched entries in staff receivables

68. Account 14035, Staff receivables — emergency advance, had a credit balance of $51,556.28. At the time of the audit, UNOPS was still in the process of analysing this account. The Board could not obtain assurance regarding the validity of the credit balance of $51,556.28. UNOPS indicated that it was unable to pursue appropriate adjustment of this account until the supporting documents requested from the pertinent UNDP country offices had been received.

69. **UNOPS agreed with the Board's recommendation that it implement controls to ensure that there are supporting documents for amounts disclosed in the annual financial statements.**

Advances recoverable locally, credit balances

70. Included in the receivables accounts are advances recoverable locally. The Board noted that there were credit balances on some of the advances accounts, resulting in an understatement of receivables. UNOPS has followed up on some of these receivables and ascertained that some of these accounts were subsequently cleared in 2006. Furthermore, it was also ascertained that some of the amounts were in fact not advances recoverable locally but funds received for projects that were

incorrectly recorded. As a result, the total credit of $79,848.54 is an understatement of receivables balances at the end of the biennium.

71. **UNOPS agreed with the Board's recommendation that credit balances on advances accounts be accounted for as a payable.**

72. UNOPS indicated that owing to the small amount involved compared to the total value of assets and liabilities, it preferred not to adjust the 2004-2005 financial statements and would ensure that such balances were not netted against receivables in the 2006 accounts.

7. Bank accounts and cash

73. The UNOPS treasury function was performed by UNDP under the terms of a service-level agreement. UNDP was responsible for preparing bank reconciliations for the UNOPS bank account. The Board noted that for the biennium 2004-2005, UNDP had performed only one bank reconciliation, which spanned the entire biennium. Furthermore, this reconciliation was only performed at the time of the final audit in May 2006.

74. **UNOPS agreed with the Board's recommendation that it ensure that bank reconciliations are performed on a monthly basis.**

8. Imprest accounts

75. In exceptional cases, where the activities of a project require that payments be made to local vendors in locations where there is no UNDP field office or where there is a high volume of transactions, or owing to other considerations, and in the best interests of the project, an imprest account system has been used. The imprest accounts operated on the basis that cash advances were transferred to imprest holders, who in turn incurred spending on the project against the account. Periodic processing of the expense vouchers was performed in order to record the transactions on Atlas. As at 31 December 2005, the aggregate balance of imprest accounts had increased by $18.1 million (116 per cent) to $33.7 million, from $15.6 million as at 31 December 2003. Also, the volume of UNOPS business had increased during the period, thus partially contributing to the increased balances in the imprest accounts.

Reconciliation

76. The Board performed audit tests on a sample of UNOPS imprest accounts to verify the validity, accuracy and completeness of transactions recorded in the general ledger. An overall reconciliation of the imprest accounts balance was also reviewed during the audit. A reconciliation prepared by UNOPS in May 2006 revealed a variance of $1,657,110 between the transactions processed on Atlas and the general ledger balance, and a further unreconciled difference of $717,246 between the cash book balance and the amount reflected as the cash book balance in the cash book reconciliation. During the clean-up exercise, the imprest account reconciliation was fully performed, and the necessary adjustments made to the financial statements.

77. **UNOPS agreed with the Board's reiterated recommendation that it reconcile the imprest accounts regularly.**

78. Imprest account holders prepare cash books outside of the Atlas system and then submit their accounts and reconciliations to headquarters on a monthly basis. These reconciliations, cash books and supporting documentation are then checked and uploaded into Atlas at headquarters in New York. This process results in a time lag between the incurring of expenses in the field and the posting of information in Atlas. As a result the monthly reconciliations between the general ledger and bank statements could not be performed quickly enough.

79. The Board noted that the query utilized by the Atlas team at headquarters to extract data from the general ledger needed to be performed on a regular basis, as no month-end closures were performed for the general ledger. All the year-to-date data therefore needed to be re-examined.

80. **UNOPS agreed with the Board's reiterated recommendation that it review its processes regarding the imprest accounts.**

Imprest account — Variance in bank balance (certified financial statements)

81. The imprest account bank reconciliations were performed on the basis of a bank statement and cash book balance with an earlier cut-off date than the end of the biennium. These incorrect cut-off procedures led to unrecorded transactions which are detailed in table 3 below.

Table 3
Imprest account with early cut-off
(United States dollars)

Account number	*Cash book balance at date of reconciliation*	*Cash book balance at year-end*	*Net activity between reconciliation date and year-end*[a]	*Cut-off date*
01 1025236 01	181 890.23	479 852.29	297 962.06	21/12/05
172-0260.140.89	45 253.72	36 263.23	8 990.49	16/12/05
20100003841774	94 451.82	41 189.17	53 262.65	14/12/05
1609 112 504	87 611.03	103 227.14	15 616.11	15/12/05
011500001234	9 824.20	5 794.38	4 029.82	12/12/05

[a] Includes cheques, deposits and bank charges.

82. As a result of discrepancies in the bank account reconciliations, the cash book was misstated at the end of the biennium. The Board examined the reconciliations for the accounts to evaluate the impact on the balance in the general ledger. The Board noted an understatement of the bank balance and a corresponding overstatement of the interfund balance in the financial statements.

83. UNOPS explained that the above variances were the result of a management decision that imprest holders should close the processing of imprest accounts one week before the end of a year to speed up year-end reporting. The decision was supported by the fact that payments made in the last week of December are not material to the preparation of the accounts, and a review of the transactions not posted showed that these were replenishments made by the UNDP Treasury. Therefore, the financial impact was limited to the balance sheet, captions of cash,

term deposits and interfund accounts. However, to avoid similar variances in the future UNOPS will not close its processing of imprest accounts before year-end.

84. **UNOPS agreed with the Board's recommendation that it review the cut-off procedures for bank accounts so that all transactions relating to current financial periods are accounted for.**

Imprest account — reconciling items ageing (certified financial statements)

85. Table 4 below reflects bank accounts for which the reconciliations reflected long-outstanding cheques that may be stale, resulting in a misstatement in the bank balance and accounts payable.

Table 4
Long-outstanding cheques

Bank name	*Account number*	*Cheque number*	*$ Amount*	*Outstanding since*
1. Ues Congolaises	20100003841774	20112821	689.00	1 Jan. 2005
2. Commercial Bank of Eritrea	8634	284559	1 257.00	24 Feb. 2005
3. Unibank in Haiti	140-1022-570082	404	1 400.00	17 May 2005
4. Unibank in Haiti	140-1022-570082	697	60.00	24 June 2005
5. Bank of Africa	01185520300	803622	201.82	25 Oct. 2004
6. Bank of Africa	11185521600	7 outstanding cheques	6 713.92	Prior to 2005
7. Banque Internationale pour le Commerce et l'Industrie, Senegal	9528065488000	225	232.39	Prior to 2005
8. Banco Continental Peru	01166100010001196961	6 outstanding cheques	1 213.42	Prior to 2005
9. Union des Banques	2010000384-10-95	8 outstanding cheques	111 304.17	Prior to 2005

86. **UNOPS agreed with the Board's recommendation that it adjust the general ledger imprest cash accounts for stale cheques.**

Imprest bank account — general ledger reconciliation

87. The imprest bank accounts are allocated to geographical locations to service projects and can be used for both administrative and client-related projects. UNOPS general ledger accounts are split on a fund basis, therefore an imprest bank account balance can be split across a few funds in the general ledger. The result is that UNOPS does not reconcile each imprest bank account balance with a fund balance in the general ledger. Instead, a cash book is used as a control mechanism to record imprest account expenditures and receipts and with which the bank statement balance is reconciled. A consolidated spreadsheet is compiled, accumulating all cash book balances, and then the total is reconciled with the bank account balance in the general ledger.

88. These procedures will not ensure that errors that could occur in the reconciliation process will be easily identified.

89. **UNOPS agreed with the Board's reiterated recommendation that it implement measures to ensure a reconciliation of the balances at the fund level.**

90. UNOPS informed the Board that it had commenced work to change the reconciliation procedures. UNOPS had analysed the general ledger control account at June 2006 by bank account and reconciled the amounts with the cash book balances. UNOPS also informed the Board that it had begun an imprest account reduction initiative in June 2007, whereby regional finance officers would ensure that cost data were entered directly into the Atlas system in field offices where that was logistically practical. UNOPS indicated that this initiative should be substantially completed by early 2008.

Signatories for imprest bank accounts

91. UNOPS supplied a list of countries, project numbers, imprest holders, bank account numbers and bank signatories pertaining to imprest accounts. On that list, the signatories indicated for 10 bank accounts in seven countries had not been updated.

92. **UNOPS agreed with the Board's recommendation that it regularly update the list of signatories for the bank accounts.**

9. Interfund balances

Interfund account UNDP

93. Interfund balances were maintained by UNOPS with other United Nations agencies. In respect of UNDP, the unreconciled difference in May 2006 was approximately $59.1 million, of which $33.5 million was later adjusted by UNDP and $15.7 million was adjusted by UNOPS. The remaining items, which amount to $9.9 million, date back as far as 1999 and have been classified by the nature of the transaction and amount. Consistent with the UNOPS/UNDP business model at the time the majority of these expenditures were incurred for UNDP projects, the availability of funds to absorb these expenditures is being analysed. Based on the above and pending completion of this work, UNOPS has made a provision of $5 million against the remaining difference of $9.9 million, and the remaining balance has been reported in note 8 to the financial statements.

94. The Board expressed its serious concern that controls were compromised with respect to timely reconciliations of interfund balances between the two agencies. UNOPS informed the Board that could largely be attributed to systemic delays in the sharing of reliable data by the two agencies, as well as a previous lack of resources devoted to timely reconciliations, which it was currently addressing through proper procedures and the allocation of resources.

95. **The Board recommends that UNOPS (a) reassess the recoverability of the UNDP debt of $9.9 million; (b) assess the adequacy of the $5 million provision raised for write-off; and (c) ensure that all interfund reconciliations are performed regularly.**

96. UNOPS explained that owing to the large volume and the age of the transactions comprising the unreconciled balance of $9.9 million, the review of the

remaining items would take time to complete. Given the uncertainty of the final outcome and the difficulty of measuring the amount to be provided in any reliable way, UNOPS considered that the current accounting treatment for making a provision was appropriate.

10. Project and other sources of income

97. Project income of $95.5 million (2002-2003: $69.9 million) (excluding income from the advisory services project and miscellaneous income) as a share of total income increased from 64 per cent in 2002-2003 to 80.5 per cent in the biennium 2004-2005. Income was earned by delivering project implementation services and other services, such as loan administration. UNOPS charges a percentage of project delivery costs as support-cost income. Therefore, within a given period, higher expenditure incurred on projects means higher income for UNOPS.

Project cost recovery and income rates

98. The rate of project income as a percentage of project delivery decreased gradually, from 7.8 per cent in 2000 to 6.7 per cent in 2005. The Board noted that different rates were charged for different projects and clients, with the maximum rate being 10 per cent for some UNDP projects funded from regular resources, depending on the estimated costs to be incurred. The Board is concerned that the profitability of projects accepted from other United Nations organizations may be inadequate, considering the level of recurring administrative expenditure. Project income as a percentage of project delivery for other United Nations organizations for the biennium 2004-2005 was 7.0 per cent, compared with 6.8 per cent for the biennium 2000-2001. Project income as a percentage of project delivery, excluding other services, from 1996 to 2005 is shown in table 5 below. Table 5 shows that the rate of project income peaked in 1998 but fell to 7.1 per cent in 2003 and 6.7 per cent in 2005.

Table 5
Project income as a percentage of project delivery
(Millions of United States dollars)

Year	*Project delivery*	*Project income*	*Percentage*
1996	430.8	31.6	7.3
1997	463.1	35.0	7.6
1998	537.8	43.5	8.1
1999	559.8	43.0	7.7
2000	471.1	36.8	7.8
2001	504.7	37.9	7.5
2002	485.1	35.4	7.3
2003	490.6	34.6	7.1
2004	495.2	35.4	7.1
2005	903.4	60.1	6.7

99. The Board noted that UNOPS had changed its emphasis from earning income purely on a “delivery” basis to considering alternatives such as “income and

contribution to fixed cost" models. However, without a proper system in place to estimate the cost of the services being provided, UNOPS is exposed to the risk of accepting projects from which the resulting income may not contribute to the payment of the organization's fixed costs.

100. The Board noted that a draft pricing policy had been developed but that the process, including a decision on reporting systems to support the pricing methodology, had not yet been finalized. UNOPS expected to complete its revised pricing policy in July 2007. The policy will ensure that UNOPS will price its services to achieve the following objectives: (a) recover all direct and indirect costs of the organization, (b) contribute an appropriate amount to replenish and maintain the mandated operational reserve of UNOPS, (c) adequately recover potential losses from estimatable business or portfolio risks and (d) ensure that services are competitively priced.

101. **UNOPS agreed with the Board's reiterated recommendation that it (a) evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs are identified and recovered, (b) implement a system that addresses all shortcomings identified in the existing workload system and (c) consider the feasibility of using a fixed minimum margin to be able to better control fluctuations in cost recovery rates, while ensuring that UNOPS remains cost-effective.**

11. Unliquidated obligations

Open purchase orders

102. An ATLAS open balance purchase order report indicated that purchase orders older than six months created by the UNOPS Division of Procurement Services had a total value of $4,926,073. DPS indicated that the open balances might be due to various reasons, including but not limited to claims for liquidated damages, currency differences and changes in specifications of goods or services. UNOPS indicated that an internally developed tool was used to track invoices received until payment was made and that it was in the process of carrying out a data clean-up to clear the open purchase orders.

103. **UNOPS agreed with the Board's recommendation that it expedite the data clean-up exercise and constantly monitor open purchase orders to ensure that they are reconciled and cleared in a timely manner.**

Revenue on cancelled unliquidated obligations

104. The policy followed by UNOPS was to reduce current-year project expenditure by the balance of the prior-year cancelled unliquidated obligations. This results in a reduction in the current year's project income earned based on such project expenditure. UNOPS indicated that the policy applied in cancelling unliquidated obligations was consistent with the Financial Regulations and Rules of the United Nations. The Board noted, however, the impact that this treatment had on revenue earned.

105. Prior to cancellation, the balance of unliquidated obligations, as at 31 December 2003, was $34 million. This comprised obligations raised on the basis of purchase orders and miscellaneous obligating documents. Of that amount, $3.2 million (9.3 per cent) represented obligations cancelled in the financial year

2005. As a result, fees earned were overstated for the biennium 2002-2003 by approximately $0.22 million (based on a project income rate of 6.7 per cent) and understated by the same amount for the biennium 2004-2005.

106. **UNOPS agreed with the Board's reiterated recommendation that it (a) conduct more regular reviews of all unliquidated obligations and (b) ensure that project officers raise only valid obligations.**

Cancelled unliquidated obligations

107. UNOPS has disclosed in note 5 to the financial statements a saving on prior-year obligations of $3,158 million. The Board requested a schedule of prior-biennium obligations for the purpose of determining the validity of the amount disclosed. Two schedules were presented: "Statement II — ULOs", which accumulated unliquidated obligation balances at the fund level and on which the liability disclosed in the balance sheet is based, and "Copy of 2003 ULO list", which contained the actual detailed purchase orders that were closed in 2004 for the previous biennium and on which the savings on prior-biennium obligations in note 5 are based. The following discrepancy was noted:

Statement II — ULOs	$123 125 361.45
Copy of 2003 ULO list	$127 645 514.37
Difference	$ 4 520 152.92

108. As part of the clean-up exercise, UNOPS was able to adjust the General Ledger balance by $5.4 million, resulting in a revised difference of $900,000, being the amount by which projects where overcharged in 2002-2003. UNOPS is in the process of investigating the difference to determine the nature thereof. Should the amount relate to projects, at the average rate of 7 per cent commission which UNOPS charges on projects, UNOPS income for 2002-2003 might have been overstated by approximately $63,000. However, should part of the unliquidated obligation relate to an accrual of expenditure no longer required, there would be an increase in reserves by a corresponding correction.

109. **UNOPS agreed with the Board's reiterated recommendation that it ensure that there is a reconciliation of prior-year unliquidated obligations.**

12. End-of-service post-retirement benefits and annual leave

110. In its financial statements, UNOPS made a provision of $11.8 million for after-service health insurance and a provision of $2.4 million for leave. However, the estimated liabilities, based on an actuarial valuation, have been estimated at $41.7 million as at 31 December 2005, as disclosed in note 11 to the financial statements.

111. **UNOPS agreed with the Board's reiterated recommendation that it expedite its consideration of the funding of end-of-service liabilities.**

112. The General Assembly, in its resolution 60/255 of 8 May 2006, requested the Secretary-General to take the necessary steps to disclose end-of-service liabilities in the United Nations financial statements. The Controller has written to all entities requesting that they provide for these liabilities in the 2006 financial statements. As the General Assembly resolution was adopted after the end of the biennium 2004-

2005, UNOPS has not made a provision for the full after-service health insurance liability.

13. Contingent liabilities

Claim against UNOPS

113. The Board noted that a claim of $15.58 million was instituted by a contractor, on contract number C04-191/00033267, for breach of contract. The Board obtained information that indicates a probable settlement of $1.5 million, comprising a revised claim of $1 million plus costs of $500,000. UNOPS has raised a provision of $1.5 million, as reflected in note 13 to the 2004-2005 financial statements. As in any legal matter, the ultimate outcome of this legal claim may result in a settlement different from the amount provided for.

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

114. UNOPS informed the Board that a total of $1.383 million has been written off as losses in the biennium 2004-2005. Of this amount, $557,196 relates to project costs incurred in 2002-2003 by UNOPS as implementing agent for two UNDP projects which were subsequently closed. An amount of $0.557 million has already been provided for in the 2002-2003 accounts. A further $0.826 million relates to payroll services rendered between 1999 and 2004. Owing to a lack of regular reconciliation, the amounts were not charged to projects in a timely manner and the projects were subsequently closed.

15. Ex gratia payments

115. UNOPS informed the Board that no ex gratia payments were made in the biennium 2004-2005.

16. Programme and project management

Overexpended projects

116. It is the responsibility of the various project managers to ensure that project expenditure does not exceed the approved project budget. Funds have to be approved by the various donors prior to additional expenditure being incurred. Section 4.711 of the UNOPS handbook provides that a project delivery report must be generated monthly to enable the project managers to monitor the summaries of expenditure against the budget on a line-by-line basis. Section 4.740 states that the monitoring should be done at least for the October phasing and as part of the year-end closing procedures.

117. The total amount by which project budgets were exceeded in 2005 was $23 million, involving 154 projects, 11.5 per cent of the 1,338 active projects for 2005.

118. UNOPS runs the risk that project funds spent in excess of approved budgets may not be recoverable. Given the financial situation of UNOPS, losses due to unauthorized expenditure may be difficult to absorb and could have negative cash-flow consequences. The monitoring controls surrounding project expenditure were not adequate to detect and monitor overspending, which could lead to financial losses.

119. UNOPS commented that the risk of project overspending was minimized because, of the 154 projects, about half (representing some 76 per cent of the value) were settled through the UNDP interfund account, which was reconciled at 31 December 2005. In addition, the amounts "temporarily" overspent did not take into account the ongoing nature of the projects and the available budget under the overall project agreement.

120. **UNOPS agreed with the Board's reiterated recommendation that it implement controls over project budgets to ensure that proper monthly reviews of project budgets and expenditure are performed.**

121. UNOPS provides project management and implementation services to other United Nations agencies, international financial institutions, the Bretton Woods institutions and Governments. For the most part, UNOPS earns a fee based on a percentage of the actual project costs. The fee that UNOPS earns is negotiated with the client concerned; however, UNOPS has informed the Board that the client normally stipulates a fee limit beyond which UNOPS cannot negotiate. The Board noted that, for the biennium 2004-2005, the average percentage fee earned by UNOPS was approximately 6.67 per cent.

122. A cluster of projects termed the Nile Basin Initiative was included in the UNOPS portfolio for which UNOPS indicated that it was not recovering all the related direct and indirect costs. On the basis of documentation forwarded to the client as well as a cost analysis exercise performed by the portfolio manager, UNOPS indicated that it had incurred losses amounting to $745,000 to date. UNOPS processes did not provide, through the use of a time management system, for the recording of time spent on projects by its personnel. As a result, estimates provided by UNOPS in respect of the time spent by project and portfolio managers and project staff could not be adequately validated by the Board. Although UNOPS was in the process of negotiating an increased fee for the Nile Basin Initiative, there was still the risk that UNOPS might have to complete the projects with no such increase. UNOPS informed the Board in June 2007 that it had subsequently renegotiated its fees for the Nile Basin Initiative, which would enable the project costs to be fully recovered.

123. **UNOPS agreed with the Board's recommendation that it address cost monitoring of its projects.**

124. UNOPS informed the Board that owing to the nature of the elections in Afghanistan, UNDP had instructed UNOPS to deliver the elections within a very short period, which effectively meant that additional costs were authorized by UNDP. UNOPS was therefore authorized by UNDP to approve all payments, although a budget was temporarily not available.

125. **UNOPS agreed with the Board's reiterated recommendation that it obtain formal authorizations for budget increases on a timely basis.**

126. UNOPS commented that it was in the process of reviewing its business processes. Project management processes will also be reviewed and the requirement for timely and formal authorizations for budget increases will be emphasized. In addition, UNOPS has implemented a financial dashboard, which is updated daily, to facilitate portfolio managers' monitoring on the Intranet of project overspending.

Support costs and fees

127. Paragraph 5.5 of the UNOPS Financial Regulations stipulates that UNOPS should ensure that all expenditures for project activities should not exceed funds received.

128. The Board noted from its review of the UNOPS project portfolio for the biennium 2004-2005 that there were over-expended projects (based on variance from budget) as at 31 December 2005. The Board could not verify whether there had been approved revisions to the project budgets because it did not have access to the relevant link on Atlas to verify the existence of such documents. The Board was subsequently provided with evidence that additional budget funding was provided for excess expenditure for all the projects identified as over-expended.

129. If no approved budget revisions exist as a result of authorized letters of agreement, expenditure as disclosed in the income statement may be understated because losses on projects have not been taken into consideration.

130. **UNOPS agreed with the Board's reiterated recommendation that it secure authorizations for excess project expenditures and revise budgets in a timely manner.**

17. Administrative expenditure

Payroll reconciliations

131. Monthly payroll reconciliations are essential to obtain assurance that transactions processed to the general ledger are valid, accurate and complete and to ensure that reconciling items are investigated and resolved. The payroll function of UNOPS was outsourced to UNDP and was regulated by a service-level agreement signed on 21 October 2005.

132. UNOPS indicated that it either did not obtain any payroll reconciliations from UNDP during the biennium 2004-2005 or that reconciliations were received late. The payroll reconciliations were only made available when requested by the Board in April/May 2006 and electronic copies only provided in April 2007.

133. The Board noted various unreconciled differences between the amount in the general ledger and the global payroll. Discrepancies were also noted in the posting of payroll amounts to the general ledger. UNOPS later rectified these discrepancies, and adjusted the financial statements accordingly.

134. **UNOPS agreed with the Board's reiterated recommendation that it review and certify monthly payroll reconciliations.**

135. Accrual of expenditure in each financial period means that costs were recognized when obligations arise or liabilities were incurred and not when payments were made. From the sample provided to the Board, the vouchers listed in table 6 which were accounted for in the current biennium (2004-2005) had invoices attached dating to the previous biennium (2002-2003):

Table 6
Vouchers accounted for in the incorrect biennium (uncertified financial statements)

2004

Project	*Account*	*Voucher ID*	*Expenditure (United States dollars)*	*Relating to prior biennium (United States dollars)*
00031263	72440	00014666	56 810.87	41 508.87
00031263	72440	00019128	52 032.96	48 229.47
00031263	73520	00013421	21 205.17	21 205.17
			Total	**110 943.51**

2005

Project	*Account*	*Voucher ID*	*Expenditure (United States dollars)*	*Relating to prior biennium (United States dollars)*
00041647	72420	00069737	90 283.00	29 703.24

136. The above examples were contrary to the accrual principle and administrative expenditure in the current biennium was thus overstated with the above amounts. These amounts should have been reflected as an adjustment to the opening balance of the operational reserve in the uncertified financial statements.

137. The vouchers listed in table 7 from the Board's sample were found to be allocated to the incorrect account.

Table 7
Vouchers with incorrect allocations

2004

Project	*Account*	*Account description*	*Voucher ID*	*Expenditure (United States dollars)*	*Particulars*
00031263	73410	Maintenance and operation of transport equipment	ASA00042	71 577.85	$17 844.84 in respect of a vehicle purchased
00031263	72105	Svc Co-Construction & Engineer	ASA00042	477 028.22	Purchase of vehicles

2005

Project	*Account*	*Account description*	*Voucher ID*	*Expenditure (United States dollars)*	*Particulars*
00041644	72205	Office machinery	00044712	41 000.00	Rent payment

138. Although the above payments were all in respect of administrative expenditure, the various sub-accounts were misstated with the amounts shown in table 7. However, the error was within the sub-accounts and there was no effect on the asset register or the financial statements.

139. **UNOPS agreed with the Board's recommendation that it improve the controls around the capturing of administrative expenditure.**

Missing vouchers

140. In respect of the biennium, out of a total of 301 vouchers and journals requested, 116 vouchers and journals with supporting documentation were not received for audit when initially requested. With the assistance of the clean-up team, the Board was presented with the missing vouchers during the final audit in November 2006.

141. **UNOPS agreed with the Board's recommendation that it implement procedures to improve filing and access to records.**

18. Procurement, contract management and leases

Lease of New York office premises

142. During the biennium 2004-2005, UNOPS incurred expenditure of $9.2 million for office premises, of which $3.2 million was recovered from rental income for office space sublet. UNOPS utilized on average 65 per cent of the office space leased and subleased 25 per cent. Owing to a clause in the lease agreement, UNOPS was not allowed to sublease more than 25 per cent of space leased, unless prior consent was obtained from the landlord. The current lease expires on 30 September 2014 and UNOPS would forego revenue over the term of the lease if the unutilized space was not rented out.

143. UNOPS subsequently received consent from the landlord to sublet the 4th floor and an extinguishment agreement was completed in May 2006. By negotiating with the landlord, UNOPS also received permission to rent to the United Nations as much space as necessary on the 5th floor. A memorandum of understanding was signed with the United Nations for the subleasing of 99 per cent of the UNOPS New York office space with effect from 1 July 2007.

Procurement activities

144. During the Board's review of UNOPS procurement activities at headquarters and regional offices, several observations were made in respect of non-compliance, administrative weaknesses and performance-related matters. The internal auditors had provided project-specific details in this respect in their various reports, summarized in document DP/2006/32. The Board noted the following:

(a) UNOPS did not request signed declarations of agreement with the code of conduct from potential suppliers at the tender stage. These were only obtained at the purchase order stage.

(b) There was no formal agreement to regulate the service arrangement between UNOPS and the International Fund for Agricultural Development (IFAD) in respect of the fee structure, billing and payment terms, thus exposing UNOPS to risk of fee under-recovery.

(c) Procurement planning provided an opportunity for gains from economies of scale. There were no consolidated procurement plans taking into consideration the needs of each country office.

(d) The long-term agreement entered into between UNOPS/DPS and a freight supplier was in need of review because of its very low utilization.

(e) No long-term agreements existed for two suppliers, although the total cost for goods supplied for the period January 2004-August 2005, in separate procurement actions, totalled $2.05 million and $1.65 million, respectively. Since DPS became a procurement service centre in 2004, it had developed only nine long-term agreements.

(f) The UNOPS Procurement Manual had not been updated since 1997.

(g) A formal and systematic vendor performance evaluation process was not regularly undertaken.

(h) Despite the DPS workplan providing for a customer feedback survey, at the time of the audit such a survey had not been undertaken.

145. **In view of the aforegoing procurement-related observations, the Board recommends that UNOPS take appropriate measures to address them.**

146. UNOPS responded to the Board's comments as follows:

(a) The development of a vendor management policy was scheduled for the second half of 2007.

(b) The new Procurement Manual which took effect on 1 January 2007 established the development of procurement plans as a requirement at the corporate, regional and project levels and that requirement was being implemented.

(c) A new tender for freight services had been drawn up by a United Nations entity in 2006 on behalf of a number of United Nations organizations. Based on the outcome, UNOPS had established a long-term agreement (LTA), which it utilized when practically and financially suitable.

(d) Large purchases from one supplier did not necessarily warrant an LTA, rather LTAs were established where multiple orders were foreseen for the same products. However, since the audit, UNOPS had established approximately 25 global LTAs and a number of local LTAs and was currently making a large effort to identify needs for LTAs and subsequently develop them at the corporate, regional or local level, as appropriate.

(e) In addition to procurement planning data, data on prior-years procurement patterns had been collected and were being analysed with the establishment of LTAs in mind.

(f) The new Procurement Manual had recently been translated into Spanish and French to facilitate understanding.

(g) A major training effort based on the new Procurement Manual had been implemented to ensure the procurement capacity of all UNOPS staff involved in procurement activities. So far, approximately 300 people had attended a three-day course.

(h) DPS had since undertaken a customer survey in the first half of 2006, before the new UNOPS organizational structure was established.

19. Internal oversight

147. Internal audit of UNOPS was carried out by the Office of Audit and Performance Review (OAPR), pursuant to the memorandum of understanding between UNOPS and UNDP/OAPR effective 1 January 1997. During 2006, UNOPS embarked on a strategy whereby it will no longer use the services of OAPR for the provision of internal audit, but will develop an in-house internal audit function.

148. The Board noted that UNOPS did not have a comprehensive risk-based internal audit plan covering all aspects of administration and operations. OAPR did not perform comprehensive audits on the reliability of the accounting records used by UNOPS for the production of its financial statements. UNOPS also did not have the services of a professional and independent audit committee. In May 2005, the Executive Director established a Risk Management and Oversight Committee.

149. **UNOPS agreed with the Board's reiterated recommendation that it develop a risk-based internal audit plan to provide assurance to the organization on financial procedures. In addition, UNOPS agreed with the Board's recommendation that it take steps to implement the formation of an audit committee.**

20. Human resources management

Human resources management plan

150. The Board reviewed the human resources framework for the UNOPS transition and the relocation of its headquarters from New York to Copenhagen. The current contingent of locally recruited General Service staff would be reconstituted in the new host country with staff from that country as the current General Service staff would not be eligible for relocation. UNOPS informed the Board that it was still in the process of mapping its Finance Division's functions, after which it would be able to determine the optimum staff level for the division.

151. UNOPS explained that while it was reorganizing itself at its new location, an overall strategy for the organization, including a human resources strategy and plan, would have to be developed and implemented. UNOPS had already made a number of significant advances in its human resources management practices, including in the areas of staff diversity and mobility, performance management, career development, training and staff/management relations.

IMIS leave balances

152. Each division of UNOPS has a dedicated leave monitor who is responsible for maintaining the daily attendance records of all the staff. UNOPS explained that the leave monitors, where they had access to the IMIS system, were also required to record the data from the monthly attendance records into IMIS. However, for various reasons, including staff turnover and lack of training, the actual recording of leave in IMIS was improperly done.

153. UNOPS further explained that the time and attendance application in IMIS did not reflect leave balances accurately; differences had been noted between the leave

monitors' records and the time and attendance application in IMIS. Furthermore, in order to mitigate the risk of incorrect payments on separation, the releasing office was required to submit a certificate of annual leave balances which was based on the leave records and must be signed by the staff member. Table 8 below shows the discrepancies noted between IMIS and the leave monitors' manual leave records.

Table 8
Discrepancies in leave records between IMIS and leave monitors' records

Post number	*Leave monitors balance (days)*	*IMIS balance (days)*	*Difference (days)*
1080	62.5	54.50	8
1052	64.50	54.50	10
894	55	37.50	17.50
11311	72.50	49.50	23
848	53.50	20	33.50
10084	82	68.50	13.50
10445	63.50	60	3.5
908	41	42.50	(1.50)
1079	64	65	(1)
929	52	51.50	(0.50)

154. **UNOPS agreed with the Board's recommendation that it update the IMIS leave records to reflect accurate information and that it implement appropriate control measures for recording leave.**

Vacancies

155. As of 18 November 2006, six posts (20 per cent) had not been filled in the Asia-Pacific Regional Office (APRO). Of the vacant posts, three were in key operational areas, as indicated in table 9 below.

Table 9
Key vacant posts in the Asia-Pacific Regional Office

Post	*Date of vacancy*
Senior Portfolio Manager	October 2005
Loan Administrative Associate	October 2005
Portfolio Advisor	August 2004

156. APRO indicated that the post of Portfolio Advisor had not been filled because a moratorium had been placed by headquarters on new appointments in an effort to contain costs. APRO indicated that it had liaised with UNOPS headquarters regarding approval for filling these vacancies.

157. **UNOPS agreed with the Board's recommendation that it prioritize the filling of key vacant posts.**

Training plan

158. Training is an integral part of staff development. It has the objective of harmonizing staff and organizational goals in a manner that would promote organizational efficiencies. In order to evaluate whether policies are designed to ensure that human resources are managed in such a way as to make the most effective possible contribution to the achievement of the basic objective of the organization, the Board requested the overall training plan for APRO.

159. In 2004, UNOPS promoted training through on-line programs on its intranet. The need for a training and development plan was highlighted by the fact that, as at 22 November 2005, the APRO 2005 training budget of $15,000 had not been fully utilized. An amount of $13,950 remained in the budget, despite 18 members of the current staff establishment being newly appointed as a result of the relocation of APRO from Malaysia to Thailand. However, APRO had not developed and implemented any training plans.

160. **UNOPS agreed with the Board's recommendation that it compile and implement a formally structured training and development plan.**

21. Asset management

Opening balances

161. Non-expendable equipment amounted to $12.4 million as at 31 December 2005 (as at 31 December 2003: $10 million). In its previous report, the Board noted that the inventory register did not provide information on opening balances, movements and closing balances. The Board was therefore unable to verify the accuracy of non-expendable equipment worth $3.1 million relating to the decentralized offices as at December 2003. UNOPS decentralized offices are required to submit an inventory summary form 30 days after the end of the year, which is used to update the fixed asset register. In paragraph 88 of its audit report for the biennium 2002-2003, the Board stated that it was unable to express an opinion on the accuracy, completeness and validity of information on fixed assets as disclosed in the notes to the financial statements, or on movements for the year, due to the breakdown in controls and the unavailability of supporting evidence. While UNOPS has corrected the 2004-2005 biennium-end disclosure of non-expendable equipment, the comparative 2002-2003 disclosures have not been corrected.

Acquisitions

162. In accordance with UNOPS accounting policy, the full cost of non-expendable equipment is charged to the project accounts or the UNOPS accounts, as appropriate, in the year in which it is purchased. Schedule 2 of the financial statements places the value of purchases of equipment and furniture at $6.3 million. This does not concord with the implied increase of only $2.367 million recorded in note 14 to the financial statements.

Inventory counts

163. In the biennium 2004-2005, UNOPS conducted an inventory count, compiled listings of non-expendable equipment and tagged its inventory of expendable and non-expendable furniture and equipment. The main objective was the establishment of a complete inventory listing for the headquarters and country offices. The Board identified the following shortcomings: (a) no opening balances from the prior biennium were included in the asset register; (b) assets totalling $73,314 were indicated as being transferred to the regional office in Ethiopia from its Kinshasa office. Although the asset register did not reflect such transfers, it indicated a balance of $73,314 as unreconciled.

164. UNOPS explained that the opening balances had not been included in the asset register, because the complete and detailed list of assets had not been available. However, as part of the 2004-2005 financial statement correction exercise, certain errors pertaining to the opening balances had been noted. The disclosure note to the 2004-2005 biennium financial statements had been adjusted accordingly. Furthermore, regarding the asset transfer totalling $73,314, those assets had been transferred between offices in the same region. Since the asset register was prepared at a regional level, the transfers between countries in the same region were not recorded. UNOPS would consider the need to record assets at the country level.

Capitalization threshold

165. UNOPS increased the threshold for the recording of capital assets from $500 to $1,000. As a result, all acquisitions made prior to 1 January 2005 for amounts of between $500 and $1,000 were no longer classified as capital assets providing their useful life was estimated to be less than three years. A detailed listing of the inventory items that were reclassified was, however, not provided for audit purposes.

166. UNOPS responded that, as noted above, owing to the incomplete state of the records for previous bienniums, reliable comparative data were not available for those items purchased for amounts between $500 and $1,000. Given that non-expendable items were fully expensed, the change in accounting policy did not affect the results for the current or subsequent periods.

167. In addition, based on the returns received, it would appear that the value of assets in the $500-$1,000 category was not significant, amounting to $0.5 million. However, this category accounted for 70 per cent of all assets on the assets listing. The asset value for all offices as at 31 December 2005 was approximately $12.4 million. In the absence of comparative data for the amount reported as at 31 December 2003 ($10 million), an estimate could be prepared using the same percentage as for the biennium 2004-2005. Therefore, by extrapolation, the total value of assets to be excluded from the assets listing as a result of the change in threshold would have been $0.57 million, or 5.7 per cent of the total assets reported for the biennium 2002-2003. Therefore, the comparative figure for assets as at 31 December 2003 might be reduced from $10 million to an estimated $9.43 million.

168. As a result, the accuracy of the comparative value of the balance of capital equipment that was required to be disclosed in the financial statements in

accordance with paragraph 50 of the United Nations system accounting standards could not be verified.

169. **UNOPS agreed with the Board's reiterated recommendation that it (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals; (b) ensure that valid, accurate and complete opening balances are included in the Atlas system; and (c) provide the Board with all the documentation regarding the reclassification of assets.**

170. UNOPS responded that it agreed with the Board's recommendations and would monitor inventory more closely by performing annual inventory counts of assets. However, with regard to point (c), and as noted above, the documentation regarding the reclassification of items was only available for some offices and, based on the amounts involved, it would not be cost-beneficial to carry out further work in that area. UNOPS has since carried out three physical inventories and is able to report that the implementation of the remaining recommendations is on target. UNOPS expects to have fully implemented the above improvements in time for the preparation of its 2006-2007 financial statements.

Verification of the asset register

171. The following were some of the differences that were noted between the amount included in the asset register and the actual expenditure on the equipment acquired.

Table 10
Differences between actual expenditure and amount recorded in the asset register

Profile	*Tag number*	*Description*	*Value recorded in inventory listing (United States dollars)*	*Value according to source document (United States dollars)*
Electrical	0040000000568	IBM Netfinity 5000	200 000	75 957
Electrical	0040000000567	IBM Netfinity 7000 Server	60 000	100 217
Electrical	0040000000552	Network operator consoles	36 000	42 726
Electrical	0040000000577	APC UPS 1400	10 000	5 705

172. The Board further noted that for the following items acquired in 1999 no source documents existed and there was no indication as to the manner in which the values had been derived.

Table 11
Missing source documents for items acquired

Profile	*Tag number*	*Description*	*Value recorded in inventory listing (United States dollars)*
Electrical	0040000000010	Audio-visual system	662 795
Electrical	0040000000572	LAN and server	350 000

173. During the clean-up exercise, the differences noted above were rectified and a revised asset register was supplied to the Board, which addressed the problem of missing documents.

Incomplete asset register

174. The Board selected a sample of purchases of non-expendable items recorded in the imprest accounts and the general ledger and attempted to trace these items to the UNOPS asset register. Items totalling $1,393,744 from the sample selected could not be traced to the asset register (see table 12).

Table 12
Items that could not be traced to the asset register

Description	*Amount (United States dollars)*	*Reference*
25 Toyota vehicles	386 500	Voucher ID 68045/6/7
Armoured vehicles	560 000	Imprest — BT 038
Mitsubishi pick-up	17 844	Imprest — BT 003
5 Nissan vehicles	87 787	PO 20885
5 Toyota Prado	152 708	Imprest — BT 054 and DV — Gen 05/06/293
5 Toyota Land Cruisers	190 905	Imprest — BT 042 (10 were purchased, only 5 recorded in register)
Total	**1 393 744**	

175. As audit work was conducted on a sample basis, the full extent of the exclusions from the inventory register could not be determined without performing a 100 per cent audit of all purchases recorded in the financial records. Furthermore, the UNOPS inventory register did not have a clear audit trail from the purchase documentation to the inventory register.

176. **UNOPS agreed with the Board's recommendation that it review purchase documentation to ensure that assets were recorded in the asset register.**

177. UNOPS responded that the reason the asset register was incomplete was because the inventory was based largely on management reports which did not fully reflect 2005 imprest accounts recorded in 2006. In order to correct the situation, a comprehensive physical inventory was carried out in 2006. The above-mentioned items were checked to the asset listing and action was taken to adjust the year-end valuations as appropriate.

Asset verification at APRO

178. During its visit to the UNOPS Asia-Pacific Regional Office (APRO) the Board audited non-expendable equipment and the related records. The Board also reviewed the implementation of unique asset tagging of non-expendable equipment items. The following shortcomings were noted regarding the APRO registers of both expendable and non-expendable equipment as at 25 November 2005.

179. Although APRO had compiled an inventory listing at the time of the audit, a complete physical inventory count had not been conducted prior to its relocation from Malaysia to Thailand in 2004. Furthermore, owing to the initial lack of adequate office space, APRO had placed a significant number of assets in storage; however, a detailed inventory listing of the items held in storage had not been maintained. Thus, there was no acknowledgement by the storage company of the exact items that were in its custody. In addition, some assets were disposed of by APRO prior to its relocation, but these items still remained on the APRO register.

180. UNOPS has already concluded this asset reconciliation exercise and ensured that assets to be disposed of and obsolete assets to be written off were clearly identified in its 31 July 2006 asset register. The assets identified will be disposed of and written off in accordance with the UNOPS Financial Regulations.

181. UNOPS acknowledged the Board's finding and as at 31 July 2006 had completed its assets tagging and verification exercise. The financial statements clean-up team made the necessary corrections to the financial statements for the biennium 2004-2005 resulting from the asset tagging and verification exercises.

182. UNOPS provided the Board with a revised asset register which agreed with the amount disclosed in note 14 of the revised annual financial statements totalling $5.049 million for UNOPS headquarters and $7.323 million for its field offices.

183. **UNOPS agreed with the Board's reiterated recommendation that it perform regular physical asset counts to verify the existence of assets and the completeness and accuracy of the asset records. UNOPS also agreed with the Board's recommendation that it obtain confirmation from the storage company of all inventory items kept in storage.**

Asset utilization

184. Based on the Board's sample, the APRO non-expendable equipment register included 16 assets totalling $321,052 purchased in prior years which were not utilized owing to redundancy or obsolescence.

185. The UNOPS policy of accounting at cost for non-expendable equipment, including redundant and obsolete items on the asset register does not result in the fair presentation of the non-expendable balance disclosed in the notes to the financial statements. The Board further noted that two photocopying machines at APRO were not utilized, whereas APRO had leased a photocopying machine on a three-year lease at an estimated rental of $14,661.82 for that period (based on the average exchange rate prevailing on the date of commencement of the contract). APRO indicated that the lease was concluded to address its operational needs while its assets were still in transit from Kuala Lumpur and that its own photocopying machines needed to be serviced before they could be utilized. Based on the surplus photocopiers available for an extended period, this expenditure on the leased photocopier could be regarded as fruitless.

186. **UNOPS APRO agreed with the Board's recommendation that, in consultation with UNOPS headquarters, it identify, dispose of and write off all non-expendable equipment assessed to be redundant or obsolete, in order to ensure a fairer presentation of the non-expendable balances disclosed in the financial statements. UNOPS agreed with the Board's recommendation that steps should be taken to avoid any fruitless expenditure on photocopier rentals.**

22. Enterprise resource planning and implementation

187. UNDP, in partnership with UNOPS and UNFPA, implemented a new enterprise resource planning system called Atlas during the biennium. Although UNDP was the leader on this project, UNOPS remains responsible for ensuring that the system fulfils its needs. The implementation of the Atlas system was meant to introduce new technology, streamlined processes and a changed environment for managing information across each of the organizations.

188. UNDP was the principal implementing partner and followed a fast-track methodology to implement the system. This required the planning and execution of the various phases to be done concurrently and means that the project runs a high risk of errors, omissions and possible failure. The level of risk increased as a result of the high number of "legacy" systems and country offices that would be consolidated and integrated into the project. The Board's report on UNDP for the biennium 2004-2005[3] provides more details on the post-implementation reviews performed of the Atlas system.

189. Inaccuracies in reporting by UNOPS to its clients on projects arise as a result of delays in processing imprest account expenditure, as well as delays in the posting of payroll expenditure by the UNDP Global Payroll Services. Although UNOPS has indicated that it ensures that accurate information is reported to clients, the existence of project expenditures not charged to projects in the deferred expenditures account was indicative of inaccurate client reporting. The Board noted that UNOPS had taken steps to improve the client reporting function. However, challenges in respect of data integrity, described in the following paragraph, further influenced the client reporting process.

190. Problems existed in maintaining data integrity among the relational modules. Verification of data across the various Atlas modules complicated the issuance of client reports. Atlas is a relational database that contains multiple modules and tables. When an update is made to one table, an automatic trigger causes an update in related tables. Although identical expenditure information included in various tables should agree, it did not. Discrepancies include missing information (e.g., included in one table but not another), incomplete information (e.g., part of the transaction is included in one or two of the tables but not the others) and different values for the included information (e.g., encumbrance entries not properly reversed when cash is disbursed). Therefore, UNOPS made significant use of its information technology personnel, who develop scripts to interrogate data with the aim of identifying errors. These data-cleansing tasks were a significant feature of UNOPS financial operations.

23. Information, communication and technology

Information and communications technology strategy

191. An information and communications technology (ICT) strategy provides a road map of the ICT required to support and enhance the organizational direction, outlining the resources that are required for and the benefits that would be realized

[3] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5A* (A/61/Add.1), chap. III.

from the implementation of the plan. An ICT strategy should address, inter alia, the following:

(a) The ICT department's aims and objectives pertaining to the information technology of all groups;

(b) To what extent business operations and ICT would be integrated;

(c) The structure and standards of the ICT environment;

(d) The purpose of the ICT environment;

(e) Services the ICT environment has to deliver;

(f) Facilities used by ICT;

(g) Resource requirements.

192. The last ICT strategic plan covered the period 1994-1997 and has not been updated since then. The lack of an ICT strategy also has the effect that ICT training undertaken may not be appropriately directed.

Policies and compliance

193. UNOPS issued its e-mail and Internet policy in December 2000 and an electronic communication policy in May 2003. However, no other policies were in place to govern the appropriate use of ICT and to ensure that the quality of data and information was maintained. Such policies could include operating policies, disaster recovery plans and user account management procedures. UNOPS relied on the security policy compiled by UNDP for the Atlas system implementation.

Standards and best practices

194. UNOPS has not formally adopted the Control Objectives for Information and related Technology guidelines or such frameworks as standard 9001 of the International Organization for Standardization. While the Board acknowledges that UNOPS is in the process of fully implementing the Atlas system, these guidelines provide useful tools for the self-evaluation and control of, inter alia, quality standards and risk analysis. UNOPS informed the Board that it did not consider it cost-effective to implement such international standards in their entirety, but it did plan to use them for e-mail, knowledge management and infrastructure management.

195. **UNOPS agreed with the Board's reiterated recommendation that it (a) develop a detailed ICT strategic plan and (b) consider the benefits of adopting international standards and best practices to be applied to its ICT environment.**

Atlas review

196. An information security risk assessment was carried out under the supervision of the UNDP Office of Audit and Performance Review (OAPR) by BearingPoint in 2005. The objective of the assessment was to provide a review of risks associated with the Office of Information Systems and Technology (OIST) information security programme located at UNDP headquarters. UNOPS is a user of Atlas and access and control over Atlas rests with UNDP.

197. All the recommendations arising from this assessment were mapped to a high, medium or low risk to UNDP as an organization in order to prioritize them. The Board was concerned in that regard that risk priorities for UNDP and UNOPS might differ, based on the extent of the operations of each entity.

198. In view of the relationship between UNOPS and UNDP regarding Atlas usage, as well as the fact that UNDP processes transactions on behalf of UNOPS, the shortcomings identified by the security assessment have a significant impact on UNOPS. Although the Board recognized that UNOPS ability to make changes to the Atlas environment was limited as a result of its contribution relative to its partners, it was imperative that UNOPS have significant involvement in the UNDP programme to address Atlas shortcomings.

199. **UNOPS agreed with the Board's recommendation that, through its memorandum of understanding with UNDP, UNOPS be involved in the development and finalization of the mitigation plan and the action plans to address all risks highlighted in the BearingPoint report.**

200. UNOPS indicated that risk mitigation and implementation measures had already been put it place to address specific recommendations in the BearingPoint report. While some of the measures had already been implemented or were being pursued at UNOPS, other Atlas-related matters were being in close cooperation with UNDP.

201. The areas indicated in the report as being of high risk and their status as supplied by UNOPS were:

- Password security standards proposal: implemented for Atlas together with UNDP;
- Antivirus implementation control: fully implemented by UNOPS with multi-tier controls;
- Production systems not isolated in DMZ: implemented as part of the UNOPS infrastructure optimization project;
- Internal application hosting: evaluated together with Atlas partner agencies;
- Periodic vulnerability testing: implemented together with UNDP for Atlas and together with the United Nations House in Copenhagen for core ICT infrastructure;
- System baseline hardening documentation: partly implemented as part of UNOPS electronic communication policy; National Institute of Standards and Technology (NIST) guidelines under review;
- System patches: fully implemented on Microsoft platform with the Systems Management Server (SMS) and Windows Server Update Services (WSUS);
- Business continuity/disaster recovery plan: work in progress pending business process and corporate strategy review;
- Implementation of access control policy: UNOPS participating with UNDP and UNFPA in the identity management request for proposal;
- Data extraction security and intrusion detection: work in progress on implementation with UNDP;

- Incident response system: implemented at UNOPS.

24. Fraud and presumptive fraud

202. UNOPS informed the Board that four reported cases of fraud or presumptive fraud were currently under investigation by OAPR. The Board noted that, of the four cases, only one involved theft of resources, to the value of $179,175, one case related to a bid protest reported through the hotline and the remaining two cases concerned allegations of corrupt practices and possible corruption.

E. Acknowledgement

203. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of the United Nations Office for Project Services and his staff.

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

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

(*Signed*) Guillermo N. **Caragueue**
Chairman, Philippine Commission on Audit

29 June 2007

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

Annex I

Status of implementation of recommendations of the Board of Auditors in its report for the biennium ended 31 December 2003[a]

Topic	*Year when first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Total*	*Reference in present report (chap. II)*
Budget management	2001	Para. 58	Para. 38			2	Para. 120
Client portfolio	2001	Para. 42				1	
Project income	2001		Para. 48			1	Para. 101
Administrative expenditure	2003		Para. 52			1	
Operational reserve	2001		Para. 63			1	Para. 40
Unliquidated obligations	2001		Para. 70			1	Paras. 106, 109
End-of-service liabilities	2001		Para. 76			1	Para. 111
Asset management	2003		Para. 89			1	Para. 169
Account reconciliations	2003		Para. 98			1	Paras. 48, 77, 80, 89, 183
Project budgets	2003		Para. 103			1	Paras. 120, 125, 130
Review of financial statements	2003		Para. 117			1	Para. 45
Service-level agreements	2003	Para. 125	Para. 122		Para. 132	3	
Information and communications technology	2001 & 2003	Paras. 145, 147, 154	Paras. 140, 151			5	Para. 195
Internal controls	2003	Paras. 165, 193, 169, 179, 182, 190	Paras. 177, 161, 173, 185, 188			11	
Procurement	2003	Para. 200	Para. 203			2	
Human resources and payroll	2003	Paras. 207, 210	Para. 80			3	Para. 134
Fraud prevention strategy	2003	Paras. 213, 217				2	
Total		**18**	**20**	**—**	**1**	**39**	
Percentage		**46**	**51**	**—**	**3**	**100**	

[a] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5J* (A/59/5/Add.10), chap. II.

Annex II

Actual income and expenditure compared with the budget for the period from 2000 to 2005

(Millions of United States dollars)

	2000			2001			2002			2003			2004			2005		
	Budgeted/ forecast	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*
Project delivery	590.0	471.1	(118.9)	616.0	504.7	(111.3)	503.2	485.1	(18.1)	484.4	490.5	6.1	485	495.2	10.2	641.4	903.4	262.0
Income																		
From project portfolio	42.7	36.8	(5.9)	47.4	37.9	(9.5)	35.4	35.4	0	35.3	34.5	(0.8)	35	35.4	0.4	42.1	60.1	17.9
From services only	6.1	6.5	0.4	8.0	7.0	(1.0)	7.8	6.9	(0.9)	8.2	30.6	22.4	8	8.6	0.6	9.8	9.9	0.1
Other	2.8	5.2	2.4	1.4	2.3	0.9	1.1	1.4	0.3	1.0	1.1	0.1	1	1.4	0.4	1.8	3.2	1.4
Total income	**51.6**	**48.5**	**(3.1)**	**56.8**	**47.2**	**(9.6)**	**44.3**	**43.7**	**(0.6)**	**44.5**	**66.2**	**21.7**	**44**	**45.5**	**1.5**	**53.8**	**73.2**	**19.4**
Total recurring administrative expenditure	**51.6**	**52.3**	**(0.7)**	**55.3**	**52.8**	**2.5**	**44.0**	**43.5**	**(0.5)**	**44.5**	**44.3**	**0.2**	**56.5**	**56.6**	**0.1**	**50.9**	**59.4**	**8.5**
Net surplus (deficit)	**—**	**(3.8)**	**(3.8)**	**1.5**	**(5.6)**	**(7.1)**	**0.3**	**0.2**	**(0.1)**	**0**	**21.9**	**21.9**	**(12.5)**	**(11.1)**	**1.4**	**2.9**	**13.8**	**10.9**

Source: UNOPS.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 and 2 and the supporting notes of the United Nations Office for Project Services (UNOPS) for the biennium ended 31 December 2005. 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, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

UNOPS conducts business with UNDP whereby each entity acts as an implementing agent for the other on projects with significant transactions. As reported by the Board in the prior biennium, the two entities have not been properly reconciling the amount due/payable to each other. As at 31 December 2005, an amount of $9.9 million reflected as a receivable from UNDP could not be confirmed with UNDP. UNOPS has raised a provision of $5 million against this receivable in its 2004-2005 financial statements, while the balance of $4.9 million remained unprovided. While the agencies were in the process of reconciling the $9.9 million, the Board was unable to assess the recoverability of the unconfirmed balance, or the adequacy of the provision raised.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2005 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

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

Without further qualifying our opinions expressed above, we draw attention to the following matters:

(a) Note 12 to the financial statements indicates that UNOPS had reserves of $4.36 million as at 31 December 2005, which were below the desired level of operational reserves (as approved by the Executive Board) of $27.3 million. This position, along with other matters set forth in detail in chapter II, indicates a material uncertainty which may affect the ability of UNOPS to continue as a going concern, or its ability to absorb future losses. The UNOPS reform process, which commenced in 2003, has not significantly improved its financial position, and

therefore it may not be able to fund in full any future deficits from the operational reserve.

(b) The Board, in its audit of UNOPS for the biennium 2002-2003, issued a disclaimer of opinion in its report, citing concerns about imprest accounts, the UNDP and UNFPA interfund account, non-expendable equipment and staff separation costs. These matters were addressed by UNOPS in the preparation of the current biennium's financial statements, although no adjustment has been made to the comparative information disclosed in the financial statements for the biennium 2004-2005.

(c) Significant weaknesses were noted in the accounting and internal control system. The Board was presented in May 2006 with financial statements in which many balances either were not corroborated by supporting documents or were not in accordance with the accounting records of UNOPS. With the assistance of consultants, UNOPS embarked on a clean-up exercise to correct the accounting records, prepare supporting documents and make adjustments to the financial statements. The Board is concerned about this significant break-down in internal controls and financial reporting, as well as the costs and delays that arose from it.

(d) UNOPS has made provision for losses of $2.76 million relating to project costs incurred without authorized budgets. UNOPS has also declared to the Board write-offs of $1.38 million relating to project costs that could not be recovered. Coupled with the incidence of over-expenditure and slow closure of projects on Atlas (the ERP system of UNOPS), the Board is concerned about the effectiveness of the cost control of projects and the potential for further losses or under-recoveries.

(e) The internal auditor's review of the operations of UNOPS cited concerns about certain activities at UNOPS which have an impact on the control environment and project deliverables. These included some incidents of lack of donor authorization for UNOPS to incur expenditure; inadequate accounting controls over expenditure and non-expendable property; the lack of transparency and consistency in the funding and fee-setting process for UNOPS projects; and instances of the lack of adequate controls over the management of procurement.

(f) Owing to the inaccuracy and incompleteness of the non-expendable equipment registers and the inadequate controls over these assets, the Board was unable in the prior biennium to reach a conclusion on the accuracy of the balance of $10 million for non-expendable equipment, as disclosed in note 14 of the financial statements. This incorrect amount continues to be disclosed as the comparative amount in the financial statements for the biennium 2004-2005.

(g) UNOPS has not regularly reconciled its bank and imprest accounts. The UNOPS bank account is managed by the UNDP Treasury, based on a service-level agreement with UNDP. UNDP performed the final December 2005 reconciliation for all bank accounts at the time of the audit. This reconciliation spanned the entire biennium, as monthly reconciliations were not prepared. This resulted in a key control not being performed during the biennium, which could have resulted in fraud and errors going undetected. Furthermore, the Board noted that imprest accounts were closed before the year end, resulting in transactions not being recorded. Other imprest accounts were also not reconciled regularly during the biennium.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of UNOPS.

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

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

(*Signed*) Guillermo N. **Caragueue**
Chairman, Philippine Commission on Audit

29 June 2007

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

Chapter IV
Financial statements for the biennium ended 31 December 2005

Statement I

United Nations Office for Project Services (UNOPS)

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2005, with comparative figures for the biennium ended 31 December 2003

(Thousands of United States dollars)

		2004-2005	*2002-2003*
Income			
Support costs and fees:			
UNDP — core and trust funds		45 631	33 718
Projects on behalf of other United Nations organizations		40 139	19 718
Management services agreements (MSAs)		9 704	16 510
Total support costs and fees	**(schedule 1)**	**95 474**	**69 946**
Advisory and reimbursable services income	(note 3)	18 575	37 488
Miscellaneous income	(note 4)	4 622	2 522
Total income		**118 671**	**109 956**
Total expenditure	**(schedule 2)**	**115 939**	**92 484**
Excess of income over expenditure		**2 732**	**17 472**
Provision and write-off of receivables	(note 13)	(10 182)	(557)
Prior-period adjustments	(note 5)	(11 340)	1 208
Net (shortfall)/excess of income over expenditure		**(18 790)**	**18 123**
Operating reserve beginning of period		**23 152**	**5 029**
Operating reserve end of period	**(statement II)**	**4 362**	**23 152**

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

Statement II

United Nations Office for Project Services (UNOPS)

Statement of assets, liabilities and reserves as at 31 December 2005, with comparative figures as at 31 December 2003

(Thousands of United States dollars)

		2005	*2003*
Assets			
Cash and term deposits	(note 6)	47 872	19 983
Accounts receivable	(note 7)	11 895	6 267
Interfund accounts	(note 8)	70 772	62 228
Total assets		**130 539**	**88 478**
Liabilities			
Contributions received in advance	(note 9)	60 410	30 009
Unliquidated obligations	(note 10)	41 341	34 039
Accounts payable		852	721
Post-retirement and end-of-service benefits	(note 11)	14 218	—
Provision for write-off of receivables	(note 13)	9 356	557
Total liabilities		**126 177**	**65 326**
Reserves			
Operational reserve	(note 12)	4 362	23 152
Total reserves		**4 362**	**23 152**
Total liabilities and reserves		**130 539**	**88 478**

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

Statement III

United Nations Office for Project Services (UNOPS)

Statement of cash flows for the biennium ended 31 December 2005, with comparative figures for the biennium ended 31 December 2003

(Thousands of United States dollars)

	2004-2005	*2002-2003*
Net cash flows from operating activities		
Excess of expenditure over income	2 732	17 472
Savings on prior-period obligations/adjustments	3 145	1 209
Extraordinary item: Refund of Oil-for-Food programme costs	(14 485)	—
Provision and write-off of receivables	(10 182)	(557)
Interest income disclosed under “Investing activities” below	(913)	(177)
(Increase) in account receivables	(5 628)	(7 121)
Increase in accounts payable	30 450	3 288
Net cash inflow from operating activities	**5 119**	**14 114**
Net cash flows from investing and financing activities		
Interest income	913	177
(Increase) in interfund accounts	(8 544)	(30 077)
Increase in contributions received in advance	30 401	21 895
Net cash inflows/(outflows) from investing and financing activities	**22 770**	**(8 005)**
Net increase in cash and cash equivalents	**27 889**	**6 109**
Cash and investments as at 1 January	**19 983**	**13 874**
Cash and investments as at 31 December	**47 872**	**19 983**

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

Schedule 1

United Nations Office for Project Services (UNOPS)

Project expenditure and support costs and fees for the biennium ended 31 December 2005, with comparative figures for the biennium ended 31 December 2003

(Thousands of United States dollars)

	Project expenditure	*Support costs and fees*	*Total project expenditure support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
	2004			*2005*			*2004-2005*	*2002-2003*
UNDP-funded and UNDP Trust Fund projects (including UNIFEM and the United Nations Capital Development Fund)	248 937	17 554	264 491	406 670	28 077	434 747	699 238	447 106
Projects on behalf of other United Nations organizations								
World Bank Agreements	33 775	2 340	36 115	138 234	9 739	147 973	184 088	
United Nations Development Group	5 139	238	5 377	116 768	5 841	122 609	127 986	
Department of Peacekeeping Operations	32 027	2 738	34 765	53 075	4 273	57 348	92 113	
Recipient government agreements	27 918	2 378	30 296	32 333	2 273	34 606	64 902	
UNICEF	4 002	367	4 369	13 683	892	14 575	18 944	
UNFPA	2 557	188	2 745	2 185	142	2 327	5 072	
United Nations Office on Drugs and Crime	10 705	803	11 508	10 660	800	11 460	22 968	
IFAD	3 758	219	3 977	5 409	376	5 785	9 762	
OHCHR	12 627	1 008	13 635	13 378	1 070	14 446	28 081	
UNEP	6 707	507	7 214	10 841	766	11 607	18 821	
UNESCO	7 437	511	7 948	4 937	348	5 285	13 233	
UNHCR	6 276	555	6 831	3 604	328	3 932	10 763	
Other	4 988	607	5 595	10 019	832	10 851	16 446	
Subtotal	**157 916**	**12 459**	**170 375**	**415 124**	**27 680**	**442 804**	**613 179**	**336 408**
UNDP management services agreements (MSAs)								
Lending institutions	38 529	1 815	40 344	20 893	774	21 667	62 011	
Bilateral donors	24 196	2 276	26 472	28 009	1 724	29 733	56 205	

	Project expenditure	*Support costs and fees*	*Total project expenditure support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
	2004			*2005*			*2004-2005*	*2002-2003*
Government-financed	25 210	1 132	26 342	28 919	1 552	30 471	56 813	
Other MSAs	2 433	176	2 609	3 834	255	4 089	6 698	
Subtotal	**90 368**	**5 399**	**95 767**	**81 655**	**4 305**	**85 960**	**181 727**	**262 123**
Project expenditure and support costs and fees	**495 221**	**35 412**	**530 633**	**903 449**	**60 062**	**963 511**	**1 494 144**	**1 045 637**
	(statement I)			**(statement I)**				

Schedule 2

United Nations Office for Project Services (UNOPS)

Administrative budget and expenditure for the biennium ended 31 December 2005, with comparative figures for the biennium ended 31 December 2003

(Thousands of United States dollars)

	2004-2005	*2004*	*2005*	*2004-2005*	*2002-2003*
Description	*Revised budget*	*Total expenditure*	*Total expenditure*	*Total expenditure*	*Total expenditure*
Salaries and wages	34 413	16 757	18 348	35 105	42 571
Common staff costs	24 390	11 849	12 201	24 050	16 707
Official travel	4 249	2 116	2 307	4 423	2 376
Contractual services	14 512	6 673	7 741	14 414	1 315
General operating expenses	19 107	7 359	10 349	17 708	13 041
Supplies	769	894	627	1 521	429
Furniture and equipment	5 730	1 037	5 251	6 288	484
Reimbursement of cost of services provided by UNDP and other United Nations agencies	16 882	9 880	2 550	12 430	15 561
Grand total	**120 052**	**56 565**	**59 374**	**115 939**	**92 484**
				(statement I)	**(statement I)**

Notes to the financial statements

Note 1
Objectives of the United Nations Office for Project Services

The United Nations Office for Project Services (UNOPS), was established on 1 January 1995. Since 1 July 2006, UNOPS headquarters are in Copenhagen and prior to that they were in New York. UNOPS serves its clients while upholding the impartiality and fairness embodied in the Charter of the United Nations. UNOPS activities and biennial budget are set by its Executive Board. UNOPS is a self-financing entity that relies solely on income earned from its activities. The objective of UNOPS is to provide high-quality, timely and cost-effective services for the successful implementation of projects. UNOPS offers a broad range of services that include:

(a) Comprehensive project management, including contracting for technical expertise and backstopping;

(b) Implementation of projects under execution by other organizations of the United Nations system or by national institutions;

(c) Project supervision and loan administration on behalf of international financial institutions; and

(d) Management services for multilateral, bilateral, international financial institution and beneficiary-financed projects.

Note 2
Summary of significant accounting policies

Financial period

The financial period is a biennium consisting of two consecutive calendar years. The current biennium covers the period from 1 January 2004 to 31 December 2005.

Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with the United Nations system accounting standards.

Income

Income is recognized on an accrual basis with the exception of project contributions and funds received for advisory and reimbursable services. This income is recognized proportionately to project activity completed as measured in terms of expenditure.

Expenditure

Expenditure is recognized as costs and obligations are incurred.

Equipment, furniture and vehicles

The cost of equipment, furniture and vehicles is fully expensed in the year of purchase.

Reporting currency

The financial statements are expressed in US dollars, the functional currency of UNOPS.

Foreign currencies

Income and expenditure in currencies other than US dollars are translated into US dollars at the United Nations operational rates of exchange which approximate the market rate in effect at the date of the underlying transactions, except for the Japanese procurement programme. In order to protect against significant fluctuations in exchange rates, for activities financed under the Japanese procurement programme hedging arrangements are in place so that expenditure incurred in other currencies is fixed at the United Nations operational rate of exchange in effect at the date of the establishment of the related obligation. These arrangements are managed by UNDP. Cash and term deposits in currencies other than US dollars are translated at the United Nations operational rate of exchange in effect at 31 December 2005. Exchange differences (gains and losses) are transferred to UNDP, which provides cash management services on behalf of UNOPS.

After-service health benefits

After-service health benefits, expenses and liabilities are determined by actuarial valuation. Current service costs are charged to expenditure on an accrual basis.

Reclassification of balances

In the preparation of the 2004-2005 financial statements certain balances were reclassified to better reflect the nature of the underlying transactions. In those cases where balances were reclassified the comparative balances for 2002-2003 have also been reclassified. In the case of schedule 1, Project expenditure and support costs and fees, comparative figures have been provided but the additional level of detail now shown for the current biennium was not readily available for the previous biennium.

Rounding policy

The financial statements are expressed in thousands of US dollars.

Note 3
Advisory and reimbursable services income

Advisory and reimbursable services income for the bienniums ended 31 December 2005 and 2003 consists of the following amounts:

	2004-2005	2002-2003
	(thousands of US dollars)	
IFAD	14 914	12 461
Global Fund to Fight AIDS, Tuberculosis and Malaria	1 661	654
UNFPA	1 086	55
Oil-for-food programme	—	22 902
Other	914	1 416
	18 575	37 488

The reduction in income earned in the current biennium is primarily due to the oil-for-food programme ceasing operations in November 2003.

Note 4
Miscellaneous income

Miscellaneous income for the bienniums ended 31 December 2005 and 2003 consists of the following amounts:

	2004-2005	2002-2003
	(thousands of US dollars)	
Interest income	913	177
Rental income	3 186	1 628
Other miscellaneous income	523	717
	4 622	2 522

The increase in income earned in the current biennium is mainly due to subleasing to other United Nations agencies available space at UNOPS New York offices as a result of the decision to relocate operations to Copenhagen.

Note 5
Prior-period adjustments

	2004-2005	2002-2003
	(thousands of US dollars)	
Refund of oil-for-food costs	(14 485)	—
Adjustments to correct old balances	(13)	—
Savings on/cancellation of prior-period obligations	3 158	1 208
	(11 340)	1 208

Refund of oil-for-food costs

In August 2005, based on the findings of the Independent Inquiry Committee into the United Nations Iraq oil-for-food programme, UNOPS received a request from the Office of the Secretary-General of the United Nations to release funds earned in excess of direct and indirect costs for services rendered to the oil-for-food programme under Security Council resolution 1483 (2003) during the period May-November 2003. These services covered the amendment of oil sector contracts for delivery to Iraq for which a flat fee for services of 1 per cent had been agreed upon.

The total number of contracts amended by UNOPS was 1,201 for a cumulative value of $1,559,518,067. UNOPS recorded revenue for services rendered of $15,595,181 in 2003 at an average amended cost per contract of $3,405. As a result of the request received, UNOPS was required to reimburse $11,506,738. This amount represents the difference between the amount already recorded of $15,595,181 and the requested post facto calculation of direct and indirect costs which was established at $4,088,843 (1,201 contracts at an average cost of $3,405) or approximately 0.26 per cent of the cumulative face value of the underlying contracts.

In addition, under the oil-for-food programme, the World Food Programme (WFP) subcontracted to UNOPS the amendment of a further 262 contracts. Following the above, UNOPS also reimbursed WFP an amount of $2,978,182.

Adjustments to correct old balances

The external audit of the UNOPS 2002-2003 financial statements highlighted several weaknesses with regard to the completeness of the balances reported. In January 2004, UNOPS with its partner agencies, UNDP, UNFPA, the United Nations Capital Development Fund and UNIFEM, implemented the Atlas enterprise resource planning system. The implementation of Atlas gave rise to several operational difficulties which needed to be addressed immediately to reduce the impact on ongoing operations. As a result the weaknesses in the UNOPS financial accounts from 2002-2003 were not addressed and the United Nations Board of Auditors was not able to complete the audit of the UNOPS 2004-2005 financial statements initially undertaken in May 2006. With the agreement of the UNOPS Executive Board, UNOPS resubmitted its 2004-2005 financial statements for audit examination in November 2006.

The extended time period granted to UNOPS for the preparation of its 2004-2005 financial statements enabled it to carry out a comprehensive review of its account balances and address the issues raised by the Board of Auditors. The work resulted

in adjusting entries dating back to 1999 and prior to correct errors and omissions for a total of $13,000. This included offsetting adjustments of $1,419,000 relating to field bank accounts and $1,432,000 relating to accounts receivable balances (mainly staff advances ($636,000) and deferred expenditures ($822,000)) due to incorrect accounting entries.

The work also highlighted an unreconciled balance in the UNDP/UNOPS interfund account of $59.1 million. Due to the large unreconciled balance, UNOPS, in coordination with UNDP, carried out a special exercise to identify and correct the unreconciled amount. The reconciliation process has been largely completed and the outstanding balance is currently $9.9 million, as explained in note 8 below.

Savings on/cancellation of prior-period obligations

Savings on/cancellation of prior-period obligations relate to unliquidated obligations accrued in the previous biennium which were overestimated or no longer required and credited to reserves in the current biennium.

Note 6
Cash and term deposits

UNDP provides cash management services on behalf of UNOPS. Cash balances mainly represent UNOPS bank accounts at project sites.

	2004-2005	2002-2003
	(thousands of US dollars)	
Cash	33 763	15 566
Term deposits	14 109	4 417
	47 872	19 983

Note 7
Accounts receivable

	2004-2005	2002-2003
	(thousands of US dollars)	
Advisory and reimbursable services receivable	5 247	1 648
Rental receivable	1 978	142
Staff advances and other staff receivables	3 506	3 484
Other miscellaneous receivables	1 164	993
	11 895	6 267

Of the amount owed at 31 December 2005 for advisory and reimbursable services, $4,726,000 was received in early 2006. Rental receivable represents amounts owed by the current tenants.

Note 8
Interfund accounts

Interfund accounts represent amounts due to/from other United Nations agencies. These transactions result mainly from expenditures incurred by UNOPS in the

implementation of projects on behalf of other United Nations agencies and amounts owed by UNOPS to other United Nations agencies for services provided.

	2004-2005	2002-2003
	(thousands of US dollars)	
UNDP	54 847	52 728
UNFPA	12 265	3 739
Other United Nations agencies	3 660	5 761
	70 772	62 228

There were unreconciled differences in the interfund accounts between UNOPS and both UNDP and UNFPA amounting to $59,136,000 and $865,000 respectively.

The unreconciled difference in the interfund account between UNOPS and UNFPA has since been resolved and the amount owing by UNFPA to UNOPS at 31 December 2005 has been settled in full.

Given the magnitude of the unreconciled difference in the interfund account between UNOPS and UNDP, UNOPS, in coordination with UNDP, made this issue a priority and assigned dedicated resources to the reconciliation of the interfund account.

As a result of the significant effort undertaken by both UNOPS and UNDP, individual reconciling items going back to 1999 and prior were identified and investigated. As of the date of this note the unreconciled difference is reduced by $49,235,000 of which $15,664,000 has been adjusted by UNOPS (mainly reclassification of balance sheet amounts). Given the age complexity of the items under investigation, certain amounts remain under investigation and the resolution of these items by either UNOPS or UNDP has yet to be completed. These items include:

Programme delivery reports (1999-2003)	$1 332
Inter-office vouchers (1999-2003)	$7 082
Exchange gains/losses	$ 540
Other	$ 947
Total not resolved	$9 901

Note 9
Contributions received in advance

Contributions received in advance represent payments received from clients for project expenditures which have not yet been incurred.

Note 10
Unliquidated obligations

Unliquidated obligations include liabilities for the cost of personnel services incurred and contracts and purchase orders entered into as at 31 December 2005.

Note 11
Post-retirement and end-of-service benefits

	2004-2005	2002-2003
	(thousands of US dollars)	
After-service health benefits	11 848	—
End-of-service payments	2 370	—
	14 218	—

After-service health benefits

UNOPS, following the United Nations common system, provides employees who have met certain eligibility requirements with health-care benefits after they retire. UNOPS financial statements are prepared following the United Nations system accounting standards, which generally require expenditures to be recorded on an accrual basis. With respect to after-service health benefits, the United Nations system accounting standards require either to accrue for the related expenditures or, if not, disclose the unaccrued amounts in the notes to the financial statements. Following the United Nations endorsement of the change in accounting standards from the United Nations system accounting standards to the International Public Sector Accounting Standards, effective 1 January 2010, the accrual of all expenditures, including after-service health benefits, will be mandatory.

An independent consulting actuary was engaged by the United Nations to carry out an actuarial valuation of after-service health benefits as at 31 December 2005 for participating United Nations agencies. The results of the valuation showed that the present value of expected claims for retirees and active staff at 31 December 2005 is $41.7 million. The valuation method used is the projected unit credit cost method. The key assumptions used and details of the last review as at 31 December 2005 (and 2003) are as follows:

	2004-2005	2002-2003
	(percentages)	
(i) Annual discount rate	5.5	6.0
(ii) Medical inflation rate (the medical inflation rate is assumed to decline linearly from 10 per cent to 5 per cent over the next nine years in the United States and from 6.75 per cent to 5.5 per cent over the next seven years for medical plans outside the United States)	10.0	12.0

In line with some other United Nations agencies, UNOPS commenced accruing for the biennial cost of after-service health benefit expenditures in 2004-2005 based on the above actuarial review and in order to correctly account for these expenditures as they are incurred. The unrecorded liabilities for after-service health benefits at 31 December 2005 therefore amounted to $29.8 million (2003 — $37.5 million). However, the unrecorded liability is mainly represented by current retirees and active employees currently eligible to retire whose service was only partly incurred with UNOPS.

UNOPS will consider the funding of the provision made and the accrual for past years' liabilities not recorded. In this regard, UNOPS will explore solutions with its actuaries to cover the accumulated liability for past years' service not recorded.

End-of-service payments

End-of-service payments relate to the cost of accrued annual leave, repatriation grant, repatriation travel and the removal of household goods for all eligible staff. In preparation for the change in accounting standards noted above, UNOPS commenced the accrual for annual leave related expenditures in 2004-2005 (approximately $2.4 million). The accrued annual leave liability was fully accrued and calculated based on actual staff member leave balances at 31 December 2005. Accruals for other end-of-service payments were not calculated because of the difficulty in estimating the liability. However, UNOPS will discuss with the actuaries the information required to enable it to record these liabilities when preparing its future financial statements.

United Nations Joint Staff Pension Fund

UNOPS 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 United Nations Joint Staff Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the value date. At the time of preparation of this note, the United Nations General Assembly has not invoked this provision.

Note 12
Operational reserve

The Executive Board at its second regular session in 2003 agreed “to change the basis for the calculation of the level of the operational reserve of the United Nations Office for Project Services to 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years”. The rolling average of the combined administrative and project expenditures for the three previous years amounted to $684.4 million; 4 per cent of this figure is $27.4 million. The UNOPS operational reserve for the year ended 31 December 2005 amounted to $4.4 million, compared to the reported balance at 31 December 2003 of $23.2 million. This was mainly because of prior-period adjustments of approximately $14.5 million relating to the refund of oil-for-food costs, as explained in note 5 above, and the provision and write-off of receivables of $10.2 million, as explained in note 13 below. UNOPS Action Plan DP/2005/39, approved by the Executive Board in September 2005 aims to restore the UNOPS operational reserve from the current level of $4.4 million to the level approved by the Executive Board.

Note 13
Provisions and write-offs of receivables

The movement in the provisions and write-offs during the biennium is as follows:

	2004-2005	2002-2003
	(thousands of US dollars)	
Opening balance at 1 January 2004	557	—
Used during the period	(557)	—
Increase during the period	9 356	557
Closing balance at 31 December 2005	9 356	557

Total write-offs of receivables during the biennium amounted to $1,383,000. Of the amount written off, $557,000 was provided for in the previous biennium, leaving a charge for the period of $826,000, which, in addition to the provision provided for during the period of $9,356,000 referred to above, resulted in a total charge for the biennium of $10,182,000 (statement 1). The detailed items included in the provision are listed below with an explanation of their nature. It is noted that the items are still under review and therefore the amounts are not yet final, but UNOPS has taken a conservative approach when making the provision.

Description	*Amount (thousands of US dollars)*
Dispute over construction contract regarding Afghanistan elections project delivery of works and related payment.	$1,500
As explained in note 8 above, the UNDP/UNOPS interfund account is reconciled and a detailed schedule of the differences prepared and submitted to the United Nations Board of Auditors for audit review. The initial difference was approximately $59.2 million of which $33.4 million was adjusted by UNDP and $15.7 million was adjusted by UNOPS. The remaining items amounting to $9.9 million date back as far as 1998 and are being further analysed to establish transaction details and the required adjustments by the appropriate party. Consistent with the UNOPS/UNDP business model at the time, the majority of these expenditures were incurred for UNDP projects, however the availability of funding for these projects to absorb these expenditures is being analysed. Based on the above and pending completion of the work, UNOPS has made a provision for approximately 50 per cent of the remaining unreconciled balance. This should be adequate to cover any losses that may arise from the ongoing analysis.	$5,000
Following the Security Council's decision to proceed with the elections in Afghanistan, UNOPS incurred expenditures in excess of funding. As part of the UNDP/UNOPS interfund reconciliation, the expenditures for 2004-05 were agreed leaving the overspend of some $2,344,000 for 2006 outstanding. Consultations are taking place with the donor consortium to obtain additional funds to cover any shortfall. However, UNOPS has made a provision for the full amount of the 2006 overspend pending the allocation of any additional funds.	$2,344
UNDP/UNOPS project overexpenditure (MOZ/00/007). This matter is currently under review. Pending completion of this review, UNOPS has made a provision for the full amount of the overexpenditure.	$419
Suspension of field bank operations. The matter is currently under review with the assistance of UNDP Treasury to recover the balances in the bank accounts.	$93

Note 14
Equipment, furniture and vehicles

The historical cost of fully expended equipment, furniture and vehicles at the end of the biennium was as follows:

	2004-2005	2002-2003
	(thousands of US dollars)	
UNOPS headquarters	5 049	6 861
UNOPS field offices	7 323	3 143
	12 372	10 004

The increase in assets during the period is mainly due to the setting up of "buy to lease" activities for operations in the Middle East and, in particular, Afghanistan. UNOPS acquired and held assets for rental to its clients to enable UNOPS to respond quickly to emergencies and provide support to time-sensitive projects. The activity has given rise to many challenges, including the operational and administration of a business model which UNOPS does not yet have the expertise or experience to manage. The activity is currently being reviewed for operational and financial viability.

Note 15
Contingent liabilities

As at 31 December 2005, several staff claims are in various stages of arbitration. The eventual outcome is uncertain and it is not possible to make a reliable estimate of the range of the loss in the event the outcome is negative. Therefore UNOPS has not made any provision for these items in its 2004-2005 financial statements.

Note 16
Contributions in kind

Contributions in kind for the biennium ended 31 December 2005 amounted to $3,616,000, including the estimated market rental value of office and warehouse facilities provided by the Government of the United Arab Emirates ($3,100,000) and office space provided by the Government of Denmark ($516,000).

In September 2005, UNOPS submitted to its Executive Board papers entitled "Restoring the viability of the United Nations Office for Project Services as a separate, self-financing entity: an action plan" (DP/2005/39) and "UNOPS Action Plan: Supplement" (DP/2005/CRP.14). The Action Plan provided the framework for the UNOPS transition and the business strategy to move UNOPS towards a sustainable future. The Executive Board in its decision 2005/36 of 9 September 2005 requested that the Executive Director implement the reforms embodied in the Action Plan expeditiously. These reforms included the relocation of all corporate services and UNOPS head office to a new location by mid-year 2006.

To this end, potential host Governments were invited to make offers by 12 December 2005 to relocate UNOPS from its current headquarters in New York. In January 2006, the UNOPS Management Coordination Committee endorsed the Executive Director's decision to accept the offer from the Government of Denmark to relocate UNOPS headquarters to Copenhagen, as the best of the offers received

from a total of five Governments. The offer included the provision of rent-free accommodation and funding for the cost of relocation. Since 1 July 2006, UNOPS headquarters has been located in Copenhagen, with all corporate services and UNOPS other European offices planned to be relocated in Copenhagen by June 2007.

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