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United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2003 and

Report of the Board of Auditors

United Nations • New York, 2004

Note

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

ISSN 1020-718X

Contents

Letters of transmittal and certification

14 May 2004

We have the honour to submit the financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2003, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

We each 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*) Nigel **Fisher**
Executive Director
United Nations Office for Project Services

(*Signed*) Anna **Chang**
Acting Assistant Director
Division for Finance, Budget and Administration
United Nations Office for Project Services

The Chairman of the Board of Auditors
United Nations
New York

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 2003, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

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

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
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 2003

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 2003, together with the audited financial statements for the biennium. This submission is made in conformity with the Financial Regulations of UNOPS. The financial statements consist of three statements and two schedules, accompanied by notes which are an integral part of the financial statements, and cover all funds for which the Executive Director is responsible.

A. A brief history of UNOPS

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

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

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

5. In January 1995, in its decision 95/1, the Executive Board approved the UNOPS Financial Regulations as contained in document DP/1995/7/Add.1 as an annex to the UNDP 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; and

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

B. Accounting practices and policies

Financial Regulations and Rules

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

Presentation of financial statements

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

8. The statement of assets, liabilities and reserves and unexpended resources, statement II, for the biennium ended 31 December 2003 amounts to $92,213,980 as compared to $48,907,009 for the biennium ended 31 December 2001, an increase of about 53 per cent.

Accounting policies

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

C. United Nations Office for Project Services account

10. As shown in statement I, for the biennium ended 31 December 2003 UNOPS income from all sources totalled $109,955,661 and its administrative expenditures amounted to $93,041,119. Therefore, in 2003, income exceeded administrative expenditures by $16,914,542. Comparative figures for the biennium ended 31 December 2001 were as follows: income and administrative expenditure totalled $92,443,127 and $108,035,305 respectively; therefore, the excess of expenditure over income was $15,592,178.

United Nations Office for Project Services income

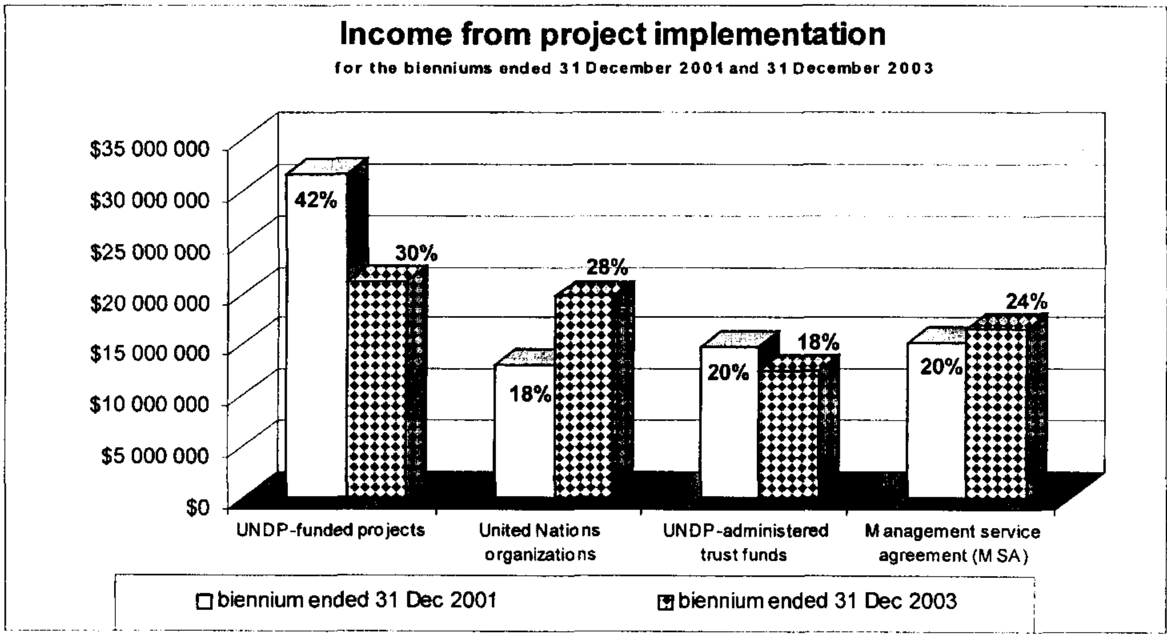
11. Total income earned for the biennium ended 31 December 2003 of $109,955,661 was derived from the following sources: $69,945,775, or 64 per cent of the total, from project implementation services; $37,487,945, or 34 per cent of the total, from services provided to other United Nations agencies; $2,521,941, or 2 per cent of the total, from interest income and other miscellaneous income.

12. Compared to the income of $92,443,127 for the biennium ended 31 December 2001, UNOPS income for the biennium ended 31 December 2003 increased by $17,512,534, or 19 per cent. The increase is attributable to the advisory services project income of $22,901,745 for the Office for Iraq Programme of the United Nations.

1. Income from project implementation

13. The sources of income related to project implementation ($69,945,775) 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 2003 and was derived as follows: $21,198,072, or 30 per cent of the total, from UNDP-funded projects; $19,718,004, or 28 per cent of the total, from projects on behalf of other United Nations organizations; $12,519,340 or 18 per cent of the total, from projects financed by UNDP-administered trust funds; and $16,510,359, or 24 per cent of the total, from management fees for projects funded under the management service agreement modality. Schedule 1 also shows that for

the biennium ended 31 December 2001, $31,618,143, or 42 per cent of the total, derived from UNDP-funded projects; $13,077,841, or 18 per cent of the total, from projects implemented on behalf of other United Nations organizations; $14,772,974, or 20 per cent of the total from projects financed by UNDP-administered trust funds; and $15,149,610, or 20 per cent of the total, from management fees for projects funded under the management service agreement modality.



2. Other income

14. During the biennium ended 31 December 2003, UNOPS also earned the following other income: $13,466,139 service income from the International Fund for Agricultural Development (IFAD), the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Programme of Assistance to the Palestinian People; $24,021,806 on advisory services projects for services rendered to the Office for Iraq Programme and other United Nations agencies; $176,913 interest on the investment of its accumulated income and $2,345,028 in miscellaneous income, of which a significant portion was rental income from subleasing part of the space leased by UNOPS in the Chrysler Building of $1,628,189. For comparison purposes, in the biennium ended 31 December 2001 UNOPS earned $12,486,189 in service income; $1,166,839 for advisory services projects; $1,913,571 interest on investment and $2,257,960 in miscellaneous income.

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

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

16. As shown in statement I and detailed further in schedule 2 for the biennium ended 31 December 2003, UNOPS incurred administrative expenditures totalling $93,041,119 ($45,199,906 in 2002 and $47,841,213 in 2003), against total income of $109,955,661, resulting in a net excess of income over expenditure of $16,914,542.

Operational reserve

17. The Executive Board, in its decision 2001/14 of 13 September 2001, approved the proposal to change the basis for the calculation of the level of the operational reserve of the United Nations Office for Project Services to 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years, 4 per cent of which is $21,521,156. For the biennium ended 31 December 2003, statement 1 shows reserves and fund balances of $23,152,092.

***Ex gratia* payments and write-offs of cash and receivable**

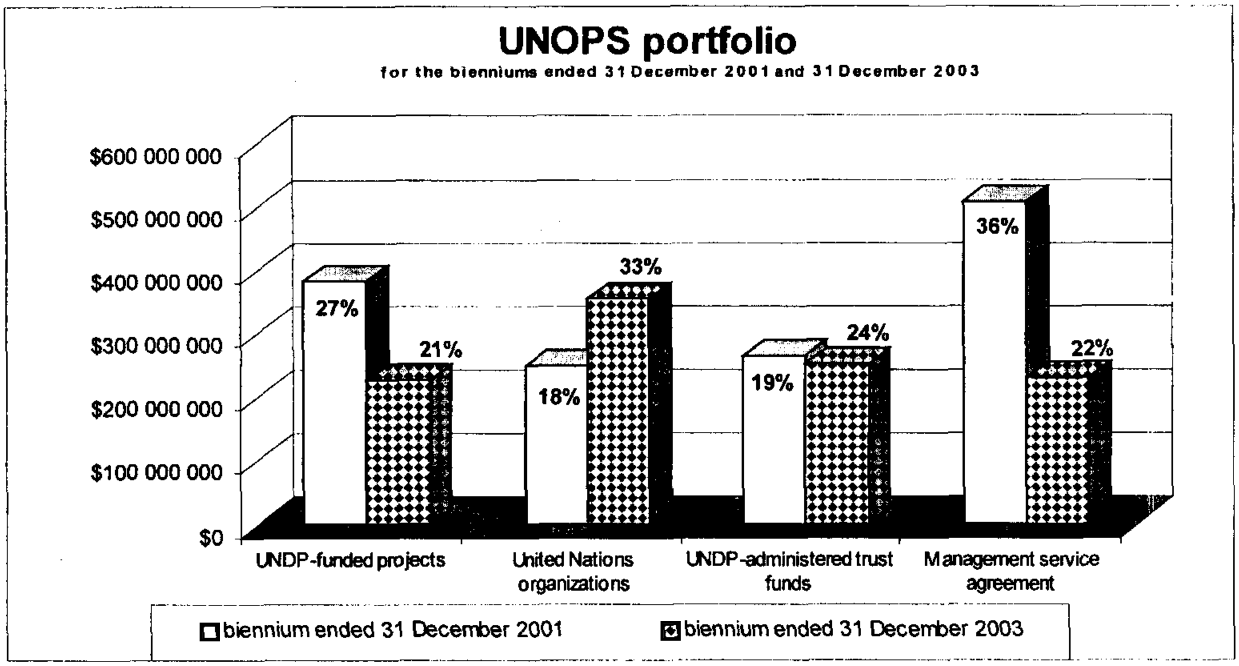
18. One ex gratia payment in the amount of $1,234 was recorded and no write-off were made during the biennium ended 31 December 2003. For comparison purposes, one write-off in the amount of $202,100 was recorded and no ex gratia payments were made during the biennium ended 31 December 2001.

D. Special accounts

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

United Nations Office for Project Services portfolio

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



21. For the biennium ended 31 December 2003, the total value of the portfolio amounts to $1,068,500,000 and was derived as follows: $228,400,000, or 21 per cent of the total, from UNDP-funded projects; $355,600,000, or 33 per cent, from projects implemented on behalf of other United Nations organizations; $253,400,000, or 24 per cent, from projects financed by UNDP-administered trust funds; and $231,100,000, or 22 per cent, from projects funded under the management service agreement modality. For comparison purposes, the portfolio for the biennium ended 31 December 2001 totalled $1,410,500,000 and was derived as follows: $383,700,000, or 27 per cent of the total, from UNDP-funded projects; $251,500,000, or 18 per cent of the total, from projects on behalf of other United Nations organizations; $266,500,000, or 19 per cent, from projects financed by UNDP-administered trust funds; and $508,800,000 or 36 per cent of the total, from projects funded under the management service agreement modality.

Project expenditures (United Nations Office for Project Services delivery)

22. For the biennium ended 31 December 2003, schedule 1 shows that UNOPS incurred project expenditures (net support costs and management fees) totalling $975,691,340, of which $239,633,473, or 25 per cent was derived from UNDP-funded projects; $316,690,262, or 32 per cent, from projects implemented on behalf of other United Nations organizations; $173,755,289, or 18 per cent, from projects financed by UNDP-administered trust funds; and $245,612,317 or 25 per cent, from projects funded under the management service agreement modality. Schedule 1 also shows that for the biennium ended 31 December 2001, project expenditures totalled $975,745,296, of which $347,754,052, or 35 per cent of the total, derived from UNDP-funded projects; $192,032,067, or 20 per cent, from projects implemented on behalf of other United Nations organizations; $193,130,414, or 20 per cent of the total, from projects financed by UNDP-administered trust funds; $242,828,763, or 25 per cent, from projects funded under the management service agreement modality.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Office for Project Services (UNOPS) and has also audited its financial statements for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) The Board was unable to express an opinion on the UNOPS financial statements for the biennium 2002-2003. The Board was unable to obtain adequate assurance on the imprest account balances, inter-office voucher clearing accounts, inter-fund balances and non-expendable equipment. The Board was also unable to confirm that the total value of separation costs was valid, accurate and complete;

(b) Although the United Nations Development Programme (UNDP) continued to be the largest client of UNOPS, income from UNDP decreased by 18 per cent, to $50.2 million, in 2002-2003;

(c) UNOPS did not have a proper system in place to estimate the cost of the services provided, therefore exposing it to the risk of accepting projects that may not contribute to the payment of the organization's fixed costs;

(d) The ability of UNOPS to continue as a going concern may be affected by many variables for example, an increase in the costs of the Atlas system, change management costs and further materially unfavourable currency fluctuations;

(e) Reserves were inadequate to cover end-of-service and post-retirement benefit liabilities of $39.7 million;

(f) UNOPS was unable to provide a breakdown of $15.2 million in common staff costs (see schedule 2 of the financial statements) for the biennium 2002-2003. The payroll costs exceeded the related general ledger balances for 31 out of 37 organizational units, for a total of $1.7 million;

(g) The Board was unable to express an opinion on the accuracy, completeness and validity of information on non-expendable equipment as disclosed in note 2 (C) (ii) (b) of the financial statements at $10 million;

(h) UNOPS has not developed a comprehensive information and communications technology strategy;

(i) UNOPS implemented a new enterprise resource planning system in January 2004. However, the Board noted several control deficiencies, especially the lack of an independently validated internal control framework;

(j) UNOPS commenced a reform process in 2003, the success of which is critical to its long-term viability. Given its financial position as at 31 December 2003 and the possible failure to meet its 2004 targets, UNOPS may not be able to fund in full any future deficit from the operational reserve. This situation may result in its having to significantly curtail the scale of its operations.

The Board made recommendations on exercising caution in budgetary assumptions and delivery projections; continuing diversification of the business portfolio within the United Nations system; evaluating the basis and calculation of the cost of services; monitoring and tracking all the variables affecting the going-concern assumptions; reviewing the funding mechanisms for end-of-service and post-retirement benefits; taking immediate action to perform reconciliations for all imprest, inter-office voucher and inter-fund accounts; developing an information and communications technology strategy; initiating actions to ensure that an internal control framework is assembled, validated, approved and disseminated for the newly implemented enterprise resource planning system; and performing a cost-benefit analysis for the change management initiatives.

The Board's main recommendations are summarized in chapter II, paragraph 18, of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the biennium 2002-2003, 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, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditure recorded in the financial statements for the financial period 1 January 2002 to 31 December 2003 had been incurred for the purposes approved by the governing bodies, whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNOPS presented fairly its financial position as at 31 December 2003 and the results of the operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNOPS. The audit was carried out at UNOPS headquarters and two decentralized offices (Geneva and Rome).

4. The Board modified its report on UNOPS (as reflected in chapter III below) on the following grounds:

(a) The Board was unable to obtain adequate assurance on the imprest account balances, inter-office voucher clearing accounts and inter-fund balances;

(b) The Board was unable to express an opinion on the accuracy, completeness and validity of information on non-expendable equipment valued at $10 million, as disclosed in note 2 (C) (ii) (b) of the financial statements;

(c) The Board could not determine the accuracy of the total staff separation costs, amounting to $1.5 million. UNOPS could not provide adequate supporting documentation for an amount of $0.586 million relating to a sample of employees;

(d) UNOPS implemented a new enterprise resource planning system in January 2004. However, the Board noted several control deficiencies, especially the lack of an independently validated internal control framework;

(e) UNOPS commenced a reform process in 2003, the success of which is critical to its long-term viability. Given its financial position as at 31 December 2003 and the possible failure to meet its 2004 targets, UNOPS may not be able to fund in full any future deficit from the operational reserve. This situation may result in the Office having to significantly curtail the scale of its operations.

5. In response to the modified report, UNOPS informed the Board that rectifying the situation would require significant resources and sustained effort over a long period of time. While UNOPS concurred with the Board's observations and recommendations, the depth, breadth and complexity of the risk, control and document-processing challenges for UNOPS, as well as its limited financial and human resources, require that it focus on many of these issues in a sequential manner. UNOPS further stated that historically it may not have successfully resolved many such issues because management had tried to tackle too many problems too fast, and at the same time.

6. UNOPS was in the process of preparing a three-phased "workout" plan. Phase 1 of the plan was scheduled for full (100 per cent) or partial (70 per cent) completion by 31 December 2004. The plan includes the creation of a programme and communication office to oversee the overall financial, risk, scope, schedule and quality management of the "turnaround". This office would be staffed by external experts as well as by internal UNOPS staff.

7. Phase 1 of the "workout" plan would consist of two parallel tracks, namely, an operational track and a strategic track. The operational track would cover high-priority activities that would enable UNOPS to meet its existing legal, regulatory, compliance and contractually obligated responsibilities to serve its existing customers and generate new cash inflows. On the strategic track, UNOPS would re-examine its mandate, survey and understand the changing competitive marketplace, critically assess its core capabilities and determine how, where and with whom it could add value within the United Nations system and within the development and aid community overall.

8. UNOPS indicated that if it could not identify a viable, value-added corporate strategy or if its governing board would not lift selected operating constraints so that it could effectively execute in line with a new strategy, then its management must be prepared to think about an exit strategy.

9. Phases 2 and 3 of the "workout" plan, therefore, would focus on implementing the new strategy, continuing to strengthen existing core operations and controls and implementing relevant Board of Auditors recommendations. UNOPS expected to get started on phase 2 by the first or second quarter of 2005, while noting that phase 3 might not end until mid-2007.

10. UNOPS was also in the process of examining existing staff to see how employees could be redeployed and better aligned to resolve critical control issues while it still has a sufficient number of skilled staff to promote and provide its services to its existing client base.

11. The General Assembly, in paragraph 6 of its resolution 57/278 A of 20 December 2002, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system and to make proposals on the future format and consideration of the reports of the Board of Auditors by the respective executive boards and the General Assembly. UNOPS had not taken any specific action in this regard by May 2004.

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

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

14. A summary of the Board's main recommendations is contained in paragraph 18 below. The detailed findings and recommendations are reported in paragraphs 20 to 218.

1. Previous recommendations not fully implemented

Recommendations in the report for the biennium ended 31 December 1999[1]

15. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999. There are no significant outstanding matters.

Recommendations in the report for the biennium ended 31 December 2001[2]

16. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNOPS to implement the recommendations made in its report for the biennium ended 31 December 2001. Details of the action taken and the comments of the Board are included in the present report and have been summarized in annex I to the present chapter. Out of a total of 18 recommendations, 7 (39 per cent) were implemented, 10 (55 per cent) were under implementation and 1 (6 per cent) was not implemented.

17. The Board has reiterated previous recommendations not yet implemented (see paragraphs 42, 58, 70, 76, 122 and 128 below). The Board invites the Administration to assign specific responsibility and establish an achievable time frame for their implementation.

2. Main recommendations

18. **The Board recommends that UNOPS:**

(a) **Exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets are established (para. 38);**

(b) **Evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs are identified and recovered, and implement a system that addresses all shortcomings identified in the existing workload system (para. 48);**

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[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5J* (A/55/5/Add.10), chap. II.

[2] Ibid., *Fifty-seventh Session, Supplement No. 5J* and corrigenda (A/57/5/Add.10 and Corr.1 and 2), chap. II.

(c) **Monitor and track all the variables affecting the going-concern assumptions and agree with the Executive Board on a time frame for the rebuilding of the operational reserve (para. 63);**

(d) **In conjunction with the Administrations of the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service and post-retirement benefit liabilities (para. 76);**

(e) **Reconcile the payroll with the general ledger on a regular basis to ensure that all payroll costs have been correctly allocated (para. 80);**

(f) **Update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals, conduct inventory counts at regular intervals and ensure that valid, accurate and complete opening balances are included in the Atlas system (para. 89);**

(g) **Take immediate actions to perform reconciliations for all imprest, inter-office voucher and inter-fund accounts; investigate and resolve all reconciling items; quantify the reconciling items and projections; implement measures to prevent a recurrence of similar failures of controls, including to adequately train staff (para. 98);**

(h) **Develop an information and communications technology strategic plan (para. 140);**

(i) **In conjunction with the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA), initiate an independent, comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls of the Atlas system as soon as possible (para. 161);**

(j) **Compile, approve and disseminate to all staff an overall internal control framework that covers all modules of the Atlas system as a matter of priority (para. 165);**

(k) **Perform a cost-benefit analysis for the recommendations made by the strategic advisory groups to measure the change management initiatives against a substantiated budget and to track the value generated by the change management process (para. 204).**

19. The Board's other recommendations appear in paragraphs 42, 52, 58, 70, 103, 117, 122, 132, 145, 147, 151, 154, 169, 173, 177, 179, 182, 185, 188, 190, 193, 194, 200, 207, 210, 213 and 217.

B. Background

20. The United Nations Office for Project Services was a division of UNDP until 1994. In its decision 48/501 of 19 September 1994, the General Assembly approved the establishment of UNOPS in order to consolidate United Nations project management and help UNDP focus on its mandate as the central funding and coordinating body for operational activities. UNOPS was established to be totally self-financing and receives no financial contributions, but earns its fees by charging other United Nations organizations (UNOPS clients) for services rendered. These services include project management, selecting and hiring project personnel,

procuring goods, organizational training, managing financial resources and administering loans.

21. The Executive Board of UNDP, UNFPA and UNOPS, being an intergovernmental body of the General Assembly, monitors the results of UNOPS, particularly from a donors' perspective. A Management Coordination Committee was established pursuant to a report of the Secretary-General[3] and by Executive Board decision 94/32. The Management Coordination Committee provides policy and management direction and ensures the transparency of UNOPS operations.

22. The Committee is chaired by the Administrator of UNDP, and the other members are from the United Nations Department of Management, the United Nations Department of Economic and Social Affairs and UNOPS. A working group consisting of a representative of each of the members of the Committee was established in April 2002 to assist the Committee in its work.

23. The Secretary-General, in a note dated 25 January 2002 on the relationship between UNDP and UNOPS,[4] outlined the role of UNOPS in the United Nations system and reiterated his support for its continued work as a "separate and identifiable entity that is self-financing", as originally intended by Member States. He added that if UNOPS was to continue to meet its key objective of being self-financing, it was essential that it receive sufficient business from organizations in the United Nations system. He therefore encouraged all United Nations entities — starting with components of the Secretariat — to utilize the services of UNOPS as long as that option remained cost-effective.

24. The President of the Executive Board declared, at the first regular meeting of the Executive Board on 27 January 2004, that he shared with the Executive Board the pleasure of seeing UNOPS recover. He stated that the tireless efforts made by all parties concerned had had the salutary effect of providing UNOPS with the means to restore its momentum and renew its march, adding that the Executive Board should continue to provide the required support to the new leadership of UNOPS. Furthermore, he felt that the Executive Board should examine what had been done by way of changing the administrative process and play an effective role in developing a strategic and operational framework for the future of UNOPS.

25. In its resolution 1483 (2003) dated 22 May 2003, the Security Council authorized the termination of the oil-for-food programme, both at the Headquarters level and in the field, and the Secretary-General subsequently announced the transfer of operational responsibility to the Coalition Provisional Authority by 21 November 2003. In line with the memorandum of understanding between the United Nations Office of the Iraq Programme and UNOPS that was signed in November 1999, the following five programme components (consisting of several projects) were implemented by UNOPS in northern Iraq:

(a) Mine Action Programme;

(b) Support for internally displaced persons and other vulnerable groups;

(c) Joint Humanitarian Information Centre;

(d) Urban water and sanitation;

(e) Field Administration Support Service.

[3] DP/1994/52.

[4] DP/2002/CRP.5.

26. Several projects were implemented within each of the various components (with the exception of the Field Administration Support Service, which served as the administrative support service centre for the programme), under which facilities were leased, equipment purchased, contracts entered into and personnel recruited.

27. In its previous report,[2] the Board addressed in detail concerns regarding the deteriorating financial situation of UNOPS and its ability to continue in the foreseeable future. Accordingly, the Board again followed up on the implementation of its previous recommendations primarily in the context of assessing the financial position of UNOPS.

C. Financial issues

1. Financial overview

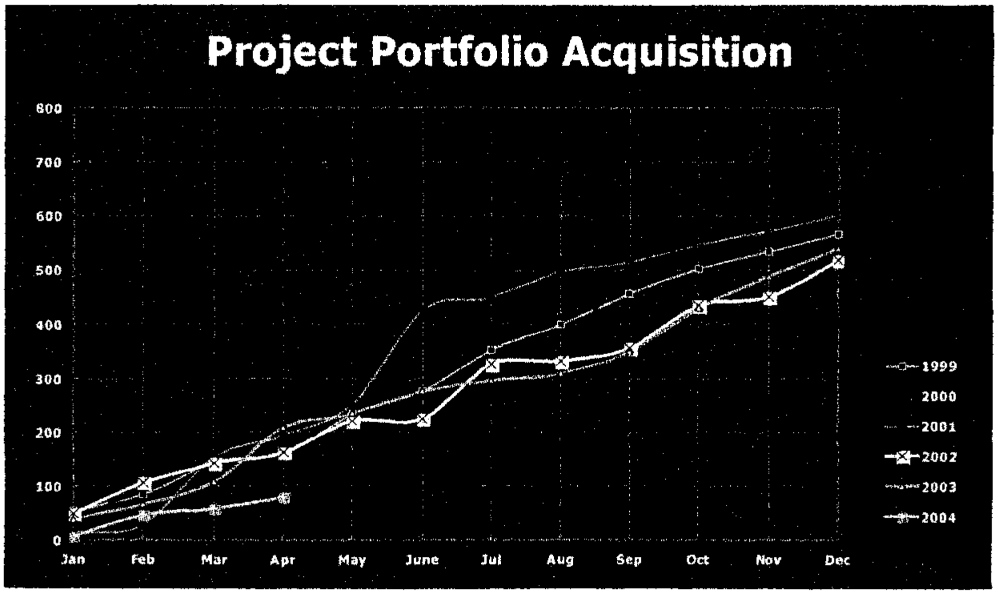
28. UNOPS had a net surplus of $16.9 million for the biennium 2002-2003, including non-recurrent enterprise resource planning expenditure of $3.07 million before savings of $1.2 million on prior-period obligations. Income for the biennium increased by 19 per cent, to $110 million, from $92.4 million in the biennium 2000-2001. Total administrative expenditure amounted to $93 million in 2002-2003, compared with $108 million in the biennium 2000-2001. The surplus resulted in an increase in the operational reserve from $5 million in the biennium 2000-2001 to $23.1 million in the biennium 2002-2003. The surplus was caused primarily by an increase of $19.5 million in one-off revenue from the Advisory Services Project for the Office of the Iraq Programme.

29. The project income is reflected in statement I; project expenditure is not in the financial statements of UNOPS, but is included in the financial statements of the clients. Administrative expenditure not directly related to projects is also reflected in statement I.

30. UNOPS has prepared its financial statements according to United Nations system accounting standards, version V, on the basis that the organization has neither the intention nor the necessity to curtail materially the scale of its operations, since it is a going concern. UNOPS, under the guidance of the Management Coordination Committee and its working group, made significant efforts to achieve an improved financial position in 2003 and to move from a significant deficit of $12.4 million in 2000-2001 to a surplus of $18.1 million in 2002-2003, including savings on prior-period obligations.

31. In the absence of the funds control system subsequent to the implementation of the new enterprise resource planning system (Atlas) on 2 January 2004, the total value of the available project portfolio for 2004 (January to April) could not be verified with signed contracts. However, a review of the accepted projects for the period January to April 2004, compared with data from prior years (see figure 1) shows that the level of business acquisition requires drastic improvement in order for UNOPS to meet its targets. The Executive Director, in his presentation to the Executive Board on 10 September 2003, identified $500 million as the critical minimum delivery level for 2004, on the basis of the 2002 actual and 2003 budgeted delivery.

Figure 1
United Nations Office for Project Services project acquisition



32. The level of the operational reserve as at 31 December 2003 was $23 million, of which $8.4 million was earmarked for change management and $4.1 million was budgeted for costs relating to enterprise resource planning wave 2. The total of $12.5 million is regarded as UNOPS reform process costs. There is significant risk that both internal and external factors could influence achievements on which forecasts and projections are based. The latest budget projections, in April 2004, indicated that the cost of change management would further increase by $0.5 million.

33. The UNOPS income projection of $69.8 million for the biennium 2004-2005 was based on an estimated amount of $970 million in project delivery. This amounted to an income rate of 7.2 per cent. However, the Board noted that as of May 2004, UNOPS was accepting projects at an average rate of 6.7 per cent, which, if continued for the rest of the biennium 2004-2005, would result in a further negative impact of $4.8 million, based on the current estimated project delivery of $970 million. Although UNOPS is a self-financing entity, it may not borrow funds or have "working capital" to bridge resource requirements and has to rely on its operational reserve for this purpose. Consequently, owing to a material uncertainty, there is the potential for a curtailment of future operations, which has not been reflected in UNOPS budgets.

2. Project income

34. Administrative expenditure, which is not directly related to projects, is also reflected in statement I. Project income of $74.6 million (excluding income from the Advisory Services Project) as a share of total income decreased from 81 per cent in 2000-2001 to 64 per cent ($70 million) in the biennium 2002-2003. Income is earned by delivering project implementation services and other services such as loan

administration. UNOPS charges a percentage of project delivery as support cost income. Therefore, within a given period higher expenditure incurred on projects means higher income for UNOPS.

Actual versus forecast project delivery and related income

35. The total income of $110 million consists of project, service and other income (including savings on prior-period obligations). Annex II shows the annual relationship between forecast income and actual total income for the period from 1999 to 2003. Total actual income was lower than the total forecast income by $3.1 million in 2000, $9.6 million in 2001 and $0.6 million in 2002. The actual total income exceeded the total forecast income by $21.7 million in 2003 and $0.8 million in 1999. Excluding the income of $19.5 million from the Office of the Iraq Programme project, which could not have been forecast at that level, the total excess of income over expenditure for the biennium 2002-2003 ($16.9 million) would have been a deficit of $2.6 million.

36. The Board, in paragraph 22 of its previous report,[2] recommended that UNOPS exercise caution in its delivery projections. The income per category is indicated in annex II to the present chapter. The UNOPS budget is revised annually, and the Executive Board approved the revised budget for 2003 during its second regular session in 2003. As shown in annex II, actual project delivery was lower than forecast project delivery for three of the past five years (1999: $9.9 million higher; 2000: $118.9 million lower; 2001: $111.3 million lower; 2002: $18.1 million lower; and 2003: $6.1 million higher).

37. Forecasts of project delivery and project income as compared with the actual amounts have improved. The difference between the forecast project income and the actual project income for the past five years is also shown in annex II. The Board noted that 1999 was the only year in which actual project income exceeded forecast project income, by $0.1 million. For 2000, 2001 and 2003 actual project income was lower than forecast project income, by $5.9 million, $9.5 million, and $0.8 million, respectively. For 2002, budgeted expenditure and actual expenditure were equal. The actual project delivery of $975.6 million for the biennium 2002-2003 was less than that forecast by 1.22 per cent (19 per cent in 2000-2001), while actual project income was less than that forecast by 1.13 per cent.

38. **UNOPS agreed with the Board's reiterated recommendation to exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets are established.**

39. UNOPS informed the Board that management disciplines to track the business acquisition activities and preliminary pricing terms and conditions would be included in phase 1 of its "workout" plan.

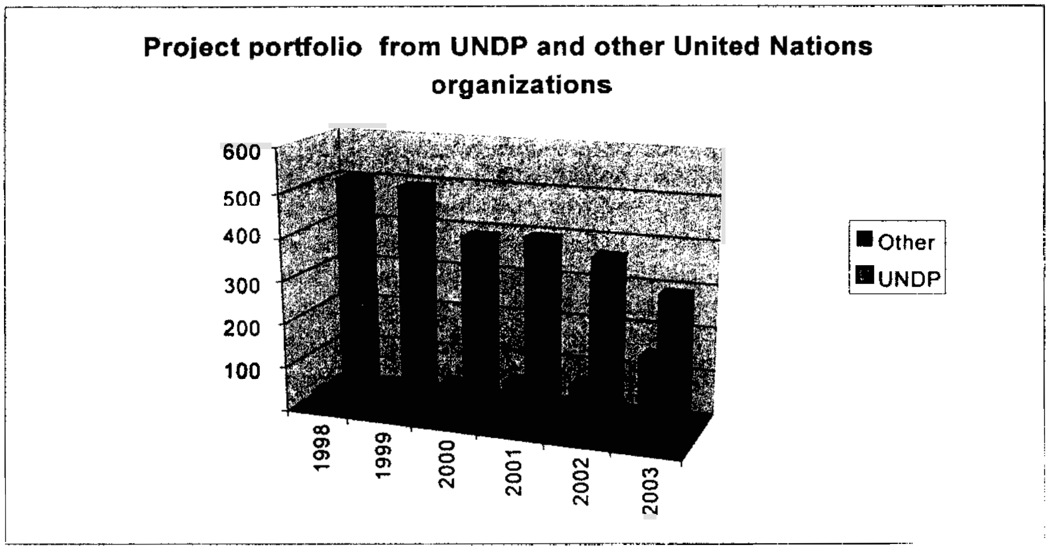
Client portfolio

40. UNDP had continued to be the largest client of UNOPS since the latter's inception. Income earned from UNDP is in the form of project income. UNOPS started to diversify its service delivery to other United Nations organizations in 1996 in order to fulfil its mission of being a service provider to the entire United Nations system while simultaneously reducing its dependency on any one client or service. During its January 2004 session, the Executive Board approved the

expansion of the UNOPS mandate to allow direct cooperation with regional and subregional development banks on a pilot basis, but stated at the same time that it encouraged UNOPS to ensure close consultation with resident coordinators.

41. Income from UNDP decreased by 18 per cent, from $61.5 million in the biennium 2000-2001 to $50.2 million in 2002-2003. This represented 71.8 per cent of the total project income of $70 million in the biennium 2002-2003, compared with 82 per cent in the biennium 2000-2001. The downward trend in project income and the contribution made by UNDP is evident when comparing more recent total project income with that of the biennium 1998-1999, when total project income was $86.4 million, of which UNDP accounted for 92 per cent. The Board recognized that the preferred modalities of UNDP for project implementation in recent years were national execution (through local implementing partners) and, to a lesser extent, direct execution (by UNDP itself). This was partly the reason for the decrease in terms of UNDP projects entrusted to UNOPS. The UNOPS project portfolio is illustrated in figure 2. The project income from UNDP also represented some 56 per cent of total UNOPS income in the biennium 2002-2003, compared with 67 per cent in the biennium 2000-2001.

Figure 2
Project portfolio
(Millions of United States dollars)



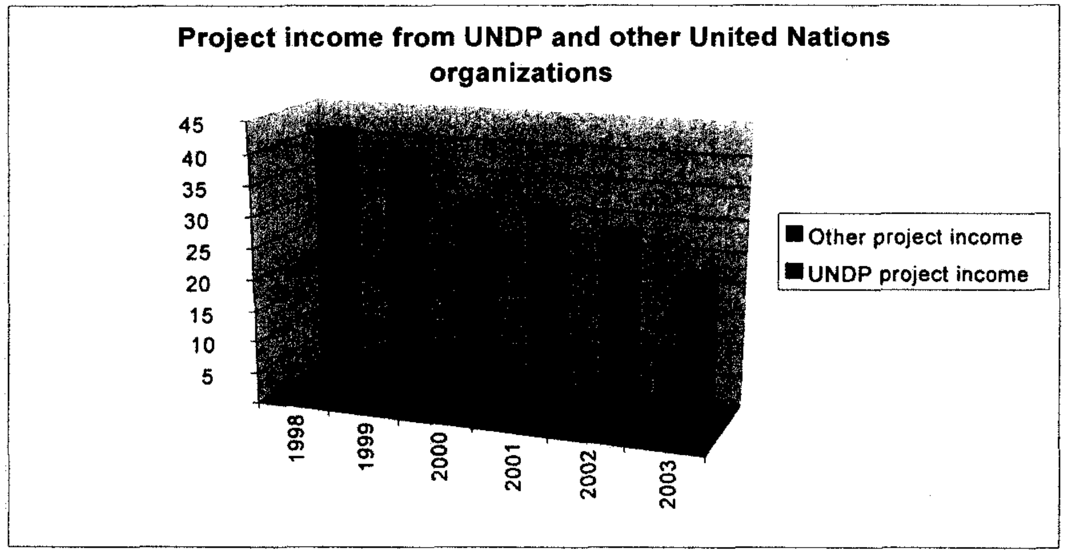
42. **UNOPS agreed with the Board's reiterated recommendation to continue to review its medium-term strategy in a comprehensive manner, the review to include such elements as an analysis of the variables related to business from UNDP, with a view to aligning its project delivery approach. The Board further recommends that UNOPS fully explore all potential business acquisition possibilities and alternate sources of funding, given the changes in mandate effective January 2004.**

43. UNOPS informed the Board that it would re-examine its corporate strategy at the Executive Board session in January 2005. This strategy would address, inter alia, all aspects of UNOPS services and customer needs (markets, competitors,

competitive edge, future developments and markets) and how it judges and measures success in financial and operational terms and in terms of customer and employee satisfaction.

44. Once the corporate strategy is set, UNOPS would then create an operating model that would deal with, inter alia, where UNOPS should be located; under which rules, regulations and other parameters it should operate; and what screening criteria and processes it should use to accept or reject business.

Figure 3
Project income
(Millions of United States dollars)



Project cost recovery and income rates

45. The Board, in paragraph 30 of its previous report,[2] noted that a new system of calculating the cost of services was being piloted in the UNOPS Geneva office. According to UNOPS, this new system could be used on an ad hoc basis but did not formally replace the previous project management office system.

46. The actual rate of project income as a percentage of project delivery has gradually deteriorated, from 7.8 per cent in 2000 to 7.1 per cent in 2003. The Board noted that different rates were charged for different projects and clients, with the maximum rate being 10 per cent for some UNDP projects funded under regular resources, depending on the estimated costs to be incurred. The Board is concerned that the profitability of projects accepted from other United Nations organizations was inadequate when considering the level of recurring administrative expenditure. Project income as a percentage of project delivery from other United Nations organizations for the biennium 2002-2003 was 6.2 per cent, compared with 6.8 per cent for the biennium 2000-2001. Project income as a percentage of project delivery, excluding other services, from 1996 to 2003 is depicted in table 1. The table reflects that the rate of project income peaked in 1998 but dropped to 7.1 per cent in 2001. The combined effect of lower delivery and a corresponding drop in the project income rate resulted in a reduction in project income.

Table 1
Project income as a percentage of project delivery
(Millions of United States dollars)

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

47. The Board noted that UNOPS had changed its emphasis from earning income purely on a "delivery" basis to considering alternatives such as "income and contribution to fixed cost" models. However, without a proper system in place to estimate the cost of the services being provided, UNOPS is exposed to the risk of accepting projects from which the resulting income may not contribute to the payment of the organization's fixed costs.

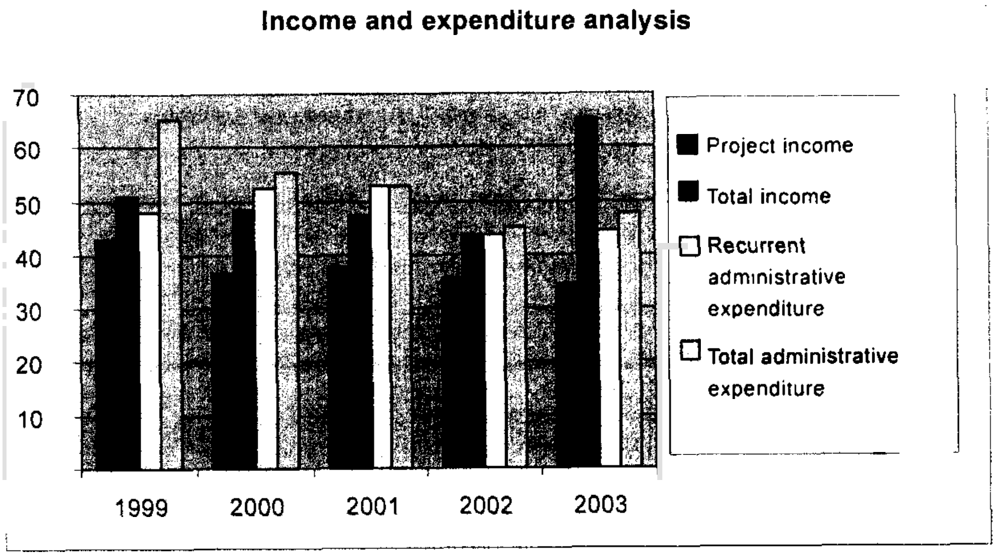
48. **UNOPS agreed with the Board's reiterated recommendation to (a) evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs are identified and recovered, (b) implement a system that addresses all shortcomings identified in the existing workload system and (c)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

3. Administrative expenditure

49. Total administrative expenditure for the biennium 2002-2003 declined by 13.8 per cent to $93 million, from $108 million for the biennium 2001-2002. The 2000-2001 administrative expenditure included a non-recurrent cost of $3 million in respect of the implementation costs for the Integrated Management Information System (IMIS), whereas in 2002-2003 UNDP charged UNOPS $3.07 million for its portion of the pre-implementation costs relating to the Atlas system. Figure 4 reflects the relationship between project income, total income, recurrent administrative expenditure and total administrative expenditure.

50. If these non-recurrent costs are excluded, recurrent administrative expenditure decreased by 15.46 per cent, from $103 million in the biennium 2000-2001 to $87.9 million in the biennium 2002-2003. A significant portion of the decrease in the biennium 2002-2003 is due to a 13 per cent ($6.2 million) reduction in salaries and wages, to $42.6 million, a 15 per cent ($2.7 million) decrease in common staff costs, to $15.2 million, and a 50 per cent reduction in official travel, to $2.3 million. This was related mainly to a reduction in the number of employees.

Figure 4
Project income, total income, recurrent administrative expenditure and total administrative expenditure
(Millions of United States dollars)



51. As shown in annex II to the present chapter, UNOPS actual recurrent administrative expenditure was consistently less than the budgeted recurrent administrative expenditure, except in 2000, when actual administrative expenditure exceeded the budgeted amount by $0.7 million. The differences between actual and budgeted recurrent administrative expenditure were, for 1997, $1.8 million; 1998: $1.6 million; 1999: $0.7 million; 2001: $2.5 million; 2002: $0.5 million; and 2003: $0.2 million.

52. **UNOPS agreed with the Board's recommendation that it carefully consider the potential impact prior to any further reductions in the number of employees, as this could affect its ability to meet project delivery needs and a further loss of skills and resources could have a negative impact on its ability to comply with finance and administration requirements.**

53. UNOPS informed the Board that it would try to ensure that any required staff reconfigurations and relocations are kept to a minimum, or, if deemed necessary, are conducted in such a way as to minimize the impact on service and delivery activities.

4. Budget revisions (2003)

54. In paragraph 43 of its previous report,[2] the Board recommended that UNOPS prepare budgets more in line with realistic project delivery. The Executive Director submitted UNOPS projections for 2003 to the Executive Board at the latter's January 2004 session, on the basis of the actual results up to October 2003. The revised budget reflected increases in income of $19 million and administrative expenditure of $3.7 million, with a projected surplus of $13.3 million. However, the

actual surplus exceeded the projected surplus by $3.2 million. Table 2 outlines the revisions.

Table 2
Comparison of original and revised budgets to actual performance
(Millions of United States dollars)

	Approved budget 2003	*Revised budget projection 2003*	*Difference*	*Actual 2003*	*Variance between actual and revised*
Project delivery	484.4	460.0	(20.4)	490.6	+30.6
Project income	35.3	31.3	(4)	34.6	+3.3
Services and other income	9.2	32.2	+23	30.7	(1.6)
Total income	**44.5**	**63.5**	**+19**	**65.3**	**+1.8**
Expenses	45.5	49.2	+3.7	(47.8)	+1.4
Surplus (deficit)	**1**	**14.3**	**+13.3**	**17.5**	**+3.2**

55. As mentioned in paragraph 35 above, in the absence of the income generated from the United Nations Office of the Iraq Programme, UNOPS would have incurred a deficit of $2.6 million, which would have resulted in the operational reserve level being reduced to $3 million at the end of 2003, compared with the actual 2003 operational reserve of $23.2 million.

56. UNOPS previously had difficulties in preparing realistic forecasts of project delivery due to the various factors affecting business acquisition. The 2003 budgeted expenditure could also not be accurately forecast, even near the end of the biennium. Schedule 2 to the financial statements indicates that various budget lines were exceeded, most notably the costs of central services and enterprise resource planning, which were $1.9 million and $2.3 million more than the amounts in the approved budget, respectively.

57. The Board noted that the approved budget for 2003 showed that project income was budgeted at 7.3 per cent of project delivery, while the latest budget projection indicated an expected rate of 6.8 per cent.

58. **UNOPS agreed with the Board's reiterated recommendation to remain focused on preparing budgets and revisions thereto on a basis that is more in line with realistic project delivery.**

5. Operational reserve

59. In its decision 2001/14, taken in September 2001, the Executive Board approved the basis for the calculation of the level of the UNOPS operational reserve as 4 per cent of the rolling average of the combined administrative and project expenditure for the three previous years. While the Board, in paragraph 46 of its previous report,[2] expressed concern regarding the level of the operational reserve, the required level of $21.5 million at 31 December 2003 was achieved.

60. The Board reviewed the UNOPS revised budget estimates for the biennium 2004-2005 and noted that UNOPS was anticipating a financial loss of $12.5 million

for 2004 and expected to break even for the biennium 2004-2005. The accumulated unexpended resources would cover the loss of $12.5 million.

61. Although the operational reserve was expected to increase to $6 million by the end of 2004, UNOPS had forecast the reserve balance at the end of 2005 to be $4.2 million. This can be compared to the balance of $5 million at the end of the biennium 2000-2001, thus signifying a reversion to a situation where UNOPS does not meet the required level of the operational reserve. This situation can be attributed mainly to the financial cost of the change management process, estimated at $8.4 million in the approved budget, and the implementation of the Atlas system, for which the explicit approval by the Executive Board was not documented.

62. The ability of UNOPS to continue as a going concern may be affected by many variables — for example, an increase in the costs of the Atlas system, change management costs and further materially unfavourable currency fluctuations. The reserve balance of $4.2 million would become a deficit of $0.8 million should a 10 per cent variance in the budgeted expenditure occur; and if the current profitability margin continued, based on the budgeted delivery earlier noted. The latest budget projection, made in April 2004, reflects the movements in the operational reserve since 1996 (see annex IV).

63. **UNOPS agreed with the Board's recommendation that it (a) monitor and track all the variables affecting the going-concern assumptions and (b) agree with the Executive Board on a time frame for the rebuilding of the operational reserve.**

64. UNOPS informed the Board that it planned to present strategic options regarding its future and continued financial viability at the January 2005 session of the Executive Board.

65. UNOPS reported to the Executive Board, in January 2004, that the realization of income projections for long-term viability was dependent on the initiatives taken to develop country portfolios and identify new opportunities with existing clients. UNOPS assured the Executive Board that in the event that the portfolio growth and the development of the budgetary situation in 2004 did not support its intent to maintain the level of the operational reserve, UNOPS would revert to the Executive Board with a proposed financing alternative for change implementation.

66. The Board has made a recommendation to address the above-stated issues in paragraph 42 of the present report. UNOPS informed the Board it would also address these issues at the January 2005 session of the Executive Board.

6. Unliquidated obligations

Cancellation of prior-biennium unliquidated obligations

67. The policy followed by UNOPS, in accordance with United Nations system accounting standards, was to reduce current-year project expenditure by the balance of the prior-year cancelled unliquidated obligations. This results in a reduction in the current year's project income based on such project expenditure.

68. Prior to cancellation, the balance of unliquidated obligations for 2000, as at 31 December 2002, was $6.4 million. This comprised primarily "blanket" (project agreement) obligations and obligations raised on the basis of purchase orders. Of

that amount, $5.3 million (83 per cent) represented obligations cancelled in the financial year 2003. As a result, income was overstated for the biennium 2000-2001 by approximately $0.4 million and income was understated by the same amount for the biennium 2002-2003. The 2001 unliquidated obligation balance as at 31 December 2002 was $13.7 million, of which $7.1 million (52 per cent) was cancelled only during the financial year 2003. Again, most of this amount was created on the basis of purchase orders and blanket obligations. This represents an overstatement of the 2000-2001 income by approximately $0.5 million. (The average income rates given in table 1 for 2000 and 2001 were used to calculate the income effect.)

69. The Board noted that some $0.9 million in unliquidated obligations for project delivery raised in 2003 had not been supported by valid purchase orders by 31 December 2003, and that as a result income for the biennium 2002-2003 was overstated by $0.08 million.

70. **While the Board recognizes the efforts made by UNOPS to review unliquidated obligations, it reiterates its recommendation that it conduct more regular reviews of all unliquidated obligations in a timely manner. Furthermore, UNOPS should enforce strict financial discipline with regard to project officers creating only valid obligations.**

71. While UNOPS agreed with the Board's recommendation, it stated that strengthened controls in this area might not be designed and implemented until 2005.

7. Other sources of income

72. UNOPS earns fees from the Rome-based International Fund for Agricultural Development (IFAD) for services it provides in respect of loan administration and project supervision. This remains the second-largest source of income for UNOPS. The Board was pleased to note that the uncertainties surrounding IFAD fees, as outlined in paragraph 50 of its previous report,[2] have been resolved.

73. At a conference held in Rome from 27 to 30 April 2004, IFAD approved revised rates in respect of 2003 for supervision, start-up and loan administration services rendered by UNOPS. This decision resulted in additional income of $0.19 million for UNOPS in the biennium 2002-2003. However, the revised final statement as at 31 December 2003 was agreed with the IFAD Controller in Rome only on 12 May 2004, after the closure of the accounts, and consequently was not recorded for the biennium 2002-2003. The income from other services was therefore understated by $0.19 million as at 31 December 2003.

8. Liabilities for annual leave, end-of-service benefits and post-retirement benefits

74. UNOPS made no provision for after-service health insurance liabilities in its financial statements. However, the estimated liability, based on an actuarial valuation, has been disclosed in note 19 to the financial statements and amounted to $37.6 million as at 31 December 2003. The total contingent liability of $39.7 million consists of $37.6 million relating to after-service health benefits and $2.1 million for accrued leave for the biennium ended 31 December 2003.

75. The Board was not in a position to confirm the reasonableness of the assumptions used for the actuarial valuation, as UNOPS was unable to provide the

Board with a list of active or retired staff submitted to the actuaries for use in the calculation for the actuarial valuation of after-service health benefits.

76. **UNOPS agreed with the Board's reiterated recommendation that UNOPS (a) review, in conjunction with the Administrations of the United Nations and other funds and programmes, the funding mechanism and targets for end-of-service and post-retirement benefit liabilities; and (b) expedite its consideration of the funding of end-of-service liabilities, given its unique funding principles.**

77. UNOPS informed the Board that, in partnership with UNDP and UNFPA, it had contracted a consulting firm to perform a study of the agencies' funding policy and funding mechanisms for the post-retirement benefit liabilities.

9. Common staff costs and related payroll issues

78. UNOPS was unable to provide the Board with a breakdown of common staff costs of $15.2 million, as per schedule 2 of the financial statements for the biennium 2002-2003. Separation costs amounted to $1.5 million (see schedule 2) for 42 staff members. From the sample of seven staff separations ($725,382) selected for testing, the details and supporting documentation relating to four ($389,030) were not provided. For the other three ($336,352), the supporting documentation could substantiate only $139,256 of the $336,352 in separation costs. Therefore, only $139,256 out of $725,382 (19 per cent) could be substantiated, leaving the Board with no assurance on the remaining 81 per cent of the sample.

79. Payroll costs exceeded the related general ledger balances in 31 out of 37 organizational units by a total of $1.7 million. The differences were due to the inclusion of project staff on the payroll; UNOPS removed such staff from salaries expenditure and reallocated them as debtors, as the expenses were recoverable from the projects and did not form part of UNOPS staff expenditure. An undetected error in the posted journal could potentially affect project delivery, and therefore income as well as administrative expenditure. However, UNOPS did not regularly perform or review reconciliations to ensure that the journals were correct. Supporting evidence could not be provided by UNOPS to account for the differences at the time of the audit, and the accuracy of the amount in the general ledger — and therefore the financial statements — could not be verified.

80. **UNOPS agreed with the Board's recommendation that it (a) reconcile the payroll with the general ledger on a regular basis to ensure that all payroll costs have been correctly allocated, (b) certify the reconciliations at an appropriate level of seniority as proof of review and (c) make specific year-end and biennium-end closing arrangements to validate differences.**

81. UNOPS informed the Board that it had identified a fully functional general ledger that contained accurate, complete and timely data, which are to be properly reconciled with all relevant subledgers as a top priority. The speed with which UNOPS can move, however, might be driven by the priorities of its other enterprise-resources-planning implementation partners.

10. Asset management

82. The value of non-expendable equipment amounted to $10 million as at 31 December 2003 (in 2001 the figure was $9.3 million). The Board noted that the inventory register did not provide information on opening balances, movements and

closing balances. The Board was unable to verify the accuracy of note 2 (C) (b) to the financial statements, on the non-expendable equipment worth $3.1 million relating to the decentralized offices, which could not be verified with supporting documentation. UNOPS decentralized offices are required to submit an inventory summary form 30 days after the end of the year, which is used to update the fixed asset register. Only 5 of the 14 decentralized offices (36 per cent) had complied with this requirement.

83. The Board noted that the non-expendable property register did not adequately reflect changes when offices had been closed and the resulting transfer to other locations or disposal of such property. The 2000-2001 non-expendable property register showed that Washington, D.C., Moscow, Addis Ababa, Madagascar and Nairobi had assets amounting to $0.173 million, whereas the balances for 2002-2003 are reflected as nil. No records of the movements could be provided.

84. When the Abidjan office moved to Dakar, most of the equipment was sold to the Department of Peacekeeping Operations at a depreciated value. The non-expendable property register for the biennium ended 31 December 2003 still showed that the Abidjan office was in possession of inventories in the amount of $0.3 million. No information could be obtained regarding the sale of the inventory items to the Department of Peacekeeping Operations or the proceeds derived therefrom.

85. The inventory summary report submitted by the Kinshasa office reflects an amount of $0.066 million for equipment and furniture, whereas the non-expendable property register reflects an inventory value of $0.037 million. The variance could not be explained by UNOPS.

86. The Board was also unable to verify the head office assets of $6.9 million with supporting documentation. The Board noted many differences when comparing the non-expendable property register with the physical items. This was partially due to the updating of the non-expendable property register and the fact that the last physical count of inventory had been conducted in 2001. Furthermore, it was noted that non-expendable property was not tagged and, although information technology items could be identified by utilizing the manufacturer serial number, this information was not included in the register. The use of specific inventory tags and serial numbers would make it easier for the organization to ensure the accuracy and completeness of the inventory register.

87. The Board was unable to verify the accuracy of data on asset disposals for the biennium 2002-2003, as no information could be provided by UNOPS. The UNOPS combined headquarters and decentralized office inventory balances at 31 December 2001 and 31 December 2003, as per the financial statements, were $9.3 million and $10 million, respectively. Furthermore, according to UNOPS accounting policy, the full cost of non-expendable equipment is charged to the project accounts or the UNOPS accounts as appropriate in the year in which it is purchased. Items considered non-expendable equipment are purchases of equipment valued at $500 or more per unit with a serviceable life of at least five years, for which formal inventory records are maintained. Schedule 2 of the financial statements places the value of purchases of equipment and furniture at $0.5 million. This does not agree with the acquisitions recorded in the non-expendable property register.

Conclusion

88. The Board was unable to express an opinion on the accuracy, completeness and validity of information on fixed assets as disclosed in note 2 (C) (b) to the financial statements, or on movements for the year, due to the breakdown in controls and the unavailability of supporting evidence. In addition, the Board is concerned that the opening balances in the Atlas system would be incorrect if the above findings were not addressed in a timely manner.

89. **UNOPS agreed with the Board's recommendation that it (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals, (b) mark all UNOPS inventory items with a unique, identifiable inventory number or serial number, (c) conduct inventory counts at regular intervals and (d) ensure that valid, accurate and complete opening balances are included in the Atlas system.**

90. UNOPS informed the Board that, given its limited financial and human resources and other priorities, proper fixed assets inventory records management would be included in phases 2 and 3 of the "workout" plan. This would be scheduled for implementation in the period 2005 to 2007. UNOPS also believed that activating the fixed asset module in the Atlas system would expedite the resolution of this issue.

11. Account reconciliation

Imprest accounts

91. In exceptional cases, where the activities of a project require that payments be made to local vendors in locations where there is no UNDP field office or where there is a high volume of transactions, or due to other considerations, and in the best interests of the project, an imprest account system has been used. There were 107 active imprest accounts (including sub-imprest accounts), of which 30 ($8 million) were included in the Board's sample. However, UNOPS could provide the Board with information for only 12 out of the 30 imprest accounts selected. As at 31 December 2003, the aggregate balance of imprest accounts had increased by $12.4 million (382 per cent), to $15.6 million, from $3.2 million as at 31 December 2001.

92. The 2003 year-end instructions to UNOPS imprest account holders, dated 30 October 2003, indicated that the last day for processing 2003 payment transactions was 15 December 2003 and that all payments made after that date were to be included in the January 2004 cashbook. This implies that where amounts were not obligated and the expense related to 2003, the inclusion of the payment in the 2004 cashbook would mean that the expense had been included in the incorrect financial year. The Board also found evidence that different cut-off dates were applied by the imprest account holders, both earlier and later than the cut-off date. The impact of the different cut-off dates used by the various country offices on the reasonableness of the imprest accounts and any other accounts could not be quantified.

93. The function of reconciling and processing imprest accounts was relocated to the Kuala Lumpur office in mid-2002. The Board noted that the balances as per the imprest reconciliations for the period ending 31 December 2003 did not always

agree with the amounts reported in the trial balance. Some of the errors pre-date the implementation of the Atlas system. The Board is concerned that the extent of the errors could not be quantified and that the reconciliations that were investigated (as discussed below) would require a coordinated effort to investigate further, understand and resolve.

Table 3
Differences between the imprest balances and general ledger accounts
(United States dollars)

Country	*Project*	*Bank account type*	*Imprest balance*	*General ledger account*	*Difference*
Afghanistan	AFG/02/R71	United States dollar	118 331.76	7 719.26	110 612.50
Afghanistan[a]	AFG/00/016	United States dollar	158 526.00	(195 542.75)	354 068.75
Croatia	CRO/96/002	local currency	37 365.56	(99 540.15)	136 905.71
		United States dollar	47 529.00	181 276.29	(133 747.29)
Cyprus	CYP/98/001	local currency	798 855.00	341 616.32	457 238.68
		United States dollar	203 020.85	1 035 202.53	(832 181.68)
Iraq[a]		United States dollar	88 452.59	506 371.17	(417 918.58)
Kenya	SOM/92/001	local currency	61 142.15	(99 989.34)	161 131.49
		United States dollar	56 207.55	855 302.23	(799 094.68)
Kosovo	YUG/00/004	local currency	39 098.21	431 514.46	(392 416.25)
South Africa	SAF/98/R51	local currency	72 238.07	541 390.34	(469 152.27)
Switzerland	Geneva	Euro	1 242 593.52	1 372 160.54	(129 567.02)
Tajikistan	TAJ/95/002	local currency	9 424.84	1 942.00	7 482.84
		United States dollar	208 312.11	218 585.74	(10 273.63)
Yemen	YEM/01/003	local currency	46 233.51	(1 185.61)	47 419.12
		United States dollar	17 227.29	(6 802.00)	24 029.29
Democratic Republic of the Congo	ZAI/00/002	United States dollar	240 406.49	(56 785.13)	297 191.62
Total			**3 444 964.50**	**5 033 235.90**	**(1 588 271.40)**

[a] Includes sub-imprest accounts.

94. Only the differences for four accounts could be further analysed (partially) as follows:

(a) *Geneva project*. The difference can be partially attributed to expenditure of $119,693 that was not recorded in the general ledger account in March 2002. Project expenditure was understated by $119,693 and the country imprest account was overstated by the same amount. Also, an exchange loss of $5,018, incurred in October 2003, was recorded as a gain. The error resulted in an understatement of the gain/loss on the currency fluctuation account by $10,036 and a corresponding overstatement of the imprest account;

(b) *Kosovo project, YUG/00/004.* The difference could be attributed to timing, since $387,683 was recorded in the reconciliation in January 2004. Furthermore, there was a difference of $11,978 in the replenishment recorded in May 2003, where the general ledger reflected a replenishment of $241,777 while the recorded replenishment in the reconciliation is $253,755. A difference of $7,049 represents expenditure omitted, resulting in an understatement of expenditure and an overstatement of the cash and bank balances by the same amount. In addition, the resulting exchange gain of $4,169 in May 2003 was omitted, resulting in an understatement of the bank balance and the gain/loss on the currency fluctuation account;

(c) *Cyprus project, CYP/98/001.* An amount of $6,958,531 was received for project use, according to the reconciliation. However, the general ledger account shows $6,272,387, as the transaction was recorded in the local-currency equivalent. In addition, $1,453,514 was allocated to the country office cash account for the project, whereas the project document indicates that only $621,332 was received for project purposes;

(d) *Main Iraq account.* Bank charges of 1.5 per cent were levied on all funds replenished to Iraq. None of the bank charges totalling $372,911 were accounted for under the project expenditure accounts. This resulted in an understatement of project expenditure (and resulting project income) in respect of these Iraq projects, while the bank balance in the general ledger was overstated. A further difference of $415,276 was also identified, dating back to 2002, for which UNOPS could not provide a satisfactory explanation.

Inter-office voucher clearing accounts

95. The inter-office voucher account was used to record project expenses and advances relating to the imprest accounts, and the account is included in the net balance of $52.7 million due from UNDP. The Board could not determine whether reconciling items were valid, complete and accurate for the credit balance of $1.2 billion in the inter-office voucher account (in 2001 the figure was $767 million). The Board recognized that the balance of the inter-office clearing account should be netted against the other accounts making up the balance due to/due from UNDP. However, UNOPS was unable to provide the reconciliation for the inter-office voucher account, and the Board was therefore unable to express an opinion on the reasonableness thereof. This reconciliation is normally performed in Kuala Lumpur, and lack of appropriate resources may also have contributed to this result.

Inter-fund balances

96. The Board noted that regular reconciliations were not performed in respect of balances between the various United Nations entities. Details of the reconciling items for the inter-fund debtors or UNDP and UNFPA have not been provided, and the Board could not determine if reconciling items were valid, complete and accurate. UNDP reported the amount due to UNOPS as $0.023 million more than per UNOPS records, and UNFPA reported the amount due to UNOPS as $0.889 million less than per UNOPS records. While the Board acknowledges UNOPS efforts to resolve the difference, the matter remained unresolved.

Conclusion

97. The Board is seriously concerned about the breakdown in controls with regard to the imprest accounts. The regular reconciliation of bank account balances with the balances reflected in the financial records constitutes a key control in any financial system, failing which UNOPS has no assurance of the completeness, accuracy and validity of amounts processed and recorded in its bank accounts. The differences could not be quantified, and the accuracy of the balances for the imprest accounts could not be verified. Even in instances where the reconciliations had been performed, differences were noted that could not be explained or verified by UNOPS. UNOPS attributed the breakdown in controls to a serious lack of resources in Kuala Lumpur.

98. **UNOPS agreed with the Board's recommendation that it take immediate actions to (a) perform reconciliations for all imprest, inter-office voucher and inter-fund accounts, (b) investigate and resolve all reconciling items, (c) quantify the reconciling items and projections, (d) process the resulting adjustments, and (e) implement measures to prevent the occurrence of similar failures of controls, including to adequately train staff.**

99. UNOPS informed the Board that it had identified this recommendation as a top priority and that its implementation would be included in phase 1 of its "workout" plan.

12. Exceeding project budgets

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

101. The total amount by which project budgets were exceeded in 2003 was $20.4 million, involving 242 projects. This represented 13 per cent of the 1,905 active projects for 2003. Management Services Agreement projects account for $10.6 million of the excess, for which UNOPS confirms that an overrun of $2.1 million exists and that there was no budget available for the 2004 financial year.

102. UNOPS runs the risk that project funds spent in excess of approved budgets may not be recoverable. Given the financial situation of UNOPS, losses due to unauthorized expenditure may be difficult to absorb and could have severe cash-flow consequences. Furthermore, it would seem, on the basis of the large number of projects where budgets were exceeded, that project managers did not adhere to policies and procedures during the biennium. The monitoring controls surrounding project expenditure were not adequate to detect and monitor overspending, which may well lead to financial losses. The situation in 2004 could not be assessed by May 2004 because of the discontinuation of the use of the funds control system and the implementation of the Atlas system, which was not yet fully functional.

103. **UNOPS agreed with the Board's recommendation that it (a) take immediate steps to identify all excess expenditure, (b) solicit additional budget**

approvals from clients to cover excess expenditure, (c) report unfunded deficits and the impact on the financial position of UNOPS to the Management Coordination Committee and (d) evaluate controls with regard to project budgets as part of the Atlas business process analysis, to ensure that proper monthly reviews of project budgets and expenditure are completed.

104. UNOPS informed the Board that a structural solution to strengthening controls to ensure that project expenditure does not exceed project budgets without the written consent and agreement of its clients would be included in phases 2 and 3 of the "workout" plan.

13. Review of the financial statements

105. The General Assembly, pursuant to its resolution 55/220 A of 23 December 2000, requested the Secretary-General and executive heads of the funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes to the statements. The Board has thus reviewed the general presentation and disclosure of UNOPS financial statements for the biennium ended 31 December 2003.

106. The Board is of the view that the financial report and the financial statements should contain sufficient combined information to enable all the users thereof to have a good understanding of the operations and performance of the organization for the financial period under review. Users should be able to obtain this understanding without having to put pieces of information together themselves.

107. Due to the numerous reports required by the General Assembly and the Executive Board of UNOPS, the Board of Auditors is aware that in some instances the governance principles discussed below may be contained in documents issued as part of the usual reporting process (for example, the Executive Board papers that cover budget and staff information and the annual report of the Executive Director).

Financial report

108. In terms of governance principles and best practices, the following governance issues are normally reported on in a medium such as the financial report (chapter I) that precedes the financial statements:

(a) Governance and other regulatory bodies;

(b) Performance reporting and non-financial information;

(c) Social accounting issues;

(d) Risk management, continuity and internal control.

Governance and other regulatory bodies

109. In terms of its reporting structures, UNOPS reports to the General Assembly through its Executive Board. However, the financial report of UNOPS did not contain information about its Executive Board, Management Coordination Committee, internal code of ethics and conduct and enforcement thereof, or communication policy.

Performance reporting and non-financial information

110. The UNOPS financial report did not mention its performance in terms of organizational objectives and mandate. Also, non-financial information disclosures were not included. This could include information on the market in which UNOPS operates and how it competes to maintain market share in a competitive sector. This would be of value to the relevant stakeholders over and above the mandatory financial information disclosures.

Social accounting issues

111. Information on social accounting issues could be useful, and consideration should be given to the desirability of incorporating such information into UNOPS financial reports. Matters that could be addressed include:

(a) Environmental reporting;

(b) Employee and/or human resources reporting, such as an analysis of the composition of staff and of the skills of current staff compared with skills needed and details on future staff requirements including the continuity plan and rotation policy;

(c) Health and safety issues;

(d) Social reporting.

Risk management, continuity and internal control

112. The constant identification of risks and continuous development of systems and controls to address those risks is critical for most organizations, and especially for UNOPS, owing to its financial situation. As such, risk information disclosures are relevant to the needs of users of financial statements. Disclosures could deal with the measures in place to address financial risks, to safeguard assets and financial records and to ensure continuity in the event of a disaster. No such disclosures were included in the current and prior-period financial reports of UNOPS.

113. The UNOPS financial report provides a summary of the financial statements. However, no key indicators or ratios were included, such as the current ratio (current assets to current liabilities) and current liabilities as a percentage of total liabilities.

114. In addition, the financial report did not contain information on:

(a) The existence of a disaster management and recovery plan;

(b) Internal measures to manage risks, an internal code of ethics and conduct and enforcement thereof among employees;

(c) The internal audit function;

(d) Details of any oversight committee reviewing the work of internal auditors;

(e) Measures put in place to safeguard the integrity of management and financial information.

115. The provision and disclosure of any information would be subject to, inter alia, the benefits of providing the information being greater than the cost thereof, as well as its meeting the general qualitative characteristics of relevance, reliability, comparability and understandability as stated in the United Nations system accounting standards.

116. Following the Board's audit, UNOPS introduced a number of improvements to the presentation and disclosure of the financial statements.

117. **UNOPS agreed with the Board's recommendations that it (a) consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues; in this regard, UNOPS should revert to paragraph 6 of General Assembly resolution 57/278 A, since better disclosure would be a step towards taking a proactive approach to the review requested by the General Assembly; (b) continue to improve the presentation and disclosure of financial statements; and (c) disseminate any key improvements to other United Nations organizations.**

118. UNOPS informed the Board that an examination of its governance structure, principles and accountabilities would be conducted when it developed a new corporate and operating strategy as part of phase 1 of its "workout" plan.

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

119. UNOPS informed the Board that it had not written off any amount in the biennium 2002-2003.

15. Ex gratia payments

120. UNOPS informed the Board that there was one ex gratia payment of $1,234 during the biennium 2002-2003.

D. Management issues

1. Service level agreements

121. The Board recommended, in paragraph 87 of its previous report,[2] that the agreements between UNOPS and UNDP be finalized expeditiously, in order to regulate the central services received from UNDP, including the respective functions, responsibilities and cost structures between UNOPS and UNDP. As of May 2004, a draft "umbrella" memorandum of understanding had been compiled. However, service level agreements on the respective functions and responsibilities had not yet been prepared as of May 2004.

122. **UNOPS agreed with the Board's reiterated recommendation to expedite, in consultation with UNDP, the finalization of the memorandum of understanding to regulate the functions of central services provided by UNDP. Furthermore, UNOPS, in consultation with UNDP, should compile and finalize the service level agreements clearly setting out their respective functions and responsibilities.**

123. UNOPS informed the Board that clarifying its complex relationship with UNDP, however, includes more than simply drawing up and finalizing transfer

prices and service costs. This critical activity would be conducted as part of phases 2 and 3 of the "workout" plan.

124. UNOPS also entered into a memorandum of understanding with UNDP for the Atlas system wave 1 implementation on 26 June 2003. However, (a) the scope of the agreement was not clearly defined, (b) the costs were not clearly defined and (c) the contract states that UNOPS agrees to be fully responsible for costs incurred by UNDP as a result of its acts or omissions under the memorandum of understanding, or any failure of UNOPS to comply with the terms of the licence agreement. UNOPS could therefore incur unlimited costs due to consequential damages suffered by UNDP, regardless of the cause of any acts or omissions.

125. **UNOPS agreed with the Board's recommendation that it, in consultation with UNDP, ensure that the Atlas system (wave 2) implementation agreement with UNDP (a) clearly defines the scope of the agreement and cost structure and (b) limits its potential liability for consequential costs incurred by UNDP for which UNOPS is not directly responsible.**

2. Internal oversight reports

126. The Office of Audit and Performance Review of UNDP performed the internal oversight function for UNOPS under an outsourcing arrangement. The Board recommended, in paragraph 90 of its previous report,[2] that UNOPS provide for internal oversight coverage on financial procedures, controls and data.

127. During the biennium ended 31 December 2003, the Office of Audit and Performance Review completed a number of internal audits and investigations at UNOPS. The majority of these reports, however, focused on projects, and only four reports were on the head office. The Office of Audit and Performance Review did not perform any audits evaluating and reporting on the reliability of the accounting and other data developed by UNOPS for the production of its financial statements.

128. **UNOPS agreed with the Board's reiterated recommendation to arrange for internal oversight coverage on financial procedures, controls and data.**

3. Lease of office premises

129. An independent review was established following the previous audit of the Board of Auditors and at the request of the Executive Board. The independent review stated that UNOPS should "develop, in consultation and negotiation with the landlord, as required, a much more aggressive strategy either to sublease a substantial portion of the Chrysler premises for the long term or to break the Chrysler lease".[5] The Executive Director of UNOPS reported to the Executive Board in DP/2003/CRP.19 that the UNOPS Strategic Advisory Group for Organization Review would investigate and address the recommendation as one of its long-term objectives.

130. UNOPS incurred expenditure of $8.3 million for office premises, of which $2.3 million was recovered from rental income for office space sublet. During the biennium 2002-2003, UNOPS utilized on average 50 per cent of the office space leased and subleased a further 25 per cent. Owing to a clause in the lease agreement, UNOPS was not allowed to sublease more than 25 per cent of space leased, unless

[5] DP/2003/40, recommendation No. 27.

prior consent was obtained from the landlord. The Board, however, noted that as of May 2004 UNOPS had not entered into formal negotiations with the lessor regarding consent to exceed the 25 per cent limit on subleases.

131. The current lease expires on 30 September 2014. On the basis of the amount of unutilized space (25 per cent) and the current rental income, UNOPS may incur a loss of $19.8 million over the term of the lease if the unutilized space is not rented out. As of May 2004 UNOPS had also not developed a policy to manage the rental of the unutilized space.

132. **UNOPS agreed with the Board's recommendation that it (a) enter into formal negotiations with the lessor as soon as possible regarding consent to exceed the 25 per cent sublease limit, (b) develop a policy to manage the rental of the unutilized space and (c) perform a cost-benefit analysis of continuing with the current lease agreement.**

133. UNOPS informed the Board that better control and monitoring of rental space would be examined in phases 2 and 3 of the "workout" plan.

4. Information and communications technology

Information and communications technology strategy

134. An information and communications technology (ICT) strategy provides a road map of the ICT required to support and enhance the organizational direction, outlining the resources that are required for and the benefits that would be realized from the implementation of the plan. An ICT strategy should address, inter alia, the following:

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

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

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

(d) The purpose of the ICT environment;

(e) Services the ICT environment has to deliver;

(f) Facilities used by ICT;

(g) Resource requirements.

135. The last strategic plan covered the period 1994-1997. The lack of an information and communications technology strategy also has the effect that any ICT training undertaken may not be directed in the appropriate manner or direction. This was particularly relevant with the implementation of the Atlas system.

136. UNOPS had prepared a draft document entitled "Setting the stage for a global UNOPS information systems environment", the purpose of which was to lay the groundwork to enable UNOPS to succeed with the reorganization process. It was supposed to be the beginning of the formulation of an ICT strategy. The document focused on applications and information delivery environment, and not any of the hardware required in the process, which was addressed in a separate document. UNOPS expected that the new Chief Information Officer would finalize these two

draft documents and incorporate them into a comprehensive ICT strategy for UNOPS.

Information and communications technology component and reporting structure

137. UNOPS did not have a senior management steering committee for ICT matters. UNOPS hoped that with the appointment of the new senior management team a new information and communications technology committee would be formed.

Policies and compliance

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

Standards and best practices

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

140. **UNOPS agreed with the Board's recommendation that it (a) develop an ICT strategic plan, (b) consider creating an ICT steering function or committee and (c) consider the benefits of adopting international standards and best practices to be applied to its ICT environment.**

141. UNOPS informed the Board that it would be examining the entire application environment as part of phase 1 of the "workout" plan. Conducting an inventory of current UNOPS applications, technical platforms and information architectures and finalizing its future strategy are two necessary steps that would be conducted as part of phase 1 of the "workout" plan.

Enterprise resource planning system

Introduction

142. UNDP, in partnership with UNOPS and UNFPA, implemented a new enterprise resource planning system called Atlas, as noted above. Although UNDP was the leader on this project, UNOPS remains responsible for ensuring that the system provides for its needs. This implementation was meant to introduce new technology, streamlined processes and a changed environment for managing information across each of the organizations. The new system replaced the current "home-grown" "legacy" systems, creating an integrated environment, which is expected to make tools available to enhance the ability of UNOPS to manage finances, projects,

human resources and information. Wave 1 of the implementation has now been completed, the initial migration to the Atlas system having taken place in January 2004 at four field offices and headquarters.

143. The Board considered the enterprise resource planning system implementation to be a significant event subsequent to the balance sheet date. UNDP was the principal implementing partner and followed a fast-track methodology to implement the system. This required the planning and execution of the various phases to be done concurrently and means that the project runs a high risk of errors, omissions and possible failure. The level of risk increased as a result of the high number of "legacy" systems and country offices that would be consolidated and integrated into the project. The present report focuses on the implementation of the Atlas system by UNOPS; the Board's 2002-2003 report on UNDP provides more details on the process of acquiring and developing the system.

Data clean-up and conversion

144. Data-cleaning initiatives typically result in data that cannot be validated or explained, data having to be discarded and financial write-offs. The UNOPS data clean-up exercise had yet to be completed by May 2004. The Board is of the view that internal audit should review all data clean-up journals for validity and accuracy; this had not been completed by May 2004.

145. **UNOPS agreed with the Board's recommendation that UNOPS internal audit verify the validity and accuracy of journals posted as a result of the data-cleaning exercise.**

Information and communications technology training

146. At the time of the Board's pre-implementation review of the enterprise resource planning system, staff members could not be trained in the complete system. Many changes had taken place in the Atlas system since the initial training was provided during October and November 2003. This had a negative impact on the quality of learning and understanding of the system by staff members.

147. **UNOPS agreed with the Board's recommendation that it identify all changes in the Atlas system since the previous training and provide updated training to users on such changes.**

148. A three-tiered call centre approach was established to assist users as follows:

(a) Level 1 — high-level technical support;

(b) Level 2 — user functionality;

(c) Level 3 — business process support.

149. UNDP, through its service centres in New York, Kuala Lumpur, Bratislava and Panama, handles mostly the level-1 queries. A total of 8 (33 per cent) out of the 24 service centre staff were newly appointed to the United Nations system.

150. As of April 2004, the global service centre handled approximately 400 to 500 cases per week (UNFPA and UNDP queries are also included in these figures). A total of 8,640 cases had been logged since the operationalization of the Atlas system, of which 7,953 had been resolved and 687 remained open. As for other

services commented on by the Board in the present report, UNOPS also did not have service level agreements with the service centres.

151. **UNOPS agreed with the Board's recommendation that it, in consultation with UNDP and UNFPA, establish a service level agreement with the service centres, identifying minimum standard requirements regarding the number of cases handled and that the time taken to resolve problem cases should be established.**

152. UNOPS informed the Board that the implementation of this recommendation, however, might be deferred to 2005 or 2006, given the more urgent issues of control and processing documentation and financial information, its limited financial and human resources and management energy and focus constraints.

153. During its interim audit, the Board considered that UNOPS should formally document and thoroughly review and test its contingency plans in the event of the system not being able to be operationalized. Systems in place in UNDP were common to UNOPS as well. The UNDP disaster recovery plan was contained in the UNDP vendor hosting agreement. UNDP indicated that this contingency plan covers critical system failure. In addition, it was planning to have alternate connectivity access via dial-up at country offices where business units may from time to time access the system. However, there was no contingency plan to recover major functions in case of a failure of the Atlas system.

154. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, should expand its contingency measures to ensure the ability to continue to provide information-system processing capabilities in the event that the major facilities are not available for a significant period of time.**

155. UNOPS informed the Board that implementation of improved disaster recovery capabilities might be deferred until the 2005-2006 time frame.

Internal controls

156. The internal control framework relates to the extent to which the system adheres to the required control checks and balances, ensures data integrity and reliability and also safeguards the financial interests of UNOPS. The implementing partners adopted an approach to leverage the best-practice functionality in the Atlas system and, where possible, to adapt UNOPS business processes to the Atlas functionality. This approach usually results in business process changes as well as changes to the internal control environment.

157. Therefore, the Board performed a limited review of the internal controls operating within the Atlas system as at April 2004. This review included interviews with staff from the Comptroller's Office, various "super users", the Office of Audit and Performance Review, the Work Improvement Tools team and designated staff at UNOPS.

158. UNOPS customized the configurations of the Atlas system set out below, which have helped to improve the general controls in the system by requiring "workflow" at the requisition level, not just at the purchase order and voucher approval level, and by having only one vendor master file for the entire organization.

Pre- and post-implementation internal control framework review

159. At the time of the Board's interim audit in October 2003, internal control frameworks were not being developed. A consulting firm was appointed by UNDP to perform the Atlas system implementation internal control framework review in October 2003 (pre-implementation review) and March 2004 (post-implementation review). The agreement for the reviews specified that they would be performed within a total of 100 hours (40 hours for the initial review, 40 hours for a post-implementation review, 20 hours as a reserve) at an estimated total cost of $15,000.

160. The Board was concerned about perceptions regarding the independence and objectivity of the consulting firm conducting the post-implementation review, since it was the same firm that was implementing the Atlas system at UNOPS. However, the Board noted that the consultant who conducted the review was from the Audit Division of the firm and not directly involved in the Atlas system implementation activities. The Office of Audit and Performance Review and the Office of Information Systems and Technology indicated that discussions were being held with the other United Nations implementing partners on performing a comprehensive, independent, third-party post-implementation review of the Atlas system that would include the internal control framework as well. The Board considers the proper set-up and functioning of the built-in internal controls within the Atlas system to be critical, especially during the initial implementation phase.

161. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP and UNFPA, initiate an independent, comprehensive, post-implementation evaluation of the set-up and effectiveness of the built-in internal controls of the Atlas system as soon as possible.**

162. UNOPS informed the Board that this project would be part of the phase 1 activities. To meet its critical deadlines, and because UNOPS processes were not identical to those of the other agencies, however, this project might be conducted independently of UNDP and UNFPA.

Status of the internal control framework

163. By April 2004, the internal control framework for the procurement, accounts payable and human resource modules of the Atlas system had not been updated, although discussion papers were available. Internal control frameworks for other modules, such as those for projects, treasury, grants and the general ledger, still had to be developed.

164. The Board considers that the absence of an approved overall internal control framework covering all modules of the Atlas system could pose a significant risk to UNOPS. An internal control framework is the basis on which to ensure that adequate and appropriate controls are put in place to reduce the overall risk of an organization. UNOPS and the other implementing partners did have a draft internal control document, but it was under discussion as of May 2004.

165. **UNOPS agreed with the Board's recommendation that it compile, approve and disseminate to all staff an overall internal control framework that covers all modules of the Atlas system as a matter of priority.**

General ledger module

166. A general ledger provides for a consolidation of related accounts into main categories of balances. The UNOPS general ledger for expenditure was not operational as of May 2004. This has resulted in management not being able to ascertain what the results of the overall operations of UNOPS were as of May 2004, since aggregated information was not available.

167. The Board was informed that this was initially due to an error in the formula for exchange rate conversions between the dollar ledger accounts and the Euro ledger accounts, resulting in incorrect calculations. This has been rectified. However, the general ledger has not been activated, mainly since UNDP intended first to complete all the relevant interfaces as well as to load all opening balances.

168. All country office international staff and headquarters staff were being paid through IMIS. By May 2004, an interface between IMIS and the Atlas system had yet to be developed, although the release plan indicated that the IMIS payroll interface had been finalized, but had to be tested by the users, and that the target date for implementation was 1 May 2004.

169. **UNOPS agreed with the Board's recommendation that it, considering that it is responsible for its own general ledger, in conjunction with UNDP, intensify its efforts to resolve the limitations of the general ledger module as a matter of priority.**

170. UNOPS informed the Board that this project would be part of phase 1 of the "workout" plan.

Bank reconciliation

171. UNDP prepares bank reconciliations for UNOPS bank accounts as part of the treasury outsourcing arrangements. UNDP had not performed any bank reconciliations by May 2004 for the period January to April 2004. UNDP indicated that the reasons for not performing reconciliations between the bank statements and the general ledger, at headquarters level, were as follows:

(a) No postings were made to the general ledger module due to the problem mentioned in paragraphs 166 to 170 above;

(b) The bank reconciliation feature in the Atlas system was not operational;

(c) The limitation of the Atlas system to provide for only one consolidated bank account in the general ledger, as opposed to separate bank accounts, made it extremely difficult to match the reconciling items with the various bank statements.

172. UNDP was investigating changes to the Atlas system to allow separate bank reconciliations for each bank account. If these changes were not possible, another software package might have to be acquired, which would be interfaced with the Atlas system to enable UNDP to do separate bank reconciliations for each bank account.

173. **UNOPS agreed with the Board's recommendation that it (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.**

174. UNOPS informed the Board that the implementation of recommendation (a) above might not be completed until the 2005-2006 time frame.

Accounts payable module

175. The Board noted that it was possible for any person in UNOPS who had been assigned the right to create or approve vendors to change the approved payment voucher details on the Atlas system before the actual payment was made. The Atlas system allowed the editing of details on the "Remit to vendor" payment invoice page subsequent to the voucher being approved for payment. This included changes such as the name and the bank account details of the vendor. The Atlas system did not have controls to prevent changes to payee details. **The Board considered this to be a serious weakness that could result in fraud and potential losses to UNOPS.**

176. The Board noted that there were no compensating preventive manual controls to this effect in place. There was also no exception report available as a detective control to identify any changes being made to the approved payment vouchers.

177. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after a payment voucher has been approved.**

178. The Board noted that for payments split between two budget holders, it was necessary for only one of the budget holders to approve the payment. A budget holder could also edit the allocation of the payment amounts without the approval of the other budget holder. This creates a risk of misallocation of expenditure as well as the potential for unauthorized expenditure.

179. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, ensure that payments split between two or more budget holders are approved by both budget holders before payment takes place.**

Phasing out of the funds control system

180. The Board noted that the funds control system was phased out after the conversion process that transferred the information to the Atlas system. After the conversion process, Atlas was used to manage budget information. UNOPS transferred the applicable budgets for projects for 2004 onto Atlas. The funds control system required all figures to be rephased during the closing of the relevant financial year, which normally took place in May of the following year. During this process, any budget overruns from the previous year would be offset against the current year's budget.

181. The Board was concerned that, due to the numerous budget overruns on projects, as mentioned above, until the revised figures have been transferred to the Atlas system (which was planned for mid-2004), the funds shown for projects could exceed those actually available. This could lead to over-expenditure, which may not be recoverable.

182. **UNOPS agreed with the Board's recommendation that it institute alternate controls until the correct budgets are reflected in the Atlas system to manage project costs.**

Reports from the Atlas system

183. The number of monitoring and exception reports available from the Atlas system was limited. UNOPS established a timetable for the prioritization of the development of reports. However, the Board noted that five reports that were planned to be developed and in operation were not yet available by May 2004.

184. The Board considers the availability of timely reports from the Atlas system to be crucial for ensuring the effectiveness of monitoring controls at UNOPS. Exception and monitoring reports that could be used for internal audit purposes were not considered during the initial stages of development. It was only at a later stage that these types of reports were considered, resulting in their non-availability.

185. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception and monitoring reports.**

186. UNOPS informed the Board that this project would form part of phase 1 of the "workout" plan.

Audit trail

187. The Board noted that the audit trail functionality had not been activated on the Atlas system. This functionality would allow UNOPS to track all transactions processed on Atlas and isolate responsibility for specific transactions where fraud or errors are detected.

188. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, reconsider activating the audit trail function, taking into account the beneficial effect it will have on the operations of the Atlas system.**

Firewall

189. The recommended standards for the desktop and network environments and for connectivity indicated that all the offices should have an appropriate firewall as a minimum requirement. The Board noted that prescribed firewall security installation was not complete. The Office of Information Systems and Technology indicated that two vendors had been appointed to implement firewall security at country offices.

190. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, implement the firewall security at all country offices as per the recommended minimum standards for desktop and network environments.**

Required changes pursuant to the release plan

191. UNDP, UNFPA and UNOPS prepared a release plan reflecting planned changes to the Atlas system as at 23 April 2004. There were 166 planned changes, of which 18 were marked as critical priority and 96 as high priority, together representing more than 69 per cent of the planned changes.

192. The release plan addressed, inter alia, the following shortcomings pertaining to the Atlas system:

(a) The chart fields on an approved accounts payable voucher could be changed, while the voucher remained approved;

(b) There was insufficient control over voucher approval, as all purchase orders were pre-approved;

(c) The "three-way matching rules" were not working properly: vouchers passed the three-way matching, even when no receipts had been entered;

(d) Users could unpost a receivable that already had a payment applied to it;

(e) There were inconsistencies between the subsidiary ledgers in the control ledger, with the effect that it was possible to overspend budgeted amounts.

193. **UNOPS agrees with the Board's recommendation that it, in conjunction with UNDP, urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, especially those classified as critical.**

194. UNOPS informed the Board that this project would be part of phase 1 of the "workout" plan.

195. **UNOPS did not have an independently validated comprehensive internal control framework that would adequately mitigate its control risks. This weakness is compounded by the numerous related deficiencies that the Board has identified above. The Board is concerned that if the risks of these significant events after the balance sheet date are not addressed expeditiously, it could result in major operational difficulties for the organization.**

5. Change management

196. UNOPS financial regulation 114.21 requires a review by the Procurement Review and Advisory Committee for proposed contracts of any value that could reasonably lead to a series of related contracts worth $100,000 or more. The Board, however, noted that UNOPS did not comply with this regulation for the initial appointment of the change management consultants. As a result, the Procurement Review and Advisory Committee members stated that they could not recommend that the competitive bidding process preceding the retainer of the change management consultants in 2004 should be waived.

197. The consultants were initially appointed in August 2003, with a contract for $28,940, to assist the Executive Director with the development of the change management strategy and to support him in the development of various working sessions. Subsequently, in October 2003, the consultants were engaged on an urgent basis to assist with the reform process. The cost of this contract was $320,000.

198. The Procurement Review and Advisory Committee was requested in February 2004 to consider a waiver to the normal tendering process in order to again award a contract to the consultants, a retainer contract, for the period from 27 February 2004 to 30 June 2004 at a further cost of $250,000, which would result in the aggregate contract costs amounting to $598,940. The submitting division stated that the tendering process would not only delay the change process but also compromise the effectiveness of the ongoing change process, and that the knowledge previously gained by the consultant would be lost should there be a change in consultants.

199. The Board also noted that expenditure for consultants exceeded the budgeted figure by 49 per cent. Total expenditure for 2004 relating to change management was $938,456 as at April 2004; however, 68 per cent of this related to consultants. The new UNOPS change management team would first need to consider the

recommendations made by the strategic advisory teams before implementing any changes. The overspending of the budget for consultants may be an indicator that even if UNOPS did not overspend the overall budget, other critical areas may be neglected in order to finance these costs.

200. UNOPS informed the Board that the decision to appoint the consultants needed to be taken quickly and felt that it had received good value for money from the consultants, as they had "constantly underbilled the organization".

201. **UNOPS agreed with the Board's recommendation that it strictly comply with its procurement directives on engaging consultants.**

202. UNOPS identified six strategic advisory groups to review the findings of the independent review, on (a) vision and mission, (b) business acquisition, (c) pricing, (d) project management effectiveness, (e) organizational restructuring and (f) procurement. These groups were made up of volunteers, and most of the groups started working on their mandates in October 2003. Each strategic advisory team generated recommendations that would now have to be taken forward by the new management team. Cost-benefit analysis is an essential tool in the change management process. It helps form the basis of decisions as to whether a recommendation should be implemented or not. While it seemed as if the work done by these groups was comprehensive, they performed little cost-benefit analysis in support of their recommendations.

203. The Board was concerned that in the absence of a cost-benefit analysis, the management team would have to redo some or all of the work already completed by the strategic advisory groups. There is also the risk that the recommendations may not provide the best value-for-money solutions. The cost-benefit analysis would provide an indication of whether the change management budget would be adequate to implement all the advisory groups' recommendations.

204. **UNOPS agreed with the Board's recommendation that it perform a cost-benefit analysis for the recommendations made by the strategic advisory groups in order for the change management initiatives to be measured against a substantiated budget and to track the value generated by the change management process.**

205. UNOPS informed the Board that not all of the recommendations of the strategic advisory groups would be acted upon as part of the phase 1 initiatives. However, all projects, whether at the corporate or individual department level, would be scrutinized using business case and financial metrics to determine their nature and the extent of their added value prior to acceptance or implementation.

206. The Board reviewed staff training activities at UNOPS. The review was a diagnostic overview of training activities managed within the organization and the procedures and processes used in this regard.

207. UNOPS did not have a training plan. Due to budgetary constraints, during the biennium 2002-2003 all expenditure on training was kept to a bare minimum. UNOPS informed the Board that as soon as budget constraints were lifted, training would be prioritized again. However, the Board noted with concern that while the biennial support budget was kept to a bare minimum, no training cost could be identified in the approved change management budget of $8.4 million.

208. **UNOPS agreed with the Board's recommendation that it identify the organizational as well as individual training requirements with the aim of developing a training plan, backed by an adequate amount of resources.**

209. UNOPS informed the Board that it did not deem the development and rollout of an organization-wide training programme prudent in the near future. Depending on regulatory, legal and financial risk, focused training programmes aimed at key employees may be created and implemented as part of phase 1 of the "workout" plan.

6. Appointments of limited duration

210. The Board noted, during its review of appointments of limited duration contracts, that for 20 out of 50 files selected (40 per cent), the individuals involved had not signed the letter of appointment. The Board was concerned that UNOPS may have little legal recourse should it be necessary to take disciplinary steps against a staff member when the relationship and related requirements have not been formalized and agreed upon in writing. Letters of appointment for appointments of limited duration cover an appointment for a specific period. The Board noted that in 13 of 50 files selected (26 per cent), the latest appointment letter on file did not cover the specific period of appointment.

211. **UNOPS agreed with the Board's recommendation that it ensure that staff members sign the letter of appointment for all appointments of limited duration and that copies are kept in a central location for future reference.**

7. Cases of fraud and presumptive fraud

212. UNOPS informed the Board that there were no cases of fraud or presumptive fraud.

Fraud prevention strategy

213. UNOPS, in conjunction with UNDP and UNFPA, compiled a fraud prevention strategy, which included training staff on principles of fraud awareness by 2005, publishing a handbook on fraud prevention by 2005 and establishing a fraud hotline (no target date specified). The Board, however, noted that the strategy was pending approval as of May 2004. UNOPS, also in conjunction with UNDP and UNFPA, compiled a fraud policy statement, which was pending approval. UNOPS indicated that it expected to finalize the statement and issue it to staff by mid-2004.

214. **UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP and UNFPA, intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.**

215. The Board noted that the draft policy did not explicitly refer to UNOPS, and that there was no indication that the properly delegated authority within UNOPS would also formally approve the policy.

216. UNOPS has developed a draft internal document to address the actions to be taken against employees who have committed fraud. UNOPS planned to have this document approved by the end of 2004.

217. A fraud prevention policy is merely the first step in creating an organizational awareness of fraud prevention, which requires that the process be consultative and

transparent. The draft policy makes reference to the responsibilities assigned to managers to implement fraud prevention controls. As the draft policy has not been placed on the Intranet or circulated to managers and staff for comments, the level of acceptance on the part of staff may be lower than anticipated. There is also uncertainty as to how the policy would be enforced, considering that there is no training schedule to enable managers to identify and implement preventive and detective controls. Furthermore, the risk remains that inadequate attention might be given to these aspects within the broad scope of the implementation of enterprise resource planning, and the overall risk relating to the possibility of fraud has increased due to the problems experienced with the Atlas system.

218. **UNOPS agreed with the Board's recommendation that it (a) amend, in consultation with UNDP, the fraud prevention policy to include reference to UNOPS (or, alternatively, a separate addendum should be prepared for formal approval by UNOPS), (b) make the draft policy available for comment within UNOPS prior to finalization and (c) arrange for fraud investigations in areas where the risk of fraud is assessed to be high.**

E. Acknowledgement

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

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

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

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

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

Annex I

Status of implementation of recommendations of the Board of Auditors in its report for the biennium ended 31 December 2001[a]

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference in the present report*
Project income	para. 22	para. 26 para. 32		3	paras. 40-44 and 45-48
Administrative expenditure	para. 39			1	-
Budget revisions		para. 43		1	paras. 34-39
Operational reserve		para. 47		1	paras. 59-66
Unliquidated obligations		para. 49		1	paras. 67-71
Other income		para. 51		1	paras. 72-73
End-of-service liabilities	para. 53			1	paras. 74-77
Forecasts for 2002	para. 59 para. 62 para. 67 para. 73 para. 77			5	-
Junior Professional Officers			para. 79[b]	1	-
Service level agreements		para. 87		1	paras. 121-123
Internal oversight		para. 90		1	paras. 126-128
Information and communications technology		para. 92		1	paras. 134-136
Total	**7**	**10**	**1**	**18**	
Percentage	**39**	**55**	**6**	**100**	

[a] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5J* and corrigenda (A/57/5/Add.10 and Corr.1 and 2), chap. II.

[b] Overtaken by events.

Annex II

Actual income and expenditure compared with the budget for the period from 1999 to 2003

(Millions of United States dollars)

	1999			2000			2001			2002			2003		
	Budgeted/ forecast	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*	*Budgeted/ forecast*	*Actual*	*Difference*
Project delivery	550.0	559.9	9.9	590.0	471.1	(118.9)	616.0	504.7	(111.3)	503.2	485.1	(18.1)	484.4	490.5	6.1
Income															
From project portfolio	42.9	43.0	0.1	42.7	36.8	(5.9)	47.4	37.9	(9.5)	35.4	35.4	0	35.3	34.5	(0.8)
From services only	5.6	5.8	0.2	6.1	6.5	0.4	8.0	7.0	(1.0)	7.8	6.9	(0.9)	8.2	30.6	22.4
Other	2.6	3.1	0.5	2.8	5.2	2.4	1.4	2.3	0.9	1.1	1.4	0.3	1.0	1.1	0.1
Total income	**51.1**	**51.9**	**0.8**	**51.6**	**48.5**	**(3.1)**	**56.8**	**47.2**	**(9.6)**	**44.3**	**43.7**	**(0.6)**	**44.5**	**66.2**	**21.7**
Total recurring administrative expenditure	**48.1**	**47.4**	**0.7**	**51.6**	**52.3**	**(0.7)**	**55.3**	**52.8**	**2.5**	**44.0**	**43.5**	**(0.5)**	**44.5**	**44.3**	**0.2**
Net surplus (deficit)	**3.0**	**4.5**	**1.5**	**-**	**(3.8)**	**(3.8)**	**1.5**	**(5.6)**	**(7.1)**	**0.3**	**0.2**	**(0.1)**	**0**	**21.9**	**21.9**

Source: UNOPS.

Annex III

Analysis of project income

(United States dollars)

Income	*Project delivery 2002-2003*	*Project income 2002-2003*	*Project income 2000-2001*	*Increase (decrease) from 2000-2001*	*Percentage*
UNDP	185 577 380	16 785 609	26 692 641	(9 907 032)	(37)
Implementing agency (UNDP)	54 056 093	4 412 463	4 925 502	(513 039)	(10)
Trust funds (UNDP)	173 755 289	12 519 340	14 772 974	(2 253 634)	(15)
Management Service Agreements (UNDP)	245 612 317	16 510 359	15 149 610	1 360 749	9
Other United Nations organizations	316 690 262	19 718 004	13 077 841	6 640 163	51
Subtotal: project income	**975 691 341**	**69 945 775**	**74 618 568**	**(4 672 793)**	**(6)**
Service income		13 466 139	12 486 189	979 950	8
Advisory service income		24 021 806	1 166 839	22 854 967	1 959
Interest income		176 913	1 913 571	(1 736 658)	(91)
Miscellaneous income		2 345 028	2 257 960	87 068	4
Total	**975 691 341**	**109 955 661**	**92 443 127**	**17 512 534**	**19**

Source: UNOPS.

Annex IV

Prior-period financial parameters

	UNOPS financial parameters									Total operational reserve		
Year	*Administrative expenditure*	*Delivery*	*Average income rate (project portfolio) (percentage)*	*Portfolio income*	*Service income*	*Other income*	*Total income*	*Surplus (recurrent)*	*Non-recurrent expenditure*	*1 January opening balance*	*31 December closing balance*	*Required*
1996	33.6	430.8	7.3	31.6	3.2	3.4	38.2	4.6		13.0	17.6	6.8
1997	36.7	463.1	7.6	35.0	3.7	1.8	40.5	3.8		17.6	21.4	18.6
1998	42.0	537.8	8.1	43.5	4.1	2.5	50.1	8.1	1.5	21.4	29.5	20.0
1999	47.4	559.9	7.7	43.0	5.8	3.1	51.9	4.5	16.7	29.5	17.4	23.2
2000	52.3	471.1	7.8	36.8	6.5	5.2	48.5	-3.8	3.0	17.4	10.6	25.0
2001	52.8	504.7	7.5	37.9	7.0	2.3	47.2	-5.6		10.6	5.0	23.1
Total	**264.8**	**2 967.4**	**7.7**	**227.8**	**30.3**	**18.3**	**276.4**	**11.6**	**21.2**	**109.5**	**101.5**	**116.7**
Average	**44.1**	**494.6**	**7.7**	**38.0**	**5.1**	**3.1**	**46.1**	**1.9**	**3.5**	**18.3**	**16.9**	**19.5**

Source: UNOPS.

Chapter III
Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 and 2 and the supporting notes of the United Nations Office for Project Services (UNOPS) for the biennium ended 31 December 2003. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

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

UNOPS made use of 107 imprest and sub-imprest accounts amounting to $15.6 million as at 31 December 2003 ($3.2 million as at 31 December 2001). UNOPS had no assurance of the completeness, accuracy and validity of amounts processed through these imprest accounts and recorded in its financial statements. We noted material differences that could not be verified by UNOPS or reasonably explained. UNOPS relies on the United Nations Development Programme (UNDP) for the custody of its funds and disbursement of payments by making use of an inter-office voucher clearing account. The inter-office voucher clearing account is used to record all project expenses and advances relating to the imprest accounts. Accordingly, incomplete, inaccurate and invalid imprest account transactions would affect related income, expenditure, asset and liability balances. The inter-office voucher account is included in the amounts making up the inter-fund balance with UNDP, amounting to $52.7 million, for which unexplained differences of $0.023 million were noted. The inter-office voucher clearing account balance increased by $433 million, from $767 million as at 31 December 2001 to $1.2 billion as at 31 December 2003. UNOPS was unable to provide a reconciliation for the inter-office voucher account, which could have assisted in the performance of the imprest account reconciliations. While we noted that the unexplained difference with regard to funds receivable amounted to only $0.023 million, the fact that no reconciliation had been performed of the inter-office voucher clearing account and the increase in the balance of the account casts uncertainty on the accuracy and completeness of the accounts involved. Furthermore, there was an unexplained difference of $0.889 million with regard to funds receivable from the United Nations Population Fund. UNOPS records did not permit the application of alternative auditing procedures regarding the imprest accounts and related balances. Consequently, we did not obtain all the information and explanations we considered necessary to satisfy ourselves as to the accuracy and completeness of imprest account and related balances.

Due to the inaccuracy and incompleteness of the non-expendable equipment registers as well as the inadequate controls over these assets, we were unable to reach a conclusion on the accuracy of the balance of $10 million for non-expendable equipment, as disclosed in note 2 (C) (b) of the financial statements, as at 31 December 2003.

We could not determine the accuracy of the total staff separation costs amounting to $1.5 million. UNOPS could not provide adequate supporting documentation for an amount of $0.586 million relating to a sample of employees.

Because of the significance of the matters discussed above, we do not express an opinion on the financial statements.

We draw attention to the following issues, which would not have affected our ability to express an opinion on the financial statements:

(a) UNOPS commenced a reform process in 2003, the success of which is critical to its long-term viability, as disclosed in note 1 to the financial statements. Given the UNOPS financial position as at 31 December 2003 and the possible failure to meet its 2004 targets, UNOPS may not be able to fund in full any future deficit from the operational reserve. This situation may result in its having to significantly curtail the scale of its operations;

(b) UNOPS implemented a new enterprise resource planning system in January 2004. We are concerned about the control deficiencies and especially the lack of an independently validated internal control framework. The implementation after the balance sheet date is regarded as a significant risk to UNOPS operations.

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

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*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

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

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

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

Chapter IV
Financial statements for the biennium ended 31 December 2003

STATEMENT I

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2003, with comparative figures for the biennium ended 31 December 2001

(U.S. dollars)

2000 - 2001			2002 - 2003
	INCOME		
	Support costs and fees:		
26,692,641	UNDP - funded projects		16,785,609
4,925,502	UNOPS as Implementing Agency		4,412,463
13,077,841	Projects on behalf of other UN Organzations		19,718,004
14,772,974	Trust Funds projects		12,519,340
15,149,610	Management Services Agreements (MSAs)		16,510,359
74,618,568	Total support costs and fees	(note 3 & Sch. 1)	69,945,775
12,486,189	Service Income	(note 4)	13,466,139
1,166,839	Advisory Services Projects	(note 5)	24,021,806
1,913,571	Interest income		176,913
2,257,960	Miscellaneous income	(note 6)	2,345,028
92,443,127	**TOTAL INCOME**		109,955,661
	EXPENDITURE		
108,035,305	Administrative expenditures	(schedule 2)	93,041,119
108,035,305	**TOTAL EXPENDITURE**		93,041,119
(15,592,178)	**NET EXCESS OF INCOME OVER EXPENDITURE**		16,914,542
3,239,367	Savings on prior period obligations		1,208,596
17,381,765	**RESERVES AND ACCUMULATED UNEXPENDED RESOURCES 01 JANUARY**		5,028,954
5,028,954	**RESERVES AND FUND BALANCES 31 DECEMBER**	(statement II)	23,152,092

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

STATEMENT II

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of assets, liabilities, and reserves and unexpended resources as at 31 December 2003, with comparative figures as at 31 December 2001

(U.S. dollars)

2001			2003
	ASSETS		
3,277,767	Cash	(note 7)	15,566,215
10,596,233	*Investments*	(note 8)	4,416,887
13,874,000	Total Cash and Investments		19,983,102
199,887	Accrued interest		0
8,442,993	Accounts receivable and deferred charges	(note 9)	15,763,711
26,390,129	Due from UNDP	(note 10)	52,727,767
0	Due from UNFPA	(note 11)	3,739,400
35,033,009	Total Receivable and deferred charges		72,230,878
48,907,009	**Total Assets**		**92,213,980**
	LIABILITIES, RESERVES AND UNEXPENDED RESOURCES		
	LIABILITIES		
35,764,498	Accounts payable	(note 12)	39,052,862
8,113,557	Due to other UN Organizations	(note 13)	30,009,026
43,878,055	Total Liabilities		69,061,888
	Reserves and Accumulated Unexpended Resources		
10,610,738	Operational reserve	(note 14)	4,216,696
(5,581,784)	Transfer to/(from) Operational reserve		1,783,304
0	Accumulated Unexpended Resources		17,152,092
5,028,954	Total Reserves and Accumulated Unexpended Resources		23,152,092
48,907,009	**Total Liabilities, Reserves and Accumulated Unexpended Resources**		**92,213,980**

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

STATEMENT III

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of cash flows for the biennium ended 31 December 2003, with comparative figures for the biennium ended 31 December 2001

(U. S. dollars)

NET CASH FLOWS FROM OPERATING ACTIVITIES	2003	2001
Net excess of expenditure over income	16,914,542	(15,592,178)
Savings on prior period obligations	1,208,596	3,239,367
Interest income disclosed under " Investing Activities" below	(176,913)	(1,913,571)
Increase in account receivables	(7,320,718)	1,326,487
Add: Increase (decrease) in accounts payable	3,288,364	(8,232,827)
Net cash inflow from investing activities	13,913,871	(21,172,722)
NET CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES		
Interest income	176,913	1,913,571
Decrease in accrued interest	199,887	405,361
Decrease/(Increase) in due from UNDP	(30,077,038)	(9,940,197)
Increase/(Decrease) in due to other UN organizations	21,895,469	9,637,107
Net cash outflows from financing activities	(7,804,769)	2,015,842
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	6,109,102	(19,156,880)
CASH AND INVESTMENTS AS AT 01 JANUARY	13,874,000	33,030,880
CASH AND INVESTMENTS AS AT 31 DECEMBER	19,983,102	13,874,000

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

SCHEDULE 1

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Project expenditure and support costs and fees for the biennium ended 31 December 2003, with comparative figures for the biennium ended 31 December 2001

(U. S. dollars)

2000 - 2001				2002		2003				2002 - 2003
Project expenditure	Support costs and fees	Project expenditure and support costs and fees		Project expenditure	Support costs and fees	Disbursement	Unliquidated obligations	Total	Support costs and fees	Total project expenditure and support costs and fees
292,711,553	26,692,641	319,404,194	*UNDP Funded Projects*	106,410,032	9,713,197	58,026,114	21,141,234	79,167,348	7,072,412	202,362,989
			UNOPS as Implementing Agency							
45,012,178	4,217,556	49,229,734	UNDP funded projects	21,289,909	1,727,736	15,481,372	5,838,354	21,319,726	1,728,867	46,066,238
10,030,321	707,946	10,738,267	Trust Fund projects	7,228,965	562,912	1,841,122	2,376,371	4,217,493	392,948	12,402,318
55,042,499	4,925,502	59,968,001	Sub-total	28,518,874	2,290,648	17,322,494	8,214,725	25,537,219	2,121,815	58,468,556
192,032,067	13,077,841	205,109,908	*Projects on behalf of other UN Organizations*	119,412,239	7,513,431	170,435,572	26,842,451	197,278,023	12,204,573	336,408,266
			Trust Fund Projects							
54,569,029	4,365,522	58,934,551	Montreal Protocol	16,742,829	1,339,436	5,493,314	2,572,791	8,066,105	644,490	26,792,860
62,993,387	4,258,746	67,252,133	Global Environmental Facility	33,832,314	2,192,822	29,300,846	5,623,894	34,924,740	2,018,823	72,968,699
13,737,549	1,101,560	14,839,109	UN Capital Development Fund	4,263,797	368,636	996,789	630,165	1,626,954	130,247	6,389,634
61 830,449	5,047,146	66,877,595	Other Trust Funds	36,991,484	2,963,494	24,827,569	12,479,497	37,307,066	2,861,392	80,123,436
193,130,414	14,772,974	207,903,388	Sub-total	91,830,424	6,864,388	60,618,518	21,306,347	81,924,865	5,654,952	186,274,629
			Management Services Agreements (MSAs)							
153,864,467	7,053,637	160,918,104	Japan	84,321,956	4,689,178	36,625,034	8,203,312	44,828,346	3,230,109	137,069,589
15,379,282	1,132,199	16,511,481	World Bank Agreements	7,238,625	433,709	57,890	9,315,081	9,372,971	511,500	17,556,805
73,585,014	6,963,774	80,548,788	Other MSAs	47,374,014	3,889,322	36,878,465	15,597,940	52,476,405	3,756,541	107,496,282
242,828,763	15,149,610	257,978,373	Sub-total	138,934,595	9,012,209	73,561,389	33,116,333	106,677,722	7,498,150	262,122,676
975,745,296	74,618,568	1,050,363,864	*Project expenditure and support costs and fees*	485,106,164	35,393,873	379,964,087	110,621,089	490,585,176	34,551,902	1,045,637,116
	(statement I)				(statement I)				(statement I)	

SCHEDULE 2

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Administrative budget and expenditure
for the biennium ended 31 December 2003, with comparative figures
for the biennium ended 31 December 2001

(U.S. dollars)

2000 - 2001		2002 - 2003 (a)	2002	2003			2002 - 2003	2002 - 2003
Total expenditure	Description	Revised budget	Total expenditure	Disbursements	Unliquidated obligations	Total	Total expenditure	Unencumbered balance
	UNOPS administrative budget and expenditure							
48,781,426	*Salaries and wages*	43,047,000	21,863,989	20,013,563	693,893	20,707,456	42,571,445	475,555
17,905,356	*Common staff costs*	16,602,000	7,948,533	7,118,864	143,518	7,262,382	15,210,915	1,391,085
4,723,235	*Official travel*	2,453,000	1,167,217	1,117,625	91,551	1,209,176	2,376,393	76,607
2,497,926	*Contractual services*	1,302,000	559,494	579,996	175,142	755,138	1,314,632	(12,632)
13,566,246	*General operating expenses*	12,897,000	6,209,914	6,139,959	644,089	6,784,048	12,993,962	(96,962)
862,787	*Supplies*	493,000	242,545	183,985	2,886	186,872	429,417	63,583
1,271,917	*Furniture and equipment*	561,000	228,590	88,703	166,524	255,226	483,816	77,184
5,630,628	*Cost of services provided by UNDP country offices and other UN agencies*	4,055,000	2,245,032	1,081,848	688,173	1,770,021	4,015,053	39,947
8,700,107	*Cost of central services*	6,570,000	3,129,511	4,739,785	603,780	5,343,565	8,473,076	(1,903,076)
103,939,628	***Subtotal***	87,980,000	43,594,825	41,064,328	3,209,557	44,273,885	87,868,710	111,291
3,006,338	*Information systems project*	0	0	0	0	0	0	0
0	*ERP system investment cost*	700,000	0	582,781	2,491,539	3,074,320	3,074,320	(2,374,320)
3,006,338	***Subtotal***	700,000	0	582,781	2,491,539	3,074,320	3,074,320	(2,374,320)
0	*Provision fo Doubtful Accounts*	557,000	557,196	0	0	0	557,196	(196)
0	*Costs of Staff Separation Entitlements*	1,416,000	1,116,276	376,802	3,111	379,913	1,496,189	(80,189)
1,089,339	*Host Government contributions and expenditure*	0	(68,391)	113,095	0	113,095	44,704	(44,704)
1,089,339	***Subtotal***	1,973,000	1,605,081	489,897	3,111	493,008	2,098,089	(125,089)
108,035,305	*GRAND TOTAL*	90,653,000	45,199,906	42,137,006	5,704,207	47,841,213	93,041,119	(2,388,119)
(statement I)							(statement I)	

(a) As per DP/2003/38.

Notes to the financial statements

Note 1
Objective of the United Nations Office for Project Services

(a) UNOPS serves its clients while upholding the impartiality and fairness embodied in the Charter of the United Nations. The objective of UNOPS is to provide high-quality, timely and cost-effective services for the successful implementation of projects undertaken by States Members of the United Nations. UNOPS offers a broad range of services, which include:

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

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

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

(iv) Management services for multilateral, bilateral and beneficiary-financed projects.

(b) To provide these services in accordance with its self-financing status, UNOPS matches administrative expenditure to actual revenue. Therefore, the objective of UNOPS is to considerably upgrade its business planning forecasting capacity and to apply basic corporate metrics to both the revenue and expenditure side of the business model.

(c) UNOPS will undertake a more rigorous review of income and expenditure data available, adopting a conservative approach for income/expenditure forecasting. A "rolling plan" will be used to match expenditure to revenue on a periodic basis by assessing continuously factors affecting both expenditure and revenue. Expected revenue-generating activities not yet finalized are, therefore, excluded from projections, while the average fee rate will be revised to reflect the actual average fee rate earned during the first four months of 2004.

(d) New business opportunities, only possible with the expansion of the UNOPS mandate to include direct cooperation with Bretton Woods institutions and regional and subregional development institutions, are contributing to projected revenue, for example World Bank funded projects in Afghanistan. At the same time, planned expenditures authorized under the approved administrative budget are adjusted to match any change in revenue, as well as any cost shifts affecting the level of overall expenditure. Such adjustments reflect the current financial situation and certain approved and planned expenditures could be reduced or deferred as necessary.

(e) Critical to the viability of UNOPS is the reform commenced in 2003. Elements of the reform that have already been implemented are expected to improve immediately the management of UNOPS and its resources. The new management team has been selected and improvements to financial management systems are contributing to greater accuracy in budgeting and monitoring. UNOPS management is committed to strengthening the organization's margin management, revenue and expenditure forecasting and performance management capabilities.

Note 2
Summary of significant accounting policies

(a) The financial statements of UNOPS, in all material aspects, are prepared in accordance with the United Nations system accounting standards.

(b) As required by its Financial Regulations, UNOPS maintains the following accounts:

(i) The UNOPS account, to which UNOPS credits all of the income derived from its services and against which all operational costs of UNOPS are charged;

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

(c) The financial statements reflect the application of the following significant accounting policies:

(i) Financial policies applicable to the UNOPS account

a. Income. All income is accounted for on an accrual basis.

b. Expenditure. All expenditure is accounted for on an accrual basis, except for that relating to staff entitlements, which are accounted for on the basis of cash disbursements only. Expenditures chargeable to the UNOPS account are related to the UNOPS administrative budget, as approved by the Executive Board, and are incurred provided sufficient amounts are available in the UNOPS income account for the self-financing principle to be maintained.

(ii) Financial policies applicable to the special accounts

a. Project expenditure is accounted for on an accrual basis and is incurred following authorization of the funding source in the form of project budgets. The expenditure, plus the support costs and fees charged by UNOPS, is reported to the funding sources so that they can incorporate such expenditure in their records and financial statements. Project expenditures include unliquidated obligations raised in accordance with the following criteria:

Experts and other project personnel. Costs relating to the period of contractual service falling within the current year;

Travel on official business. Costs of travel taking place in the current period and travel which commences before the end of the current year but extends into the next year;

Subcontracts. Payments falling due in the current year according to the terms of the contract or payment schedule;

Fellowships. Cost of the fellowship from the anticipated date of commencement of study or the start of the current year to completion of study or the end of the current year, whichever is earlier;

Group training. The full cost of any training activity held in the current year or beginning in the current year and ending in the next year;

Equipment. The full cost of a contractual agreement or firm order placed with the supplier prior to the end of the current year, up to the amount provided in the current year's budget;

Miscellaneous. Costs incurred for hospitality, reports and other ad hoc items. Certain flexibility provisions may be applied to expenditure incurred under UNDP-funded projects. In any given year, expenditure may exceed an approved project budget for that year by $20,000 or 4 per cent of the year's budget, whichever is greater, provided overall over-expenditures incurred on the programme for that year do not exceed 2 per cent of the total allocated by the United Nations Development Programme (UNDP) to UNOPS for the year.

(iii) Financial policies applicable to all accounts

a. Exchange rates. For the purposes of accounting for assets, liabilities and the maintenance of other financial records, other currencies are translated into United States dollars at the United Nations operational rate of exchange in effect on the date of the report or transaction.

For 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. This procedure was agreed upon with the UNDP Treasury Division, based on the ability of UNDP to enter into hedging arrangements in order to protect against significant fluctuations in exchange rates that might occur between the date of obligation and the date of payment. Any difference between the amount recorded when the purchase order was issued and the payment of such obligation is transferred to UNDP as gains or losses on exchange. These gains or losses are effectively offset by opposite gains or losses booked as a result of having held the currency in UNDP accounts over the period. For the biennium ended 31 December 2003, the total of such differences amounted to the equivalent of $1,147,678.

b. Capital expenditures. The full cost of non-expendable equipment is charged to the project accounts or the UNOPS accounts as appropriate in the year in which it is purchased. Items considered non-expendable equipment are purchases of equipment valued at $500 or more per unit with a serviceable life of at least five years, for which formal inventory records are maintained. The inventory held at UNOPS headquarters and decentralized offices as of 31 December 2002 based on acquisition costs was $6,634,432 and $3,045,238 respectively. For the biennium ended 31 December 2003, the inventory at UNOPS headquarters amounted to $6,860,437, and $3,143,423 for UNOPS decentralized offices. These capitalized inventories are not amortized or depreciated.

Note 3
Support costs and management service agreement fees

Most of the income that UNOPS earns derives from project implementation services. Depending on the funding source of the project, UNOPS services are compensated with either support costs or management fees.

(i) *Support costs*

Statement I shows that for the biennium ended 31 December 2003, UNOPS earned a total of $21,198,072 for implementing UNDP-funded projects ($16,785,609 as executing agency and $4,412,463 as implementing agency).

The item "Projects on behalf of other United Nations organizations" in the amount of $19,718,004 represents support costs earnings from United Nations system clients including the Department of Peacekeeping Operations, the Office of the Iraq Programme, the Office of the High Commissioner for Human Rights, the Joint United Nations Programme on HIV/AIDS, the Office of the United Nations High Commissioner for Refugees, the United Nations Children's Fund, the United Nations Office on Drugs and Crime (UNODC) and others.

Statement I also shows that for the biennium ended 31 December 2003, UNOPS earned $12,519,340 for implementing projects funded by UNDP-administered trust funds.

(ii) *Management fees*

UNOPS earns management fees for implementing projects under management service agreements, which are agreed upon with its clients and which vary according to the complexity of the services provided. Statement I shows that, for the biennium ended 31 December 2003, $16,510,359 was earned from such fees.

Note 4
Service income

UNOPS earns fees from services it provides to the International Fund for Agricultural Development (IFAD), the Global Fund to Fight Aids, Tuberculosis and Malaria and the Programme of Assistance to the Palestinian People. Statement I shows that, for the biennium ended 31 December 2003, UNOPS earned $13,466,139.

Note 5
Advisory and reimbursable services projects

UNOPS began implementing advisory and reimbursable services projects wherein it earns service fees. During the biennium ended 31 December 2003, advisory services were provided to the Asian Development Bank, the Intergovernmental Authority on Development, UNDP, the Food and Agriculture Organization of the United Nations (FAO), IFAD, the United Nations Population Fund (UNFPA) and the Office of the Iraq Programme. Statement I shows that for the biennium ended 31 December 2003, UNOPS earned $24,021,806.

Note 6
Miscellaneous income

For the biennium ended 31 December 2003, the amount of $2,345,028 shown in statement I represents the following:

Rental income	1 628 189
Reimbursement of procurement and other ad hoc management services	523 859
Resources provided by the Governments of Austria and Switzerland to defray costs of establishing offices	44 704
Other miscellaneous income	148 276
Total	**2 345 028**

Note 7
Cash

The amount of $15,566,215 reported in statement II represents balances of project imprest accounts advanced by UNDP and cash received for various UNOPS contractual arrangements with other United Nations agencies and maintained by UNOPS at project sites and with the UNDP Treasury Division. Except for petty cash of $1,000, UNOPS does not handle any other cash directly. Funds received from all sources for UNOPS-executed projects are paid to UNDP and UNOPS makes disbursements through the UNDP Treasury Division or UNDP country offices. The breakdown of the above-mentioned amount as compared to the year ended 31 December 2001 is:

	2003	*2001*
Convertible — United States dollars	10 942 731	114 528
Convertible — non-United States dollars	4 587 688	3 160 415
Non-convertible — currency	35 796	2 824
Total (United States dollars)	**15 566 215**	**3 277 767**

Note 8
Investments

The total UNOPS investments of $4,416,887 as of 31 December 2003 as reported in statement II has been invested in time deposit.

Note 9
Accounts receivable and deferred charges

The amount of $15,763,711 reported in statement II for the year ended 31 December 2003, as compared to the amount for the year ended 31 December 2001, consists of:

	2003	2001
Inter-agency expenditures pending clearance	230 643	508 587
Accounts receivable from other United Nations agencies on Reimbursable Service Agreement	9 101 309	0
Accounts receivable for staff on mission or on loan to other United Nations organizations	2 317 596	0
Advances from UNDP Travel Unit on cost of shipment, and education grant advances	2 119 743	2 716 522
Accounts receivable from project implementation funded by the United Nations Office on Drugs and Crime (UNODC)	1 092 654	4 976 808
Rental receivable	141 833	0
Deferred charges	759 933	241 076
Total	**15 763 711**	**8 442 993**

Note 10
Due from the United Nations Development Programme

As of 31 December 2003, the net amount of $52,727,767 reported in statement II represents the inter-fund balance between UNDP and UNOPS. The amount is due from UNDP mainly because, not having a separate treasury function, UNOPS relies on UNDP central services for the custody of its funds and disbursement of its payments.

Note 11
Due from the United Nations Population Fund

As of 31 December 2003, seven projects are executed by UNOPS on behalf of UNFPA. Funding from UNFPA is channelled through the UNDP Treasury Division. The amount of $3,739,400 reported in statement II represents the inter-fund balance between UNFPA and UNOPS.

Note 12
Accounts payable and deferred income

The amount of $39,052,862 reported in statement II consists of the following:

	2003	2001
Unliquidated obligations — UNODC projects	1 867 250	2 465 394
Unliquidated obligations — other United Nations agencies	25 511 754	20 533 297
Unliquidated obligations — IFAD projects	73 948	1 008 646
Unliquidated obligations — UNOPS accounts	6 586 368	7 337 452
Total unliquidated obligations	**34 039 320**	**31 344 789**
Deferred payable on the medical insurance premium, repatriation grant and other items	353 660	299 096
Deferred income	272 675	0
Miscellaneous accounts payable	4 387 207	4 120 613
Total accounts payable	**39 052 862**	**35 764 498**

Note 13
Amounts due to other United Nations organizations

As of 31 December 2003, there are 370 active projects for more than 30 agencies. The project agreements specify an advance payment and subsequent progress payments; the reported balance of $30,009,026 represents interest earned of $570,118 and the unencumbered fund balance of $29,438,908 available for the year ended 31 December 2003, in excess of project expenditures and support costs. For comparison purposes, $8,113,557 represents interest earned of $2,870,698 and the unencumbered fund balance of $5,242,859 available for the year ended 31 December 2001, in excess of project expenditures and support costs.

Note 14
Operational reserve

The Executive Board at its second regular session in 2001 approved the proposal "to change the basis for the calculation of the level of the operational reserve of the United Nations Office for Project Services at 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years". The rolling average of the combined administrative and project expenditures for the three previous years amounted to $538,028,890; 4 per cent of this figure is $21,521,156. The combined operational reserve and fund balance for the year ended 31 December 2003 amounted to $23,152,092, compared to the balance for the year ended 31 December 2001 of $5,028,954.

Note 15
Host Government contributions

Upon the establishment of UNOPS offices in Geneva and Vienna, the following contributions were provided by the Governments of Switzerland and Austria to defray the costs of relocation, office furniture and equipment, and communication and computer systems for the respective office.

In cash

	Switzerland	*Austria*	*Total*
Opening balance 1 January 2002	0	0	0
Add: Funds received	204 290	0	204 290
Less: Expenditure	113 095	(68 391)	44 704
Ending balance 31 December 2003	**91 195**	**68 391**	**159 586**

In kind

The estimated market value for office accommodation for the year ended 31 December 2003 provided by the Government of Denmark for the UNOPS office in Copenhagen amounted to $450,000. The estimated market value for office accommodation provided by the Government of Côte d'Ivoire for the UNOPS Africa II Division for the period January-June 2003 amounted to $40,000. UNOPS Africa II Division moved to Dakar, in the second half of 2003. For comparison purposes, the estimated market value for office accommodation provided by the

Government of Côte d'Ivoire to the UNOPS Africa II Division for the year ended 31 December 2001 amounted to $42,000.

Note 16
Reimbursement to UNDP country offices and other United Nations agencies

For the year ended 31 December 2003, UNOPS reimbursed $1,770,021 for the cost of project implementation services provided on its behalf: $1,640,209 related to UNDP country offices and $129,812 to other United Nations agencies. For the year ended 31 December 2001, UNOPS reimbursed $2,690,783 for the costs of services provided on its behalf: $2,272,930 to UNDP country offices and $417,853 to other United Nations agencies.

Note 17
Cost of central support services

Central services costs include United Nations charges for services provided to UNOPS as well as reimbursement to UNDP headquarters for central support services. UNDP services provided were in the areas of finance, personnel, audit and information system. The total costs of central support services for the year ended 31 December 2003 amounted to $5,343,565, of which $1,796,138 pertains to the United Nations and $3,547,427 to UNDP. For the year ended 31 December 2001, the total costs amounted to $4,249,915, of which $1,705,215 pertains to the United Nations and $2,544,700 to UNDP.

Note 18
Ex gratia payments and write-offs of cash and receivables

One ex gratia payment in the amount of $1,234 was recorded and no write-offs were made during the biennium ended 31 December 2003.

Note 19
Contingent financial liabilities

The United Nations Office for Project Services has not specifically accrued after-service health insurance costs or liabilities for other types of end-of-service benefits, which will be owed when staff members leave the organization. The disbursements incurred in the financial period when staff members separate are reported as current expenditures. An actuarial study and report on the UNOPS liability for post-retirement medical and dental benefits for staff has been completed and the estimated net was $37.6 million as of 31 December 2003. Estimated contingent liability for unconsumed accrued annual leave balances amounted to $2.1 million. UNOPS is currently reviewing possible funding options.

Note 20
United Nations Joint Staff Pension Fund

UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefit. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the United Nations Joint Staff Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the value date. At the time of this report, the United Nations General Assembly has not invoked this provision.

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