United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2007

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-third Session
Supplement No. 5J
United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2007

and

Report of the Board of Auditors

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Letters of transmittal and certification

15 April 2008

The United Nations Office for Project Services hereby submits the financial statements for the biennium ended 31 December 2007.

We acknowledge that:

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

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

(c) 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. UNOPS internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas;

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

(e) The recommendations of the United Nations Board of Auditors and UNOPS 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) Robert Murphy
Director of Finance

The Chairman of the Board of Auditors
United Nations
New York
30 June 2008

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 2007.

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

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

Financial report for the biennium ended 31 December 2007

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 2007, together with the audited financial statements for the biennium. This submission is made in conformity with the Financial Regulations of UNOPS. The financial statements consist of three statements and two schedules, accompanied by notes which are an integral part of the financial statements, and cover all funds for which the Executive Director is responsible.

A. 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 (UNDP). As such, its financial activities for periods up to 31 December 1994 were reported by UNDP.

3. In June 1994, in its decision 94/12, the Executive Board recognized the need for a self-financing Office for Project Services and recommended to the General Assembly that the Office for Project Services should become a separate and identifiable entity.

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

5. In January 1995, in its decision 95/1, the Executive Board approved the UNOPS Financial Regulations as contained in document DP/1995/7/Add.1 as an annex to the Financial Regulations and Rules of UNDP. In conformity with its Financial Regulations, UNOPS maintains separate accounting and other financial records for:
   
   (a) The UNOPS account, to which all of the income to UNOPS derived from its services is credited and against which all operational costs of UNOPS are charged;

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

B. Accounting practices and policies

Financial Regulations and Rules

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

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

8. The total assets amounted to $386,114,000 for the biennium ended 31 December 2007 as compared to $218,509,000 for the biennium ended 31 December 2005. The increase in total assets was due to a modest increase in cash deposits, a reduction in accounts receivable and a significant increase in inter-fund balances. The liabilities increased by $146,900,000 for the biennium ended 31 December 2007 as compared to the previous biennium, and the increase was mostly due to a significant increase in unliquidated obligations.

Accounting policies

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

C. United Nations Office for Project Services account

10. As shown in statement 1, for the biennium ended 31 December 2007 UNOPS income from all sources totalled $125,928,000, and its administrative expenditure amounted to $89,607,000. Therefore, in 2006-2007, income exceeded administrative expenditure by $36,321,000. In the biennium ended 31 December 2007, provision and write-off of receivables of $16,238,000 and savings on prior period obligations of $622,000 were respectively recorded. Therefore, the net excess of income over expenditure (net revenue) amounted to $20,083,000. Comparative figures for the biennium ended 31 December 2005 were as follows: income and administrative expenditure totalled $118,671,000 and $115,939,000 respectively; therefore, the excess of income over expenditure was $2,732,000. The write-off was $10,182,000 and prior adjustment was $14,498,000. Therefore, the net revenue represented a shortfall of $21,948,000.

United Nations Office for Project Services income

11. Total income earned for the biennium ended 31 December 2007 of $125,928,000 was derived from the following sources: $98,438,000, or 78 per cent of the total, from project implementation services; $18,903,000, or 15 per cent of the total, from services provided to other United Nations agencies; $8,587,000, or 7 per cent of the total, from interest income and other miscellaneous income.

12. Compared to the income of $118,671,000 for the biennium ended 31 December 2005, UNOPS income for the biennium ended 31 December 2007 increased by $7,187,000, or 6 per cent.

1. Income from project implementation

13. The sources of income of $98,438,000 related to project implementation are provided in statement 1 to the financial statements. This income is the total of support costs and management fees which UNOPS earned for the biennium ended
31 December 2007 and was derived as follows: $25,971,000, or 26 per cent of the total, from the projects funded by UNDP and UNDP-administered trust funds; $60,716,000, or 62 per cent of the total, from projects implemented on behalf of other United Nations organizations; and $11,821,000, or 12 per cent of the total, from management fees for projects funded under the management services agreement modality. For comparison purposes, the support costs and management fees for the biennium ended 31 December 2005 totalled $45,631,000, or 48 per cent of the total, derived from the projects funded by UNDP and UNDP-administered trust funds; $40,139,000, or 42 per cent of the total, from projects implemented on behalf of other United Nations organizations; and $9,704,000, or 10 per cent of the total, from management fees for projects funded under the management services agreement modality.

Figure 1.1
Income from project implementation for the biennium ended 31 December 2005 and 31 December 2007

2. Other income

14. During the biennium ended 31 December 2007, UNOPS also earned the following other income: $18,903,000 advisory and reimbursable service income from the International Fund for Agricultural Development (IFAD), the Global Fund to Fight AIDS, Tuberculosis and Malaria and the United Nations Population Fund
(UNFPA); and $8,587,000 in miscellaneous income. For comparison purposes, in the biennium ended 31 December 2005 UNOPS earned $18,575,000 advisory and reimbursable service income and $4,622,000 in miscellaneous income.

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

15. The budget estimates approved by the Executive Board are not appropriations, nor does UNOPS take such approved budgets as authorizations to spend. The budgets approved by the Executive Board represent the best estimates of expenditure to be incurred; actual expenditure is incurred only when sufficient income is projected to be available.

16. As shown in statement 1 and detailed further in schedule 2, for the biennium ended 31 December 2007 UNOPS incurred administrative expenditure totalling $89,607,000 ($54,571,000 in 2006 and $35,036,000 in 2007), bad debt provision and write-off of receivables totalling $16,238,000, savings on prior periods totalling $622,000 obligations against total income of $125,928,000, resulting in a net revenue of $20,083,000.

**Operational reserve**

17. The Executive Board, in its decision 2001/14, approved the proposal to change the basis for the calculation of the level of the operational reserve of UNOPS to 4 per cent of the rolling average of the combined administrative and project expenditure for the previous three years, 4 per cent of which is $34,780,000. For the biennium ended 31 December 2007, statement 1 shows reserves and fund balances of $25,067,000, which is 72 per cent of the required level of the operational reserve. The comparative figures for the biennium ended 31 December 2005 are respectively $4,362,000 and 16 per cent.

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

18. During the biennium ended 31 December 2007 there were no ex-gratia payments made and no write-off of receivables. For comparison purposes, there were no ex-gratia payments during the biennium ended 31 December 2005, but there was write-off of receivables totalling $1,383,000.

**D. Special accounts**

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

**United Nations Office for Project Services portfolio**

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

Figure I.II
UNOPS portfolio for the biennium ended 31 December 2005 and 31 December 2007

21. For the biennium ended 31 December 2007, the total value of the portfolio amounts to $2,370,965,000 and was derived as follows: $719,186,000 or 30 per cent of the total, from UNDP-funded and UNDP-administered trust fund projects; $1,178,027,000, or 50 per cent, from projects implemented on behalf of other United Nations organizations; $473,752,000, or 20 per cent, from projects funded under the management services agreement modality. For comparison purposes, the portfolio for the biennium ended 31 December 2005 totalled $1,020,390,000 and was derived as follows: $416,172,000, or 41 per cent of the total, from UNDP-funded and UNDP-administered trust fund projects; $296,070,000, or 29 per cent of the total, from projects on behalf of other United Nations organizations; and $308,148,000, or 30 per cent of the total, from projects funded under the management services agreement modality.

Project expenditure (United Nations Office for Project Services delivery)

22. For the biennium ended 31 December 2007, schedule 1 shows that UNOPS incurred project expenditure (including support costs and management fees) totalling $1,655,500,000, of which $393,750,000, or 24 per cent, was derived from UNDP-funded and UNDP-administered trust funds projects; $991,456,000, or
60 per cent, from projects implemented on behalf of other United Nations organizations; and $270,294,000, or 16 per cent, from projects funded under the management services agreement modality. For comparison purposes, for the biennium ended 31 December 2005, UNOPS incurred project expenditure (including support costs and management fees) totalling $1,494,144,000, of which $699,238,000, or 47 per cent, was derived from UNDP-funded and UNDP-administered trust fund projects; $613,179,000, or 41 per cent, from projects implemented on behalf of other United Nations organizations; and $181,727,000 or 12 per cent, from projects funded under the management services agreement modality.
Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Office for Project Service (UNOPS) for the biennium ended 31 December 2007. The audit was carried through field visits to the Middle East Office in Dubai and the Asia and Pacific Office in Bangkok, as well as a review of the financial transactions and business operations at headquarters in Copenhagen.

The Board also addressed special requests made by the Advisory Committee on Administrative and Budgetary Questions and the General Assembly.

The Board issued a modified opinion with three emphasis of matter paragraphs on the financial statements for the period under review, as reflected in chapter III.

The emphasis of matter paragraphs related to the following:

(a) UNOPS had an inter-fund debt with UNDP, amounting to $9.9 million in 2005, which could not be confirmed. The unconfirmed difference had increased to approximately $33.9 million as at 31 December 2007. UNOPS inter-fund account with UNFPA showed a difference of $0.602 million, which UNOPS was investigating. The Board obtained confirmations from five other United Nations agencies and noted differences amounting to $1.03 million. The Board was not able to confirm 21 balances with other entities that amounted to a net difference of $0.6 million;

(b) The Board reported shortcomings in asset management, and noted significant errors in asset registers that supported the amount of $10.3 million disclosed in note 14 of the financial statements. UNOPS performed a comprehensive review of all the submissions received from its regional offices and operations centres and made adjustments of $2.3 million (related to the way assets were recorded) to the value of non-expendable property disclosed. As this was performed subsequent to the Board’s detailed audit fieldwork, the Board was unable to verify the accuracy and completeness of the corrections made;

(c) In UNOPS transition to Atlas in January 2004, there were instances where balances and transactions relating to projects were not accurately transferred, resulting in ineffective controls to perform project management and monitoring in Atlas. As a result of the above, UNOPS had not exercised strict reconciliation of its income received in advance account, and had charged project overexpenditure to that account, thus under-recording expenditure. During the biennium 2005-2007, UNOPS had focused on improving its project controls, which was ongoing.

The Board issued a qualified audit opinion in its previous audit report (2004-2005) and included seven emphases of matter paragraphs. The qualification related to the inter-fund receivable balance recorded by UNOPS that could not be confirmed with UNDP; the Board was not able to assess the reasonability of the unconfirmed balance or the adequacy of the provision raised.

The Board’s emphases of matter paragraphs in the biennium 2004-2005 related to the inadequate level of reserves; the disclaimer in 2002-2003 relating to the
imprest accounts, the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) inter-fund accounts, non-expendable equipment and staff separation costs; significant weaknesses in the accounting and internal control system; inadequate cost control of projects and potential for further under-recoveries on projects; concerns cited by the internal audit about activities at UNOPS which affected the control environment and project deliverables; discrepancies in non-expendable property registers which represented the amounts disclosed as comparatives in the biennium 2004-2005 financial statements; and lack of reconciliation of UNOPS bank and imprest accounts. UNOPS has made good progress in improving its level of reserves and addressing various weaknesses in its internal control, accounting and imprest functions. Moreover, compared with the very significant delays and errors in the submission of financial statements in the previous biennium, UNOPS had submitted its financial statements for the current biennium on time.

Coordination with internal audit

During the biennium, responsibility for internal audit shifted from the Office of Audit and Investigations of UNDP to the newly established UNOPS Internal Audit Office. The Board coordinated with the Internal Audit Office and the Office of Audit and Investigations in the planning of the audit in order 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 reliance could be placed on the work of the Internal Audit Office and the Office of Audit and Investigations.

Follow-up of previous recommendations

In response to the request of the Advisory Committee on Administrative and Budgetary Questions and in line with paragraph 7 of General Assembly resolution 59/264A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial periods in which such recommendations were first made.

The Board recognized that UNOPS had less time than is usually the case to implement all recommendations within the biennium 2006-2007 owing to the late completion of the audit for the biennium 2004-2005.

Financial overview

UNOPS activities include comprehensive project management, implementation of projects under execution by other organizations, project supervision and management of services for multilateral and bilateral institutions and beneficiary-financed projects. For these activities, UNOPS incurs expenditure and recovers its cost through charging fees to its clients. UNOPS statement 1 represents income generated and expenditure incurred for its own account. Schedule 1 of UNOPS financial statements reflects the results of project activities undertaken.

For the period under review, total income was $125.9 million, compared with $118.6 million for the previous biennium, an increase of 6 per cent. Total expenditure amounted to $89.6 million, compared with $115.9 million for the previous biennium, a decrease of 29 per cent. This resulted in an excess of income over expenditure of $36.3 million, compared with an excess of $2.7 million in the preceding biennium.
Project expenditure for activities undertaken amounted to $1.66 billion, compared with $1.49 billion for the previous biennium, an increase of 11 per cent. Project income (fee earned) on these projects was approximately 5.9 per cent (on average) compared with 6.3 per cent in the previous biennium.

**Statement of income and expenditure**

UNOPS recorded lower cost recovery margins during the biennium 2006-2007 of 6.32 per cent compared with 6.83 per cent in the biennium 2004-2005. However, the volume of activities over the corresponding periods had increased, indicating a trade-off in margins to expand operations. The cost recovery and client pricing policy had not been put into effect during the biennium, but was promulgated on 26 February 2008.

UNOPS recorded unliquidated obligations of $197.8 million in the biennium 2006-2007. The Board noted debit balances in unliquidated obligations amounting to $414,000 that had been included in error, resulting in understatement of unliquidated obligations and expenditure recorded by UNOPS. The Board also noted that UNOPS had not maintained evidence of regular reviews of open unliquidated obligations throughout the biennium.

The Board was concerned that the accounting policy of UNOPS was not explicit on whether it followed United Nations system accounting standards or International Public Sector Accounting Standards (IPSAS) for revenue recognition, and that the accounting for revenue was in accordance with the United Nations system accounting standards without regard for the stage of completion concept, which could result in mismatching of costs and revenue. Given the business model of UNOPS, an accounting framework other than the United Nations system accounting standards would assist in addressing this.

UNOPS made provision for long-outstanding rental income of $550,000 that related to subletting its old New York City headquarters offices. It also incurred a loss of approximately $1.13 million, relating only to 2006, during which time its rental costs exceeded its rental income from subletting.

The Asia Pacific Office of UNOPS had not fully utilized the Atlas general ledger, resulting in weakened control over its finances.

**Statement of assets, liabilities and reserve and fund balances**

The operational reserve of UNOPS had increased from $4.3 million to $25 million as at 31 December 2007. This level was $9.79 million below the statutory level of operational reserve approved by the Executive Board.

The Board was concerned to have identified instances of inadequate controls to monitor project income received in advance. In some cases in the past, this account had been used to absorb costs of over-expended projects while regular follow-up had not been ensured. UNOPS had not fully reconciled, by the time of the audit, its project income received in advance account of $116.9 million (which had been recorded as $69.3 million on the initial submission of financial statements).

The Board noted long-outstanding (2004 and earlier) receivable balances that had not been resolved. UNOPS had not implemented adequate controls to review balances outstanding on a regular basis.
UNOPS was not able to provide an age analysis and supporting documentation for some of the accounts payable balances, and had not maintained adequate controls to review balances outstanding on a regular basis.

**Statement of cash flows**

The Board noted that the current assets of UNOPS were increasingly represented by inter-fund receivables, which accounted for 73 per cent of the total assets of UNOPS, thereby reducing the cash and term deposits reflected in the statement of cash flows.

**Inter-fund balances**

The balance of $9.9 million recorded as receivable from UNDP had not been resolved since its last report, and UNOPS had increased its provision during the biennium 2006-2007 to cover a total amount of $10.3 million. There were also new items that could not be agreed upon between UNOPS and UNDP by the time of the audit. The total of the differences as at 31 December 2007 amounted to $33.9 million. UNOPS and UNDP had not settled the inter-fund account, thus resulting in the equivalent of 11 months of transactions not settled as at 31 December 2007.

Differences totalling $0.602 million existed between the inter-fund balance of UNOPS and UNFPA, which UNOPS was resolving with UNFPA. The Board was unable to confirm four inter-fund balances with a net debit balance of $0.6 million owing to lack of clear description of those accounts. An inter-fund balance of $1.47 million due to UNDP was also not correctly disclosed with other inter-fund balances.

The Board sent confirmation letters relating to inter-fund balances of 26 agencies and received only five confirmations, all of which showed differences totalling $1.03 million. UNOPS made an additional provision of $3.69 million relating to the inter-fund balances with agencies.

**After-service health insurance liabilities**

Note 11 to the financial statements for the biennium 2006-2007 reflected a provision for end-of-service liabilities amounting to $13.6 million. Of this amount, $5.99 million represented after-service health insurance, $2.4 million related to unused annual leave credits, $0.2 million represented termination indemnity, $2.58 million represented repatriation benefits, and $2.43 million represented other separation costs. After-service health insurance was calculated as at 31 December 2005 at $41.7 million and a provision of $11.8 million was made. However, in the current biennium, based on updated staff information, the liability was recalculated and reduced to $5.99 million and has been fully provided for in the 2006-2007 financial statements.

The Board has validated the recorded end-of-service liabilities through reliance on the actuarial valuation done by the consulting actuary and the Board's own procedures. The Board noted the significant fluctuation in the level of the after-service health insurance provision in the biennium 2006-2007 and will keep this matter under review.
Financial statements disclosures

UNOPS did not disclose in its financial statements the composition of assets and liabilities balances that were denominated in currencies other than the United States dollar.

Progress towards the implementation of International Public Sector Accounting Standards

UNOPS did not have an IPSAS implementation plan to outline its strategy for the successful implementation in collaboration with other Atlas partner agencies, but it has made a budget for this activity.

Treasury management

UNOPS did not have any hedging arrangements against foreign exchange fluctuations with UNDP, which performs its treasury function. UNOPS had not assessed the extent of its foreign currency exposure.

The Board noted that the advances recoverable locally account, with a balance of $101,000, had been outstanding for longer than 90 days. There were inadequate monitoring controls to identify unusual advances recoverable locally as well as limits on advances recoverable locally. There were four imprest account balances that were not translated using the United Nations operational rate of exchange as at 31 December 2007. UNOPS did not yet reconcile the imprest account balances with the general ledger on a monthly basis.

Procurement and contract management

The standard operating procedures for the Procurement Unit process and its interface with other units, such as the Logistics Unit, and the Finance Unit, and with the Contact Centre at the Middle East Office had not yet been approved.

Some of the procurement services that the Middle East Office Procurement Unit renders to its operations centres were not formally documented.

The Middle East Office had not completed supplier performance evaluation reports for the 2006 and 2007 calendar years. There were also some weaknesses in the records and filing system of the Middle East Office.

UNDP had transferred part of the functions performed by its Inter-Agency Procurement Services Organization to UNOPS, effective January 2008, with the endorsement of the Executive Board and a formal agreement between UNDP and UNOPS. A one-time transfer of $3.9 million was agreed as a means to cover future liabilities associated with staff transferred from the Inter-Agency Procurement Services Organization to UNOPS, as well as to make a contribution towards start-up costs faced by UNOPS from 1 January 2008.

Asset management

The Board’s findings in respect of assets relates to a wide variety of problems in the recording of assets in asset registers. UNOPS performed a comprehensive review of all the submissions received from its regional offices and operations
centres and made adjustments of $2.3 million (related to the way assets were recorded) to the value of non-expendable property disclosed in its financial statements from a total value of $12.6 million to a revised value of $10.3 million. The Board was unable to verify the accuracy and completeness of the corrections made, as the audit fieldwork had already been concluded.

**Human resources management**

The Board was not provided with the staffing tables for the biennium 2006-2007, in relation to the head office, the Asia Pacific Office and Middle East Office, but the approved staffing table for the biennium 2008-2009 was provided.

UNOPS did not have a succession plan in place during the biennium to address the attrition of staff, but a policy was promulgated on 14 May 2008. Moreover, UNOPS gender balance policy was promulgated on 7 May 2008. UNOPS had not developed internal guidelines on timelines for filling vacancies until its recruitment policy was promulgated in May 2008. These recent policy changes indicate positive improvements in the domain of human resources management.

The organizational structure of UNOPS was not uniform in the two regional offices, resulting in different approaches to project management.

**Programme and project management**

The interest calculation on the UNDP inter-fund was not performed for the 2005 year and was only done in conjunction with the 2006 interest calculation.

Instances were noted in which UNOPS had incurred expenditure prior to receiving funds from donors. Moreover, project agreements did not always have paragraphs relating to financial arrangements that would normally include issues relating to the budget and the facility and administration fee.

The Atlas system did not have complete information because expenditure for projects that were started before Atlas implementation on 1 January 2004 was not transferred to Atlas, resulting, in some cases, in incomplete reports in respect of projects whose implementation had commenced prior to 2004.

UNOPS had not yet completed, at the time of audit, its clean-up exercise to determine all projects that should be operationally and financially closed on its Atlas system and analysis of the effect on its accounts.

Weaknesses were observed in the control environment at the Afghanistan Operations Centre.

The Board noted instances of overexpended projects amounting to $243,825. There were also projects with low value budgets and projects with minimal activity.

The Asia Pacific Office did not have adequate processes to systematically review encumbrances against project documents and rules provided by the United Nations system accounting standards.

The system of donor reporting was not integrated into the management reporting system and resulted in instances where donor reporting had not been performed in accordance with the agreements.
Internal audit findings

The Office of Audit and Performance Review had ended its internal audit services to UNOPS with effect from 30 June 2007 and had handed over the function to the newly established in-house Internal Audit Office.

The UNOPS Internal Audit Office performed work in accordance with an annual workplan that was based on the assessment of risks. During the 2007 period, the UNDP Office of Audit and Investigations and the UNOPS Internal Audit Office completed 24 audits (39 per cent) out of the 62 audit assignments planned for 2007. There were 14 audit assignments on which work was still in progress or services were ongoing as at 31 December 2007.

The Office of Audit and Investigations and the Internal Audit Office had completed only one regional office visit and the financial statement audit of management services agreement projects, and there was very limited coverage of headquarters and financial statement matters.

The Board noted the following with regard to internal audit:

(a) An audit assistant post was not filled and a consultant had been acting as Chief of the Internal Audit Office for a portion of 2007;

(b) The internal audit charter had not been developed during the biennium but was promulgated in April 2008;

(c) The three-year rolling and annual internal audit plans for 2008 had not been compiled;

(d) There was no evidence to indicate that standards relating to independence had been considered prior to commencement of any audit during the biennium.

The following is a summary of significant findings from audits performed by the Office of Audit and Investigations and the Internal Audit Office:

(a) Instances in which actual project expenditure exceeded both the budgeted levels and funds received;

(b) Instances of lack of timeliness and accuracy in project financial reporting to funding entities, as well as lack of adherence to UNOPS Financial Regulations regarding the project financial reporting period;

(c) Need for strengthening of monitoring and follow-up of long-outstanding cash advances;

(d) Cases of lack of clarity in the project implementation plan that had led to operational difficulties, construction delays and cost overruns;

(e) Instances in which limited use of Atlas was reported in the field, which led to inaccurate expenditure reporting;

(f) Some lack of complete records of bid documents or proposals;

(g) Lack of authorization to charge and transfer expenditure;

(h) Lack of guidelines in respect of operational procedures;

(i) Instances of segregation of the security access and approval functions of senior financial staff;
(j) Need to enhance the Atlas features related to asset and liability accounts, and inter- and intra-module reconciliations;

(k) Instances of lack of compliance with the asset management guidelines (Africa Regional Office, Afghanistan elections project and management services agreement projects in Afghanistan);

(l) Lack of a sound business proposal in purchasing equipment for lease to other projects in the Middle East Office.

Write-offs and disposals

UNOPS notified the Board that it had made write-offs amounting to $1.89 million related to old general ledger balances during the biennium. UNOPS explained that these balances had arisen mainly prior to the migration to Atlas in January 2004.

Ex gratia payments

UNOPS informed the Board that no ex gratia payments were made in the biennium 2006-2007.

Cases of fraud and presumptive fraud

UNOPS reported to the Board one case of fraud with an estimated loss of up to $13,000. Additionally, a few investigations relating to prior periods were under way at the end of the biennium.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 9 of the present report.
A. Introduction

1. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services (UNOPS) and reviewed its operations for the financial period from 1 January 2006 to 31 December 2007 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 (see ST/SGB/2003/7), as well as the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2007 and the results of its operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the UNOPS financial regulations and related UNDP financial 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.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNOPS operations under United Nations financial regulation 7.5, which requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNOPS operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report on them accordingly. Those matters are addressed in paragraphs 11 to 16 below.

4. The Board continued to report the results of audits to the Administration in the form of management letters containing detailed observations and recommendations. This practice allowed for ongoing dialogue with the Administration. In this regard, three management letters were issued covering the period under review.

5. Under the terms of the financial regulations, UNOPS is required to submit financial statements to the Board by 15 April of the year following the end of the biennium. UNOPS final certified accounts for the biennium 2004-2005 were submitted to the Board on 21 November 2006 and were revised and resubmitted on 25 January 2007. The Board’s audit report for the biennium 2004-2005 was finalized only on 29 June 2007, thus resulting in a delay in the planning and execution of the Board’s audit activities for UNOPS for the biennium 2006-2007.

6. Where observations in the present report refer to specific locations, such observations are limited only to the locations specified. They do not in any way imply that they are applicable to other locations nor do they imply lack of applicability to other locations.
7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board’s observations and conclusions were discussed with the Administration, whose views have been reflected in the report.

2. Coordination with internal audit

8. The Board continues to coordinate with the UNOPS Internal Audit Office in the planning of its audits in order to avoid duplication of effort and to determine the extent of reliance that could be placed on its work.

3. Main recommendations

9. The Board’s main recommendations are that UNOPS:

   (a) Continue to monitor profit margins of all its projects (para. 35);

   (b) Periodically review unliquidated obligations and correct any errors identified in a timely manner (para. 48);

   (c) Obtain quarterly certificates from all its business units confirming the validity of all recorded unliquidated obligations (para. 49);

   (d) Clarify the appropriate accounting standards for revenue recognition that it has applied in its accounting policies in its financial statements (para. 55);

   (e) Review its accounting policies regarding revenue recognition (para. 61);

   (f) Strengthen its processes at regional offices to ensure that all regional finance offices make use of financial reports in Atlas (para. 81);

   (g) Fund its operational reserve to the required level in a timely manner (para. 89);

   (h) Prepare an age analysis for contributions received in advance and expenditure incurred to be charged to clients (para. 96);

   (i) Implement controls to regularly review and sign off on staff receivables and other receivable balances (para. 100);

   (j) Develop a report in Atlas, which categorizes the accounts payable (account 21005) by creditor and provides related ageing; and implement controls to review overdue balances regularly (para. 103);

   (k) Implement procedures to ensure that financial data quality is regularly monitored and discrepancies are investigated; assess training needs for the Asia Pacific Office and the Middle East Office; request headquarters to perform data quality reports for the 2006 calendar year; and follow up and correct all data quality errors as reflected in the financial dashboard before year end (para. 109);

   (l) Always review budgets prior to approval; always use the correct chart of accounts code; and make no modification once a payment has been approved and posted (para. 110);
(m) Reconcile its transactions and balances with UNDP on a regular basis (para. 124);

(n) Obtain confirmations of all its inter-fund balances as part of its financial statements preparation process (para. 125);

(o) Settle inter-fund balances with UNDP in cash on a regular basis to enforce regular reconciliations in collaboration with UNDP (para. 127);

(p) 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 follow up on the differences in the inter-fund balances with other United Nations agencies (para. 138);

(q) Compile a formal plan for implementation of International Public Sector Accounting Standards (IPSAS) (para. 179);

(r) Perform a detailed analysis of exposure to currency fluctuations; and identify methods of managing the foreign exchange risk (para. 185);

(s) Implement policies to ensure that all operation centres submit, on a monthly basis, advances recoverable locally ledgers in the required format and detail; and include as part of month-end procedures the review of advances recoverable locally (para. 205);

(t) Formulate a standard operating procedure that provides further guidance on finance roles and responsibilities among all business units in UNOPS; and implement the monitoring and oversight mechanisms on Atlas at regional level in relation to operations centres (para. 219);

(u) Ensure that the Middle East Office implements processes to ensure that the standard operating procedures are approved and implemented as soon as possible (para. 224);

(v) Clearly document and agree with the operations centres as to the circumstances when the Middle East Office Procurement Unit will render specific procurement services to the operations centres (para. 228);

(w) Ensure that the Middle East Office will at all times complete supplier performance evaluation reports in accordance with the requirements of the UNOPS Procurement Manual (para. 232);

(x) Maintain proper contract files; and review contract files for completeness on a regular basis (para. 237);

(y) Have the operations centres apply strict rules for paperwork retention in a specific location at the end of a project (para. 238);

(z) Perform inventory counts and asset reconciliations on a regular basis, and maintain proper records relating to asset counts performed (para. 297);

(aa) Roll out the asset management module in Atlas to all regional offices; and ensure that all relevant staff receive the appropriate training prior to using the module (para. 305);

(bb) Identify assets that are required for project purposes and transport them to the project sites as soon as possible; identify assets which no longer
meet project requirements, and implement a process to dispose of those assets in a timely manner; return funds to donors after selling project assets; implement controls to monitor and prevent project assets from being stored at the warehouse for extended periods of time; and raise a liability for amounts to be refunded to donors (para. 316);

(cc) Agree with relevant donors to allow the Middle East Office to purchase project assets used for day-to-day activities and refund the money to the project; implement controls over project assets stored in warehouse facilities to ensure that these assets are utilized for project activities only; and together with operation centres, implement controls to enable project managers to better oversee assets purchased against project funds; investigate the circumstances around the misuse of project funds that allowed purchase of projects assets for use by the administration; and make an accounting entry to reverse the cost of assets purchased (and the related revenue) under projects (para. 322);

(dd) Reconcile the opening balances in the headquarters asset register with the closing balance as reported in the 2004-2005 financial statements (para. 326);

(ee) Provide the authorized staffing table to each regional office on an annual basis (para. 330);

(ff) Take appropriate action when delays are experienced in finalizing appointments (para. 345);

(gg) In conjunction with regional offices, review its approach to project management and ensure that a uniform system (where possible) is implemented within the UNOPS organizational structure (para. 366);

(hh) Implement controls to ensure that advance spending is incurred in compliance with its advance financing policy; and make appropriate disclosures of debtors in respect of advance funding or financing (para. 384);

(ii) Take further steps to ensure that the status of projects is regularly monitored and accurately reflected in Atlas; and urgently complete the project closure exercise (para. 406);

(jj) Collate and track all project expenditure against budgets on a cumulative and annual basis (para. 410);

(kk) Address weaknesses in the data quality in Atlas; and perform an in-depth analysis of all projects currently listed, and identify projects that need to be closed and projects that require or may require further funding in the future (para. 418);

(ll) Take urgent and strict measures to address the causes of the issues identified at the Afghanistan Operation Centre, and remedy them (para. 422);

(mm) Regularly reconcile budgets as reported by operations centres with Atlas; investigate and correct the reasons for the differences identified between budgets and expenditure recorded; offer additional training with staff at operations centres to enable consistent and accurate reporting; and address the backlog in processing of expenditure and disbursement by operations centres (para. 427);
Implement policies to hold project managers and operations centres offices more accountable for project delivery; review budget-setting methods and controls to ensure that budgets set and agreed with clients are more in line with expected delivery; improve monitoring controls at the Middle East Office over the performance of operations centres; take steps against operations centres that have under-delivered; and consider reducing administrative costs to make up for delivery shortfalls (para. 434);

Develop and approve a business growth strategy; adequately address the business risks associated with the new area of business; and implement adequate monitoring control over project performance and progress against targets (para. 442);

Improve its controls so that project-level system controls are improved, which would help in the detection and control of overspending; and project budgets are monitored on a regular basis to ensure that budgets are not exceeded (para. 448);

Monitor projects on a regular basis; enhance supervision of project managers whose projects reflect a pattern of low delivery; and review budget setting methods and controls to ensure that the budgets agreed with clients are more in line with expected delivery (para. 452);

Produce reports when it is required by the memorandum of understanding (para. 457);

Take measures to fully implement its workplan; and increase coverage of the regional office, headquarters and financial statements audit (para. 470);

In conjunction with its Internal Audit Office, perform a quality assessment exercise to assist in the strengthening of the internal audit function (para. 480);

Consider the establishment of an independent audit committee to strengthen the governance and oversight function in UNOPS (para. 485);

Implement the recommendations resulting from the Office of Internal Oversight Services review (para. 494).

The Board’s other recommendations appear in paragraphs 41, 45, 67, 75, 79, 130, 137, 161, 167, 172, 174, 189, 191, 194, 198, 209, 212, 213, 242, 265, 274, 278, 281, 284, 288, 293, 299, 302, 307, 309, 311, 334, 339, 353, 359, 371, 375, 390, 397, 421, 438, 454, 463, 466 and 476. These recommendations do not address sanctions or disciplinary steps which the Administration may wish to impose on defaulting officials for consistent failure to ensure compliance with the financial regulations and rules of UNOPS, administrative instructions and other related directives.
B. Detailed findings and recommendations

1. Follow-up of previous recommendations

11. In accordance with section A, paragraph 7, of General Assembly resolution 51/225, the Board reviewed the actions taken by UNOPS to implement the recommendations made in its report for the biennium ended 31 December 2005. It should be noted that the report for the biennium 2004-2005 was issued only on 29 June 2007, thus a full two years have not elapsed since then in order to assess the success of UNOPS interventions to address the Board’s recommendations.

12. Of the total 43 recommendations that were made, 22 were fully implemented, and 20 were partially implemented while one was overtaken by events (see annex).

Recommendations partially implemented

13. Based on its evaluation of UNOPS the Board noted that most of the recommendations that were partially implemented were due to be addressed within the framework of the business strategy. The strategy has been under implementation since January 2007 and is due to be completed by December 2009. The delay in the finalization of the 2004-2005 financial statements and consequently the audit process for that biennium, as explained elsewhere in the present report, had an impact on the rate of implementation of some of the recommendations.

Recommendations overtaken by events

14. The Board agreed with UNOPS that it might no longer be of benefit to perform imprest account reconciliation at the fund level as UNOPS had implemented alternate control procedures. The Board has therefore closed the recommendation on this matter.

Ageing of previous recommendations

15. The Board also evaluated the ageing of the recommendations made for the previous biennium that were partially implemented or not yet implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8). The financial periods for which such recommendations were first made are indicated in the annex.


2. Overall financial overview

Key financial ratios

17. Some key financial indicators, based on the financial position as at 31 December 2007, are set out in table II.1.
Table II.1
Ratios of key financial indicators

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Biennium ended 31 December</th>
<th>Component of 2006-2007 ratio&lt;br&gt;a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable/total assets&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.07 0.09 0.14</td>
<td>55 074/386 114</td>
</tr>
<tr>
<td>Inter-fund/total assets</td>
<td>0.54 0.54 0.73</td>
<td>280 922/386 114</td>
</tr>
<tr>
<td>Cash/total assets&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.23 0.37 0.13</td>
<td>50 118/386 114</td>
</tr>
<tr>
<td>Cash/liability&lt;sup&gt;d&lt;/sup&gt;</td>
<td>0.31 0.38 0.14</td>
<td>50 118/361 047</td>
</tr>
<tr>
<td>Asset/liability&lt;sup&gt;e&lt;/sup&gt;</td>
<td>1.35 1.03 1.07</td>
<td>386 114/361 047</td>
</tr>
<tr>
<td>Months in unliquidated obligations&lt;sup&gt;f&lt;/sup&gt;</td>
<td>3 3 3</td>
<td>197 861&lt;sup&gt;g&lt;/sup&gt;/851 103</td>
</tr>
</tbody>
</table>

<sup>a</sup> In millions of United States dollars.
<sup>b</sup> A low indicator depicts a healthy financial position.
<sup>c</sup> A high indicator depicts a healthy financial position.
<sup>d</sup> A low indicator is a reflection that insufficient cash is available to settle debts.
<sup>e</sup> A high indicator is a reflection of sufficient assets to cover all liabilities.
<sup>f</sup> A low indicator is a positive reflection that obligations are being liquidated.
<sup>g</sup> Twelve months.

18. During the biennium 2006-2007 UNOPS accounted for unliquidated obligations relating to UNDP of $88.5 million in its inter-fund with UNDP. Moreover, UNOPS separately recorded overexpended projects of $48.6 million, projects for which it had not received funding in advance, as receivables, as opposed to setting the balances against income received in advance in the previous biennium.

19. The Board noted that 73 per cent of UNOPS assets are owed by other United Nations agencies, of which the UNDP inter-fund constitutes over 90 per cent. The amount owed by UNDP constitutes approximately 11 months’ worth of business that UNOPS conducts with UNDP, excluding unliquidated obligations.

20. The cash to total assets ratio has decreased compared with the previous biennium, indicating that only 13 cents of total assets is readily available in cash to meet the immediate debt of UNOPS. The cash to liability ratio has remained poor compared with the previous biennium, indicating that for every dollar of debt, UNOPS has only 14 cents of liquid assets available to settle such debt as and when it falls due. However, these ratios will be substantially improved if UNOPS is able to quickly liquidate the large inter-fund receivable balances.

21. The solvency ratio of UNOPS (assets to liabilities) indicates that the agency is in a stable position, as it has $1.07 (2004-2005: $1.03) to service each dollar of debt when it falls due.

22. The accuracy of the above ratios and corresponding analysis is dependent on the validity of the underlying financial data, on which this audit report has noted some limitations.

23. Furthermore, the Board noted that unliquidated obligations represented six months of project expenditure (excluding UNDP and UNFPA) as compared with the prior biennium measure of three months. This is a reflection to a large measure of higher business volume levels.
3. **Statement of income and expenditure**

24. Total income for the period under review amounted to $125.9 million, while total expenditure amounted to $89.6 million, resulting in an excess of income over expenditure of $36.3 million. Comparative income and expenditure for the financial periods 2002-2003, 2004-2005 and 2006-2007 are shown in figure II.I.

**Figure II.I**

**Comparative income and expenditure**

(Millions of United States dollars)

25. UNOPS, as part of the relocation of its headquarters operations, recorded lower staff costs because some staff positions remained vacant for a period of time. In the current biennium, UNOPS adopted a long-standing practice employed by other United Nations agencies and started charging a pro rata portion of the costs of services provided by UNDP and other United Nations agencies to its project expenditure, resulting in a decrease in reimbursable costs chargeable to the administrative budget, as disclosed in the financial statements.

26. UNOPS was established in 1995 under General Assembly resolution 48/501 as an independent, self-financing entity within the United Nations that specializes in effective project management and implementation.

27. UNOPS has a unique status within the United Nations system, in that it is fully self-financing and does not receive any core United Nations or third-party funding but recovers its support costs by charging fees. Clients design their own programmes and UNOPS helps them achieve their targets, charging an estimated 7 per cent fee to cover administration and operating expenses. UNOPS focuses on providing high quality services in the best interests of the commissioning party.

**Total support costs and fees**

28. Total support costs and fees of UNOPS increased by 3 per cent, from $95.4 million in the biennium 2004-2005 to $98.3 million in the biennium 2006-2007, as reflected in figure II.II. The total project expenditure and support costs and
fees increased by 11 per cent from $1.49 billion in the biennium 2004-2005 to $1.65 billion in the biennium 2006-2007, as shown in figure II.III. Although the total support costs and fees increased, the average total cost recovery margin further declined, from 6.83 per cent in the prior biennium to 6.32 per cent in the current biennium. This is discussed further hereunder.

Figure II.II
**Total support costs and fees**
(Thousands of United States dollars)

![Chart showing total support costs and fees](chart1.png)

*Source: UNOPS financial statements for the biennium ended 31 December 2007, schedule 1.*

Figure II.III
**Comparative total project expenditure and support costs and fees for the bienniums 2004-2005 and 2006-2007**
(Thousands of United States dollars)

![Chart showing comparative total project expenditure and support costs and fees](chart2.png)

*Source: UNOPS financial statements for the biennium ended 31 December 2007, schedule 1.*
Cost recovery trends

29. The Board in its biennium 2004-2005 report 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. Table II.2 lists the cost recovery margins over the last seven years.

Table II.2
Comparative cost recovery as a percentage of project delivery
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Project delivery</th>
<th>Project income</th>
<th>Percentage cost recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>504.7</td>
<td>37.9</td>
<td>7.5</td>
</tr>
<tr>
<td>2002</td>
<td>485.1</td>
<td>35.4</td>
<td>7.3</td>
</tr>
<tr>
<td>2003</td>
<td>490.6</td>
<td>34.6</td>
<td>7.1</td>
</tr>
<tr>
<td>2004</td>
<td>495.2</td>
<td>35.4</td>
<td>7.1</td>
</tr>
<tr>
<td>2005</td>
<td>903.4</td>
<td>60.1</td>
<td>6.7</td>
</tr>
<tr>
<td>2006</td>
<td>705.9</td>
<td>47.7</td>
<td>6.7</td>
</tr>
<tr>
<td>2007</td>
<td>850.1</td>
<td>50.6</td>
<td>5.9</td>
</tr>
</tbody>
</table>

30. The Board performed an analysis of the support costs and fees and project expenditure to calculate the average cost recovery margin over the most recent bienniums. Based on the broad portfolio categories of UNOPS, the results of the analysis are reflected in table II.3.

Table II.3
Comparative cost recovery margins
(Percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UNDP — core and trust fund</td>
<td>7.04</td>
<td>6.96</td>
<td>0.08</td>
</tr>
<tr>
<td>Projects on behalf of other United Nations organizations</td>
<td>6.52</td>
<td>7.00</td>
<td>(0.48)</td>
</tr>
<tr>
<td>Management services agreements</td>
<td>4.57</td>
<td>5.64</td>
<td>(1.07)</td>
</tr>
<tr>
<td>Average total</td>
<td>6.32</td>
<td>6.83</td>
<td>(0.51)</td>
</tr>
</tbody>
</table>

Source: UNOPS financial statements for the biennium ended 31 December 2007, schedule 1.

31. The Board noted a declining trend in the percentage cost recovery margin UNOPS earned on its project portfolio. The average cost recovery margin had decreased from 6.83 per cent in the biennium 2004-2005 to 6.32 per cent in the biennium 2006-2007, representing a decrease of 7.5 per cent. Although UNOPS had recorded lower margins, the volume of activities over the corresponding periods had also increased, thus depicting the risk of sacrificing margins to expand operations.

32. The income received from UNDP core and trust funds had declined from $45.6 million in the biennium 2004-2005 to $25.9 million in the biennium 2006-2007,
which represented a 43 per cent decrease. The Board noted that this decrease arose mainly from UNOPS strategy to diversify its client base.

33. To address the pricing of projects and in view of the declining trend in cost recovery margins, the Board in its report for the biennium 2004-2005 had recommended that UNOPS implement a policy to evaluate the basis and calculation of the cost of services, address all shortcomings identified in the existing workload system and consider the feasibility of using a fixed minimum margin to be able to better control fluctuations in cost recovery rates while ensuring that UNOPS remained cost-effective (see A/61/5/Add.10, para. 101).

34. The Board noted that there had been no cost recovery and client pricing policy during the biennium 2006-2007 to ensure that UNOPS recovered all routine and non-routine costs of running the business and achieving its mandate as a self-financing entity. However, the cost recovery and client policy was promulgated on 26 February 2008.

35. **UNOPS agreed with the Board’s recommendation that it continue to monitor the profit margins of all its projects.**

36. UNOPS indicated that it was aware of the declining average facility and administration rates. It indicated that most of those rates were related to legacy projects for which there had been no uniform pricing policy in force. In addition, UNOPS had faced increasing competition from other United Nations agencies, as well as private sector enterprises, in the past few years. In order to remain competitive, UNOPS had to adjust its facility and administration rate in some cases. UNOPS also stated that the reason for the lower average facility and administration rate was that it currently implemented a number of individual projects with high volume and relatively low manual effort, and consequently it charged lower fees. UNOPS would continue its effort to further reduce overheads by becoming more efficient and, consequently, add more value to the United Nations system and donor and recipient Governments.

**Unliquidated obligations**

37. Rule 105.9 of the Financial Regulations and Rules of the United Nations provides that an obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the United Nations, and that all obligations must be supported by an appropriate obligating document.

**Debit balances in unliquidated obligations**

38. The United Nations system accounting standards states in paragraph 39 that obligations are amounts of orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period and which will require payment during the same or a future period.

39. At the end of the biennium, unliquidated obligations are accounted for in the financial statements by crediting the unliquidated obligations account in the balance sheet and debiting the expenditure account in the income statement. The unliquidated obligations of $197.9 million presented in the financial statements include net debit balances of $492,015. The Board reviewed a sample of debit
balances from the schedule of unliquidated obligations and noted that the items selected had been created in 2006 and settled in 2007.

40. UNOPS reviewed all the debit amounts in the unliquidated obligation schedule and indicated that some entries were not valid debit entries to the unliquidated obligation. As a result of the error noted, unliquidated obligations and expenditure in the financial statement are understated by an amount of approximately $414,000.

41. **UNOPS agreed with the Board’s recommendation that it review and adjust the unliquidated obligations account for the discrepancies noted.**

42. UNOPS stated that the discrepancy noted was not significant in relation to the total amount of year-end unliquidated obligations, but that it would be corrected.

*Unliquidated obligation balances without purchase order numbers*

43. The Board noted that obligations raised without purchase order numbers and/or transaction dates were included in the schedule of unliquidated obligations. There were 27 debit transactions amounting to $216,496 as well as 29 credit transactions amounting to $65,155 that had no purchase order numbers and/or transaction dates.

44. The Board was concerned about the lapse in controls that could have resulted in purchase transactions being recorded without mentioning authorized purchase orders.

45. **The Board recommends that UNOPS investigate the reasons why some unliquidated obligations had no purchase order numbers and/or transaction dates, and take measures to avoid a recurrence.**

*Unliquidated obligations not periodically reviewed*

46. Rule 114.13, Review of outstanding obligations of the UNOPS financial regulations and the UNDP financial rules that apply mutatis mutandis to UNOPS, states that:

   (a) Outstanding obligations retained against appropriations of the previous financial period in accordance with UNDP Regulation 11.3 (see UNOPS Regulation 7.3), shall be jointly reviewed periodically by the certifying or alternate certifying officers and the Division of Finance. Obligations which after review are no longer considered valid shall be cancelled and the resulting credit surrendered. If after 12 months of the ensuing biennium an outstanding obligation continues to be valid, it shall be reobligated against appropriations of the then current financial period;

   (b) Reasonably frequent reviews of all unliquidated obligations shall be conducted in the interest of returning any resulting savings to the UNDP account.

47. UNOPS stated that it performed quarterly reviews of unliquidated obligations. However, the Board noted that UNOPS had not maintained evidence of the regular reviews being performed. Such reviews would result in timely identification and subsequent correction of errors or invalid unliquidated obligations. The Board noted that UNOPS performed a clean up of unliquidated obligations once a year.
48. UNOPS agreed with the Board’s recommendation that it periodically review unliquidated obligations and correct any errors identified in a timely manner.

49. The Board recommends that UNOPS obtain quarterly certificates from all its business units confirming the validity of all recorded unliquidated obligations.

Revenue recognition

50. The United Nations system accounting standards states in paragraph 14 that financial statements should include clear and concise disclosure of all significant accounting policies which have been used.

51. The Board reviewed note 2, paragraph 6, of UNOPS financial statements which states that UNOPS recognizes revenue in accordance with the United Nations system accounting standards. However, where the standards do not prescribe a particular revenue recognition method in relation to certain transaction types, UNOPS applies the relevant standard of IPSAS.

52. The Board noted that the United Nations system accounting standards allowed for departure from the standards, as paragraph 3 states that where individual organizations find it necessary to depart from the practice set out in the standards they should disclose the reasons for doing so in the statement of significant accounting policies included in their financial statements.

53. UNOPS had not adequately disclosed in its financial statements what specific standard other than the United Nations system accounting standards it had adopted, and had not stated its reasons for departure, as required by the United Nations system accounting standards. The Board noted that the accounting policy was not clear and specific with regard to what specific standards had been selected in IPSAS and the type of transactions they would be applied to in the preparation of accounts.

54. Consequently, the Board was not able to determine whether UNOPS was always compliant with the standards it has mentioned in the notes to its financial statements. The Board was also not able to determine whether any specific revenue recognition principles applied by UNOPS were appropriate for its business activities.

55. The Board recommends that UNOPS clarify in its financial statement the appropriate accounting standards for revenue recognition that it has applied in its accounting policy.

56. The Board reviewed the recognition of revenue at UNOPS and the relevant accounting legislation. The Board noted some particular transactions which might require UNOPS to consider the accounting and management implications discussed below.

Project 55499: procurement services, Government of India

57. The Board noted that UNOPS derived some income from procurement activities. An example of this would be the Government of India procurement project as shown in table II.4. With this contract, UNOPS recognized its facility and administration revenue based only on the value of purchase orders raised during the
year and without consideration of whether all the significant activities associated with the procurement action were fully completed.

Table II.4
Government of India project expenditure and income
(United States dollars)

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Facilities and administration income</td>
</tr>
<tr>
<td>Total budget</td>
<td>Encumbrance</td>
</tr>
</tbody>
</table>

| 100 000 000 | 42 984 074 | 5 131 165 | 48 115 238 |

58. At the point of raising the purchase orders, UNOPS had not yet completed its service in terms of the contract. At the time of recording the purchase order and recognizing the complete revenue, UNOPS would not yet have delivered supplies, performed inspection, obtained customs clearance, made payment to the vendor or received acceptance from the client that the goods procured were in order. This leads to a mismatch of revenue and expenditure in UNOPS financial statements, as the complete revenue was recognized in one year but UNOPS would still incur its own expenditure in future years in order to fully complete the services.

59. This method of accounting for revenue, although accommodated for in the United Nations system accounting standards, was not consistent with either IPSAS or International Accounting Standard 11 or 18 as both require revenue to be recognized on a basis related to stage of completion of the project. Thus, it will result in revenue being overstated for the biennium; furthermore, by its nature it will also overstate project expenditure.

60. The matching that is required relates to facility and administration revenue and UNOPS own expenditure, namely, UNOPS staff costs, and regional and headquarters overheads, as this expenditure will be reflected in the income statement at year end.

61. The Board recommends that UNOPS review its accounting policies regarding revenue recognition.

62. UNOPS was of the opinion that its current revenue recognition policies were consistent with the United Nations system accounting standards and with the current policies of other United Nations agencies. UNOPS stated that according to the United Nations system account standards, revenue should be recognized in the accounting period in which the services were rendered. UNOPS explained that it performed a substantial part of contractually stipulated activities before it raised the purchase order (and recorded revenue). Additionally, there were many instances when it performed some work under signed contracts but recognized no corresponding revenue owing to the fact that the purchase order had not been raised by the end of the biennium. Consequently, UNOPS was of the view that the overall impact of differences between the United Nations system accounting standards revenue recognition method and that prescribed by IPSAS was probably immaterial.

63. The Board reasserts its view that the accounting policy of UNOPS is not explicit on the extent to which it follows the United Nations system accounting standards or IPSAS for revenue recognition, and that accounting for revenue in
accordance with the United Nations system accounting standards without regard for
the stage of completion concept results in mismatching of costs and revenues.
UNOPS agreed to accelerate the adoption of IPSAS in order to avoid any
uncertainties in its revenue recognition methods and the potential impact on its
financial statements.

International Fund for Agricultural Development agreement

64. The Board followed up its recommendation for the biennium 2004-2005 that
UNOPS have a formal agreement to regulate the service arrangement between
UNOPS and IFAD in respect of the fee structure, billing and payment terms, thus
reducing the risk of fee under-recovery by UNOPS. The Board noted that UNOPS
did not have a signed agreement that reflected the revised cooperation with IFAD
throughout the biennium, but such an agreement was signed on 3 June 2008.

International Fund for Agricultural Development invoicing

65. The Board reviewed UNOPS invoices to IFAD and noted a few delays in the
sending of invoices ranging from 90 days to 137 days.

66. The Board noted that UNOPS needed to invoice customers as soon as the
services were delivered in order to improve its cash collection and to ensure that
funds were not locked up in past activities.

67. **UNOPS agreed with the Board’s recommendation that it improve controls
to ensure that invoices were always sent to IFAD in a timely manner.**

68. UNOPS stated that the delays during the biennium were related to the method
of cost calculation, which had been comprehensively revised. The newly signed
memorandum of understanding with IFAD included time frames for UNOPS
invoicing. In 2007, UNOPS had implemented controls to ensure that the invoices
would be submitted to IFAD within 30 days after the end of each quarter.

Rental income

69. UNOPS earned total income of $3.65 million in the biennium and incurred
rental costs of $4.78 million in connection with the lease of its premises in New
York. In July 2006, UNOPS relinquished the larger share of its office space, in
conjunction with the relocation of its headquarters to Copenhagen. The total loss
during the biennium resulting from rental activities amounted to $1.13 million and
was related to the first half of 2006.

70. The Board followed up its report for the biennium 2004-2005 and noted that
an amount of $406,500 was still outstanding from 2005 in respect of space let to the
United Nations Department of Political Affairs.

71. Furthermore, the Board noted that amounts of $406,500 and $144,000 were
outstanding from 2005 in respect of space let to the Counter-Terrorism Committee
Executive Directorate and a special representative of the Secretary-General.

72. The Board noted that UNOPS had rental income that was long outstanding
from four other United Nations agencies/offices for office space sublet during 2006
of $183,540, and a total of $550,000 for 2005 from two United Nations offices.
73. UNOPS subsequently made a rental loss provision of $1.8 million for the long-
outstanding amounts, as it considered the collection of the amounts to be doubtful.

74. The Board regards this situation as serious, as it reflects that poor control was
exercised during and after the headquarters relocation, and that the savings forecast
as a result of relocation are being offset by losses from subletting of the old
premises.

75. **UNOPS agreed with the Board’s recommendation that it follow up on
long-outstanding rental income and take steps to avoid any further losses.**

76. UNOPS stated that it was following up with the tenants concerned. It had all
the required legal support documentation in place in order to recover the rental debt.

**Payroll reconciliations**

77. The Board followed up its previous recommendation regarding review of
payroll reconciliations and noted an improvement in the payroll reconciliations.
UNOPS reviewed its payroll reconciliations on a monthly basis and differences
were being followed up and resolved.

78. As at 31 December 2007 the remaining unreconciled net differences between
the general ledger and the global payroll amounted to $20,483 and UNOPS was in
the process of liquidating the unreconciled differences.

79. **The Board recommends that UNOPS follow up the identified differences.**

**Availability of general ledger at the regional office**

80. The Asia Pacific Office was not able to provide the Board access to extracts of
general ledger data. The limited access to data also weakened the regional office’s
control over its own finances. Therefore, the Board could not perform audit
procedures for the administrative budget, procurement, asset management and
imprest accounts at the regional office.

81. **The Board recommends that UNOPS strengthen its processes at regional
offices to ensure that all regional finance offices make use of financial reports
in Atlas.**

82. The Asia Pacific Office stated that it had requested headquarters to provide
detailed reports so that its general ledger could be reconciled regionally on a
monthly basis. However, the Office also stated that general ledger activities,
closings and some specific postings to the general ledger were done at headquarters
and were thus subject to decisions and schedules not determined by the Asia Pacific
Office.

4. **Statement of assets, liabilities, and reserves and fund balances**

   **Level of operational reserve**

83. In its decision 2001/14, the Executive Board approved a formula for
calculating the level of operational reserve to be maintained by UNOPS. In 2006,
the Executive Director engaged a consultant to review the existing methodology in
the light of experience gained since 2001 and to explore any changes in the risk
pattern facing UNOPS. The consultant concluded that the formula remained relevant
and should be retained as is.
84. The required operational reserve is calculated at the rate of 4 per cent of the average combined programme and administrative expenditure of UNOPS for the previous three years. According to the financial statements for the period ended 31 December 2007, UNOPS estimated its average expenditure for the previous three years at $869.83 million, resulting in a required level of operational reserve of $34.79 million.

85. According to the statement of income and expenditure and changes in reserves and fund balances for the biennium, UNOPS reported an operational reserve of $25 million. This represented 72 per cent of the required operational reserve of $34.79 million, a level which was $9.79 million below the required statutory level.

86. UNOPS did not provide the Board with detailed projections on how it intends to achieve the required level of reserves. The Board noted that the operational reserve showed a significant increase from $4.3 million in the biennium 2004-2005 to the current level of $25 million. The Board noted that the decreasing trend in the cost recovery margins of UNOPS poses a risk in improving and maintaining the level of operational reserves.

87. The Board in its report for the biennium ended 31 December 2005 had included an emphasis of matter paragraph in its audit opinion to reflect that UNOPS maintained insufficient reserves. In the same report, the Board recommended that UNOPS take steps to fund its operational reserve to the required level in a timely manner.

88. The budgetary submission of UNOPS, approved by the Executive Board for the biennium 2008-2009, stipulates that UNOPS will make every effort to reach the statutory level of the operational reserve by 31 December 2009.

89. **UNOPS agreed with the Board’s reiterated recommendation that it fund its operational reserve at the required level in a timely manner.**

*Contributions or payments received in advance*

90. The Board noted that in 2007 UNOPS had overspent the funds relating to the projects of UNFPA and other United Nations agencies. Furthermore, the Board noted that the overspent amounts were incorrectly written off against contributions received in advance relating to other funds, instead of being charged to UNOPS own account.

91. The Board is concerned about the writing off of such expenditure as it resulted in the understatement of contributions received in advance (liability) and an understatement of expenses.

92. Furthermore, the Board had requested an age analysis for contributions received in advance from UNOPS, but this was not submitted. The Board’s concern was further increased because UNOPS had disclosed in its note 2 (e) to the initial version of the financial statements that there might be instances where projects with expenditure in excess of contributions received were also closed to this account.

93. The Board was concerned about the magnitude of potential overexpenditure reflected in the above accounts and the understatement of related expenditure and liabilities. If unresolved or unexplained, this might have an impact on the Board’s report. Income received in advance was an important resource for UNOPS which...
was not being properly monitored, which could obscure the real financial position of UNOPS.

94. UNOPS indicated that it had performed work to clean up old account balances. UNOPS stated that the clean-up work should be completed before the end of 2008.

95. UNOPS subsequently provided the Board with a breakdown of total income received in advance, made up of credits totalling $116.86 million and debits of $48.6 million. UNOPS stated that debits indicated amounts for which it had incurred expenditure in advance in accordance with its advance funding policy, but which had not been billed to its customers. UNOPS also revised its financial statements to correctly account for the amounts as receivables.

96. **UNOPS agreed with the Board's recommendation that it prepare an age analysis for contributions received in advance and expenditure incurred to be charged to clients.**

**Staff-related receivable balances**

97. The Board noted long-outstanding amounts (2004 and earlier) that related to salary overpayment to eight separated staff. UNOPS informed the Board that during the conversion from IMIS to Atlas in 2004 some opening balances had been inaccurately mapped into the staff receivable accounts.

98. UNOPS indicated that it had determined what action needed to be taken and would approve the general ledger journal entries in respect of six staff members. UNOPS was cooperating with UNDP in order to post corrections and that for amounts that were non-collectable, a write-off had been authorized. UNOPS was to follow up with the Division of Human Resources Management in an attempt to recover the overpayment.

**Accounts receivable balances not periodically reviewed**

99. UNOPS did not provide an age analysis relating to accounts receivable balances. The Board also noted that there were no documents to indicate that there were control procedures to review and sign off on balances outstanding on a monthly basis.

100. **UNOPS agreed with the Board's recommendation that it implement controls to regularly review and sign off on staff receivables and other receivable balances.**

**Accounts payable: creditor listing**

101. UNOPS had not supplied the Board with full supporting documentation for an account balance which was disclosed under accounts payable (account 21005) on the face of the statement of assets, liabilities and reserves with a balance of $3 million. UNOPS also had not provided an age analysis relating to the accounts payable balances. There were no documents to indicate that there were control procedures to review and sign off on outstanding balances on a regular basis.

102. Insufficient supporting documentation limits the scope of the procedures the Board is able to perform. There is also a risk that the amounts not supported by documentation may not be valid.
103. UNOPS agreed with the Board’s recommendation that it (a) develop a report in Atlas which categorizes accounts payable (account 21005) by creditor and provides related ageing; and (b) implement controls to review overdue balances regularly.

104. UNOPS indicated that it was unable to provide at short notice a complete list of creditors to match the entire year-end balance. UNOPS would implement a new customized report in Atlas which would allow it to liquidate such account balances in a timely manner.

Accounts payable

105. The UNOPS financial dashboard is a monitoring tool that extracts data directly from Atlas and provides an indication of the financial position in UNOPS on a daily basis. A review of the financial data quality of accounts payable for the Middle East Office using the UNOPS financial dashboard revealed that a total of 781 vouchers to the value of $3 million were in error as at 11 November 2007. At the Asia Pacific Office, 22 purchase orders with a value of $84,391 were noted to be in error. The errors as recorded in Atlas were due to:

(a) Items were approved but not posted because there was a budget error, a lack of budget or an incorrect chart of accounts code;
(b) Items were fully posted and approved, but the user had modified the vouchers after the approval and posting were completed;
(c) Items were approved but not posted because the voucher had not been budget checked;
(d) Items were approved but pending the batch posting process. The reasons for items older than one day might be related to other problems, such as that the voucher had not yet been matched to the purchase order or the matching process had resulted in error and needed to be corrected;
(e) Items were pending approval and contained budget errors;
(f) Items had been created but not approved and the budget had not been checked;
(g) Items had passed the budget checks but were pending approval by the user.

106. Information pertaining to the financial data quality for the 2006 financial year could not be reviewed, as the information was not available on the UNOPS financial dashboard and thus the extent of the data quality errors for the full biennium could not be ascertained.

107. The errors noted may stem from the following:

(a) Manual entry of large volumes of imprest returns into Atlas once a month;
(b) Data in Atlas are not yet clean and up-to-date, and therefore data errors may appear on the dashboard;
(c) Lack of proper monitoring controls in place; and
(d) Insufficient training and direction on responsibilities of regional finance units before decentralization of the finance functions.

108. The errors identified may lead to unauthorized expenditure, misstatements in the financial statements, payments made to fictitious suppliers or overexpenditure against budgets.

109. UNOPS agreed with the Board’s recommendation that the Asia Pacific Office and the Middle East Office (a) implement procedures to ensure that financial data quality was regularly monitored, and discrepancies investigated; (b) assess their training needs; (c) request headquarters to perform data quality reports for the 2006 calendar year; and (d) follow up and correct all data quality errors as reflected in the financial dashboard before year end.

110. The Board recommends that UNOPS (a) always review budgets prior to approval; (b) always use the correct chart of accounts code; and (c) make no modification once a payment has been approved and posted.

111. UNOPS stated that the Atlas financial dashboard had been created in order to identify potential errors at various stages of the approval process and eliminate them in a timely manner. Errors of a transient nature would always be present and, if corrected on a regular basis, would not have an impact on the financial statements.

112. The Middle East Office indicated that it would consult headquarters with regard to recommendations concerning the 2006 data quality reports and weaknesses in Atlas.

113. The Asia Pacific Office stated that it had monitored and cleaned up accounts payable voucher errors on a weekly basis. The few vouchers found were corrected during the audit visit. APO had requested headquarters to extract and send it the 2006 financial data quality information for review and action.

5. Statement of cash flows

Table II.5

Increase in cash, investments and inter-fund balances

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>50 118</td>
<td>47 872</td>
<td>19 983</td>
</tr>
<tr>
<td>Inter-fund balance</td>
<td>192 398</td>
<td>70 772</td>
<td>62 228</td>
</tr>
<tr>
<td>Total</td>
<td>242 516</td>
<td>118 664</td>
<td>82 211</td>
</tr>
</tbody>
</table>

Increase on previous biennium (percentage) 104 44 104

114. The Board noted that the current assets of UNOPS were increasingly represented by receivables on the inter-fund account. See table II.5.
6. Inter-fund balances

*Inter-fund between the United Nations Office for Project Services and the United Nations Development Programme*

115. UNOPS conducts a high volume of business with UNDP whereby each entity acts as an implementing agent for the other agency’s projects. Inter-fund balances represent amounts due to or from other agencies as a result of transactions that occurred between the agencies.

116. In the previous biennium, the inter-fund difference between the amounts reported by UNOPS and UNDP amounted to $59.2 million.

117. After an extensive exercise to reconcile the inter-fund amounts, except for an unresolved amount of $9.9 million, the differences for the 2004-2005 biennium were agreed upon and signed off, and UNDP and UNOPS resolved that:

(a) UNDP was to process transactions amounting to $33.4 million in its accounts;

(b) UNOPS was to process transactions amounting to $15.664 million in its accounts.

118. UNOPS made a provision in its 2004-2005 financial statements for $5 million relating to the $9.9 million that remained unresolved. The Board qualified its audit opinion on the 2004-2005 financial statements resulting from an uncertainty regarding the recoverability of the unconfirmed balance of $9.9 million and the impact that might have on the level of the operational reserves of UNOPS.

119. During the current biennium, UNOPS incurred approximately $393 million in expenditure on projects on behalf of UNDP. At biennium end, $188.624 million (excluding related unliquidated obligations) was reflected as an inter-fund receivable by UNOPS. As at 31 December 2007, the total difference, according to the financial records of UNDP and UNOPS, was $43.5 million. UNDP informed the Board that in its view, its difference with UNOPS included approximately $15.6 million that UNOPS had agreed to process relating to biennium 2004-2005 accounts which UNOPS had still not processed, whereas UNOPS was of the view that this related to project delivery reports that UNOPS had not yet sent to UNDP amounting to $16.4 million. UNDP had not processed $5.3 million relating to biennium 2004-2005 accounts (which UNDP had agreed to process). UNDP indicated that it would process the $5.3 million in the biennium 2008-2009.

120. The remaining difference consists of (a) the $9.9 million that was in dispute as at 31 December 2005 and remains unresolved; (b) UNOPS expenditure on the Afghanistan projects of $9.7 million that was rejected by UNDP; (c) other UNOPS expenditure rejected by UNDP totalling $1.1 million; and (d) a further $2.4 million under investigation. Regarding the Afghanistan expenditure, in 2008 UNDP agreed to compensate UNOPS $4.3 million representing the funds mobilized from donors for the purposes of offsetting the overexpenditure. This commitment is disclosed in the notes to the financial statements of UNDP. Therefore, a total of approximately $33.9 million remains unconfirmed or not agreed to by UNDP. This consists of approximately $16.4 million of transactions still to be sent to UNDP for acceptance, which UNOPS has stated are valid charges and that it submitted to UNDP on 14 July 2008. A further amount of approximately $17.5 million has not been confirmed or agreed to by UNDP.
121. UNOPS also made an additional provision of $5.3 million for the remaining portion of the amount receivable from UNDP that was in dispute in 2004-2005, resulting in a full provision of $10.3 million, having accounted for other differences of $0.4 million noted during the 2006-2007 reconciliation process. The Board requested confirmation from UNDP for the amount outstanding. As at the date of the audit, the Board had not been able to obtain a signed confirmation of the amount outstanding.

122. The Board was concerned that the balance of $9.9 million had not been resolved since its last report, and that there were new items that could not be agreed upon in a timely manner between the two agencies. The Board was also aware that the two entities used the same enterprise resource planning system for recording transactions, and despite this, the continued existence of differences that were in dispute could not be explained.

123. The Board noted that sufficient time had elapsed since its last report and that the UNOPS delay in sufficiently addressing the matter raised in the 2004-2005 report of the Board was a matter of concern.

124. **The Board reiterates its previous recommendation that UNOPS reconcile its transactions and balances with UNDP on a regular basis.**

125. **The Board recommends that UNOPS obtain confirmation of all its inter-fund balances as part of its financial statements preparation process.**

126. The Board noted elsewhere in the present report that UNOPS was owed by UNDP on the inter-fund account approximately 11 months worth of its expenditure with UNDP. UNOPS could earn interest and/or conduct further development work with the funds currently held in the UNDP inter-fund account if the account was periodically settled in cash.

127. **The Board recommends that UNOPS, in collaboration with UNDP, settle the inter-fund balances in cash on a regular basis in order to enforce regular reconciliations.**

**Difference between the United Nations Office for Project Services and the UNFPA inter-fund balance**

128. As at 31 December 2007, UNOPS had an inter-fund receivable balance with UNFPA amounting to $1.5 million. The Board obtained confirmation from UNFPA of an amount of $0.602 million payable to UNOPS. UNOPS had not performed its own confirmation of its receivable balance as part of its financial statements preparation process.

129. UNOPS indicated that its inter-fund balance with UNFPA related to 2007 project activities. UNOPS was of the view that UNFPA had wrongly applied $921,983 against the 2007 inter-fund balance of $1,524,315 instead of applying the amounts against the balance left over from 2006 and prior financial statements. Thus, UNFPA showed a balance of $602,331 against the 2007 inter-fund account instead of the $1,524,315. UNOPS was in communication with UNFPA to correct the error.

130. **The Board recommends that UNOPS follow up the difference in the inter-fund balance with UNFPA.**
Inter-fund balance: other United Nations agencies

131. The Board reviewed a detailed list of items that make up other United Nations agencies as reflected in the financial statements provided by UNOPS. The Board noted four balances, which consisted of debits of $673,126 and a credit of $63,924, that the Board was unable to confirm because of the lack of clear description of the accounts as provided by UNOPS.

132. Furthermore, there was an inter-fund credit balance of $1.47 million that was reflected as relating to UNDP and was included under inter-fund accounts: other United Nations agencies, instead of being included in the balance between UNOPS and UNDP, according to note 8 to the financial statements.

133. UNOPS indicated that the balances noted were carried over as a result of the 2004-2005 clean-up activities and all predated 2004 conversion from IMIS to Atlas. UNOPS was making every effort to clean up those accounts, but lack of details relating to old balances had hindered and delayed their complete resolution.

Differences between UNOPS and other agencies in the inter-fund balance

134. As at 31 December 2007, UNOPS had a net inter-fund balance receivable with other agencies amounting to $2.25 million. The Board sent out confirmation for 26 other United Nations agencies and received five confirmation letters, which indicated that all five other agencies had differences in inter-fund balances with UNOPS, as shown in table II.6.

Table II.6
Differences between UNOPS and other agencies in inter-fund balances
(United States dollars)

<table>
<thead>
<tr>
<th>Other United Nations agencies</th>
<th>Other agencies</th>
<th>UNOPS</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Monetary Fund</td>
<td>--</td>
<td>12 564.60</td>
<td>12 564.60</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>--</td>
<td>903.00</td>
<td>903.00</td>
</tr>
<tr>
<td>International Atomic Energy Agency</td>
<td>72 040.98</td>
<td>665 667.45</td>
<td>593 626.47</td>
</tr>
<tr>
<td>United Nations Institute for Training and Research</td>
<td>--</td>
<td>-16 823.63</td>
<td>-16 823.63</td>
</tr>
<tr>
<td>United Nations Office at Geneva</td>
<td>827 696.40</td>
<td>1 269 031.11</td>
<td>441 334.71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>899 737.38</strong></td>
<td><strong>1 931 342.53</strong></td>
<td><strong>1 031 605.15</strong></td>
</tr>
</tbody>
</table>

135. The Board was therefore unable to perform audit procedures relating to the net debt by other United Nations agencies of $2.25 million. UNOPS did not provide an ageing analysis or breakdown of the $2.25 million relating to the amounts owed by other United Nations agencies. There was no documentation to indicate that there were control procedures in place to review and sign off on outstanding balances on a regular basis.

136. UNOPS had not performed its own confirmation of receivables as part of its financial statements preparation process, and thus the Board is concerned about the potential risk of differences with the other 21 entities.
137. UNOPS agreed with the Board’s recommendation that it (a) provide an explanation and supporting documentation on the inter-fund balances reflected on its accounts; (b) provide details of counter parties to ensure that confirmation procedures could be performed on the outstanding balances; (c) investigate the credit balance of $1.47 million with UNDP that appears under “Other United Nations agencies” and was not included in the balance between UNOPS and UNDP; and (d) regularly review outstanding inter-fund balances.

138. The Board recommends 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.

139. UNOPS revised its financial statements and made a total provision of $3.69 million to take into account all the unconfirmed inter-fund balances in its 2006-2007 financial statements.

Reclassification of unliquidated obligations balances relating to the United Nations Development Programme

140. In order for the closing trial balance for the biennium to agree with the financial statements, reclassifications were applied to the closing trial balance. Table II.6 and II.7 reflect the reclassifications for 2007 and 2005 respectively. The trial balance amounts and the reclassifications represent the amounts reflected in the financial statements.

Table II.7
Reclassifications for end of the biennium 2006-2007
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Statement II line item</th>
<th>Trial balance</th>
<th>Reclassification</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-fund accounts</td>
<td>280 922</td>
<td>(88 524)</td>
<td>192 398</td>
</tr>
<tr>
<td>Unliquidated obligations</td>
<td>(197 861)</td>
<td>88 524</td>
<td>(109 337)</td>
</tr>
</tbody>
</table>

141. The amount of $88.524 million (2004-2005: $87.97 million) represents unliquidated obligations relating to UNDP projects at the end of the bienniums. The amounts were not set off in the general ledger but were presented as net in the financial statements.

142. The Board noted that although UNOPS would recover the unliquidated obligations raised in its accounts through the inter-fund, these were separate transactions, as UNOPS would separately settle the unliquidated obligation with the third parties. Such transactions, therefore, should not be presented on a net basis. This had resulted in the inter-fund balance with UNDP and unliquidated obligations being understated in the financial statements.

143. There was a risk that the balances in the biennium 2006-2007 financial statements might be misstated and the cash flow statement might not accurately reflect the activities of UNOPS. However, the overall balance sheet is not misstated.
The Board notes that the amounts are material for the financial statements of both the bienniums 2004-2005 and 2006-2007.

144. UNOPS indicated that the reclassification of unliquidated obligations was related to projects executed (or project activities implemented) on behalf of UNDP. At year end, UNOPS encumbered unliquidated obligations for all projects. In order to reconcile UNDP/UNOPS inter-fund accounts between the UNDP and UNOPS business units (i.e. 15021 and 15023) an agreement was reached between UNDP and UNOPS in the biennium 2004-2005 that UNOPS would reclassify the unliquidated obligations portion pertaining to UNDP projects in the financial statements to reduce the balance in the inter-fund account.

145. UNOPS subsequently revised its financial statements in order to address the concerns of the Board and reflected the inter-fund and unliquidated obligations that related to UNDP on a gross basis on its inter-fund account.

7. End-of-service liabilities (including after-service health insurance)

End-of-service liabilities

146. In relation to the financial reporting of end-of-service liabilities, and in accordance with General Assembly resolutions 60/255 and 61/264, many entities in the United Nations had changed the presentation of end-of-service liabilities in the current biennium from disclosure in the notes to the financial statements to accounting and presentation of end-of-service liabilities on a full accrual basis on the face of the financial statements.

147. The financial statements for the period under review reflect end-of-service liabilities of $13.6 million. Details are shown in table II.8.

Table II.8
End-of-service liabilities as at 31 December 2007
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>After-service health insurance</td>
<td>5.99</td>
</tr>
<tr>
<td>Repatriation grant</td>
<td>2.58</td>
</tr>
<tr>
<td>Termination indemnity</td>
<td>0.20</td>
</tr>
<tr>
<td>Leave encashment (unused vacation days)</td>
<td>2.40</td>
</tr>
<tr>
<td>Other separation costs</td>
<td>2.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13.60</strong></td>
</tr>
</tbody>
</table>

Provision for annual leave (leave encashment)

148. Accrued annual leave is paid when staff members are separated from service and have an accrued annual leave balance. The staff member shall be paid a sum of money factoring in the period of such accrued leave up to a maximum of sixty working days. The liabilities for accrued annual leave were calculated based on the actual leave balance of each staff member funded from the administrative budget as at 31 December 2007.
149. The liability for unused leave days in the current biennium was $2.40 million, while in the previous biennium, the respective amount was $2.37 million.

**Repatriation and other benefits**

150. Repatriation benefits were accrued in full to cover the entitlements payable to eligible staff based on their entire period of service in the United Nations system up to 31 December 2007.

151. The repatriation grant, relocation allowance, travel cost relating to separation, staff separation costs and termination indemnity were not provided in the biennium 2004-2005 accounts. Actual payments were previously charged to expenditure on an ongoing basis. As at 31 December 2007, the repatriation grant of $2.58 million, other separation costs of $2.43 million (consisting of a relocation allowance of $1.47 million, travel cost relating to separation of $0.59 million and the staff separation costs of $0.37 million) and termination indemnity of $0.20 million were fully provided for in the financial statements.

**After-service health insurance**

152. The after-service health insurance is for staff members who have left the service of UNOPS owing to retirement or disability, provided the staff member had been a contributory participant in the United Nations Joint Staff Pension Fund for a specified period. In the case of retirement, the qualifying period is 10 years, and in case of termination for disability, three years. In all cases, coverage is available only to those in receipt of periodic benefits from the United Nations Joint Staff Pension Fund or under the rules governing compensation for service due to death, injury or illness. Dependents or survivors of former staff members are also entitled to coverage under certain conditions.

153. The after-service health insurance liability is determined by an independent actuarial valuation using the discounted present value of after-service health insurance costs to be paid in the future in respect of both current retirees and eligible active staff members expected to retire from employment with UNOPS.

154. The Board has validated the end-of-service liabilities through reliance on the actuarial valuation done by the consulting actuary and the Board’s own procedures. Based on these procedures, the Board has found that the amount of after-service health insurance is fairly presented in the books.

**Allocation of after-service health insurance to projects**

155. The United Nations engaged a consulting actuary to calculate the after-service health insurance liability as at 31 December 2005. The actuary estimated a liability for UNOPS of $41.7 million as at 31 December 2005.

156. During the current biennium, to ensure that there is funding for after-service health insurance, UNOPS started allocating the pro rata share of after-service health insurance costs to projects. UNOPS performed a study which determined the amount that UNOPS should accrue annually over the next three years to fully provide for after-service health insurance. On an annual basis, UNOPS allocated $3.9 million to projects, while $2 million was charged to the administrative budget. The Board noted that the after-service health insurance charge liability was posted...
as a once-off transaction in November 2007, instead of being posted on a monthly basis, throughout 2007.

157. UNOPS supplied the Board with a worksheet showing how the annual after-service health insurance liability amount of $3.9 million (66.10 per cent of $5.9 million) was distributed to individual projects. The Board noted that after-service health insurance liability had been charged only to current active projects based on payroll expenditure, which included salaries of General Service staff, salaries and post adjustment of international Professional staff, and salaries of staff on appointments of limited duration as at 15 November 2007. The Board was concerned that although the accrued after-service health insurance liability related to both current and previous periods, the total cost had been charged only to active projects that had payroll expenditure during the biennium 2006-2007.

158. The effect of this allocation is that current projects were charged for costs that might not relate to current projects without donor consent for charging the costs.

159. UNOPS did not determine the current and past liability on after-service health insurance so as to assist in the accurate allocation of the liability to projects. Current projects should not be charged with costs that are unrelated to them, but the past liability for after-service health insurance should be recovered through other means.

160. UNOPS earns its income based on project expenditure incurred. The costs charged to projects for after-service health insurance will generate income for UNOPS based on the percentage fee charged. The project agreements did not mention whether UNOPS could charge after-service health insurance costs for current project costs or earn a further fee on after-service health insurance costs. UNOPS stated that such details were not specifically mentioned in project agreements. However, after-service health insurance costs were duly included in the staff pro forma costs, and as such, were included in the respective project budgets.

161. The Board recommends that UNOPS ensure that after-service health insurance related costs are charged accurately to administrative and project expenditure on a monthly basis and that it reverse after-service health insurance costs incorrectly charged to projects.

162. UNOPS indicated that the issue had not been clarified in the existing legislative framework. UNOPS charged only the amount recommended by the actuary to cover the ongoing liability. UNOPS indicated that it would charge only costs of after-service health insurance to the administration budget in the future. Additionally, UNOPS agreed to refund after-service health insurance charges to projects for the period 1 July 2007 through 31 December 2007, based on the eligibility criteria revised by the General Assembly effective 1 July 2007.

163. UNOPS provided the Board with an actuarial valuation which indicated that its liability for after-service health insurance as at 31 December 2007 was $50.8 million. Based on this valuation it had provided $23.76 million. The actuarial report indicated that it had used information provided by UNOPS as at 31 December 2005.

164. UNOPS subsequently supplied the actuary, through the United Nations Health and Life Insurance Section, with updated census information relating to its staff, and requested the actuary to perform an updated valuation based on the latest data. The revised valuation estimated a greatly reduced liability for after-service health
insurance of $5.9 million. UNOPS adjusted its financial statements to reflect the revised valuation. UNOPS had updated its census data to provide for the following:

   (a)  Project staff (200 series) cannot work on any one project for more than five years, thus they were excluded from the census;

   (b)  300 series staff (appointments of limited duration) cannot stay in the organization for more than four years, thus they were excluded from the census;

   (c)  A few of UNOPS international staff were removed from the after-service health insurance calculation data as they had chosen not to use United Nations insurance.

165. These adjustments to the census data resulted in the reduction of the population reported to the actuary from 933 active staff and 168 retirees and widowers according to data used in the initial 2007 valuation (on which basis the actuarial liability of $50.8 million had been determined) to 221 active staff and 33 retirees and widowers, used for the purpose of the revised actuarial report as at 31 December 2007. In view of these significant fluctuations in the different valuations provided by the actuaries, the Board will keep this matter under review in the next biennium.

166. The Board noted that UNOPS had not adjusted the amounts already charged to projects and the facilities and administration income already earned in its accounts to take into account the effects of the revised substantially lower valuation. Thus, project costs were overstated for the after-service health insurance accrual.

167. UNOPS agreed with the Board’s recommendation that it make the necessary entries in its financial statements to correct the effects of after-service health insurance overcharged to projects based on its previous valuation.

8. Financial statement disclosures

   Financial statement

168. The Board noted that in the prior biennium UNOPS had not been able to submit financial statements to the Board by 15 April 2005 as required by its financial rules and regulations. The final revised and certified set of financial statements was submitted to the Board on 25 January 2007.

169. UNOPS had designed a business strategy entitled “Providing world class management services at the United Nations”, which was approved in November 2006. There were six strategic goals for the period from 2007 to 2009; the priority goal was to enhance accountability and transparency, which implied that UNOPS would take steps to ensure accurate and timely completion of financial statements by early 2008.

170. The Board commends UNOPS for its submission to the Board of signed financial statements for the current biennium in a timely manner.

171. Based on its review of statements I-III, schedules 1 and 2, and the notes to the financial statements, the Board noted various presentation shortcomings in accounting and disclosure items which UNOPS subsequently adjusted in its financial statements. The initial financial statements also contained statements that referred to the financial statements not being complete and requiring adjustments.
172. The Board recommends that UNOPS implement controls to improve its financial statements presentation process.

Summary of significant accounting policies

173. In paragraph 14 of the United Nations system accounting standards, it states that financial statements should include clear and concise disclosure of all significant accounting policies which have been used. Paragraph 16 of note 2 to the financial statements states that all assets and liabilities in currencies other than United States dollars, including the cash and term deposits, are translated at the United Nations operational rate of exchange in effect on 31 December 2007. The Board noted that there was no disclosure in the financial statements to reflect the assets and liabilities balances that were denominated in a currency other than the United States dollar.

174. UNOPS agreed with the Board’s recommendation that it disclose the equivalent balances of cash and deposits denominated in currencies other than the United States dollar.

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

175. 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 decided to carry out a gap analysis relating to the implementation of IPSAS as well as new or upgraded enterprise resource planning systems. The Advisory Committee commented on the desirability of such systems, taking fully into account the detailed requirements of IPSAS.

176. The Board noted that UNOPS did not have a plan outlining the strategy and approach for successful implementation of IPSAS in 2010 in collaboration with other Atlas partner agencies, namely UNDP and UNFPA.

177. The implementation plan should include a detailed approach for the following components: information technology, budget, change management, human resources and training, participation in task force meetings, revision of regulations and rules, revision of internal processes, tracking progress, reporting to stakeholders, and steering committees.

178. UNOPS plan should allow for sufficient preparation time for headquarters, regional offices and operations centres in order to avoid delays in the implementation of IPSAS in 2010.

179. UNOPS agreed with the Board’s recommendation that it compile a formal plan for implementation of IPSAS.

180. UNOPS indicated that its strategy for implementation was focused on two major objectives: (1) the required upgrades and modifications to the Atlas financial system, and (2) adoption of IPSAS accounting standards within the context of UNOPS routine accounting functions across the board. In that connection, UNOPS was actively involved in discussions with partner United Nations agencies with a view to facilitating and speeding up the process of adoption of IPSAS.

181. UNOPS also stated that it was committed to full implementation of IPSAS and recognized the benefits of doing so in a proactive manner. UNOPS acknowledged
that migration to IPSAS was a major undertaking and it entailed far more than a mere adjustment of accounting practices, rather it represented a paradigm shift in its business model. UNOPS had earmarked approximately $500,000 towards this effort in its approved budget for the biennium ending 31 December 2009.

10. **Treasury management (including imprest accounts)**

*Foreign exchange losses*

182. The Board noted that UNOPS did not have any hedging or protection against foreign exchange losses. As UNOPS regularly obtained and agreed on funding in United States dollars and often needed to spend in other currencies, the recent declines in the United States dollar exchange rate might result in UNOPS having less buying power with its dollar balances. UNOPS indicated that due to the weakness of the United States dollar, suppliers and vendors were increasingly negotiating and bidding on contracts in the respective local currency rather than in United States dollars.

183. The declining United States dollar was also a matter of concern with regard to administrative costs, as salaries and post adjustments applicable to headquarters staff were substantially higher than what had previously been budgeted in United States dollars.

184. The Board noted that UNOPS had not instituted formal arrangements to protect the organization against currency fluctuations. UNOPS was also not able to provide the Board with an indication of the value of foreign exchange risks and exposure. A foreign exchange risk exposure analysis had not been performed and thus the true exposure of UNOPS to currency fluctuations was not known.

185. **The Board recommends that UNOPS (a) perform a detailed analysis of its exposure to currency fluctuations; and (b) identify methods of managing the foreign exchange risk.**

186. UNOPS stated that its treasury function was managed by UNDP, and that it had explored the hedging option with the UNDP Treasury on several occasions but did not manage to secure an agreement because hedging options were expensive and did not guarantee success. Additionally, the UNDP Treasury was currently not able to become involved in hedging on behalf of UNOPS owing to lack of spare workforce capacity. UNOPS would seek membership of the UNDP investment committee in order to explore the issue further.

*Advances recoverable locally*

187. Advances recoverable locally are cash funds paid to an individual or vendor from the imprest account. Such advances should normally be recovered within three months from the date of the advance. As part of monthly reporting requirements, operations centres are required to submit ledgers with detail on all advances recoverable locally outstanding per recipient as well the ageing of such advances, showing those that had been outstanding for more than three months.

188. The Board noted advances recoverable locally of $0.101 million that had remained outstanding for more than 90 days. The Board further noted that there were limited monitoring controls over advances recoverable locally at headquarters.
Such controls should include monitoring of long-outstanding advances recoverable locally, identifying unusual ones and monitoring limits.

189. **UNOPS agreed with the Board’s recommendation that it improve monitoring of advances recoverable locally, including follow up with the regional offices and operations centres on advances recoverable locally that had been outstanding for longer than three months.**

**Operational rate of exchange**

190. The Board noted four imprest balances that had not been translated using the United Nations operational rate of exchange as at 31 December 2007, resulting in net difference in imprest account balances of $6,514. The corresponding debit/credit of the entry would have some effect on the recorded gain/loss on exchange.

191. **UNOPS agreed with the Board’s recommendation that it apply the rate of exchange that was in accordance with its accounting policy for translating imprest account balances.**

**Imrest reconciling items: Haiti**

192. The Board noted that as part of the December 2007 reconciliation, an amount of $1.02 million relating to Haiti project expenditure for October and November 2007 was not recorded in the statement of income and expenditure and changes in reserves and fund balances during the biennium 2006-2007. The reconciling item was cleared by recording expenditure in the biennium 2008-2009.

193. As a result, expenditure in the financial statements for the biennium 2006-2007 was understated. UNOPS subsequently adjusted its financial statements to correct the above error.

194. **UNOPS agreed with the Board’s recommendation that it further strengthen controls to prevent a recurrence of errors in its reconciliation of imprest accounts.**

**Imrest account reconciliations**

195. The Board recommended in paragraph 89 of its report for the biennium 2004-2005 that UNOPS implement measures to ensure a reconciliation of imprest balances on a fund level in the general ledger.

196. Imprest account holders prepare cash books outside of the Atlas system and then submit their accounts and reconciliations to regional offices on a monthly basis. The reconciliations, cash books and supporting documentation are then checked and uploaded into Atlas at the regional offices. This process results in a time lag between the actual incurring of expenses in the field and the posting of information in Atlas. As a result, monthly reconciliations between the general ledger and bank statements cannot be performed quickly enough. UNOPS had agreed to review their processes regarding imprest accounts.

197. The Board noted that UNOPS did not yet reconcile the imprest accounts with the general ledger on a monthly basis and that the reconciliations were done only at year end.
198. UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office and the Asia Pacific Office implement procedures to reconcile imprest accounts to the general ledger on a monthly or other regular basis.

Reporting of advances recoverable locally

199. The Board noted that of the four operation centres reporting to the UNOPS Middle East Office, only the Sri Lanka and Afghanistan operations centres had submitted information on advances recoverable locally in the required format and content.

200. As at the end of September 2007, 35 per cent of advances recoverable locally in Afghanistan and 8 per cent in Sri Lanka had been outstanding for more than three months. Iraq and the Sudan had submitted only lists of advances recoverable locally transactions which were neither consolidated nor aged per recipient. The Board was thus unable to analyse the advances recoverable locally that had been outstanding for more than three months.

201. The Board noted that of the four operations centres reporting to the Asia Pacific Office, only the Myanmar operations centre had submitted information on advances recoverable locally in the required format and content for the 2007 financial year.

202. The operating centres in Bangladesh and Indonesia, as well as Maldives (project office) had submitted only lists of advances recoverable locally transactions. These were neither consolidated nor aged per recipient. The Board was thus unable to identify advances recoverable locally that had been outstanding for more than three months because there was no indication in the advances recoverable locally ledger of when the advances were disbursed.

203. Operations centres are a node through which UNOPS generates a significant portion of its project delivery. As UNOPS establishes operations centres, and further decentralizes some controls away from regional offices and headquarters, the risk increases that critical controls may not be applied and supervisory and monitoring controls may be more difficult to apply.

204. The Board noted that there were limited monitoring controls of advances recoverable locally at regional office level. Such controls would normally include monitoring of long-outstanding advances, identifying unusual advances and monitoring of advance limits. Imprest accounts and their reconciliation had been a serious concern of the Board in the past and it was in this light that the Board reemphasized concern about the current observations. The situation existed despite the extensive clean-up efforts of the last two years and the work of consultants to reconcile old imprest account data.

205. UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office and the Asia Pacific Office (a) 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) include as part of month-end procedures the review of advances recoverable locally.

206. UNOPS indicated that a more comprehensive implementation of bank accounts in Atlas, which was under way, would reduce the number of outstanding advances
recoverable locally. UNOPS had already completed the implementation of the Atlas bank account for all the large volume imprest accounts.

**Long-outstanding reconciling items**

207. The Board reported in paragraph 85 of its audit report for the biennium 2004-2005 the issue of long-outstanding cheques as reconciling items on the bank reconciliations.

208. The Board noted that the September 2007 reconciliations for Sri Lanka and the Sudan operations centres contained cheques that were long outstanding. Cheques that were long outstanding might be stale and presented a risk of misstating the bank and accounts payable accounts.

209. UNOPS agreed with the Board’s recommendation that it (a) investigate the long-outstanding cheques relating to operations in Sri Lanka and the Sudan; and (b) ensure that long-outstanding items in the bank reconciliations are followed up in a timely manner.

**Proof of disbursements**

210. The imprest account training guidelines state that the payee should sign on the voucher acknowledging the receipt of the cheque/funds. In rare instances, when the payee is unable to collect the cheque in person, he/she should provide a written authorization to the individual who will collect the cheque on his/her behalf. This authorization should be attached to the voucher and the individual shall present proper identification for verification.

211. The Board noted six instances at the Middle East Office in which there were no supporting documents to support disbursement vouchers, and two instances in which disbursement vouchers were not signed by the recipient of the cash advance. The items identified were part of a sample and not exhaustive. This is a concern, as managers did not obtain the signature of each recipient.

212. UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office (a) investigate missing documentation for the imprest items identified; (b) implement, together with operations centres, improved controls over payment of advances recoverable locally; and (c) always verify supporting documentation before processing payments in Atlas.

213. UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office review all advances recoverable locally for evidence of documentation, including receipt by the payee.

214. UNOPS indicated that the Middle East Office would instruct the operations centres to ensure that valid documentation supporting the payments of advances recoverable locally were properly authorized and vouchers were signed by the recipient of the advance.

**Authority and Atlas controls in operations centres**

215. UNOPS had indicated in paragraph 90 of the report of the Board for the biennium 2004-2005 that it would be rolling out to the operations centres some functions in the Atlas system in order to allow the centres to enter cost data directly into Atlas, thus phasing out the imprest account system. In addition, management
had commented that the process would start in June 2007 and be substantially complete by early 2008. The Board noted that as at November 2007 only the Afghanistan office was using Atlas to enter cost data. UNOPS stated that, as at June 2008, nearly two thirds of the end-2005 imprest volume was currently processed through Atlas.

216. In addition, the Board noted that there were limited monitoring mechanisms currently implemented at the regional office level over the Atlas system. Such mechanisms would include monitoring of advances, reviewing of bank reconciliations and monitoring the administrative budget and project expenditure.

217. With the impending rollout of additional functions in Atlas to the remaining operations centres, it would be vitally important to implement policies on monthly reporting and procedures for monitoring and oversight at the regional office level, pertaining to accuracy, completeness and validity of the data submitted by operations centres.

218. UNOPS stated that Atlas reconciliations were done and sent to the Finance Division at headquarters for verification. UNOPS also indicated that it was working on additional guidance and directives that would provide further clarification regarding roles and responsibilities in respect of finance functions between headquarters, regional offices and operations centres.

219. UNOPS agreed with the Board's recommendation that it ensure that the Middle East Office in conjunction with headquarters (a) formulates a standard operating procedure that provides further guidance on finance roles and responsibilities among all business units in UNOPS; and (b) implements the monitoring and oversight mechanisms on Atlas at the regional level in relation to operations centres.

220. UNOPS indicated that Atlas training was being rolled out, and that a comprehensively revised delegation of authority to all finance staff in UNOPS had been completed by headquarters and promulgated to all staff as administrative instruction CCC/2008/001 on May 2008.

11. Procurement and contract management

Standard operating procedures

221. The UNOPS Procurement Manual sets forth the procurement regulatory framework for the whole organization and serves as a guide to conducting UNOPS procurement activities according to UNOPS procurement policies and procedures, regardless of the location and nature of the procurement. The purpose of standard operating procedures is, therefore, to define and simplify the steps that UNOPS field operations staff involved in the procurement of goods, works and services should follow. By following the steps described in the standard operating procedures, staff from field operations engaged in procurement actions will be able to accomplish their day-to-day work effectively and in an efficient manner.

222. At the Middle East Office, the Board noted that the standard operating procedures for the Procurement Unit process and its interface with other areas, such as logistics, finance and the contact centre were in draft and had not yet been approved.
223. A lack of formally approved standard operating procedures may lead to a lack of proper direction and focus regarding the procurement process and inconsistencies in the procurement process.

224. **UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office implemented processes to ensure that the standard operating procedures were approved and implemented as soon as possible.**

225. The Middle East Office stated that it would follow the standard operating procedures once they were finalized and issued for implementation. Furthermore, the Office was in the process of recruiting a logistics officer in order to ensure a better interface between the areas of finance, procurement and logistics.

**Procurement services to the operations centres**

226. The Board noted that the scope of procurement services that the Middle East Office Procurement Unit rendered to the operations centres was not formalized. This may lead to uncertainty on the part of the Middle East Office Procurement Unit in terms of how it is expected to respond to the procurement needs of the operations centre.

227. **UNOPS indicated that it chose to slightly postpone a comprehensive review of the division of labour in procurement between regional offices and operations centres owing to the impending merger of the Inter-Agency Procurement Services Office with UNOPS and its expected impact.**

228. **The Middle East Office agreed with the Board’s recommendation that it clearly document and agree with the operations centres as to the circumstances when specific procurement services would be rendered by the Middle East Office Procurement Unit to the operations centres.**

**Supplier performance evaluations**

229. Section 10.1.3 of the Procurement Manual states that the individual in charge of the procurement activity in question has the main responsibility for supplier evaluation; however, procurement personnel depend upon input from the requisitioner/operational unit, the end user and the consulting engineer (in the case of works projects) in order to conduct a thorough evaluation.

230. At the Middle East Office, the Board noted that vendor performance evaluation reports were in many cases not completed for the biennium 2006-2007.

231. Lack of supplier performance evaluation reports may result in the organization being unable to defend itself against claims made by the supplier in the event of a dispute and was also considered non-compliance with the requirements stipulated in the UNOPS Procurement Manual.

232. **UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office at all times completes supplier performance evaluation reports in accordance with the requirements of the UNOPS Procurement Manual.**
Contract filing and documentation

233. The UNOPS Procurement Manual states that a standard filing system, as well as a number system to enable tracking of files, must be established in every operational unit in order to create an audit trail and to facilitate the management of the procurement activities; a procurement file should be opened by procurement personnel; and the establishment of proper routines for documentation of the procurement process is the responsibility of the directors/managers/heads of units where procurement is undertaken.

234. At the Middle East Office, the Board made the following observations:
   (a) There was no formal records management policy in place for the 2006 calendar year, and the structure of the files in terms of whether they should be maintained in hard or soft copy was not defined;
   (b) Original documentation pertaining to goods that were procured for project purposes could not be provided for audit purposes, as the files were maintained at the operations centres. Although the Procurement Unit maintained soft copies of the records, hard copies of some files had not been fully compiled and relevant procurement records had not been sorted and reviewed for completeness.

235. The UNOPS Middle East Office indicated that it had to send original files to operations centres for audit purposes and had developed a dual recording mechanism of hard copies supported by soft (electronic) copy.

236. The lack of a proper records and filing system may lead to loss of valuable procurement information, lack of a proper audit trail, incomplete procurement files, and inability to adequately monitor and review procurement activities to ensure compliance with the procurement policies and procedures.

237. The UNOPS Middle East Office agreed with the Board’s recommendation that it (a) maintain proper contract files; and (b) review contract files for completeness on a regular basis.

238. The UNOPS Middle East Office agreed with the Board’s recommendation that, at the end of a project, the operations centres apply strict rules for paperwork retention in a specific location.

Financial disclosure and declaration of interest

239. The United Nations adopted a policy on financial disclosure and declaration of interest applicable to all United Nations staff members, including UNOPS, with specific requirements of disclosure for staff involved in procurement actions. Accordingly, section 2.1 of the Secretary-General’s bulletin, ST/SGB/2006/6, relating to financial disclosure and declaration of interest statements, states that all staff members who are procurement officers, or whose principle occupational duties are the procurement of goods and services have an obligation to file an annual financial disclosure statement.

240. Based on discussion with management, the Board noted that none of the procurement staff at the Middle East Office and the Asia Pacific Office had signed an annual financial disclosure statement for 2006 and 2007.

241. Lack of signed annual financial disclosure statements indicates non-compliance with the requirements of the United Nations policy.
242. The UNOPS Middle East Office and Asia Pacific Office agreed with the Board’s recommendation that they ensure, in conjunction with headquarters, that annual financial disclosure statements are signed in accordance with United Nations policy.

243. UNOPS stated that its organizational directive on financial disclosure and financial declaration stipulated that all relevant staff (not just procurement staff) should submit a financial declaration/disclosure form to an independent third party for verification by 31 May 2008. All Middle East Office and Asia Pacific Office staff concerned had complied with the requirements of the directive.

**Procurement training**

244. Procurement within UNOPS had been regulated by the UNOPS Procurement Handbook, but in 2006 the Procurement Handbook was replaced by the Procurement Manual. The Procurement Manual sets forth the procurement framework for UNOPS. The Procurement Manual is aimed at updating the UNOPS procurement procedures to better suit UNOPS in the context in which the organization operates. The effective date of the Procurement Manual was 1 January 2007, with a revised version effective from 1 February 2007.

245. The Board noted that sufficient training for the Procurement Manual had not been provided to all Asia Pacific Office staff involved in the procurement process. Training had been provided to certain staff, for example, newly appointed portfolio managers and India operations centre procurement staff, but not to all staff situated at the Asia Pacific Office in Bangkok. UNOPS concurred that the training for the Asia Pacific Office staff had taken place between 11 and 15 February 2008, which was a year after the introduction of the Manual.

246. The effect of not conducting training activities is that procurement staff may not be fully aware of the policies and procedures contained in the UNOPS Procurement Manual.

247. **UNOPS agreed with the Board’s recommendation that it ensure that sufficient and relevant training, based on the Procurement Manual, is provided to all relevant staff in a timely manner.**

248. UNOPS indicated that the Asia Pacific Office rolled out comprehensive UNOPS procurement training (to the few staff who had not benefited from such training much earlier) in early March 2008. UNOPS finalized negotiations with a service provider with a view to requiring all procurement-related staff to complete an externally provided training course and obtain certification from a reputable independent third party.

**Partial merger of the Inter-Agency Procurement Services Organization into the United Nations Office for Project Services**

249. With the endorsement of the Executive Board and a formal agreement between UNDP and UNOPS, UNDP transferred part of the functions performed by the Inter-Agency Procurement Services Organization to UNOPS effective January 2008.

250. UNOPS has taken over the direct procurement of common user items, such as vehicles, office and communications equipment, performed through the WebBuy system. UNOPS has also taken over responsibilities for those services that support
the United Nations procurement system, principally the United Nations Global Marketplace, which is the portal for the vendor community for United Nations system procurement opportunities, permitting registration of suppliers worldwide for the supply of goods and services to the United Nations system and providing access to procurement notices and contract awards.

251. As a result of the partial merger, UNDP and UNOPS agreed to a one-time transfer of $3.9 million as a means to cover future liabilities associated with staff transferred from the Inter-Agency Procurement Services Organization to UNOPS, as well as a contribution towards start-up costs and business risks faced by UNOPS from 1 January 2008.

*Inter-Agency Procurement Services Organization*

252. The Board visited the UNDP Inter-Agency Procurement Services Organization in Copenhagen as part of the audit for the biennium ended 31 December 2007.

253. Based on the Board’s audit of the Inter-Agency Procurement Services Organization, several findings and recommendations were made. Owing to the merger of the Inter-Agency Organization with UNOPS, these are reflected in the Board’s report on UNOPS, as UNOPS will have the responsibility to ensure implementation where relevant, while UNOPS integrates the Inter-Agency Organization into some of its operations.

*United Nations WebBuy system*

254. The Inter-Agency Procurement Services Organization used an online system called United Nations WebBuy for the creation of purchase orders and invoices. The percentage and type of handling fee were embedded in the system and the system calculated the handling fee automatically.

255. Based on samples selected for testing, the Board noted two cases in which the incorrect handling fee had been charged to clients. As the United Nations WebBuy system automatically calculated the handling fees to be charged, the Board was concerned over controls within the system as well as subsequent controls over monitoring of the handling fees to be charged.

*Discrepancy in number of bids received*

256. The UNDP Procurement Manual states that once a solicitation method and a forum for competition have been determined and tender documents distributed to potential bidders, a business unit must ensure that adequate controls are in place for the receipt and evaluation of offers.

257. The Board noted a discrepancy in the number of bids indicated and those that were subsequently submitted to the Contracts, Asset and Procurement Committee.

258. There is a risk that incorrect submissions had been made to the Committee or that not all of the bid evaluations were being performed. The Inter-Agency Procurement Services Organization informed the Board that the submission of the Contracts, Asset and Procurement Committee erroneously stated the number of bids received for both lots and that the error had no impact on the procurement process.
Bids not evaluated in terms of all the requirements of the Procurement Manual

259. According to the UNDP Procurement Manual, bids must be evaluated by an evaluation team that consists of three to five members. Bids are to be evaluated against the specifications and must be weighted according to conformity to specifications, product quality, delivery time and terms, compliance with UNDP general terms and conditions, technical and financial capacity and price. All evaluations must be tabulated on a summary which is to be signed and certified by the evaluators.

260. Audit testing on bids awarded via the invitation to bid process revealed that 10 bids did not have evaluations that had been signed off by an evaluation team nor was there any evidence suggesting the composition or size of the team conducting the evaluation. This appeared to be widespread and not limited to the sample tested above. If the bid evaluation process is not adequately documented, adherence to the Procurement Manual cannot be ascertained.

261. Audit testing on a sample of bids awarded revealed that the bids reflected in table II.9 had not been evaluated according to all of the requirements of the Procurement Manual.

Table II.9
Bids not evaluated according to all the requirements of the Procurement Manual

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (United States dollars)</th>
<th>Product quality</th>
<th>Delivery time and terms</th>
<th>Compliance United Nations terms</th>
<th>Technical and financial</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>X-ray scanners</td>
<td>259 842</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>Election equipment</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>Long-term agreement for electoral ink</td>
<td>N/A</td>
<td>✓</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ballot boxes</td>
<td>2 236 500</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Voting booths</td>
<td>1 095 000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Medical equipment</td>
<td>256 049</td>
<td>X</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Bulldozer</td>
<td>98 500</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Front end loaders</td>
<td>93 370</td>
<td>X</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Note:
✓ = Evaluation performed
X = Evaluation not performed

262. If bids are not evaluated in terms of the requirements of the Procurement Manual, there is a risk that bids may not be adequately reviewed and could be awarded to bidders that do not meet all the requirements.

263. UNDP/Inter-Agency Procurement Services Organization informed the Board that the Inter-Agency Organization was a procurement office rather than a normal country office. In a country office, the evaluation team was normally composed of staff from the programme (requesting unit) and operations (procurement units) units. In the case of the Inter-Agency Procurement Services Organization, procurement professionals conducted the bid evaluations and there was no conflict as requisioners were not present.
264. With regard to the matters relating to the Inter-Agency Procurement Services Organization, the Board had recommended that the Inter-Agency Organization:

(a) Review the controls in the United Nations WebBuy system so that the fees were embedded and the system was configured correctly to ensure that it only charged one type of handling fee; and implement controls to monitor the accuracy of handling fees charged;

(b) Implement controls to ensure that the correct submissions were made to the Contracts, Asset and Procurement Committee and that evaluations were performed on all bids received; and to ensure all bid documents and files were adequately reviewed so that there were no inconsistencies;

(c) Ensure that the Inter-Agency Organization evaluations were signed off by the persons conducting the evaluation and that the composition and size of evaluations were noted on file; and that bids were evaluated on all of the evaluation criteria in the UNDP Procurement Manual.

265. The Board recommends that UNOPS consider the applicability of the recommendations related to the Inter-Agency Procurement Services Organization in its integration of the Inter-Agency Organization into its business.

12. Asset management

266. Non-expendable property consists of property and equipment valued at $1,000 or more per unit at the time of purchase and with a serviceable life of three years or more. As disclosed in note 14 to the financial statements, the value of non-expendable property holdings as at 31 December 2007 amounted to $10.3 million, a 17 per cent decrease from the previous biennium balance of $12.4 million.

267. The Board audited assets during its audit visits to the Middle East Office and the Asia Pacific Office and then followed up its review of assets at headquarters during the interim and final audits. The Board’s audit noted significant weaknesses. During the audit, individual fixed asset registers from different offices were reviewed in detail and various aspects of compliance with UNOPS policies and procedures were tested.

268. The Board’s findings in respect of assets relate to a wide variety of problems in the recording of assets in asset registers, as well as in the accounting for and management of assets. The Board had, in its report for the biennium ended 31 December 2005, raised several related concerns about assets. The more extensive field office visits during the current biennium allowed the Board to perform additional procedures, the results of which are described below.

269. UNOPS undertook to urgently rectify the matters raised in connection with non-expendable property and the asset registers. As a result, UNOPS was able to make improvements to its asset registers and thus was able to make adjustments to the value of non-expendable property disclosed in its financial statements. The originally submitted financial statements had reflected non-expendable property with a total value of $12.6 million. UNOPS stated that it had completed the exercise in May 2008. As a result of the corrections made by UNOPS, the value of non-expendable property was revised to $10.3 million (a reduction of $2.3 million) and reflected in the financial statements resubmitted to the Board.
270. As the audit fieldwork had already concluded, the Board was unable to verify the accuracy and completeness of the corrections made. The Board’s findings were based on the results of its sample testing, and so the Board could not confirm whether UNOPS had corrected its entire asset records or only those errors identified by the Board.

271. The UNOPS asset management and physical inventory instructions stipulate various prescripts for the maintenance of accurate asset records and the physical maintenance of assets. The Board’s various reviews of asset registers and physical assets revealed shortcomings and areas of non-compliance with the above-mentioned instructions.

**Assets not tagged**

272. The Board’s interim audit reflected a total of 125 items valued at $1.2 million that had not been tagged with a unique identification sticker. In its final audit, the Board noted a total of 171 items valued at $1.7 million that also had not been tagged. The Board further noted that some tag numbers had been allocated to more than one asset at headquarters, while other assets which had been allocated asset numbers had not been tagged.

273. The Board noted that in the Côte d’Ivoire operations centre one tag number had been allocated against all the assets. The office had a total of 10 assets with a combined value of $17,697.

274. **UNOPS agreed with the Board’s recommendation that it tag all its assets, and identify information and communications technology assets with their serial numbers.**

275. UNOPS stated that it had implemented the above recommendation by May 2008.

**Assets not currently used (idle assets)**

276. The Board noted that in the asset register of the operations centre in Italy, 10 computer assets with a combined value of $33,350 had been indicated as not being used. At headquarters, recently retired assets were stored in the basement.

277. The Board noted that several items included in the asset register were being stored in the warehouse of the Middle East Office and that management had indicated that those assets were no longer usable. The Board also noted 11 computers valued at $13,778 that had been identified for disposal but had not been disposed of in a timely manner.

278. **UNOPS agreed with the Board’s recommendation that it either transfer idle assets to another office where they can be utilized or dispose of them.**

**Faulty or redundant assets in the asset register**

279. The Board noted that in the asset registers of the Latin America regional offices, 17 assets with a value of $46,204 out of a total of 40 assets were recorded as faulty.

280. The Board also noted that some asset registers did not have remarks on the condition of the assets. Upon inspection of the guidelines on asset management, it
was found that the guidelines indicated that the remarks field could be left blank and prescribed only that all assets should be listed. Therefore, there might be other faulty and obsolete/redundant assets on the asset registers that were not indicated as such, thus overstating the total value of assets in the asset registers.

281. **UNOPS agreed with Board’s recommendation that it (a) investigate the 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.**

*Asset registers include assets with a cost of less than $1000*

282. In the UNOPS asset management and physical inventory instructions, capital assets/non-expendable assets are defined as tangible property with a minimum life expectancy of at least three years and an original value of $1,000 or more.

283. It was noted that manual asset registers from headquarters and regional offices included assets with a value of less than $1,000. This may lead to incorrect disclosures in the financial statements.

284. **UNOPS agreed with the Board’s recommendation that it record attractive items on a separate or nominal value register, and make appropriate financial statement disclosures.**

285. UNOPS indicated that the asset management guidelines sent out in November 2007 included the related instructions. Accordingly, about 80 per cent of the offices had submitted separate reports. However, in the absence of a systemic facility to record the assets, UNOPS still relied on manual input from the regional offices and the operations centres to receive the asset information. As many UNOPS projects were in conflict zones, some of the asset information might not be readily available. Therefore, the asset information collection was an iterative process that was not fully completed until May 2008.

*Asset duplication on the asset register*

286. The asset registers were tested for duplicate recording of assets. At interim audit, the Board noted 58 items valued at $163,382 at headquarters and 8 items valued at $267,136 at the North America regional office that were duplicated in the respective asset registers. During its final audit, the Board noted a further six items valued at $34,496 that were duplicated at headquarters.

*Assets recorded at nil value in the asset register*

287. The Board noted that 324 items in the asset registers were recorded with nil value. UNOPS indicated that the assets recorded with nil value in the Europe regional offices were all on loan from the Building Foundation for International Organizations (FIPOI), a Swiss governmental entity providing premises and facilities free of charge to United Nations agencies. Thus, these assets were shown at zero value in the assets list.

288. **UNOPS agreed with the Board’s recommendation that the policy for the inclusion of loaned assets in the asset register be clarified.**
Assets with no serial numbers

289. The Board noted that although the asset register provided for serial numbers to be documented, no serial numbers were recorded for 25 pieces of computer equipment listed in the Congo, Côte d’Ivoire and Senegal valued at $54,295.

Assets with no acquisition dates

290. The Board noted that assets acquired prior to 2006 in Haiti (7 items valued at $8,847) and Switzerland operations centres (138 items valued at $256,878) were recorded as additions in the asset register during the biennium 2006-2007. At the Asia Pacific Office, the Board noted 16 items, valued at $17,295, with acquisition dates that were not in accordance with delivery dates.

Pending items in the asset registers

291. The UNOPS Middle East Office had performed a physical verification exercise and recorded 481 items in the asset register as pending items. Therefore, the Board could not confirm that the physical verification checks of the 481 items were complete.

292. The Middle East Office informed the Board that the reasons for the assets being shown with pending status were as follows:

(a) Incomplete supporting documents, for example, no corresponding purchase order or other record found in relation to the asset;

(b) Assets returned from various operations centres without supporting document attached;

(c) Assets identified as obsolete and therefore awaiting disposal.

293. **UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office (a) follow up and correct the backlog of pending items as soon as possible; (b) implement policies and procedures to ensure that all fields were completed in the asset register at the time of purchase; (c) engage headquarters to provide training and fully implement the assets module in the Atlas system; and (d) maintain supporting documents for all assets under its control.**

Revalued assets

294. The Board noted that the requirement to reflect administrative project identification numbers in the asset register was not applied consistently in the Asia Pacific Office. Moreover, the relevant column heading in the asset register did not indicate that the United States dollar currency was used, as required by the instruction on assets.

Inventory counts

295. The Asia Pacific Office had not submitted the required signed copy of the inventory representation letter to UNOPS headquarters as required by 15 December 2007. However, it was submitted in January 2008.
296. Furthermore, inspection of the reports detailing the inventory counts performed during the biennium at the Asia Pacific Office did not include the following essential information relating to the inventory count:

(a) Date on which the inventory count took place;
(b) Period for which the inventory count was performed;
(c) Opening balance, movements, discrepancies and closing balance for each period that the inventory count was performed;
(d) Evidence of review by an authorized official.

297. **The Board recommends that UNOPS (a) perform inventory counts and asset reconciliations on a regular basis, and (b) maintain proper records relating to asset counts performed.**

**Stolen assets on the asset register**

298. The Board noted 10 computer items valued at $20,487 that had been stolen from UNOPS headquarters in early 2007 but had not been removed in a timely manner from the asset register until March 2008. The assets were not included in the list of write-offs and disposals certified by UNOPS.

299. **The Board recommends that UNOPS (a) ensure that assets are timely removed from the fixed asset register, and (b) include the assets written off in the schedule of assets written-off.**

**Asset disposal process**

300. The Board was concerned about the large number of obsolete and redundant office equipment and furniture items listed as assets by the UNOPS Asia Pacific Office as well as the project offices in China and Timor-Leste. The Board recommended that the Asia Pacific Office take action to dispose of or write off the equipment and furniture listed as assets in line with the UNOPS financial regulations and rules. However, the Board noted that the Asia Pacific Office had made a submission for the disposal of obsolete and redundant assets to the headquarters Contracts and Property Committee only on 27 November 2007. Furthermore, the assets had not been in use during the biennium 2006-2007 and were kept in an off-site storage facility at a cost of approximately $1,000 per annum. The submission for disposal of the assets valued at $634,821 had been approved by the Committee on 4 December 2007.

301. Although the above assets had been approved for disposal by the headquarters Contracts and Property Committee, the Board noted that only assets pertaining to the Asia Pacific Office were disposed of in late December 2007, and that the assets pertaining to project offices in Timor-Leste and China had not yet been disposed of as at 24 January 2008. Furthermore, the assets were reflected as being disposed of in the asset register for the biennium 2006-2007 although they had not actually been disposed of by the time of the audit.

302. **UNOPS agreed with the Board’s recommendation that it ensure that the Asia Pacific Office and the Middle East Office (a) identify and continuously monitor all assets pending disposal and write-off; and (b) implement processes and controls to dispose of those assets in a timely manner to ensure that all**
assets were removed from asset registers following disposals, losses, damages or write-offs.

Asset management module maintained in Atlas

303. UNOPS asset management and physical inventory instructions, section 3, states that to support requirements of the financial regulations and rules of UNOPS and the United Nations system accounting standards requirement to disclose administrative assets in its financial statements, and in response to the recommendations of the United Nations Board of Auditors, the Atlas asset management module will be used to record and track capital and non-capital assets funded out of the administrative budget from 1 January 2006.

304. The Board noted that the asset management module in Atlas was not activated by headquarters for use, and therefore, only a manual asset register was maintained. The Board observed during the visit to two regional offices that the Atlas module was not being used.

305. 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.

306. UNOPS indicated that implementation of the asset management module required significant resources and UNOPS had already completed the extensive preparatory work necessary for implementing the module. Before implementation, it was necessary to ensure that UNOPS asset records were fully cleansed. The current manual collection and review process was part of the cleansing process. In 2006, UNOPS moved its headquarters from New York to Copenhagen and had concentrated on improving controls and procedures that had direct impact on financials and were accorded higher priority than implementation of the asset management module. However, UNOPS was committed to implementing the asset management module in Atlas in the latter part of 2008.

307. UNOPS agreed with the Board’s recommendation that it update the 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.

Assets locations not documented

308. The Board noted that in the asset register of the Middle East Office, locations for 36 assets, with a total value of $124,476, were not properly documented and rather shown as to be confirmed.

309. UNOPS agreed with the Board’s recommendation that it update the asset register with the correct asset locations.

Deficiencies in the asset management guidelines/policy

310. UNOPS was still using the asset management and physical inventory instruction that had been developed in 2005 and has not been updated since then. The Board noted that the guideline was not comprehensive and highlighted several deficiencies in the areas such as the roles and responsibilities regarding asset
management, details about periodic inventory count procedures, details of safeguarding of assets, and procedures to deal with thefts, write-offs and insurances.

311. UNOPS agreed with the Board’s recommendation that it revise its asset management manual and policy in order to address all those asset issues.

**Project assets in warehouse**

312. The asset register provided by the Chief of the Project Development Unit at the Middle East Office stated that the total capital and non-capital assets kept at the regional office premises and warehouse were valued at $1,148,704 as at 7 November 2007. The total assets consisted of $669,084 of assets purchased under the administrative budget and $479,619 of project-related assets kept at the warehouse and office premises. The Board did not verify the assets located at operations centres.

313. The Board inspected the Middle East Office warehouse and noted eight project assets items valued at $200,393 that were stored in the warehouse although purchased as far back as 2005 and not utilized since then.

314. The reason provided to the Board was that the majority of project assets kept in the warehouse were remnants from 2005 purchases under project budgets, made pursuant to the regional office’s decision taken at the time to create a stock of strategic items from project budget. The stock could be used in future in the event the need arose for rapid response to a crisis. The Board could not obtain any formal agreement between UNOPS and donors to the respective projects providing approval for the regional office to purchase and use the assets as strategic items.

315. The large number of project assets kept in the warehouse was an indication of poor procurement planning and inadequate consideration given to the needs of the projects prior to making acquisitions. This also implied that UNOPS incorrectly recorded and earned overhead on this project expenditure.

316. The UNOPS Middle East Office agreed with the Board’s recommendation that it, in conjunction with all related operations centres, (a) identify assets that were required for project purposes and transport them to the project sites as soon as possible; (b) identify assets which no longer met the project requirements and implement a process to dispose of those assets in a timely manner; (c) return funds to donors after selling project assets; (d) implement controls to monitor and prevent project assets from being stored at the warehouse for extended periods of time; and (e) raise a liability for amounts to be refunded to donors.

317. UNOPS indicated that the Middle East Office had carried out comprehensive inventory verification and that it no longer stored project assets in the warehouse as a matter of policy. It would further ensure that only project assets under trans-shipment would be stored in the warehouse and that they would be moved to project locations within a reasonable time frame.

**Project assets utilized in the regional office**

318. Five project assets valued at $33,922 were utilized by the Middle East Office for its day-to-day activities. Furthermore, during the physical inspection of vehicles, the Board noted that six vehicles belonging to the Afghanistan project and valued at
$90,613 were utilized by the Middle East Office in Dubai for day-to-day transportation activities.

319. There was neither a formal agreement nor any hand-over procedure between the project manager and donor of the related projects providing approval for the Middle East Office to utilize the project assets stored in the warehouse. Daily activities of the Middle East Office should be funded only from its administrative budget.

320. Furthermore, in addition to the assets being incorrectly charged to the projects, the Middle East Office would have earned revenue from these purchases, and would thus owe donors a refund for the expenses and overheads charged.

321. Following the audit, UNOPS performed an analysis of the impact of incorrect utilization of these assets and compiled a list of project assets, the cost of which would be reversed and paid back to project budgets and charged to the Middle East Office administrative budget. The total impact of the reversal was estimated to be some $170,112.

322. UNOPS agreed with the Board's recommendation that it (a) agree with relevant donors to allow the regional office to purchase those assets and refund the money to the project; (b) implement controls over project assets stored in warehouse facilities to ensure that project assets were utilized for project activities only; and (c) together with operations centres, implement controls to enable project managers to better oversee assets purchased against project funds; (d) investigate the circumstances around the misuse of project funds that allowed the purchase of project assets for use by the administration; and (e) make an accounting entry to reverse the cost of assets purchased (and the related revenue) under projects.

Asset acquisitions

323. At the Asia Pacific Office, a reconciliation between the value of asset acquisitions as recorded in the manual register and the administrative expenditure summary report from Atlas for the biennium 2006-2007 revealed the existence of a difference of $71,197. The difference in values for asset acquisitions may be indicative of a lack of proper monitoring and reconciliation controls.

324. The management of the Asia Pacific Office indicated that it had fully reconciled the differences between the asset acquisitions and the administrative expenditure summary report from Atlas for the biennium 2006-2007. The difference was primarily attributable to changes from 2006 to 2007 in the use of account codes for such acquisitions.

Assets acquired during 2006 included in the opening balances

325. Although additions for both 2006 and 2007 were recorded separately from opening balances in the headquarters asset register, there were 491 items, valued at $827,891, acquired during 2006 that were included in the opening balances as at 1 January 2006. This resulted in opening balances being overstated. Furthermore, the Board was unable to reconcile the opening balances in the asset register with the closing balance as reported in the prior biennium financial statements because the asset registers were not consolidated and did not have separate opening balances.
326. **The Board recommends that UNOPS reconcile the opening balances with the closing balance as reported in its 2004-2005 financial statements.**

13. **Human resources management**

327. The Board conducted test procedures in the areas of human resources management including the review of human resources plans, succession planning, performance appraisal, training, organizational development, staff appointment and leave administration. The weaknesses identified are discussed below.

**Staffing table**

328. UNOPS financial regulations and rules 111.2 states that:

(a) An authorized staffing table shall be issued annually by the Division of Finance to each organizational unit, indicating the number and level of approved posts;

(b) The Director, Division of Finance, shall be responsible for exercising overall staffing table control to ensure that total posts by level as authorized by the Executive Board are not exceeded.

329. The Board was not provided with the staffing tables for the biennium 2006-2007, for the head office, the Asia Pacific Office and the Middle East Office as that staffing table was never submitted for review and approval by the Advisory Committee on Administrative and Budgetary Questions and the Executive Board. The Board was, however, provided with the approved staffing tables for the biennium 2008-2009. UNOPS stated that the staffing table had been reviewed and approved by the Management Coordination Committee, the Advisory Committee on Administrative and Budgetary Questions and the Executive Board by January 2008. In February 2008, an approved and detailed staffing table was provided to each regional office.

330. **UNOPS agreed with the Board’s recommendation that it provide the authorized staffing table to each regional office on an annual basis.**

331. UNOPS indicated that the staffing table for the biennium 2008-2009 had been approved by the Executive Board in January 2008 and had been communicated to all regional offices.

**Succession planning**

332. Succession planning is a process of identifying and developing talent to ensure leadership continuity and that key positions in the organization are filled successfully in terms of competency levels, gender equality and geographical considerations. Without succession planning or a specific formalized process in place to address the replacement of a staff member approaching retirement age or to fill key positions in a timely manner, UNOPS could lose the expertise of staff members prior to the appointment of suitable replacements. Succession planning also assists in minimizing delays in the process of filling vacancies.

333. The Board noted that during the biennium 2006-2007 UNOPS did not have a finalized succession plan in place to address the attrition of staff.
334. **UNOPS agreed with the Board’s recommendation that it implement a succession plan.**

335. UNOPS stated that it had promulgated a succession management policy on 14 May 2008.

**Gender balance**

336. The General Assembly in its resolution 56/127, reiterated in Assembly resolution A/57/180, urged the Secretary-General to redouble his efforts to realize significant progress towards the goal of 50/50 gender distribution in all categories of posts within the United Nations system.

337. The Board noted that UNOPS, unlike some other United Nations organizations, did not have an approved gender balance policy during the biennium 2006-2007.

338. Table II.10 illustrates the statistics provided to the Board by the Office of Human Resources Management on the status of the gender distribution at headquarters and in regional offices as at 31 December 2007, and table II.11 illustrates the gender distribution in UNOPS as a whole at 31 December 2005, 2006 and 2007.

**Table II.10**

**Gender distribution at the headquarters of the United Nations Office for Project Services and its regional offices as at 31 December 2007**

<table>
<thead>
<tr>
<th>Gender</th>
<th>MEO</th>
<th>APO</th>
<th>EUO</th>
<th>AFO</th>
<th>NAO</th>
<th>LCO</th>
<th>HQ</th>
<th>UNOPS Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>12</td>
<td>41</td>
<td>75</td>
<td>29</td>
<td>106</td>
<td>18</td>
<td>39</td>
<td>320</td>
</tr>
<tr>
<td>Male</td>
<td>31</td>
<td>54</td>
<td>98</td>
<td>93</td>
<td>183</td>
<td>15</td>
<td>53</td>
<td>527</td>
</tr>
<tr>
<td>Total</td>
<td>43</td>
<td>95</td>
<td>173</td>
<td>122</td>
<td>289</td>
<td>33</td>
<td>92</td>
<td>847</td>
</tr>
</tbody>
</table>

*Source*: Division of Human Resources Management.

*Note*: MEO, Middle East Office; APO, Asia Pacific Office; EUO, Europe Office; AFO, Africa Office; NAO, North America Office; LCO, Latin America and Caribbean Office; HQ, Headquarters.

**Table II.11**

**Gender distribution for the United Nations Office for Project Services in total (three-year trend)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female to male ratio</td>
<td>38:62</td>
<td>38:62</td>
<td>38:62</td>
</tr>
</tbody>
</table>

*Source*: Division of Human Resources Management.

339. **UNOPS agreed with the Board’s recommendation that it implement a gender balance policy.**

340. UNOPS promulgated a gender policy on 14 May 2005 and, to ensure the policy’s success, it plans to implement a quarterly or semi-annual monitoring system
which will incorporate all relevant gender balance data into an overall workforce planning report (similar to the balanced scorecard indicators) at both organizational and unit manager levels. This system will incorporate comprehensive data into monitoring reports such as those on gender representation at each stage of the recruitment and selection process and gender differences in performance results assessment in order to highlight areas in which action is needed.

Approval of vacancies and filling of posts

341. In his report on human resources management reform (A/55/253), the Secretary-General determined that 120 days was the maximum target to fill posts through effective human resources planning, and the shortest expected period to fill a post was 60 days.

342. The Board noted that UNOPS had not developed, during the biennium 2006-2007, similar internal guidelines on timelines for filling vacancies to address those matters described in the Secretary-General’s report. UNOPS stated that such guidelines formed part of the recruitment policy promulgated by UNOPS in May 2008.

343. The Board reviewed a sample of 12 appointments made during the biennium 2006-2007. The review indicated that 5 of the 12 appointments had not been made within the target of 120 days, but were made within a period ranging from 126 to 304 days. UNOPS stated that four of the cases noted related to instances where UNOPS only administered the contract on behalf of the client and did not perform the recruitment function.

344. The relocation of UNOPS headquarters from New York City to Copenhagen, together with other multiple organizational changes that took place during the period, had an impact on the speed of some recruitment actions.

345. The Board recommends that UNOPS take appropriate action when delays are experienced in finalizing appointments.

346. UNOPS indicated that the vacancy ratio with respect to the filling of key posts had decreased significantly during the biennium. UNOPS had set in its balance scorecard a number of key performance indicators aimed at ensuring that at least 75 per cent of staff vacancies were filled within 100 days. The issue was covered in greater detail in the comprehensive policy on recruitment promulgated on 13 May 2008.

Consultant agreement

347. The Board performed a limited high-level review of human resources management at regional offices, and noted the staff breakdown of the Middle East Office, as set out in table II.12.
Table II.12
Middle East Office staff breakdown as at 31 October 2007

<table>
<thead>
<tr>
<th>Level</th>
<th>D-1</th>
<th>P-5</th>
<th>P-4</th>
<th>P-3</th>
<th>P-2</th>
<th>CA</th>
<th>Other</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointments on a limited duration</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2.56</td>
</tr>
<tr>
<td>Fixed-term contract</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>9</td>
<td>23.08</td>
</tr>
<tr>
<td>Consultant agreement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27</td>
<td></td>
<td>27</td>
<td>69.23</td>
</tr>
<tr>
<td>Other (SC, NRL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td>2</td>
<td>5.13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Note: CA, consultant agreement; SC, service contracts; NRL, non-reimbursable loan.*

348. The Board noted that there was a large number of personnel on consultant agreements. A consultant agreement is a contract entered into by UNOPS directly with a national consultant or international consultant to perform the services or activities specified in the terms of reference, which are an integral part of the overall agreement.

349. Furthermore, international consultant is defined in the guidelines as a person who is a recognized specialist or authority in a specific field not normally possessed by regular staff and for which there is no continuing need in UNOPS, who is retained by UNOPS for a defined period of time to undertake a specific assignment generally outside her/his home country or place of temporary or permanent residence (subject to such exceptions as may be approved by the Chief, Division of Human Resources Management).

350. The regional office performs oversight, monitoring and backstopping office functions with regard to all the operations centres in the region. Functions carried out at the Middle East Office include finance, procurement and project monitoring and aim at meeting the continuing needs of UNOPS in the region.

351. Based on discussion with management, it was noted that the issue of consultant agreement contracts was inherited from previous years and the Middle East Office was in the process of converting consultant agreement and other contracts to UNOPS staff contracts effective 1 January 2008.

352. The Middle East Office indicated that the staffing complement for the Office was established on the basis of the administration budget allocated for the year in question. While the allocated administrative budget specified the number of approved fixed-term (including appointments of limited duration) positions and their levels, the number of contractors to be recruited within the approved resource allocation was left to the discretion of the regional director.

353. UNOPS agreed with the Board’s recommendation that it ensure that the Middle East Office (a) implement a timeline to expedite the conversion of applicable consultant agreement contracts to UNOPS fixed-term contracts; and (b) engage UNOPS headquarters in finalizing, as part of the budget submission, the authorized staffing table for 2008.
354. UNOPS indicated that all Middle East Office international consultant agreement contracts had been converted to fixed-term contracts by January 2008. The staffing table had been submitted to the Advisory Committee on Administrative and Budgetary Questions in November 2007 and was approved by the Executive Board in January 2008.

Performance results assessments

355. The performance results assessment is described in the UNOPS guidelines as the cornerstone of an integrated, coherent human resources management system. The competency set is at the core of what is expected of a staff member and serves as a vehicle for staff member recruitment, selection, performance planning/appraisal, learning and development, and separation.

356. The guidelines also state that the performance results assessment applicable to staff members up to and including ICS-14 (D-2) level who hold contracts continuously for more than six months regardless of their type. It also applies to holders of consultant agreements, service contracts and special service agreements of more than six months. These shall all be titled staff members.

357. The performance results assessment has a three-step annual cycle: (a) individual performance planning (January-March); (b) mid-year review (June-July); and (c) year-end review (first quarter of the following year).

358. The Board noted that for the 2006 year-end review, the performance results assessments had been finalized and signed by only two staff members at the Middle East Office.

359. **UNOPS agreed with the Board’s recommendation that it implement procedures and controls to ensure that all required performance reviews were completed within the specified timelines.**

Structure of regional offices

360. The Asia Pacific Office has experienced growth in recent years, as reflected in its key income statement measures. This growth spanned new areas of business for the Office and its staff (for example, Government of India procurement and the Three Diseases Fund project in Myanmar). Such rapid growth necessitated investment in resources, which was reflected in the growth in the administrative budget. The type of business conducted by UNOPS is not dissimilar to that of many private sector consulting or project management companies, and so it has found itself competing with both other United Nations common system suppliers and private companies for new business and for personnel. However, UNOPS pursued its business within the overall ideals and values of the United Nations, as well as regulations, rules and procedures that were more common to a public sector organization than a private, for profit, entity.

361. The combination of growth and sector competition makes the acquisition of new business and retention of the existing business a high priority, as well as a significant risk area. It is necessary to both prioritize a business growth strategy and address the business risks associated with this growth.

362. A business growth strategy would identify a market, a suite of services and competitive advantages, as well as develop a sales and marketing plan. The risk
considerations would include an appropriate selection of projects that fulfilled both the economic considerations and the goals of the United Nations, as well as the capacity to deliver according to expectations. A failure of strategy or unmanaged risks could expose UNOPS to losses.

363. The Board noted that extensive investments continued to be made in restructuring and improving UNOPS operations. However, there were some matters which deserved further attention. These are discussed below.

Establishment of operations centres and portfolio managers

364. The Board visited the Middle East Office and the Asia Pacific Office as part of the audit for the biennium ending 31 December 2007. The Board noted that the two offices had different approaches to project management, with portfolio managers in the Asia Pacific Office but not in the Middle East Office. The management of the Asia Pacific Office explained its views on the challenges and risks of establishing operations centres and highlighted the role of portfolio managers, which in its view was essential.

365. The Board is concerned that the organizational structure of UNOPS is not uniform in the two regional offices visited. The different approaches add complexity to system design, the approach to controls and delegation of authority, and administration costs. It also impacts clients and counterparts that see a UNOPS that is not uniform in its approach.

366. The Board recommends that UNOPS, in conjunction with regional offices, review its approach to project management and ensure that a uniform system (where possible) is implemented within the UNOPS organizational structure.

367. UNOPS indicated that a comprehensive review had been conducted by headquarters, in collaboration with regional offices, in April 2008. Uniform criteria were established for creation of operations centres as well as for the proper distinction between operations centres headed by a director and those headed by a manager.

14. Enterprise resource planning systems

368. In the previous biennium, UNDP, UNFPA and UNOPS had conducted an external review of the Atlas system. The review had identified a number of weaknesses in Atlas. In the current biennium, the Office of Audit and Investigations had appointed a consultant to perform a follow-up review on the weaknesses identified. The results of the current review had not yet been finalized at the time of audit.

Financial dashboard

369. The UNOPS financial dashboard is a monitoring tool that presents data directly from Atlas and provides an indication of the financial situation of UNOPS on a daily basis. An analysis of the financial data quality of the administrative budget revealed that for nine activities, the total amounted to $2,156,662 in the Atlas administrative expenditure summary report but to $2,220,470 in the financial dashboard as at 16 January 2008, a difference of $63,808.
370. As the Atlas report and financial dashboard are both used for reporting and decision-making purposes, it is imperative that the figures in both tools are consistent and accurate.

371. **UNOPS Asia Pacific Office agreed with the Board's recommendation that it, in conjunction with headquarters, investigate the reasons for and correct the difference identified in the Atlas expenditure report and the financial dashboard to ensure accuracy and consistency for decision-making purposes.**

372. UNOPS indicated that the financial dashboard had been redesigned in February 2008.

15. **Programme and project management**

   **Interest on project funds**

373. The Board reviewed a sample of agreements and noted that UNOPS was required to account for interest earned on donor funds received either on an annual or, in some cases, a monthly basis. For example, for project 55449, paragraph (g) section 4 of the agreement states that the parties also agree that interest is credited only based on a month-end cash balance at interest rates determined by the UNDP Treasury.

374. The Board noted that interest calculation had not been performed for the 2005 year and had been done only in conjunction with the 2006 interest calculation. This resulted in an understatement of the 2005 UNDP inter-fund account and the deferred revenue account (for other projects) and an overstatement of the same accounts in the balance sheet for the biennium 2006-2007.

375. **UNOPS agreed with the Board's recommendation that it implement processes to account for interest earned on the basis stipulated in the agreements with its clients.**

376. UNOPS noted that although it posts interest on an annual basis, the calculation is based on monthly balances, which should lead to the same result. UNOPS agreed to adjust the practice when agreement with clients specifically called for a different type of calculation and would discuss the matter with the UNDP Treasury which processed interest calculations on behalf of UNOPS.

   **Project 54720: Support to mine action**

377. UNOPS had entered into an agreement with the United Nations to provide services in Afghanistan for the period 1 January 2007 to 31 December 2007. The duration of the agreement was extended until 31 December 2008.

378. The agreement stated, among other things, that in accordance with the budget represented in annex II (a), the United Nations would allocate and make available to UNOPS resources up to the maximum amount of $106,427,460 for the duration of the memorandum of agreement. The allocation of the aforementioned total amount was subject to availability of funds and voluntary contributions to the Voluntary Trust Fund for Assistance in Mine Action and would be released to UNOPS in seven instalments.

379. The first instalment of $3,768,257 was to be paid upon signature of the agreement and thereafter instalments would be released by the United Nations, in
advance of expenditure, on a regular basis within 30 days of the receipt of a satisfactory and timely interim quarterly financial statement on income and expenditure.

380. The Board noted that for the dates reviewed, UNOPS had incurred expenditure prior to receiving funds from the United Nations. For example, for project 54720 UNOPS had incurred cumulative expenditure of $36.114 million but had received only $4.298 million as at the date of the audit in March 2008. UNOPS had not separately disclosed a project receivable in its financial statements for funds spent in advance.

381. The incurring of expenses prior to receiving funds exposed UNOPS to financial risk, as funding was dependent on voluntary contributions to the United Nations and was not guaranteed. In addition it was also in contravention of UNOPS financial regulation and rule 5.5 which states that UNOPS shall ensure that all expenditure for foreseen project activities do not exceed funds received.

382. Effective 1 January 2007, UNOPS implemented an advance financing policy which states that for cash projects where funds are not received in time or for both cash projects and projects with approved budget authorization where funds are insufficient to continue or complete a project, advance financing arrangements may in exceptional circumstances be made. This might be done to facilitate delivery of projects during emergencies, during early implementation activity, to bridge successive phases of an ongoing project or while awaiting the receipt of funds whose release depends on a project terminal report. These guidelines are thus also aimed at protecting UNOPS portfolio managers who at times have been forced to take inordinate risks in this area without having the benefit of clearly delineated standard operating procedures.

383. A review of a sample of Office of Audit and Investigations reports issued during the biennium, showed that the Office had also raised a material concern to highlight the issue of expenditure being incurred prior to funds being received per internal audit reports PS 0222, 2007-247 NBI GEF, 2007-252 NBI WRPM, PS0204 and PS0236.

384. The Board recommends that UNOPS (a) implement controls to ensure that advance spending is incurred in compliance with its advance financing policy; and (b) make appropriate disclosures of debtors in respect of advance funding/financing.

385. UNOPS indicated that all advance expenditure incurred was fully in line with the approved advance financing policy that had come into effect on 1 January 2007. All such requests had been thoroughly scrutinized and an online tracking system had been implemented in early 2007 to keep all advances under control.

**Project 45719: District-based peacebuilding programme (Somalia)**

386. The Board inspected the project agreement that had been signed in November 2005 for project 45719 and noted the following line items in the agreement budget:
Table II.13
Extract of project 45719 budget
(United States dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total project costs</td>
<td>2 207 450</td>
</tr>
<tr>
<td>UNOPS field support costs (lump sum)</td>
<td>110 373</td>
</tr>
<tr>
<td>UNOPS central management fee (4 per cent)</td>
<td>88 298</td>
</tr>
<tr>
<td>UNDP general management support (5 per cent)</td>
<td>110 373</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>2 516 493</strong></td>
</tr>
</tbody>
</table>

387. Based on this budget, it appeared that UNOPS was entitled to reimbursement of field support costs that it had incurred in addition to the UNOPS management fee.

388. The Board was, however, unable to confirm that UNOPS had been reimbursed the field support costs. Based on correspondence received from the project manager, the field support costs were regarded as a normal cost that was borne by UNOPS and not as a cost that was to be recovered separately.

389. The Board noted that the project agreement did not have paragraphs relating to financial arrangements that would normally include issues relating to the budget, facility and administration fee and reimbursements.

390. **UNOPS agreed with the Board’s recommendation that it pursue the recovery of field support costs.**

391. UNOPS stated that it had already implemented the recommendation and had recovered all types of costs envisaged under the project. UNOPS also confirmed that by mid-2008, it would sign a new letter of agreement with the client to better define the implementation arrangements and the delineation of responsibilities and corresponding fees.

**Project deficits and use of Atlas in project accounting and reporting**

392. In order to analyse the status of UNOPS projects to date, the Board requested a report of all active projects with cumulative budgets and expenditure as at 31 December 2007.

393. UNOPS indicated that the Atlas report with the requested parameters was not entirely accurate as budgets and expenditure for projects that were started before Atlas implementation on 1 January 2004 had not in all cases been transferred into Atlas. In total, there were 471 projects with a total budget of $1.2 billion that were shown as active in the report but could not be thoroughly analysed because some of the projects having budgets and expenditure prior to 2004 had not been uploaded into Atlas.

394. Based on the report provided for projects started after 1 January 2004 the Board noted that UNOPS had 96 projects with a total deficit value (expenditure exceeding budget) of $17,493,788.

395. UNOPS indicated that the customized report, as provided, could not be regarded as accurate since budgets in respect of old projects had in some instances
been registered incorrectly or where budget rephrasals had taken place, the budget might not have been adjusted accordingly.

396. UNOPS indicated that new procedures for entering budgets had been implemented in 2007 and that improvements had been made over the monitoring of projects in 2007. UNOPS further indicated that most of the projects in the aforesaid list were old projects. Furthermore, UNOPS stated that due to the nature of the project work done by UNOPS, a certain amount of overexpenditure was to be expected, as most of UNOPS work was located in conflict zones and costs might rise owing to sudden changes in the operating environment. The new pricing policy of UNOPS took that risk factor into consideration while pricing UNOPS projects. Given the above, although some of the UNOPS projects might eventually have overexpenditure, UNOPS stated that it had made progress in improving internal controls and identifying and eliminating project overexpenditure. UNOPS indicated that the overexpenditure could be recovered by negotiating with clients at the end of the project.

397. UNOPS agreed with the Board’s recommendation that it (a) address Atlas data shortcomings to reflect correct historical budgets, and thus the status of any project deficits; (b) account for and recover historical project deficits; (c) always obtain budget revisions before budgets were exceeded; and (d) further strengthen programmatic controls to prevent any overspending.

398. UNOPS indicated that it had implemented control mechanisms through regional finance officers to ensure that budget revisions were made prior to exceeding original project budgets and overspending was thus prevented. UNOPS further stated that it had analysed the projects noted by the Board and in instances where recovery was doubtful, it had made the respective provision in its financial statements for the biennium 2006-2007.

Project closure

399. Project closure begins when the objectives of a 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.

400. According to rule 110.5, Operational and financial completion, of the UNOPS Financial Regulations and UNDP Financial Rules that apply mutatis mutandis to UNOPS, UNOPS must adhere to the following:

“(a) As soon as all project activities have ceased, the executing agency shall declare a project operationally completed. It shall inform UNDP of such operational completion and submit to UNDP a budget revision, in conformity with the provisions of Rule 110.3, reflecting actual and estimated expenditures to date.

“(b) A project which has been operationally completed, or terminated, and for which all financial transactions have been recorded, the project accounts closed, and a final project revision approved, shall be considered financially completed.

“(c) The financial completion of a project shall be accomplished within 12 months after the month in which it is operationally completed or terminated.”
401. During the audit visit to the Asia Pacific Office, the Board noted a number of projects with $1 and $2 budgets, which was an indication that the projects were most likely operationally closed. However, the project status in Atlas was still shown as active.

402. The Board followed up this finding during the final audit at headquarters. UNOPS indicated that it was still busy with the clean-up exercise in order to determine which old projects should be closed.

403. The Board noted an improvement in the number of projects with $1 budgets but also noted the matter was not completely finalized.

404. UNOPS indicated that it had undertaken, over a 12-month period, significant preparatory work to analyse and, as might be necessary, operationally and/or financially close old projects. The Board could not obtain assurance regarding the total number of projects that remained active. UNOPS indicated that it was unable to determine the financial obligation pertaining to old and inactive projects to be cleared from the contribution received in advance account due to the fact that some of the project documentation was not properly recorded in the old (pre-2004) Integrated Management Information System (IMIS).

405. The Board is concerned that projects which are not financially closed may result in the misstatement of the contribution received in advance account.

406. **UNOPS agreed with the Board's recommendation that it take further steps to (a) ensure that the status of projects was regularly monitored and accurately reflected in Atlas; and (b) urgently complete the project closure exercise.**

407. UNOPS informed the Board that it had completed its analysis by May 2008 and, as a result, closed operationally or financially nearly 2,150 projects. Consequently, the number of active projects was reduced in Atlas from 3,600 in early 2007 to some 1,450 projects currently.

408. The Board further noted that rephasing of budgets was a process that was necessary but might not always be done properly and could lead to errors. To determine the true status of a project regardless of timing differences would require the consideration of the entire life of the project. UNOPS did not have a fully reliable control tool for monitoring its projects.

409. Due to the inconsistencies noted, the Board was not able to confirm the complete status of expenditure in relation to budgets in the system and could not confirm that there were satisfactory controls implemented for monitoring projects on a cumulative basis.

410. **The Board recommends that UNOPS collate and track all project expenditure against budgets on a cumulative and annual basis.**

411. UNOPS implemented controls to monitor projects with overexpenditure and to monitor the creation of contingent purchase orders. UNOPS indicated that the number of overexpended projects was far less than what it had been in past bienniums and many cases were in the process of being resolved. The unresolved overexpended projects would be resolved either by additional funding from donors or by a bad debt provision in the financial statements for the biennium 2006-2007.
412. At its visit to headquarters and regional offices, the Board noted data inconsistencies in extracting data from Atlas. These included:

(a) Projects as shown on the dashboard did not always agree with Atlas information;
(b) There were a number of projects not included that pre-dated Atlas;
(c) Atlas had a number of projects with no expenditure prior to 2004;
(d) A number of projects in Atlas had activities that had ceased, but were not operationally or financially closed.

413. During the audit visit to the Middle East Office, the Board noted that the Afghanistan Operations Centre had 45 projects for which activities had ceased, but the projects were neither operationally nor financially closed.

414. During the audit visit to the Asia Pacific Office, it was determined that 16 projects that had been identified by the portfolio manager as being operationally closed were still reflected as ongoing projects in the status report generated from Atlas. Moreover, in several instances, total expenditure was shown as a credit balance in the 2007 delivery report instead of a debit balance. The Board noted five projects with total negative expenditure of $144,314.

415. A further six projects with total budget of $741,168 and expenditure of $622,304, identified by the portfolio manager as operationally closed in the 2007 delivery report as at 21 January 2008, could not be traced to the status report generated from Atlas.

416. UNOPS noted that more than 2,150 old projects had been identified for closure and their status was changed in Atlas to inactive. The operational closure would be followed by financial closure within the next six months.

417. UNOPS indicated that the closing of projects had been taken as a priority and numerous new measures had now been implemented to address the audit concerns. In addition, a final list of projects to be closed had been sent out to the respective regional offices in the month of January 2008.

418. **The Board recommends that UNOPS (a) address weaknesses in the data quality in Atlas; and (b) perform an in-depth analysis of all projects currently listed and identify projects that need to be closed, and projects that require or may require further funding in the future.**

419. UNOPS informed the Board that it had completed its project closure exercise by May 2008. UNOPS also informed the Board that the financial dashboard tool in Atlas had been comprehensively revamped in April 2008 and was currently able to show real-time management data on delivery, expenditure and income, with breakdown by business unit at headquarters, regional offices and operation centres.

420. The Middle East Office informed the Board that it had visited the Afghanistan Operations Centre twice during 2007 to provide support for speeding up the project closure exercise. The Centre gave the following reasons for projects that had not been closed by the time of the audit:

(a) High staff turnover and inadequate handover procedure when staff left the operations centre;
(b) Supporting documents could not be found at the operations centre;

(c) Expenditure was incorrectly recorded in Atlas, so the operations centre was in the process of correcting the errors;

(d) Discrepancies were found between the UNOPS and donor budget and expenditure records;

(e) Change of the enterprise resource planning (ERP) system from IMIS (UNOPS) to Atlas was poorly executed by UNOPS;

(f) Hastily conducted replacement of the Financial Information Management system with the Atlas in 2004 had resulted in inconsistencies and significant discrepancies identified by UNDP and UNOPS in budget and expenditure;

(g) Projects with negative balances and overexpenditure;

(h) Lack of additional resources to be dedicated full-time to project closure activities only.

421. UNOPS Middle East Office agreed with the Board’s recommendation that it (a) continue to provide support to the Afghanistan Operations Centre in order to complete the project closure exercise as soon as possible; and (b) conduct the same review and provide similar support to all operations centres in the region with regard to project closure.

422. The Board also recommends that UNOPS take urgent and strict measures to address the causes of the issues identified at the Afghanistan Operations Centre and remedy them.

423. UNOPS informed the Board that the Middle East Office was in the process of closing 61 projects and expected to complete the comprehensive closing exercise by late 2008.

Delivery income review report and financial dashboard

424. The delivery income report is a schedule that was introduced in 2007 and was used by management to track project delivery and income (administration fee) against the budget on a monthly basis. The delivery income report is prepared at the operations centre level, and is then submitted to the regional office. The regional office consolidates data and makes a monthly submission to headquarters. This report is also used in making decisions regarding the budgetary allocations for the regional office. The financial dashboard reflects relevant indicators based on information extracted from Atlas.

425. The Board noted that the financial dashboard did not fully reconcile with the delivery income report with regard to approved budgets and project delivery times.

426. As both reports are used for reporting and decision-making purposes in UNOPS it is imperative that the budget figures which form the basis of performance measurement are consistent.

427. The Board recommends that UNOPS (a) regularly reconcile budgets as reported by operations centres with Atlas; (b) investigate and correct the reasons for the differences identified between budgets and recorded expenditure; (c) offer additional training with staff at operations centres to
enable consistent and accurate reporting; and (d) address the backlog in processing of expenditure and disbursement by operations centres.

428. UNOPS informed the Board that the dashboard had been comprehensively revised and currently showed separate target versus performance data for each regional office, operations centre and individual projects, so that management could regularly monitor such information and take corrective action as required. The regional director received and analysed quarterly strategic plans for each project manager and operations centre director/manager in order to identify problematic areas and take immediate remedial action.

Project delivery

429. The Board performed an analysis of project delivery versus approved budgets (based on project delivery/income reports as at 31 October 2007). The data are summarized in table II.14.

Table II.14
Middle East region project delivery as at 31 October 2007
(United States dollars)

<table>
<thead>
<tr>
<th>Operation centre</th>
<th>Approved budget</th>
<th>Total delivery as at October 2007</th>
<th>Percentage delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>163 788 409</td>
<td>132 037 211</td>
<td>80.61</td>
</tr>
<tr>
<td>Dubai</td>
<td>777 501</td>
<td>749 553</td>
<td>96.41</td>
</tr>
<tr>
<td>Iraq</td>
<td>55 645 863</td>
<td>24 113 092</td>
<td>43.33</td>
</tr>
<tr>
<td>Jerusalem</td>
<td>16 197 706</td>
<td>5 475 100</td>
<td>33.80</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>67 519 150</td>
<td>31 778 968</td>
<td>47.07</td>
</tr>
<tr>
<td>Sudan</td>
<td>74 810 306</td>
<td>25 168 838</td>
<td>33.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>378 738 935</strong></td>
<td><strong>219 322 762</strong></td>
<td><strong>57.91</strong></td>
</tr>
</tbody>
</table>

430. The Board noted that project delivery in four of the six operations centres for the year were in the range of 33 to 43 per cent as at October 2007. The Board was concerned that with only two months remaining in the year, project delivery was below budgets and therefore the project income might be inadequate when considering the level of recurring fixed administrative expenditure. This was also an indication of bad planning and problems with the execution of projects.

431. In the Asia Pacific Office, according to the financial dashboard as at 28 January 2008, project delivery amounted to $129.88 million for the 2007 financial year, which represented only 46 per cent of the delivery target (65 per cent of budget), for 2007 as depicted in table II.15 below:

Table II:15
2007 Financial dashboard project delivery
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Delivery target</th>
<th>Budget</th>
<th>Expenditure</th>
<th>Gap to target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>280 000</td>
<td>199 167</td>
<td>129 872</td>
<td>150 128</td>
</tr>
</tbody>
</table>
432. Low project delivery reflected in low delivery rates may stem from a combination of the following factors:

(a) Lack of adequate policies in place to hold project managers more accountable for project delivery;

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

(c) Lack of adequate monitoring controls at the Asia Pacific Office over project performance at project level.

433. Based on the fact that project delivery was at the time of the audit below the budgeted amount, a risk existed that overall projected surpluses would not be reached.

434. The Board recommends that UNOPS, in conjunction with the Middle East Office and the Asia Pacific Office (a) implement policies to hold project managers and operations centres 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 expected delivery; (c) improve monitoring controls at the Middle East Office 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.

435. UNOPS stated that it measured performance against approved targets and not against budgets, and additionally prioritized net revenue generated rather than project delivery numbers taken in isolation. It noted that the Middle East Office and the Asia Pacific Office generated net income of $12 million and $7.4 million respectively according to its financial dashboard. UNOPS informed the Board that all regional office directors and operations centre managers had signed target agreements with headquarters on their specific delivery, budget and income targets for 2008. All managers would be formally held accountable for the achievement of results and sanctions will be instituted against underperformers.

*Project delivery estimation*

436. Each operations centre is responsible for provision of estimated project delivery figures to the Middle East Office on a monthly basis. The Board performed an analysis between the estimated project delivery figures provided by operations centres to the UNOPS Middle East Office for the month of October 2007 and the actual delivery for the same period, and noted significant differences. Shortfall in delivery compared with budgets was in some instances as high as 89 per cent, for Iraq, Sri Lanka and the Sudan.

437. Without proper estimates of project delivery, UNOPS is exposed to the risk that the resulting income may not fully contribute to the payment of the organization’s fixed costs. There may be a risk that UNOPS may be presenting budgets and estimates which are not realistic. This is of considerable risk and concern in view of the poor financial position.

438. The UNOPS Middle East Office agreed with the Board’s recommendation that it ensure that the Office, in conjunction with operations centres, monitored
monthly estimated project delivery figures throughout the year to ensure that UNOPS could allocate resources in an effective manner.

439. Inspection of the 2007 delivery report of the Asia Pacific Office as at 21 January 2008 revealed that the level of programme implementation income foreseen for 2007 (budgeted facilities and administration) had not been reached, and that actual facility and administration income constituted only 74 per cent of the budgeted facility and administration income.

440. Based on these delivery reports, income targets had not been achieved. This may have stemmed from the following:

(a) The Asia Pacific Office had experienced growth in recent years pertaining mainly to entirely new areas of business. However, the need for a proper business growth strategy, as well as assessment of attendant risks, had not been adequately addressed, leading to unrealistic targets being set;

(b) Poor project performance against targets;

(c) Lack of adequate monitoring controls in place to ensure that income targets are achieved.

441. Lack of a proper strategy or unmanaged risks could expose UNOPS to losses, while the lack of adequate monitoring controls and poor project performance could lead to targets not being achieved.

442. The UNOPS Asia Pacific Office agreed with the Board’s recommendation that it (a) develop and approve a business growth strategy; (b) adequately address the business risks associated with new areas of business; and (c) implement adequate monitoring control over project performance and progress against targets.

Overexpenditure projects

443. UNOPS invoices clients based on expenditure incurred on projects. UNOPS charges a management fee as project expenditure occurs. Revenue is charged and clients invoiced once expenditure occurs. UNOPS incurs expenditure in accordance with approved budgets.

444. Where there is an overexpenditure on the budget line, there is a risk that the expenditure may not have been authorized and management fees (gross revenue) charged in relation to that expenditure may not be recoverable and may have to be written off.

445. Based on 10 Asia Pacific Office projects selected by the Board, the total amount of overexpenditure on projects for the biennium 2006-2007 was $243,825.42.

446. The Board reviewed overspent project-level reports generated from Atlas, and noted 17 projects which exceeded approved project budget levels by $138,401 and $105,424 as at 31 December 2006 and 2007 respectively.

447. UNOPS presented the Board with documents that indicated an improved level of monitoring of projects that had been overspent. Overexpenditure on projects could stem from the lack of adequate monitoring and review of controls surrounding project expenditure, or from approved budget revisions not being recorded on the
reports. There was a risk that project funds spent in excess of approved budgets might not be recoverable.

448. The Board recommends that UNOPS improve its controls so that (a) project-level system controls are improved, which would help in the detection and control of overspending; and (b) project budgets are monitored on a regular basis to ensure that budgets are not exceeded.

449. The Asia Pacific Office stated that project-level system controls were in place in Atlas to block overspending. Further, the Regional Finance Officer had also re-enforced the rule of not allowing overrides to purchase orders and payment vouchers without review and specific approval by the Regional Director, Regional Finance Officer or UNOPS Comptroller as deemed appropriate. Additionally, the Asia Pacific Office ensured that in case a temporary overexpenditure occurred on a budget line, sufficient funds would be redeployed at the time of the next budget revision.

**Low value projects and low project delivery**

450. At the Asia Pacific Office, the Board also noted several low value projects, and projects showing low or no project delivery, according to the 2007 delivery report as at 21 January 2008. Tables II.16 and II.17 show examples of such instances.

**Table II.16**  
Low-value projects and projects with minimal activities  
(United States dollars)

<table>
<thead>
<tr>
<th>Project number</th>
<th>Total budget</th>
<th>Facilities and administration income</th>
<th>Total delivery (including facilities and administration income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>40962</td>
<td>250</td>
<td>(361)</td>
<td>(4875)</td>
</tr>
<tr>
<td>52309</td>
<td>6 237</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>31134</td>
<td>8 239</td>
<td>1 051</td>
<td>(16 060)</td>
</tr>
<tr>
<td>52301</td>
<td>9 960</td>
<td>10 000</td>
<td>—</td>
</tr>
<tr>
<td>31134</td>
<td>32 902</td>
<td>59</td>
<td>908</td>
</tr>
</tbody>
</table>

**Table II.17**  
Projects with minimal activity  
(United States dollars)

<table>
<thead>
<tr>
<th>Project number</th>
<th>Total budget (including budgeted facility and administration income)</th>
<th>Encumbrance</th>
<th>Disbursement</th>
<th>Total expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>40949</td>
<td>3 496 457</td>
<td>3 271 399</td>
<td>(39 065)</td>
<td>3 232 334</td>
</tr>
<tr>
<td>52312</td>
<td>1 630 835</td>
<td>3 961</td>
<td>—</td>
<td>3 961</td>
</tr>
<tr>
<td>52443</td>
<td>476 000</td>
<td>—</td>
<td>9 920</td>
<td>9 920</td>
</tr>
<tr>
<td>52314</td>
<td>283 151</td>
<td>10 000</td>
<td>—</td>
<td>10 000</td>
</tr>
<tr>
<td>52311</td>
<td>71 119</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
451. This may be indicative of a lack of proper monitoring controls over projects, misallocation of project costs or incomplete accounting.

452. **UNOPS Asia Pacific Office agreed with the Board’s recommendation that it (a) monitor projects on a regular basis; (b) enhance supervision of project managers whose projects reflect a pattern of low delivery; and (c) review budget-setting methods and controls to ensure that the budgets agreed with clients are more in line with expected delivery.**

**Encumbrances**

453. The Board reviewed several project documents and noted that encumbrances were raised in accordance with the terms of each project contract. However, as the balance of encumbrances raised on the basis of purchase orders for Asia Pacific Office projects totalled $72,855,970, it appeared that there was no systematic review of encumbrances against project documents and United Nations system accounting standards rules, in order to identify invalid expenses and encumbrances.

454. **UNOPS agreed with the Board’s recommendation that it (a) strengthen processes of systematic review of encumbrances; and (b) raise encumbrances (purchase orders) only in relation to substantiated project activities.**

**Project reporting**

455. During the review of the project agreements relating to the large projects undertaken by the Asia Pacific Office, the Board noted that project agreements provided for regular donor reporting. However, the Board noted that the system of donor reporting was not integrated into the management reporting system and, in some cases, donor reporting had not been done in accordance with the agreements. The following serve as examples:

(a) The project agreement with the Government of India, entered into on 9 January 2007, required quarterly utilization reports to be submitted. However, the Board noted that as at the date of the audit, quarterly reports had not been prepared as the template to be used for such reporting purposes had not yet been agreed upon by the relevant parties. Based on a comparison between the memorandum of understanding and the memorandum of agreement, it was also noted that the memorandum of agreement did not adequately cover the risks related to the exchange rate.

(b) An agreement with a donor consortium to manage the Three Diseases Fund project in Myanmar required quarterly certified financial reports to be produced on agreed-upon target dates prior to receipt of funds. Funds amounting to $27 million had been received by UNOPS, but the required quarterly certified financial reports had not been prepared and submitted.

(c) The Board also noted that the Asia Pacific Office had not submitted detailed financial statements that were required pursuant to an agreement with the United Nations Children’s Fund (UNICEF) when expenditure exceeded $10 million.

456. Failure to report to donors may be a contravention of the requirements of agreements signed by UNOPS with donors. If the memorandum of agreement does not adequately cater for exchange rate risks, UNOPS may suffer unforeseen losses (or record gains) as a result of exchange rate fluctuations.
457. The UNOPS Asia Pacific Office agreed with the Board’s recommendation that it produce reports when required by the memorandum of understanding.

458. The UNOPS Asia Pacific Office also agreed with the recommendation that it (a) integrate a proper system of donor reporting into the management reporting system; (b) take steps to ensure that project reporting occurred on a timely basis and in accordance with the requirements of project agreements; (c) agree, in consultation with the relevant parties involved, on a suitable template that could be used for reporting purposes; and (d) consider renegotiating the memorandum of agreement, to better cater for exchange rate risks.

16. Inter-agency coordination

Common services costs

459. The Board noted that reimbursement costs for services performed by UNDP and other United Nations agencies had declined significantly compared with prior biennium actual and budgeted amounts.

460. UNOPS indicated that the decrease was due to the fact that during the biennium a larger portion of common costs was allocated on a pro rata basis to projects than to administrative budget in comparison with the prior biennium.

461. The Board requested quarterly expenditure reports for 2007 to review the allocation of expenditure, but the reports could not be submitted as they had not yet been approved because UNOPS performed semi-annual reports.

462. Furthermore the Board noted that UNOPS was using services provided mostly by UNDP. The fact that there was no competition against UNDP could result in UNOPS not obtaining competitive prices for the services rendered.

463. The Board recommends that UNOPS (a) consider the benefit of using other entities as service providers instead of UNDP only; and (b) implement controls to ensure that quarterly reports are approved in a timely manner.

Service-level agreements

464. A list of service-level agreements was obtained from UNOPS. The Board noted that although services had been provided by UNDP during the biennium under review, the service-level agreements relating to Executive Board secretariat services and UNDP Finance Controller’s services were not signed.

465. The Board was presented with the UNDP Finance Controller’s services for the biennium 2004-2005. UNOPS stated that all service-level agreements with UNDP were automatically extended unless formally terminated by one party with advance notice.

466. The Board recommends that UNOPS ensure that all service-level agreements are signed in a timely manner.

17. Internal audit function

467. The UNDP Office of Audit and Investigations provided internal audit and related services to UNOPS pursuant to the memorandum of understanding between the two parties that came into effect on 1 January 1997. The Project Services Audit
Section, under the overall guidance of the Director of the Office of Audit and Investigations, had been primarily responsible for carrying out the audit and related advisory services to UNOPS. The Office of Audit and Performance Review of UNDP ended its internal audit services to UNOPS with effect from 15 September 2007 and handed over the function to the newly established in-house Internal Audit Office (IAO).

468. The Board reviewed the UNOPS Internal Audit Office action plan covering the operations of UNOPS in the biennium 2006-2007 and noted that the workplan was based on the assessment of risks relevant for UNOPS. In 2007, the UNDP Office of Audit and Investigations and the UNOPS Internal Audit Office completed 24 audits (39 per cent) out of the 62 audit assignments planned for 2007. There were 14 audit assignments which were still in progress or for which services were ongoing as at 31 December 2007.

469. On review of the audit plans and report of the Office of Audit and Investigations and the Internal Audit Office, the Board noted that the two offices had completed only one regional office audit visit and the financial statement audit of management services agreement projects, and there was limited coverage of headquarters operations and, in particular, financial statement matters.

470. **The Board recommends that the Internal Audit Office (a) take measures to fully implement its workplan; and (b) increase coverage of regional office, headquarters and financial statements audit.**

**Staffing**

471. According to the internal audit workplan and budget for UNOPS operations for the year 2007, the Office of Audit and Investigations was to have six posts, namely, one chief, four audit specialists and one audit assistant, who were expected to be on board as at 1 July 2007.

472. The Board noted that five Professional posts had been filled at the time of the audit, with the Chief of Internal Audit starting in the post only in February 2008, while the other four audit specialists had started work between August 2007 and January 2008. The audit assistant post was not filled and a consultant was acting as Chief of the Office of Internal Audit for a portion of 2007. The long-outstanding vacancy positions may lead to the internal audit function not being fully functional.

473. UNOPS stated that following its midterm budget review and internal restructuring, it no longer required to recruit an audit assistant, as sufficient secretarial support was available from the pool of administrative assistants.

**Internal audit review**

474. The Board also noted the following regarding UNOPS internal audit function:

   (a) The approved internal audit charter defining the purposes, authority, responsibility and general scope of work of the internal audit office had not been promulgated during the biennium;

   (b) The three-year rolling and annual internal audit plans for 2008 had not been compiled. There was no strategy plan in place to reflect all the material risk areas that should be subjected to an audit;
(c) There was no evidence to indicate that the standard relating to independence has been considered prior to commencement of audits.

475. The weaknesses identified in the newly established Internal Audit Office function meant that the Board could place less reliance on internal audit work for the biennium 2006-2007. However, conscientious implementation of the matters raised above, in terms of the new internal audit charter, audit plan, new audit manual and programme, proven qualifications of staff and capacity-building, could lead the Board to place more reliance on the internal audit work.

476. **The Board recommends that UNOPS, in conjunction with its Internal Audit Office, (a) formulate and adopt an internal audit charter; (b) compile an audit manual ensuring that the audits are adequately planned, supervised, reviewed and documented; (c) compile and implement a three-year strategic plan that addresses the risk management strategy; and (d) include evidence of consideration of the independence of the internal audit team prior to commencement of any audit.**

477. UNOPS stated that as at April 2008 it had adopted an internal audit charter. An audit toolkit existed and standard workplans and templates were in use. UNOPS also stated that it was the intention of the Internal Audit Office to base its 2009 workplan on a three-year risk management strategy. UNOPS further stated that the Internal Audit Office had ensured that independence declaration forms were mandatory for audits performed since February 2008.

**Internal audit quality assessment**

478. As part of the strengthening of the internal audit function, the peer review process requires internal audit to perform an assessment of its quality practices as measured against the standards of the Institute of Internal Auditors. The objectives of the assessment are to:

(a) Assess the spirit and intent of the internal audit activity’s conformity with International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors;

(b) Evaluate the effectiveness and efficiency of internal audit activity in carrying out its mission and mandate;

(c) Identify opportunities to enhance the management of resources and work processes of the internal audit activity, as well as its value to UNOPS.

479. UNOPS internal audit had not performed such a quality assessment.

480. **UNOPS agreed with the Board’s recommendation that it, in conjunction with its Internal Audit Office, perform a quality assessment exercise to assist in the strengthening of the internal audit function.**

481. UNOPS stated that it intended to perform a peer review in 2010. UNOPS also noted that all five Professional staff in the Internal Audit Office were members of the Institute of Internal Auditors and other professional auditing and accounting bodies and were thus subject to the use of appropriate professional standards.
Audit committee

482. UNOPS had established the Strategy and Audit Advisory Committee with terms of reference resembling that of an audit committee. The members of the Committee were appointed by the Executive Director of UNOPS. The Committee is expected to provide advice to the Executive Director regarding corporate best practices and strategies, and in accordance with the draft terms of reference, the Committee will provide guidance on oversight of UNOPS internal audit function and ensure that the organization employs sound risk management practices. The committee was expected to become active in September 2007. The Executive Director of UNOPS also appoints the Committee chairperson.

483. The Board welcomed the establishment of the Strategy and Audit Advisory Committee, which has some elements similar to those of an audit committee. However, the Committee was not an audit committee per se and did not include governance review in its terms of reference. There remained a gap in the matters that an audit committee would normally address. Furthermore, the Board noted that the Committee had not met in the biennium under review.

484. UNOPS informed the Board that the Committee had only recently been established to replace the Risk Management and Oversight Committee, and that the Committee had started meeting in 2008.

485. The Board recommends that UNOPS consider the establishment of an independent audit committee to strengthen the governance and oversight function in UNOPS.

486. UNOPS commented that it would consider the recommendation and discuss it with various oversight bodies, taking its specific circumstances into consideration.

18. Internal audit findings

487. UNDP Office of Audit and Investigations completed 38 audits, during the period 1 January 2006 to 30 June 2007. UNOPS Internal Audit Office completed 14 audits from 1 July 2007 to 31 December 2007. The summarized internal audit report ratings are shown in table II.18.

Table II.18

Summarized internal audit report ratings

<table>
<thead>
<tr>
<th>Internal audit report rating</th>
<th>Number of audit reports</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>18</td>
<td>35</td>
</tr>
<tr>
<td>Partially satisfactory</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Deficient</td>
<td>14</td>
<td>27</td>
</tr>
<tr>
<td>Not provided</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>


488. The following is a summary of significant findings from audits performed by the UNDP Office of Audit and Investigations and the UNOPS Internal Audit Office:
(a) Instances where actual project expenditure exceeded both the budgeted levels and funds received;

(b) Instances of lack of timeliness and accuracy in project financial reporting to funding entities, as well as lack of adherence to UNOPS financial rules regarding the project financial reporting period;

(c) Need for strengthening of monitoring and follow-up of long-outstanding cash advances;

(d) Cases of lack of clarity in the project implementation plan that led to operational difficulties, construction delays and cost overruns;

(e) Instances when limited use of Atlas was reported in the field, which led to inaccurate expenditure reporting;

(f) Some lack of complete records of bid documents or proposals;

(g) Lack of authorization to charge and transfer expenditure;

(h) Lack of guidelines in respect of operational procedures;

(i) Instances of segregation of the security access and approval functions of senior financial staff;

(j) Need to enhance the Atlas features related to asset and liability accounts, and inter- and intra-module reconciliations;

(k) Instances of lack of compliance with the asset management guidelines (Africa Regional Office, Afghanistan elections project and management services agreements projects in Afghanistan);

(l) Lack of sound business proposals in purchasing equipment for lease to other projects.

489. The Office of Audit and Investigations noted the following significant findings during the audit of the UNOPS Africa Office in March and April 2007:

(a) The procurement process was not being carried out in accordance with the UNOPS Procurement Manual. Specifically, bid analysis notes were not always dated and signed, background checks were not routinely performed for new vendors/suppliers and procurement actions, in certain cases, were not presented to the local procurement committee for review and approval;

(b) Project expenditure was in excess of the approved budget;

(c) There was improper segregation of duties. The financial clerk was responsible for processing all payments and reconciliation of the imprest bank accounts;

(d) The asset listing for the Africa Office was not complete and was not updated in a timely manner, and physical count of non-expendable property had not been undertaken for some time.

490. The Board considers that the findings of the Internal Audit Office and the Office of Audit and Investigations as highlighted above reflect significant deficiencies in these areas and the Board underscores the need for UNOPS to address them.
Office of Internal Oversight Services review

491. In September 2007, the Office of Internal Oversight Services, the internal audit service of the United Nations appointed by the General Assembly, conducted a review of actions taken by UNOPS to strengthen its financial management and the internal controls system.

492. The review concluded that there was a high risk relating to UNOPS ability to continue as a going concern owing to the low level of operational reserve, long-outstanding unresolved inter-fund receivables from UNDP, and lack of full accrual for after-service health insurance liabilities.

493. The Office of Internal Oversight Services review further listed four matters that UNOPS management needed to address in order to improve its internal controls and secure its financial viability, namely:

(a) Strengthening the Strategy and Audit Advisory Committee and ensuring its independence;

(b) Improving UNOPS contract award process and ensuring transparency in contract negotiations in relation to the mine-action programme;

(c) Reconciling a $3.6 million difference between the cash balance shown in the UNOPS cash book and in the bank reconciliation prepared by UNDP, in carrying out the treasury function for UNOPS;

(d) Timely preparation and submission of quarterly/yearly financial statements for individual projects in order to avoid delays in the instalment payments.

494. UNOPS agreed with the Board’s recommendation that it implement the recommendations resulting from the Office of Internal Oversight Services review.

19. Write-offs and disposals

495. UNOPS informed the Board that, in accordance with financial rule 114.15, losses amounting to $1,889,475 had been written-off in respect of old general ledger balances. Many of the write-offs related to the results of the clean-up process and arose prior to the introduction of Atlas in January 2004.

20. Ex gratia payments

496. UNOPS informed the Board that no ex gratia payments had been made in the biennium 2006-2007.

21. Cases of fraud and presumptive fraud

497. UNOPS reported to the Board one case of proven fraud with an estimated loss of up to $13,000. Additionally, a few investigations relating to prior periods were under way at the end of the biennium.
C. Acknowledgement

498. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of UNOPS and members of his staff, as well as to the staff at the Asia Pacific Office and the Middle East Office regional offices.

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

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

(Signed) Reynaldo A. Villar
Chairman, Philippine Commission on Audit

30 June 2008
# Annex

Analysis of the status of implementation of the recommendations of the Board of Auditors for the biennium ended 31 December 2005

<table>
<thead>
<tr>
<th>Summary of recommendation</th>
<th>Paragraph reference</th>
<th>Financial period first made</th>
<th>Fully implemented</th>
<th>Partially implemented</th>
<th>Not implemented</th>
<th>Overtaken by events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategic review</td>
<td>35</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Level of operational reserves</td>
<td>40</td>
<td>2000-2001</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>3. Submission of financial statements</td>
<td>45</td>
<td>2002-2003</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>4. Account reconciliation and suspense accounts</td>
<td>48</td>
<td>2002-2003</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Refunds pending to donors</td>
<td>50</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>6. Reconciliation to Global Payroll Services</td>
<td>52</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Accounts payable 21005 suspense accounts</td>
<td>55</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Debit balances in accounts payable</td>
<td>59</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Debt recovery</td>
<td>67</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Unmatched entries in staff receivables</td>
<td>69</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>12. Advances recoverable locally, credit balances</td>
<td>71</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Bank reconciliations</td>
<td>74</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Imprest processes</td>
<td>80</td>
<td>2002-2003</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>16. Cut-off procedures for imprest bank accounts</td>
<td>84</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Imprest accounts, stale cheques</td>
<td>86</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
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<td></td>
</tr>
<tr>
<td>18. Fund-level reconciliation of imprest accounts</td>
<td>89</td>
<td>2002-2003</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
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<tr>
<td>19. Maintenance of bank signatories</td>
<td>92</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<td>20. Inter-fund with UNDP</td>
<td>95</td>
<td>2004-2005</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>22. Open purchase orders</td>
<td>103</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>23. Review of unliquidated obligations</td>
<td>106</td>
<td>2001-2002</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>24. Reconciliation of unliquidated obligations</td>
<td>109</td>
<td>2000-2001</td>
<td></td>
<td>x</td>
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<td></td>
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<td>25. Funding of end-of-service liabilities</td>
<td>111</td>
<td>2000-2001</td>
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<td>x</td>
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<td></td>
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<td>26. Review of project budgets</td>
<td>120</td>
<td>2000-2001</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>27. Monitoring of projects</td>
<td>123</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28. Authorizations for budget updates</td>
<td>125</td>
<td>2002-2003</td>
<td></td>
<td>x</td>
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<tr>
<td>29. Revision of budgets</td>
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<td></td>
<td>x</td>
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<tr>
<td>30. Certification of payroll reconciliations</td>
<td>134</td>
<td>2002-2003</td>
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<td>31. Recording of administration expenditure</td>
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<td>32. Filing and access to records</td>
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<td>33. Procurement</td>
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<td>34. Audit committee</td>
<td>149</td>
<td>2004-2005</td>
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<tr>
<td>35. Leave recording</td>
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<td>2004-2005</td>
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<td>Summary of recommendation</td>
<td>Paragraph reference</td>
<td>Financial period first made</td>
<td>Fully implemented</td>
<td>Partially implemented</td>
<td>Not implemented</td>
<td>Overtaken by events</td>
</tr>
<tr>
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<td>---------------------</td>
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<td>-------------------</td>
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<td>37. Training and development plan</td>
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<td>38. Capitalization threshold</td>
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<td>2002-2003</td>
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<td>x</td>
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<td>39. Incomplete asset register</td>
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<td>2004-2005</td>
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<td>x</td>
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<td></td>
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<td>40. Asset verification at Asia Pacific Office</td>
<td>183</td>
<td>2002-2003</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<td>41. Asset utilization</td>
<td>186</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42. Information technology standards and best practices</td>
<td>195</td>
<td>2004-2005</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43. Atlas review</td>
<td>199</td>
<td>2004-2005</td>
<td></td>
<td>x</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>22</strong></td>
<td><strong>20</strong></td>
<td>—</td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td></td>
<td></td>
<td><strong>51</strong></td>
<td><strong>47</strong></td>
<td>—</td>
<td><strong>2</strong></td>
</tr>
</tbody>
</table>

Chapter III

Audit opinion

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS) comprising statements I to III, schedules 1 and 2, and the supporting notes, for the biennium ended 31 December 2007. These financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the Executive Director, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2007 and the results of its operations and its cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

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

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

(a) The Board issued a qualified opinion in the previous biennium due to the inability of UNOPS to confirm its inter-fund receivables balance of $9.9 million with UNDP. The unconfirmed inter-fund balance difference between UNOPS and UNDP had increased to approximately $33.9 million as at the end of the biennium 2006-2007. UNOPS had not sent project delivery reports amounting to $16.4 million to UNDP, and approximately $17.5 million had not been confirmed or agreed to by UNDP. UNOPS had made a cumulative provision for non-recovery of the UNDP inter-fund debt amounting to $10.3 million. The Board obtained confirmations from five other United Nations agencies that were in disagreement with the inter-fund amounts recorded by UNOPS and was not able to confirm 21 balances with other entities. The findings indicate the need for improved financial control over the recording and reconciliation of transactions between UNOPS and other United Nations entities;

(b) The Board has reported shortcomings in asset management and noted significant errors in the asset registers that support the amount of $10.3 million disclosed in the non-expendable property note (note 14) of the financial statements. UNOPS performed a comprehensive review of all the submissions received from its regional offices and operations centres and made adjustments of $2.3 million (related to the assets recorded) to the value of non-expendable property disclosed. As this was performed subsequent to the Board’s detailed audit fieldwork, the Board was unable to verify the accuracy and completeness of the corrections made.
UNOPS effort to rectify its asset records, including the implementation of the Atlas module on assets, were ongoing;

(c) In UNOPS transition to Atlas in January 2004, there were instances where balances and transactions relating to projects were not accurately transferred resulting in ineffective controls in performing project management and monitoring in Atlas. The Board further observed that UNOPS had not exercised strict reconciliation of its income received in advance account, and had charged project overexpenditure to that account, thus under-recording expenditure. During the biennium, UNOPS had focused on improving its project controls, which was ongoing.

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

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

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

(Signed) Reynaldo A. Villar
Chairman, Philippine Commission on Audit

30 June 2008
## Chapter IV

### Financial report for the biennium ended 31 December 2007

**Statement I**  
**UNOPS**  
**Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007, with comparative figures for the biennium ended 31 December 2005**  
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support costs and fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNDP — core and trust funds</td>
<td>25 901</td>
<td>45 631</td>
</tr>
<tr>
<td>Projects on behalf of other United Nations organizations</td>
<td>60 646</td>
<td>40 139</td>
</tr>
<tr>
<td>Management services agreements</td>
<td>11 821</td>
<td>9 704</td>
</tr>
<tr>
<td><strong>Total support costs and fees</strong></td>
<td><strong>98 368</strong></td>
<td><strong>95 474</strong></td>
</tr>
<tr>
<td>Advisory and reimbursable services income (note 3)</td>
<td>18 903</td>
<td>18 575</td>
</tr>
<tr>
<td>Miscellaneous income (note 4)</td>
<td>8 587</td>
<td>4 622</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>125 858</strong></td>
<td><strong>118 671</strong></td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>89 607</strong></td>
<td><strong>115 939</strong></td>
</tr>
<tr>
<td><strong>Excess of income over expenditure</strong></td>
<td><strong>36 251</strong></td>
<td><strong>2 732</strong></td>
</tr>
<tr>
<td>Provision and write-off of receivables (note 13)</td>
<td>(12 548)</td>
<td>(10 182)</td>
</tr>
<tr>
<td>Prior-period adjustments (note 5)</td>
<td>—</td>
<td>(14 498)</td>
</tr>
<tr>
<td><strong>Net (shortfall)/excess of income over expenditure</strong></td>
<td><strong>23 703</strong></td>
<td><strong>(21 948)</strong></td>
</tr>
<tr>
<td>Savings on or cancellation of prior period obligations (note 5)</td>
<td>622</td>
<td>3 158</td>
</tr>
<tr>
<td><strong>Operating reserve beginning of period</strong></td>
<td><strong>4 362</strong></td>
<td><strong>23 152</strong></td>
</tr>
<tr>
<td><strong>Operating reserve end of period</strong></td>
<td><strong>(statement II)</strong></td>
<td><strong>28 687</strong></td>
</tr>
</tbody>
</table>

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 as at 31 December 2007, with comparative figures as at 31 December 2005
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and term deposits (note 6)</td>
<td>51,140</td>
<td>47,872</td>
</tr>
<tr>
<td>Accounts receivable  (note 7)</td>
<td>3,818</td>
<td>11,895</td>
</tr>
<tr>
<td>Inter-fund accounts  (note 8)</td>
<td>192,398</td>
<td>70,772</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>247,356</strong></td>
<td><strong>130,539</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions received in advance (note 2)</td>
<td>69,345</td>
<td>60,410</td>
</tr>
<tr>
<td>Unliquidated obligations (note 9)</td>
<td>109,337</td>
<td>41,341</td>
</tr>
<tr>
<td>Accounts payable (note 10)</td>
<td>4,060</td>
<td>852</td>
</tr>
<tr>
<td>Post-retirement and end-of-service benefits (note 11)</td>
<td>13,634</td>
<td>14,218</td>
</tr>
<tr>
<td>Provision for write-off of receivables (note 13)</td>
<td>22,294</td>
<td>9,356</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>218,669</strong></td>
<td><strong>126,177</strong></td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating reserve (note 12)</td>
<td>28,687</td>
<td>4,362</td>
</tr>
<tr>
<td><strong>Total reserves</strong></td>
<td><strong>28,687</strong></td>
<td><strong>4,362</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and reserves</strong></td>
<td><strong>247,356</strong></td>
<td><strong>130,539</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Statement III  
United Nations Office for Project Services  
Statement of cash flows for the biennium ended 31 December 2007, with comparative figures for the biennium ended 31 December 2005  
(Thousands of United States dollars)  

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net excess (shortfall) of income over expenditure (statement I)</td>
<td>23 703</td>
<td>(21 948)</td>
</tr>
<tr>
<td>(Increase) decrease in accounts receivable</td>
<td>8 077</td>
<td>(5 628)</td>
</tr>
<tr>
<td>(Increase) decrease in inter-fund balances receivable</td>
<td>(121 626)</td>
<td>(8 544)</td>
</tr>
<tr>
<td>Increase (decrease) in contributions or payments received in advance</td>
<td>8 935</td>
<td>30 401</td>
</tr>
<tr>
<td>Increase (decrease) in unliquidated obligations</td>
<td>67 997</td>
<td>7 302</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>3 208</td>
<td>131</td>
</tr>
<tr>
<td>Increase (decrease) in other liabilities</td>
<td>12 353</td>
<td>23 017</td>
</tr>
<tr>
<td>Less: interest income</td>
<td>(1 199)</td>
<td>(913)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>1 447</td>
<td>23 818</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus: interest income</td>
<td>1 199</td>
<td>913</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>1 199</td>
<td>913</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings on or cancellation of prior periods’ obligations</td>
<td>622</td>
<td>3 158</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>622</td>
<td>3 158</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and term deposits</strong></td>
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<td>27 889</td>
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<tr>
<td><strong>Cash and term deposits, beginning of period</strong></td>
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<td>19 983</td>
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<td><strong>Cash and term deposits, end of period</strong></td>
<td>51 140</td>
<td>47 872</td>
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</table>

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 for the biennium ended 31 December 2007, with comparative figures for the biennium ended 31 December 2005

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Project expenditure</th>
<th>Support costs and fees</th>
<th>Total project expenditure and support costs and fees</th>
<th>Project expenditure</th>
<th>Support costs and fees</th>
<th>Total project expenditure and support costs and fees</th>
<th>Total project expenditure and support costs and fees</th>
<th>Total project expenditure and support costs and fees</th>
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</thead>
<tbody>
<tr>
<td>Projects on behalf of other United Nations organizations</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>World Bank Agreements</td>
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<td>9 305</td>
<td>162 524</td>
<td>110 968</td>
<td>6 614</td>
<td>117 582</td>
<td>280 106</td>
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<td>United Nations Development Group</td>
<td>9 676</td>
<td>490</td>
<td>10 165</td>
<td>16 834</td>
<td>1 017</td>
<td>17 851</td>
<td>28 016</td>
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<td>Department of Peacekeeping Operations</td>
<td>88 579</td>
<td>7 300</td>
<td>95 879</td>
<td>124 050</td>
<td>8 595</td>
<td>132 645</td>
<td>228 524</td>
</tr>
<tr>
<td>Recipient government agreements</td>
<td>54 298</td>
<td>4 275</td>
<td>58 573</td>
<td>153 814</td>
<td>8 215</td>
<td>162 029</td>
<td>220 602</td>
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<tr>
<td>UNICEF</td>
<td>46 231</td>
<td>2 741</td>
<td>48 972</td>
<td>53 164</td>
<td>3 205</td>
<td>56 369</td>
<td>105 341</td>
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<td>UNFPA</td>
<td>4 444</td>
<td>307</td>
<td>4 751</td>
<td>2 446</td>
<td>146</td>
<td>2 592</td>
<td>7 343</td>
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<td>United Nations Office on Drugs and Crime</td>
<td>13 061</td>
<td>995</td>
<td>14 055</td>
<td>9 631</td>
<td>706</td>
<td>10 337</td>
<td>24 392</td>
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<td>IFAD</td>
<td>5 149</td>
<td>338</td>
<td>5 487</td>
<td>5 855</td>
<td>360</td>
<td>6 215</td>
<td>11 702</td>
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<tr>
<td>OHCHR</td>
<td>8 460</td>
<td>755</td>
<td>9 215</td>
<td>9 670</td>
<td>707</td>
<td>10 377</td>
<td>19 592</td>
</tr>
<tr>
<td>UNEP</td>
<td>10 789</td>
<td>870</td>
<td>11 658</td>
<td>7 373</td>
<td>561</td>
<td>7 934</td>
<td>19 592</td>
</tr>
<tr>
<td>UNESCO</td>
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<td>154</td>
<td>2 387</td>
<td>2 001</td>
<td>132</td>
<td>2 133</td>
<td>4 520</td>
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<td>UNHCR</td>
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<td>104</td>
<td>1 196</td>
<td>5 289</td>
<td>385</td>
<td>5 674</td>
<td>6 870</td>
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<tr>
<td>Other</td>
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<td>1 343</td>
<td>18 996</td>
<td>13 740</td>
<td>1 026</td>
<td>14 766</td>
<td>33 762</td>
</tr>
<tr>
<td>Subtotal</td>
<td>414 883</td>
<td>28 977</td>
<td>443 860</td>
<td>514 835</td>
<td>31 669</td>
<td>546 504</td>
<td>990 364</td>
</tr>
<tr>
<td>UNDP management services agreements (MSAs)</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lending institutions</td>
<td>11 917</td>
<td>310</td>
<td>12 227</td>
<td>48 192</td>
<td>1 549</td>
<td>49 741</td>
<td>61 968</td>
</tr>
<tr>
<td>Bilateral donors</td>
<td>36 344</td>
<td>1 994</td>
<td>38 338</td>
<td>21 465</td>
<td>1 450</td>
<td>22 915</td>
<td>61 253</td>
</tr>
<tr>
<td>Government financed</td>
<td>40 337</td>
<td>2 132</td>
<td>42 469</td>
<td>96 106</td>
<td>4 086</td>
<td>100 192</td>
<td>142 661</td>
</tr>
<tr>
<td>Other management services agreements</td>
<td>1 888</td>
<td>157</td>
<td>2 045</td>
<td>2 223</td>
<td>144</td>
<td>2 367</td>
<td>4 412</td>
</tr>
<tr>
<td>Subtotal</td>
<td>90 487</td>
<td>4 592</td>
<td>95 079</td>
<td>167 986</td>
<td>7 229</td>
<td>175 215</td>
<td>270 294</td>
</tr>
<tr>
<td>Project expenditure and support costs and fees</td>
<td>705 959</td>
<td>47 748</td>
<td>753 707</td>
<td>850 081</td>
<td>50 620</td>
<td>900 701</td>
<td>1 654 408</td>
</tr>
<tr>
<td>(statement I)</td>
<td>(statement I)</td>
<td>(statement I)</td>
<td>(statement I)</td>
<td>(statement I)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Schedule 2
United Nations Office for Project Services
Administrative budget and expenditure for the biennium ended 31 December 2007, with comparative figures for the biennium ended 31 December 2005
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>33 358</td>
<td>15 360</td>
<td>15 525</td>
<td>30 885</td>
<td>35 105</td>
</tr>
<tr>
<td>Common staff costs</td>
<td>19 138</td>
<td>(765)</td>
<td>12 137</td>
<td>11 372</td>
<td>24 050</td>
</tr>
<tr>
<td>Official travel</td>
<td>2 785</td>
<td>2 708</td>
<td>2 503</td>
<td>5 211</td>
<td>4 423</td>
</tr>
<tr>
<td>Contractual services</td>
<td>10 747</td>
<td>9 880</td>
<td>11 138</td>
<td>21 018</td>
<td>14 414</td>
</tr>
<tr>
<td>General operating expenses</td>
<td>19 035</td>
<td>5 255</td>
<td>7 762</td>
<td>13 017</td>
<td>16 209</td>
</tr>
<tr>
<td>Supplies</td>
<td>907</td>
<td>433</td>
<td>518</td>
<td>951</td>
<td>1 521</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1 551</td>
<td>463</td>
<td>2 290</td>
<td>2 753</td>
<td>7 786</td>
</tr>
<tr>
<td>Reimbursement of cost of services provided by UNDP and other United Nations agencies</td>
<td>16 208</td>
<td>1 702</td>
<td>2 697</td>
<td>4 399</td>
<td>12 430</td>
</tr>
<tr>
<td>Grand total</td>
<td>103 729</td>
<td>35 036</td>
<td>54 571</td>
<td>89 607</td>
<td>115 939</td>
</tr>
</tbody>
</table>

Notes to the financial statements

Note 1
Objectives of the United Nations Office for Project Services

1. The United Nations Office for Project Services (UNOPS) was established on 1 January 1995. Since 1 July 2006 UNOPS headquarters have been located in Copenhagen, having previously been situated in New York. UNOPS provides services to its clients while upholding the impartiality and fairness embodied in the Charter of the United Nations.

2. UNOPS activities and biennial budget are set by its Executive Board. UNOPS is a self-financing entity that relies solely on income earned from its activities. The objective of UNOPS is to provide high quality, timely and cost-effective services for the successful implementation of projects. UNOPS offers broad range of services that include:

   (a) Comprehensive project management, including contracting for technical expertise and backstopping;
   
   (b) Implementation of projects under execution by other United Nations organizations or by national institutions;
   
   (c) Project supervision and loan administration on behalf of international financial institutions;
   
   (d) Project management services for projects financed by multilateral and bilateral donors, international financial institutions and beneficiary Governments;
   
   (e) Project management services for non-governmental organizations.
Note 2
Summary of significant accounting policies

3. The UNOPS financial period is biennial. The present financial statements cover the period from 1 January 2006 to 31 December 2007. The 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 formulated by its Executive Board and rules established by the Executive Director under those regulations;
   
   (b) The United Nations system accounting standards, as adopted by the Administrative Committee on Coordination, 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 polices;
   
   (c) Financial statements should include clear and concise disclosure of all significant accounting polices that have been used;
   
   (d) The disclosure of the significant accounting policies 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 the reason for the change.

Income

6. UNOPS recognizes revenue in accordance with the United Nations system accounting standards. However, where the standards do not prescribe a particular revenue recognition method in relation to certain transaction types, UNOPS applies the relevant standard of the International Public Sector Accounting Standards (IPSAS). UNOPS revenue recognition principles aim to ensure that there is proper matching of revenue and cost (the matching principle).

7. On cost-plus-fixed-fee contracts, revenue is recognized as costs are incurred, factoring in the direct cost and an allocable portion of the administrative and
operational services. With respect to fixed-price contracts, revenue is recognized based on the percentage-of-completion method, with estimated overheads included in contract revenue as the work is performed. In relation to time-and-materials contracts, revenue is recognized as costs are incurred in proportion to agreed billable amounts.

**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 early separation programme 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 2007 for goods and services are accrued and recorded as expenses.

**Equipment, furniture and vehicles**

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

**Contributions received in advance**

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

11. 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**

12. The financial statements are expressed in United States dollars, the functional currency of UNOPS.

**Rounding policy**

13. The financial statements are expressed in thousands of United States dollars.

**Other currencies**

14. The base currency for all accounting transactions and for maintenance of financial records is United States dollars. All other currencies are translated to United States dollars at the United Nations operational rate of exchange for the date of the transaction. The only exception to this is the Japanese Procurement Programme.

15. For activities financed under the Japanese Procurement Programme, expenditure incurred in other currencies is fixed at the United Nations operational rate of exchange in effect at the date of the establishment of the related obligation in order to protect against significant fluctuations in exchange rates. These arrangements are managed by the United Nations Development Programme (UNDP).

16. 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 2007. Exchange differences (gains and
losses) are transferred to UNDP, which provides cash management services on behalf of UNOPS.

**After-service health benefits**

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

**Operational reserve**

18. 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 UNOPS to 4 per cent of the rolling average of the combined administrative and project expenditure for the previous three years. The continued validity of this formula was confirmed by an independent review conducted in 2006.

**Note 3**

**Advisory and reimbursable services income**

19. Advisory and reimbursable services income for the bienniums 2006-2007 and 2004-2005 is as follows:

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Fund for Agricultural Development</td>
<td>15 396</td>
<td>14 914</td>
</tr>
<tr>
<td>Global Fund to Fight Aids, Tuberculosis and Malaria</td>
<td>2 715</td>
<td>1 661</td>
</tr>
<tr>
<td>United Nations Population Fund</td>
<td>792</td>
<td>1 086</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>914</td>
</tr>
<tr>
<td></td>
<td><strong>18 903</strong></td>
<td><strong>18 575</strong></td>
</tr>
</tbody>
</table>

**Note 4**

**Miscellaneous income**

20. Miscellaneous income for the bienniums 2006-2007 and 2004-2005 is as follows:

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1 199</td>
<td>913</td>
</tr>
<tr>
<td>Rental Income</td>
<td>3 049</td>
<td>3 186</td>
</tr>
<tr>
<td>Other miscellaneous income</td>
<td>4 339</td>
<td>523</td>
</tr>
<tr>
<td></td>
<td><strong>8 587</strong></td>
<td><strong>4 622</strong></td>
</tr>
</tbody>
</table>

21. The increase in other miscellaneous income arose mainly from the leasing of office equipment and vehicles to other projects, mainly in Afghanistan.
**Note 5**  
**Prior period adjustments**

**Refund of oil-for-food costs and correction of old balances**  
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refund of oil-for-food costs</td>
<td>—</td>
<td>(14 485)</td>
</tr>
<tr>
<td>Adjustments to correct old balances</td>
<td>—</td>
<td>(13)</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>14 498</td>
</tr>
</tbody>
</table>

22. There were no refunds relating to the oil-for-food contracts during the biennium 2006-2007. The matter is now considered closed.

**Savings on or cancellation of prior-period obligations**  
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings on or cancellation of prior-period obligations</td>
<td>622</td>
<td>3 158</td>
</tr>
<tr>
<td></td>
<td>622</td>
<td>3 158</td>
</tr>
</tbody>
</table>

23. 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.

**Note 6**  
**Cash and term deposits**

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

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>19 153</td>
<td>33 763</td>
</tr>
<tr>
<td>Term deposits</td>
<td>31 987</td>
<td>14 109</td>
</tr>
<tr>
<td></td>
<td>51 140</td>
<td>47 872</td>
</tr>
</tbody>
</table>
Note 7
Accounts receivable
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory and reimbursable services receivables</td>
<td>1 584</td>
<td>5 247</td>
</tr>
<tr>
<td>Rental receivables</td>
<td>1 685</td>
<td>1 978</td>
</tr>
<tr>
<td>Staff advances and other staff receivables</td>
<td>533</td>
<td>3 506</td>
</tr>
<tr>
<td>Other miscellaneous receivables</td>
<td>16</td>
<td>1 164</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3 818</strong></td>
<td><strong>11 895</strong></td>
</tr>
</tbody>
</table>

25. Rental receivables represent amounts owed by tenants who sub-lease UNOPS office space at the Chrysler Building in New York.

Note 8
Inter-fund accounts

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

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNDP</td>
<td>188 624</td>
<td>54 847</td>
</tr>
<tr>
<td>UNFPA</td>
<td>1 524</td>
<td>12 265</td>
</tr>
<tr>
<td>Other United Nations agencies</td>
<td>2 250</td>
<td>3 660</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>192 398</strong></td>
<td><strong>70 772</strong></td>
</tr>
</tbody>
</table>

27. The inter-fund balance between UNOPS and UNFPA as at 31 December 2006 has been reconciled and settled in full. The above balance of $1,524,000 is related only to 2007 transactions.

Note 9
Unliquidated obligations

28. Unliquidated obligations include liabilities relating to the cost of personnel services incurred and contracts and purchase orders entered into as at 31 December 2007.
Note 10

Accounts payable

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, wages and other staff entitlements</td>
<td>447</td>
<td>412</td>
</tr>
<tr>
<td>Other payables</td>
<td>3 613</td>
<td>440</td>
</tr>
<tr>
<td></td>
<td><strong>4 060</strong></td>
<td><strong>852</strong></td>
</tr>
</tbody>
</table>

Note 11

Post-retirement and end-of-service benefits

29. End-of-service payments relate to the cost of accrued annual leave, repatriation grant, repatriation travel and the removal of household goods in respect of all eligible staff. The accumulated annual leave as at 31 December 2007 of $2,409,000 was fully accrued and calculated based on actual leave balances of all staff members funded from the administrative budget, as at 31 December 2007.

30. Staff end-of-service benefits consist of repatriation, relocation and travel entitlements at the time of separation from the organization. The respective accrual was made for the first time in the biennium ending 31 December 2007 and covers the liability relating to all active and eligible staff funded from the administrative budget. The cost of repatriation grant is accrued in full to cover the entitlement payable to eligible staff based on their entire period of service in the United Nations system up to 31 December 2007. The cost of repatriation grant and the travel cost for eligible staff are also provided for in full, taking into account each staff member’s dependency status as of 31 December 2007. The termination indemnity payments are calculated based on attrition rate estimates which are informed by the organization’s experience over the last few bienniums.

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve against end-of-service benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>After-service health benefits</td>
<td>5 990</td>
<td>11 848</td>
</tr>
<tr>
<td>Annual leave</td>
<td>2 409</td>
<td>2 370</td>
</tr>
<tr>
<td>Repatriation grant</td>
<td>2 582</td>
<td>—</td>
</tr>
<tr>
<td>Relocation allowance</td>
<td>1 470</td>
<td>—</td>
</tr>
<tr>
<td>Travel cost relating to separation</td>
<td>590</td>
<td>—</td>
</tr>
<tr>
<td>Staff separation costs (relating to staff under separation process as at 31 December 2007)</td>
<td>367</td>
<td>—</td>
</tr>
<tr>
<td>Termination indemnity</td>
<td>226</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td><strong>13 634</strong></td>
<td><strong>14 218</strong></td>
</tr>
</tbody>
</table>

31. Both annual leave and end-of-service-related liabilities are very conservative and precise, fully covering the hypothetical worst case scenario, such as all eligible staff separating at the same time. No discounts were made on the assumption that
some of the current UNOPS staff may at some point move on to other United Nations agencies.

32. In accordance with the United Nations common system, UNOPS provides employees that have met certain eligibility requirements with health-care benefits after they retire. UNOPS financial statements are prepared following the United Nations system accounting standards, which generally require expenditure to be recorded on an accrual basis.

33. With respect to after-service health insurance, the United Nations system accounting standards require that related expenditure be accrued or that amounts not accrued be disclosed in the notes to the financial statements. Following the United Nations endorsement of the change in the accounting standards from the United Nations system accounting standards to IPSAS, effective 1 January 2010, the accrual of all expenditure including after-service health benefits will be mandatory.

34. The United Nations engaged an independent consulting actuary to carry out an actuarial valuation of after-service health benefits as at 31 December 2007 for participating United Nations agencies. The results of the valuation showed that the value of expected claims for retirees and active staff (both national and international, funded from the administrative budget) as at 31 December 2007 was $5.99 million, as follows:

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>After-service health insurance liability as at 31 December 2005</td>
<td>11,848</td>
</tr>
<tr>
<td>Accrual for 2006 and 2007</td>
<td>(5,858)</td>
</tr>
<tr>
<td><strong>Total accrual as at 31 December 2007</strong></td>
<td><strong>5,990</strong></td>
</tr>
</tbody>
</table>

35. 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 General Assembly, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the value date.

36. At the time of drafting the present note, the General Assembly has not invoked this provision.

**Note 12**

Operational reserve

37. The formula for calculating the operational reserve requirement was 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 expenditure for the last three years of operations. Based on this formula, for the biennium ending 31 December 2007 the required operational reserves should have stood at $34.95 million. The actual UNOPS operational reserves for the year ended 31 December 2007 amounted to some $28.7 million which is 82.1 per cent of
the mandatory reserve balance. This represents a significant improvement in the financial position of UNOPS. For comparison purposes, as at 31 December 2005 the accumulated reserve balance was $4.4 million which was only 16 per cent of the mandatory reserve balance. If UNOPS had not proactively made full accruals for accumulated annual leave, various end-of-service liabilities and after-service health insurance (at a total cost during the biennium 2006-2007 of some $7.6 million) and provision for bad debts relating to prior periods (some $12.5 million), UNOPS would have already exceeded the mandatory level of reserves by 31 December 2007. As full accruals for all liabilities have been made in the biennium ending 31 December 2007 and given that (before write-offs relating to prior periods) in the biennium 2006-2007 UNOPS generated a surplus of some $36 million, the objective of fully replenishing the mandatory level of reserves by the end of 2009 is well within reach, given that the current shortfall is some $6.25 million or 17.9 per cent.

Note 13
Provision and write-off of receivables

38. The changes in the provision and write-offs during the bienniums 2006-2007 and 2004-2005 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance on 1 January 2007</td>
<td>9,356</td>
<td>557</td>
</tr>
<tr>
<td>Used during the period (net)</td>
<td>390</td>
<td>-557</td>
</tr>
<tr>
<td>Increase during the period</td>
<td>12,548</td>
<td>9,356</td>
</tr>
<tr>
<td>Closing balance on 31 December 2007</td>
<td>22,294</td>
<td>9,356</td>
</tr>
</tbody>
</table>

39. The total write-offs of receivables and payables amounted to a credit of $390,000. Of the amount written off, $1,500,000 was provided for in the previous biennium. During the current biennium, the total increase in the provision amounted to $12,938,000, of which $12,548,000 was provided for in the current biennium.

Inter-fund balances relating to the period 1998-2005

In early 2006 the unreconciled balance with UNDP stood at $69.6 million. In July 2006, when a massive clean-up exercise commenced, the unreconciled difference was approximately $59.4 million, of which $33.4 million was accepted to be adjusted by UNDP and $15.7 million by UNOPS. The remaining items amounting to $10.3 million date back to the period 1998-2005.

UNOPS has exhausted a sizeable portion of its resources in order to investigate and resolve this matter expeditiously. Moreover, UNOPS feels that it will not be cost beneficial to commit further resources to investigating this matter. Accordingly, pending resolution of this difference between UNOPS and UNDP, UNOPS management has decided to take a very conservative approach and fully accrue for the liability. Moreover, since some of the difference dates back to 1998 and 1999, UNOPS management feels that owing to the seven year document retention policy, applicable for both UNDP and UNOPS, it will not be possible to retrieve documents relating to periods prior to 2001.
On this basis, UNOPS management will continue its discussions with UNDP counterparts aimed at settling these old outstanding balances. UNOPS is making a provision of $5.3 million in addition to the provision of $5.0 million made in its 2004-2005 financial statements. Consequently, the entire unreconciled balance of $10.3 million is now provided for.

**Afghanistan elections projects**

Following the 2005 elections in Afghanistan, UNOPS incurred expenditure in excess of available funding. Consultations have taken place with UNDP (trust fund manager) and the donor consortium to obtain additional funds, which will be used to cover the shortfall.

Having reduced the outstanding balance following negotiations with UNDP, new received and pledged funds from donors and sale of remaining assets, the best estimate is that the current shortfall amounts to $2,529 million. While additional pledges from donors are possible, UNOPS management decided to err on the side of caution and made an additional provision of $0.19 million, on top of $2.344 million provided for in the 2004-2005 financial statements.

**Support to the judicial reform in Guatemala project**

This UNDP project was financed by the World Bank with UNOPS implementation of infrastructure (works and goods). The Government of Guatemala queried the cost of three elevators for disabled people, for which technical specifications had been cleared by UNOPS. The lifts were delivered to the premises and the provider is claiming payments. UNOPS undertook the responsibility to settle this issue and take appropriate measures to meet the requirements of the Government by, if necessary, making adaptations to the lifts or any other appropriate measures. Estimated costs are $60,000.

**Mozambique Police Project (2000-2004) (MOZ/00/007)**

This UNDP/UNOPS project showed an overexpenditure of some $419,000. The matter is currently under review and pending completion of the review, UNOPS has made provision for the full amount of the overexpenditure.

**Guatemala imprest account**

UNOPS received a communication from PriceWaterhouseCoopers to the effect that the outstanding amount will be settled by the Central Bank of Guatemala. By the date of drafting the balance sheet, UNOPS had not received the funds.

**Sudan**

At the request of UNOPS management, 13 projects were audited that showed overexpenditure in the biennium 2004-2005. On the basis of those investigations, which were confirmed by independent review, the latest amount to be provided for is $1,302,266.24. The bulk of this overexpenditure belongs to six UNICEF projects for a total of $946,050. Negotiations are ongoing with UNICEF with a view to recovering the balance.

**Afghanistan women’s dormitory project**

The overexpenditure for the women’s dormitory stands at $836,188.41. The majority of the expenditure relates to old staff payments (erroneously charged at the time to this project) for a total amount of $814,124.41.

**Congo Brazzaville roads project**

UNOPS has been in dispute with UNDP for five years regarding a European Commission-funded project. UNOPS paid a contractor in advance to build 200 km of road but the contractor failed to build the last 3.2 km. UNDP missed the deadline for claiming funds under the funding agreement and by the time it did so, the default had come to light and the European Commission invoked a contractual provision that would allow it to avoid making the last payment. The amount withheld by the European Commission is at least five times greater than the estimated cost of building the
remaining 3.2 km. UNOPS offered to finish the road using its administrative budget at a cost of about $94,000 but UNDP would like UNOPS to settle the entire amount of some $533,000 that the European Commission withheld from them.

**Afghanistan emergency customs modernization project (38222)**

The sum of $723,496.25 may have to be returned to the donor (the World Bank), which does not agree to accept some expenditure. A significant portion of this amount pertains to administrative and operational services charged on the funds that had been transferred to the United Nations Industrial Development Organization (UNIDO) and the United Nations Conference on Trade and Development (UNCTAD), which were not subject to administrative and operational services charges, as per the management service agreement with the clients. The remainder consists of expenditure that was incorrectly charged to the project, including the purchase of galvanized steel ($172,067) used for warehouse construction that was charged to this project owing to oversight.

**Afghanistan secondary roads project**

These charges represent the expenditures that was incorrectly charged to the United States Agency for International Development (USAID) project in prior periods due to a series of oversights. The main errors relate to charging the cost of purchase of galvanized steel ($308,075) that was used in the construction of warehouses at the United Nations compound, usage of an aircraft ($242,975) by personnel belonging to the project and salaries of security guards erroneously charged to the project ($438,777.38).

**Sri Lanka employment-generating community development project**

The project showed an overexpenditure of $69,582 due to unplanned increase in the scope of the work required to ensure the sustainability of the road being rehabilitated under the project. When approached, the client indicated that it did not have sufficient funding to cover the additional expenditure.

**Asia Pacific Office potential overexpenditure relating to project number 51878**

**EUno potential overexpenditure relating to miscellaneous projects**

**Africa Office Sierra Leone health service project number 31083 (2001-2005)**

UNOPS was engaged by the African Development Bank to provide a variety of activities under this project. Based on the latest financial statement, an overexpenditure of $152,000 was incurred. UNOPS is in contact with the African Development Bank regarding this matter.

**Africa Office miscellaneous project overexpenditure**

**Imprest accounts**

This write-off provision represents multi-year total discrepancy between the UNOPS general ledger account 11020 (imprest) and local project imprest bank accounts for the period up to 31 December 2006. While the discrepancy is being investigated further, UNOPS has made a provision for the full amount.

**Rental receivables at the Chrysler Building in New York**

The balance relates to the uncollected rental income arising from the sub-lease of office space at the Chrysler Building in the biennium 2004-2005. Steps have been already taken to collect these past due amounts from the tenants who are mostly other United Nations agencies. However, UNOPS has taken a conservative approach and reserved for these uncollected amounts.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>remaining 3.2 km. UNOPS offered to finish the road using its administrative budget at a cost of about $94,000 but UNDP would like UNOPS to settle the entire amount of some $533,000 that the European Commission withheld from them.</td>
<td></td>
</tr>
<tr>
<td><strong>Afghanistan emergency customs modernization project (38222)</strong></td>
<td>723</td>
</tr>
<tr>
<td>The sum of $723,496.25 may have to be returned to the donor (the World Bank), which does not agree to accept some expenditure. A significant portion of this amount pertains to administrative and operational services charged on the funds that had been transferred to the United Nations Industrial Development Organization (UNIDO) and the United Nations Conference on Trade and Development (UNCTAD), which were not subject to administrative and operational services charges, as per the management service agreement with the clients. The remainder consists of expenditure that was incorrectly charged to the project, including the purchase of galvanized steel ($172,067) used for warehouse construction that was charged to this project owing to oversight.</td>
<td></td>
</tr>
<tr>
<td><strong>Afghanistan secondary roads project</strong></td>
<td>2 002</td>
</tr>
<tr>
<td>These charges represent the expenditures that was incorrectly charged to the United States Agency for International Development (USAID) project in prior periods due to a series of oversights. The main errors relate to charging the cost of purchase of galvanized steel ($308,075) that was used in the construction of warehouses at the United Nations compound, usage of an aircraft ($242,975) by personnel belonging to the project and salaries of security guards erroneously charged to the project ($438,777.38).</td>
<td></td>
</tr>
<tr>
<td><strong>Sri Lanka employment-generating community development project</strong></td>
<td>70</td>
</tr>
<tr>
<td>The project showed an overexpenditure of $69,582 due to unplanned increase in the scope of the work required to ensure the sustainability of the road being rehabilitated under the project. When approached, the client indicated that it did not have sufficient funding to cover the additional expenditure.</td>
<td></td>
</tr>
<tr>
<td><strong>Asia Pacific Office potential overexpenditure relating to project number 51878</strong></td>
<td>2.0</td>
</tr>
<tr>
<td><strong>EUno potential overexpenditure relating to miscellaneous projects</strong></td>
<td>596</td>
</tr>
<tr>
<td><strong>Africa Office Sierra Leone health service project number 31083 (2001-2005)</strong></td>
<td>152</td>
</tr>
<tr>
<td>UNOPS was engaged by the African Development Bank to provide a variety of activities under this project. Based on the latest financial statement, an overexpenditure of $152,000 was incurred. UNOPS is in contact with the African Development Bank regarding this matter.</td>
<td></td>
</tr>
<tr>
<td><strong>Africa Office miscellaneous project overexpenditure</strong></td>
<td>42</td>
</tr>
<tr>
<td><strong>Imprest accounts</strong></td>
<td>835</td>
</tr>
<tr>
<td>This write-off provision represents multi-year total discrepancy between the UNOPS general ledger account 11020 (imprest) and local project imprest bank accounts for the period up to 31 December 2006. While the discrepancy is being investigated further, UNOPS has made a provision for the full amount.</td>
<td></td>
</tr>
<tr>
<td><strong>Rental receivables at the Chrysler Building in New York</strong></td>
<td>1 800</td>
</tr>
<tr>
<td>The balance relates to the uncollected rental income arising from the sub-lease of office space at the Chrysler Building in the biennium 2004-2005. Steps have been already taken to collect these past due amounts from the tenants who are mostly other United Nations agencies. However, UNOPS has taken a conservative approach and reserved for these uncollected amounts.</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22 294</td>
</tr>
</tbody>
</table>
**Note 14**  
**Equipment, furniture and vehicles**

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

(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006-2007</th>
<th>2004-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNOPS headquarters (Copenhagen/New York)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>5 522</td>
<td></td>
</tr>
<tr>
<td>Adjustment to the opening balance</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Additions in the biennium 2006-2007</td>
<td>857</td>
<td></td>
</tr>
<tr>
<td>Disposals in the biennium 2006-2007</td>
<td>-2 653</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>3 810</td>
<td>5 522</td>
</tr>
<tr>
<td><strong>UNOPS regional offices and operations centres</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>6 850</td>
<td></td>
</tr>
<tr>
<td>Adjustment to the opening balance</td>
<td>387</td>
<td></td>
</tr>
<tr>
<td>Additions in the biennium 2006-2007</td>
<td>2 606</td>
<td></td>
</tr>
<tr>
<td>Disposals in the biennium 2006-2007</td>
<td>-3 334</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>6 509</td>
<td>6 850</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10 319</td>
<td>12 372</td>
</tr>
</tbody>
</table>

41. Assets capitalized are neither amortized nor depreciated.
Note 15

Contingent liabilities

42. 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 2007 amounted to $10,193 million, which represents management’s estimate of the upper limit of the financial exposure inclusive of costs and disbursements in relation to currently pending litigation and claims.

Litigation and claims

<table>
<thead>
<tr>
<th>Number</th>
<th>Name of entity</th>
<th>Management’s description of matter (including current status and amount claimed as well as attorney’s reference if known)</th>
<th>Management’s estimate of the financial exposure (inclusive of costs and disbursements)</th>
<th>Attorney’s remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UNOPS-Cukurova Construction Industry and Trade Inc.</td>
<td>Description: claim by Cukurova Construction Industry and Trade Inc. (Turkey) for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $573,895.72.</td>
<td>Potential financial exposure: $573,895.72 (subject to the final ruling of the arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>2</td>
<td>UNOPS-Kolin Construction Co. Inc.</td>
<td>Description: claim by Kolin Construction Co. Inc. (Turkey) for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $767,448.44.</td>
<td>Potential financial exposure: $767,448.44 (subject to the final ruling of the arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>3</td>
<td>UNOPS-Entes Industrial Plants Construction and Erection Contracting Co.</td>
<td>Description: claim by Entes Industrial Plants Construction and Erection Contracting Co. (Turkey) for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $1,495,147.</td>
<td>Potential financial exposure: $1,495,147 (subject to the final ruling of the arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>4</td>
<td>UNOPS-Entes Industrial Plants Construction and Erection Contracting Co.</td>
<td>Description: claim by Entes Industrial Plants Construction and Erection Contracting Co. (Turkey) for disruptive events affecting construction. Status: notice of intent to commence arbitration served to UNOPS. Amount claimed: $6,256,544.</td>
<td>Potential financial exposure: $6,256,544 (subject to the final ruling of the arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>5</td>
<td>UNOPS-Mitsu Steel (Pvt) Ltd.</td>
<td>Description: claim by Mitsu Steel (Pvt) Ltd. (Sri Lanka) for wrongful termination of contract. Status: notice of dispute served to appointing authority in accordance with United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules. Amount claimed: $509,994.43.</td>
<td>Potential financial exposure: $509,994.43 (subject to the final ruling of the arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>6</td>
<td>UNOPS-Hamid Helmandi Construction Company</td>
<td>Description: claim by Hamid Helmandi Construction Company (Afghanistan) for reimbursement for escalation in the cost of base construction materials. Status: notice of intention to pursue amicable settlement served to UNOPS. Amount claimed: $264,993.</td>
<td>Potential financial exposure: $264,993 (subject to the final ruling of arbitral tribunal) + arbitration-related expenditure to be determined.</td>
<td>Current assessment is that no money is due to the claimant from UNOPS under the contract.</td>
</tr>
<tr>
<td>Number</td>
<td>Name of entity</td>
<td>Management’s description of matter (including current status and amount claimed as well as attorney’s reference if known)</td>
<td>Management’s estimate of the financial exposure (inclusive of costs and disbursements)</td>
<td>Attorney’s remarks</td>
</tr>
<tr>
<td>--------</td>
<td>----------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>7</td>
<td>UNOPS-ALB Systems</td>
<td>ALB Systems had entered into a contract with a non-governmental organization in Albania to supply goods to the non-governmental organization. UNOPS had entered into a grant agreement with the non-governmental organization under the Small Grants Programme. UNOPS does not have any agreement with ALB Systems, but the local Small Grants Programme Coordinator had signed his name on one document between ALB Systems and the non-governmental organization.</td>
<td>ALB Systems is claiming from UNOPS the sum of approximately $55,000 (present United States dollar to euro exchange rate). The UNOPS legal officer who analysed the documents concluded that UNOPS was not liable.</td>
<td>UNOPS, with the concurrence of its client, offered the sum of $18,332 to ALB Systems as a settlement. ALB Systems asked UNOPS to increase the figure (but did not make a counter-offer), but UNOPS informed ALB Systems on 19 May 2008 that it was not able to do so. Response from ALB Systems is pending.</td>
</tr>
<tr>
<td>8</td>
<td>UNOPS versus Mr. X</td>
<td>Mr. X is a staff member whose post was abolished. He applied for a particular post but was not selected. However, he filed an appeal with the United Nations Joint Appeals Board claiming that the selection process for said process was flawed, and was “seeking assignment to suitable post and compensation”.</td>
<td>Assuming that the Joint Appeals Board accepts the staff member’s claim in its entirety (notwithstanding statements by UNOPS to the contrary), and the Secretary-General accepts the recommendation of the Joint Appeals Board: up to $180,000.</td>
<td>Current assessment is that the staff member’s claim is without merit.</td>
</tr>
<tr>
<td>9</td>
<td>UNOPS versus Mr. Y</td>
<td>Mr. Y served with UNOPS as a staff member in two separate periods (1997-2002 and 2003-2007). Mr. Y was paid full separation benefits when he was first separated from UNOPS service in 2002. In between those periods, Mr. Y served as a consultant (rather than as staff member) with the United Nations. Consequently, only the 2003-2007 service of Mr. Y was taken into account when he was separated from UNOPS service in April 2007. Mr. Y filed an appeal with the United Nations Joint Appeals Board claiming that his separation benefits should have been calculated on the basis of continuous service from 1997 to 2007. Mr. Y also sought to take home leave shortly before his separation. UNOPS informed Mr. Y that he was not entitled to home leave under UNOPS rules, because he was due to be separated from service shortly thereafter. Mr. Y also included this claim in his appeal.</td>
<td>Assuming that the Joint Appeals Board accepts the former staff member’s claim in its entirety (notwithstanding the statements of UNOPS to the contrary), and the Secretary-General accepts the recommendation of the Joint Appeals Board: up to $90,000.</td>
<td>Current assessment is that the staff member’s claims are without merit.</td>
</tr>
</tbody>
</table>

* Name withheld.
Note 16

Chrysler Building lease agreement in New York

43. The lease agreement at the Chrysler Building in New York expires on 31 December 2014. On 1 July 2006, UNOPS surrendered one of the two floors it was occupying and hence the lease agreement currently relates to only one floor which is leased at $1,776 thousand per year until the end of December 2009 and $1,926 thousand per year for the rest of the lease period.

44. The total outstanding liability relating to this lease agreement as at 31 December 2007 is $13,183 thousand. Since the surrender on 1 July 2006 of more than half of the originally leased office space, the Chrysler Building rental management has been on full cost recovery basis.

Note 17

Contributions in kind

45. Contributions in kind for the biennium 2006-2007 amounted to $4,792,000, which includes the estimated market rental value of office and warehouse facilities provided by the Government of United Arab Emirates ($2,817,000) and office space provided by the Government of Denmark ($1,975,000).