United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2009 and

Report of the Board of Auditors

General Assembly

Official Records
Sixty-fifth Session
Supplement No. 5J

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United Nations • New York, 2010

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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Contents

Abbreviations

FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environment Facility
IFAD	International Fund for Agricultural Development
IPSAS	International Public Sector Accounting Standards
RADIUS	Remote Authentication Dial-In User Service
STD	Sexually transmitted disease
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
UNOPS	United Nations Office for Project Services

Letters of transmittal and certification

27 April 2010

The United Nations Office for Project Services hereby submits the financial statements for the biennium ended 31 December 2009.

We acknowledge the following:

- That the management is responsible for the integrity and objectivity of the financial information included in these financial statements;
- That 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;
- That 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 that, overall, policies and procedures are implemented with an appropriate segregation of duties. The internal auditors of the United Nations Office for Project Services continually review the accounting and control systems. Further improvements are being implemented in specific areas;
- That the management provided the United Nations Board of Auditors and the United Nations Office for Project Services internal auditors with full and free access to all accounting and financial records;
- That the recommendations of the United Nations Board of Auditors and the United Nations Office for Project Services internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We certify that, to the best of our 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

(*Signed*) Kerstin **Speer-Bockelmann**
Chief Financial Officer/Comptroller

The Chair of the Board of Auditors
United Nations
New York

30 June 2010

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 2009.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair, United Nations Board of Auditors

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

Chapter I

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

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS) which comprise the statement of assets, liabilities and reserves (statement II) as at 31 December 2009; the statement of income and expenditure and changes in reserves and fund balances (statement I) and the cash flow statement (statement III) for the biennium then ended; and the supporting statements, schedules and notes to the financial statements. The supplementary information contained in the annexes accompanying the financial statements is not audited.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Office for Project Services as at 31 December 2009 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Office for Project Services that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the financial regulations and rules of the United Nations Office for Project Services and legislative authority.

In accordance with Regulation VI of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Office for Project Services.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2010

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the biennium ended 31 December 2009. The audit was carried out through field visits to UNOPS operations centres in Dakar and Lima, and to regional offices in Johannesburg, South Africa, and Panama City, as well as through reviews of the financial transactions and operations at headquarters in Copenhagen. In accordance with the United Nations system accounting standards, the supplementary information contained in the annexes to the financial statements is not audited.

Audit opinion

The Board issued an unmodified audit opinion on the financial statements for the period under review, as reflected in chapter I.

This constituted a reversal of the recent trend of modified audit opinions received by UNOPS, from the Board, in several consecutive bienniums. In its previous audit, the Board issued a modified audit opinion (A/63/5/Add.10) with three emphasis of matter paragraphs relating to an inter-fund account; the management of non-expendable property; and project accounting and controls.

Follow-up of previous recommendations

Of the 95 recommendations made for the biennium 2006-2007, 67 recommendations (71 per cent) were fully implemented; 10 recommendations (10 per cent) were under implementation; and 18 recommendations (19 per cent) were overtaken by events.

The unusually high number of recommendations overtaken by events relate mainly to imprest accounts (3 recommendations) and the UNOPS Middle East Office (13 recommendations). UNOPS had stopped using the imprest account system for almost the entire organization, thus making the previous recommendations no longer relevant. Furthermore, from February 2009 the Middle East Office was closed, rendering all recommendations related to that Office no longer applicable.

The Board also agreed with UNOPS that it was no longer feasible to prepare an age analysis for contributions received in advance and has recommended an alternate procedure during the current audit. A further recommendation relating to the disclosure of non-United States dollar balances in the financial statements was considered by the Board too onerous in the light of the extensive foreign currency transactions, and as such disclosures were not mandatory under the United Nations system accounting standards.

The Board has reviewed the recommendations described as under implementation and provided its detailed comments in part B of the present report. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that four recommendations were first made in the biennium 2004-2005 while the remaining six recommendations were first made in the biennium 2006-2007.

Considering the high number and the nature of recommendations made during the last two bienniums, the Board considered the implementation rate of its recommendations to be satisfactory.

Financial overview

Total income for the period under review amounted to $158.6 million (2007: $125.9 million) while total expenditures amounted to $126.1 million (2007: $89.6 million), an increase of 41 per cent. That resulted in an excess of income over expenditure of $32.5 million, compared with an excess of $36.3 million in the preceding biennium.

The write-off of receivables of $22.1 million amounted to 68 per cent of the excess of income over expenditure.

The disclosed contingent liabilities amounted to $41.2 million, which was almost equivalent to the level of the mandatory operational reserves. Should a portion of those contingencies materialize, the level of operational reserves could fall further below the mandatory level.

A large portion of the provisions, and the write-off of receivables and almost all contingent liabilities, were related to project implementation issues which is UNOPS core business area. However, nearly all the provisions for write-offs and contingent liabilities stem from transactions relating to operations in 2006-2007 and prior bienniums.

The key financial ratios described in this report all reflect steady improvements as compared with the previous biennium.

Progress toward the implementation of International Public Sector Accounting Standards

UNOPS was scheduled to implement the International Public Sector Accounting Standards (IPSAS) in preparing its financial statements from 1 January 2010. However, during 2009, a decision was taken to delay implementation to 1 January 2012 in harmony with the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) which also use the Atlas enterprise resource planning system. UNOPS has established a project board and management team to oversee the process.

Statement of income and expenditure

Cost recovery

While total support costs and fees increased, the average total cost recovery showed a downward trend, declining to 5.23 per cent from 6.32 per cent in the prior biennium.

Revenue recognition

In line with the United Nations system accounting standards, UNOPS continued to recognize revenue without regard for the stage of completion of projects, and that resulted in a mismatch of costs and revenue for certain transactions and projects. The Board noted that some revenue recognition principles applied by UNOPS were still not appropriate for certain business activities, although they were acceptable under United Nations system accounting standards.

Statement of assets, liabilities and reserve and fund balances

Unliquidated obligations

There is a need to ensure that adequate monitoring controls are in place before the creation of unliquidated obligations.

Some instances were noted, based on sample tests, in which obligations were raised without appropriate obligating documents, as required by the Financial Regulations and Rules of the United Nations, and thus some obligations may not be valid.

Contributions received in advance

UNOPS had previously charged project overexpenditures to the contributions received in advance account, thus underrecording expenditure. Some of the overexpenditure is still included in that balance.

Misclassifications

The Board identified some instances of accounting misclassifications which were later rectified by UNOPS.

Inter-fund balances

The Board in its previous audit opinion had emphasized the unresolved inter-fund receivable balance of $33.9 million with UNDP. The unresolved inter-fund balance between UNOPS and UNDP had decreased to approximately $19.9 million as at the end of the biennium 2008-2009. UNOPS has made a full net cumulative provision for non-recovery of the UNDP inter-fund debtor. The Board expressed its concern about the long time that had lapsed in addressing the unresolved differences in the inter-fund accounts.

End-of-service liabilities, including after-service health insurance

The financial statements reflected end-of-service and post-retirement liabilities amounting to $16.8 million. Of that amount, $10.6 million represented after-service health insurance, $0.8 million related to unused vacation leave credits, $4.1 million represented repatriation benefits and $1.3 million represented other separation and termination benefits for project staff.

The Board has made observations in respect of the need to enhance financial statement disclosures of end-of-service liabilities and the need for an improved funding policy for those liabilities. The Board’s review of census data used by the actuary indicated some shortcomings. The decision by UNOPS to value actuarially and discount all annual leave would need to be reconsidered when implementing the International Public Sector Accounting Standards.

Treasury management, including imprest accounts

Closure and management of imprest accounts

The imprest modality had been retired and by early June 2010, all imprest accounts had been closed. The Board was concerned about the process followed during the closure of the imprest accounts, as there were items that were not fully reconciled when the imprest accounts were closed. Some UNOPS offices had not complied with the guidelines regarding the migration of imprest accounts to Atlas accounts.

The Board was not provided with the advances recoverable locally ledger at the Africa Regional Office, and thus could not analyse the ageing of the advances recoverable locally. A few instances were noted in which imprest accounts were not converted at the prevailing United Nations rate of exchange. Weaknesses were noted in the management of petty cash at the Africa Regional Office, such as unexplained missing voucher numbers and duplicate voucher numbers used for different petty cash transactions.

Programme and project management

The Board continued to give attention to the financial aspects of project management at UNOPS. The Board noted the organization-wide efforts still underway to address a variety of issues in the core business activity. In the present report the Board highlights those matters still needing attention, especially in relation to achievement of delivery targets, project closure, controls over budgets, project monitoring and project management.

Non-expendable property management

The Board noted an improvement in asset management by UNOPS, however there were still some shortcomings, which are detailed in this report.

The threshold of $1,000 for the inclusion of property, plant and equipment in the notes to the financial statements was changed to $2,500 during the current biennium. The Board was of the view that UNOPS should reconsider the financial impact of non-capitalized assets in determining the threshold for the inclusion of non-expendable property in the financial statements.

Consultants, experts and temporary assistance

Instances were noted in which individual contractor agreements were signed after the services had already commenced. Without such approval, such contracts are considered irregular.

Performance evaluations were not carried out for several individual contractors, yet final payments to the contractors were made.

Information technology

The Board reviewed the general information systems, policies and procedures in place at UNOPS. The Board's findings are given in this report in the relevant section on information technology.

Internal audit function

The Board performed a review of the internal audit functions of the UNOPS Internal Audit and Investigations Group, the results of which are reported in the relevant section on the internal audit function of this report.

Internal audit findings

A summary of the significant findings arising from internal audit reports are reported in the relevant section of this report.

Disclosures by management

UNOPS has made certain disclosures in chapter II, section C of this report in respect of write-offs of losses of cash, receivables and property; ex gratia payments; and cases of fraud and presumptive fraud.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that the United Nations Office for Project Services should:

(a) **Review its accounting policies regarding revenue recognition, as part of its preparation for International Public Sector Accounting Standards implementation (para. 45);**

(b) **Establish procedures to review the reasonableness of the interest income received from UNDP Treasury (para. 48);**

(c) **Address instances of obligations raised that are not supported with valid and appropriate obligating documents (para. 57);**

(d) **Implement controls and reports to differentiate accurately between project receivable and payable balances and project balances that represent overexpenditure (para. 64);**

(e) **Improve its system controls to prevent and detect any classification errors in financial reporting, in a timely manner (para. 65);**

(f) **Resolve the disputed inter-fund differences in its accounts with UNDP (para. 83);**

(g) **Follow up the rejected project expenditures and make appropriate accounting entries; improve the validation of information captured on its system to ensure that the incidents of rejection are minimized; and consider alternate arrangements with UNDP to further improve the acceptance rate (para. 86);**

(h) **Continue to follow up on the unreconciled inter-fund differences in its accounts; and engage with the relevant United Nations agencies to resolve old inter-fund differences (para. 91);**

(i) **Consider a revision of its policy for the valuation of annual leave liability in its implementation of the International Public Sector Accounting Standards (para. 111);**

(j) **Develop a funding plan for end-of-service liabilities (para. 122);**

(k) **Further review budget-setting methods and controls to ensure that budgets agreed with clients are more in line with project delivery (para. 160);**

(l) **Ensure that the Africa Regional Office of UNOPS improves monitoring controls over the project delivery performance of operations centres and take steps against operations centres that have under-delivered (para. 161);**

(m) **Establish a short time frame to address the backlog of projects needing closure (para. 172);**

(n) **Ensure that the Peru Operations Centre of UNOPS analyses all currently listed projects and identifies projects that need to be closed (para. 178);**

(o) **At the Peru Operations Centre, ensure that the status of projects is regularly monitored and accurately reflected in Atlas, and complete the project closure exercise (para. 179);**

(p) **Take further steps with the Africa Regional Office and the Senegal Operations Centre to ensure that the status of projects is regularly monitored and accurately reflected in Atlas; and urgently complete the project closure exercise (para. 185);**

(q) **Monitor its project-level system controls and project budgets on a regular basis to ensure that budgets are not exceeded (para. 194);**

(r) **Review the progress of each project on a regular basis and as part of project oversight and monitoring activities; and improve its procedures to manage the re-phasing or extension of projects so that the changes are made and recorded in a timely manner and the correct project information is reflected in Atlas (para. 199);**

(s) **Consult with the client prior to changing budget information; ensure that historical budget information is not amended in Atlas; and review budget-setting methods and controls to ensure that the budgets agreed with clients are more in line with expected delivery (para. 206);**

(t) **Ensure that the Africa Regional Office of UNOPS takes urgent steps to implement procedures to enable it to discharge its oversight roles over the operations centres and to maintain evidence of such monitoring activities; and that it maintains memorandums of understanding or memorandums of agreement in the project files (para. 220);**

(u) **Ensure that the Africa Regional Office reviews its approach to project management and ensure that a uniform system, where possible, is implemented within the regional structure (para. 221);**

(v) **Ensure that the Senegal Operations Centre implements processes to ensure that its projects are implemented in a timely manner; improves its project implementation controls to ensure projects are charged for productive time only; and reviews the causes of the delay in the implementation of project 60168 (para. 233);**

(w) **With regard to the Senegal Operations Centre, address the leadership vacancy on project 30985; ensure that the Centre maintains appropriate supporting documents for all procurement; and ensure that adequate oversight procedures are in place at all times to oversee the monitoring of project activities (para. 237);**

(x) **With regard to the Senegal Operations Centre, implement controls and guidelines to ensure that the projects are implemented in a timely manner; that vacancies are filled in a timely manner; that the Centre is able to discharge its oversight roles over the projects and maintain evidence that such monitoring activities were performed (para. 244);**

(y) **At the Senegal Operations Centre, establish procedures to monitor deliverables as stated in the project agreements (para. 245);**

(z) **Ensure that the Senegal Operations Centre of UNOPS, in consultation with the Africa Regional Office, maintains and updates risk and quality logs for all projects in a timely manner and adequately addresses issues associated with new areas of business (para. 250);**

(aa) **Ensure that the Senegal Operations Centre, in consultation with the Africa Regional Office, reviews the progress of each project on a regular basis and as part of project oversight and monitoring activities; and implements procedures to avoid the late approval of re-phasing or extension of projects (para. 255);**

(bb) **At the Africa Regional Office, implement procedures to ensure effective oversight and monitoring of all project activities to ensure that operations centres within the region are performing and delivering according to targets and are not overspending on approved budgets (para. 258);**

(cc) **Roll out the asset management module in Atlas to all offices; and ensure that all relevant staff receive appropriate training prior to using the module (para. 283);**

(dd) **Investigate the assets listed as faulty/redundant (para. 292);**

(ee) **Address the discrepancies noted in its asset records and financial statements for the biennium 2008-2009; and review all asset registers to ensure that other similar discrepancies in the asset registers are addressed (para. 293);**

(ff) **Perform asset counts of project assets on a regular basis; and conduct an exercise to tag all project assets and update the project asset registers accordingly (para. 308);**

(gg) **Implement controls to enable project managers to better control assets purchased with project funds; investigate the circumstances around the use of project funds to purchase the fixtures; and where applicable, return the funds to the project and reverse the revenue recognized on the transactions (para. 312);**

(hh) **Reconsider the financial impact of non-capitalized assets in determining the threshold for the inclusion of non-expendable property in the financial statements, and the implication in the asset certification process; and consider certification of assets that are not subject to certification (para. 324);**

(ii) **Continue to monitor procedures and controls to ensure that all staff members undergo assessments of performance results; and ensure that most such assessments are completed within the specified timelines (para. 329);**

(jj) **Comply with the individual contractor agreement guidelines with regard to retroactive individual contractor agreements; ensure proper planning to avoid retroactive individual contractor agreements; and implement procedures to ensure that individual contractor agreements, payment certifications and other documents are dated when signed by the relevant approving officer (para. 347);**

(kk) **Comply with the individual contractor agreement guidelines with regard to release of final payment to such contractors (para. 351);**

(ll) **Implement a succession plan to reduce disruption to its business activities in the event of the loss of key individuals in the information technology department (para. 356);**

(mm) **Implement a formal disaster recovery and business continuity plan that encompasses all types of disastrous events that would impact on both information systems processes and end-user functions (para. 359);**

(nn) **Consider the gaps identified and take further steps in its process of strengthening the governance and oversight arrangements (para. 375).**

The Board's other recommendations appear in paragraphs 51, 69, 72, 116, 129, 134, 147, 173, 186, 212, 227, 265, 274, 295, 300, 304, 333, 338 and 362.

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services and has reviewed its operations for the biennium ended 31 December 2009 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, and with the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2009 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the United Nations Office for Project Services financial regulations and rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements. The Board did not audit the supplementary information in the annexes accompanying the financial statements, as prescribed by United Nations system accounting standards.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNOPS operations under article VII of the Financial Regulations of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNOPS operations. The General Assembly also requested the Board to follow up on previous recommendations and to report on it accordingly. These matters are addressed in the relevant sections of this report.

4. The Board continues to report the results of audits to UNOPS in the form of management letters containing detailed observations and recommendations. That practice allows for ongoing dialogue with UNOPS management. In that regard, five management letters were issued covering the period under review.

5. The Board coordinates with the UNOPS Internal Audit and Investigations Group (formerly the Internal Audit Office) in the planning of audits to avoid duplication of effort and to determine the extent of reliance that could be placed on the Group's work.

6. Where observations in the present report refer to specific locations, such observations are limited to only the locations specified. Furthermore, those observations do not in any way imply that they are applicable to other locations. Although the Board noted certain weaknesses in specific locations only, some of the recommendations are addressed to the entire organization, as the nature of the findings suggests that they may be common to other UNOPS offices which would benefit from transversal action.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, the Committee in its report A/63/474 requested the Board:

(a) To strengthen its validation process with a view to improving its ability to evaluate the results and impact of the efforts of UNOPS to implement the Board's recommendations;

(b) To continue to monitor closely the implementation of the International Public Sector Accounting Standards as well as the preparatory process for enterprise resource planning and for IPSAS; and

(c) To continue to place emphasis on the review of results-based budgeting and results-based management.

8. The Board's observations and conclusions were discussed with the management of UNOPS, whose views have been appropriately reflected in the present report.

9. The recommendations contained in this report do not address the steps which UNOPS may wish to consider in respect of officials deemed responsible for instances of non-compliance with its financial regulations and rules, administrative instructions and other related directives.

Addendum to the Board audit report A/63/5/Add.10

10. Certain agreed-upon adjustments arising out of the audit of the 2006-2007 financial statements were inadvertently not included in the published financial statements (A/63/5/Add.10). The present financial statements contained in chapter IV reflect those adjustments in the comparative figures for 2006-2007.

B. Findings and recommendations

1. Follow-up of previous recommendations

11. Of the 95 recommendations made for the biennium 2006-2007, 67 recommendations (71 per cent) were fully implemented; 10 recommendations (10 per cent) were under implementation and 18 recommendations (19 per cent) were overtaken by events. Details of the status of implementation of the recommendations are shown in the annex to the present chapter.

Recommendations overtaken by events

12. The unusually high number of recommendations overtaken by events relate mainly to imprest accounts (3 recommendations) and the UNOPS Middle East Office (13 recommendations). UNOPS had stopped using the imprest account system for almost the entire organization, thus making the previous recommendations no longer relevant. Furthermore, from February 2009 the Middle East Office was closed, rendering inapplicable all recommendations related to that office.

13. The Board also agreed with UNOPS that it was no longer feasible to prepare an age analysis for contributions received in advance and recommended an alternate

procedure during the audit of the biennium 2008-2009. A further recommendation relating to the disclosure of non-United States dollar balances in the financial statements was considered by the Board too onerous in the light of the extensive foreign currency transactions, and in view of the fact that such disclosures were not mandatory under the United Nations system accounting standards.

Recommendations under implementation

14. The Board identified 10 recommendations under implementation. Each was complex and required either significant process improvement or resources. UNOPS efforts to address them are described in the following paragraphs.

15. UNOPS continued to recognize revenue under the United Nations system accounting standards without regard for the stage of completion of projects, resulting in a mismatch of project costs and revenue earned. As this matter has significant process and financial implications, UNOPS indicated that it will be fully addressed when the International Public Sector Accounting Standards is implemented.

16. The project closure exercise was not entirely complete. Project overspending was not entirely eliminated. During the biennium, UNOPS worked on improving its project monitoring and controls.

17. The Atlas asset module was implemented only in March 2010, and the Board will assess its implementation in its next audit. Furthermore, there were still some shortcomings in asset management.

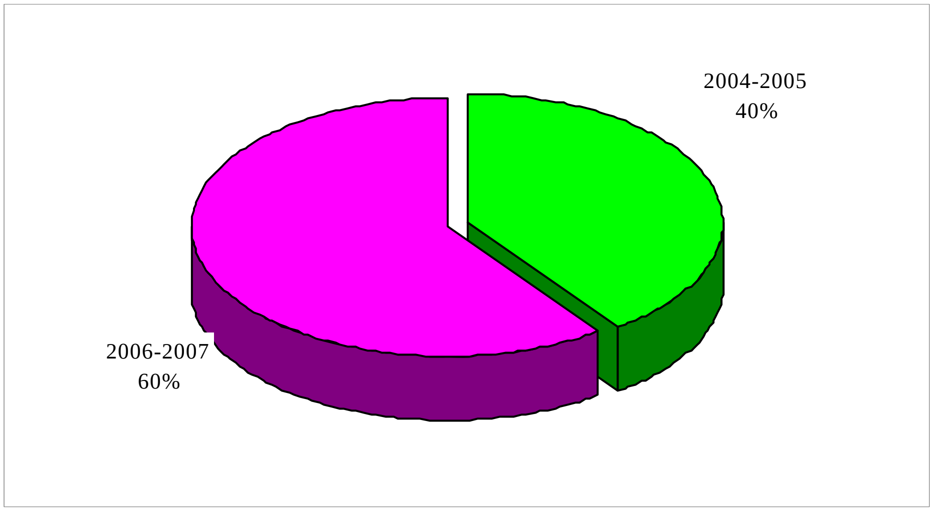
18. The unresolved inter-fund debtor balance between UNOPS and UNDP decreased to approximately $19.86 million as at 31 December 2009. Bilateral efforts to resolve the matter continued throughout the biennium, while UNOPS has made an accounting provision for the disputed balance.

19. The completion rate of employee performance assessments for 2009 reflected an improvement on the rate for 2008 and for the prior biennium; however, the completion rate can be further improved.

20. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that four recommendations were first made in the biennium 2004-2005 while the remaining six recommendations were first made in the biennium 2006-2007. Considering the high number and nature of recommendations made during the last two bienniums, the Board considered the implementation rate of its recommendations to be satisfactory.

21. In response to the request of the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board evaluated the ageing of its 10 previous recommendations that had not yet been fully implemented and has indicated in figure II.I the financial periods in which such recommendations were first made.

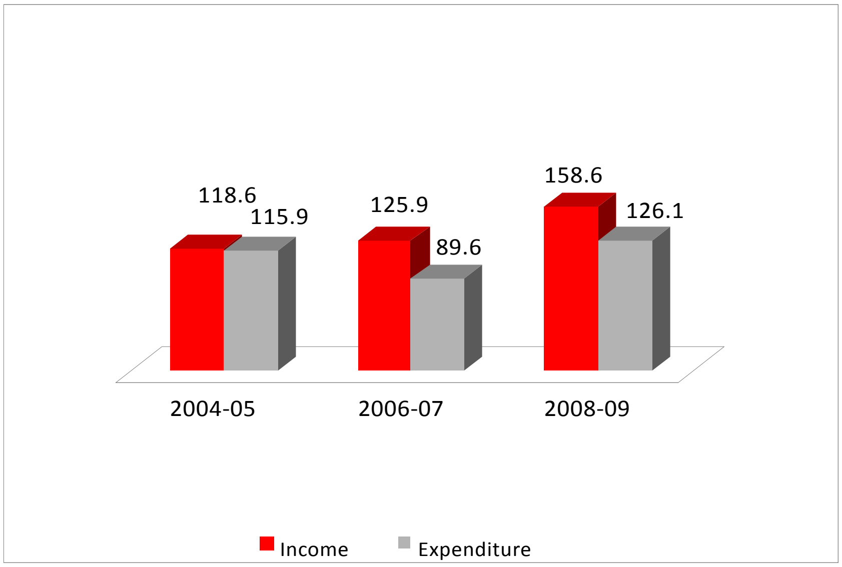
Figure II.I
Ageing of recommendations under implementation or not implemented for the previous biennium



2. Financial overview

22. Total income for the period under review amounted to $158.6 million (2006-2007: $125.9 million) while total expenditures amounted to $126.1 million (2006-2007: $89.6 million), giving an excess of income over expenditure of $32.5 million (2006-07: $36.3 million). Comparative income and expenditures for the financial periods 2004-05, 2006-07 and 2008-09 are shown in figure II.II.

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



23. The Board highlighted that of the $32.5 million surplus earned during the biennium, the UNOPS write-off of receivables amounted to $22.1 million or 68 per cent of the surplus. That situation represented a significant drain on the financial position of UNOPS.

24. The Board also noted that disclosed contingent liabilities amounted to $41.2 million, which was almost equivalent to the level of the mandatory operational reserves as at 31 December 2009. Should a portion of those contingencies materialize, the level of reserves will deteriorate.

Key financial ratios

25. Some key financial indicators, based on the financial position as at 31 December 2009, are set out in table II.1.

Table II.1
Ratios of key financial indicators

Financial indicator	*Biennium ended 31 December* 2005	2007	2009	*Component of 2008-2009 ratio*[a]
Accounts receivable/total assets[b]	0.09	0.14	0.06	42 716/726 988
Inter-fund/total assets[b]	0.54	0.73	0.33	240 202/726 988
Cash/total assets[c]	0.37	0.13	0.61	444 070/726 988
Cash/liability[d]	0.38	0.14	0.65	444 070/684 254
Unliquidated obligations/total liabilities[e]	0.33	0.55	0.32	218 797/684 254
Asset/liability[f]	1.03	1.07	1.06	726 988/684 254
Months in unliquidated obligations[g]	3	3	2.4	218 797[h]/1 090 656

[a] Thousands of United States dollars.
[b] A low indicator depicts a healthy financial position.
[c] A high indicator depicts a healthy financial position.
[d] A low indicator is a reflection that insufficient cash is available to settle debts.
[e] A low indicator is a positive reflection that obligations are being liquidated.
[f] A high indicator is a reflection of sufficient assets to cover all liabilities.
[g] A low indicator is a positive reflection that obligations are being liquidated.
[h] Multiplied by 12 months.

26. The Board noted that 33 per cent (2007: 73 per cent) of UNOPS assets are owed by other United Nations funds, programmes and specialized agencies, of which the UNDP inter-fund constitutes over 95 per cent (2007: over 90 per cent). The amount owed by UNDP to UNOPS constitutes approximately 6 months (2007: 11 months) worth of business that UNOPS conducts with UNDP, excluding unliquidated obligations.

27. The cash to total assets ratio improved, indicating that 61 cents of every dollar of total assets is readily available in cash to meet the immediate debts of UNOPS. The Board noted that a large cash contribution was received in advance during the last quarter of 2009 and was the primary cause of the increase of the cash to total assets ratio. The cash to liability ratio also increased, indicating that for every dollar of debt, UNOPS has 65 cents of liquid assets available to settle such debts as and

when they fall due. UNOPS could improve that ratio by more quickly liquidating the large inter-fund receivable balances with other United Nations entities.

28. The solvency ratio of UNOPS (assets/liabilities) indicates that the organization is in a stable position, as it has $1.06 (2007: $1.07) to service each dollar of debt when it falls due.

29. Unliquidated obligations represent approximately 2.4 months of project expenditure as compared to the prior biennium measure of three months. This is a reflection to a large measure of higher business volume, without a commensurate increase in unliquidated obligations.

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

30. In accordance with General Assembly resolution 61/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report A/61/350, the Board performed a gap analysis relating to the implementation of the International Public Sector Accounting Standards as well as new or upgraded enterprise resource planning systems. The Committee had commented on the desirability of such systems taking fully into account the detailed requirements of the International Public Sector Accounting Standards.

31. In the report of the previous biennium (A/63/5/Add.10, para. 176), the Board noted that UNOPS did not have an implementation plan for the International Public Sector Accounting Standards which outlined the strategy and approach for the successful implementation of IPSAS in collaboration with other Atlas partner agencies.

32. The Board noted that UNOPS now has an approved IPSAS implementation plan and has also established a project board and management team to oversee the plan. The Internal Audit and Investigations Group participates in project board meetings on an advisory basis, with a view to providing quality assurance reports to the Executive Director of UNOPS.

33. UNOPS was scheduled to implement the International Public Sector Accounting Standards from 1 January 2010. However, by mid-2009 the funds, programmes and specialized agencies of the United Nations (in particular UNDP, the United Nations Population Fund (UNFPA) and the United Nations Children’s Fund (UNICEF)) announced a two-year postponement in the IPSAS implementation schedule, to January 2012. UNOPS, UNDP and UNFPA share the same enterprise resource planning system (Atlas) and in harmony with UNDP, its largest business partner, UNOPS decided to postpone its IPSAS implementation to January 2012.

34. The Board reviewed the implementation plan and noted that the project budget was $500,000. UNOPS informed the Board that the budget was sufficient for the remaining tasks, as approximately $130,000 in expenditures was incurred during the current biennium, exclusive of staff time. In addition to the budget, other costs on information systems are shared between UNDP, UNFPA and UNOPS, with UNOPS carrying the smaller contribution relative to the size of its other two partners.

35. As established in the project plan, UNOPS set measurable timelines and milestones, and all achievements (as well as potential delays, obstacles or other issues) were logged in the project implementation plans/work packages. The work

packages define products/deliverables and time periods. The IPSAS project was also being implemented following the Prince2 project management methodology. UNOPS informed the Board that all milestones set for 2008-2009 were achieved and the minutes of project board meetings state if a deliverable was met or not.

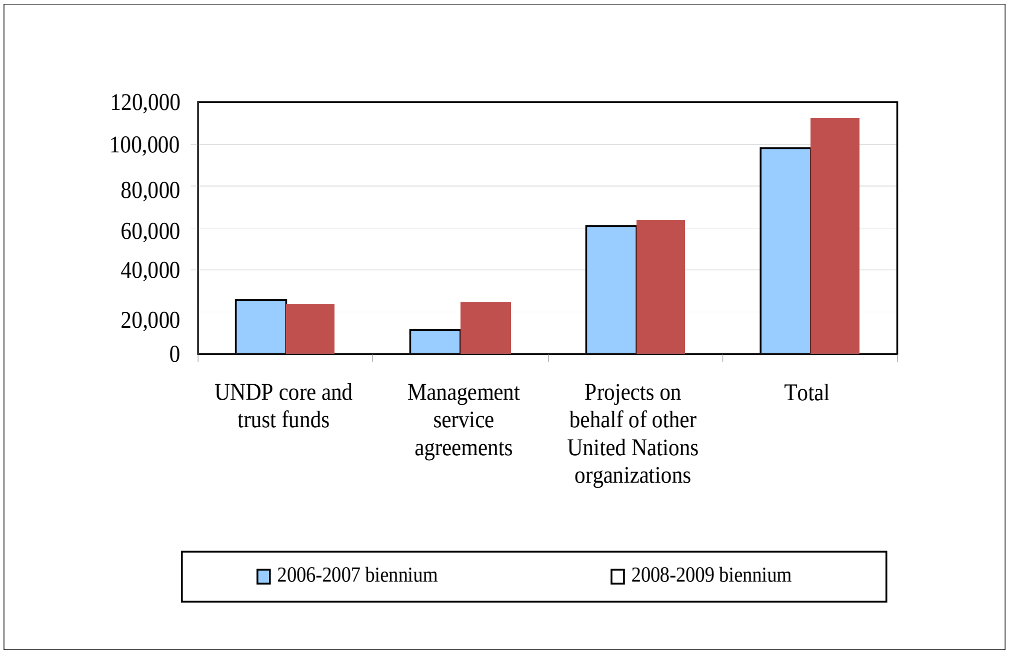
36. UNOPS considered the implementation of the fixed asset module on Atlas to be a significant milestone towards the full adoption of the International Public Sector Accounting Standards by January 2012. All UNOPS field location users have been trained in the use of the Atlas fixed assets module. UNOPS stated that in 2010 it planned to issue most IPSAS-compliant accounting policies for consultation with the Board.

4. Statement of income and expenditure

Total support costs and fees

37. UNOPS total support costs and fees increased by 14 per cent, from $98.4 million in the biennium 2006-2007 to $112.2 million in the biennium 2008-2009, as reflected in figure II.III. The total project expenditure and support costs and fees increased by 36 per cent, from $1.7 billion in the biennium 2006-2007 to $2.3 billion in the biennium 2008-2009, as shown in figure II.IV. Although the total support costs and fees increased, the average total cost recovery margin declined, from 6.32 per cent in the prior biennium to 5.23 per cent in the current biennium. Issues related to cost recovery are covered below in greater detail.

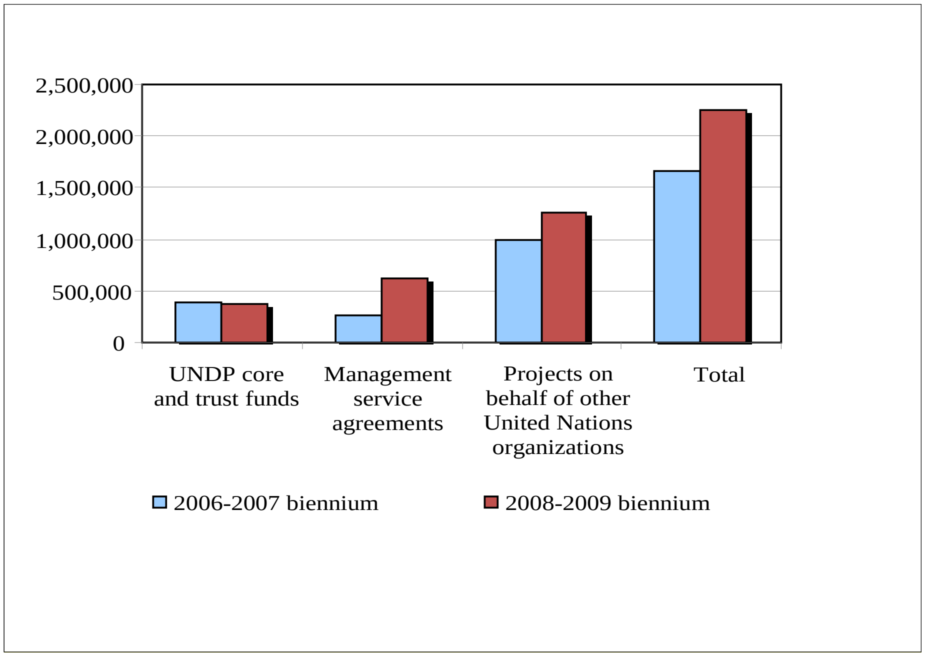
Figure II.III
Total support costs and fees for the bienniums 2006-2007 and 2008-2009
(Thousands of United States dollars)



Source: UNOPS financial statements for the biennium ended 31 December 2009.

Figure II.IV
Comparative total project expenditure and support costs and fees for the bienniums 2006-2007 and 2008-2009

(Thousands of United States dollars)



Source: UNOPS financial statements for the biennium ended 31 December 2009.

Cost recovery trends

38. In its report (A/63/5/Add.10) the Board noted that there was a declining trend in the percentage fees UNOPS earned on its project portfolio. The average cost recovery margin earned from project services had decreased from 7.5 per cent in 2001 to 5.9 per cent in 2007 and to 5.7 per cent in 2009. Table II.2 lists the cost recovery margins over the last nine years.

Table II.2
Comparative cost recovery as a percentage of project delivery

(Millions of United States dollars)

Year	*Project delivery*	*Project income*	*Percentage cost recovery*
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
2006	705.9	47.7	6.7
2007	850.1	50.6	5.9
2008	1 055.5	50.2	4.8
2009	1 090.7	61.9	5.7

39. The Board analysed the support costs and fees and project expenditure to calculate the average cost recovery margin over the most recent bienniums. On the basis of the broad portfolio categories, the results of the analysis are reflected in table II.3.

Table II.3
Comparative cost recovery margins
(Percentage)

	2006-2007	*2008-2009*	*Increase/ (decrease)*
UNDP core and trust funds	7.04	6.93	(0.11)
Projects on behalf of other United Nations organizations	6.52	5.32	(1.20)
Management services agreements	4.57	4.06	(0.51)
Average total	**6.32**	**5.23**	**(1.09)**

40. The Board noted a declining trend in the percentage cost recovery margin UNOPS earned on its project portfolio. The average cost recovery margin decreased from 6.32 per cent in the biennium 2006-2007 to 5.23 per cent in the biennium 2008-2009, representing a decrease of 17.2 per cent. The income received from UNDP core and trust funds declined from $25.9 million in the biennium 2006-2007 to $24 million in the biennium 2008-2009, which represented a 7.24 per cent decrease. When comparing the current period income of $24 million with the income of $45.6 million in 2004-2005, it can be seen that reliance on UNDP has decreased substantially.

41. To address the pricing of projects, and in view of the declining trend in cost recovery margins, the Board in its previous report (A/63/5/Add.10) noted that UNOPS implemented a cost recovery and client pricing policy in February 2008. UNOPS agreed with the Board’s recommendation to continue to monitor the profit margins of all its projects.

42. UNOPS indicated that it was aware of the declining average facility and administration rates. UNOPS stated that most of the lower-end rates were related to legacy projects for which there was no uniform pricing policy in force. When faced with competition, UNOPS had to adjust its facility and administration rate in some cases to remain competitive. UNOPS also stated that although there was a decline in the average management fee rate, there was a general increase in business volume, which often gives rise to bulk discounts. UNOPS increased its business volume in financial management and procurement services, for which management fee rates typically range from only 1 to 4 per cent. UNOPS stated that the average management fee rate on the traditional project management business remained largely unchanged from the previous biennium.

Revenue recognition

43. The Board, in its report for the biennium 2006-2007, noted that UNOPS recognized revenue without regard for the stage of completion of projects, resulting in a mismatch of costs and revenue. The Board also noted that the revenue recognition principles applied by UNOPS were not appropriate for its business

activities. The Board recommended, in that report, that UNOPS review its accounting policies regarding revenue recognition (see A/63/5/Add.10, para. 61).

44. The Board noted that the revenue recognition accounting policy for the biennium 2008-2009 followed the same methodology as that of the prior biennium. That method of accounting for revenue is accommodated within the United Nations system accounting standards. However, in the light of the UNOPS future accounting transition to the International Public Sector Accounting Standards, the Board highlights that it was not consistent with either IPSAS or International Accounting Standard 11: Construction Contracts or Standard 18: Revenue, as both standards require revenue to be recognized on a basis related to the stage of completion of the project. Thus, the current policy would result in revenue being overstated for the biennium and would also overstate project expenditure if compared to the future accounting framework.

45. **UNOPS agreed with the Board's reiterated prior recommendation to review its accounting policies regarding revenue recognition, as part of its preparation for IPSAS implementation.**

46. UNOPS stated that this matter will be resolved through the adoption in January 2012 of IPSAS, which will recognize project income by means of the percentage completion method.

Interest income

47. UNOPS had investment balances as at 31 December 2009 amounting to $259.6 million (2007: $32 million) which are maintained by the UNDP Treasury. During the biennium 2008-2009, UNOPS earned interest in relation to those investments amounting to $3.6 million (2006-2007: $1.2 million). The Board noted that UNOPS did not have procedures to determine the reasonableness of the interest income recorded in its books as supplied by the UNDP Treasury, and thus a risk existed that UNOPS could not be assured of the completeness and accuracy of the interest it received from UNDP.

48. **UNOPS agreed with the Board's recommendation to establish procedures to review the reasonableness of the interest income received from the UNDP Treasury.**

49. UNOPS stated that it had established a methodology to review the reasonableness of the interest income received from the UNDP Treasury. In the future, UNOPS plans to use this methodology for its periodic (quarterly) reviews.

Budget processes

50. The Board noted overspending on the administrative expenditure budget for 2008 for both the Africa Regional Office and the Senegal Operations Centre. For the Africa Regional Office, $200,000 was overspent on the administrative budget. Overspending on the administrative budget was an indication that UNOPS had not exercised adequate budget control, taking into account the extent of its planned activities.

51. **UNOPS agreed with the Board's recommendation to monitor regularly administrative budgets on a line-by-line basis to ensure that budgets are not exceeded.**

52. UNOPS stated that administrative expenditure budgets were monitored on a monthly basis and that reports were issued in this regard. However, some overspending was due to journals to correct prior year entries and expenditure incurred in relation to separation costs, which were isolated cases.

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

Savings on cancellation of unliquidated obligations

53. UNOPS reported unliquidated obligations amounting to $218.8 million (2007: $197.9 million) of which obligations amounting to $18.8 million or 8.6 per cent were cancelled subsequent to year end, as at 31 March 2010. UNOPS financial statements also indicate that of the $197.9 million of obligations raised at 31 December 2007, $65.9 million or 33 per cent of the obligations were cancelled during the biennium 2008-2009. Therefore, the value of obligations cancelled had fallen, indicating more confidence in the controls over unliquidated obligations.

54. The Board noted three instances in which blanket authorizations were made. In one of these, for example, unliquidated obligations amounting to $225,335 were created to cover future expenditure since the imprest account for a project was to be closed and for which $133,410 was cancelled against the obligations. The only document made available to support the obligations was a workplan, which was not a valid document to raise the obligation.

55. The raising of an unliquidated obligation without appropriate obligating documents may result in non-compliance with the Financial Regulations and Rules of the United Nations. There is a risk that unliquidated obligations, project expenditure (and the resultant project delivery), and project revenue as at 31 December 2009, were overstated.

56. Furthermore, the ongoing cancellation of obligations after the end of the biennium may be an indication that the estimates used to raise the obligations were not fully accurate or that some unliquidated obligations may not have been valid. The Board also noted other instances from its field audit visits in which obligations were raised without adequate obligating documents. The Board was of the view that there is a need to ensure improved controls are in place for the review of the creation of unliquidated obligations.

57. **UNOPS agreed with the Board's recommendation to address instances of obligations raised that are not supported with valid and appropriate obligating documents.**

58. UNOPS stated that it has instituted controls and is routinely monitoring unliquidated obligations on the financial dashboard. UNOPS further stated that some of the instances noted related to the use of the imprest modality which was retired in 2010 and replaced with Atlas bank accounts and the appropriate system controls, thus ensuring the reported situation noted by the Board will be prevented in the future. UNOPS also made a general provision in its 2008-2009 accounts for the amount of unliquidated obligations that were likely to be cancelled in 2010.

Reporting on contributions received in advance

59. In its report, the Board issued a modified audit opinion and noted that UNOPS had incorrectly written off overspent amounts on projects against contributions

received in advance relating to other funds, instead of being charged to UNOPS own account (A/63/5/Add.10, para. 90). The Board also noted that UNOPS was not able to provide an age analysis for contributions received in advance and recommended that UNOPS prepare an age analysis for contributions received in advance and expenditure incurred to be charged to clients (ibid., para. 96).

60. UNOPS disclosed an amount of $404 million (2007: $116.9 million) relating to contributions received in advance. However, UNOPS was still not able to provide an ageing of that amount and instead, a list of projects with balances that appear in the deferred income account was provided. From the report, the Board noted project debit balances which did not represent contributions received in advance. The Board was not able to determine whether the balances represented accounts receivable or potential overexpenditure on project funds.

61. There was an inherent difficulty in compiling an age analysis, as receipts prior to 2009 were in several instances recorded against a fund code, but not against a project number. Without the project number, it was not possible to compile an accurate age analysis that would present all project amounts owed to clients, receivables from clients and overexpenditure if any.

62. UNOPS revised its 2008-2009 financial statements during the audit and reclassified debit balances amounting to $25.1 million to accounts receivable from contributions received in advance. This misclassification was identified by UNOPS, but the Board was concerned that UNOPS had not identified the classification errors during the preparation of its original accounts submitted to the Board on 29 April 2010.

63. UNOPS informed the Board that there was minimal overexpenditure, related mainly to very old projects, written off against contributions received in advance during the biennium, where they related to the same clients. The Board could not determine the extent of such instances and was concerned as they may result in the understatement of related expenditure and liabilities and the overstatement of accounts receivable as some of the debit balances reclassified as accounts receivable represented overspending and may not be recoverable. Income received in advance is an important resource for UNOPS which if not strictly monitored could obscure the real financial position of UNOPS.

64. **UNOPS agreed with the Board's recommendation to implement controls and reports to differentiate accurately between project receivable and payable balances and project balances that represent overexpenditure.**

65. **UNOPS agreed with the Board's further recommendation to improve its system controls to prevent and detect any classification errors in financial reporting, in a timely manner.**

66. UNOPS stated that all debit balances had been fully reconciled; whenever there was doubt as to the full recoverability of the balance, it made full provisions; all these instances of contributions received were very old and it took a long time to get to the bottom of those and reach the present full reconciliation stage. UNOPS stated that it had put in place adequate procedures to ensure that classification errors were identified in a timely manner.

Incorrect accounting treatment of client receipts

67. The Board noted that on initial receipt of contributions or payments received from donors/clients, UNOPS accounts for the funds received in advance as a credit entry in the accounts receivable account. UNOPS informed the Board that this accounting treatment was the result of an automatic generation of the transactions when the cash deposit is recognized.

68. The unapplied balance amounted to $1,506,019 for the biennium 2008-2009 (2007: $99,794), resulting in the understatement of accounts receivable and current liabilities of the same amounts, which were subsequently corrected by UNOPS.

69. **UNOPS agreed with the Board's recommendation to account for the funds received in advance from donors as a liability upon receipt of the funds and not as a credit entry within the accounts receivable accounts.**

Credit balances in other accounts receivable

70. The Board noted that accounts receivable balances included credit balances amounting to $350,243. This resulted in a misallocation of the accounts receivable balance and accounts payable balance, which was subsequently corrected by UNOPS.

71. UNOPS informed the Board that the credit balances were a result of refunds and reimbursements of project expenditure, that were credited to accounts receivable temporarily until the specific project is identified to which the funds were to be deposited against.

72. **UNOPS agreed with the Board's recommendation that it (a) follow up and clear the credit balances in the accounts receivables; and (b) reclassify credit balances in accounts receivables and account for them as a payable.**

Presentation of the financial statements

73. In its report, the Board noted various presentation shortcomings in accounting and disclosure items, which UNOPS subsequently adjusted in its financial statements, and recommended that UNOPS implement controls to improve its financial statements preparation process (A/63/5/Add.10, paras. 171 and 172).

74. During the biennium 2008-2009, the Board noted improvements in the presentation of UNOPS financial statements; however, the initial financial statements still required some material reclassification of balances. The financial statement disclosures were enhanced when compared to the submission for the 2006-2007 biennium.

6. Statement of cash flows

75. The Board noted that UNOPS total assets, composed mostly of cash and inter-fund balances, increased significantly during the biennium as reflected in table II.4. The increased cash balance corresponds directly with the balances included in contributions received in advance whereby UNOPS received funds of approximately $300 million in relation to expenses that UNOPS will incur after the end of the biennium. Based on project expenditure for 2008-2009, the contributions/income received in advance represents expenditure for approximately 4.5 months.

76. During the biennium, UNOPS started settling its inter-fund balance with UNDP on a more frequent basis. However, the inter-fund balance with UNDP of $237.7 million (2007: $277.1 million) represents approximately 6 months (2007: 11 months) of transactions with UNDP. Thus, UNOPS could improve its liquidity by improving its procedures to liquidate the inter-fund balance with UNDP in a timely manner.

Table II.4
Increase in cash, investments and inter-fund balances
(Thousands of United States dollars)

	2004-2005	*2006-2007*	*2008-2009*
Cash	47 872	50 118	444 070
Inter-fund balance	70 772	280 922	240 202
Total	**118 664**	**331 040**	**680 272**
Increase over previous biennium (percentage)	**44**	**179**	**105**

7. Inter-fund balances

UNOPS and UNDP inter-fund balances

77. The Board in its report A/63/5/Add.10 issued a modified audit opinion on the inter-fund balances and expressed concerns regarding the numerous differences between UNOPS and other United Nations agencies inter-fund balances, including UNDP. The Board, in paragraph 138 of that report, recommended that UNOPS: (a) confirm inter-fund balances payable or due by other United Nations agencies as part of the preparation of its financial statements and perform reconciliations of differences; and (b) follow up on the differences in the inter-fund balances with other United Nations agencies.

78. The Advisory Committee on Administrative and Budgetary Questions in its report A/63/474 concurred with the Board that any outstanding inter-fund balances must be resolved expeditiously.

79. UNOPS informed the Board that an amount of $19.86 million was the subject of a disagreement with UNDP and stated that the difference was still being discussed by the senior management of the two agencies.

80. The Board noted that the majority of the unreconciled balance arose from periods prior to the biennium 2006-2007 and the unreconciled amount was $33.9 million at 31 December 2007. Of that amount, $10.1 million was resolved during the current biennium, whereby UNOPS wrote off $5.54 million and the balance was accepted by UNDP, even though UNOPS has not yet received the funds. Other differences were also resolved during the biennium, thus leaving the disputed amount at $19.86 million.

81. The Board noted that during the biennium UNOPS and UNDP started sharing their inter-fund reconciliations to work on a common ground so that rejected project expenditures were kept to a minimum. However, the Board was concerned, as sufficient time had elapsed to address the unresolved differences in the inter-fund accounts.

82. UNOPS informed the Board that some of the above-mentioned differences stemmed from old agreements that did not anticipate the issue of after-service health insurance and its impact on the settlement process. In such cases, a management-level decision needed to be made between UNDP and UNOPS. The Board noted that UNOPS had made a full provision against the net value of UNDP inter-fund receivables in the financial statements for the biennium 2008-2009.

83. **UNOPS agreed with the Board's recommendation to resolve the disputed inter-fund differences in its accounts with UNDP.**

Transactions rejected owing to incorrect information captured by UNOPS

84. The Board reviewed the rejected project listing which was generated after the second quarter (2009) interface between UNOPS and UNDP, and noted several rejections by UNDP, owing to the following reasons:

(a) Incorrect donor codes;

(b) Invalid fund codes;

(c) Project delivery report end date out of project parameter dates;

(d) Budget not created for project.

85. UNOPS informed the Board that the errors were a result of a lack of system validation checks of the donor identification number and the challenges in matching between the fund codes and donor codes. The errors identified may result in delays in transaction processing and the risk of non-recovery of project expenditure from UNDP. The Board was concerned with the lack of validation checks when data was captured into the system. Furthermore, the two entities (UNOPS and UNDP) used the same enterprise resource planning system, and despite this, the existence of rejections was a concern.

86. **UNOPS agreed with the Board's recommendation that it (a) follow up on the rejected project expenditures and make appropriate accounting entries; (b) improve the validation of information captured on its system to ensure that the incidents of rejection are minimized; and (c) consider alternate arrangements with UNDP to further improve the acceptance rate.**

87. UNOPS stated that the problems were generally resolved within the first quarter and the acceptance rate at the end of the year generally improved to nearly 100 per cent. UNOPS stated that in late 2009, it developed a replica of the UNDP UNEX project expenditure validation system, which had already reduced the corrections and adjustments to be made and thus improved the quality of the data submitted. The Board noted that UNOPS and UNDP had since resolved the rejected transaction issues and that the rejections for the 2009 year amounted to $248,000, which is included in the disputed balance of $19.86 million.

Differences between inter-fund balances at UNOPS and at other United Nations agencies

88. The Board in paragraph 138 of its report A/63/5/Add.10, expressed concerns regarding the numerous differences between UNOPS and other United Nations agencies' inter-fund balances; the Board's recommendations are set out above in paragraph 77.

89. During the biennium the Board reviewed the reconciliation of the inter-fund balances between UNOPS and other United Nations agencies and noted that UNOPS had various prior period inter-fund unreconciled differences amounting to $4.6 million, which dated back to 2004-2005 and prior bienniums.

90. The Board noted that UNOPS had written off $3.3 million of the disputed receivables from other United Nations funds, programmes and specialized agencies and that the remaining $1.3 million had been provided against those receivables in the biennium 2008-2009.

91. **UNOPS agreed with the Board's recommendation that it (a) continue to follow up on the unreconciled inter-fund differences in its accounts; and (b) engage with the relevant United Nations entities to resolve old inter-fund differences.**

8. End-of-service liabilities, including after-service health insurance

92. In accordance with General Assembly resolutions 60/255 and 61/264, UNOPS reflected end-of-service and post-retirement liabilities amounting to $16.79 million. Details are shown in table II.5.

Table II.5
End-of-service liabilities as at 31 December 2009
(In millions of United States dollars)

Category	*2006-2007*	*2008-2009*
After-service health insurance	5.99	10.57
Repatriation grant	2.58	4.13
Termination indemnity	0.20	1.26
Leave encashment (unused vacation days)	2.40	0.83
Other separation costs	2.43	0
Total	**13.60**	**16.79**

After-service health insurance

93. At the end of their service, eligible staff members are entitled to after-service health insurance coverage. The accrued after-service health insurance liabilities, as determined by actuarial valuation, amounted to $10.57 million as at 31 December 2009.

94. The General Assembly, in its resolution 64/241 requested that the Secretary-General continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board and to include that information and the outcome of the validation in his report to the sixty-seventh session of the General Assembly.

95. In its previous valuation of after-service health insurance liability, UNOPS used a discount rate of 5.5 per cent. The valuation of that liability as at 31 December 2009 relies on a discount rate of 6 per cent. A discount rate is an interest rate used as a common financial practice to estimate the present value of an amount to be earned or lost at a future date. In other words, it represents the time value of money. As after-service health insurance liability is composed of benefits that will be paid out

by UNOPS to its retired staff in the future, IPSAS, like most other accounting frameworks, requires that those amounts be “discounted” so that the reporting entity takes the present value of the future benefits as an estimate for its liability.

96. In practical terms, the higher the discount rate, the lower the present value of future amounts (conversely, the lower the rate, the higher the present value). Hence, all things being equal, the increase in the discount rate used by UNOPS would have resulted in lower end-of-service liabilities when compared to the previous financial period, had the same discount rate been applied in the prior biennium. In that regard, a 0.5 per cent increase in the discount rate would result in a 12 per cent decrease of after-service health insurance liability, a 5 per cent decrease in repatriation benefits and a 4 per cent decrease in annual leave liability.

97. IPSAS 25, which serves as a reference for the actuarial methodology used for the valuation of the after-service health insurance liability in accordance with resolution 61/264, does not prescribe any particular discount rate. However, it states that the rate used to discount post-employment benefit obligations (both funded and unfunded) should reflect the time value of money, and that the currency and term of the financial instrument selected to reflect the time value of money should be consistent with the currency and estimated term of the post-employment benefit obligations (IPSAS 25, para. 91). It further specifies that an entity makes a judgement whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument (ibid., para. 94).

98. Like most of the methodological elements used for the actuarial valuation of after-service health insurance liability, the discount rate was selected by the United Nations on behalf of all entities participating in the same health insurance plans and for which the United Nations coordinated the valuation exercise.

99. According to the United Nations, the objective of selecting a discount rate when valuing end-of-service benefits is to measure the single amount that, if invested in a portfolio of high-quality debt instruments, would provide the necessary future cash flow to pay the accrued benefits when due. The United Nations has historically established the discount rate assumption by referring to rates of return on available high-quality, fixed-income investments with cash flow that match the timing and amount of expected benefit payments. The rates of return used as a reference by the United Nations have been those of high-quality, long-term corporate bonds.

100. Although the Board acknowledges that this methodology is compliant with IPSAS 25, it makes the following comments for consideration in the discussion on the funding of these liabilities:

(a) The increase in the discount rate does not reflect the trend in interest rates, which have generally tended to decrease over the recent period. As a result of that increase, the United Nations decided not to increase the discount rate for the previous valuation, although the application of the methodology described above would have resulted in an increase from 5.5 per cent to 6.5 per cent at that time. Considering the uncertainties on the prescriptions of IPSAS (IPSAS 25 had not yet been adopted), the United Nations had conservatively decided to maintain the 5.5 per cent rate. Had it chosen to raise the rate to 6.5 per cent at the time, the same rate would have decreased, rather than increased, for the last valuation, which would have been consistent with the economic environment;

(b) The discount rate is only one example of the high level of uncertainty inherent in the actuarial valuation of a liability. While compliant with the accounting standards, the valuation is only an estimate of the actual value of the liability. Consequently, UNOPS may not wish to regard this as the absolute reference. Valuations based on standards other than accounting ones may yield different results. In that regard, the Board wishes to emphasize that a financial valuation of funding needs (or a "funding valuation") would result in a value different from that determined through an accounting valuation, which is generally more conservative.

Valuation of unused vacation days liability

101. UNOPS changed the valuation method for its unused annual leave liability. Whereas in the previous biennium it was valued based on current costs (without discounting or other adjustments), it is now based on an actuarial valuation.

Scope of plan participants for the after-service health insurance liability

102. As disclosed in note 13 to the financial statements, the liability for after-service health insurance is a net amount derived from the present value of the accrued liability offset by contributions from plan participants.

103. The Board noted that UNOPS has, in accordance with the provisions of the plans, changed the scope of "plan participants" for the ASHI liability. Previously, plan participants were only retired staff. They now also include active staff.

Annual leave actuarial valuation amount

104. The Board noted that UNOPS made an accrual for annual leave amounting to \$0.83 million (2007: \$2.4 million). Annual leave liability was estimated during the biennium 2006-2007 using the current cost methodology. UNOPS changed its accounting policy and calculated annual leave liability on the basis of an actuarial valuation performed by an external consultant. The Board noted that the external consultant indicated in its report that it had been requested by UNOPS to provide an actuarial valuation of after-service health insurance, repatriation and annual leave benefits for the purpose of reporting under International Public Sector Accounting Standard 25.

105. The Board reviewed the actuarial valuation report, in which the liability amounts for after-service health insurance, repatriation grants and annual leave were determined by the actuary on the basis of certain census data submitted by UNOPS.

106. UNOPS justified the change in the valuation method of annual leave by reference to IPSAS 25, although no mention of IPSAS is made in the financial statements. The change is considered by UNOPS as an enhancement of the financial information which, while compliant with the United Nations system accounting standards, is a step towards the full implementation of IPSAS. The Board took that fact into consideration and checked whether the new valuation method would be compliant with IPSAS once it is fully applicable to UNOPS.

107. An important distinction made by IPSAS 25 is the one between short-term and long-term benefits. UNOPS has applied the actuarial valuation method to the leave liability based on the assumption that annual leave is only a long-term benefit.

108. IPSAS 25 defines short-term employee benefits as benefits (other than termination benefits) which fall due wholly within 12 months after the end of the period in which the employees render the related service. Furthermore, paragraph 11 of IPSAS 25 provides examples of items that are classified as short-term benefits, including short-term compensated absences (such as annual leave and paid sick leave) where the absences are expected to occur within 12 months after the period in which the employees render the related service. The fact that, as provided for by the staff rules of UNOPS, employees may accumulate unused leave days from one period to the next does not in itself make annual leave a long-term benefit, nor does the fact that employees are entitled to a cash payment for unused leave days upon ceasing service. IPSAS 25 (paras. 14-19) provides for those cases, which are classified under short-term benefits.

109. In addition, paragraph 12 of IPSAS 25 states that accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

110. Therefore, the Board was of the view that the annual leave liability of $0.8 million calculated through the actuarial valuation is not compliant with IPSAS 25 as it (a) includes future days to be accumulated and (b) is a discounted amount.

111. **UNOPS agreed with the Board's recommendation to consider a revision of its policy for the valuation of annual leave liability in its implementation of the International Public Sector Accounting Standards.**

112. UNOPS stated that its selection of policy was based on an Organization-wide decision and guidance given by the United Nations Task Force on Accounting Standards on the various IPSAS standards. UNOPS will bring the matter to the attention of the Task Force prior to its implementation of IPSAS.

Census data error

113. End-of-service liabilities were determined on the basis of an actuarial valuation undertaken by an external actuarial firm, using the census data provided by UNOPS as well as relevant system-wide actuarial assumptions. The Board noted that outdated census data was used in the computation of UNOPS end-of-service liabilities (including after-service health insurance) as of 31 December 2009. The census data related to the period ending 30 September 2009. The actuarial valuation report indicated that UNOPS obligations for post-retirement and end-of-service liabilities were calculated based on census data as of 1 January 2010, which contradicted the effective date of the census data sent to the actuary.

114. In a report dated 23 March 2010 from the actuaries on the actuarial valuation of after-service health insurance and repatriation and annual leave benefits as of 31 December 2009, it was stated, under "Certification (data)" that the report was based on census data and plan descriptions provided by UNOPS, as described in the section concerning participant data and in the summary of plan provisions. The actuaries stated that they had reviewed the participant data for internal consistency

and reasonableness and had no reason to doubt its substantial accuracy, and that UNOPS was solely responsible for the validity, accuracy and comprehensiveness of the information; that the results could be expected to differ and might need to be revised if the underlying data or the plan provisions supplied were incomplete or inaccurate.

115. The Board was concerned that provision of outdated census data to the actuary could result in inaccurate and inconsistent end-of-service liabilities (including after-service health insurance) reflected in the financial statements.

116. **UNOPS agreed with the Board's recommendation to take appropriate measures to ensure the validity, accuracy and completeness of the data used in the computation of all post-retirement and end-of-service liabilities in future financial periods by ensuring that the information pertains to the correct reporting period.**

117. UNOPS stated that it followed the instructions given by the lead agency in this system-wide exercise on actuarial valuation of end-of-service liabilities as at the end of the biennium 2008-2009. In the future, UNOPS would make every effort to bring the above recommendation to the attention of the other United Nations funds, programmes and specialized agencies and the actuary, while keeping in mind the adherence to the United Nations harmonization agenda.

Funding policy for end-of-service liabilities

118. The Board noted that UNOPS did not have a formally documented funding plan for end-of-service liabilities. A funding plan would include a comprehensive and effective funding strategy that considers the nature of the liabilities to be funded and the nature of the investments to be maintained for such liabilities. The funding plan may also need to consider the appropriateness of the ring-fencing of the investments that are set aside for such liabilities.

119. The Board was concerned that where the end-of-service and post-retirement liabilities were not supported by an approved funding plan, there was a risk that UNOPS might not be in a financial position to fully meet its obligations with regard to end-of-service liabilities and post-retirement benefits as and when those liabilities become due. In addition, while calculating the actuarial (accounting) liability, UNOPS applied a discount rate linked to corporate bonds. It follows therefore, that in the light of the current investing policy of UNOPS that favours sovereign/ government bonds, this discount rate assumption may require reconsideration when a funding plan is considered.

120. UNOPS informed the Board that all its end-of-service liabilities as at 31 December 2009 were fully funded as mentioned in the notes to the financial statements for the biennium 2008-2009. In addition, the funds set aside are also invested appropriately so as to enable UNOPS to fully meet its obligations with regard to end-of-service benefits as and when they arise.

121. The Board was of the view that the recording of end-of-service and post-retirement liabilities in financial statements calls for a comprehensive and effective funding plan. Such a funding plan would require consideration by the relevant governing body, and for purposes of project cost recovery, would need to be addressed in agreements with funders and donors. The plan would also consider

measures to manage increases in plan costs and the impact of actuarial gains and losses on the fund assets.

122. **UNOPS agreed with the Board's recommendation to develop a funding plan for end-of-service liabilities.**

9. Results-based management

123. As a service provider to the United Nations, UNOPS stated that it is fully committed to enhancing accountability within the Organization and transparency towards clients and partners alike. UNOPS has therefore put in place a results-based management framework and built several supporting performance management tools to ensure that its processes, products and services contribute to the achievement of management results.

124. The UNOPS results-based management framework was introduced in 2009 as a pilot project. It focuses on the management of results and is composed of two main components, the balanced scorecard and results-based budgeting. The two components are linked through 11 strategic performance objectives and complement each other.

125. UNOPS informed the Board that lessons learned from the pilot project implemented in 2009 will be applied during the biennium 2010-2011 when results-based management will be implemented throughout UNOPS. UNOPS indicated that performance is monitored on a continuous basis through the key performance indicators. Monitoring tools have been developed to render more efficient and more effective the dissemination of performance results throughout UNOPS. Reporting is carried out on a quarterly and annual basis depending on the indicators. Thus, the Board will keep this initiative under review during its next audit.

10. Treasury management, including imprest accounts

Closure and reconciling long-outstanding items in imprest accounts

126. The imprest account balance as at 31 December 2009 amounted to $791,074. A detailed analysis of the balance revealed that included in that amount were the imprest cash balance of $507,975 and unreconciled items amounting to $283,099. Included in the imprest cash balance of $507,975 were six imprest accounts that were operationally closed (inactive) but not yet financially closed, amounting to $481,855, and six imprest accounts that were still operational as at the end of 31 December 2009, amounting to $26,120. The Board also reviewed the global imprest reconciliation for UNOPS as at 31 December 2009 and noted unreconciled items relating to the period 2004-2008 amounting to $127,482.

127. The Board was concerned about the process followed during the closure of the imprest accounts, as there were items that were not reconciled, and some UNOPS offices had not complied with the guidelines regarding the migration of imprest accounts to the Atlas modality. Unreconciled items in the imprest accounts could indicate that the closure of the imprest accounts may not have been thoroughly completed.

128. Furthermore, the Board noted that a provision had been made in the 2009 accounts for the write-off of the imprest account balances relating to the Sudan Operations Centre amounting to $908,000 as a result of the potential bankruptcy of

a financial institution. Note 7 of the financial statements stated that only one imprest account was operational at the end of the biennium 2008-2009, whereas this was not the case. UNOPS indicated that unreconciled items relating to 2009 were mostly due to expenditure not yet recorded and to foreign exchange gains and losses.

129. **UNOPS agreed with the Board's recommendation that it (a) comply with the imprest account closure guidelines to ensure that all old modality imprest accounts were closed and replaced with Atlas bank accounts; (b) address all unreconciled items in the imprest accounts; (c) ensure that long outstanding reconciling items were followed up and cleared in a timely manner; and (d) amend note 7 of the 2008-2009 financial statements to reflect the correct number of imprest accounts operational as at the end of the biennium 2008-2009.**

130. UNOPS stated that 12 imprest accounts remained open at the end of the biennium, of which 6 were dormant and 6 were active. Four of the active accounts were closed in early 2010, and the remaining two imprest accounts were converted to Atlas bank accounts in June 2010. UNOPS stated that the remaining 12 imprest accounts could not be closed by 31 December 2009 owing to reasons beyond its control, including banks in financial distress, local legal requirements in opening new accounts and delayed reimbursements by partners, which have been remedied in 2010.

131. UNOPS also stated that it subsequently prepared a reconciliation for the unreconciled items amounting to $283,099, and except for an amount of $16,103, it had adequately resolved the items in 2010. UNOPS also amended note 7 of its biennium financial statements to clarify the differences between dormant and active imprest accounts and report the closure thereof subsequent to year end.

Procedure for write-offs

132. Rule 123.12 of the UNOPS financial regulations and rules that applied for the biennium 2008-2009 states that the Executive Chief Procurement Officer may, after full investigation and recommendation by the contracts and property committee(s), authorize the write-off of losses of UNOPS cash, cash equivalent or property, plant and equipment or such other adjustments of the records as will bring the balance shown by the records into conformity with the actual quantities, except that proposals for write-offs that exceed $100,000 should be submitted to the Executive Director for approval.

133. The Board noted through a review of the imprest account reconciling items that an amount of $634,524 was written off and processed in the accounting records as at 31 October 2009. A review of the approvals for the amount that was written off indicated that approval was not obtained from the Executive Director in accordance with the requirements of the UNOPS financial regulations and rules. Furthermore, no delegation of authority was obtained from the Executive Director to approve the amount written off. UNOPS informed the Board that approval for write-offs were, at the time, obtained from the Executive Director only at the end of each year as part of the year-end closure exercise.

134. **UNOPS agreed with the Board's recommendation to obtain appropriate approval for the write-off of losses in accordance with rule 123.12 of the UNOPS financial regulations and rules.**

135. UNOPS stated that in February 2010 it promulgated an organizational directive on write-offs and provisions for write-offs, in accordance with which all such approvals must be obtained on an ongoing basis from either the Executive Chief Procurement Officer or the Executive Director, depending on the amount.

Reporting of advances recoverable locally

136. In paragraph 205 of its report A/63/5/Add.10, UNOPS agreed with the Board's recommendation (a) to implement policies to ensure that all operations centres submit, on a monthly basis, advances recoverable locally ledgers in the required format and detail; and (b) to include as part of month-end procedures the review of advances recoverable locally.

137. At the Africa Regional Office, the Board requested the advances recoverable locally ledger and the ageing report for all the operations centres in the region with imprest accounts. However, the Africa Regional Office did not provide that information since it did not maintain those ledgers and ageing reports. As a result, the Board was unable to analyse the advances recoverable locally that had been outstanding or the period during which they had been outstanding. In the absence of such documents, errors may not be detected, and may result in the financial statements being misstated.

138. The Board was concerned as this was an indication that there were limited or no monitoring controls of advances recoverable locally at the regional office level. Such controls would normally include monitoring long outstanding advances, identifying unusual advances and monitoring advance limits.

139. The Africa Regional Office agreed with the Board's observation, but stated that no plan of action could be proposed as imprest accounts no longer existed within that Office. However, in the future the Africa Regional Office would keep evidence of the control measures it performs for all related activities.

Operational rate of exchange

140. Paragraph 10.2 (e) of the imprest account guidelines states that unless the imprest account has been established in United States dollars, the opening balance and ending balance of the account shall be reflected in both local currency and United States dollar equivalent converted at the prevailing United Nations operational rate of exchange.

141. In response to the recommendation of the Board in paragraph 191 of its report A/63/5/Add.10, UNOPS agreed with the Board's recommendation that it apply the rate of exchange that was used in accordance with its accounting policy for translating imprest account balances.

142. The Board reviewed the imprest account reconciliations and noted instances in which the imprest accounts were not converted at the prevailing United Nations rate of exchange, in accordance with UNOPS accounting policy and guidelines. The effect of this is that the gain/loss on the exchange account may be misstated.

143. The Africa Regional Office stated that as a result of a human error and the large number of transactions processed, incorrect exchange rates were applied in some instances, despite the controls implemented to verify data quality through the records processed in Atlas. The Africa Regional Office further stated that no plan of action could be proposed as imprest accounts no longer exist within that Office.

Management of petty cash

144. Rule 122.17 of UNOPS financial rules and regulations states that petty cash accounts may be made available to personnel designated by the Comptroller or his or her delegate. Such petty cash accounts shall be maintained on an imprest basis. The amount and purposes of each petty cash account may be defined by the Comptroller. The petty cash amount held by each UNOPS business unit shall not exceed $2,500, and no single payment from a petty cash account shall exceed $1,000. Exceptions to that rule may be authorized in writing by the Comptroller, and the reasons for such decision shall be recorded.

145. The Board noted that there was no policy in place regarding the management of petty cash and that the Africa Regional Office was in the process of compiling one. However, the Board noted that petty cash was being used in that Office. Furthermore, the Board noted the following weaknesses in the controls over the management of petty cash at the Africa Regional Office:

(a) There was no evidence that surprise cash counts were performed by a senior official on a regular basis;

(b) Petty cash vouchers were recorded sequentially, but there were unexplained missing voucher numbers;

(c) The Board noted instances where there were duplicate voucher numbers used for different petty cash transactions;

(d) Petty cash vouchers were not signed by the petty cash holder and by the official as an indication of authorization of petty cash purchases.

146. The weaknesses identified may result in the Africa Regional Office not being able to detect and prevent mismanagement of petty cash, and in an incomplete petty cash register/ledger.

147. **The Africa Regional Office agreed with the Board's recommendation that it (a) develop a policy on the management of petty cash which addresses the weaknesses identified in the management of petty cash; (b) investigate and follow up on the discrepancies identified; and (c) perform surprise petty cash counts by a senior official on an ad hoc basis and reconcile the cash on hand to the petty cash records.**

148. The Africa Regional Office stated that the petty cash management policy had subsequently been developed by UNOPS headquarters. Furthermore, the Office will ensure that the petty cash ledger is updated weekly and surprise cash counts will be performed by a senior official on a regular basis.

11. Programme and project management

149. The Board has in recent bienniums highlighted the financial implications of the operational challenges faced by UNOPS in the core area of project management. The Board mentioned cases of overspending, lack of project monitoring controls and the risks posed to the welfare of the organization by less than satisfactory controls in the field.

150. In revisiting the matter, the Board considered the human resources policy and training interventions undertaken by UNOPS to address the spectrum of programme and project management issues. This section covers the areas in which progress has

been made and those operational areas in which implementation and improvement were still under way during the biennium. The report highlights some residual issues which do not have their source in the biennium 2008-2009, but which are nevertheless key to an appreciation of the nature and impact of some of the challenges UNOPS faced.

151. The financial highlights include the write-off of receivables amounting to $22.1 million, which represented 68 per cent of the biennium’s surplus, and the contingent liabilities amounting to $41.2 million. UNOPS based this contingency on a worst-case scenario, but was almost equivalent to the current level of mandatory operational reserves. Should a portion of those contingencies materialize, the level of operational reserves could fall below the mandatory level.

152. The Board pointed out that a large portion of the provisions, and the write-off of receivables and almost all contingent liabilities, related to issues regarding project management and project implementation, which is UNOPS core business area. Additional findings of the Board in this area are presented below.

UNOPS overall project delivery

153. In paragraph 434 of its report A/63/5/Add.10, the Board recommended that UNOPS (a) implement policies to hold project managers more accountable for income delivery; (b) review budget-setting methods and controls to ensure that budgets set and agreed with clients are more in line with project delivery; (c) improve monitoring controls at the regional offices over the performance of operations centres; (d) take steps against operations centres that have under-delivered; and (e) consider reducing administrative costs to make up for delivery shortfalls.

154. The Board reviewed the project delivery statistics for UNOPS on its financial monitoring dashboard and noted that some UNOPS offices recorded low project delivery in relation to their respective targets for the year 2009, even though UNOPS achieved its overall project delivery target. Table II.6 depicts examples of UNOPS offices with low project delivery.

Table II.6
Examples of UNOPS offices with low project delivery, 2009
(Thousands of United States dollars)

Operations centre	*Budget/ target*	*Delivery*	*Percentage delivery*
Switzerland Operations Centre Enhanced Integrated Framework projects	30 000	5 721	19
Côte d’Ivoire Operations Centre	27 600	8 008	29
Nicaragua Project Centre	8 000	3 668	46
El Salvador Project Centre	10 204	4 991	49
Uruguay Project Centre	11 047	5 080	46
Pristina Project Centre	9 000	4 674	52
Senegal Operations Centre	31 097	17 492	68

Source: UNOPS financial dashboard.

155. During field visits to the Regional Office for Latin America and the Caribbean, and the Senegal Operations Centre, the Board also noted low project delivery in many of the projects.

156. UNOPS provided reasons for the low delivery at certain operations and project centres, which indicate uncertainties that arose in the assumptions behind the establishment of original budgets:

(a) Owing to the low quality of some project proposals submitted by implementing partners, they had to be reformulated;

(b) Changes in the political landscape in some programme countries delayed the funding and implementation of projects;

(c) Some UNOPS offices were newly established, which led to implementation delays;

(d) The Uruguay Project Centre's main project was delayed owing to a disagreement between the client and the contractor;

(e) The target for the Pristina Project Centre was $9 million, while the delivery was $4.6 million. Low delivery was a result of delays in the appointment of commissioners and in the approval of specific project implementation stages;

(f) The 2009 delivery target for the Senegal Operations Centre was $25.6 million, revised during the year, and the delivery for 2009 was $17.5 million. The Centre's operations consist of six main projects which were affected in ways largely beyond UNOPS control. Project 62557, in Guinea-Bissau, was faced with low delivery owing to political and social instability. Project 63670 entailed navigating between two neighbouring countries that did not allow UNOPS access to the border areas earmarked for demarcation. Project 62590 suffered from restricted access to the project's operations. Projects 60757, 57598 and 56966 faced unforeseen delays as a result of the requests by Governments to procure items which had not been envisaged in the respective project agreements;

(g) An operations centre received midyear notice from UNDP that its services were no longer needed owing to UNDP's decision to establish a regional centre responsible for regional project delivery;

(h) At one operations centre, management changes by the biggest client led to temporary discontinuance of major components of projects.

157. In addition, the Board noted that some portfolio managers did not deliver according to their individual targets. While low project delivery could emanate from entirely valid causes, the Board would be concerned about low project delivery reflected in low delivery rates which stem from a combination of the following factors:

(a) The strength of policies to hold project managers more accountable for project delivery;

(b) Lack of adequate budget-setting methods and controls to ensure that budgets agreed with clients are more reflective of expected delivery;

(c) At the regional office level, lack of adequate monitoring controls over project performance at the operations and project centre levels.

158. UNOPS informed the Board that the financial dashboard was used as a project monitoring tool for the entire organization and was an integral part of project monitoring activities. UNOPS described to the Board a number of other initiatives that it had implemented during the biennium to monitor project delivery. UNOPS also stated that, in relation to project management, it was progressing towards the implementation of compliance with ISO 9001 in 2011.

159. UNOPS had notable initiatives to manage project delivery, and implemented the tools to improve accountability. However, owing to the above-mentioned cases of low project delivery at certain UNOPS offices, the Board considered that current review actions were not yet completely effective. The impact of project delivery that falls short of budget is that other planned project activities may have to be halted until the completion of projects not yet delivered by UNOPS; that costs incurred after the planned delivery dates may have increased; and that budgets may not take those increases into account.

160. **UNOPS agreed with the Board's recommendation to further review budget-setting methods and controls to ensure that budgets agreed with clients are more in line with project delivery.**

161. **The Africa Regional Office agreed with the Board's recommendation that it improve monitoring controls over the project delivery performance of operations centres and take steps against operations centres that have under-delivered.**

162. UNOPS stated that it acknowledged the Board's concern, while noting that the above figures represented less than 1 per cent of UNOPS delivery in 2009. The under-delivery occurred in a few small offices which are highly dependent on a limited number of projects. The normal reviews were carried out; however, a limited number of projects were delayed for reasons outside UNOPS control.

163. The Senegal Operations Centre stated that project managers are held accountable for project delivery. However, some additional action needs to be considered to increase their accountability. The Africa Regional Office is in the process of implementing a monthly report on project monitoring to enable better oversight of that function. UNOPS defined the success criteria for projects and project managers, which are now reviewed on a quarterly basis and form an integral part of performance evaluations of project managers and operations centre directors.

Project closure

164. Project closure begins when the objectives of the project are completed, or if a project is cancelled following a suspension. The two phases followed in project completion are operational closure and financial closure. The financial regulations and rules of UNOPS prescribe the requirements and time frames regarding operational and financial closure of projects.

165. In paragraph 406 of its report A/63/5/Add.10, the Board recommended that UNOPS take further steps (a) to ensure that the status of the projects was regularly monitored and accurately reflected in Atlas; and (b) to urgently complete the project closure exercise.

166. The Board has always considered project closure to be a high-level control, and was disappointed when UNOPS decided in 2009 to extend the financial closure period to 18 months from 12 months, as part of the revision of its financial

regulations and rules, effective from 1 February 2010. The extension weakens accountability, as participants involved change over a long period and the actual final results of projects are not known before new projects are planned. The Board noted, from the list of projects provided by UNOPS, that several old projects, despite the extension granted, were operationally closed but still not yet financially closed as required by the UNOPS financial regulations and rules.

167. The UNOPS Internal Audit and Investigations Group, during the biennium 2008-2009, noted that numerous projects had been operationally closed, but not financially closed within the time frame specified by the UNOPS financial regulations and rules.

168. Furthermore, the Board noted several projects at the Regional Office for Latin America and the Caribbean that were operationally closed but not yet financially closed as required by the UNOPS financial regulations and rules. At that Office, the Board compared the actual expenditure incurred on the projects that were operationally closed to the total approved project budgets to identify surpluses or deficits, but was unable to get the total project expenditure incurred for the majority of the projects. The Regional Office for Latin America and the Caribbean attributed this to data issues in connection with old projects started prior to the introduction of Atlas in January 2004.

169. The Board was concerned that the lack of pre-2004 project information in Atlas may affect project monitoring controls and the accuracy of the project closure process. UNOPS stated that, with regard to the data issues for old projects, the projects were appropriately closed during the preparation of the 2008-2009 financial statements and that the pre-Atlas expenditure was taken into account in the project closure process.

170. The Board further noted that for the majority of the pre-Atlas (2004) projects, there were no transactions recorded after 2005. However, the projects were operationally closed only in 2008 and not at the time the project activities ceased, in accordance with rule 116.07 of the UNOPS financial regulations and rules.

171. The Board noted improvement in the project closure exercise and noted that approximately 1,110 old projects were financially closed and 419 old projects were operationally closed during the biennium 2008-2009. However, the Board has a residual concern that the delay in the closure of remaining projects may result in the misstatement of the contribution received in advance account or that surpluses, refunds or write-offs will be delayed.

172. **UNOPS agreed with the Board's recommendation to establish a short time frame to address the backlog of projects needing closure.**

173. **UNOPS further agreed with the Board's recommendation to reconsider the appropriateness of its 18-month project closure timetable.**

174. UNOPS stated that during the biennium 2008-2009, a special project closure and finance investigation team was established, with the mandate to investigate and report on the status of 1,736 old project balances. Internal investigations were completed and the objective of phase one was accomplished. All known liabilities were fully provided for. Phase two is under way; negotiations with business partners are in progress to reach settlements on old surplus balances during the biennium 2010-2011. UNOPS stated that it would continue to pay close attention to this area as a key element of the project management cycle.

Operational closure of projects at the Peru Operations Centre

175. The Board noted two projects at the Peru Operations Centre for which project activities had ceased but the projects had not been declared operationally completed/closed as at 16 February 2010. The Board further noted that there were no project transactions for some projects at the Centre from 2006 until the end of the biennium 2008-2009. Thus, the projects should have been considered for operational closure earlier.

176. UNOPS informed the Board that the delays in the operational closure of projects were a result of (a) difficulties in the final project reconciliation process; (b) financial reports not being prepared in a timely manner; and (c) pending outcomes on discussions between the operations centre and the clients on project funds.

177. The Board also noted inconsistencies in the project data from Atlas relating to management service agreement projects, including the following examples:

(a) Projects in Atlas had activities that had ceased, but were not operationally and financially closed;

(b) Project data as shown on Atlas contained inaccurate information.

178. **UNOPS agreed with the Board's reiterated recommendation that the Peru Operations Centre should analyse all currently listed projects and identify projects that need to be closed.**

179. **UNOPS further agreed with the Board's reiterated recommendation that the Peru Operations Centre should (a) ensure that the status of projects is regularly monitored and accurately reflected in Atlas; and (b) complete the project closure exercise.**

180. UNOPS headquarters was working with the information technology team to get the pre-Atlas (prior to 2004) details available in the reporting platform on its Intranet. Those details will enable project managers to get a complete and correct picture of the financial status of their projects.

181. The Board also concurred with management that the full reconciliation of the pre-2004 project data would enable project managers to get a complete and correct view regarding the financial status of projects. Thus, it was important for UNOPS to address this issue. The Board further stated that projects for which there were no project transactions from prior years until the end of the biennium 2008-2009, should have been considered for operational closure earlier. The risk is that project expenditure may not have been captured elsewhere and this may give rise to disputes during the project closure process.

Project closure at the Africa Regional Office and the Senegal Operations Centre

182. The Board noted at the Africa Regional Office that 11 projects were financially closed as indicated in the project status report for 2008. The project files for the closed projects could not be provided for audit purposes. The Office indicated that according to its records, only six projects were financially closed during the year 2008, none of which was reflected on the list of financially closed projects in the Atlas report provided.

183. The Board was concerned that the Africa Regional Office did not provide documentation in relation to the requested closed projects and the discrepancies noted regarding the recorded number of closed projects. There is a risk that information recorded in Atlas relating to closed projects is not complete.

184. Furthermore, at the Senegal Operations Centre, the Board noted projects for which project activities had ceased but operational and financial closure had not yet taken place as at 30 June 2009.

185. **The Africa Regional Office and the Senegal Operations Centre agreed with the Board's reiterated recommendation to take further steps (a) to ensure that the status of projects is regularly monitored and accurately reflected in Atlas; and (b) to urgently complete the project closure exercise.**

186. **The Africa Regional Office further agreed with the Board's recommendation to maintain project files in support of financially closed projects.**

187. UNOPS stated that it implemented a project monitoring and implementation administrative instruction to ensure the status of projects is appropriately monitored and reviewed through a quarterly online assurance review process. That process ensures that every operations centre and project centre reviews, in detail, all information in Atlas and accurately reflects the status of each project. The results of the review are recorded online and available for all managers.

188. The Africa Regional Office stated that it recognized the importance of closing old projects and would develop an action plan jointly with the operations centres to close all non-active projects by the end of 2009. The Senegal Operations Centre stated that the closure of some of its projects depended on UNDP agreement and finalization of the UNDP accounts, and in some cases UNDP was not able to provide the final reconciliations to meet the deadline for the closing of projects. In the case of inter-agency projects, UNOPS is of the view that it is better to coordinate all actions to prevent future findings that can generate write-offs. However, with the new structure of management and the finance section at the Africa Regional Office and the Senegal Operations Centre, it is now possible to act and prevent such cases.

UNOPS overall: overexpended projects

189. Section 12.02 on the use of project funds of the UNOPS financial regulations states that the Executive Director shall ensure that total expenditure does not exceed available budget.

190. In paragraph 448 of the report on the biennium 2006-2007, the Board noted overexpenditure on projects, and UNOPS agreed with the Board's recommendation to improve its controls so that (a) project-level system controls were improved, which would help in the detection and control of overspending; and (b) project budgets were monitored on a regular basis to ensure that budgets were not exceeded.

191. The Board noted that the total amount of overspent projects for UNOPS against approved project budget levels amounted to $12,986,625 for the biennium ended 31 December 2009. Furthermore, during its field audit visits to the Africa Regional Office and the Senegal Operations Centre, the Board noted that, for various projects, project expenditure exceeded the approved project-level budgets.

192. Overexpenditure on projects could stem from the lack of adequate monitoring and review of controls surrounding project expenditure, or from approved budget revisions not recorded on time in Atlas. There was a risk that project funds spent in excess of approved budgets might not be recoverable from project sponsors or funders.

193. UNOPS informed the Board that project-level controls are critical and that those controls have been adequately strengthened by creating budget alerts for project managers and supervisors at the operations centre and regional office levels. Despite the creation of the alerts, the Board was still concerned that there were projects where project expenditure exceeded approved project-level budgets.

194. **UNOPS agreed with the Board's reiterated recommendation to monitor its project-level system controls and project budgets on a regular basis to ensure that budgets are not exceeded.**

195. UNOPS stated that it takes the monitoring and management of its improved systems controls seriously, and that it is mindful of the continuous improvements that the Organization strives to achieve in the management and monitoring of its projects throughout their life cycle. UNOPS reviewed the top nine projects, amounting to $12.2 million, and stated that two of the nine projects, amounting to $5.4 million, were not overspent. The award amounts in Atlas for those projects were being updated. The remaining seven projects, amounting to $6.8 million, were overspent in prior bienniums before UNOPS strengthened its project monitoring controls. UNOPS expressed the view that, had those project managers been able to benefit from the improved systems and the monitoring that is now in place, the overspending would have been prevented in the system, or identified early to reduce further potential overspending. Full provision was for the overexpenditure during the biennium 2008-2009. UNOPS stated that it does not have any major projects overspent during the biennium 2008-2009 and that the total overspent projects for the period amounted to approximately $61,609, which related to three projects only.

Rephasing or extension of projects at the Peru Operations Centre

196. Rule 112.04 of the UNOPS financial regulations and rules states that charges to project funds shall be authorized through and subject to the terms of a project agreement. The contracts or memorandums of agreements between UNOPS and its clients specify the time frames within which projects should be completed. The Board noted that several projects were not completed within the agreed time frames and that requests for the extension of the projects, which in certain instances had financial implications, were not made by the Peru Operations Centre in a timely manner.

197. The Board also noted that several projects had reached the agreed project end dates but the project activities had not ceased, nor were any amendments to extend the projects signed between UNOPS and the client, although extension negotiations may still be under way. The Board also noted instances in which the project information in the Atlas system was amended to reflect the new project end date and the new project budget before the project amendment was approved by the client. Table II.7 depicts examples of the projects not approved for extension by the client but reflected in Atlas as extended projects.

Table II.7
Examples of projects not approved for extension but reflected in Atlas as extended projects
(United States dollars)

Project number	*Project end date per last signed agreement*	*Project end date per Atlas*	*Total budget per signed agreement*	*Expenditure after project end date as at 31 January 2010*	*Project balance as at 31 January 2010*
00057890	31 December 2009	31 December 2011	41 600 000	1 061 945	18 844 230
00043408	31 December 2009	31 December 2010	58 767 699	2 113 446	19 437 365
00058603	31 December 2009	31 December 2010	61 129 592	4 780 214	16 275 611
00058857	31 December 2009	31 December 2010	37 767 139	8 876 057	16 833 947
00030925	31 December 2004	31 December 2009	36 163 250	143 408	2 845 164

198. The risk is that the expenditure incurred after the project end dates may not be accepted by the client, resulting in possible disputes and loss of funds for UNOPS. In addition, breaches of the UNOPS financial regulations and rules could be taking place. Furthermore, the extension or rephasing of projects could imply that other planned project activities would have to be halted until the completion of projects that were extended or rephased. Breaches in this control at UNOPS have in the past contributed to disputes and long delays in recovering funds already expended.

199. **UNOPS agreed with the Board's recommendation that it (a) review the progress of each project on a regular basis and as part of project oversight and monitoring activities; and (b) improve its procedures to manage the rephasing or extension of projects so that the changes are made and recorded in a timely manner and the correct project information is reflected in Atlas.**

200. UNOPS stated that requests for the extension of projects were made in a timely manner and that projects were meant to be executed within the time frame as specified in the management service agreements; however, there were imponderables or force majeure issues that hindered the achievement of those objectives. UNOPS stated that its legal adviser concluded that the Peru Operations Centre's management service agreements were valid up to the time when the objectives were met and while there was a pending approved budget to be delivered. As a result, all current activities were under a valid legal framework, as all contracts were entered while management service agreements were valid.

Amendment of budgets in Atlas

201. Rule 116.01 of the UNOPS financial regulations and rules states that, subject to the financial regulations and rules, project budgets shall be managed in accordance with the terms of the project agreement.

202. The Board noted that for project 00057890, the total expenditure incurred during the financial years 2007 and 2008 equalled the budget recorded in the system for those years. Upon review of the project agreement between UNOPS and the client, as well as through a review of the project information in Atlas, the Board noted that the budget per the general ledger/financial reports was overwritten and adjusted to equal the amount of expenditure actually incurred during the periods, and was well below the budget originally established.

203. According to the signed project agreement, the end date was 31 December 2009, but expenditure of only $254,000 was incurred during the year ended 31 December 2009, compared to the budget of approximately $40 million originally established.

204. The Peru Operations Centre informed the Board that project information in Atlas was normally adjusted to reflect the prevailing situation for the year. As at the date of the audit, 15 February 2010, UNOPS and the client were in the process of amending the agreement, including the budget information.

205. The Board was concerned that adjusting the budget information in Atlas was not optimal and misstated the project delivery information for the project in comparison with the original budget. Also, the variance between the project agreements/budgets and actual delivery of approximately $40 million on one project, may be an indication that the project agreement/budget was unsound, or did not get appropriately recorded.

206. **UNOPS agreed with the Board's recommendation that it (a) consult with the client prior to changing budget information; (b) ensure that historical budget information is not amended in Atlas; and (c) review budget-setting methods and controls to ensure that the budgets agreed with clients are more in line with expected delivery.**

207. UNOPS stated that it will proceed to issue an instruction to project managers in this regard, so that budgets agreed with clients are more in line with expected delivery.

Standard operating procedures relating to project management

208. UNOPS headquarters developed standard operating procedures for major operational activities within the organization. The procedures were developed to define and simplify the steps that UNOPS staff involved in those activities should follow. Those procedures were applicable during the time of the field audit to the Africa Regional Office, until UNOPS issued new organizational directives in late 2009 that replaced them.

209. The Board noted that the Africa Regional Office had not followed or implemented the standard operating procedures on project management. As a result of not adopting and implementing the procedures, there were no other procedures which compensated for not using them. The Board noted that the following control activities relating to project management were not performed as required by the then-applicable standard operating procedures:

(a) The Office did not analyse the risks at the project start-up phase or maintain a risk log for each project as part of the monitoring activities;

(b) The Office did not make use of the project authority, project acceptance team and the project board for decision-making and approval of the projects.

210. The Board identified observed that in eight projects only the project manager was identified and there was no evidence that project teams were formed prior to accepting the projects. Table II.8 details examples of projects for which project teams were not formed, in accordance with the standard operating procedures.

Table II.8
Examples of projects with no project teams
(United States dollars)

Project number	*Project budget*	*Project description*
58795	2 864 927	Support to the direct dialogue in Ouagadougou
30980	1 097 000	Nile Transboundary Environmental Action project
60757	6 037 735	Procurement
57598	5 029 675	Procurement
56411	5 416 373	Rehabilitation and maintenance of Kisangani-Lubutu road
61795	10 903 426	Civil support for the reconstruction of registry offices for civil status
51210	2 436 439	Enhancing conservation of the critical network of sites required by Migratory Waterbirds on the African/Eurasian Flyways
59419	16 659 814	Stabilization plan in the Eastern Democratic Republic of the Congo

211. Compliance with UNOPS policies is essential to ensure projects are managed with due consideration for risk and project management principles as adopted by UNOPS. The Board was concerned that the standard operating procedures had not been implemented at Africa Regional Office, and that without implementing them, the Office did not have other guidance documents that it was using as alternate procedures. UNOPS stated that the status of the standard operating procedures, as at late 2009, had been clearly established as no longer valid and new detailed guidance had replaced the former standard operating procedures.

212. **The Africa Regional Office agreed with the Board's recommendation to ensure that it defines and implements correct procedures with regard to project management.**

213. UNOPS stated that it made considerable efforts to strengthen procedures during the period under review, in relation to project management. The Africa Regional Office stated that it had implemented new controls and checks in 2009 to improve oversight and was in the process of implementing new procedures to ensure that evidence and supporting documents were properly maintained. The respective roles of the operations centres and the Africa Regional Office have now been defined, and control procedures are now in place to ensure that the oversight function can be carried out at the regional office level.

214. UNOPS added that, with a view to improving overall project management, it had set up, effective 1 October 2009, a project management practice as part of the overall reorganization of UNOPS. The policy clarifies the structure and responsibilities between headquarters and the field offices. To monitor compliance, UNOPS carries out a monthly project review and quarterly online assurance for every project in UNOPS at the operations centre, regional office and global levels.

Project monitoring: Africa Regional Office

215. The core function of UNOPS as an organization is project implementation; if proper oversight and monitoring functions are not performed at the project level, there is a risk that the organization will not deliver according to its targets, donor requirements, projects specifications and standards of quality. The Board noted key

weaknesses in the project monitoring processes at the Africa Regional Office, as explained in the ensuing paragraphs.

216. The Board noted that documents that support the Office's project monitoring activities, such as project delivery and income, project overexpenditure and project closure, were not readily available for review; they could be provided only towards the end of the audit visit and had to be obtained from the various operations centres within the region. Examples of documents not readily available at the Office were project agreements, risk logs and evidence that the Office monitored deliverables as outlined in agreements with the clients. Although the role of a regional office is to provide oversight on projects, the Africa Regional Office was not able to provide supporting documentation to show that it had performed this oversight role and project monitoring activities on an ongoing basis.

217. The delivery income report from Atlas was introduced in 2007 and is generally used by management at regional offices to track project delivery and income (management fees) against the budget on a monthly basis. According to UNOPS operational procedures, the delivery income report should be prepared at the operations centre level and submitted to the regional offices. The report should also be used as a basis for making decisions regarding the budget for the following year.

218. The Board noted that the Africa Regional Office did not make use of delivery income reports and did not provide the Board with any other documents that indicated that it monitors the information generally available on the delivery income report. The Board noted that some projects did not have the memorandum of understanding or memorandum of agreement in the project files maintained at the Africa Regional Office. The Office stated that it had recently relocated from Nairobi to Johannesburg, South Africa, and was in the process of filing and uploading the necessary information.

219. The Board was concerned that without activities that support UNOPS project monitoring activities, UNOPS may not be discharging its oversight roles over operations centres and project activities.

220. **The Africa Regional Office agreed with the Board's recommendation that it (a) take urgent steps to implement procedures to enable it to discharge its oversight roles over the operations centres and maintain evidence of such monitoring activities; and (b) maintain memorandums of understanding or memorandums of agreement in the project files.**

221. **The Africa Regional Office agreed with the Board's recommendation to review its approach to project management and ensure that a uniform system, where possible, is implemented within the regional structure.**

222. UNOPS stated that it implemented an online project documentation centre which contains all the legal agreements and implementation analysis notes uploaded for each project globally. To ensure compliance, UNOPS also put in place an alerting and monitoring system on a dashboard, which is reviewed at the project centre, operations centre, regional office and headquarters levels.

223. The Africa Regional Office stated that during 2008 it was in the process of relocating from Nairobi to Johannesburg and that its team was small. Furthermore, the Office indicated that it did utilize delivery income reports to monitor the project delivery and revenue. However, evidence of this is available only in monthly

communications and in the midyear review of all projects. All memorandums for the active projects are available to the Office. However, some documents were lacking as identified by the observation and will be uploaded in the new project documentation centre.

224. The Africa Regional Office further stated that it was implementing the monitoring functions in accordance with the administrative instruction on monitoring and implementation issued in 2009. The new filing system — the project documentation centre — has now been implemented, and all documents for all projects will be available online. Oversight functions will be performed on these functions at the project centre, operations centre, regional office and headquarters levels.

Quality of Atlas data

225. UNOPS makes use of the project status report generated from Atlas to track the progress of each project. Status of projects may be shown as ongoing, operationally closed or financially closed. Through comparison of the 2008 Atlas project status report with the Atlas project expenditure report, the Board noted instances in which projects that should have been included in both reports were included only in the project expenditure report. Table II.9 provides examples of projects not included in the project status report for 2008.

Table II.9
Examples of projects not included in the project status report

Project number	*Project description*
36783	Section Roads of the Multi-sectoral Emergency Programme for Reconstruction and Rehabilitation
30992-30996 (five projects)	Nile basin projects

226. As the information in the two reports did not agree, the Board was concerned that the integrity of the information might be doubtful and that the expenditure recorded in Atlas might not be indicative of all the project activities undertaken by the Africa Regional Office operations centres. There is a risk that the project expenditure recorded may not represent all the transactions that occurred.

227. **The Africa Regional Office agreed with the Board's recommendation to investigate the differences between the 2008 Atlas project status report and the Atlas project expenditure report, and make corrections accordingly.**

228. The Africa Regional Office stated that it had subsequently identified the problem in the Atlas report. The difference was that the status of some projects was invalid as of 31 December 2008 but had since been corrected: the projects are now either ongoing or closed. The discrepancy resulted from the year-end data quality validation that was done in the beginning of 2009, in line with the closing procedures. The Office added that this action was now part of the quarterly monitoring and review procedures to ensure accurate data is recorded.

Weak controls in the management of projects

229. The Board noted instances in which poor oversight and monitoring was exercised over UNOPS projects, including the following instances.

Project 60168: enhancing the effectiveness and catalysing the sustainability of the West Arly, Burkino Faso, protected area system

230. For project 60168, the Board noted that funding was awarded in January 2008; however, as at 30 June 2009, project activities had not yet commenced. UNOPS informed the Board that there were many delays in the appointment of project staff to commence the project.

231. For the same project, the Board noted that total expenditure recognized as at 30 June 2009 for the project amounted to $271,202, of which $194,737 represented payroll costs and consultancy fees, but the project had not yet commenced.

232. The Board identified the following risks stemming from the delay in the commencement of the project's activities:

(a) As project revenue and delivery is recognized on the basis of project expenditure, charging fees based on that expenditure would overstate project revenue and the profitability of the Senegal Operations Centre;

(b) As project activities might not be completed within the agreed time frame of five years, the project budget may not cover all the planned activities;

(c) UNOPS may be charging projects based on unproductive time, which may result in future activities not being appropriately funded.

233. **UNOPS agreed with the Board's recommendation to ensure that the Senegal Operations Centre (a) implements processes to ensure that its projects are implemented in a timely manner; (b) improves its project implementation controls to ensure projects are charged for productive time only; and (c) reviews the causes of the delay in the implementation of project No. 60168.**

234. UNOPS stated that improving project implementation controls and monitoring projects is a key part of UNOPS strategy and that those controls had been strengthened. UNOPS implemented a detailed project monitoring and implementation instruction to ensure that the situation was not repeated and that only productive time was charged to projects. UNOPS added that this was a rare case that needed to be rectified and the causes of the delay in project 60168 would be addressed.

Project 30985: energy for poverty reduction in Africa

235. For project 30985, the Board noted that the position of Regional Coordinator for the project, which was critical for project implementation, had been vacant since January 2009 and was still vacant as at the audit date (June-July 2009). The Board was concerned as to how a project of this magnitude was being effectively managed without this important monitoring function, during the period that the post was vacant.

236. In addition, the Board noted that the premises that the project team occupied was a rented property and that it was first occupied towards the end of the 2008 calendar year. The Senegal Operations Centre was unable to provide the Board with

supporting documents justifying the need to move from the previous premises. Furthermore, the Board was not provided with any supporting documents that indicated the procurement process that was followed in the selection of these premises. The Board was thus concerned about the leasing transaction which was not supported with proper decision-making records.

237. **UNOPS agreed with the Board's recommendation that the Senegal Operations Centre (a) address the leadership vacancy on project 30985; (b) ensure that it maintains appropriate supporting documents for all procurement; and (c) ensure adequate oversight procedures are in place at all times to oversee the monitoring of project activities.**

238. UNOPS stated that the Africa Regional Office subsequently addressed the issue of the leadership vacancy on project 30985 on an emergency basis. By end 2009, the project had implemented 93 per cent of its planned budget.

239. UNOPS stated that it has implemented a project tracking tool which provides directors, regional directors and senior management of operations centres oversight of delivery and implementation rates and project data. The tool monitors project budgets, and highlights any overexpenditure and under-delivery. It also makes it possible for managers to review data quality, processing issues, staffing levels, contract expiry, cash balances and fees, which are reviewed on a monthly and quarterly basis at the project centre, operations centre, regional office and headquarters levels.

Project 30974: western and central African rural development hub

240. For project 30974, the Board noted that the deliverables were outlined in the project agreement; however, there was no evidence to support that, in terms of the project agreement, those had been achieved, including the following list of deliverables:

(a) Annual progress report by the head of the technical unit;

(b) Proceedings of the management committee meetings;

(c) Annual supervision reports for the missions jointly appointed by all donor partner agencies;

(d) Communication of partner Governments to the management committee chairman on services rendered by the project staff;

(e) Annual reports by professional staff of the technical unit;

(f) Proceedings of thematic workshops;

(g) Evaluation report on the completion of the first phase of the programme;

(h) Evaluations by donor partner agencies of the role and performance of staff in programme formulation or in support of programme implementation.

241. The Senegal Operations Centre could not provide the Board with supporting documentation in the form of reports, minutes of meetings and the like to indicate that the above-mentioned project activities and deliverables were indeed performed for this project. Lack of such evidence may indicate weaknesses in the monitoring and oversight role of the portfolio managers and may also indicate that there was inadequate monitoring of the project.

242. The standard operating procedures for project management, applicable at the time of the audit, also stated that midterm evaluations were to be conducted so as to provide an objective perspective on how project implementation was progressing and whether any corrective actions needed to be taken.

243. The Board also noted that a midterm review for the project was conducted by third-party external auditors on 8 May 2007, after the planned completion date, which was 13 May 2006. This was not in accordance with the applicable standard operating procedures on project management.

244. **The Senegal Operations Centre agreed with the Board's recommendation to implement controls/guidelines to ensure (a) that the projects are implemented in a timely manner; (b) that vacancies are filled in a timely manner; and (c) that the Centre is able to discharge its oversight roles over the projects and maintain evidence that such monitoring activities were performed.**

245. **The Senegal Operations Centre also agreed with the Board's recommendation to establish procedures to monitor deliverables as stated in the project agreements.**

246. UNOPS indicated that in some specific cases the recruitment process was very complex and that it was sometimes extremely difficult to find candidates that were accepted by all parties involved.

247. UNOPS indicated that, together with the Africa Regional Office, it was in the process of re-evaluating all oversight roles to define better indicators and procedures to streamline project monitoring. Furthermore, the Senegal Operations Centre is implementing a new archiving procedure to ensure that evidence and documents are safely stored, in hard and/or soft copy. UNOPS stated that the roles of the Centre and Office are now defined and control procedures and road maps are now in place to ensure the oversight function at the regional office level. UNOPS defined standard handover procedures and developed solutions within existing resources when the recruitment process was not completed with the expected time frame.

Risk log and quality log not maintained

248. The UNOPS standard operating procedures on project management, applicable at the time of the field audit, state that a risk log must be maintained for each project. The risk log is an indication of the risks that exist at all stages of the project. The risks are then assessed with the harm that could potentially be caused and the estimated probability of occurrence. Risks above the risk tolerance level have to be actively managed and mitigated. Monitoring risks and the effectiveness of risk management actions are continuous efforts.

249. The Board noted that risk logs and quality logs were not maintained for the majority of the projects under the implementation of the Senegal Operations Centre. The Centre was unable to provide the Board with reasons as to why risk and quality logs were not maintained for projects. The nature of projects under implementation at the Centre is such that most of the projects are multi-country projects. The Board was concerned that as risk logs and quality logs are not maintained for projects it may be an indication of the following:

(a) That risks identified during the implementation of the projects may not be assessed and managed accordingly;

(b) That quality standards may not be adhered to or may not be met;

(c) That lessons learned and risks identified during the implementation of projects and on quality issues may not be transferred during the planning and implementation of similar projects that are going to be implemented in other countries.

250. **UNOPS agreed with the Board's recommendation that the Senegal Operations Centre, in consultation with the Africa Regional Office, should maintain and update risk and quality logs for all projects in a timely manner and adequately address issues associated with new areas of business.**

251. The Senegal Operations Centre stated that risk and quality logs are maintained for the projects; however the capacity to generate the evidence could be improved, as part of the information was not kept as it should be. The Centre indicated that it would work on re-evaluating all risk and quality logs of active projects and ensure that a control procedure is in place for oversight of such activity.

Extension of projects at the Senegal Operations Centre

252. The contracts between UNOPS and donors specify the time frames within which projects should be completed. The Board noted that many projects were not completed within the agreed time frames. The Board noted that requests for extension of the projects were made by the Senegal Operations Centre and approved by the donors; however, the Board noted that approval for the extension of many projects was obtained only after the projects' planned date of completion.

253. Furthermore, the Board noted that the majority of projects at the Centre had been re-phased/extended. The Centre stated that projects were extended owing to extensive staff turnover and the pressures that come with the projects; and a combination of client, political and external factors partially beyond the Centre's control.

254. The Board was of the view that, had there been regular project monitoring throughout all phases of the projects, the above-mentioned shortcomings could have been detected earlier and necessary corrective steps could have been taken to ensure that targets were met and the projects completed within the specified time frames.

255. **The Senegal Operations Centre agreed with the Board's recommendation that, in consultation with the Africa Regional Office, it should (a) review the progress of each project on a regular basis and as part of project oversight and monitoring activities; and (b) implement procedures to avoid the late approval of re-phasing or extension of projects.**

256. The Senegal Operations Centre stated that many of the projects were located in difficult areas. While the Centre strives to complete the projects on a timely basis, many of the external factors were beyond the control of the organization. However, the Centre is working on implementing new project management practices and methodologies to improve services to its clients.

257. The Board emphasized the point that, while the rephasing of projects may have been operationally necessary, it was not performed in a timely manner, an indication

that project monitoring controls were not operating optimally. In addition, risk logs and quality logs were not maintained for all projects.

258. **The Africa Regional Office also agreed with the Board's recommendation to implement procedures to ensure effective oversight and monitoring of all project activities to ensure that operations centres within the region are performing and delivering according to targets and are not overspending on approved budgets.**

259. UNOPS stated that it has invested considerable time, effort and resources to strengthen the tools to do so on a global scale. Improving project implementation, controls and monitoring of projects has been a key part of the UNOPS strategy. Project level controls have been greatly strengthened to ensure that operations centres are delivering on target without overspending.

260. UNOPS stated that it recognized the importance of timely extensions and ensured that this was part of the monthly and quarterly monitoring processes that are now in place.

Project handover process and projects without project managers

261. During the biennium 2008-2009, UNOPS established project management practices to facilitate focused and aligned efforts towards improving project implementation activities. The project management practices state that it is the responsibility of the project authority (director of the operations centre, cluster manager or manager of the project centre) to ensure that each project is allocated/assigned to a project manager and that when project managers are transferred or reallocated/reassigned, the handover process is carried out effectively and properly.

262. The Board noted instances where project managers were reassigned from one duty station to another; in Atlas, however, the projects from their original duty station were still allocated to them. Table II.10 depicts examples of projects that were not reallocated after the project manager had changed duty stations.

Table II.10
Projects not reallocated after changes in the project manager's duty station
(United States dollars)

Project manager ID	*Reassignment date*	*Annual implementation budget/planned delivery*
775664	10 July 2009	5 774 000
34103	18 August 2009	1 732 000
Total		**7 506 000**

263. The existence of projects that are allocated to project managers who are no longer at the duty station is an indication that project monitoring controls may not be functioning effectively or that proper handover processes were not performed during the reassignment of the project manager to a different duty station. Alternatively, it may indicate that the dashboard may not be updated with the most recent information.

264. Furthermore, the Board noted several instances on the financial dashboard in which projects were not assigned to any project manager in Atlas. The Board was concerned about the existence of such projects. While the mere absence of the name of the project manager in Atlas does not suggest that the project is without management, the lack of assignment of project managers to projects in Atlas could weaken the accountability for those projects and also undermine the project management controls within Atlas, that is, the authorization controls.

265. **UNOPS agreed with the Board's recommendation that it (a) take steps to ensure that all projects are assigned or allocated to project managers in Atlas; and (b) implement controls/guidelines to ensure that projects are handed over in a timely manner or as soon as projects are reallocated or reassigned.**

266. UNOPS stated that it had taken concrete measures in 2009 by providing the relevant information to project managers through an easy and user-friendly platform, including a new management workspace or project tracking tool, which provides operations centre directors, regional directors and senior management with oversight of operations centre delivery and project data.

267. UNOPS indicated that a project handover process instruction had been issued with a standardized format. In addition, the project tracking tool allows global monitoring by project managers. That process was being reviewed under the leadership of the Deputy Executive Director to ensure data quality. As a part of ensuring data quality, a note from the Deputy Executive Director was sent out urging all project managers to review the project data. Instructions were also issued requiring all regional directors to ensure that the data correction exercise was completed by 31 December 2009.

268. UNOPS stated that it further improved controls by implementing a quarterly online assurance process for every project in UNOPS, which addresses the issues of data quality, delivery, project time, cost and quality.

12. Procurement and contract management

Vendor registration process

269. On 21 November 2008, effective the same date, UNOPS issued administrative instruction AI/GSC/2008/01. In line with section 13 of the instruction, UNOPS was required to establish a vendor review committee to serve as a review board for complaints from vendors who have been disqualified from registration or whose application for registration in the vendor database has been rejected. Furthermore, the committee should also evaluate and recommend for decision the suspension, removal or reinstatement of registered vendors. Detailed terms of reference of the committee are contained in annex A of the administrative instruction.

270. The Board performed a review of the vendor registration process during the interim audit and noted that only one staff member was assigned the functions of receiving and evaluating vendor applications and registering suppliers on the UNOPS vendor database as well as the function of suspending vendors. Thus, the functions of receipt, evaluation, registration and suspension of vendors were not adequately segregated. The Board was concerned that this basic control was not implemented in the procurement section. The Board was also concerned with the lack of segregation of duties in the vendor management process, since the number of vendors in the UNOPS vendor database is estimated at above 3,000 and since

UNOPS also performs procurement activities on behalf of other United Nations funds, programmes and specialized agencies.

271. The Board further noted that the vendor review committee was established early in 2009. However, as at 11 November 2009, the committee had not met nor had it performed any of the functions as required per AI/GSC/2008/01 and the terms of reference. Without a functional or operational vendor review committee, errors that could be prevented through independent review of the registration process may not be detected. The lack of a functional committee did not promote transparency in the vendor registration process; may result in the organization being unable to defend itself against allegations made by a vendor in the event of a dispute; and was not in accordance with the requirements of AI/GSC/2008/01.

272. The Board also noted instances of long delays in the lead times between the receipt of vendor application forms, the review of the applications and the registration of vendors in the vendor database.

273. UNOPS informed the Board that the delays in the review and registration of suppliers/vendors and the lack of segregation of duties were due to staff shortages, at the time, in the procurement section. The Board was further informed that in some instances the vendor reviews were done in a timely manner, but vendors were requested to submit additional information. However, owing to problems encountered with the vendor database and the updates in previous years, in some instances, the audit trail was insufficient.

274. **UNOPS agreed with the Board's recommendation (a) to address the incompatible functions and the lead time in the process of registering vendors; and (b) to ensure that the vendor review committee performed its functions and duties as outlined in administrative instruction AI/GSC/2008/01.**

275. UNOPS acknowledged that there were some delays in the registration of vendors. However, a new procedure was put in place with three additional Global Procurement Services Unit staff assigned at least one hour per day to provide support to the person dealing with the vendor database registration so that the backlog could be reduced to an acceptable level. UNOPS stated that the newly issued revised procurement manual makes it mandatory to post all procurement plans whose value exceeds $50,000 on the UNOPS website. This will enhance transparency and visibility.

276. UNOPS also stated that as of mid-February 2010, the temporary backlog issue had been resolved. A focal point was designated to ensure that all requests are dealt with in an expeditious manner. UNOPS added that the first formal meeting of the vendor review committee took place on 1 March 2010.

Partial merger of the Inter-Agency Procurement Services Office with the United Nations Office for Project Services

277. In its report A/63/474, the Advisory Committee on Administrative and Budgetary Questions requested continued review of the partial merger of UNOPS with the Inter-Agency Procurement Services Office. The Board followed up on the issues highlighted and recommendations issued in its report A/63/5/Add.10 and noted that the applicable audit recommendations had been implemented by UNOPS.

13. Non-expendable property management

278. Non-expendable property consists of property, plant and equipment valued at $2,500 or more per unit (previously $1,000) at the time of purchase and with a serviceable life of three years or more. As disclosed in note 16 to the financial statements, the value of non-expendable property holdings as at 31 December 2009 amounted to $10.6 million, a 3 per cent increase from the previous period's balance of $10.3 million.

279. The Board reviewed assets during its audit visits to the Africa Regional Office, Senegal Operations Centre, Regional Office for Latin America and the Caribbean and Peru Operations Centre and then followed up its review of assets at Headquarters during the interim and final audits. The extensive field office visits during the biennium 2008-2009 allowed the Board to perform additional procedures, the results of which are also described below. During these visits, individual fixed asset registers from different offices were reviewed. The Board's audit noted aspects of non-compliance with UNOPS policies and procedures and weaknesses at some offices as well as weaknesses in the management of project assets; however, improvements were noted in overall asset management at UNOPS when compared to the prior biennium, when the Board issued a modified opinion and raised related concerns about assets.

Asset management module in Atlas

280. In paragraph 305 of its report A/63/5/Add.10, UNOPS agreed with the Board's recommendation that it (a) roll out the asset management module in Atlas to all regional offices; and (b) ensure that all relevant staff receive appropriate training prior to using the module. UNOPS also agreed with recommendation in paragraph 307 of that report that it update its asset records in Atlas as a matter of urgency to ensure that capital assets, additions and disposals made during the financial period were correctly captured in Atlas.

281. The Board noted that the asset module in Atlas was still not used by the entire organization for the biennium 2008-2009, but manual asset registers were maintained for all UNOPS offices as well as for Headquarters. UNOPS informed the Board that the delay was due to the upgrade of Atlas in order to make the module compliant with the upcoming International Public Sector Accounting Standards requirements.

282. The use of manual asset registers for UNOPS as a whole is not optimal. It is time consuming and asset balances could be incorrectly recorded/calculated, stemming from human error.

283. **UNOPS agreed with the Board's reiterated recommendation that it (a) roll out the asset management module in Atlas to all offices; and (b) ensure that all relevant staff receive appropriate training prior to using the module.**

284. UNOPS indicated that the 2009 manual assets registers have been received from all business units and that the 2008 data has already been uploaded to Atlas. The updated version with 2009 figures has also been uploaded to the Atlas module by the end of March 2010. UNOPS stated that as of 1 June 2010, the Atlas asset module was fully implemented and functional and all UNOPS offices received initial training.

Faulty assets in the asset register and asset disposals

285. In paragraph 281 of its report A/63/5/Add.10, UNOPS agreed with the Board's recommendation that it (a) investigate assets listed as faulty/redundant; and (b) include instructions to regional offices and operations centres to indicate the condition of the assets in their asset registers.

286. The Board reviewed a sample of asset registers at UNOPS and noted nine assets in the asset register of the Democratic Republic of the Congo Operations Centre amounting to $22,842 which were indicated as "faulty" but were included in the closing balance of the asset register.

287. Upon a review of the asset register for the Afghanistan Operations Centre, the Board noted assets amounting to $219,490 that were indicated as "faulty". The Board also noted 22 assets amounting to $43,434 that were indicated as "unidentified" and another 59 assets amounting to $111,777 that were indicated as "need to be checked". Those capital assets were incorrectly included in the closing balance of the manual asset register.

288. The Board reviewed the manual asset register of the Kenya Operations Centre and noted that 44 out of 80 assets, or 55 per cent of its assets, amounting to $82,906, were recorded as irreparable or out of service. Although the interim manual asset register of the Kenya Operations Centre contained "irreparable" items, the final 2009 asset certification for Kenya was devoid of such assets. The assets that were listed as "irreparable" in the interim files were disposed of in 2009. Furthermore, the assets listed as "out of service", were being repaired, therefore, they are still considered to be "in service".

289. In paragraph 278 of its report A/63/5/Add.10, UNOPS agreed with the Board's reiterated recommendation to consider alternative arrangements for idle assets, by either transferring assets to another office where they can be utilized or disposing of them.

290. The Board noted through a review of the manual asset register of the Middle East Office that 69 assets with an original cost of $244,676 were disposed off during the biennium 2008-2009. Those assets were indicated on the asset register as still in good condition.

291. Incidents of irreparable or out-of-service assets may be an indication of poor controls in asset management. In addition, the inclusion of faulty, unidentified or written-off assets in the asset registers will result in the overstatement of the total value of assets, and this has resulted in the overstatement of the value of assets in note 16 of the financial statements.

292. **UNOPS agreed with the Board's reiterated recommendation to investigate the assets listed as faulty/redundant.**

293. **UNOPS also agreed with the Board's recommendation that it (a) address the discrepancies noted in its asset records and financial statements for the biennium 2008-2009; and (b) review all asset registers to ensure that other similar discrepancies in the asset registers are addressed.**

Assets with duplicate asset identification numbers

294. The Board reviewed the manual asset registers submitted to headquarters and noted that the Kenya Operations Centre's asset register contained assets that were allocated duplicate tag numbers (asset identification numbers). The lack of tagging resulted in incomplete/inaccurate asset records, and assets could be misplaced or misappropriated/stolen without being detected.

295. **UNOPS agreed with the Board's recommendation that it (a) follow up with the Kenya Operations Centre to address assets that were assigned the same asset identification number; and (b) implement procedures to detect all discrepancies in asset registers submitted to Headquarters.**

296. UNOPS stated that in the first quarter of 2010, it addressed assets that were assigned the same asset identification numbers for the Kenya Operations Centre and for all its offices. All duplicates were removed from the asset module. Furthermore, an asset dashboard tool is being created to detect all duplicates. As a proactive measure, a control has been included in this tool to ensure that duplicate asset identification numbers are rejected when recording a new asset in the asset module.

Asset inventory verification

297. The Board was unable to obtain evidence that the physical asset count was indeed performed by the Africa Regional Office, other than the asset certification form that was submitted late to UNOPS headquarters, as reports detailing the following information were not provided for review to the Board:

(a) Date on which the asset inventory count took place;

(b) Period for which the inventory count was performed;

(c) Evidence of review by an authorized official.

298. The Africa Regional Office informed the Board that those reports were not available, as the physical asset count was conducted informally and thus no records of the asset verification exercise exist. The Board also noted that no reconciliations were performed by the Office to cross-check the accuracy of the location of property, plant and equipment items recorded in its asset register. The Board was concerned that this basic control in the management of assets of the regional office was not implemented at the Africa Regional Office.

299. The lack of such reconciliations may lead to incomplete and/or inaccurate asset records, and assets may be misplaced or misappropriated without being detected.

300. **UNOPS agreed with the Board's recommendation that the Africa Regional Office (a) perform asset inventory counts and asset reconciliations on a regular basis; and (b) maintain proper records relating to asset counts performed.**

301. The Africa Regional Office stated that monthly asset counts and reconciliations will be performed going forward; the reports will be issued, and the asset focal point will perform regular cross-checks to verify the accuracy of the assets. Furthermore, the Africa Regional Office will request monthly asset reports from operations centres to ensure that they are following similar processes.

Non-UNOPS assets included in asset register

302. The Board reviewed the manual fixed asset register provided by the Peru Operations Centre and noted the inclusion of certain assets that belonged to the United Nations Office on Drugs and Crime, amounting to $8,519. Those assets were included in the asset reconciliation submitted to UNOPS headquarters on 25 January 2010.

303. The inclusion of assets in the asset records that do not belong to UNOPS will have the impact of overstating the value of assets in the financial statements.

304. **The Peru Operations Centre agreed with the Board's recommendation that it (a) strengthen controls relating to the certification of assets to prevent and detect errors in its asset register; and (b) make the necessary adjustments to the manual fixed asset register to ensure that it includes only assets that belong to UNOPS.**

305. The Peru Operations Centre subsequently made all the necessary adjustments to the manual fixed asset register to ensure that it included only assets that belong to UNOPS. The Board reviewed the corrected fixed asset register as well as the notification to UNOPS headquarters to which the correct asset information was resubmitted.

Management of project assets: Senegal Operations Centre

306. The Board visited a project site at the Senegal Operations Centre and physically verified project assets and noted several deficiencies. The Board noted that most asset identification numbers were missing from the assets bought through the project, and the project asset register did not contain a unique or serial number to facilitate the easy verification of those project assets. The total value of project assets purchased for 2008 was 25,874,370 CFA francs (approximately $58,000).

307. The lack of tagging or identification of assets may lead to project asset records being incomplete and/or inaccurate; and project assets may be misplaced or misappropriated without being detected.

308. **UNOPS agreed with the Board's recommendation that it (a) perform asset counts of project assets on a regular basis; and (b) conduct an exercise to tag all project assets and update the project asset registers accordingly.**

309. UNOPS stated that physical verifications were carried out and certified, but this important control function required improvement. UNOPS further indicated that the Africa Regional Office was taking measures to exercise ongoing control over project assets.

Project assets: fruitless or wasteful expenditure

310. The Board noted expenditure on items (light fittings) amounting to approximately $5,100 which were of such a nature that they should not have been bought through a project, rather, purchased by the landlord of the office occupied by the project. The Senegal Operations Centre was unable to provide the Board with documentation in relation to the party that should have incurred these expenditures. Furthermore, the Centre was unable to provide the Board with reasons as to why the fittings were needed for the project. The lease agreement in relation to the premises occupied was also silent on any of the above matters.

311. In addition, owing to the revenue recognition policies in UNOPS, whereby UNOPS earns revenue from any items purchased and charged to projects, this implies that UNOPS recorded and earned revenue by procuring these items. Thus, this may indicate fruitless or wasteful expenditure of project funds.

312. **UNOPS agreed with the Board's recommendation that it (a) implement controls to enable project managers to better control assets purchased with project funds; (b) investigate the circumstances around the use of project funds to purchase the fixtures; and (c) where applicable, return the funds to the project and reverse the revenue recognized on the transactions.**

313. UNOPS stated that it was understood at the beginning of the contract with the landlord that improvements in the lighting systems were required, that a decision was taken to improve the conditions of work on the premises and that the landlord will take responsibility for the improvements.

314. UNOPS also stated that it would verify the details of the agreement with the landlord. Investigations would be conducted to see if any other assets purchased could be considered as fruitless or wasteful. If that is the case, the Senegal Operations Centre and the Africa Regional Office would immediately act by following the usual procedures applicable to such situations. At the same time, this evaluation will be included in the oversight function performed and coordinated by the Africa Regional Office.

Threshold for non-capital assets

315. Administrative instruction AI/GSC/2008/02 dated 17 December 2008 defines a capital asset as, inter alia, any biennial administrative budget asset with (a) a minimum life expectancy of three years or more; and (b) a value of $2,500 or more per unit at the time of acquisition.

316. The administrative instruction defines a non-capital asset as any biennial administrative budget asset (a) with a minimum life expectancy of three years or more; and (b) valued from $1,000 to $2,499 per unit at the time of acquisition.

317. Non-expendable property consists of capital and non-capital assets valued at $1,000 or more per unit at the time of purchase and with a serviceable life of three years or more. However, in accordance with the administrative instruction, only capital assets as defined will be disclosed in the note to the financial statements and not non-capital assets. The Board noted that the threshold for the inclusion of non-expendable property (property, plant and equipment) which was $1,000 during the biennium 2006-2007, was changed to $2,500, effective 1 February 2009. UNOPS informed the Board that the threshold of $2,500 for capital assets was revised to be in line with the new UNOPS financial regulations and rules approved by the Executive Board in January 2009.

318. The Board analysed the manual asset registers of various UNOPS offices to determine the impact of the revision of the threshold on the disclosed value of property, plant and equipment, and noted that for the sample of offices selected, the revision would result in the exclusion from disclosure in the financial statements of a significant number of assets with a material value.

319. Based on the results, non-capital assets amounting to $2.43 million were excluded; this amount is material in relation to total assets. The Board was

concerned that by excluding non-capital assets valued between $1,000 and $2,499 per unit from the financial statements, material transactions that related to an entity would not be considered to be fairly presenting the financial position of operations of the entity.

320. Furthermore, when assets are considered non-capital assets for disclosure purposes, the Board is concerned that this may result in a lapse of controls over assets of this category, since such assets are not subject to the certification procedures contained in the administrative instruction. Only capital assets were certified by UNOPS offices during the year-end asset verification exercise. Therefore, owing to the reclassification of non-expendable property, non-capital assets were not included in the certification/verification exercise.

321. UNOPS stated that the current threshold of $2,500 is already very low and that all other United Nations funds, programmes and specialized agencies have their thresholds set between $2,500 and $5,000. The current UNOPS threshold has been accepted by the Advisory Committee on Administrative and Budgetary Questions and the Executive Board of UNOPS and is enshrined in the new UNOPS financial regulations and rules, specifically rule 121.01. UNOPS further stated that it has verified the validity of the concept, in that only about 21 per cent of the currently held assets that were previously capitalized (based on the threshold of $1,000) are no longer being included for the purpose of disclosing the total value of UNOPS assets. This is a near perfect match with the generally accepted 80 per cent/20 per cent principle.

322. UNOPS indicated that it expected all United Nations funds, programmes and specialized agencies to harmonize the threshold for capital assets in time for adoption of the International Public Sector Accounting Standards and that it will review the threshold for capital assets in 2010 as part of this harmonization. UNOPS also indicated that, while non-capital assets were not certified and not included in the financial statement disclosures, those assets were still tracked and recorded, and included in the annual physical inventory. Therefore, non-capital assets were subject to the same internal controls and procedures as capital assets.

323. The Board was still of the view that (a) the higher threshold may result in a significant number and value of assets that are considered non-capital, which are not subject to the same certification and verification process as capital assets, and are thus susceptible to the risk of loss; (b) the practices relating to the IPSAS thresholds of UNOPS need to be assessed for their appropriateness; and (c) while the United Nations system accounting standards continue to be applied in preparing the UNOPS financial statements, the current practice should be in compliance with the United Nations system accounting standards, not IPSAS.

324. **UNOPS agreed with the Board's recommendation that it (a) reconsider the financial impact of non-capitalized assets in determining the threshold for the inclusion of non-expendable property in the financial statements, and the implication in the asset certification process; and (b) consider certification of assets that are not subject to certification.**

325. UNOPS stated that it maintains asset registers for all its assets and includes all assets in the annual physical inventory to minimize the risk of assets below the $2,500 threshold not being monitored and tracked. UNOPS stated that the asset values below the capitalization threshold (at both headquarters and field locations)

are reported in note 16 to the financial statements and amount to $2.43 million, which represents 18.5 per cent of the total asset value of $13.1 million.

14. Human resources management

Performance results assessment

326. In paragraph 359 of its report A/63/5/Add.10, UNOPS agreed with the Board's previous recommendation to implement procedures and controls to ensure that all required performance reviews were completed within the specified timelines.

327. The Board noted that for the 2009 year-end review, 97 staff members had not completed their performance results assessments by the audit date of 10 May 2010, which was after the deadline of 15 April 2010. That figure represented 38 per cent of the staff members who were required to complete performance assessments. The completion rate for 2009 was an improvement of the rate for 2008, when 200 performance assessments were still outstanding as at 10 May 2009, representing 79 per cent of the employees who were required to complete performance assessments.

328. During the biennium 2008-2009, UNOPS had in excess of 280 staff members whose performance needed to be assessed; however, performance assessments were not carried out for all its staff members. Performance assessments are important for the continued professional development of staff members and are critical in monitoring the performance of all staff members in relation to their expected functions.

329. **UNOPS agreed with the Board's recommendation that it (a) continue to monitor procedures and controls to ensure that all staff members undergo assessments of performance results; and (b) ensure that most such assessments are completed within the specified timelines.**

330. UNOPS stated that it implemented initiatives to improve the monitoring of the performance appraisal process. UNOPS stated that it will strive to achieve a higher rate of completion of performance results assessments within the deadline. Additionally, UNOPS is working on improving the online assessment tool to make it more user-friendly and the process less time consuming.

Management of leave

331. To ensure the correctness of the leave accrual balance for financial statement purposes, it is important to ensure that leave is properly monitored and recorded in the system throughout the biennium and not only at period end.

332. The Board noted that UNOPS field offices did not have a computerized system to monitor and record leave. Leave transactions were recorded in manual leave records only. All UNOPS offices submit the leave balances to UNOPS headquarters only at the end of each calendar year. For the biennium 2008-2009, UNOPS offices submitted only an Excel spreadsheet to UNOPS headquarters containing the balances for each staff member. The use of an Excel spreadsheet was not optimal, as leave balances may be incorrectly recorded/calculated stemming from human error.

333. **UNOPS agreed with the Board's recommendation to develop a computerized system with program controls that allow all UNOPS offices to capture and monitor leave accurately.**

334. UNOPS stated that it was developing an improved corporate leave monitoring system which would cover all its offices in the long term. In the meantime all offices had enhanced the current manual leave management system through a monthly report which would be inspected and certified. That information would then be posted on the Intranet. UNOPS also stated that the new leave management system had been rolled out to all its offices in May 2010.

Gender distribution

335. The Board, in paragraphs 336-340 of its report A/63/5/Add.10, noted that UNOPS did not have a gender balance policy, and UNOPS agreed with the Board's recommendation to implement such a policy. UNOPS stated that a gender balance policy was implemented during the biennium and that, to ensure the policy's success, it also implemented a monitoring system to assist with the gender representation situation of the organization.

336. The Board performed a review of the gender representation of UNOPS for the biennium 2008-2009 and noted that gender distribution had not improved when compared to the previous biennium. Table II.11 illustrates the gender distribution for UNOPS as a whole, including project staff, as at 31 December 2009 together with the comparatives for the prior biennium, based on statistics provided by the Human Resources Practice Group.

Table II.11
Gender distribution for UNOPS as a whole as at 31 December 2009 with comparatives, including project staff

	2006-2007	*2008-2009*
Female	320	322
Male	527	517
Total staff	**847**	**839**
Female to male ratio	38:62	38:62

Source: UNOPS Human Resources Practice Group.

337. UNOPS stated that it had achieved a ratio where 43 per cent of its core workforce (staff under the administrative budget) consisted of women. According to table II.12 below, all UNOPS offices are lagging behind with regard to gender distribution except for two regional offices, namely the Latin America and the Caribbean Regional Office and the North America Regional Office. These offices are aware of the issues and are trying to address them. Every year gender distribution targets are set for each regional office and form part of its annual performance review. In that regard, improvements were made between 2007 and 2009. UNOPS provided table II.13 below, which illustrates the two regions with improvements in their respective gender distributions.

Table II.12
Gender distribution as at 31 December 2009

2009	*UNOPS*	*HQ*	*AFO*	*APO*	*EMO*	*LCO*	*NAO*
Female	112	39	10	21	6	18	18
Male	146	47	28	28	13	17	13
Ratio	0.77	0.83	0.36	0.75	0.46	1.06	1.38
Percentage females	43	45	26	43	32	51	58
Percentage males	57	55	74	57	68	49	42

Note: HQ = headquarters; AFO = Africa Regional Office; APO = Asia Pacific Office; EMO = Europe and the Middle East Regional Office; LCO = Latin America and the Caribbean Regional Office; NAO = North America Regional Office.

Table II.13
Gender distribution: improvements made between 2007 and 2009
(Percentage)

	EMO		*LCO*		*NAO*	
	2007	*2009*	*2007*	*2009*	*2007*	*2009*
Females	24	32	67	51	62	58
Males	76	68	33	49	38	42

338. **UNOPS agreed with the Board's recommendation that it monitor the gender distribution and consider measures to achieve the target of a 50/50 gender balance.**

339. UNOPS stated that gender balance was a global issue and some areas of operation traditionally attracted fewer female candidates, such as engineering, transport and logistics. Despite those difficulties, UNOPS stated that it continued to regard gender distribution as of the utmost importance and that this was reflected in selecting female candidates when several equally qualified candidates were available.

340. After considering the comments of UNOPS, the Board was of the view that for UNOPS recruited project staff as well as for the organization as a whole, and not just for administrative staff, there was a need to improve the gender balance.

15. Consultants, experts and temporary assistance

341. The Board performed a limited high-level review of individual contractor agreements. Such an agreement is a contract entered into by UNOPS directly with a local or international contractor to perform the services or activities specified in the terms of reference, which are an integral part of the overall project agreement. UNOPS follows the individual contractor agreement guidelines to issue contracts, and register and manage the agreements.

Retroactive individual contractor agreements contracts

342. The Board reviewed individual contractor agreements 2008/IICA-SP/1838/ Amend.4 for the period from 1 July 2008 to 31 December 2008, and noted that the contractor agreement was signed by the contractor on 16 July 2008, after the services had already commenced. This was not in accordance with section 7.7 of the individual contractor agreement guidelines. Furthermore, the contract was not signed by the Global Support Centre Director until 10 July 2008, at which date the contractor was already performing the contracted services; therefore the amendment was not made well in advance of its proposed effective date.

343. The Board also noted that the contract was an amendment of a previous one that expired on 30 June 2008 and thus a request for an individual contractor agreement award, including a request for approval of a retroactive or post facto case, should have been prepared by the requesting unit and submitted for approval to the procurement authority. The Board noted that the request for award of the individual contractor agreement amendment was completed but it did not indicate whether this was a retroactive/ex post facto agreement.

344. The Board noted other instances, in the Latin America and the Caribbean (two cases) and the Peru Operations Centre (five cases), in which contracts had been signed after the services had commenced. Without such approval, the contracts are considered irregular.

345. Furthermore, section 7.7 of the individual contractor agreement policy states that the selected individual contractor shall commence the assignment only once all the pre-requisites have been met and she/he has formally agreed to all contractual terms. The Board also noted 11 instances in which contracts were signed by both parties but were not dated. Thus, the Board could not confirm whether the contract was a retroactive or ex post facto case and whether all the prerequisites in terms of policy had been complied with.

346. The signing of agreements without inserting the signature dates may result in lack of clarity regarding when the agreements come into effect and can negatively affect the organization in the event of disputes. In the light of the instances of retroactive contracts noted, the cases of undated contracts are a further concern.

347. **UNOPS agreed with the Board's recommendation that it (a) comply with the individual contractor agreement guidelines with regard to retroactive individual contractor agreements; (b) ensure proper planning to avoid retroactive individual contractor agreements; and (c) implement procedures to ensure that individual contractor agreements, payment certifications and other documents are dated when signed by the relevant approving officer.**

348. UNOPS stated that it has already taken steps to ensure that the instances of retroactive signatures on individual contractor agreements would not recur. A comprehensive new policy on the agreements was issued with effect from 1 May 2010, and new tools have been provided to facilitate processes and reduce the incidence of human error.

Performance evaluation of individual contractor agreements

349. The Board reviewed individual contractor agreements that had reached contract end dates and noted that in three instances performance evaluations were

not performed for individual contractors, yet UNOPS made final payments to them. There is a risk of payment without satisfactory completion of work and a risk of lack of monitoring of performance.

350. The UNOPS Internal Audit and Investigations Group also noted, during the current biennium, areas of improvement with regard to the completion of performance evaluation reviews for individual contractors; the need to increase the completion rate of performance appraisals for staff; and instances of insufficient checking of credentials successful applicants prior to recruitment.

351. **UNOPS agreed with the Board's recommendation to comply with the individual contractor agreement guidelines with regard to release of final payment to such contractors.**

352. UNOPS stated that it would implement the standard operating procedure that requires that a performance evaluation report be submitted together with the final payment.

Implementation of the individual contractor agreement modality

353. The Internal Audit and Investigations Group noted several shortcomings regarding the implementation of the individual contractors agreement modality and expressed an unsatisfactory rating in its report issued to UNOPS management. Weaknesses identified included the following: an overall lack of consistency in the application of individual contractor agreement policy across UNOPS; weak supporting documentation; weak support available relating to the calculation of fees; a significant gender imbalance across UNOPS with respect to individual contractor agreements; lack of maintenance of a suitable roster of consultants from which to draw as needed; a need to reassess the continued use of, and investment in, the UNOPS individual contractor agreement management system (GLOCON); and a lack of inherent information technology controls, particularly input controls, in that system. UNOPS stated that all of the above-mentioned issues were comprehensively addressed in the revised individual contractor agreement policy effective 1 May 2010.

16. Information technology

Background

354. An audit of information systems controls at UNOPS was performed in February 2009, focusing on the general information system controls, policies and procedures in place at UNOPS.

Reliance on key personnel

355. The Board noted that the UNOPS information technology department did not have a succession plan to ensure the continuity of business processes in the event that certain key employees left the organization. Undue reliance on specific personnel could result in UNOPS service levels being adversely affected. That may result in disruption to its business activities and poor service delivery.

356. **UNOPS agreed with the Board's recommendation that it implement a succession plan to reduce disruption to its business activities in the event of the loss of key individuals in the information technology department.**

357. UNOPS stated that the documentation of key systems and responsibilities had been identified as part of its mitigation strategy and the work strategy has been implemented.

Lack of a formally documented business continuity and disaster recovery plan

358. The Board noted that a disaster recovery strategy had been adopted by UNOPS for Atlas, together with partner agencies, and some information technology components, such as connectivity across the continents. However, the Board noted that a documented and approved business continuity and disaster recovery plan had not been developed specifically for UNOPS. Without a documented and tested disaster recovery plan, recovery of key information technology systems might take longer in the event of a disaster. Such a situation would mean that the organization and its critical processes could be severely affected, resulting in lost opportunities and/or financial losses.

359. **UNOPS agreed with the Board's recommendation to implement a formal disaster recovery and business continuity plan that encompasses all types of disastrous events that would impact on both information systems processes and end-user functions.**

360. UNOPS stated that its current operations mitigate the risk since backups and restores were performed on a regular basis for key systems. UNOPS indicated that it was in the process of documenting the disaster recovery and business continuity plan, as this was identified as an area of concern, and that risks were mitigated by the redundancy checks built into all information and communications technology infrastructure components. UNOPS added that an organizational directive on a disaster recovery and business continuity planning framework that would enable the regional offices and operations centres to come up with their own location-specific detailed plans was issued in April 2010.

Ineffective authentication controls

361. Access to UNOPS resources is regulated through the active directory authentication services and through RADIUS for wireless access. The Board reviewed the authentication credentials and noted that complexity requirements were not configured and therefore not systematically enforced. As a result, weak passwords were allowed by the system. Data violation, unavailability, lack of accountability and loss of integrity could result, should unauthorized users successfully exploit weak authentication credentials.

362. **UNOPS agreed with the Board's recommendation that it (a) consider enforcing the current setting on the active directory, as this would ensure that users do not intentionally choose weak authentication credentials; and (b) consider weighing the benefits of stronger and more secure authentication credentials against the additional work and tasks that may result from them.**

363. UNOPS stated that it was aware of the lack of password complexity implementation in the environment and indicated that it had taken a decision not to enable the parameter for administrative purposes. Mitigating controls included the separation of roles within the delegated authority, limited rights definitions and the auditing of all security events on a regular basis.

364. UNOPS also stated that while the current password policy enforces frequent password changes, defines a minimum password length, and prevents the re-use of recent passwords, UNOPS considered introducing additional complexity requirements. Given the historical record and the necessity to balance password complexity against the risk of staff recording their passwords in publicly accessible places, UNOPS was of the view that the current policy provides adequate overall security for the organization given its project nature and relatively high turnover of personnel. To further improve password strength, UNOPS was engaged with other United Nations entities to establish better training materials/systems for United Nations staff to help them to better understand information and communications technology security and help to protect access to sensitive information.

Atlas application controls

365. The Board also performed a review of the Atlas system application controls at UNDP headquarters in New York, a result in part of the shared nature of the Atlas system and the location of the hosting facility outside of Copenhagen. The results of the review are contained in the Board's report on UNDP for the biennium A/65/5/Add.1.

17. Governance and risk management

Audit committees

366. In paragraph 485 of its report A/63/5/Add.10, the Board recommended that UNOPS consider the establishment of an independent audit committee to strengthen the governance and oversight function in UNOPS. UNOPS stated that it would consider the recommendation and discuss it with various oversight bodies, taking its specific circumstances into consideration. The UNOPS Internal Audit and Investigations Group (previously the Internal Audit Office) also highlighted in the biennium 2006-2007 that UNOPS management needed to strengthen the Strategy and Audit Advisory Committee and ensure its independence.

367. Some of the terms of reference of the UNOPS Strategy and Audit Advisory Committee resemble those of an audit committee. The purpose of the Committee is set out in the terms of reference revised on 6 November 2009, which state that the Strategy and Audit Advisory Committee was established to provide the Executive Director of the United Nations Office for Project Services with external, independent, senior level advice regarding the organization's strategic, business and audit objectives, including any significant risk management issues. The Committee assists the Executive Director in fulfilling his oversight responsibilities in accordance with relevant best practices and industry standards. The terms of reference were approved by the Executive Director and may be modified from time to time, as necessary. As stated in section 29 of the UNOPS accountability framework and oversight policy, the Committee has an advisory role and is not a governance body; no language or clauses in the terms of reference are intended to imply otherwise.

368. The Committee is also to provide guidance on oversight of the UNOPS internal audit function and ensure that the organization employs sound risk management practices. The Board performed a comparison of the functions and terms of reference of the Committee with the position statement from the representatives of internal audit services of the United Nations organizations and

Multilateral Financial Institutions. The position expressed by the representatives is used as a proxy for commonly used terms of reference for audit committees; however a variety of practice does exist throughout the United Nations system.

369. The Board noted differences between the terms of reference of the Strategy and Audit Advisory Committee and the position statement, including the following:

(a) Prior to 2009, the members of the Committee were not approved by the Executive Board, which is the governing body of UNOPS;

(b) The Committee did not report directly to the Executive Board, but to the Executive Director of UNOPS and indirectly to the Executive Board in an annex to the Internal Audit and Investigations Group annual report.

370. According to the terms of reference revised on 6 November 2009, the members of the Committee will now be recommended by internal or external individuals, as well as by one or more of the following members of the UNOPS management team: the Executive Director, Deputy Executive Director, Director for Internal Audit and Investigations, General Counsel and/or Comptroller. The Executive Director should appoint Committee members from the pool of nominees, following consultation with the Executive Board. Members of the Committee, prior to their appointment, should be reviewed for any possible conflict of interest. The Executive Director and Deputy Executive Director, with the concurrence of at least one of the following: the Director for Internal Audit and Investigations, General Counsel and/or Comptroller, will appoint the Committee Chair.

371. In a related matter, in July 2009, an independent quality assurer conducted an external quality assessment of the UNOPS Internal Audit and Investigations Group. The purpose of that assessment was to give an opinion in relation to the following:

(a) To determine whether the Group conformed to the International Standards for the Professional Practice of Internal Auditing;

(b) To give recommendations to the Group on ways to strengthen its activities and outputs;

(c) To raise issues applicable to UNOPS that were observed during the review.

372. The assessment revealed that the Group generally conformed to the International Standards for the Professional Practice of Internal Auditing. However, the report highlighted, inter alia, matters that might affect the internal audit function at UNOPS, and in particular the function and mandate of the Committee, which are summarized below:

(a) The role and responsibility of the Strategy and Audit Advisory Committee in relation to the oversight function need to be mandatory, not at the discretion of the Executive Director, and be fully executed;

(b) The Committee needs to follow the guidelines established by the representatives of Internal Audit Services;

(c) The Committee should issue its annual report to the Executive Board, rather than as an annex to the Group’s annual report;

(d) The terms of reference state that the Committee is not a governance body of UNOPS;

(e) Prior to mid-2009, the Committee had not reviewed any internal audit reports. Such reviews are crucial to enable the Committee to advise on the operational effectiveness of internal controls and the internal audit function.

373. The Executive Board revised the terms of reference of the Committee on 6 November 2009 to address the findings noted in the external quality assessment. The UNOPS Internal Audit and Investigations Group informed the Board that it was satisfied with the support and advice it received from the Committee.

374. The Board was concerned that there still remained gaps in matters that an audit committee would normally address, as contained in the representatives of internal audit services guidelines established by the representatives of Internal Audit Services, and was of the view that addressing those gaps would result in improved oversight arrangements at UNOPS.

375. **UNOPS agreed with the Board's recommendation to consider the gaps identified and take further steps in its process of strengthening the governance and oversight arrangements.**

376. UNOPS stated that on the basis of the revised terms of reference endorsed by the Executive Board and issued in November 2009, the Committee is mandated to carry out the following:

(a) Review the quality of financial reporting, governance, risk management and internal controls;

(b) Assess whether management takes appropriate action on audit recommendations;

(c) Review the independence, effectiveness and objectivity of the UNOPS internal audit function, and that of the external auditors as appropriate;

(d) Advise on strengthening communication among stakeholders, external and internal auditors and management.

377. UNOPS stated that in accordance with the revised terms of reference for the Committee, the following should be noted in support of the above position. UNOPS regards the Strategy and Audit Advisory Committee as an independent advisory expert body since its members, as non-executives, are truly independent of the organization and do not represent wider political interests. Members act in their own capacity and cannot have delegates attend on their behalf. The majority of the committee members do have significant, relevant and recent financial or internal oversight experience.

378. The Committee's terms of reference state that it may, at its discretion or at the invitation of the Executive Director, review and provide advice regarding specific internal audit activities and issues. Those activities and issues include the annual audit workplan, management's responsiveness to audit recommendations, the internal audit charter and the competency, independence and/or objectivity of the chief audit executive. All the preceding activities are in line with the position paper of the representatives of Internal Audit Services and represent good practice. Additionally, the Committee may request a private meeting with the chief audit executive at its discretion.

379. After considering the UNOPS comments, the Board was of the view that the revised terms of reference of the Committee had not evolved fully, as they still

stated that *the Committee had an advisory role and was not a governance body*. In addition, the Board noted that the Committee had still not undertaken some traditional functions, such as a review of the final biennium financial statements before submission for audit and meeting with the external auditors.

18. Internal audit function

380. In 2009, The UNOPS Internal Audit Office was renamed the Internal Audit and Investigations Group. The Board coordinated with the Internal Audit and Investigations Group in the planning of the audit to avoid duplication of effort. In addition, the Board reviewed the internal audit coverage of the operations of UNOPS to assess the extent to which it could rely on the work of the Internal Audit and Investigations Group. Generally, the Board was able to place greater reliance on internal audit work, where relevant, compared to recent bienniums.

Internal audit review

381. The Board in its report A/63/5/Add.10 noted shortcomings and areas of improvement for the then newly established UNOPS Internal Audit Office and recommended in paragraph 470 of that report that the Office (a) take measures to fully implement its workplan; and (b) increase coverage of regional office, headquarters and financial statements audit. The Board also recommended in paragraph 476 that UNOPS, in conjunction with the Internal Audit Office (Internal Audit and Investigations Group), (a) formulate and adopt an internal audit charter; (b) compile an audit manual ensuring the audits were adequately planned, supervised, reviewed and documented; (c) compile and implement a three-year strategic plan that addressed the risk management strategy; and (d) include evidence of consideration of the independence of the internal audit prior to commencement of any audit.

382. The Board noted the following improvements with regards to the performance of the Internal Audit and Investigations Group during the biennium 2008-2009:

(a) The internal audit charter was developed and approved during the biennium;

(b) The three-year rolling and annual internal audit plans for 2008-2009 were compiled, and there was a plan in place to reflect all the material risk areas that should be subject to an audit;

(c) Independence was considered prior to the commencement of audits;

(d) Measures were implemented that resulted in the Internal Audit and Investigations Group executing almost all of its planned audits, including increased coverage of other UNOPS offices and financial related audits.

Staffing

383. The Internal Audit and Investigations Group is currently staffed with one Director, one Senior Internal Auditor, four Internal Auditors and one Investigator. This structure is supplemented by the engagement of third-party professional firms and individual consultants. As at 31 December 2009, three of the staff positions remained vacant, two of which related to posts newly created during 2009. The Group stated that the impact on the completion of the annual workplan as a result of

the vacancy was mitigated by the engagement of individual consultants throughout the year and that recruitment to fill all the vacant posts is ongoing.

Internal audit quality assessment

384. As part of strengthening the internal audit function, a peer review process requires internal audit to undertake an assessment of its quality practices as measured against the Institute of Internal Auditors standards.

385. In line with the Board's prior recommendation, in July 2009, an external quality assessment of the Internal Audit and Investigations Group was conducted by an independent quality assurer (see para. 371 for details). The assessment revealed that the Internal Audit and Investigations Group generally conformed to the International Standards for the Professional Practice of Internal Auditing. However, it suggested some areas of improvement and made some recommendations. The Group has developed an action plan to address the recommendations and is in the process of implementing them.

19. Internal audit findings

386. The Internal Audit and Investigations Group performed work in accordance with an annual workplan that was based on its assessment of risks. The Group released 61 audit reports in 2009 and 38 reports in 2008, out of a total workplan of 111 planned audits. There were six audit assignments on which work was still in progress or services were ongoing as at 31 December 2009. The total workplan for the biennium included 111 audits; therefore, 95 per cent of the workplan was achieved. Audits not completed in 2009 were carried over to the 2010 internal audit workplan.

387. The results of the Group's work for 2009 are presented under three separate categories, reflecting the differences in approach, as follows:

(a) Internal audit reports on audits conducted directly by the Group (6 reports);

(b) Internal audit reports on projects, conducted on behalf of the Group (17 reports);

(c) Internal audit reports on audits of significant programmes, conducted on behalf of the Group (small grants programmes) (38 reports).

Internal audit reports on audits conducted directly by the Internal Audit and Investigations Group

Table II.14
Internal audit reports by the Internal Audit and Investigations Group in 2009 and 2010 to date

Location or function	*Rating assigned by Internal Audit and Investigations Group*
Sri Lanka Operations Centre	Partially satisfactory
Individual contractor agreement policy	Unsatisfactory
Peru Operations Centre	Partially satisfactory
Pristina Project Centre	Partially satisfactory
Indonesia Operations Centre	Partially satisfactory
Afghanistan Operations Centre (special audit with UNDP Office of Audit and Investigations)	Unsatisfactory
Inter-fund accounts with UNDP and UNFPA (issued in the first quarter of 2010)	Partially satisfactory

388. The Internal Audit and Investigations Group noted that an absence of written procedures to guide staff in performing their functions and the failure to comply with prescribed UNOPS regulations were the main causes of the audit issues addressed in the 2009 audit reports. The other causes were inadequate supervision or a lack of supervision, human error and insufficient resources.

Key findings of the internal audit reports

389. The Board presents a summary of the key findings relating to the internal audit reports issued during 2008 and 2009.

Auditee purpose, strategic direction and organizational management

390. In four internal audit reports, the Internal Audit and Investigations Group noted areas for improvement in relation to the overall internal environment of UNOPS. Examples include instances in which there was an unclear organizational structure and uncertain lines of authority; a lack of dedicated terms of reference for the operations or project centre; and unclear, or an absence of, aligned job descriptions. The Group also noted the need to provide guidance on the pricing and sharing of resources among various operations/project centres within UNOPS.

391. *Management monitoring and communication systems*. The Group noted that documentation of the internal control and monitoring systems was insufficient or lacking in all internal audit reports, and that matters relating to insufficient or delayed reporting to partners, both financial and operational, were raised in four reports.

392. *Delegation of authority*. The Group recommended that the system and forms used be updated, since many of the references in the existing letters of delegation of

authority had been superseded and were no longer relevant, leading to uncertainty of responsibility in some cases.

393. *Business development*. The Group recommended the establishment of thresholds or optimal levels of project budgets to maintain portfolio viability; the need for greater scrutiny and consistent approaches in the development of projected pipelines; the need for greater awareness of, and involvement in, the annual target-setting process by the UNOPS offices; and a need to diversify portfolios in terms of partners and services provided in certain locations.

394. *Other project management issues*. In the majority of its reports issued in 2009, the Group recommended the need for greater compliance with organizational directive No. 22 relating to UNOPS pricing policy; the need for greater monitoring of projects overspent against budgets; and weaknesses in meeting partner reporting requirements.

395. *Organizational structure*. The Group noted that the reporting lines of the finance officers were uncertain with respect to finance practice as a whole, thus requiring that clear job descriptions be developed.

396. *Other issues relating to finance*. The Group noted the need for guidance to mitigate any exposure to foreign exchange losses where project funds are denominated in currencies other than United States dollars; a need for closure of the remaining imprest accounts; lack of compliance with minimum standards governing the use and monitoring of petty cash; a need for regular review and validation of unliquidated obligations; and a need to reduce the dependency on data manipulation in the reporting and reconciliation processes to reduce the risks of human error.

397. *Procurement*. Several reports the Group issued in 2009 stated that the control activities pertaining to procurement could be further strengthened by addressing the audit recommendations, including the development of procurement capacity and competency in some locations; development of clear and specific job descriptions for procurement officers; preparation of annual procurement plans; consistent preparation and monitoring of detailed tracking lists recording all ongoing procurement actions; implementation of a monitoring mechanism to track the cumulative value of call-off orders under the organization's long-term agreements; continued efforts to reduce the high rate of waivers noted in two locations; and implementation of a standard scoring and evaluation process for a similar procurement process across the organization.

398. *Asset management*. The Group highlighted areas for improvement in asset management, such as a need to keep accurate and timely asset inventory lists, a need for periodic physical verification of assets and documentation of such, guidance on a consistently applied tagging system throughout UNOPS and the implementation of the asset management module in Atlas.

399. *Information and communication technology*. The Group noted several issues relating to the management of information and communication technology resources, including inadequate physical security of network servers and data backups; inadequate physical environments for information and communication technology resources; inadequate or inconsistent business continuity plans; the need to ensure that software licences and warranties are current; and a need for guidance on the retention policy relating to electronic data.

400. *Inter-fund accounts with UNDP and UNFPA*. The Group noted that the majority of key controls were applied, leading to acceptable reconciliations in 2008 and 2009. However, some control weaknesses were identified pertaining to the resolution of reconciling differences from prior periods as well as the reconciliation process itself. Timely corrective action by management is required to correct the following weaknesses:

(a) Lack of complete year-end closing instructions that cover the reconciliation of the inter-fund account and related adjustments;

(b) Adjustments resulting from inter-fund account reconciliation not included in the closed accounts for a given year;

(c) Lack of a documented description, detailed guidelines and templates for the reconciliation process;

(d) Lack of formality in agreement and communication on inter-fund account reconciliations with other entities (with the exception of UNFPA) and the absence of a system for tracking and monitoring of progress;

(e) High reliance on data manipulation in the reporting and reconciliation process;

(f) Low frequency of inter-fund account reconciliations;

(g) Material reconciled differences from past periods that are still pending resolution with UNDP, despite prior agreements;

(h) Unreconciled amounts still pending further investigation and resolution with UNDP;

(i) Reconciled differences requiring decision by UNOPS and UNDP management, and closure.

401. IAIG also identified wider weaknesses in the finance practice group that impact inter-fund account reconciliation, such as the following:

(a) Lack of a finance manual;

(b) Unclear leadership from the headquarters-based finance practice group on finance strategies and practices across UNOPS.

402. The Board considers that the findings of the Internal Audit and Investigations Group as highlighted above reflect deficiencies in those areas, and the Board underscores the need for UNOPS to address them.

Internal audit reports on projects

403. During the year ending 31 December 2009, 17 internal audit reports relating to specific projects were completed by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

404. Of the 16 project audit reports issued with an audit opinion of the financial situation of a project (one project related only to control compliance), 12 (75 per cent) included an unqualified opinion, compared with 10 in 2008 (60 per cent), and four (25 per cent) received qualified opinions, compared with 7 in 2008 (40 per cent). Results showed that the share of “unqualified” opinions on project financial

situations increased by only 15 per cent, yet “satisfactory” ratings of internal controls decreased by 16 per cent.

Internal audit reports on audits on significant programmes: Small Grants Programme

405. The Internal Audit and Investigations Group reported on the commencement in 2009 of a comprehensive audit scheme focused on a partner programme executed by UNOPS, the Small Grants Programme.

406. In 2009, based on the request of the Global Environment Facility, in accordance with the recommendation of a programme evaluation that an audit schedule that ensures that all country programmes can be audited at least once during every operational phase should be established, and funds for audits should be allocated in each operational phase, the Group, in consultation with the UNOPS Small Grants Programme management team, engaged a third-party professional audit firm with a global presence, through a competitive tender process, to carry out the audits on its behalf. The Group provided quality control on the risk assessment; the units selected for audit; the audit work programme; and the audit reports. The scope of the audit covered both compliance and management (functional) issues relating to the governance process, the grants management process, finance, human resources, procurement and asset management. The Group sought to provide an assurance to management that the key financial and operational controls were functioning as envisaged and to bring to the attention of stakeholders any management or systemic issues relating to the control environment so as to strengthen the control structure of the Small Grants Programme. From 2003 to 2008, 16 internal audit reports were issued covering the Small Grants Programme in different countries.

407. On the basis of risk assessment, each of the 80 Small Grants Programme country programmes was categorized as either “very high”, “high”, “medium” or “low” risk and 39 of the country programmes were audited in 2009. Of those, 38 reports were issued in 2009, containing 754 audit recommendations, of which 61 were categorized as high risk, 278 as medium risk and 415 as low risk. The Group noted that all but four reports provided a “satisfactory” or “partially satisfactory” rating on either “internal controls” or “financial operations” or both. Those four reports provided an “unsatisfactory” rating in one or both areas.

408. In terms of functional area, 396 (53 per cent) of the recommendations related to programme management, 275 (36 per cent) pertained to finance and the remaining 83 (11 per cent) related to asset management, human resources and procurement. In 2010, an additional 40 Small Grants Programme country programmes are scheduled to be audited.

C. Disclosures by management

1. Write-off of cash, receivables and property

409. UNOPS informed the Board that in accordance with financial rule 123.12, property losses of $0.04 million ($0.01 million in 2006-2007) were written off during the biennium 2008-2009. In accordance with financial rule 123.09, losses amounting to $13.1 million ($1.9 million in 2006-2007) were also written off in

respect of accounts receivable, including an amount of $13.1 million written off against the provisions that had been made in previous bienniums. Nearly all the write-offs in 2008 related to the results of the clean-up process and arose prior to the introduction of Atlas in January 2004.

2. Ex gratia payments

410. As required by UNOPS financial regulation 20.01, UNOPS informed the Board that no ex-gratia payments had been made for the period under review, 2008-2009 (2006-2007: $ nil).

3. Cases of fraud and presumptive fraud

411. UNOPS reported to the Board six cases of fraud and presumptive fraud. Additionally, a few investigations relating to prior periods were under way at the end of the biennium.

412. UNOPS stated that these cases do not address cases of alleged fraud or presumptive fraud that, upon investigation, could not be substantiated, nor does it cover cases where there may be fraud or presumptive fraud that does not impact directly on UNOPS (for example, by a third party trying to inappropriately use UNOPS name to secure some benefit from another third party). The details, provided by UNOPS, are as follows:

(a) At the UNOPS Afghanistan Operations Centre and the Middle East Regional Office in Dubai, allegations pertaining to those entities were investigated by the Procurement Task Force of the Office of Internal Oversight Services (OIOS), upon the request of the UNOPS Executive Director, following initial findings from a UNDP investigation undertaken at UNOPS request. The individual involved was no longer a staff member at the time of the investigation, which was launched late in 2006. The alleged wrongdoing took place during the period 2002-2006. The investigation identified presumptive fraud, abuse of entitlements and embezzlement, resulting in losses amounting to at least $479,000. Two further investigations were being planned. The former staff member was requested in early 2007 to reimburse UNOPS $114,340, but has not done so. The matter has been referred for possible criminal prosecution to national authorities in the United States of America.

(b) A staff member falsely certified receipts that did not belong to the staff member, claiming them for purposes of obtaining reimbursement of taxes from the Government. The total value of the fraudulent claim was approximately $750. The case was referred to the joint disciplinary committee, and based on its advice the staff member was separated from service with one month’s termination notice and with termination indemnity.

(c) At the Sudan Operations Centre, a company submitted fraudulent bank guarantees to secure a contract from UNOPS. Upon the contractor’s default under the contract, UNOPS sustained losses in the amount of $1,303,382. UNOPS has suspended the vendor from status of good standing, and the matter of a potential referral to national authorities is under consideration by the Office of Legal Affairs. The UNOPS insurer has thus far agreed to reimburse UNOPS $954,948, less the deductible under the policy. (The amount to be reimbursed is therefore approximately $560,000.)

(d) UNOPS identified several cases of attempted medical insurance fraud for small amounts by local personnel in the Africa region. No insurance payments were made and the contracts of the personnel concerned were terminated.

(e) In the Democratic Republic of the Congo Operations Centre, a UNOPS investigation revealed that a staff member may have abused his official status in order to defraud external parties. In one instance, the staff member allegedly used a United Nations vehicle to secure a private loan on which he/she subsequently defaulted, thereby subjecting UNOPS to potential loss, since UNOPS has been unable to recover the vehicle. The staff member has been suspended without pay pending conclusion of the disciplinary process. UNOPS reminded the staff member of the obligation to honour his/her private legal obligations and was seeking to recover the vehicle.

(f) In the former Middle East Regional Office in Dubai, a preliminary investigation by UNOPS revealed that a senior official (different from the individual in the above-mentioned case regarding that Office) may have made false representations and also may have signed documents using UNOPS stationery while the staff member was without any functional title or authority in order to assist a private company to secure financing and insurance for a purported contract to provide UNOPS with goods and services. The same individual also signed a document undertaking to pay directly to the financing bank all amounts that would fall due under the purported contract. The contractor may have been complicit in the misrepresentations and is now in default against the financing instrument. UNOPS may face potential claims from the financing bank and the contractor in amounts ranging anywhere from $8.5 million to an extremely unlikely $84.5 million (representing full value of the agreement between the bank and the contractor). At the time of the Board's report, UNOPS was not a party to the litigation between the financing bank and the contractor. UNOPS stated that it was considering a referral to national authorities upon completion of its investigation.

D. Acknowledgement

413. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of UNOPS and the members of his staff, as well as to the staff at the Africa Regional Office, the Latin America and Caribbean Regional Office, the Senegal Operations Centre and the Peru Operations Centre.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2010

Annex

Status of implementation of recommendations for the biennium ended 31 December 2007

	Summary of recommendation	*Paragraph reference in Board report for 2006-2007*[a]	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1.	Monitor profit margins of all its projects	35	2006-07	X			
2.	Review and adjust unliquidated obligations with discrepancies	41	2006-07	X			
3.	Investigate unliquidated obligations with no purchase order numbers	45	2006-07	X			
4.	Periodically review unliquidated obligations	48	2006-07	X			
5.	Obtain quarterly certification of unliquidated obligations	49	2006-07	X			
6.	Clarify accounting standards for revenue recognition	55	2006-07	X			
7.	Review accounting policies regarding revenue recognition	61	2006-07		X		
8.	Ensure invoices are sent to the International Fund for Agricultural Development in a timely manner	67	2006-07	X			
9.	Follow up on long outstanding rental income	75	2004-05	X			
10.	Follow up on the differences between general ledger and global payroll	79	2004-05	X			
11.	Regional offices to make use of financial reports in Atlas	81	2006-07	X			
12.	Fund the operational reserves at required levels	89	2000-01	X			
13.	Prepare an age analysis for contributions received in advance and expenditure incurred to be charged to clients	96	2006-07				X
14.	Sign-off on staff receivables and other receivable balances	100	2006-07	X			
15.	Report that categorizes accounts payable by creditor	103	2006-07	X			
16.	Asia Pacific Office and Middle East Office to implement procedures to ensure that financial data quality is regularly monitored; assess training needs; perform data quality reports; and so on	109	2006-07	X			
17.	UNOPS to review budgets prior to approval; use the correct chart of accounts code; and make no modification once a payment has been approved and posted	110	2006-07	X			

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
18.	Reconcile inter-fund transactions and balances with UNDP on a regular basis	124	2004-05		X		
19.	Obtain confirmations of all its inter-fund balances as part of its financial statement preparation process	125	2004-05	X			
20.	In collaboration with UNDP, settle inter-fund balances in cash on a regular basis	127	2004-05	X			
21.	Follow up on the difference in the inter-fund balance with UNFPA	130	2004-05	X			
22.	In reference to inter-fund balances with other United Nations entities: provide explanation and supporting documentation on inter-fund balances reflected; provide details of counter parties to ensure that confirmation procedures could be performed on the outstanding balances; investigate the credit balance of $1.47 million with UNDP; and so on	137	2004-05	X			
23.	Confirm inter-fund balances payable to or due from other United Nations entities and follow up on the differences in the inter-fund balances with other United Nations entities	138	2004-05	X			
24.	Ensure that after-service health insurance-related costs are charged accurately to administrative and project expenditure on a monthly basis, and reverse such costs incorrectly charged to projects	161	2006-07	X			
25.	Make entries in its financial statements to correct the effects of after-service health insurance overcharged to projects based on previous valuation	167	2006-07	X			
26.	Implement controls to improve its financial statements presentation process	172	2006-07	X			
27.	Disclose cash balances denominated in currencies other than the United States dollar	174	2006-07				X
28.	Compile a formal IPSAS implementation plan	179	2006-07	X			
29.	Analyse currency fluctuations and identify methods of managing foreign exchange risk	185	2006-07	X			
30.	Improve monitoring of advances recoverable locally	189	2006-07				X
31.	Apply the rate of exchange for imprest account balances that is in accordance with its accounting policy	191	2006-07	X			

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
32.	Strengthen controls to prevent recurrence of errors in reconciliation of imprest accounts	194	2006-07				X
33.	Ensure that MEO and APO implement procedures to reconcile imprest accounts to the general ledger on a regular basis	198	2006-07				X
34.	MEO and APO to implement policies to ensure that all operations centres submit, on a monthly basis, advances recoverable locally ledgers; and include as part of end-of-month procedures the review of advances recoverable locally	205	2006-07	X			
35.	UNOPS to investigate long outstanding cheques relating to operations in Sri Lanka and the Sudan; and ensure long-outstanding items in bank reconciliations are followed up	209	2006-07	X			
36.	MEO to investigate missing documentation on imprest items identified; implement controls over payment of advances recoverable locally; and verify supporting documentation before processing payments in Atlas	212	2006-07				X
37.	MEO to review all advances recoverable locally for evidence of documentation	213	2006-07				X
38.	MEO in conjunction with headquarters formulate a standard operating procedure that provides guidance on finance roles and responsibilities; and implement monitoring and oversight mechanisms on Atlas at the regional level in relation to operations centres	219	2006-07				X
39.	MEO to ensure standard operating procedures are approved and implemented	224	2006-07				X
40.	MEO to document when procurement services will be rendered by it to the operations centres	228	2006-07				X
41.	MEO to complete supplier performance evaluation reports	232	2006-07				X
42.	MEO to maintain proper contract files; and review contract files for completeness on a regular basis	237	2006-07				X
43.	MEO to apply strict rules for document retention in a specific location	238	2006-07				X
44.	Annual financial statements to be signed in accordance with United Nations policy	242	2004-05	X			

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
45.	Training on the procurement manual for staff to be provided in a timely manner	247	2006-07	X			
46.	Consider the applicability of the recommendations related to the Inter-Agency Procurement Services Organization to its business	265	2006-07	X			
47.	Tag all assets of UNOPS	274	2004-05	X			
48.	Transfer idle assets to another office where they can be utilized or dispose of them	278	2006-07	X			
49.	Investigate assets listed as faulty/redundant	281	2006-07		X		
50.	Record attractive items on a separate or nominal value register, and make financial statement disclosures	284	2006-07	X			
51.	Clarify the policy for the inclusion of loaned assets in the asset register	288	2006-07	X			
52.	MEO to, inter alia, follow up and correct the backlog of pending items; and implement policies and procedures to ensure that all fields are completed in the asset register	293	2006-07				X
53.	Perform asset inventory counts and asset reconciliations on a regular basis	297	2004-05	X			
54.	Ensure that assets are timely removed from the fixed asset register; and include the assets written off in the schedule of assets written off	299	2004-05		X		
55.	APO and MEO to identify and monitor all assets pending disposal and write-offs; and implement processes and controls to dispose of assets in a timely manner	302	2006-07	X			
56.	Roll out the asset management module in Atlas and ensure that staff receive training	305	2004-05		X		
57.	Update the asset records in Atlas	307	2004-05		X		
58.	Update the asset register with the correct asset locations	309	2004-05	X			
59.	Revise the asset management manual, addressing asset issues	311	2006-07	X			
60.	MEO to, inter alia, identify project assets required for project purposes and transport to the project sites; identify assets which no longer meet the project requirements, and implement a process to dispose of them; and return funds to donors after selling project assets	316	2006-07				X

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
61.	UNOPS to, inter alia, agree with donors to allow the regional office to sell project assets; implement controls over project assets; and implement controls to enable project managers to oversee assets purchased with project funds	322	2006-07	X			
62.	Reconcile the opening balances with the closing balance as reported in the UNOPS 2004-2005 financial statements	326	2004-05	X			
63.	Provide an authorized staffing table to each regional office on an annual basis	330	2006-07	X			
64.	Implement a succession plan	334	2006-07	X			
65.	Implement a gender balance policy	339	2006-07	X			
66.	Take action when delays are experienced in finalizing appointments	345	2006-07	X			
67.	MEO to implement a timeline to expedite the conversion of consultant agreement contracts to UNOPS fixed-term contracts	353	2006-07				X
68.	Performance reviews to be completed within the specified timelines	359	2006-07		X		
69.	UNOPS to review its approach to project management and ensure that a uniform system is implemented within its organizational structure	366	2006-07	X			
70.	APO to investigate and correct the difference identified in the Atlas expenditure report and financial dashboard	371	2006-07	X			
71.	Account for interest earned on projects at the basis stipulated in the agreements with UNOPS clients	375	2006-07	X			
72.	Implement controls on advance spending	384	2006-07	X			
73.	Pursue the recovery of field support costs	390	2006-07	X			
74.	UNOPS to, inter alia, address Atlas data shortcomings; account for historical project deficits; and obtain budget revisions before budgets are exceeded	397	2006-07	X			
75.	Urgently complete the project closure exercise	406	2006-07		X		
76.	Collate and track project expenditure against budgets on a cumulative and annual basis	410	2006-07	X			
77.	Address weaknesses in data quality in Atlas; perform analysis of all projects currently listed; and identify projects that need to be closed, and projects that require further funding	418	2006-07	X			

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
78.	MEO to provide support to AGOC regarding project closure; and conduct the same review and provide similar support for all operations centres in the region.	421	2006-07				X
79.	UNOPS to address the causes of the issues identified at the Afghanistan Operations Centre	422	2006-07	X			
80.	Regularly reconcile budgets as reported by operations centres with Atlas; investigate and correct the reasons for differences identified between budgets and recorded expenditure; offer training for staff at operations centres; and address backlog in processing of expenditure and disbursement by operations centres	427	2006-07	X			
81.	UNOPS to implement policies to hold project managers and operations centres accountable for delivery; review budget-setting methods and controls to ensure budgets set and agreed with clients are in line with expected delivery; and take steps against operations centres that have under-delivered	434	2006-07	X			
82.	MEO, in conjunction with operations centres, to ensure that estimated project delivery figures are monitored	438	2006-07				X
83.	APO to develop and approve a business growth strategy; adequately address business risks associated with new areas of business; and implement adequate monitoring control over project performance and progress against targets	442	2006-07	X			
84.	UNOPS to improve project-level system controls to control overspending; and monitor project budgets on a regular basis	448	2006-07		X		
85.	APO to, inter alia, monitor projects on a regular basis; and enhance supervision of project managers whose projects reflect a pattern of low delivery	452	2006-07		X		
86.	Systematic review of encumbrances; raise encumbrances (purchase orders) only in relation to substantiated project activities	454	2006-07	X			
87.	APO to produce reports when this is required by the memorandum of understanding	457	2006-07	X			
88.	APO to, inter alia, integrate donor reporting into the management reporting system; and ensure that project reporting occurs on a timely basis and in accordance with requirements of project agreements	458	2006-07	X			

	Summary of recommendation	Paragraph reference in Board report for 2006-2007[a]	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
89.	Consider the benefit of using other entities as service providers instead of UNDP only; and implement controls to ensure quarterly reports are approved in a timely manner	463	2006-07	X			
90.	Ensure all service level agreements are signed in a timely manner	466	2006-07	X			
91.	Internal Audit Office[b] to take measures to fully implement its work plan; and increase the coverage of regional office, headquarters and financial statement audits	470	2006-07	X			
92.	UNOPS and Internal Audit Office[b] formulate and adopt an internal audit charter; compile an audit manual; compile and implement a three-year strategic plan that addresses the risk management strategy; and include evidence of consideration of the independence of the internal audit team.	476	2006-07	X			
93.	UNOPS, in conjunction with its Internal Audit Office,[b] to perform a quality assessment exercise to assist in the strengthening of the internal audit function	480	2006-07	X			
94.	Consider the establishment of an independent audit committee to strengthen the governance and oversight function	485	2004-05	X			
95.	Implement the recommendations resulting from the Office of Internal Oversight Services review	494	2006-07	X			
	Total number	**95**		**67**	**10**	**0**	**18**
	Percentage	**100**		**71**	**10**	**0**	**19**

Note: APO = Asia Pacific Office; MEO = Middle East Office; UNOPS = United Nations Office for Project Services; UNDP = United Nations Development Programme; UNFPA = United Nations Population Fund; AGOC = Afghanistan Operations Centre.

[a] A/63/5/Add.10.

[b] The Internal Audit Office has been renamed the Internal Audit and Investigations Group.

Chapter III
Financial report for the biennium ended 31 December 2009

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 2009, together with the audited financial statements for the biennium. This submission is made in conformity with the financial regulations and rules 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 two annexes that contain additional information on projects, and cover all funds for which the Executive Director is responsible.

A. Brief history of the United Nations Office for Project Services

2. Until 31 December 1994, the Office for Project Services was part of the United Nations Development Programme. 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.

4. Following the preceding recommendation, the General Assembly, in its decision 48/501 of 19 September 1994, decided that the United Nations Office for Project Services (UNOPS) 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 February 2009, in its decision 2009/4, the Executive Board approved the UNOPS financial regulations and rules. The financial statements and notes for the biennium 2008-2009 have been prepared and presented in accordance with the newly approved financial regulations and rules.

6. In conformity with its financial regulations and rules, UNOPS maintains separate accounting and other financial records for UNOPS account(s), those established for the purpose of accounting for all revenue to UNOPS and all expenditure made by UNOPS against that revenue. The UNOPS accounts include project account(s), the formal, separate record of all financial transactions pertaining to a project established in the UNOPS accounts.

B. Accounting practices and policies

Financial regulations and rules

7. UNOPS has prepared the financial statements, schedules and notes in the present report in accordance with the UNOPS financial regulations and rules.

Presentation of the financial statements

8. 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: its administrative expenditures are financed entirely by the income it earns.

9. The total assets reflected in statement II amounted to $726,988,000 for the biennium ended 31 December 2009 as compared to $386,114,000 for the biennium ended 31 December 2007. The increase in total assets resulted from a significant increase in cash and term deposits.

10. The cash and term deposits balance at the end of the biennium 2008-2009 increased to $444,100,000 from $50,100,000 at the end of 2006-2007. The increase in the cash and term deposits balance is linked to the movement in the inter-fund balances over the same period. The ratio of cash and term deposits to the inter-fund balance was 0.2:1 at the end of the previous biennium as compared to 2:1 at the end of the biennium 2008-2009. The shift is mainly attributable to three major factors, as outlined below.

11. The first factor is the rapid growth, of more than 25 per cent, in the volume of regular business. Almost the entire increase came from the implementation of projects on behalf of recipient Governments, non-governmental organizations and other cash-based management services agreement projects. As implementation of projects from those clients is nearly always carried out only upon receiving contributions, cash inflow increased during 2008-2009 as compared to the prior biennium.

12. The second factor is the change in the service level agreement with UNDP regarding treasury services. Early in 2009, the quarterly cash settlement of UNOPS inter-fund balance with UNDP and the holding of an independent investment portfolio were introduced. Those measures resulted in an increase in cash balances and a reduction in the inter-fund balance.

13. The third factor is the introduction of investment plans for both operational reserve and after-service health insurance balances, for a total of $30,900,000. This balance has been set aside in investments to optimise interest earnings on these reserve balances.

14. As compared to the previous biennium, the liabilities increased by $323,207,000 to $684,254,000 for the biennium ended 31 December 2009. The increase was mostly due to a significantly higher volume of contributions received in advance and a modest increase in unliquidated obligations.

15. Contributions received in advance represent the excess of cash received over expenditure incurred on cash-based projects at the end of the biennium 2008-2009. The considerable increase, as compared to prior bienniums, is attributable to the significant growth in business relating to the implementation of projects funded by recipient Governments and other cash-based projects.

16. While the increase in project delivery during the biennium 2008-2009 amounted to $589,100,000, the unliquidated obligations balance increased by only $20,900,000. At the end of 2008-2009, the unliquidated obligations balance stood at approximately 19.9 per cent of total project expenditure, the lowest historic ratio for UNOPS, whereas the comparative figure at the end of the previous biennium was 27.6 per cent. This decrease reflects the improved management of purchase orders, as an integral part of the much more rigorous monitoring of project activities.

17. About 33 per cent of the unliquidated obligations accrued at the end of 2006-2007 were cancelled during the first quarter of 2008. Comparative cancellations during the first quarter of 2009 were 18 per cent, and the respective number for the first quarter of 2010 was only 8.6 per cent, which is evidence of improved control and management of unliquidated obligations accruals. Out of an abundance of caution, UNOPS for the first time made a general provision of $1,025,000 relating to prior year unliquidated obligations.

18. UNOPS has provided $36,230,000 for write-offs of receivables, of which $18,257,000 relates to inter-fund transactions with UNDP, mostly prior to 2007. UNOPS has taken a conservative approach and has provided for the entire balance.

Accounting policies

19. 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, except the one relating to the valuation of end-of-service liabilities, are consistent with those which UNOPS applied in prior years.

20. With the above change in accounting policy, at the end of the biennium 2008-2009 the calculation of end-of-service liabilities was based on an actuarial valuation as opposed to being based on cost as at the end of the previous biennium 2006-2007. The change in accounting policy to the actuarial basis for determining the liability for unused vacation days and repatriation benefits has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation.

C. United Nations Office for Project Services accounts

21. As shown in statement I, for the biennium ended 31 December 2009 UNOPS income from all sources totalled $158,606,000, and its administrative expenditures amounted to $126,136,000. Therefore, in the biennium 2008-2009, income exceeded administrative expenditures by $32,470,000. In the biennium ended 31 December 2009, provisions and write-off of receivables of $22,076,000, savings on prior period obligations of $3,371,000 and an extraordinary transfer to operational reserves of $3,900,000 and were respectively recorded. Therefore, the net excess of income over expenditure (net revenue) amounted to $10,394,000, while the total contribution to the operational reserves amounted to $17,665,000. Comparative figures for the biennium ended 31 December 2007 were as follows: income and administrative expenditure totalled $125,928,000 and $89,607,000, respectively; therefore, the excess of income over expenditure was $36,231,000. The write-offs and prior-period adjustments amounted to $16,238,000 and $622,000 respectively. Therefore, the contribution to operational reserves was $20,705,000.

United Nations Office for Project Services income

22. Project delivery increased by 38 per cent from $1,557,100,000 during 2006-2007 to $2,146,200,000 during 2008-2009 and is reflected in schedule 1 to the financial statements. UNOPS expanded its business in such areas as financial management and procurement services where management fees typically range from 1 per cent to 4 per cent. The average management fees on traditional project management business remained largely unchanged from the previous biennium. Consequently, management fees increased by 14 per cent in 2008-2009, yielding an average rate of 5.2 per cent compared to 6.3 per cent in the prior biennium.

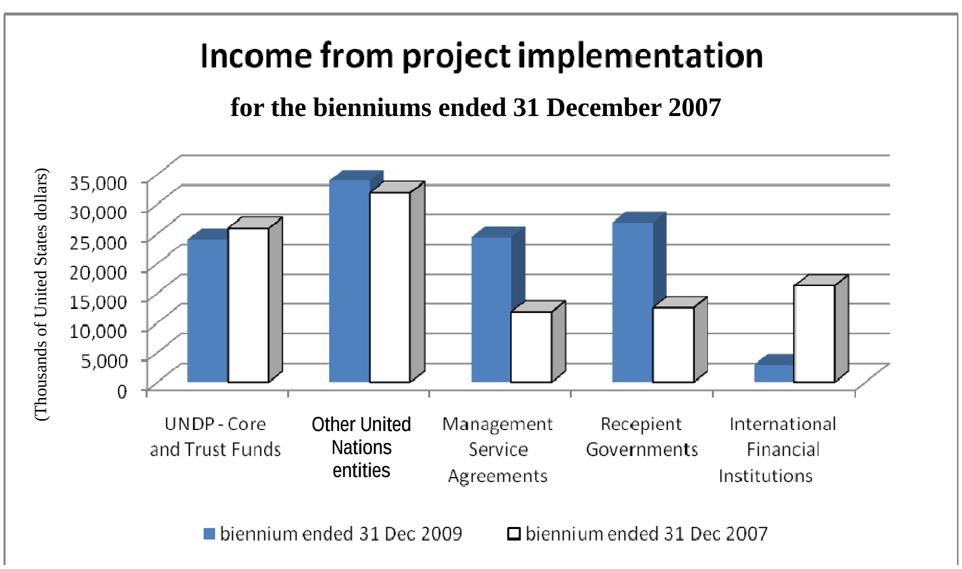
23. Total income earned for the biennium ended 31 December 2009 of $158,606,000 was derived from the following sources: $112,157,000, or 71 per cent of the total, from project implementation services; $29,959,000, or 19 per cent of the total, from advisory and reimbursable services; $16,490,000, or 10 per cent of the total, from interest income and other miscellaneous income.

24. Compared to the income of $125,928,000 for the biennium ended 31 December 2007, UNOPS income for the biennium ended 31 December 2009 increased by $32,678,000, or 26 per cent.

1. Income from project implementation

25. The sources of income of $112,157,000 related to project implementation are provided in schedule 1 to the financial statements. This income is the total of management fees which UNOPS earned for the biennium ended 31 December 2009 and was derived as follows: $24,027,000, or 21 per cent of the total, from the projects funded by UNDP and trust funds administered by UNDP; $33,922,000, or 30 per cent of the total, from projects implemented on behalf of other United Nations organizations; $24,377,000, or 22 per cent of the total, from projects funded under the management service agreement modality; $26,893,000, or 24 per cent of the total, from projects implemented on behalf of recipient Governments; and $2,937,000, or 3 per cent of the total from projects implemented on behalf of international financial institutions. For comparison purposes, the management fees for the biennium ended 31 December 2007 totalled $25,901,000, or 26 per cent of the total, derived from the projects funded by UNDP and trust funds administered by UNDP; $31,925,000, or 32 per cent of the total, from projects implemented on behalf of other United Nations organizations; $11,821,000, or 12 per cent of the total, from management fees in connection with projects funded under the management service agreement modality; $16,255,000, or 17 per cent from international financial institutions; and $12,536,000, or 13 per cent from recipient Governments.

Figure III.I
Income from project implementation for the bienniums ended 31 December 2007 and 31 December 2009



2. Other income

26. During the biennium ended 31 December 2009, UNOPS earned the following other income: $29,959,000 advisory and reimbursable service income from the International Fund for Agricultural Development (IFAD), the Global Fund to Fight AIDS, Tuberculosis and Malaria, European Commission and the United Nations Population Fund (UNFPA); and $16,490,000 in miscellaneous income. For comparison purposes, in the biennium ended 31 December 2007, UNOPS earned $18,903,000 advisory and reimbursable service income and $8,587,000 in miscellaneous income.

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

27. The budget estimates approved by the Executive Board are not considered to be 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.

Operational reserves

28. The Executive Board, in its decision 2001/14 of 13 September 2001, approved the proposal to change the basis for the calculation of the level of the operational reserves 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 application of that formula resulted in an operational reserve requirement of $42,099,000 as at 31 December 2009. For the biennium ended 31 December 2009, statement 1 shows reserves and fund balances of $42,733,000, which exceeds the required level of the operational reserves by 2 per cent. UNOPS has, for the first time, managed to accrue sufficient reserves for all liabilities and fully replenish its operational reserves to the level mandated by the Executive Board. The comparative figure for the biennium ended 31 December 2007 in $25,067,000 or 28 per cent below the operational reserves requirement applicable at that time.

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

29. During the biennium ended 31 December 2009 no ex-gratia payments were made, but write-offs of receivables totalled $13,120,000. For comparison purposes, there were no ex-gratia payments during the biennium ended 31 December 2007 either, but there was a write-off of cash and receivables totalling $328,000.

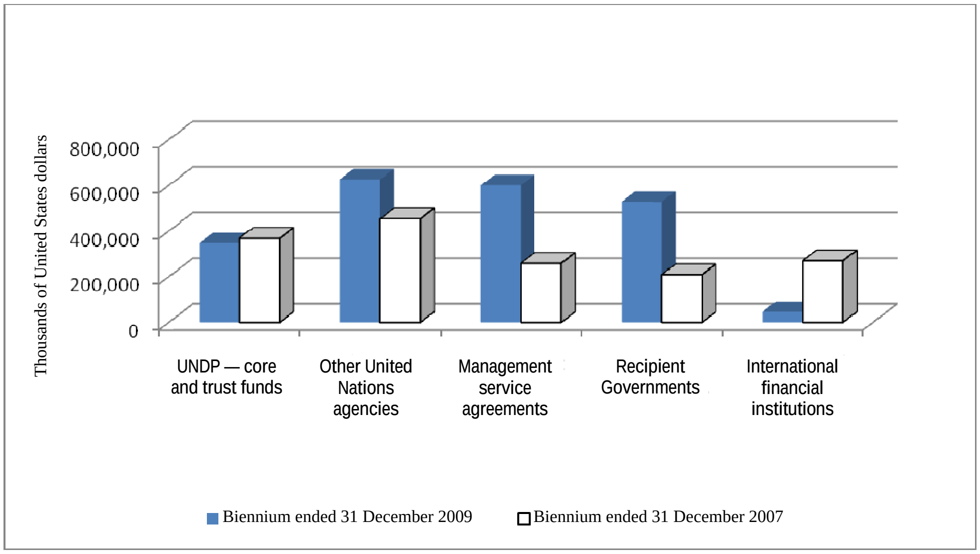
D. Special accounts

30. UNOPS maintains separate accounts for the identification, administration and management of resources entrusted to its charge, to account for project budgets (UNOPS portfolio) entrusted to UNOPS for implementation; project expenditures (project delivery); and management fees earned (UNOPS income) from the implementation of such projects.

United Nations Office for Project Services portfolio

31. The UNOPS portfolio consists of all 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.

Figure III.II
UNOPS portfolio for the bienniums ended 31 December 2007 and 31 December 2009



32. For the biennium ended 31 December 2009, the total value of the portfolio amounted to $2,146,152,000 and was derived as follows: $346,621,000 or 16 per cent of the total, from UNDP-funded and UNDP-administered trust funds projects; $625,793,000, or 29 per cent, from projects implemented on behalf of other United Nations organizations; $600,224,000, or 28 per cent, from projects funded under the management service agreement modality, $527,820,000 or 25 per cent from projects implemented on behalf of Recipient Governments and $45,693,000 or 2 per cent from projects implemented on behalf of the international financial institutions. For comparison purposes, the portfolio for the biennium ended 31 December 2007 totalled $1,557,064,000 and was derived as follows: $367,849,000, or 24 per cent of the total, from UNDP-funded and UNDP-administered trust funds projects; $452,921,000, or 29 per cent of the total, from projects on behalf of other United Nations organizations; $258,473,000 or 17 per cent of the total, from projects funded under the management service agreement modality; $208,685,000 or 13 per cent from projects implemented on behalf of recipient Governments; and $269,136,000 or 17 per cent from projects implemented on behalf of the international financial institutions.

Project expenditures: United Nations Office for Project Services delivery

33. For the biennium ended 31 December 2009, schedule 1 shows that UNOPS incurred project expenditures (including management fees) totalling $2,258,309,000, of which $370,649,000, or 16 per cent was derived from UNDP-funded and UNDP-administered trust funds projects; $659,715,000, or 29 per cent, from projects implemented on behalf of other United Nations organizations, $624,601,000, or 28 per cent, from projects funded under the management service agreement modality, $554,714,000 or 25 per cent from projects implemented on behalf of recipient Governments; and $48,630,000 or 2 per cent from projects implemented on behalf of the international financial institutions. For comparison purposes, for the biennium ended 31 December 2007, UNOPS incurred project expenditures (including management fees) totalling $1,655,501,000, of which $393,750,000 or 24 per cent was derived from UNDP-funded and UNDP-administered trust funds projects; $484,845,000 or 29 per cent, from projects implemented on behalf of other United Nations organizations; $270,294,000 or 17 per cent from projects funded under the management service agreement modality; $221,221,000 or 13 per cent from projects implemented on behalf of recipient Governments; and $285,391,000 or 17 per cent from projects implemented on behalf of the international financial institutions.

Chapter IV

Financial statements for the biennium ended 31 December 2009

Statement I
United Nations Office for Project Services
Statement of income and expenditure and changes in reserves and fund balances

(Thousands of United States dollars)

		2008-2009	*2006-2007*
Income			
Management fees	(note 3 and schedule 1)	112 157	98 438
Advisory and reimbursable service income	(note 4)	29 959	18 903
Miscellaneous income	(note 5)	16 490	8 587
Total income		**158 606**	**125 928**
Total expenditure	(schedule 2)	**126 136**	**89 607**
Excess of income over expenditure		32 470	36 321
Provision and write-offs of receivables	(note 15)	22 076	16 238
Net excess of income over expenditure		10 394	20 083
Prior period adjustments: savings on cancellation of prior period obligations	(note 6)	1 086	622
Prior period adjustments: other	(note 6)	2 285	—
Transfer to reserves	(note 17)	3 900	—
Operating reserve, beginning of period		**25 067**	**4 362**
Operating reserve, end of period	(statement II)	**42 733**	**25 067**

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

Statement II
United Nations Office for Project Services
Statement of assets, liabilities and reserves

(Thousands of United States dollars)

		2009	*2007*
Assets			
Cash and term deposits	(note 7)	444 070	50 118
Accounts receivable	(note 8)	42 716	55 074
Inter-fund accounts	(note 9)	240 202	280 922
Total assets		**726 988**	**386 114**
Liabilities			
Contributions received in advance	(note 10)	404 054	116 856
Unliquidated obligations	(note 11)	218 797	197 861
Accounts payable	(note 12)	8 295	6 713
Post-retirement and end-of-service benefits	(note 13)	16 789	13 634
Provision for write-off	(note 15)	36 320	25 984
Total liabilities		**684 254**	**361 047**
Reserves			
Operating reserve	(note 14)	42 733	25 067
Total reserves		**42 733**	**25 067**
Total liabilities and reserves		**726 988**	**386 114**

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

Statement III
United Nations Office for Project Services
Statement of cash flows

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Cash flows from operating activities		
Net excess of income over expenditure (statement I)	10 394	20 083
(Increase)/decrease in accounts receivable	12 359	(43 179)
(Increase)/decrease in inter-fund balances receivable	40 720	(122 181)
Increase/(decrease) in contributions or payments received in advance	287 198	56 446
Increase/(decrease) in unliquidated obligations	20 937	68 551
Increase/(decrease) in accounts payable	1 581	5 861
Increase/(decrease) in other liabilities	13 491	16 044
Less: interest income	(3 606)	(1 199)
Net cash flows from operating activities	**383 074**	**425**
Cash flows from investing activities		
Increase due to merger	3 900	—
Plus: interest income	3 606	1 199
Net cash flows from investing activities	**7 506**	**1 199**
Cash flows from financing activities		
Prior period adjustments	3 371	622
Net cash flows from financing activities	**3 371**	**622**
Net increase/(decrease) in cash and term deposits	**393 951**	**2 246**
Cash and term deposits, beginning of period	**50 118**	**47 872**
Cash and term deposits, end of period	**444 070**	**50 118**

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

Schedule 1
United Nations Office for Project Services
Project expenditure and support costs and fees

(Thousands of United States dollars)

	Project expenditure	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
	2009			*2008*			*2008-2009*	*2006-2007*
UNDP-related								
Core	65 966	4 984	70 950	77 656	5 997	83 654	154 604	153 136
Trust fund	104 050	7 205	111 254	97 586	5 753	103 338	214 593	237 948
Other	784	47	831	580	42	622	1 453	2 666
	170 800	**12 235**	**183 035**	**175 821**	**11 792**	**187 614**	**370 649**	**393 750**
UNDP management services agreements								
Lending institutions	64 423	2 479	66 903	10 736	240	10 976	77 878	61 968
Bilateral donors	28 280	2 111	30 391	20 703	1 127	21 830	52 221	61 253
Government-financed	210 560	10 316	220 876	260 247	7 726	267 973	488 849	142 661
Other management services agreements	2 443	166	2 609	2 832	211	3 043	5 652	4 412
Subtotal	**305 707**	**15 073**	**320 780**	**294 518**	**9 304**	**303 822**	**624 601**	**270 294**
Projects on behalf of other United Nations organizations								
FAO	3 208	193	3 401	3 160	184	3 344	6 745	349
IFAD	2 745	181	2 926	3 394	213	3 607	6 533	11 702
OCHA	2 087	147	2 234	3 242	250	3 492	5 726	2 677
OHCHR	5 068	398	5 466	5 788	463	6 251	11 717	19 592
United Nations Development Group	32 365	2 134	34 500	31 833	1 672	33 505	68 005	28 016
UNAIDS	129	10	139	1 420	108	1 528	1 667	6 037
Department of Peacekeeping Operations	130 794	7 223	138 017	156 883	7 708	164 591	302 607	229 616
UNEP	4 753	367	5 120	7 515	383	7 897	13 017	19 592
UNESCO	(21)	11	(10)	2 099	131	2 230	2 220	4 520
UNFPA	433	40	473	2 351	124	2 474	2 947	7 343
UNHCR	6 833	550	7 383	6 436	513	6 949	14 332	6 870
UNICEF	13 954	1 055	15 008	36 886	1 920	38 806	53 814	105 341
United Nations Office on Drugs and Crime	7 157	450	7 606	5 684	399	6 083	13 689	24 392
Other	13 475	770	14 245	6 107	525	6 632	20 877	18 798
Subtotal	**222 980**	**13 528**	**236 508**	**272 798**	**14 592**	**287 390**	**523 898**	**484 845**

	Project expenditure	Support costs and fees	Total project expenditure and support costs and fees	Project expenditure	Support costs and fees	Total project expenditure and support costs and fees	Total project expenditure and support costs and fees	Total project expenditure and support costs and fees
		2009			2008		2008-2009	2006-2007
Projects on behalf of international financial institutions								
Africa Development Bank	2 142	172	2 314	108	11	119	2 433	577
Common Fund for Commodities	286	23	309	409	33	442	750	1 611
International Development Association	12 693	635	13 328	6 665	333	6 999	20 326	3 097
World Bank Agreements	9 144	630	9 774	14 245	1 100	15 346	25 120	280 106
Subtotal	**24 265**	**1 459**	**25 724**	**21 428**	**1 477**	**22 905**	**48 630**	**285 391**
Projects on behalf of recipient Governments								
Recipient Government agreements	300 757	15 703	316 460	216 892	10 698	227 590	544 050	220 602
Intergovernmental organizations	949	70	1 019	298	22	320	1 339	619
WTO	8 636	390	9 026	288	10	298	9 325	0
Subtotal	**310 342**	**16 163**	**326 505**	**217 478**	**10 730**	**228 208**	**554 714**	**221 221**
Procurement services to United Nations entities and non-governmental organizations	**56 563**	**3 489**	**60 052**	**73 452**	**2 313**	**75 765**	**135 817**	**—**
Project expenditure and support costs and fees	**1 090 656**	**61 947**	**1 152 604**	**1 055 495**	**50 209**	**1 105 705**	**2 258 309**	**1 655 500**
							(statement I)	(statement I)

Schedule 2
United Nations Office for Project Services
Administrative budget and expenditure

(Thousands of United States dollars)

Description	*2008-2009* *Revised budget*	*2008-2009* *Total administrative expenditure*	*2006-2007* *Total administrative expenditure*
Salaries and wages	40 020	39 867	30 885
Common staff costs	29 475	28 881	11 372
Official travel	7 544	7 465	5 211
Contractual services	18 951	18 966	21 018
General operating expenses	17 226	17 238	13 017
Supplies	832	998	951
Furniture and equipment	6 018	6 003	2 753
Reimbursement of cost of services provided by UNDP and other United Nations entities	6 765	6 717	4 399
Grand total	**126 829**	**126 136**	**89 606**
		(statement I)	(statement I)

Notes to the financial statements

Note 1
Objectives of the United Nations Office for Project Services

1. The mission of the United Nations Office for Project Services (UNOPS) is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS was established as an independent entity on 1 January 1995 and is based in Copenhagen.

2. UNOPS activities and its biennial budget are set by its Executive Board. UNOPS is a self-financing organization that relies solely on income earned from its implementation support activities. The UNOPS mandate, reconfirmed by its Executive Board in 2009, is to act as a service provider to United Nations system funds, programmes and specialized agencies, and to international and regional financial institutions, intergovernmental organizations, donor and recipient Governments and non-governmental organizations. The role of UNOPS is to be a central resource for the United Nations system in procurement and contracts management as well as in civil works and physical infrastructure development, including the relevant capacity-development activities. UNOPS takes a results-oriented approach to the services it provides. It launches and implements new operations quickly, transparently and in a fully accountable manner. UNOPS customizes its services to individual client needs, offering everything from stand-alone solutions to long-term project management. Core services include the following:

(a) Project management;

(b) Procurement;

(c) Human resources management;

(d) Financial management;

(e) United Nations common services.

Note 2
Summary of significant accounting policies

Reporting period

3. The UNOPS reporting period is biennial. The audited financial statements cover the period from 1 January 2008 to 31 December 2009. These financial statements reflect the application of the accounting policies set out below.

General framework

4. UNOPS activities are accounted for in accordance with:

(a) The financial regulations approved by its Executive Board and rules established by the Executive Director under those regulations. The latest version of the UNOPS financial regulations and rules took effect on 1 February 2009;

(b) The United Nations system accounting standards, as adopted by the Administrative Committee on Coordination, which are based to a large extent on relevant accounting standards issued by the International Accounting Standards Committee. Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of United Nations activities.

5. The standards are based on various main principles and assumptions, as follows:

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

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

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

(d) The disclosure of the significant accounting polices used is an integral part of the financial statements;

(e) Unusual items or prior-period items should be disclosed if they have material effect on the financial statements or schedules;

(f) If there is a change in accounting policy that has a material effect in the current period or may have a material effect in subsequent periods, the effect of such change should be disclosed and quantified together with reason for the change.

Income

6. As an independent self-financing entity within the United Nations system, UNOPS does not seek to generate profits from services provided to clients. Unlike any other United Nations organization, UNOPS does not benefit from assessed or voluntary contribution-based budgets provided by Member States. Consequently, in addition to covering its direct and allocable costs in the project budgets, UNOPS charges a management fee for the purpose of recovering indirect costs of running the business as well as making a contribution towards achieving the level of operational reserves mandated by the Executive Board. The management fees are recognized as income in the financial statements.

7. UNOPS recognizes revenue in compliance with the United Nations system accounting standards. During the biennium ending 31 December 2009, UNOPS continued to recognize income based on the amount of disbursements made and on open signed purchase orders as recorded at the end of the biennium.

Expenditure

8. All UNOPS expenditure is accounted for on an accrual basis, except for costs relating to staff entitlements, which are recorded on a cash basis (costs related to the early separation programme, various leave balances and after-service health insurance are, however, recorded on an accrual basis). All purchase orders that are supported by legally binding commitments entered into on or before 31 December 2009 for goods and services are accrued and recorded as expenses.

Cash and term deposits

9. Cash is comprised of cash on hand and cash at bank. Term deposits comprise investments in money markets, time deposits, commercial papers, certificates of deposit, bonds and notes.

10. All investments are recorded at amortized cost, which approximates market value. In accordance with the United Nations system accounting standards, the notes to the financial statements reflect both the market value and amortized cost.

11. UNOPS has outsourced the treasury functions, including investment management, to UNDP. Investments are mainly in bonds, certificates of deposit and other instruments that are rated with high-quality credit ratings by reputable third-party rating agencies. The credit quality of issuers of those investments is reviewed on an ongoing basis.

12. UNOPS investments are made with the intention to hold to maturity.

Property, plant and equipment

13. The cost of property, plant and equipment is fully expensed in the year of purchase.

Contributions received in advance

14. The excess of cash received over expenditure incurred on cash-based projects is treated as contributions received in advance.

15. As part of the year-end closing procedure, all contributions received and expenses incurred on cash-based projects are closed to this account.

Reporting currency and rounding policy

16. The financial statements are expressed in United States dollars, the reporting currency of UNOPS. The amounts in the financial statements, schedules and notes are rounded to the nearest thousands of United States dollars. Hence totals may not add up due to rounding.

Other currencies

17. The base currency for all accounting transactions and for the maintenance of financial records is United States dollars. All other currencies are translated into United States dollars at the United Nations operational rate of exchange on the date of the transaction.

18. All assets and liabilities in currencies other than United States dollars, including cash and term deposits, are translated at the United Nations operational rate of exchange in effect on 31 December 2009. Exchange differences (gains and losses) are transferred to the projects and administrative budget to which the transactions relate.

Employee benefits

19. The employee benefits are broadly grouped under three categories, as follows:

(a) Short-term employee benefits which fall due within 12 months after the end of the accounting period in which the employees render the related services;

(b) Post-employment benefits such as the after-service health insurance, separation payment schemes, pension benefits;

(c) Other long-term employee benefits including accrued annual leave, repatriation grants and travel grants upon separation. The liabilities under all three groups of accrued liabilities for end-of-service and post-retirement benefits are determined on an actuarial basis.

20. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, defined benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the Assembly together with any share of any actuarial deficiency payments under article 26 of the regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date.

21. In line with the change in accounting policy, at the end of the biennium 2008-2009, the calculation of end-of-service liabilities is based on an actuarial valuation as opposed to being based on cost as was done at the end of the biennium 2006-2007. The change in accounting policy to an actuarial basis for measuring the liability for unused vacation days and repatriation benefits has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation.

Provisions and contingent liabilities

22. Provisions are liabilities that are uncertain either due to timing or amount. Provisions are recognized as liabilities in the statement of assets and liabilities since they are present obligations and it is probable that an outflow of resources will be required to settle the obligations.

23. Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are not recognized in the financial statements; however, exposure to them is disclosed in the notes to the financial statements.

Operational reserves

24. At its second regular session in 2003, the Executive Board decided 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 continued validity of that formula was confirmed by an independent review conducted in the fourth quarter of 2006.

Budget comparison

25. The Executive Board approves the biennial management plan, including projected revenue and projected costs of management and administration of UNOPS. Budgets may be subsequently amended by the Board or through the exercise of delegated authority by the Executive Director to redeploy funds within the approved biennial administrative budget and to increase or reduce the total

approved biennial administrative budget allotment, provided the net revenue target established by the Executive Board for the biennium remains unchanged.

26. Schedule 2 provides a comparison between the revised budget and the actual amount of administrative expenses incurred.

Note 3
Management fees

27. Total gross income earned by UNOPS during the reporting period was as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Management fees	112 157	98 438

28. Project delivery increased by 38 per cent from $1,557.1 million during the biennium 2006-2007 to $2,146.2 million during the biennium 2008-2009 and is the major reason for the 14 per cent increase in the management fees earned. Overall, there was a decline in the average management fee rate, from 6.32 per cent in the prior biennium to 5.23 per cent in 2008-2009.

29. The management fees of $112.1 million for the biennium 2008-2009 include about $0.46 million which relates to fees earned on unliquidated obligations accrued at the end of the biennium 2008-2009 but subsequently cancelled in the first quarter of 2010.

Note 4
Advisory and reimbursable services income

30. Income generated during the biennium from advisory and reimbursable services was as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Global Fund to Fight AIDS, Tuberculosis and Malaria	7 059	2 715
International Fund for Agricultural Development	6 637	15 396
United Nations Population Fund	866	792
Implementation of European Union Election Observation Mission	14 215	—
Other service income	1 182	—
Total	**29 959**	**18 903**

31. The income from the Global Fund to Fight AIDS, Tuberculosis and Malaria in the biennium 2008-2009 was significantly greater than in the previous biennium. On the other hand, business with IFAD gradually declined as the agreement with IFAD came to an end during the period. Logistical support to the European Union Election Observation Mission in Afghanistan was provided between May and December 2009. Recruitment and contract administration of consultants generated income from UNFPA.

32. The bulk of other service income ($0.8 million) was earned by the Peru Operations Centre, which provided its clients with advisory services regarding technical specifications, bidding processes, evaluation and recommendation of awards to contractors/vendors to carry out large infrastructure projects.

Note 5
Miscellaneous income

33. Miscellaneous income for the biennium 2008-2009 was as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Interest income	3 606	1 199
Rental income		
Buildings	3 599	3 049
Other	2 540	—
Support services income	2 078	—
Other miscellaneous income	4 667	4 339
Total	**16 490**	**8 587**

34. The growth of interest income resulted from an increase in cash inflow from projects, better control over accounts receivable and more favourable interest earnings on bank balances as compared to similar activities in the prior biennium.

35. “Rental income — buildings” relates to income generated by the subletting of office space in the Chrysler building in New York to other United Nations organizations. For more details refer to note 19: lease agreement.

36. “Rental income — other” relates to income generated by the leasing of armoured vehicles to United Nations organizations in Afghanistan.

37. “Support services income” includes income earned by the Afghanistan Operations Centre by providing various support services, such as high-security installations and communications facilities, to other United Nations organizations.

38. “Other miscellaneous income” includes the sale of surplus assets that generated $0.8 million and foreign exchange gains of $3.2 million.

Note 6
Prior period adjustments

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Savings on cancellation of prior period obligations	1 086	622
Savings on prior period adjustments: other	2 285	—
Total	**3 371**	**622**

39. Savings due to cancellation of prior period obligations against administrative funds accrued in the previous biennium, which were overestimated or no longer required, are credited to reserves in the current biennium.

40. At the end of the biennium 2008-2009, in line with common practices in the United Nations system, UNOPS accrued reserves to cover future employee benefits, such as after-service health insurance, annual leave and repatriation grants. The respective amounts were based on an independent actuarial valuation. To achieve harmonization with other United Nations funds, programmes and specialized agencies, the amount of reserves accrued in the previous biennium in connection with termination indemnities, relocation grants and related travel costs was reversed and the corresponding amount of $2.3 million is reflected accordingly in the income statement as “prior period adjustments — other”.

Note 7
Cash and term deposits

41. Treasury services are outsourced by UNOPS to UNDP. Cash and investment balances at the end of the biennium 2008-2009 were as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Cash	184 445	18 131
Term deposits	259 625	31 987
Total	**444 070**	**50 118**

42. The cash and term deposits balance at the end of the biennium 2008-2009 increased to $444.1 million from $50.1 million at the end of the biennium 2006-2007. The increase in the cash and term deposits balance is linked to the movement in the inter-fund balances over the same period. The ratio of cash and term deposits to inter-fund balance was 0.2:1 at the end of the prior biennium as compared to 2:1 at end 2008-2009.

43. Of the total cash and term deposits balance of $444.1 million at the end of the biennium 2008-2009, $182.7 million or 41 per cent was represented by bank balances in 61 UNOPS bank accounts in various countries. Some 60 per cent of that amount was on account with the Bank of America in New Delhi, India, to cover the cost of procurement activities in the local currency (Indian rupees) on behalf of several clients. As a measure to mitigate exposure risks through natural hedging, a large cash balance in the local currency was maintained.

44. During the biennium 2008-2009 UNOPS continued its initiative to retire the imprest account modality: a further 70 imprest accounts were replaced with Atlas bank accounts. Consequently, 12 imprest accounts remained open at the end of the biennium of which 6 were dormant and 6 were active. Four of the active accounts were closed in early 2010 and the remaining two in Costa Rica are being converted to Atlas bank accounts. The overall imprest cash balance at the end of the biennium 2008-2009 was $0.8 million or 90 per cent less than the respective balance at the end of the previous biennium.

45. With regard to the investment portfolio, 100 per cent of UNOPS investments, or $31.9 million at the end of the biennium 2006-2007, was invested in money market investments. Owing to the volatile and unstable financial market situation during the biennium, it was decided that this type of investment should be minimized. Hence, the money market investments were reduced to 0.3 per cent of the total investment portfolio of UNOPS as at end 2008-2009. The current portfolio comprises lower-yield investments, as follows:

- $51.2 million or about 20 per cent in time deposits and money markets
- $129.9 million or 50 per cent in commercial papers and certificates of deposit
- $78.3 million or 30 per cent in bonds and notes

46. The following table provides a snapshot of the UNOPS' investment portfolio at the end of 2008-2009:

(Thousands of United States dollars)

Instrument type	*Issuer*	*Rating*	*Maturity date*	*Value at par*	*Amortized amount*
Certificate of deposit	Lloyds TSB Bank PLC	A2	1-Nov-10	40 000	40 000
Certificate of deposit	Nordea Bank, New York	AA3	2-Nov-10	50 000	50 000
Commercial paper	Instituto de Credito Oficial	AA1	29-Jan-10	25 000	24 992
Commercial paper	Soc nationale chemins fer français	AAA	4-Dec-10	15 000	14 987
Bond	Landwirtschaftliche Rentenbank	AAA	26-Feb-10	20 000	20 074
Bond	Intl Bank for Reconstruction and Development	AAA	4-Jun-10	30 000	30 044
Bond	Instituto de Credito Oficial	AA1	26-Oct-10	5 880	6 064
Bond	Landwirtschaftliche Rentenbank	AAA	29-Oct-10	15 833	16 138
Bond	Kingdom of Sweden	AAA	2-Jul-11	5 900	6 070
Time deposits	National Bank of Kuwait New York	A1	1-Nov-10	50 000	50 000
Money markets	Goldman Sachs Fund	—	—	1 256	1 256
Balance as at 31 December 2009				**258 869**	**259 624**

47. At the end of the biennium 2008-2009, the bonds had a total book value (amortized value in the above table) of $78.4 million as compared to the market value (at par value in the above table) of $77.6 million. Movements in the value of bonds during the biennium are detailed in the following table:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Opening balance as at 1 January	**—**	**—**
Add: purchases	114 048	—
Less: maturities	(35 000)	—
Less: amortization	(658)	—
Closing balance as at 31 December	**78 390**	**—**

Note 8
Accounts receivable

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Advisory and reimbursable service receivables	11 620	1 584
Project-related receivables	26 196	48 602
Rental receivables	127	1 685
Staff advances and other staff receivables	1 861	3 187
Other miscellaneous receivables	2 912	16
Total	**42 716**	**55 074**

48. Advisory and reimbursable service receivables include amounts receivable from various clients including the Global Fund to Fight AIDS, Tuberculosis and Malaria, the European Union Electoral Observation Mission and IFAD for services provided by UNOPS during the biennium 2008-2009. The nature of the agreements typically requires UNOPS to perform services prior to invoicing the client and receiving funds.

49. Project-related receivables arise in connection with projects that have incurred expenditure and are awaiting further funding from partners. More than 80 per cent of the balance of $48.6 million at the end of the biennium 2006-2007 was from projects implemented on behalf of the Department of Peacekeeping Operations and the United States Agency for International Development. During the biennium 2008-2009, the partnership modality with the Department of Peacekeeping Operations was changed to a cash basis and the bulk of the large balance that had been outstanding from the United States Agency for International Development was collected. UNOPS introduced stricter control and monitoring of project expenditure and accounts receivable, which led to better cash flow for the projects.

50. Approximately 54 per cent of the project-related receivables balance of $26.2 million pertains to 2009 transactions originating from the UN Web Buy online facility which was acquired through the partial merger of the Inter-Agency Procurement Services Office of UNDP with UNOPS in January 2008.

51. The rental receivables relate to the rent due from tenants who sub-lease from UNOPS office space in the Chrysler building in New York. The reduced amount of receivables compared to the previous biennium is a result of the improved speed of collection during the biennium 2008-2009.

52. Staff advances and other staff receivables relate to salary advances, education grants, rental subsidies, travel and other entitlements. The reduction of the balance stems from timely analysis of data and consistent follow-up activities.

53. Other miscellaneous receivables include $1.12 million relating to interest receivable on investments.

Note 9
Inter-fund accounts

54. Inter-fund accounts represent amounts due to or from other United Nations agencies. The transactions result mainly from expenditure incurred by UNOPS in the implementation of projects on behalf of other United Nations funds, programmes and specialized agencies and amounts owed by UNOPS to other United Nations agencies for services provided.

(Thousands of United States dollars)

	2008-2009	*2006-2007*
UNDP	237 731	277 148
UNFPA	411	1 524
Other United Nations entities	2 060	2 250
Total	**240 202**	**280 922**

55. The UNDP inter-fund balance of $237.7 million includes unliquidated obligations of $64.8 million accrued at the end of the biennium 2008-2009. UNDP reimburses UNOPS in the following year as and when disbursements against these unliquidated obligations occur.

56. In early 2009, regular settlement of the inter-fund balance with UNDP was introduced, and although UNDP-funded business increased in the biennium 2008-2009, the settlement routine resulted in a reduced inter-fund balance. Refer to note 7: cash and term deposits for more details.

Note 10
Contributions received in advance

57. Contributions received in advance represent the excess of cash received over expenditure incurred on cash-based projects at the end of the biennium 2008-2009.

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Contributions received in advance	404 054	116 856

58. The considerable increase, as compared to prior bienniums, is attributable to the significant growth in business relating to the implementation of projects funded by recipient Governments and other cash-based projects.

59. During the last quarter of 2009, UNOPS received contributions in advance amounting to $155.6 million, which represents 38 per cent of the closing balance at the end of the biennium 2008-2009. Of that amount, $25.1 million relates to a tuberculosis drug procurement project which stipulates extended and staggered delivery schedules ranging from 12 to 36 months. At 31 December 2009, two projects valued at $40 million were awaiting national government clearance to commence in-country project activities. Government approval was granted in early 2010. Furthermore, UNOPS manages trust funds of $83.8 million for its clients.

Note 11
Unliquidated obligations

60. Unliquidated obligations (ULO) include liabilities relating to the cost of personnel services received and contracts and purchase orders entered into as of 31 December 2009.

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Unliquidated obligations	218 797	197 861

61. While the increase in project delivery during the biennium 2008-2009 amounted to $589.1 million, the unliquidated obligation balance increased by only $20.9 million. At the end of the biennium 2008-2009, the unliquidated obligation balance stood at approximately 19.9 per cent of total project expenditure, whereas the comparative figure at the end of the previous biennium was 27.6 per cent.

62. About 33 per cent of the unliquidated obligations accrued at the end of the biennium 2006-2007 were cancelled during the first quarter of 2008. The comparative cancellations during the first quarter of 2009 reached 18 per cent, and the respective number for the first quarter of 2010 was only 8.6 per cent.

Note 12
Accounts payable

63. Balances of accounts payable as at the end of the biennium 2008-2009 were as shown below:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Payables to staff	1 000	3 100
Other payables	7 295	3 613
Total	**8 295**	**6 713**

64. Payables to staff comprise mainly of $0.8 million in payments owed to personnel who have separated and $0.1 million relating to travel advances raised but pending payment.

65. Other payables include an amount of $0.9 million relating to security charges by the Department of Safety and Security that are pending payment. The remaining balance relates to regular business transactions for which expenses were incurred but payment is pending.

Note 13
Employee benefits

66. End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits and commutation of the unused annual leave balance.

After-service health insurance: $10.6 million

67. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007, and 5 years for those who were recruited prior to that date.

68. The major assumptions used by the actuary to determine the liabilities for after-service health insurance were a discount rate of 6 per cent, health-care escalation rates of 8.4 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and 6.0 per cent in 2010 grading down to 4.5 per cent in 2027 and later years for medical plans outside the United States; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. Another factor in the after-service health insurance valuation is the consideration of contributions by all plan participants in determining the organization's residual liability. Thus, contributions from retirees are deducted from the gross liability; commencing with the 31 December 2009 valuation, a portion of the contributions from active staff is also deducted to arrive at the organization's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. Those ratios require that the organization's share shall not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the medical insurance plan.

69. On the basis outlined in paragraph 68, the net present value of the UNOPS accrued liability as at 31 December 2009, net of contributions from plan participants, was estimated by actuaries contracted by the Secretariat at $10,568 million.

70. Based on the assumptions in paragraph 68, it is estimated that the net present value of the liability would increase by 18 per cent and decrease by 14 per cent if medical cost trend is increased and decreased by 1 per cent respectively, all other assumptions held constant. Similarly, it is estimated that the accrued liability would increase by 19 per cent if the discount rate were decreased by 1 per cent and decrease by 15 per cent if the discount rate were increased by 1 per cent, all other assumptions held constant.

Repatriation benefits: $4.1 million

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

72. An independent actuary was engaged by the Secretariat to carry out an actuarial valuation of repatriation benefits in respect of UNOPS staff as at 31 December 2009. Previously, the liabilities for repatriation benefits were calculated based on current costs as of the reporting date, without discounting or other adjustments. The major assumptions used by the actuary were a discount rate of 6 per cent; annual salary increases ranging from 5.5 per cent to 10.6 per cent based on age and category of staff member; and travel cost increases of 4 per cent per annum.

Unused annual leave: $0.8 million

73. Upon separation, staff members may commute unused annual leave days up to a maximum of 60 working days for staff holding fixed-term or continuing appointments.

74. A consulting actuary was engaged by the Secretariat to carry out an actuarial valuation of unused vacation days as of 31 December 2009. Previously, the liabilities for unused annual leave days were calculated based on current costs as of the reporting date, without discounting or other adjustments. The major assumptions used by the actuary were a discount rate of 6 per cent; and an annual rate of increase in accumulated annual leave balances of 15 days in the first year, 6.5 days per year in the second to sixth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days. The salary is assumed to increase annually at rates ranging from 10.6 per cent to 5.5 per cent based on age and category of the staff member.

75. Total employee benefit liabilities relating to after-service health insurance, repatriation grant and unused annual leave as at 31 December 2009 amounted to $15.5 million and were fully funded.

76. Staff separation costs pending payment at the end of the biennium 2006-2007 for an amount of $0.4 million were reclassified in the biennium 2008-2009 as “payables to staff”; see details under note 12: accounts payable.

77. In the financial statements for the biennium 2006-2007, the accrued liability recorded for after-service health insurance was based on an actuarial valuation whereas the liabilities for repatriation benefits and unused annual leave were recorded on the basis of current costs without discounting or other adjustments. However, in the notes to the financial statements for the biennium 2008-2009, those liabilities are disclosed on the basis of an independent actuarial valuation.

78. As mentioned in paragraph 21, UNOPS changed its accounting policy with regard to valuation of its employee benefit liabilities. The effect of the change in accounting policy on unused annual leave and repatriation benefits is that the liability on unused annual leave decreased by $1.8 million whereas the liability on repatriation benefits increased by $1.6 million, leaving a net effect of a decrease in the total liability by $0.2 million. The change in accounting policy to an actuarial basis for determining the liability for unused vacation days has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation as of 31 December 2007. Had the methodology used previously been continued, the liability would have been $2.6 million. Hence, the effect of adopting this new policy in the current period is a decrease in both the liabilities and accrued expenses in the amount of $1.8 million.

79. The change in accounting policy to an actuarial basis for measuring the liability for repatriation benefits has not been applied retroactively, due to the impracticality of undertaking an actuarial valuation as of 31 December 2007. Had the previously used methodology been continued, the liability would have been $2.6 million. Hence, the effect of adopting this new policy in the current period is an increase in both the liabilities and expenses in the amount of $1.6 million.

80. The reserves for termination indemnity, relocation grant and related travel costs created in the biennium 2006-2007, were reversed during the biennium 2008-2009, and the respective amount of $2.3 million is reflected accordingly in the

income statement as “prior period adjustments-other”. Refer to note 6: prior period adjustments for additional information.

81. The net liabilities as at 31 December 2009 as described in paragraphs 75 through 79 above are summarized in the following table:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
After-service health insurance gross obligation	17 394	7 750
Offset from retiree contribution	(6 826)	(1 760)
Net liabilities	**10 568**	**5 990**
Repatriation grant	4 132	2 582
Annual leave	832	2 409
Subtotal	**15 532**	**10 981**
Separation and termination	1 257	226
Relocation grant	0	1 470
Travel cost relating to separation	0	590
Staff separation costs pending payment as at 31 December	0	367
Total	**16 789**	**13 634**

82. At the time of this report, the United Nations General Assembly has not invoked the provision under Article 26 relating to actuarial deficiency payments to UNJSPF. Hence, at present there is no liability on the part of UNOPS to make extraordinary payments to UNJSPF.

Note 14
Operational reserves

83. As mentioned in note 2, paragraph 24, “operational reserves”, the formula for calculating operational reserve requirements was originally approved by the Executive Board in 2003 and stipulated that the operational reserve should be equivalent to 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years of operations. Based on that formula, for the biennium ending 31 December 2009 the operational reserve requirement was $42.1 million. Actual UNOPS operational reserves for the biennium ended 31 December 2009 amounted to $42.7 million.

84. The main purpose of the operational reserves is to provide for temporary deficits, fluctuations or shortfalls in resources, uneven cash flows, unplanned increases in costs or any other contingencies, and to ensure continuity in the implementation of the projects undertaken by UNOPS.

Note 15
Provisions and write-offs of receivables

85. The changes in provisions and write-offs during 2008-2009 were as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Opening balance on 1 January	25 984	9 356
Used during the biennium (net)	(11 740)	390
Increase during the biennium	22 076	16 238
Closing balance on 31 December	**36 320**	**25 984**

86. During 2008-2009, an amount of $11.74 million was written off against the provisions that had been made in the prior bienniums. Details on write-offs approved during 2008-2009 are provided in the table below:

(Thousands of United States dollars)

Amount of provision used during the biennium	*2008-2009*	*Amount recommended for write-off by Headquarters Committee on Contracts*
UNDP: inter-fund balances relating to the period 1998-2005	5 539	5 539
United Nations entities: inter-fund balances relating to the period 1998-2005	3 303	3 654
Imprest accounts: the Sudan and Sri Lanka	597	597
Distressed bank: Bancafé International Bank Ltd., Guatemala	191	
Irrecoverable imprest advances recoverable locally (project 44648)	40	
Imprest accounts recovered (written off in prior bienniums)	(864)	
Afghanistan: secondary roads project (project 33267)	1 404	
Afghanistan: emergency customs modernization (project 38222)	718	
Afghanistan: election project (project 40105)	78	78
Afghanistan: Kabul school construction (project 57362)	50	
Sierra Leone: health service (project 31083)	84	
Information and communications technology for development: preparatory assistance (project 30356)	7	
2004-2005 rental receivables at the Chrysler building in New York	575	
Staff receivables	18	
Total	**11 740**	**9 868**

87. Provisions made at the end of 2008-2009 were as follows:

Description	Closing balance 2009
Project-related provisions	
Prior to 2004	3 423
Significant provisions within the $3.4 million include the following: • $0.8 million: cash deficits on Operational Satellite Applications Programme, project 30526 • $0.8 million: overspent CFC Kenya project 31014 • $0.4 million: relates to unreported prior period expenditure project 30926 • $0.4 million: UNDP Global Environment Facility Kenya project 30944	
2004-2007	9 344
Significant provisions within the $9.3 million include the following: • $5.0 million: relates to project 33267, Afghanistan secondary roads. This provision was made as a result of claims by contractors ($3 million) and the resultant legal fees to settle the matter ($1.3 million). There was also an overexpenditure of $0.7 million. • $0.7 million: fraudulent vendor in the Sudan under project 57994 • $0.7 million: aggregate amount of overexpenditure in relation to 74 United Nations Office on Drugs and Crime projects • $0.6 million: WHO basic health project 48286 • $0.5 million: UNICEF office and guest house construction in the Sudan, project 46010 • $0.5 million: rehabilitation of women's dormitory funded by UNESCO, project 36822	
2008-2009	131
Significant provisions within the $0.1 million include the following: • $ 0.1 million: possible rejects of expenditure under Afghanistan election observation mission, project 71166	
UNDP: inter-fund-related (mostly prior to 2007)	18 257
The unreconciled difference in the inter-fund account with UNDP as at the end of 2006-2007 was $40 million. That amount relates to expenditure incurred by UNOPS against projects implemented on behalf of UNDP but rejected when reported. After an extensive analysis and coordination between the finance teams in both organizations, the difference was reduced to $18.26 million and consists of unresolved items dating back to 2005-2007 and prior periods. Details of the outstanding balance as at 31 December 2009 are as shown below: • $2.7 million: relates to Afghanistan election projects 30003, 30386 and 40105 • $0.9 million: relates to projects from 2004 and before • $10.9 million: relates to various project expenditures incurred during 2005 • $2.6 million: expenses relating to Afghanistan election project 40105 • $0.7 million: relates to unreconciled refunds made on various projects in 2007 • $0.25 million: potential rejects regarding project expenditure reported in late 2009	
Distressed bank in the Sudan and cash losses	908
In 2009 UNOPS became aware of financial difficulties at Nile Commercial Bank in the Sudan, and during the course of the year a very small balance was recovered from the bank. Hence, a full provision is made against the remaining balance in the bank account.	

Description	*Closing balance 2009*
Doubtful receivables relating to other United Nations funds, programmes and specialized agencies	1 310
In 2006, a massive clean-up exercise was undertaken to clear the remaining outstanding balances stemming from the pre-enterprise resource planning modality of settling inter-agency transactions through the use of inter-office vouchers. Following the outcome of that exercise, balances with agencies were followed up and then settled or written off. Documentation is available against a balance of $1.31 million and discussion with the relevant agencies is ongoing. However, considering the age of the remaining balances and the cost of such collection process, UNOPS is taking a conservative approach and has made a provision for the full outstanding amount.	
Claims from other agencies	1 229
These relate to recent claims from FAO and the United Nations Office at Geneva. The one from FAO is for $0.4 million for the services rendered. The claim from the United Nations Office at Geneva for $0.8 million relates to payroll expenses during the period 2001-2004. The validity of both claims is still under investigation by UNOPS.	
Doubtful staff receivables	45
Salary advances to separated staff going as far back as 2004. These are likely to be declared unrecoverable.	
Doubtful advances recoverable locally	382
These relate to advances recoverable locally paid during the period 2005-2007 in the Sudan office. Due to the age of the outstanding amount and the lack of supporting documentation, a provision has been created for the entire outstanding amount.	
Staff claim	40
The United Nations Dispute Tribunal ruled in favour of a staff member who made a claim against UNOPS. Though UNOPS is in the process of filing an appeal against the ruling, a full provision has been made against the estimated amount of compensation to be paid to the staff member.	
General provision relating to prior year unliquidated obligations	1 250
Unliquidated obligations at the end of the biennium 2008-2009 amounted to $218.8 million. During the first quarter of 2010, $18.8 million or 8.6 per cent of the unliquidated obligations was reversed. UNOPS created a provision for unliquidated obligation reversals of $1.25 million based on a conservative estimate of 10 per cent of $218.8 million and by applying the average management fee earned during 2009.	
Total provisions as at 31 December 2009	**36 320**

88. UNOPS for the first time made a general provision of $1.25 million relating to prior year unliquidated obligations.

Note 16
Property, plant and equipment

89. During the biennium 2008-2009, UNOPS introduced detailed policies and process guidance relating to the management of property, plant and equipment. The legislative framework included several chapters in the revised UNOPS financial regulations and rules that took effect on 1 February 2009 and a new administrative instruction on management of property, plant and equipment which incorporated, among other changes, the revised definitions and classifications of these items, new guidance on proposed useful lives of such items, elements of future depreciation policy and more stringent property, plant and equipment management controls.

90. The historical cost of fully expended property, plant and equipment as at the end of the biennium 2008-2009 was as follows:

(Thousands of United States dollars)

	2008-2009	*2006-2007*
UNOPS headquarters		
Opening balance	3 810	5 522
Additions during biennium	628	857
Disposals during biennium	(457)	(2 653)
Disposals due to revision of assets threshold	(1 011)	—
Adjustment to opening balance	—	84
Closing balance	**2 970**	**3 810**
UNOPS regional offices and operations centres		
Opening balance	6 509	6 850
Additions during biennium	4 541	2 606
Disposals during biennium	(1 968)	(3 334)
Disposals due to revision of assets threshold	(1 414)	—
Adjustment to opening balance	—	387
Closing balance	**7 668**	**6 509**
Total closing balance	**10 638**	**10 319**

91. Capitalized assets are neither amortized nor depreciated.

92. Of the total capital assets of $10.6 million, 3 per cent, or $0.3 million of assets were not in use at year end and identified for disposal. UNOPS follows corporate governance processes for asset write-offs, which are in progress for the $0.3 million in assets identified for disposal.

93. Owing to the increase in the capitalization threshold, from $1,000 to $2,500, prescribed by the revised financial regulations and rules, items valued at $1,011 million at headquarters and $1,414 million in field locations no longer met the definition of capital assets. However, for monitoring and control purposes, UNOPS offices keep asset registers to record “attractive assets” below the $2,500 capitalization threshold. The value of such assets was $0.5 million at headquarters and $1.3 million at regional offices and operations centres.

Note 17
Extraordinary transfer to operational reserves

94. In September 2007, the Executive Board approved the UNOPS/UNDP senior management decision regarding the partial merger of the Inter-Agency Procurement Service Organization with UNOPS, effective 1 January 2008.

95. UNOPS acquired control over the direct procurement services carried out by the Inter-Agency Procurement Service Organization, which relate to such common user items as vehicles, office machines and communication equipment. UNOPS

assumed responsibilities for managing the e-procurement platform UN Web buy and services in support of the United Nations procurement system: the United Nations Global Marketplace and the production of annual statistical reports on procurement activities of the United Nations system.

96. In accordance with the memorandum of understanding, UNDP and UNOPS agreed to a one-time transfer of $3.9 million from the operational reserve of the Inter-Agency Procurement Service Organization to UNOPS to cover future liabilities associated with staff transferred from that organization to UNOPS, and to make a contribution towards start-up costs and business risks assumed by UNOPS from 1 January 2008. Those funds have been recognized directly in reserves.

Note 18
Contingent liabilities

97. Contingent liabilities are potential obligations that may be incurred depending upon the occurrence and outcome of future events. The contingent liabilities as at 31 December 2009 amounted to approximately $41.2 million, which represents management's good faith estimate of the upper limit of the possible financial exposure inclusive of costs and disbursements in relation to the currently pending litigations and claims.

98. A summary and details of contingent liabilities in accordance with the assessment of the General Counsel as at the end of the biennium 2008-2009 are shown in the tables below:

(Thousands of United States dollars)

Description	*No money due to the claimants as at 31 December 2009*	*UNOPS seeking to resolve amicably*
Project-related claims from contractors that are or may potentially end up in arbitration	40 719	635
Staff-related claims	480	
Total	**41 199**	**635**

Litigation and claims

	Name of entity	*Management's description of matter (including current status and amount claimed)*	*Management's estimate of the financial exposure (inclusive of costs and disbursements)*	*Potential financial exposure*	*Attorney's assessment*
1	Contractor 1 versus UNOPS	Claim by contractor for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $573,900	Potential financial exposure: $573,900 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	574	Current assessment is that no money is due to the claimant from UNOPS under the contract.
2	Contractor 2 versus UNOPS	Claim by contractor for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $767,400	Potential financial exposure: $767,400 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	767	Current assessment is that no money is due to the claimant from UNOPS under the contract.
3	Contractor 3 versus UNOPS	Claim by contractor for reimbursement for escalation in the cost of base construction materials. Status: notice of intention to pursue amicable settlement served to UNOPS. Amount claimed: $264,900	Potential financial exposure: $264,900 (subject to the final ruling of an arbitral tribunal) and arbitration-related expenditure to be determined.	265	Current assessment is that no money is due to the claimant from UNOPS under the contract.
4	Contractor 4 versus UNOPS	Claim by contractor for wrongful termination of contract. Status: notice of dispute served to appointing authority in accordance with UNCITRAL Arbitration Rules. No formal notice since 2007. Amount claimed: $509,900	Potential financial exposure: $509,900 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	510	Current assessment is that no money is due to the claimant from UNOPS under the contract.
5	Contractor 5 versus UNOPS	The contractor claims an engineer's mistake on the design of the project and subsequent losses. Contractor 5 has already disclosed its intention to proceed with conciliation as per UNCITRAL rules. Amount claimed: $8,000,000	Potential financial exposure: $8,000,000	8 000	Current assessment is that no money is due to the claimant from UNOPS under the contract. However, up to $900,000 may be chargeable to the project, with respect to liquidated damages applied by UNOPS and for which payment may be due to claimant.
6	Contractor 6 versus UNOPS	A bid protest was sent to UNOPS on 16 April 2008 claiming that UNOPS awarded a contract in error to contractor as, in accordance with protestor's interpretation, bid opening report showed error in price that favoured contractor and made it appear to be the second lowest bidder. Amount claimed: $145,500	Potential financial exposure: $145,500	146	Current assessment is that no money is due to the claimant from UNOPS under the contract.

	Name of entity	Management's description of matter (including current status and amount claimed)	Management's estimate of the financial exposure (inclusive of costs and disbursements)	Potential financial exposure	Attorney's assessment
7	Contractor 7 versus UNOPS	Potential claim. UNOPS cancelled an award to this company for failure to provide a performance guarantee. UNOPS attempted to cash in its bid security. In reply, the contractor indicated its intention to seek arbitration. The claimant informed of its intention to seek arbitration on 3 September 2008. No formal notice yet.	Potential financial exposure: none specified. Contract value was approximately $4,600,000. Assuming it can be proven that UNOPS was at fault, claimable loss would depend on factors such as whether contractor found a replacement buyer.	4 600	Current assessment is that no money is due to the claimant from UNOPS under the contract.
8	Contractor 8 versus UNOPS	Potential claim. The claimant has now indicated possibility of counterclaim should amicable settlement fail. Amount claimed: $248,800 plus interest and additional costs (e.g. reputational damage)	Potential financial exposure: $248,800 plus interest and additional costs (e.g. reputational damage)	249	Current assessment is that no money is due to the claimant from UNOPS under the contract.
9	Contractor 9 versus UNOPS	Lawsuit relates to UNOPS assistance under UNDP project in Guatemala where UNOPS hired contractor 9 for construction of court building. The counterpart and beneficiary of this action is a judicial body in Guatemala which has not agreed with final payments to be made by UNOPS to the contractor since this judicial body believes that the quality of work was substandard and that the remaining issues must be taken care of before final payments can be made and retentions released. The judicial body also claims that deductions should be made from the payments due, by way of invoking the clause on liquidated damages. Amount claimed: $635,000	Potential financial exposure: $635,000	635	UNOPS is trying to settle this claim amicably. Current assessment is that no money is due to claimant from UNOPS.
10	Contractor 10 versus UNOPS	The claimant leased equipment to a UNOPS contractor and the equipment has been retained by UNOPS after the expulsion of the contractor from the site for default, in accordance with the terms of the contract. Claimant has demanded the return of the equipment and/or compensation. UNOPS is no longer in possession of the equipment, which has been sold to offset the costs incurred by UNOPS in completing the construction works, pursuant to negotiated settlement with the	Amount of claim not specified.	0	Current assessment is that no money is due to the claimant from UNOPS.

	Name of entity	Management's description of matter (including current status and amount claimed)	Management's estimate of the financial exposure (inclusive of costs and disbursements)	Potential financial exposure	Attorney's assessment
		contractor. Claimant does not have recourse to arbitration or formal dispute resolution methods as no contractual relationship existed between UNOPS and claimant.			
11	Contractor 11 versus UNOPS	The claim consists of claims by nine companies in relation to 11 contracts. The claim was submitted to UNOPS as a "class action" claim but will be split into individual claims should it reach formal dispute resolution. The claimants argue that they were entitled to the payment of bonuses on their construction contracts, which were not paid to them by UNOPS. Amount claimed: $2,178,000	Potential financial exposure: $2,178,000	2 178	Current assessment is that no money is due to the claimants from UNOPS under the contracts.
12	Contractor 12 versus UNOPS	Arbitration action initiated based on claim for additional costs in the amount of $378,500 in relation to a construction contract.	Potential financial exposure: $378,500 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	379	Current assessment is that claims are without merit.
13	Contractor 13 versus UNOPS	Contractor 13 claims that a contract between it and UNOPS (for the supply of electronic and communications equipment) in the amount of $84,500,000 was formed via a document dated 23 April 2006 signed by the then UNOPS country coordinator. The UNOPS review indicates that the document was not intended to be a binding contract (e.g. no UNOPS project was ever established for this activity and no approval to sign any such contract was ever sought from the UNOPS contracts committees or Chief Procurement Officer). Amount: $23,000,000	Although contractor appears to claim full contract value (up to $84,500,000) from the financing bank, documents from contractor 13 purport to indicate some $23,000,000 in deliveries to UNOPS warehouse of goods and related services, the latter portion presumably covers the value of software allegedly created. UNOPS is conducting separate independent valuation of the goods. Moreover, it appears from discussions with the bank that contractor has drawn $67,000,000 against financing, as compared to full value of the credit facility ($84,500,000).	23 000	Current assessment is that claims are without merit.
14	Staff members versus UNOPS (four cases)	Staff members have filed claims against UNOPS on various matters, such as alleged wrongful termination of appointment or incorrect calculation of amount due on separation.	Assuming that the United Nations Dispute Tribunal accepts the staff members' claims in their entirety (notwithstanding UNOPS statements to the contrary), total potential cost is up to $450,000	450	Current assessment is that staff members' claims are without merit.

Note 19
Lease agreement

99. The lease agreement for the Chrysler Building in New York expires on 31 December 2014. Currently the lease agreement relates to only one floor which was leased at $1.78 million per year until the end of December 2009 and at $1.9 million per year for the remainder of the lease period (five years).

100. UNOPS has provided the lessor with a letter of credit for $3.0 million, issued by the Europe Arab Bank and valid until 30 April 2015.

101. The total outstanding liability relating to this lease agreement as at 31 December 2009 was $9.5 million. In both 2008 and 2009, the income generated by UNOPS through sub-leasing to tenants fully covered the costs payable to the lessor.

Note 20
Contributions in kind

102. Contributions in kind for the biennium amounted to $6.9 million, which includes the estimated market rental value of office and warehousing facilities provided by the Government of United Arab Emirates ($2.3 million) and office space provided by the Government of Denmark ($4.6 million). UNOPS relocated its Middle East Regional Office as of 1 March 2009 and relinquished its premises, including warehousing facilities, in Dubai on 30 June 2009.

Note 21
Budgetary performance

103. As reported in schedule 2, the final budget for 2008-2009 was $126.8 million. The actual expenditure during the same period was $126.1 million. The budget originally approved by the Executive Board for 2008-2009 was $119.5 million. Refer to note 2, paragraphs 25 and 26, “Budget comparison”, for more information on approval and subsequent revisions of the biennial administrative budget.

104. UNOPS is in the process of implementing the results-based management framework focusing on management results. Results-based management is composed of two main components, namely the balanced scorecard and results-based budgeting. The first UNOPS balanced scorecard was launched in 2008, which translated the UNOPS business strategy into actionable components to achieve desired management results. In 2009 UNOPS introduced a results-based budgeting pilot as the next step in preparation of results-based management implementation. By implementing results-based budgeting side by side with the balance scorecard, UNOPS ensures organizational focus on the functions and activities carried out.

105. With the full implementation of results-based budgeting planned throughout the organization in the budget preparation for the biennium 2010-2011, UNOPS aims to report its performance at the end of that period under the results-based management framework.

Note 22
Cash flow statement

106. The cash-flow balance at the end of the biennium 2008-2009 improved significantly compared to the situation that obtained at the end of the previous biennium. As explained in note 7: cash and term deposits, the three main contributing factors were the growth in business from cash-based projects, changes in the modality of cash settlement of inter-fund balances with UNDP and the set-up of a UNOPS-specific investment portfolio as well as investment of operational reserve and after-service health insurance balances during the biennium 2008-2009.

107. The $3.9 million shown as "extraordinary transfer to operational reserves" (see statement I) represents the share of the Inter-Agency Procurement Service Organization reserve that was transferred to UNOPS as a result of the partial merger of the two offices in January 2008. Refer to note 17: extraordinary transfer to operational reserves for more details.

Note 23
Disclosure of related parties and compensation of executive and other key management personnel

108. The table below provides information on the aggregate remuneration paid to executive management personnel.

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Number of individuals	2	2
Base compensation and post adjustments	838	610
Entitlements	109	355
Pension and health plans	157	120
Total remuneration	**1 104**	**1 085**
Outstanding advances against entitlements	15	—
Outstanding loans	—	—

109. For the purpose of the present disclosure, the Executive Director and the Deputy Executive Director are considered the executive management personnel as they have the overall authority and responsibility to plan, lead, direct and control the activities of the organization.

110. The aggregate remuneration paid to the executive management personnel includes the following: net salaries, post adjustment, entitlements such as representation allowance, rental subsidy, relocation grant and the employer pension and health insurance contributions.

111. Advances against entitlements made to executive management personnel are in accordance with the Staff Regulations and Rules of the United Nations.

112. Executive management personnel are eligible for post-retirement benefits, in accordance with the same rules as those applying to staff members, in line with *note 13*: employee benefits. As the actuarial valuation at the end of the biennium

2008-2009 provides information on these benefits at an aggregate rather than at individual staff level, it is not possible to reliably quantify their net present value in relation to executive management personnel only.

113. Executive management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

114. No comparative amounts have been presented for the biennium 2006-2007 in respect of either outstanding advances against entitlements or outstanding loans, as the data were maintained at an aggregate level and not at an individual staff level.

115. Other key management personnel include regional directors and directors at headquarters. The table in paragraph 116 below provides information on the aggregate remuneration paid to the other key management personnel.

116. The aggregate remuneration of other key management personnel is comprised of the same payroll components as those described in paragraph 109 above.

117. Advances against entitlements made to executive and other key management personnel are in accordance with the Staff Regulations and Rules of the United Nations and hence are on terms and conditions which are no more or less favourable than those that UNOPS offers to other personnel.

(Thousands of United States dollars)

	2008-2009	*2006-2007*
Number of individuals (average)	13	11
Compensation and post adjustments	2 836	2 373
Entitlements	901	1 163
Pension and health plans	594	505
Total remuneration	**4 331**	**4 041**
Outstanding advances against entitlements	74	—
Outstanding loans	—	—

118. No comparative amounts have been presented for the biennium 2006-2007 in respect of either outstanding advances against entitlements or outstanding loans, as the data were maintained at an aggregate level and not at an individual staff level.

119. Other key management personnel are eligible for post-retirement benefits as described in paragraph 111 above.

120. During the biennium 2008-2009 neither executive nor other key management personnel were in receipt of any performance-related monetary bonuses.

121. During the biennium 2008-2009, there were no known instances of executive or other key management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 24
Events after reporting date

122. As of the date of signing of the UNOPS financial statements and the related notes for the biennium ended 31 December 2009, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted those statements.

Annex I

United Nations Office for Project Services
Project delivery by Organization for Economic Cooperation and Development/Development Assistance Committee classification

(Thousands of United States dollars)

		2008	*2009*
Education	Education facilities and training	11 770	4 708
	Teacher training	2 329	790
	Primary education	7 280	13 703
	Secondary education	2 517	14 379
	Vocational training	2 218	0
	Higher education	0	11
	Advanced technical and managerial training	0	273
	Subtotal	**26 114**	**33 865**
Health	Health policy and administrative management	2 940	2 089
	Medical services	81 461	149 714
	Basic health care	4 106	47 006
	Basic health infrastructure	60 921	43 449
	Health education	7 822	2 141
	Malaria control	17 220	19 048
	Tuberculosis control	11 532	12 270
	Health personnel development	2 234	2 630
	Basic nutrition	717	0
	Subtotal	**188 952**	**278 348**
Population policies/programmes and reproductive health	Population policy and administrative management	167	726
	Reproductive health care	(5 210)	771
	Family planning	1 094	3 180
	STD control including HIV/AIDS	35 314	42 380
	Subtotal	**31 364**	**47 056**
Water supply and sanitation	Water resources protection	0	462
	Water supply and sanitation — large systems	20 546	4 663
	Basic drinking water supply and basic sanitation	133	(44)
	Waste management/disposal	3 003	3 443
	Education and training in water supply and sanitation	58	0
	Subtotal	**23 740**	**8 524**
Government and civil society	Economic and development policy/planning	1 402	1 840
	Public sector financial management	96	(3)

		2008	2009
	Legal and judicial development	30 545	27 090
	Government administration	91 108	77 388
	Strengthening civil society	9 264	9 537
	Elections	1 591	295
	Human rights	6 153	5 266
	Women's equality organizations and institutions	0	428
	Security system management and reform	4 364	14 488
	Landmine clearance	83 123	4 857
	Subtotal	**227 646**	**141 186**
Conflict prevention and resolution, peace and security	Security system management and reform	26 383	32 043
	Post-conflict peacebuilding	125 400	203 029
	Subtotal	**151 783**	**235 072**
Other social infrastructure and services	Social/welfare services	556	61
	Employment policy and administrative management	20 803	19 642
	Low-cost housing	584	426
	Culture and recreation	8 392	4 173
	Subtotal	**30 335**	**24 302**
Transport and storage	Transport policy and administrative management	282	3 092
	Road transport	103 245	77 417
	Rail transport	0	749
	Water transport	982	2 362
	Air transport	0	82
	Subtotal	**104 510**	**83 703**
Communications	Telecommunications	0	1 361
	Radio/television/print media	3 612	2 670
	Information and communication technology	1 418	3 132
	Subtotal	**5 030**	**7 163**
Energy generation and supply	Electrical transmission/distribution	1 079	427
	Oil-fired power plants	0	262
	Energy education/training	(0)	0
	Subtotal	**1 079**	**688**
Banking and financial services	Financial policy and administrative management	631	67
	Subtotal	**631**	**67**
Business and other services	Business support services and institutions	15 003	6 355
	Subtotal	**15 003**	**6 355**

		2008	2009
Agriculture	Agricultural development	4 449	4 865
	Agricultural land resources	122	(2)
	Agricultural water resources	354	2 080
	Agricultural inputs	2 915	(5)
	Livestock	25	25
	Agricultural education/training	446	436
	Agricultural financial services	5 050	65
	Subtotal	**13 361**	**7 462**
Forestry	Forestry development	505	200
	Subtotal	**505**	**200**
Industry	Small and medium-sized enterprises development	2 537	2 089
	Subtotal	**2 537**	**2 089**
Trade policy regulations and trade-related adjustment	Trade policy and administrative management	12	264
	Subtotal	**12**	**264**
General environmental protection	Environmental policy and administrative management	12 826	13 372
	Biosphere protection	28 624	20 291
	Biodiversity	6 868	7 353
	Site preservation	616	538
	Flood prevention/control	0	159
	Environmental education/training	60 307	60 435
	Environmental research	1 553	3 995
	Subtotal	**110 795**	**106 142**
Other multisector	Urban development and management	361	90
	Rural development	4 816	4 131
	Subtotal	**5 177**	**4 221**
Humanitarian aid	Material relief assistance and services	79 798	62 089
	Relief coordination; protection and support services	3 165	9 775
	Reconstruction relief and rehabilitation	31 591	22 345
	Disaster prevention and preparedness	9 625	7 065
	Subtotal	**124 179**	**101 273**
Other		(7 256)	2 677
	Grand total	**1 055 495**	**1 090 656**

Annex II

United Nations Office for Project Services
Project delivery by region

(Thousands of United States dollars)

Region and country or territory	*2008*	*2009*
Europe and the Commonwealth of Independent States		
Albania	632	578
Armenia	221	241
Austria	1 362	2 434
Belarus	736	656
Bosnia and Herzegovina	85	10
Bulgaria	581	867
Cyprus	2 547	2 296
Denmark	23 364	25 662
France	2 349	1 312
Georgia	36	38
Italy	4 043	8 253
Kazakhstan	615	1 940
Kyrgyzstan	344	355
Lithuania	474	57
Poland	127	—
Republic of Moldova	44	1 264
Romania	331	629
Slovakia	1	57
Spain	(1)	—
Switzerland	14 228	12 853
Tajikistan	591	107
The former Yugoslav Republic of Macedonia	481	372
Turkey	900	444
Turkmenistan	—	31
Ukraine	952	842
Uzbekistan	183	590
Yugoslavia	(703)	22
Kosovo	5 051	3 619
Subtotal	**59 575**	**65 527**
Arab States		
Algeria	17	—
Djibouti	137	(4)
Egypt	1 150	1 474

Region and country or territory	2008	2009
Iraq	32 857	28 628
Jordan	524	1 083
Lebanon	15 852	4 240
Libyan Arab Jamahiriya	45	86
Morocco	673	793
Qatar	110	(3)
Somalia	8 117	9 745
Sudan	100 724	103 564
Syrian Arab Republic	557	101
Tunisia	831	720
United Arab Emirates	909	—
Yemen	859	291
Occupied Palestinian Territory	12 542	25 506
Arab cluster	5 716	2 511
Subtotal	**181 619**	**178 735**
Asia and the Pacific		
Afghanistan	86 984	92 140
Bangladesh	3 311	2 359
Bhutan	221	331
Cambodia	1 724	1 116
China	140	40
Democratic People’s Republic of Korea	3 832	—
Fiji	846	856
India	77 959	142 450
Indonesia	19 099	10 176
Iran	684	923
Israel	142	267
Lao People’s Democratic Republic	2 340	841
Malaysia	1 016	1 235
Maldives	2 249	145
Mongolia	1 247	632
Myanmar	30 119	29 500
Nepal	2 273	3 087
Pakistan	5 026	8 076
Papua New Guinea	160	35
Philippines	1 292	2 389
Samoa	336	113
Sri Lanka	36 686	33 888
Thailand	1 470	1 345

Region and country or territory	*2008*	*2009*
Timor-Leste	1 797	1 722
Viet Nam	2 205	829
Subtotal	**283 157**	**334 494**
Africa		
Angola	2 067	780
Benin	706	736
Botswana	444	630
Burkina Faso	7 746	9 552
Burundi	3 595	3 034
Cameroon	1 007	994
Cape Verde	—	48
Central African Republic	862	515
Chad	6 264	5 871
Comoros	303	253
Côte d’Ivoire	18 877	10 190
Democratic Republic of the Congo	37 852	44 961
Eritrea	3 944	133
Ethiopia	7 364	7 632
Gabon	408	762
Gambia	188	373
Ghana	1 961	1 943
Guinea	284	417
Guinea-Bissau	379	576
Kenya	30 574	22 747
Lesotho	124	536
Liberia	5 059	5 386
Madagascar	4 191	1 365
Malawi	1 314	450
Mali	2 840	2 930
Mauritania	868	459
Mauritius	2 731	3 183
Mozambique	2 451	1 897
Namibia	594	749
Niger	4 403	2 601
Nigeria	1 474	4 563
Rwanda	798	519
Sao Tome and Principe	965	(5)
Senegal	15 865	6 089
Sierra Leone	2 534	1 668

Region and country or territory	*2008*	*2009*
Solomon Islands	81	62
South Africa	2 908	2 904
Swaziland	—	34
Togo	380	150
Uganda	1 542	2 109
United Republic of Tanzania	3 586	2 662
Zambia	1 524	2 198
Zimbabwe	830	2 262
Western Sahara	11	—
Africa	8 799	3 911
Central Africa	—	376
East Africa	—	200
Southern Africa	—	200
West Africa	—	500
Subtotal	**190 700**	**162 104**
North America		
United States of America	4 015	10 830
Subtotal	**4 015**	**10 830**
Latin America and the Caribbean		
Antigua and Barbuda	213	—
Argentina	14 316	65 947
Barbados	601	515
Belize	(2)	—
Bolivia (Plurinational State of)	844	656
Brazil	1 068	749
Chile	769	653
Colombia	3 847	4 087
Costa Rica	2 412	3 127
Cuba	229	542
Dominican Republic	738	592
Ecuador	957	887
El Salvador	5 748	5 568
Guatemala	10 555	8 259
Guyana	—	27
Haiti	10 846	9 904
Honduras	1 751	855
Jamaica	1 406	2 159
Mexico	792	828
Nicaragua	1 533	4 436

Region and country or territory	*2008*	*2009*
Panama	1 081	3 105
Paraguay	311	1 402
Peru	238 714	202 839
Suriname	303	72
Trinidad and Tobago	227	161
Uruguay	12 093	5 672
Venezuela (Bolivarian Republic of)	71	—
Subtotal	**311 421**	**323 044**
Global		
Projects (worldwide)	25 008	15 923
Subtotal	**25 008**	**15 923**
Total	**1 055 495**	**1 090 656**

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