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United Nations Office for Project Services

Financial report and audited financial statements

for the year ended 31 December 2014 and

Report of the Board of Auditors

United Nations • New York, 2015

Note

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

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Contents

Letters of transmittal

Letter dated 9 April 2015 from the Executive Director and the Chief Financial Officer and Comptroller of the United Nations Office for Project Services addressed to the Chair of the Board of Auditors

The United Nations Office for Project Services (UNOPS) hereby submits its annual financial statements for the year ended 31 December 2014.

We acknowledge that:

- The management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on the management's best estimates and judgements.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNOPS internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- The management provided the Board of Auditors and UNOPS internal auditors with full and free access to all accounting and financial records.
- The recommendations of the Board of Auditors and the UNOPS internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

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

(*Signed*) Grete **Faremo**
Executive Director

(*Signed*) Kim **Fikry**
Chief Financial Officer and Comptroller

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Office for Project Services for the year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2014, which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flow (statement IV), the statement of comparison of budget and actual amounts (statement V) and the notes to the financial statements.

Responsibility of management for the financial statements

The Executive Director is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

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

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

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Chapter II

Long-form report of the Board of Auditors

Key facts concerning United Nations Office for Project Services activity in 2014

765	Average number of active projects, across 80 countries
$1.29 billion	Overall project services provided, $666.0 million as the principal and $619.6 million delivered on behalf of other organizations, 57 per cent within the United Nations system
$78.5 million	Operational reserves at 31 December 2014
$258 million	Personnel costs (equivalent to 39 per cent of total expenses)
5,619	UNOPS personnel, of which 845 employed under United Nations staff rules and regulations and most of the others on the basis of procurement through individual contractor agreements, at 31 December 2014

Summary

1. The Board of Auditors audited the financial statements and reviewed UNOPS operations for the year ended 31 December 2014 in accordance with General Assembly resolution 74 (I). The audit was carried out by examining financial transactions and operations at UNOPS headquarters in Copenhagen. Field operations in Bangkok, Belgrade, New York and Yangon were visited in connection with the audit. Project delivery by these offices totalled $451.2 million in 2014, or approximately 35 per cent of UNOPS total delivery.

Audit opinion

2. The Board issued an unmodified audit opinion on the financial statement of UNOPS for the year ended 31 December 2014. The Board's opinion is set out in chapter I of the present report.

Overall conclusion

3. UNOPS continues to deliver in an increasingly challenging environment as it begins implementation of the strategic plan for the period 2014-2017. Progress has been made in setting the strategic aims of the organization, but the findings of the Board have identified the need for these strategies to be translated into plans at an operational level. More detail is required to understand management plans for the utilization of reserves, which continue to be significant, and for achieving consistency in the pricing of its services. The delivery of the new enterprise resource planning system will be a central element in improving processes and tracking cost information; given the critical nature of the system, management should ensure that the system is suitably assured before its implementation and that the benefits can be clearly tracked to assess delivery of the project objectives.

4. The Board has also highlighted the need to build on recent developments to ensure a more strategic approach to human resources management to help achieve greater efficiencies in the business, through shared services and to address high personnel turnover rates. UNOPS also needs to develop a longer-term approach to workforce planning so as to address the future demands of its business and imbalances in its workforce. Given the importance of human resources to the business, the proposed changes need to be clearly articulated within a human resources strategy, linked to the delivery of the UNOPS objectives. A renewed commitment to implementing a systematic risk-management framework will offer further opportunity to assess threats to the achievement of strategic objectives.

Key findings

Financial management and performance

5. **The overall financial health of UNOPS remains strong and its financial reporting is sound.** Although current liabilities exceed current assets, UNOPS has sufficient financial resources to meet its total liabilities, with a strong pipeline of funded project activity for future years.

6. **UNOPS continues to deliver an overall surplus, exceeding the minimum reserve level and budget projections for the biennium, but there is currently no clear strategy in place to manage the accumulated surplus.** A surplus of $9.9 million was achieved in 2014, bringing accumulated reserves at 31 December 2014 to $78.5 million. While UNOPS management has outlined a commitment to use this reserve for future projects supporting its goals, no firm plans have been established to achieve this. A clear strategy is needed to utilize reserves through reinvesting in the organization so as to drive efficiency and quality improvement or by reducing charges to partners and donors or a mix of the two.

7. **The surpluses generated on the different activities and operations conducted by UNOPS vary considerably. The new pricing model has established differential overhead rates, but the Board still considers these lack transparency and that reporting on project costs can be further developed.** Management has stressed the need to consider project costs carefully and to undertake a process to approve projects that might under recover the costs. However, there remains inconsistency in the pricing regime and in the application of management and overhead charges. As requested by the Advisory Committee on Administrative and Budgetary Questions, the Board reviewed UNOPS support to the United Nations Mine Action Service of the Department of Peacekeeping Operations of the Secretariat. The analysis of the Board showed that the UNOPS management fee to cover indirect charges totalled $10.5 million (5.0 per cent of the overall project cost), in accordance with the memorandum of understanding. The Board's analysis also identified central and local directly attributable support costs of $2.4 million and $5.8 million respectively, also in accordance with the memorandum of understanding. The directly attributable support costs and the UNOPS management fee therefore totalled $18.7 million (9.3 per cent).

8. The Board also identified significant differences in management charges applied to the provision of human resources services under existing contracts with partners (predating the new pricing model) of between 4.6 per cent and 8.1 per cent of the partners' total payroll expenses. These charges have led to a 38 per cent surplus margin on these activities. The charges were based on payroll values rather

than the number of staff engaged, which would represent a better measure of the costs incurred. Further progress needs to be made in terms of ensuring that project activity is sustainable and that projects are not being cross-subsidized in order to deliver on the objectives of the strategic plan.

Implementation of the new enterprise resource planning system

9. **The business innovation and improvement programme is intended to transform UNOPS internal business systems into a smarter, more agile and better-integrated set of processes.** UNOPS is developing its own Agresso-based enterprise resource planning solution, scheduled to replace the United Nations Development Programme (UNDP)-delivered Atlas system in January 2016 as part of the first phase of the business innovation and improvement programme.

10. **Deployment of the project has been delayed by one year to allow for additional testing. There has been no impact on the overall project budget, but potential benefits were not fully explored until after development commenced and a formal review of the internal control framework had not been completed.** Given the additional complexities identified and the need to complete user-acceptance testing, there is a need to ensure robust and independent assurance before the system goes live. Furthermore, it is vital for management to gather baseline information on process costs to ensure it can measure system benefits after implementation. The Board found limited evidence at the present time that management had fully embraced the opportunity to improve existing processes prior to development starting and that a formal internal control framework had yet to be completed.

Human resources management

11. **Excellence in personnel management is critical to the ongoing success of UNOPS.** Staff and non-staff personnel account for 39 per cent of UNOPS costs and organizational performance is closely linked to how well UNOPS recruits, develops and deploys those people. The UNOPS workforce of 5,619 people includes a high proportion (82 per cent) of non-staff personnel contracted with an individual contractor agreement. That contract modality helps to reduce UNOPS costs and provides flexibility for project implementation, both of which can benefit UNOPS partners; but it also brings risks, for example from loss of knowledge associated with the high turnover that UNOPS experiences. In addition, women are underrepresented in UNOPS and women and national staff are particularly underrepresented at senior management level.

12. **Workforce planning in UNOPS has been characterized more by tactical decision making than by strategic, longer-term planning.** UNOPS is an agile organization with a self-funding model that by necessity requires it to respond quickly to the needs of its partners and high versatility in demand for its services. To ensure ongoing success, UNOPS recognizes that it needs to be better prepared to meet future human resources challenges. A key part of this will be getting better information on the skills it will need in the future and developing plans for filling the gap between the skills it needs and the skills it has available.

13. **In other respects, the human resources function within UNOPS is taking a more strategic role, although the formal human resources strategy to support this has not yet been finalized.** Recognizing the importance of human resources

management, in 2014 UNOPS repositioned its human resources function within the business so as to provide better support to its delivery practices (project management, procurement and infrastructure) and field offices, as well as to achieve efficiencies through shared services. While recent changes such as the centralization of some aspects of advisory and transactional support have generally been well received within UNOPS, it is too early to say whether these developments will deliver substantive improvements through faster and more efficient business processes which would also benefit UNOPS partners.

Risk management

14. **UNOPS has made slow progress in developing systematic risk-management processes, but a clear plan is now in place.** Following the appointment of the Executive Director in 2014, UNOPS has committed to a phased plan to embed a framework for systematic risk-management processes by March 2017, with recruitment of dedicated staff and external consultants to support effective implementation. The Board continues to urge that a strategic risk register be created to demonstrate progress and secure benefits early in this process.

15. **Good practice is emerging from the management of infrastructure risk.** UNOPS has developed a new approach which identifies project risks at the regional and field-office levels, reporting these through yearly business plans and quarterly assurance processes, escalating the most significant risks up to the Deputy Executive Director and the Executive Director.

16. **Progress is being made in assessing and managing infrastructure risk in response to historic design failures.** Following a number of failed construction projects, resulting in $5.4 million of provision costs, UNOPS is performing a review of high-risk construction projects and has established improved quality mechanisms, including external quality assurance processes for medium- and high-risk projects.

Previous recommendations

17. As at 31 March 2015, of the 32 recommendations outstanding for 2013 and previous years, 10 recommendations (31 per cent) had been implemented, 18 recommendations (56 per cent) remained under implementation and four (13 per cent) had not been implemented. Annex II to the present chapter contains a detailed commentary on the status of implementation of previous recommendations. The Board has noted in particular the lack of progress in implementing recommendations to improve processes to prevent and detect fraud.

18. **While the detailed recommendations are set out in the present report, in summary, the Board recommends that UNOPS:**

(a) **Review its operational reserve policy and, with the approval of its Executive Board, establish plans for the use of surplus reserve balances (reiterated from 2013) and establish a target reserve to achieve this;**

(b) **Improve the transparency and equity of its charging mechanisms to establish transactional fees for common services provided to partners, based on actual cost drivers;**

(c) **Examine the need for independent expert assurance over the implementation of the enterprise resource planning system, and reconfirm the**

level of expected savings arising from the implementation of the system and collect sufficient data to allow for an effective measurement of realized cost benefits;

(d) **Address the imbalances and changes in its workforce linked to the underrepresentation of women and the increases in numbers of senior management and international personnel;**

(e) **Strengthen its strategic workforce planning, including using a longer time horizon, improving information concerning skills and making greater use of rosters to fill posts quickly;**

(f) **Evaluate the impact of recent human resources initiatives, including the establishment of the shared service centre, improved remuneration for local individual contractor personnel and management of talent;**

(g) **Establish clear milestones for the delivery of fully embedded risk-management processes, focusing on quickly reaching agreement on the strategic risks faced by UNOPS.**

A. Mandate, scope and methodology

1. UNOPS provides management services that contribute to peacebuilding, humanitarian and development operations of the United Nations system. UNOPS revenues are wholly dependent on fees generated from the provision of project services through three delivery practices: project management, procurement and infrastructure.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNOPS for the financial period ended 31 December 2014 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the financial regulations and rules of UNOPS and with the International Standards on Auditing. Those Standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the UNOPS governing body and whether they had been properly classified and recorded in accordance with the UNOPS financial regulations and rules.

4. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNOPS operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations with a focus on the management of infrastructure projects, one of the core management services of

UNOPS. During the course of the audit, the Board visited UNOPS headquarters in Copenhagen and examined field operations in Myanmar and Serbia. The Board also worked with the UNOPS Internal Audit and Investigations Group to provide coordinated audit coverage.

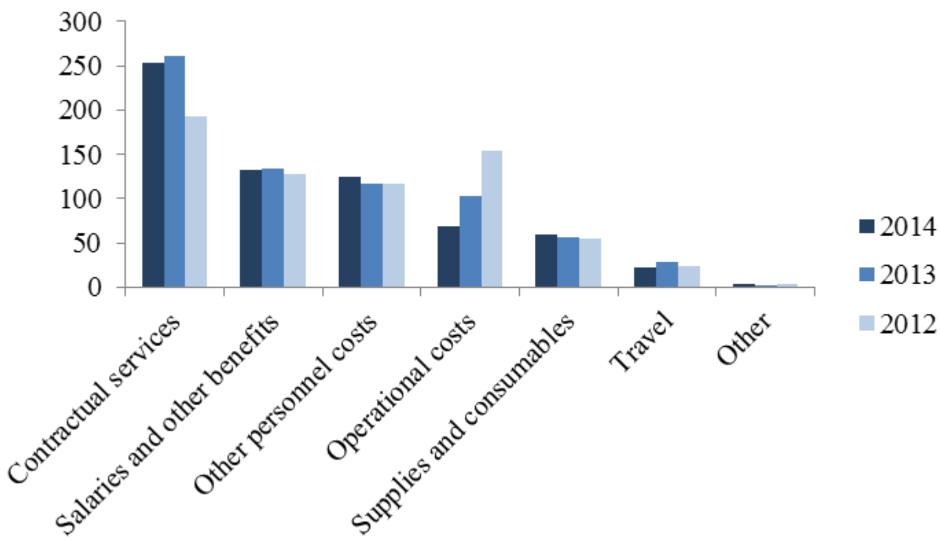
6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The report was discussed with UNOPS management, whose views have been appropriately reflected.

B. Financial matters

Financial overview

7. UNOPS reported a surplus of $9.9 million in 2014 (2013: $14.7 million), with expenses of $666.7 million (2013: $703.7 million). The decrease in operational costs (figure II.I) reflects the reduction in construction activity and a continued trend of using local implementing partners.

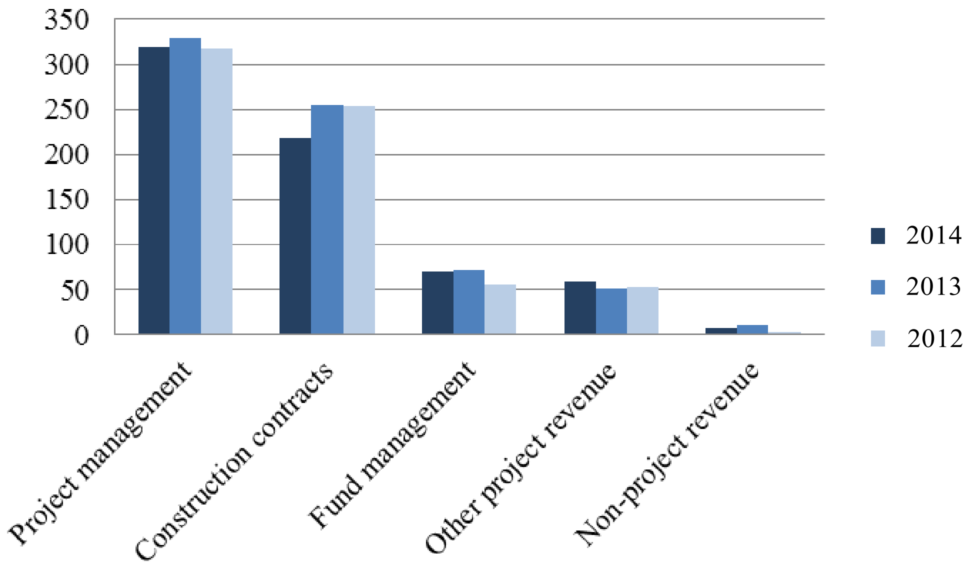
Figure II.I
Expenses of the United Nations Office for Project Services, 2012-2014
(Millions of United States dollars)



Source: UNOPS 2014 financial statements.

8. In 2014, UNOPS total revenue from its principal activities was $673.8 million (2013: $717.1 million). Revenue is generated across a number of activities (figure II.II). Project management services continue to be the main source of revenue at $319.3 million (2013: $329.2 million), followed by revenues from construction contracts of $217.8 million (2013: $255.2). The decline in construction revenues reflects a reduction in delivery as a result of the security situation in South Sudan and the completion of a significant infrastructure portfolio in Haiti.

Figure II.II
Revenue of the United Nations Office for Project Services, 2012-2014
(Millions of United States dollars)



Source: UNOPS 2014 financial statements.

9. At 31 December 2014, UNOPS held total cash and investments of $1,130 million (2013: $1,014 million). Funding is usually received in advance of project activity; at 31 December 2014 advances from project sponsors stood at $941.1 million (2013: $826.7 million), including $471.1 million classified as deferred revenue (2013: $470.6 million). This is equivalent to 8.8 months of total delivery and shows that UNOPS remains in a good financial position with an agreed forward programme of work.

10. The Board has analysed the financial health of UNOPS using a range of key ratios (table II.1). Financial performance has remained broadly consistent. Although current liabilities exceed current assets, total UNOPS net assets (including funds held as long-term investments) are sufficient to cover both immediate and longer-term liabilities. The decrease in the current ratio reflects the change in the proportion of short- and long-term investments, following a review of investment strategy aimed at maximizing returns on appropriate fund balances.

Table II.1
Financial ratios

Description of ratio	*31 December 2014*	*31 December 2013*	*31 December 2012*
Current ratio[a]			
Current assets: current liabilities	0.63	0.73	0.79
Total assets: total liabilities[b]			
Assets: liabilities	1.07	1.08	1.05
Cash ratio[c]			
Cash + short-term investments: current liabilities	1.07	1.09	1.05
Quick ratio[d]			
Cash + investments + accounts receivable: current liabilities	1.12	1.13	1.07
Project surplus (margin percentage)[e]			
Direct project revenue – direct project expenses	$66.3 million (10.0%)	$72.2 million (10.2%)	$65.1 million (9.6%)
Net surplus (margin percentage)			
Revenue — expenses	$9.9 million (1.5%)	$14.7 million (2.1%)	$8.2 million (1.2%)

Source: UNOPS 2014 financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[e] Direct project revenue and expenses relate to the project revenue/expenses reported within note 17.

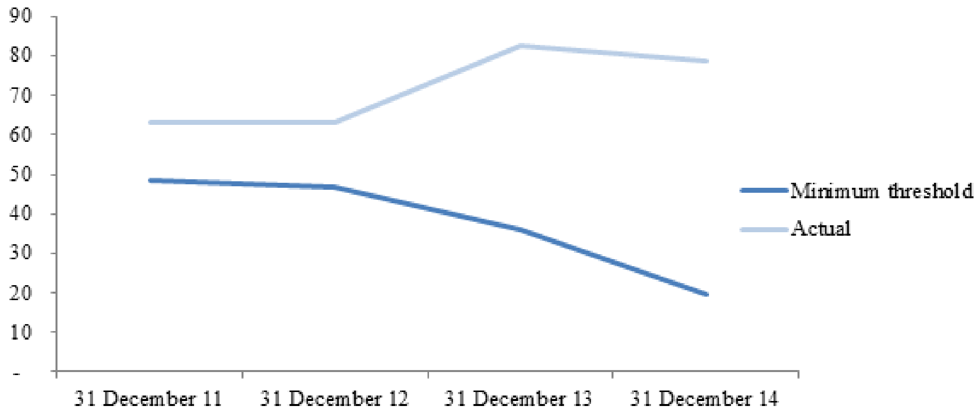
11. The analysis shows that the surplus related to project activity remains at around 10 per cent, reflecting that fees charged to projects exceed overhead costs on projects and other central costs. Underlying net revenue has also increased over the same period, after adjusting for the exceptional non-exchange revenue donation from the Government of Denmark. The financial statements (chapter IV) provide management's analysis of the UNOPS results in 2014.

Overhead and management charges

12. Since 2010, UNOPS has delivered an operating surplus, with net revenues over the past three years within the range of $8 million to $14 million per annum. This has continued to contribute to a significant operating reserve, in contrast to the strategy adopted by the Executive Board to achieve a break-even over the biennium. Although reduced by the impact of changes in bond discount rates, giving rise to a $14.2 million actuarial loss on revaluation of post-employment benefits, the reserve at the close of 2014 was some $78.5 million (2013: $82.8 million).

13. The Executive Board has approved a policy to establish a minimum operating reserve, which is set at the average actual management expenses of the previous three years. In 2014, this equated to a minimum operating reserve of $19.6 million. The past four years have seen a significant divergence between the reported surpluses and the minimum reserve (figure II.III). In 2014, the variation was some $58.9 million.

Figure II.III
Operational reserves
(Millions of United States dollars)



Source: Analysis by the Board of Auditors of the UNOPS financial statements.

14. In response to the Board's previous recommendation to establish plans for the use of surplus reserve balances, UNOPS intends to fund investment projects supporting its goals. However, at the date of the present report, management has not established any specific plans to utilize the accumulated surplus. The Board remains concerned that no strategy is in place, either to reinvest in the business so as to drive efficiency and quality improvement, or to decrease costs to project partners by reducing charges and fees.

15. **The Board reiterates its previous recommendation that UNOPS review its operational reserve policy and establish, with the approval of its Executive Board, clear plans for the use of surplus reserve balances and, to this effect, establish a target reserve to manage this reduction.**

Project revenues and expenses

16. The Board has further reviewed the financial performance of UNOPS, following its work in 2013 (see A/69/5/Add.11 and Corr.1), so as to better understand the means by which UNOPS charges for its services and to respond to specific requests from the Advisory Committee on Administrative and Budgetary Questions in respect of the United Nations Mine Action Service. The Advisory Committee has highlighted the need to review the working of partnerships between United Nations entities so as to improve efficiency and reduce overhead charges (see A/69/386, para. 59).

17. Over the period 2012-2014, UNOPS has consistently achieved an overall net surplus margin of 11 per cent on its activities, although profitability on project categories has varied considerably (table II.2). In its report on UNOPS in 2014, the Board reported on some of the underlying reasons for this situation and how these variances were controlled by UNOPS.

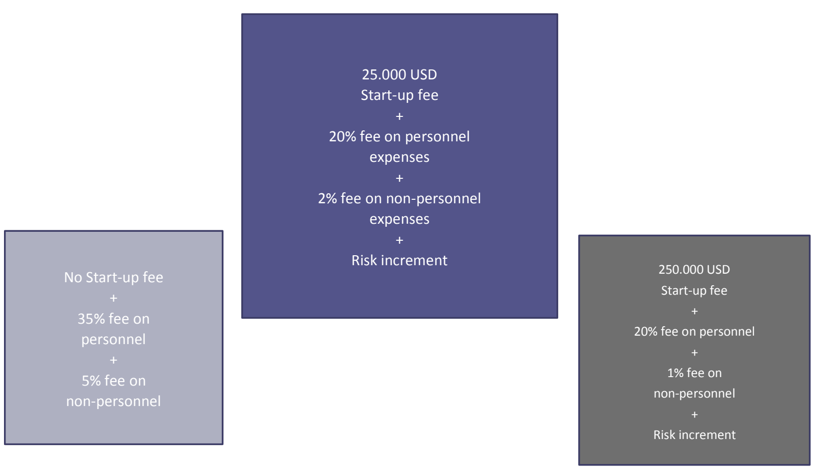
Table II.2
Project surplus
(Thousands of United States dollars and margin (percentage))

	Surplus		
Project category	*2014*	*2013*	*2012*
Construction contracts	13 585 (7%)	14 585 (6%)	15 109 (6%)
Procurement	9 568 (63%)	8 014 (57%)	7 858 (84%)
Fund management	16 745 (31%)	13 875 (24%)	12 079 (28%)
Human resources management	9 294 (38%)	7 114 (34%)	6 687 (23%)
Other project management	17 107 (6%)	28 612 (10%)	23 393 (8%)
Total	**66 299 (11%)**	**72 200 (11%)**	**65 125 (11%)**

Source: UNOPS 2014 financial statements (table 37).
Note: The above figures relate to margins on the principal expenses of UNOPS itself and do not include expenses recorded as agency.

18. The Executive Board has stressed the importance of full cost recovery and the objective of achieving a break-even and this has been reinforced by the development of a new pricing policy that became effective in mid-2013 and has been applied to new projects to minimize cross-subsidization of projects. The new policy requires any projects that fail to recover full costs to be specifically approved on the basis of a clear business need. These measures will improve the sustainability of projects and improve transparency. The new pricing model reflects the degree of project complexity, risk and scale (figure II.IV). Existing contracts will continue to apply the previous pricing methodologies until they are renewed. The Board will review the effectiveness of the new model when there are sufficient examples to assess the model's operation in practice and to compare its pricing to actual costs, and therefore to be able to assess the reasonableness of the costing model.

Figure II.IV
United Nations Office for Project Services model to establish minimum pricing for project activity



The fee charged to clients is the lowest of the above three options.
Source: UNOPS, "Cost recovery for development effectiveness".

19. The Board has reviewed the two most profitable elements of UNOPS project activity, the mine action programme and the provision of human resources services, which predate the new model. The review highlighted that despite recent changes to the pricing model, there is a need to increase the transparency of the charges incurred by partners with respect to current projects.

Mine action

20. A significant element of the revenue reported under the category of "Other project management" arises under the memorandum of understanding with the United Nations Mine Action Service of the Department of Peacekeeping Operations. The Mine Action Service was established by the General Assembly in 1997 to serve as the United Nations focal point for mine action.

21. The memorandum of understanding established an initial fee level of 8 per cent to cover indirect costs on projects with the Secretariat and 5 per cent on projects with the Mine Action Service. There is a provision for refunds where indirect costs exceed certain thresholds. This sliding scale was an innovation which reduced the overall management fee charged to the Secretariat by up to 36.5 per cent where total indirect costs exceed $40 million. In 2014, UNOPS reported project activity of $208.2 million and charged a management fee of $10.5 million (5.0 per cent).

22. The Board has identified that within reported project activity there were central and local directly attributable support costs of $2.4 million and $5.8 million respectively in accordance with the memorandum of understanding. The total of directly attributable support costs and the UNOPS management fee therefore totalled $18.7 million (9.3 per cent).

Human resources management project

23. The UNOPS human resources services and partner personnel clusters in Bangkok manage the contracting, processing and payment of individual contractor agreements on behalf of partners and for the UNOPS Global Partner Services Office. These contractor agreements allow partners to contract personnel efficiently, on either a temporary or on a retention basis, and are further explored later in the present report. From the Board's analysis of the UNOPS ledger, UNOPS charges partners a fee to utilize this service ranging from 4.6 per cent to 9.9 per cent of the total payroll costs of the individuals contracted by partners. Fee rates charged to partners are set on a case-by-case basis and it is unclear how these charges are consistent with the principles of the revised pricing model.

24. In the Board's view, the cost of administering the process to support provision of individual contractor agreements is driven by the number of contracts, not their individual value. Costs incurred by UNOPS will be broadly similar for each individual contractor, despite the differences in remuneration. The Board's analysis of projects related only to human resources contracting services indicated that UNOPS charged a fee of $6.7 million for these activities, reflecting an average rate of 6.0% per cent. The absence of a clear link to the cost drivers means that the charges lack transparency and do not meet the principles of the new costing model. These arrangements contribute to a significant over-recovery of costs.

25. These two examples reviewed by the Board highlight the scope for improved transparency in rates and reporting mechanisms for United Nations partners, which

represent some 57 per cent of total UNOPS revenues. Without a clear focus on accurate cost allocations, UNOPS may become dependent on cross-subsidization from higher margin activities to fund its core costs. By understanding the full costs, UNOPS can make more informed decisions on projects and improve confidence in its financial management for its partners and donors.

26. **The Board recommends that UNOPS review the basis of its directly attributable support costs and management fees to ensure consistency, equity and transparency in the light of the principles of the new pricing model. In particular:**

(a) **Ensure that reporting on the mine action project reflects the scale of directly attributable support costs currently embedded in programme costs in addition to management fees charged;**

(b) **Review recovery rates on individual contractor agreements managed for partners to ensure that charge rates are equitable across partners and better reflect the actual costs incurred.**

Implementation of a new enterprise resource planning system

27. As emphasized in the previous report of the Board (A/69/5/Add.11 and Corr.1), effective management decision-making requires reliable and timely financial information, for which enterprise resource planning systems are an essential tool. The Board has reviewed the status of the implementation of a new enterprise resource planning solution, as part of the business innovation and improvement programme (figure II.V). This will replace the current Atlas system, which has been in place since 2004 and has formed the basis of the management information system (management workspace).

Figure II.V
Business innovation and improvement programme objectives

- Receive and manage organizational information in a manner that can support the implementation of strategic plans, collaborate with partners better and ensure the delivery of value.
- Manage and monitor operations, programmes and projects in an efficient manner while enabling the management of changes in operational as well as organizational contexts.
- Empower the organization through the optimal management of human capital, enabling the organization to offer a wide range of options and services to its personnel.
- Streamline support processes through the simplification of processes and corresponding systems functions to enable a seamless flow of process and information in a manner that leaves personnel free to perform greater value-added functions.
- Successfully tackle the range of functional challenges UNOPS currently encounters and will encounter in the future.

Source: UNOPS business case for business innovation and improvement programme.

28. The new system is intended to enhance management's capabilities significantly, providing real-time reporting and, when integrated with other phases of the business innovation and improvement programme, provide better integration across improved project management systems. With the help of external consultants, UNOPS found that current systems delivered only 21 of the 62 required processes, others being delivered through bespoke or manual systems. The enterprise resource planning system therefore offers a significant opportunity for UNOPS to gain efficiencies from the introduction of better and more efficient processes in addition to improving the quality and integration of information and systems to support operations.

Project governance

29. The implementation of an enterprise resource planning system is a critical risk in any organization. Clear accountabilities and governance mechanisms are essential to provide assurance and to monitor the achievement of objectives. The Board has noted that UNOPS has appointed a steering committee and a sponsoring group with representation from each practice and produces regular reports for the Audit Advisory Subcommittee. However, the Board has noted that although UNOPS has obtained advice from Unit 4, the provider of the enterprise resource planning solution, management has not obtained any independent assurance to validate the adequacy of the project implementation, relying instead on internal consultants and management reporting.

Implementation timetable and budget

30. The implementation of the enterprise resource planning system was originally planned for 1 January 2015 with the introduction of the core financial systems, but deployment has now been delayed by one year to allow additional time for user-acceptance testing and to bring systems and processes such as banking in-house, as well as to avoid a mid-year implementation. The Board considers that the original plan was unrealistic, given the significant risks associated with bringing a number of key systems such as banking in-house; management should consider the possibility that other risk factors may be underestimated and consider lessons learned in its planning for the future phases of the business innovation and improvement programme.

31. The overall programme approval for business innovation and improvement spans the period 2014-2017, with a total budget of $8.7 million including licence, support, consultancy and attributable direct staff costs. Management's projections anticipate that the implementation will achieve savings after five years and that implementation costs will have been recovered by the tenth year. Of this total budget for the initial phase of implementation of enterprise resource planning, the original business case anticipated costs of $4.8 million. It will be important for management to monitor whether the anticipated savings are delivered after implementation.

32. Despite commencing in 2014, UNOPS was required to revise its budget, with out-turn spending for 2014 totalling $2.5 million, a $1.0 million underspend against the final revised budget. This arose largely from project slippage and a reduction in uptake of external experts, resulting in a delay in staff training and therefore costs being reduced or deferred to 2015. The impacts of these changes should be closely monitored in the future phases of the project.

33. **The Board recommends that management obtain specific independent expert assurance on the integrity of the implementation of the enterprise resource planning system, as well as its progress and the adequacy of its configuration prior to the planned implementation date of each phase.**

Achievement of benefits

34. The business case identified that a key measure for success would be the degree to which process efficiency was improved through system controls and automation of standard business processes. The financial benefits anticipated from these efficiencies were identified only after the initial business case had been developed, at the programme design phase. These benefits included savings on fees paid for using the present systems, savings from bringing processes in-house and process optimizations and enhancements that are integral to the business-case investment.

35. However, UNOPS has not gathered baseline information against which improvements in processes can be measured; in addition, the Board could not evidence a clear trail to support the savings identified in the business case. A risk remains that management will be unable to accurately assess the financial benefits, upon which the business case was based, to measure the success of the project implementation.

36. **The Board recommends that UNOPS reconfirm the level of expected savings arising from the implementation of enterprise resource planning and seek to obtain viable benchmark cost data to inform a review of the realized process cost benefits.**

Process improvement and internal control

37. The implementation of an enterprise resource planning system offers opportunities for improving working practices and ensuring better alignment of user and stakeholder needs. UNOPS has identified and documented the key business requirements of its primary functions, such as project administration, procurement, finance and human resources which will provide the basic functionality of the new system.

38. While the existing processes will enable the system to be operationally configured, the Board found limited evidence that UNOPS had critically reviewed existing processes and ways of working to secure the process efficiencies. The project team has established roles and access rights on the basis of those already in Atlas; however this was not based on a formal review. Furthermore, the Board has noted that management is currently reviewing the overall internal control framework, which is taking place after the design and configuration phase of the new system.

39. **The Board recommends that UNOPS further explore opportunities to improve business process efficiency by standardizing work practices and processes, delegations of authority and alignment of access rights to improvements in the internal control framework and based on the needs of the business.**

C. Human resources management

40. Human resources are the main asset of UNOPS and its performance as an organization is determined largely by how well it recruits, develops and deploys people. This part of the present report examines the UNOPS workforce, how UNOPS organizes its human resources function and its approach to skills and workforce planning. Key metrics covering the UNOPS workforce characteristics, costs and perceptions are set out in annex I to the present chapter.

41. The Board has also reviewed human resources management in other United Nations entities. Table II.3 compares workforce characteristics found in UNOPS with those in the United Nations Office on Drugs and Crime (UNODC) and the Office of the United Nations High Commissioner for Refugees (UNHCR). Each of these entities faces different operating environments and, in this context, adopts different business models, which affects workforce characteristics. Nevertheless, the Board believes that benchmarking allows management to assess whether any differences are justified and can help United Nations entities to learn from each other.

Table II.3
Comparison of workforce characteristics of the United Nations Office for Project Services, the United Nations Office on Drugs and Crime and the Office of the United Nations High Commissioner for Refugees 2014

Indicator	*UNOPS*	*UNODC*	*UNHCR*
Ratio of senior managers to all other personnel	1:34	1:22	1:30
Proportion of national personnel in workforce (percentage)	77%	73%	73%
Percentage point change in national personnel within workforce since 2011	-7%	+4%	-3%
Proportion of females in workforce (percentage)	31%	46%	37%
Unit cost of personnel (salaries or fees and all other benefits) (United States dollars)	$52 000	$70 000	$66 000
Change in unit cost of personnel since 2012 (percentage)	-3%	+5%	-3%

Source: Analysis by Board of Auditors of United Nations data. Underlying data and systems were not subject to review by the Board.

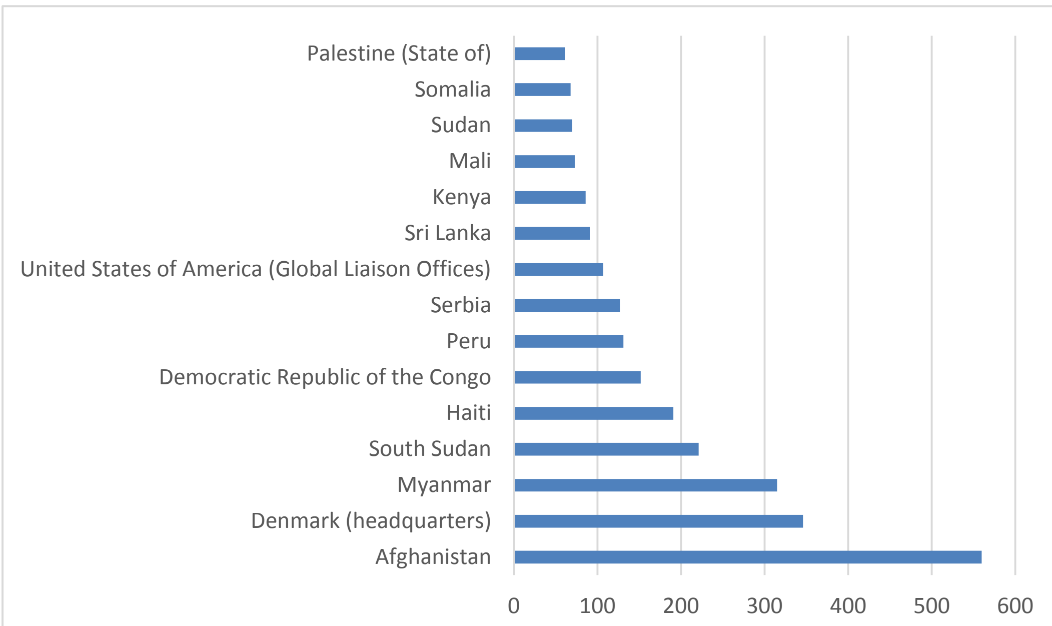
Notes:

1. All data as at December 2014. With the exceptions identified in notes 2 and 3, data includes individual contractors and personnel employed on United Nations staff terms. For UNOPS, data is for the personnel it manages directly, with the exception of the unit cost metric, which also includes personnel that are categorized as UNOPS personnel who are managed by partners. For UNODC, personnel are all those on its payroll during 2014.
2. Senior manager grades are P-5 (or equivalent) and above. Senior contractor grades that are equivalent to senior manager staff grades are excluded because the capacity of these individuals to manage personnel in their organization is limited by their status as external consultants.
3. Gender data for UNODC and UNHCR is for personnel on staff terms only. By way of comparison, females represented 35 per cent of personnel on staff terms in UNOPS.

Workforce

42. Personnel costs accounted for $258 million (39 per cent) of UNOPS expenses in 2014. At the end of December 2014, the UNOPS workforce comprised 5,619 personnel,[1] of which about two thirds are managed directly by UNOPS, with the remaining third managed by UNOPS partners.[2] The UNOPS workforce is geographically dispersed, with 91 per cent of UNOPS-managed personnel based away from its headquarters, operating in 31 field offices and 4 global liaison offices. The main locations for UNOPS-managed personnel are Afghanistan, Denmark (headquarters) and Myanmar (figure II.VI).

Figure II.VI
Main locations of United Nations Office for Project Services personnel, December 2014



Source: Analysis by the Board of Auditors of UNOPS data.
Notes:
1. UNOPS-managed personnel only. Excludes partner personnel, for whom UNOPS provides only contract administration services and UNOPS personnel who are managed by partners.
2. Includes personnel on retainer contracts as well as personnel paid monthly.

43. UNOPS engages personnel through two main contractual modalities:

- Staff who are subject to United Nations staff rules and regulations and are paid a regular salary; 845 staff as at December 2014 cost $133 million in 2014, including benefits (equivalent to an average of $157,000 per staff member)

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[1] Personnel numbers stated as headcount rather than full-time equivalent, unless otherwise indicated.
[2] In addition, UNOPS classifies 2,776 individuals as "partner personnel" for whom it provides contract administration services.

- Individual contractors[3] who are paid a regular fee (4,074 individuals) and individual contractors on a retainer who are engaged for occasional work (538 individuals);[4] individual contractors represented 82 per cent of the workforce and cost $125 million in 2014 (equivalent to $30,000 per regular fee contractor)[5]

44. In general, UNOPS personnel are motivated and their contribution is valued by partners. Some 85 per cent of UNOPS-managed personnel responding to its 2013 survey were positive about working for UNOPS (see annex I, table C, to the present chapter). Feedback from a survey of partners in 2014 showed that three quarters (77 per cent) of partner respondents were satisfied or very satisfied with the service provided by UNOPS personnel and just 2 per cent of partners reported being dissatisfied.

45. Despite a slight improvement in recent years, women continue to be underrepresented in the UNOPS workforce, comprising 31 per cent of the personnel it managed in 2014 and only 18 per cent of senior management positions.[6] This compares with a figure of 34 per cent across the Secretariat and 31 per cent among its senior management grades at the end of June 2014 (see A/69/292). The nature of some UNOPS work in higher risk environments, as well as the supply of labour with skills in, for example, civil engineering, could make the achievement of gender parity challenging for UNOPS, but the Board believes that more can be done. UNOPS has a target for women to represent 35 per cent of the personnel it manages by the end of 2015. To that end, UNOPS introduced a gender plan in 2014 with an emphasis on outreach with professional bodies and networks. The Board also understands that 50 per cent of participants in the emerging leaders programme in 2014 were women.

46. **In keeping with gender equality objectives of the United Nations, the Board recommends that UNOPS continue to address the gender imbalance in its workforce and evaluate the impact of its initiatives.**

47. The UNOPS strategic plan for the period 2014-2017 sets out a preference to engage national personnel to the greatest extent possible so as to contribute to the UNOPS strategic goals by boosting national capacity and sustainability. National personnel are also cheaper: the UNOPS cost estimation tool shows that the equivalent international personnel are around twice as expensive as national personnel. However, national personnel fell from 84 per cent (2011) to 77 per cent (2014) of the UNOPS-managed workforce, largely due to an increase in

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[3] Based on classification of individual contractor agreements reported in UNOPS data systems. In addition, the figure of 4,074 includes 183 contracts that are not reflected in other parts of this report. Inclusion of these contracts reflects an improved UNOPS counting methodology first employed in the spring of 2015. Previously, UNOPS management information slightly underreported the number of contractors at the year end.

[4] UNOPS also recorded 162 other personnel in 2014, mainly UNDP service contractors and interns. Service contractors are included in the figure of $125 million.

[5] The unit costs for individual contractors and staff are not directly comparable because their grade compositions are different. For example, 64 per cent of individual contractors are in support grades compared with 21 per cent of staff. The balance of international and national personnel is also different, with most staff employed on more expensive, international contracts.

[6] We defined senior management positions as international staff at grade P-5 and above; national officers at grade E; and international individual contractors at grade ICA 4 and above.

international personnel numbers over this period.[7] UNOPS-managed international personnel on United Nations staff terms, for example, increased by 53 per cent between 2011 and 2014. The proportion of national personnel in the UNOPS-managed workforce is nevertheless slightly higher than for UNHCR and UNODC (table II.3 above). National personnel are not well represented in UNOPS senior management grades: in 2014, there was just one national officer in a senior management position.

48. The ratio of senior managers to other personnel increased from 1:43 in 2011 to 1:34 in 2014.[8] This was because the number of senior managers among the UNOPS-managed workforce increased by 46 per cent, while the numbers of other personnel rose more slowly (professional-grade personnel, excluding senior managers, by 25 per cent, and support-grade personnel by 9 per cent).

49. **The Board recommends that UNOPS examine whether the increases in senior management and international personnel are consistent with its operating model and its capacity-building objective.**

50. UNOPS makes greater use of individual contractors than all other United Nations agencies with the exception of UNDP.[9] Some 81 per cent of UNOPS-supervised personnel were individual contractors at the end of December 2014 (figure II.VII).[10] Over two thirds (69 per cent) of these individual contractors were in support grades (compared with just 28 per cent of staff being in support grades). International individual contractors represent only a small proportion (12 per cent) of the individual contractor workforce, albeit one that has increased by half between 2011 and 2014. Around one third of UNOPS-supervised individual contractors have been continuously engaged for at least four years, at which point UNOPS requires management approval for continuation. UNOPS reliance on contractual personnel reflects a need to deploy resources flexibly in line with a business model that depends on self-funding and delivery of time-limited projects.

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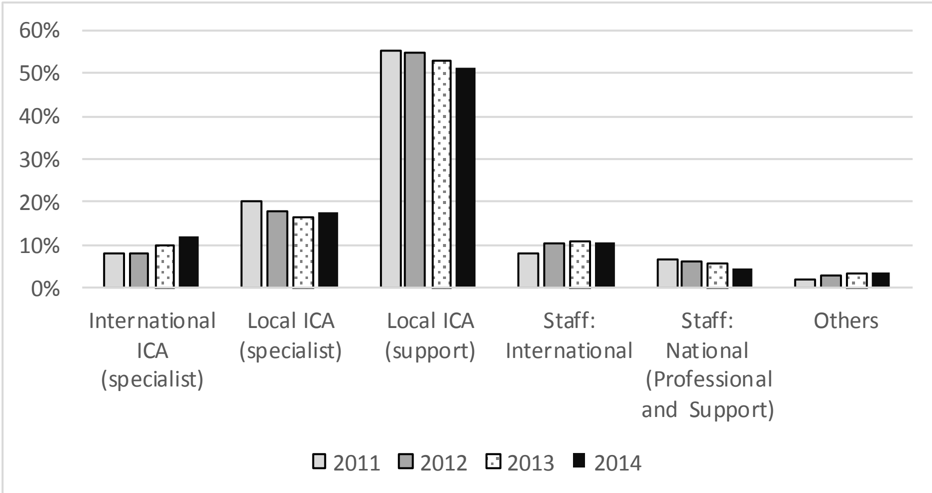
[7] Data is for UNOPS personnel, staff and individual contractors managed by UNOPS and receiving regular payment. It excludes individual contractors employed on retainer or lump-sum terms.

[8] Data is for UNOPS personnel, staff and individual contractors who are supervised by UNOPS and receive regular payment. Senior management positions for this figure exclude individual contractors because of rules restricting them from managing staff, given their status as external contractors.

[9] Joint Investigation Unit, *Use of non-staff personnel and related contractual modalities in United Nations organizations*, 2014.

[10] Including individual contractors employed on retainer or lump-sum terms increases the proportion of UNOPS-managed personnel engaged on contractual terms to 83 per cent.

Figure II.VII
United Nations Office for Project Service categories of personnel, 2011-2014



Source: Analysis by the Board of Auditors of UNOPS data.
Notes:

1. The category "Others" refers mainly to a service contract modality issued by UNDP that is equivalent to an individual contractor agreement; UNOPS intends to convert these service contracts into individual contractor agreements.
2. In keeping with the specifications of the International Civil Service Commission, personnel are defined as either national (local) or international. National (local) positions are further distinguished according to whether they are support (General Service) or specialist (Professional) roles. All international positions are specialist (Professional).
3. UNOPS-managed personnel only.

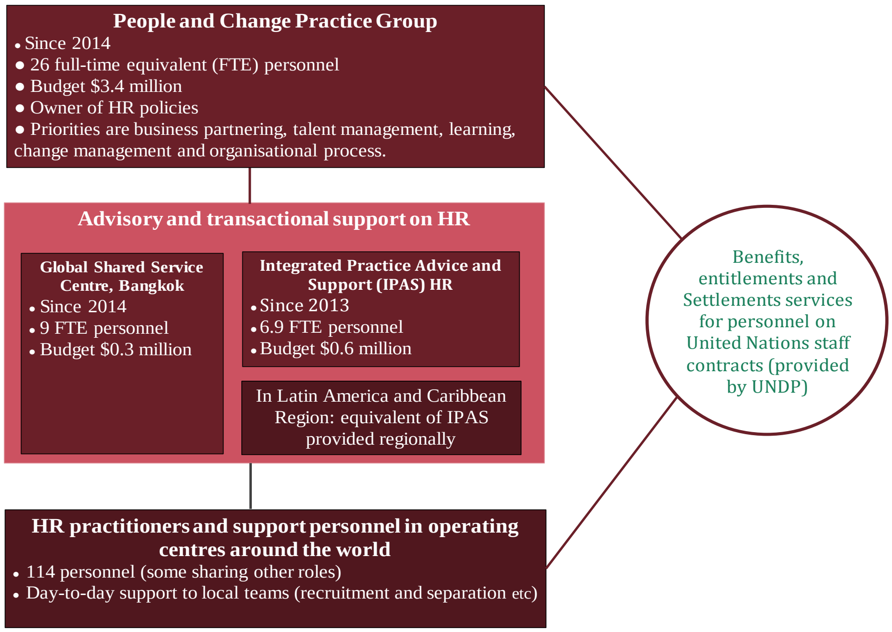
51. Among UNOPS-supervised personnel, the increases in the proportions of international personnel and senior management, as well as the reduction in the proportion of national personnel, will place upward pressure on personnel costs.[11]

Structure of human resources

52. A strategic human resources function will typically involve business partnering, change management and organizational design roles, as well as more traditional human resources transactional and advocacy functions. In its strategic plan for the period 2014-2017, UNOPS identified empowering its people to perform at a consistently high standard as one of its four management goals. To support this, UNOPS is taking steps to strengthen its human resources function and in April 2014 set up a new headquarters team, the People and Change Practice Group (figure II.VIII). The objectives of the Group include to increase the inclusion of human resources in organizational design and change and to improve business partnering, responding to a wider business perception that the human resources function is narrowly focused on transactional delivery.

[11] Despite this upward cost pressure, the unit cost of UNOPS personnel fell from 2011 to 2014 (see annex I). This is mainly because the unit cost also includes partner-managed UNOPS personnel and this group moved towards a lower-cost personnel mix over the period.

Figure II.VIII
Organization of human resources management in the United Nations Office for Project Services



Source: Analysis by the Board of Auditors of UNOPS information.

53. The People and Change Practice Group expects to complete the development of a new human resources strategy in 2015 to replace the earlier human resources strategy covering the period 2010-2013, which had prioritized recruitment and retention, performance management and well-being. The Group has responsibilities across six areas of human resources; it is currently supporting four field offices in change management and working with professional practice groups within UNOPS.

54. UNOPS has also changed its delivery mechanisms for human resources services. In early 2014, UNOPS created a Global Shared Service Centre in Bangkok, with the aim of providing transactional services for individual contractor agreements more responsively and efficiently through centralized, standardized services based on the forthcoming enterprise resource planning system. The Board found that these arrangements had the potential to promote efficiency, transparency and quality. There were no clear plans, however, to monitor and evaluate the benefits realized, without which there is a risk that efficiencies achieved through the shared service centre will not produce either cash savings or improved outputs in UNOPS operations centres.

55. In 2013, UNOPS centralized certain support services hitherto provided regionally, including human resources advisory and transactional functions; however the Board notes that the Latin America and the Caribbean region has not participated in this arrangement because of other structural changes and a regional concern about language barriers and service proximity. Transactional human resources services (payroll, entitlements and settlement) for personnel employed on United Nations staff terms are currently delivered by UNDP on behalf of UNOPS.

Looking ahead, a UNOPS-commissioned review in December 2014 indicated that there was scope to bring these services in-house.

56. UNOPS captures the overall performance of human resources functions as part of a corporate balanced scorecard. Human resources targets and performance indicators cover business partnering, recruitment, talent management, gender and training. Individual business units also identify performance targets as part of corporate planning. Measures of human resources service cost efficiency are not included in the scorecard. While the cost of human resources support provided by UNOPS headquarters and related functions is known, UNOPS does not record and monitor how much it spends on human resources support in individual field offices, or consider the relative performance of offices in terms of efficiency (for example, processing performance or ratio of human resources support to personnel).

57. The Board's analysis indicates that UNOPS has one human resources person for every 89 of the personnel it manages directly.[12] This is broadly comparable with benchmarks in the public and private sectors. There is scope for UNOPS to use the ratio to monitor the efficiency of its human resources function over time.

58. **The Board recommends that UNOPS: (a) obtain feedback from practice groups on the performance of the People and Change Practice Group as a business partner; (b) manage and monitor the benefits of recent organizational reforms, including the Global Shared Service Centre; and (c) develop a measure covering the cost-efficiency of the human resources function, such as the human resources staff to workforce ratio.**

Skills and workforce planning

59. Strategic workforce planning is intended to ensure that the right number of people with the right skills are in the right place at the right time to deliver organizational objectives. This requires assessment of skills available within the organization and the skills needed by the business now and in the future. The human resources function has a key role in filling the gap between the skills that are available and the skills that are required, which it can do by supporting recruitment, deployment and development of skills within the workforce.

Assessing current skills and future needs

60. UNOPS assesses current and future skills needs on three levels:

- As part of planning the implementation of individual projects
- Within the annual corporate planning exercise, in which field offices and central units agree operational priorities, people resourcing and funding allocations with senior management
- At a more strategic level and over a slightly longer time frame, by the People and Change Practice Group working with the professional practice groups

[12] This ratio excludes: from the human resources headcount, those personnel who provide services to partners; and from the workforce headcount, UNOPS personnel who are managed by partners and those categorized as partner personnel. Note also that UNOPS outsources to UNDP human resources administrative support for staff and these resources are not included in the analysis.

61. The first two levels represent a tactical response that has so far generally enabled UNOPS to meet most of its needs. The third level presents an opportunity for UNOPS to achieve excellence and to better meet the needs of its partners. The work at this level is still relatively new, however, and UNOPS recognizes that it lacks a comprehensive understanding of the skills of its personnel. While there will be challenges in equating a wide variety of experience and qualifications with a consistent understanding of the levels of competence of personnel, it remains important to carry out such an exercise as a first step towards developing a skills strategy.

62. **The Board recommends that the People and Change Practice Group, working with the other practice groups, collect and assess information on the knowledge and experience of its workforce to inform future skills and workforce planning.**

Recruiting and retaining the skills needed

Use of individual contractors

63. Most of the personnel (92 per cent) recruited by UNOPS in 2014 were contracted on individual contractor agreement terms, meaning that they are not "staff". To minimize the risks associated with using contractors rather than staff, UNOPS has a policy that sets out some rules of engagement. This policy says that individual contractors should:

- Be procured as contractors, rather than recruited for employment (as would be staff)
- Only be used for the performance of a specific task or activity related to project implementation
- Not be used where responsibilities include inherently United Nations activities (for example, advancing the interests of the United Nations by diplomatic means)
- Not be the primary supervisor of UNOPS personnel appointed under United Nations staff regulations and rules

64. The flexibility of the individual contractor agreements modality helps UNOPS to realize its project delivery mandate. It also enables UNOPS to hold down costs and avoid the liabilities associated with the United Nations staff model (including dependency and mobility allowances, pensions and after-service medical insurance). UNOPS analysis shows that an international staff member costs the organization about twice as much as an equivalent international individual contractor. Significant savings, though not as high, are also apparent when comparing equivalent national staff and individual contractor grades.

65. There is nevertheless a risk that, where labour demand is high, it will prove difficult to recruit personnel on consultancy terms. The Board found that this was a concern in Myanmar because of increasing competition in the labour market, whereas labour market demand in Serbia was less strong. These contrasting environments suggest that the attractiveness of individual contractor appointments will vary.

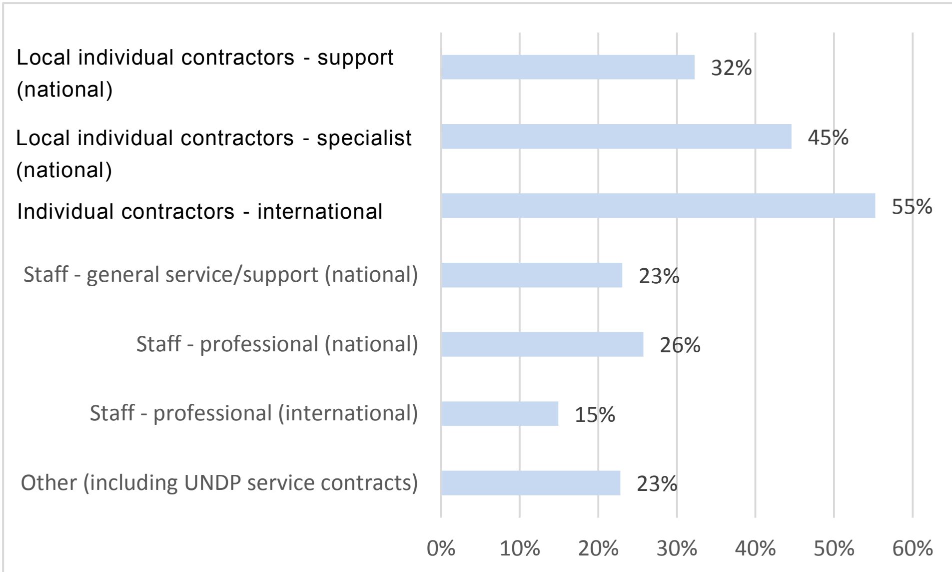
66. The Board also recognizes that an individual appointed on individual contractor terms receives more of his or her overall package in fees than in other benefits which, for people who are from a country with strong public health care and social security, can make an individual contractor agreement more attractive than a staff contract. In this situation, UNOPS will consider applications from staff members to convert to the individual contractor modality, including as assessment of whether conversion is in the best interests of UNOPS. While offering short-term cost savings overall, this phenomenon may present longer-term risks linked to personnel performance, reduced management capability and project liability. Such developments should be monitored and be subject to approval at an appropriately senior level, taking into account wider business and workforce planning needs.

67. **The Board recommends that UNOPS: (a) develop clear business-led criteria for assessing requests from personnel to change engagement terms from staff to an individual contractor agreement; and (b) monitor the impact of this policy on the workforce.**

68. Appointing personnel on consultancy terms may make it more difficult to retain personnel, potentially leading to higher recruitment costs, disrupted service delivery and loss of institutional knowledge. Figure II.IX shows that turnover rates for individual contractors are very high. For example, the overall turnover rate for international individual contractors was 55 per cent in 2014. Local (national) categories of individual contractors also show high turnover levels when compared with staff contracts.[13] Personnel might also perform less favourably as a consequence of engagement on individual contractor terms: individual contractor personnel are less frequently rated as exceptional than staff in performance appraisals (25 per cent of individual contractors compared with 40 per cent of staff in 2013).

[13] A higher overall turnover rate for individual contractors than for staff may be expected if contractual terms are, on average, shorter. Difficulties in interpretation highlight the importance of a more detailed understanding of turnover.

Figure II.IX
Overall turnover rates of personnel managed by the United Nations Office for Project Services, 2014



Source: Analysis by the Board of Auditors of UNOPS data.
Note: The overall turnover rate includes both personnel leaving at the end of their contract and those who resign mid-contract.

69. The UNOPS approach to measuring overall turnover is limited by its data not distinguishing personnel leaving at the end of their contract from those who resign mid-contract. UNOPS indicated to the Board that it expects a reasonable level of turnover, especially in individual contractor grades, because of the nature of its business model and the focus on short-term project delivery. Given that comparable turnover rates for UNDP service contractors are around half the individual contractor turnover rate, UNOPS accepts that its current turnover is too high.

70. **The Board recommends that UNOPS monitor turnover rates as a result of resignations, to inform its workforce planning.**

71. In early 2014, UNOPS set an objective to reduce turnover rates of local individual contractors to 30 per cent by the end of 2015, by implementing contractual enhancements to bring terms and conditions closer to those of staff. Wanting to be a better employer and recognizing that turnover of individual contractors was affecting its delivery capacity, UNOPS made a number of changes, including:

- Alignment of local individual contractors’ pay and grading with International Civil Service Commission rates (estimated to cost UNOPS around $5 million a year)
- Introduction of an annual 1.8 per cent fee increment
- Introduction of a new savings scheme (the provident fund) for local individual contractors, to which UNOPS contributes 15 per cent of local individual contractor fees

72. UNOPS estimated that creation of the provident fund would increase annual costs by $9 million, through its financial contributions into the fund, but (together with other contractual enhancements) the fund would produce a net annual benefit of between $1 million and $3 million. The benefits arise from lower turnover rates for local individual contractors, producing three monetized effects:

- Reduced recruitment processing costs ($1.1 million)
- Improved productivity (reduced time to upskill new personnel) ($2.3 million to $3.8 million)
- Reduced project implementation delays ($6.8 million)

73. The Board examined the assessment of the benefits of the fund; it identified weaknesses in the management's analysis, including $1.1 million of double-counted productivity savings and a significant error of calculation in the estimated benefit from reduced delays. In the Board's view, the total annual benefits are likely to be closer to $5.5 million, far less than the $9 million cost of contributions. While financial savings were not the reason for establishing the fund, its affordability should have been a key consideration. The scheme is likely to be a long-term commitment and UNOPS could have exercised more care in preparing and reviewing a business case.

74. UNOPS is also examining the case for changes to the package for international individual contractors in 2015, to see if there is scope to increase consistency and transparency in fee-setting and improve mobility among personnel.

75. **The Board recommends that UNOPS: (a) fully test future business case assumptions to ensure they are supported by evidence and adequately reviewed; (b) closely monitor the impact of changes to terms for local individual contractors to ensure that the expected benefits are realized in practice; and (c) implement measures to address the very high turnover levels among international individual contractors, subject to a careful analysis of the causes of turnover and characteristics of such positions.**

76. Field and some headquarters personnel refer to individual contractor agreements as the default modality for filling vacant posts. At the same time, senior human resources policy managers state that the labour market context, the nature of field offices and their business and the character of vacant posts are all factors that should continue to be taken into account when considering the appropriate contract type. There is currently, however, a lack of detailed specification of the positions in UNOPS that senior managers would normally expect to be reserved for staff appointments. This, in an environment where the dominant view is that the individual contractor agreement is the pre-eminent contractual model, creates a risk that important roles are filled inappropriately.

77. The Board's review of vacancy announcements open on one day highlighted a small number of international individual contractor positions which included either senior-level management responsibilities (head of programme, for example) or significant inter-organizational representational responsibilities. The Board considers that appointment to these roles on individual contractor terms is inconsistent with the UNOPS policy on deployment of individual contractors and creates organizational risks. The Board understands that UNOPS is planning to

introduce standard job descriptions in 2015 for senior positions within field offices with an assumption that these will normally be on United Nations staff terms.

78. **The Board recommends that UNOPS continue its work to establish standard job descriptions and terms for senior positions and, once implemented, take steps to ensure these are used in practice.**

Monitoring the time it takes to recruit personnel

79. UNOPS lacks information on how long it takes to recruit personnel, from a vacancy announcement to an offer being accepted by the successful candidate. UNOPS introduced a global personnel recruitment system in 2012, which should allow robust tracking of recruitment time. However, incomplete data (linked to limitations of the current Atlas system) undermines scope to draw reliable conclusions.[14] UNOPS human resources officials are currently working with field offices to ensure that entries are manually and systematically updated in the system. More structural changes will come with the implementation of the new enterprise resource planning system in 2016. Future measures of recruitment should also consider the wider period between a vacancy first occurring and the post being filled.

80. In the meantime, UNOPS has attempted to compare its performance with other United Nations bodies, drawing on data from the recruitment system but excluding apparently incomplete records. This approach has limitations, but the review indicated that recruitment times in 2013 were generally under 100 days, which would compare well with the United Nations benchmark of 120 days. The Board has not seen the original analysis, however. The Board's review of UNOPS overall data and its performance in Bangkok, Myanmar and Serbia in 2014 does suggest that recruitment times are reasonable. However, UNOPS has had difficulties recruiting for some senior headquarters positions in recent years.

81. **The Board recommends that UNOPS implement a system for reliable reporting and analysis of recruitment processing times, covering the period from when a vacancy first occurs through to the post being filled.**

Deploying skills through the use of workforce rosters [[H4]]

82. The nature of the business of UNOPS is that it needs access to a wide range of specialist skills that can be deployed at short notice, for example in responding to emergency situations. UNOPS recognizes the potential benefit of using workforce rosters in this context, which it defines as groups of pre-assessed personnel available for faster recruitment and deployment. The human resources strategy for the period 2010-2013 included an objective to develop an electronic roster tool to support such developments.

83. However, UNOPS information shows that only 20 appointments were made in 2014 using workforce rosters, less than 2 per cent of all personnel hired. This model of resourcing has been limited to UNOPS personnel working in the peace and security cluster (primarily in the area of mine action), although a new roster was established by the Sustainable Project Management Practice Group in November

[14] The Board's audit also suggests that some field offices have started using the global personnel recruitment system only in 2014 despite the system's availability since 2012.

2014. UNOPS informed the Board that it was prioritizing the further development of workforce rosters. In particular, there is scope for UNOPS to:

- Develop a global register of individual contractor personnel held on a retainer contract basis
- Increase the use of workforce rosters more generally across UNOPS
- Strengthen links with external organizations capable of accessing very specialized skills

84. **The Board recommends that UNOPS expand its use of workforce rosters across the business so that it is better placed to recruit and allocate people swiftly in response to business needs.**

Developing skills and managing talent

Support for training

85. UNOPS-managed personnel, regardless of their contract modality, have access to a range of training. The onus is on individuals to identify the training they need and to seek funding from budget holders in headquarters or in other offices. In 2013, the awareness of personnel of mandatory courses (83 per cent) and professional certifications (such as PRINCE2) was relatively high, but only about half of the personnel were aware of other in-house training courses and individual learning opportunities. Most personnel (71 per cent) considered that their supervisor encouraged them to take advantage of learning opportunities.

86. Since 2013, UNOPS has increased its commitment to personnel development by:

- Establishing a global learning plan
- Coordinating training investment through the People and Change Practice Group and engaging with professional practice groups to identify business priorities
- Allocating more money for training (in 2015, UNOPS expects to spend $3.8 million through headquarters budgets,[15] an increase of 23 per cent over 2014)

87. UNOPS states that 568 personnel received externally accredited certificates in 2014, equivalent to 17 per cent of the regularly paid UNOPS-managed workforce. The pass rate was 76 per cent, exceeding its target of 70 per cent. However, the distribution of training received in 2014 was uneven across UNOPS, with headquarters personnel receiving, on average, about three times more training units per head than those working away from headquarters.

88. **The Board recommends that UNOPS evaluate the impact of its recent additional investment in training, including whether the type and distribution of training provided is addressing the gaps between current workforce skills and future business needs.**

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[15] Field offices will also allocate part of their management budget to local training or facilitating access to centrally sponsored training and some projects will also support local training and development.

Promotion and talent management

89. Measures to attract and develop future talent were prioritized in the human resources strategy for the period 2010 2013. A talent management policy was published in 2011 and introduced:

- Talent pools of pre-identified and assessed personnel for specific positions
- A talent management forum for staff, to identify internal candidates for inclusion in talent pools

90. Despite these developments, there is limited evidence so far of an effective talent management system in practice. Only half (52 per cent) of personnel in the 2013 survey felt that UNOPS had improved its approach to talent management in the previous 12 months, while 55 per cent felt that UNOPS offered adequate opportunities to develop their career. A new programme for emerging leaders involving 51 participants was introduced in 2014. This is a significant development but needs to be underpinned by a wider talent management framework that addresses the challenge of the UNOPS operating model and the predominant use of external contractors. The Board understands that UNOPS is developing an updated talent management strategy.

91. UNOPS does not currently have a formalized internal promotion policy. This means that existing personnel, whether individual contractors or staff, are normally expected to apply for positions alongside external candidates. In the absence of a formal promotion policy, the Board’s audit found that field offices follow a variety of practices. For example, in Myanmar UNOPS ran a recruitment process in which 58 existing individual contractor personnel were successful in their application to perform an upgraded role, while none of the 22 external candidates interviewed were successful. In Serbia, an exception to competitive external procurement procedures was approved to avoid the situation of external candidates making fruitless applications. The absence of an internal promotion policy as a mechanism for developing talent, particularly for those employed on individual contractor terms, and the risk that this will lead to false recruitment exercises, is raised as a concern by field officials in UNOPS who fear losing high quality personnel.

92. The Board understands that the human resources policy team in UNOPS is developing an internal promotion policy to be launched in 2015 as part of its approach to talent management. While senior UNOPS human resources managers are clear that talent management should apply equally to staff and individual contractors, a workforce substantially made up of individual contractors means that an internal promotion policy needs to take full account of the position of individual contractors as external to UNOPS and appointed subject to financial rules and regulations governing procurement.

93. **The Board recommends that a promotion policy be developed and communicated as soon as reasonably possible. The policy should address key issues such as in what circumstances staff and individual contractors can compete for a position, and when positions should be advertised externally.**

94. **The Board recommends that UNOPS further develop its approach to strategic workforce planning by implementing a more systematic approach to talent management which includes all personnel from all contract modalities.**

Managing performance

95. UNOPS achieves reasonably strong compliance with performance management procedures for the personnel it manages, in part because merit rewards are conditional upon the timely completion of performance appraisals. In 2014, 94 per cent of UNOPS-managed personnel for whom completion of an appraisal is mandatory did so, compared with a target of 90 per cent.

96. However, the Board's review of performance reported in 2013 appraisals also showed that 28 per cent of personnel achieved the highest (exceptional) ratings. UNOPS guidance states that it expects no more than 15 per cent of personnel to achieve a rating of "exceptional". It is therefore not clear that current appraisal arrangements provide a firm basis for identifying the very best performers or those with the strongest potential.

97. At the same time, the Board notes that there were only 18 appraisals in 2013 indicating that goals were "not fully achieved" — (the lowest category), which is equivalent to just 0.7 per cent of completed appraisals. Meanwhile, only 13 per cent of headquarters-based human resources professionals responding to its 2013 global personnel survey felt that UNOPS took appropriate remedial action when personnel did not meet performance standards. This suggests that there is scope for UNOPS to do more to identify and openly address underperformance. UNOPS is considering increasing the range of performance ratings so as to give clearer scope to distinguish different levels of performance and emphasizing the proportion of personnel it expects in each performance category. More generally, UNOPS recognizes that it needs to do more to support line managers in addressing underperformance.

98. **The Board recommends that UNOPS: (a) identify ways of disaggregating personnel performance more clearly through performance appraisal; and (b) strengthen underlying systems for identifying and addressing underperformance.**

Merit awards

99. UNOPS incentivizes its personnel through a merit award scheme which is open to both staff and individual contractors. The maximum overall level of merit award payable is 20 per cent of corporate net revenue for the previous financial year; the merit award total for 2014 is $1.5 million (2013: $2.4 million, an average award of $860).

100. The Board has noted that the merit award scheme creates an incentive to exceed the Executive Board's aim of achieving a break-even, and therefore is not fully aligned to the achievement of that financial objective.

101. **The Board recommends that UNOPS review the merit award scheme to ensure that it is consistently aligned to the achievement of its objective of a break-even.**

D. Enterprise risk management

102. UNOPS operates in challenging physical and financial environments, both of which create a significant range of strategic and operational risks. The Board had previously reported that UNOPS had developed a sound risk-management

framework but that the framework was not operational, recommending urgent action to introduce enterprise risk management strategies, policies and procedures.

103. The Board has considered progress in implementing risk management and noted again that UNOPS remains significantly short of a comprehensive framework of risk management or an articulation of top level risks. The Board, however, noted improvements in the approach to the management of infrastructure risks, which provide a good model to inform the wider approach to risk management in UNOPS.

Organizational enterprise risk management

104. The Board has noted that the Executive Director has now established a clear plan to introduce enterprise risk management in three phases, supported by external consultancy and additional dedicated staff resources. The first phase of implementation, assessing the existing frameworks with a view to establishing a clear, practical and appropriate model for UNOPS, will be completed in March 2016. It will also include appropriate training and support to ensure that the framework is embedded and understood, with clear senior management commitment.

105. By March 2016, UNOPS plans to have articulated top level risks and to draw upon the good practice emerging from the management of project risk. The second phase of the project will review the success of the first phase, roll out the project across UNOPS operations and integrate the approach within the new enterprise resource planning and business innovation and improvement programme systems, for completion in March 2017. The final phase will see the embedding of the processes within UNOPS, for completion by December 2017. The Board will report on the success of the first phase in its report in 2016.

106. **The Board recommends that UNOPS establish clear deliverables to monitor the progress made in implementing the new enterprise risk management plan in accordance with the agreed timetable, seeking to prioritize key elements such as the identification of top-level strategic risks and mitigations.**

Management of infrastructure risks

107. Until recently, UNOPS risk management was based on the monitoring of financial and project information to identify regional offices and major projects that were failing to meet targets. This may have been too narrow a focus, however, with the need for comprehensive and effective risk management being demonstrated by project delivery risks that have crystallized recently in Ethiopia, South Sudan and the Sudan.

108. In Ethiopia, a contractor procured by UNOPS notified it mid-project of its inability to complete. In South Sudan and the Sudan, structural defects were identified with construction work delivered by UNOPS, which required remedial action to resolve and has resulted in estimated liabilities of $5.4 million within the financial statements to remediate and recompense for these defects and liabilities.

109. While not yet systematic and comprehensive, UNOPS has developed a new approach to risk management based on the recognition, prioritization and mobilization of risks at the field office level. Risks to individual projects are identified as part of project engagement exercises and documented within its Lead

System, which is the system used to initiate projects, document risks and obtain internal approvals. Risks of a minor nature are to be managed by regional and field offices. Where significant risks are identified by regional offices, they are communicated through the annual business plans, or when identified mid-year through the quarterly assurance submissions, which have been noted by the Board.

Prioritizing and monitoring project risks

110. Currently, UNOPS performs a separate quarterly assurance exercise conducted by the Sustainable Project Management Practice Group, to which risks, issues and developments are reported. Regional and field offices monitor and mitigate risks of a minor nature while keeping the Practice Group informed; more significant risks are resolved through the Group, with critical risks escalated and monitored by the Executive Director or Deputy Executive Director.

111. The involvement of Sustainable Project Management Practice Group in risk management allows UNOPS to communicate common messages and concerns from headquarters to field offices, so as to enable coaching and to share knowledge of risk. UNOPS intends to merge the quarterly assurance exercise with quarterly performance reviews so as to involve everyone in the business in the process.

Quality assurance processes

112. In response to the structural issues identified in South Sudan and the Sudan, UNOPS is performing a review of high-risk construction projects in these areas, led by the Director of the Sustainable Infrastructure Practice Group. New guidelines for infrastructure projects have been rolled out in the form of administrative instructions. In 2016, UNOPS intends to extend this review to the area of transport infrastructure.

113. Projects are now categorized as low, medium or high risk. For low-risk projects, design plans are expected to be peer reviewed internally by UNOPS. For medium- and high-risk projects, project managers are expected to have external quality assurance reviews of design plans conducted, at an expected cost of between $3,000 and $22,000 depending on the size of the project. Such arrangements should strengthen the management of construction projects, reducing the risk of failure.

E. Disclosures by management

Write-offs of losses of cash, receivables and property

114. UNOPS informed the Board that in 2014 it had formally written off assets of $6.1 million (2013: $8.76 million). This includes $3.9 million as a result of overexpenditure on projects, $1.8 million because of fraudulent vendors and $0.4 million of other write-offs.

Ex gratia payments

115. UNOPS informed the Board that it had made no ex gratia payments in 2014 and none were identified through the Board's audit.

Cases of fraud and presumptive fraud

116. In accordance with standard 240 of the International Standards on Auditing, the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). The Board's audit should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

117. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud.

118. UNOPS has an internal control framework, a proactive internal audit and investigation team and a policy to establish a mechanism for reporting suspicions (organizational directive number 10 on the policy to address fraud). However, the Board considers that further attention needs to be given to developing a systematic framework to prevent, detect and assess the risk of the potential for fraudulent activity. The enterprise resource planning system may provide opportunities to develop targeted exception reporting for the review of areas susceptible to a risk of fraud. The Board has not identified any instances of fraud in its audit and no cases have come to its attention through its testing.

119. During 2014, UNOPS completed its investigation of six cases of fraud valued at $206,972. These comprised one case of medical fraud and five involving misappropriation, fraud, collusion and the theft of assets. The Board understands that these investigations resulted in one action against personnel involved and would have resulted in a further five actions had the personnel involved not already been separated. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNOPS directly.

F. Acknowledgement

120. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the Deputy Executive Director of UNOPS and the members of their staff.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Annex I

United Nations Office for Project Services workforce characteristics, costs and perceptions

A. Workforce composition over time

	2011	*2012*	*2013*	*2014*
Grade				
Number of senior managers	65	84	91	95
Number of other professionals	1 016	1 188	1 188	1 268
Number of support personnel	1 756	2 081	1 958	1 919
Ratio of senior managers to all other personnel	1:43	1:39	1:35	1:34
Ratio of human resources personnel to all other UNOPS-managed personnel				1:89
Type of personnel				
Staff	410	551	537	496
Individual contractors	2 374	2 712	2 591	2 667
Ratio of staff to individual contractors	1:5.8	1:4.9	1:4.8	1:5.4
Category of personnel				
National personnel as percentage of UNOPS-managed workforce	84	82	79	77
Gender (percentage)				
Male	72	71	72	69
Female	28	29	28	31

Source: Analysis by the Board of Auditors of UNOPS data. Underlying data and systems were not subject to Board review.

Notes:

1. Senior manager is staff grade P-5 (or equivalent) and above.
2. Data is for all UNOPS personnel managed by UNOPS, including staff and individual contractors. With the exception of values under the gender heading, excludes UNDP service contract personnel and UNOPS-managed individual contractors employed on retainer or lump-sum terms.
3. Human resources personnel to personnel ratio assumes that all human resources personnel are dedicated to supporting UNOPS-managed personnel. In practice, a proportion of human resources capacity will be allocated to supporting partner-managed UNOPS personnel.

B. Personnel costs

(Thousands of United States dollars)

Description	*2011*	*2012*	*2013*	*2014*
Staff costs (salary and all other benefits)	129 989	128 047	133 566	132 914
Individual contractor costs (all fees)	112 251	117 043	116 564	124 664
Training spending (central)	..	..	..	3 102
Cost per staff member	148	148	157	157
Cost per individual contractor	31	31	29	30
Cost per member of personnel (overall)	54	53	52	52
Staff costs as a percentage of total expenses	..	19	19	20
Individual contractor costs as a percentage of total expenses	..	17	17	19
All personnel costs as a percentage of total expenses	..	36	36	39
Headquarters training spending per UNOPS-managed personnel	..	..	..	0.945
Headquarters training spending as a percentage of total personnel costs	..	..	..	1.2

Source: Analysis by the Board of Auditors of UNOPS data.

Notes:

1. Denominators in unit cost calculations are UNOPS personnel (UNOPS-managed and partner-managed) in rows 4-6. Denominator in row 5 includes UNDP service contracts. Denominator in row 10 is UNOPS personnel who are also UNOPS-managed. Individual contactor retainer/lump-sum contracts are excluded from denominators in rows 4-6 and row 10.
2. Training expenditure excludes local management budget expenditure and local project expenditure relating to training.
3. The unit costs for individual contractors and staff are not directly comparable because their grade compositions are different. For example, in 2014, 64 per cent of individual contractors were in support grades compared with 21 per cent of staff. Modelling by UNOPS itself suggests that the average cost of an international staff appointment is around twice the cost of an equivalent individual contractor agreement.
4. Underlying performance data, systems and classifications were not subject to review by the Board of Auditors. Financial data is subject to financial audit by the Board.
5. Nominal values shown.

C. Personnel survey results, 2013

Positive responses on:	*Percentage of respondents*	*Statement queried in survey*
Overall job satisfaction	85	Overall, I am satisfied with my job.
Recommend UNOPS	80	I would recommend UNOPS as a good place to work.
Learning and development opportunities	73	My supervisor encourages me to take advantage of learning opportunities.
Transparent recruitment and selection process	60	UNOPS has a transparent recruitment and selection process.
Career development opportunities	55	UNOPS offers me adequate opportunities to develop my career.
Improvement of talent recruitment, development and retention	52	Looking back at 2013 … to what extent, if at all, do you agree or disagree that UNOPS has improved [talent recruitment, development and retention]?

Notes:

1. Global personnel survey in 2013 commissioned by UNOPS and undertaken by Ipsos.
2. Responses are from UNOPS personnel who are managed by UNOPS.

Annex II

Status of implementation of recommendations

As at 31 March 2015, of the 32 recommendations outstanding for 2013 and previous years, 10 recommendations (31 per cent) were implemented, 18 recommendations (56 per cent) remained under implementation and 4 (13 per cent) had not been implemented. Little substantive progress has been made with regard to two of the Board's 2012 recommendations on the need to actively manage fraud risks and the need to consider the benefits of performing the background checks on all new recruits, vendors and other partners or contractors. In its report for 2015, the Board has reiterated its previous recommendation that a policy for the use of surplus reserves be developed.

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/67/5/Add.10, chap. II, para. 48	Draw lessons from its existing projects and consider measures to enable it to close projects in time; and address the backlog of projects needing closure	The quarterly assurance process and the project closure tool continue to ensure that projects that need to be closed are identified and closed on a timely basis	While UNOPS has identified completed projects for closure, these projects have not yet been closed		X			
A/67/5/Add.10, chap. II, annex	Analyse all currently listed projects and identify projects that need to be closed	The Finance Practice Group has launched an exercise to close projects that have ended before 30 June 2012 and has identified 544 projects requiring closure. Work is ongoing with project managers to ensure this backlog is addressed						

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/67/5/Add.10, chap. II, para. 53	Strengthen its oversight role over the Democratic Republic of the Congo operations centre to address the operational challenges affecting its projects in a timely manner	UNOPS has carried out a number of missions to strengthen management in the Democratic Republic of the Congo operations centre (July 2013, August 2013 and July 2014). A Project Management Office team leader has been recruited to assure projects and there is more oversight from the operational hub, the regional office and headquarters	The Democratic Republic of the Congo operations centre has received significant attention, including an internal audit review. Oversight has been strengthened and there will need to be ongoing monitoring of the performance of centres in high risk environments	X				X
A/67/5/Add.10, chap. II, para. 54	Consider the adequacy of its oversight and support to centres operating in high risk environments	The UNOPS approach now involves carrying out project management missions to high risk centres (four planned for 2015) and to set up Programme Management Offices within centres to oversee project portfolios (two are set up and another four are being set up). Regions have also recruited management and oversight specialists and risk management will be a key responsibility for headquarters in 2015	UNOPS has made good progress in addressing issues with oversight of some centres, although problems are still occurring in some high risk centres. The recommendation can be closed but the Board will continue to monitor the issue	X				X

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
A/67/5/Add.10, chap. II, para. 107	Address the discrepancies in asset registers to ensure it is able to accurately account for its asset inventory and prepare accurate opening balances for IPSAS purposes; and address the inconsistencies in the asset inventory certification process	The UNOPS asset management team has completed the annual certification for 2014 within the timeline by a new process design, where assets related to transactions in the first 10 months of the year were verified in a first batch in order to reduce the time pressure for the annual certification at year end. Information on assets has been reported in the financial statements	UNOPS has completed a comprehensive data cleansing exercise of its asset records and has prepared clear instructions on asset certification and physical verification processes for field offices. Additional disclosures have been made in the financial statements and UNOPS now has auditable quality asset data. This recommendation is considered closed	X				X
A/68/5/Add.10, chap. II, para. 24	Clearly identify the envisaged benefits from accruals-based information and associated revised management procedures; and appoint a senior responsible owner for realizing such benefits and embedding new ways of working across the organization	Preliminary work on implementing this recommendation was initiated during the second half of 2013 and systems and tools providing management information were already modified to reflect accrual-based information. UNOPS plans to incorporate the second part of the recommendation in the design and configuration of the new enterprise resource planning system that will be implemented in 2016	UNOPS has incorporated realization of IPSAS benefits into the design of the new enterprise resource planning system scheduled for implementation in 2016		X			

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/68/5/Add.10, chap. II, para. 31	Establish a separate reserve account for after-service benefits in order to increase the visibility of funding provided for end-of-service liabilities	UNOPS had identified an external service provider to manage the investment of funds relating to after-service health insurance liabilities; the related agreement is currently being finalized. The service provider was expected to begin administration of the funds during the second half of 2014	The full implementation of this recommendation has been delayed as a consequence of UNOPS taking on its own treasury function		X			
A/68/5/Add.10, chap. II, para. 44	Appoint a fraud risk owner, or senior risk officer, at a suitably senior level, to be accountable for the active management of fraud risks throughout UNOPS activities; perform a comprehensive organization-wide fraud risk assessment to identify the major types of fraud risk UNOPS faces; and define UNOPS tolerance to different types of fraud risk and ensure that fraud controls are commensurate with that risk appetite	In conjunction with implementing a new enterprise resource planning system, during 2015 UNOPS will map its key processes and identify key controls and the associated risks, so as to summarize the organization's susceptibility to fraud. The accountability framework will be further strengthened after UNOPS updates its policies and procedures on internal controls and risk management thresholds	No substantive progress has been made on this recommendation during the year			X		

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/68/5/Add.10, chap. II, para. 51	Examine the costs and benefits of performing mandatory background checks on all new recruits, vendors and other partners or contractors	UNOPS has started using the background-check services for specific cases where deemed necessary. The checks are not conducted for all personnel as it may not be cost-effective. This was decided in 2014, until a set of criteria is put in place on when and to which positions such a check should apply. However, the service is fully operational and checks are being requested and conducted by the service provider regularly. The number of checks conducted so far can be measured through payments made to the service provider	Until UNOPS has developed appropriate criteria for performing the background checks on all new recruits, vendors and other partners or contractors, this recommendation is considered not implemented			X		
A/68/5/Add.10, chap. II, para. 62	Give careful consideration to ensuring that the new infrastructure strategy is understood by all infrastructure staff	UNOPS now runs a two-day workshop for project managers on sustainable infrastructure and also communicates the strategy through the annual global management meeting, the Sustainable Infrastructure Practice Group and training courses run in regional offices and hubs, and embeds it in guidance	UNOPS has done a great deal to communicate the strategy to practitioners. However, because the personnel survey has changed, this can no longer be used to measure awareness	X				X

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/68/5/Add.10, chap. II, para. 67	Examine the extent of changes to agreements and the causes of delays in the completion of projects throughout its infrastructure portfolio	UNOPS will systematically examine the extent of agreement changes and project delays. It is discussing with the business innovation and improvement team how these requirements can be built into the new enterprise resource planning system	UNOPS is awaiting the development of the new enterprise resource planning system before implementing this recommendation			X		
A/68/5/Add.10, chap. II, para. 76	Encourage its clients to accept the inclusion of contingency budgets for projects, which might necessitate a corresponding reduction in other components of the budget as well as processes for releasing contingency that are acceptable to clients	UNOPS released a project level budgeting toolkit in 2013 that provides guidance on how to build, communicate and monitor project budgets, including contingency budgets. Not all projects have contingency and more time is needed to assist project managers	Some progress has been made. UNOPS should monitor the extent to which new projects include contingency		X			
A/68/5/Add.10, chap. II, para. 77	Investigate the extent and causes of precision spending, and assess whether its processes or guidance need to change as a result	UNOPS investigated this in 2014. It found that precision spending did exist and that it arose from good management practices, good systems and procedures, and flexibility in maintaining budgets, as well as the implementation modality of some project types and client agreements	This issue has been investigated	X				X

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/68/5/Add.10, chap. II, para. 82	Develop a mechanism to generate better information on the post-completion performance of buildings	UNOPS has recognized that post-occupancy performance needs to be embedded in the sustainability element and is important in generating knowledge. The practical implications are undergoing further analysis	UNOPS accepts the need for this and is making progress		X			
A/68/5/Add.10, chap. II, para. 85	Develop a strategy to encourage clients to engage more with the partner centre, including providing feedback	There have been awareness exercises covering external stakeholders and UNOPS project managers	UNOPS has taken action, although the Board has not seen evidence of improved client engagement with the partner centre	X				X
A/68/5/Add.10, chap. II, para. 90	Work with its partners to establish processes to better capture information on the outcomes to which UNOPS activities contribute, particularly in terms of the beneficiaries of projects	UNOPS has developed a sustainability marker and sustainability toolkits. It also has a responsibility to develop use of the Global Reporting Initiative to produce reports in future years	Progress has been made, but the Global Reporting Initiative on Sustainability will be key and is not yet implemented		X			

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/68/5/Add.10, chap. II, para. 92	Either enhance the online assurance tool to enable drilling down to project-level assurance where an engagement includes multiple large projects or set up more of its engagements as single projects	UNOPS has assessed the tool and decided to keep it at award-level given that this is the basis of UNOPS legal obligations. It will advise setup as one award for one project unless requested otherwise by partners. It is also upgrading the assurance tool	The Board accepts the rationale of UNOPS	X				X
A/69/5/Add.11, chap. II, sect. A, paras. 9 and 34	Prepare reports on financial, performance and risk management that include a full analysis and explanation of significant variances. Specifically, UNOPS should document risk tolerances and should identify, document and assess key risks and regularly update and monitor said risks	UNOPS has introduced a framework to capture risks across the business. Risks to delivery/net revenue are captured through the management workspace system and reviewed quarterly by senior management. Other risks are identified through annual business cases and are to be monitored during quarterly assurance updates	The Board has substantively followed-up on risk management in its current report		X			

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/69/5/Add.11, chap. II, sect. A, para. 12	Critically review its accrual accounting treatment and closure procedures to ensure that financial information is available in real time in the management workspace system, and continue to enhance the system so that it meets the needs of country offices	UNOPS has changed from quarterly closure to monthly closure to obtain more timely information. The needs of users have been considered as part of the development of the new enterprise resource planning system	UNOPS has enhanced its closure routines, but full implementation of this recommendation is now dependent on the implementation of the new enterprise resource planning system		X			
A/69/5/Add.11, chap. II, sect. A, para. 14	Develop a more realistic delivery forecast based on historical trends and known factors, such as seasonal variations, to support more effective management of delivery during the year	For 2015, UNOPS has enhanced its management workspace system to profile delivery targets to better reflect expected patterns	The Board notes the enhancements made to delivery targets for 2015 in the management workspace system and considers this recommendation implemented	X				X

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/69/5/Add.11, chap. II, sect. A, para. 21	Review its operational reserve policy and establish, with the approval of its Executive Board, plans for the use of surplus reserve balances	UNOPS is planning to utilize a portion of the reserves to fund investment projects that support the goals of the organization. The identification of such projects is an ongoing process and investments will be made as they are identified	The Board has found little substantive progress on this issue and has reiterated the recommendation in its current report			X		
A/69/5/Add.11, chap. II, sect. A, para. 26	In developing the new enterprise resource planning solution, UNOPS should take the opportunity to ensure that the full cost of projects can be tracked, including any costs charged to management expenses, and regularly review this information to ensure that project recovery rates remain acceptable	Following the implementation of the new pricing policy in 2013, UNOPS has developed a mechanism that will track cost recovery in comparison with the minimum pricing requirement. Based on this mechanism UNOPS has generated a reporting tool that identifies over- and under-recovery	The Board notes the tool developed to provide management information	X				X

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
A/69/5/Add.11, chap. II, sect. A, para. 34	Practical steps be taken to implement enterprise risk management strategies, policies and procedures throughout the entity without further delay. Specifically: • Identify, document and assess key risks to achieving strategic objectives • Regularly update and monitor risk information that can be aggregated at the entity level • Document risk tolerances so that they are understood and applied throughout the organization • Use risk registers to record the likelihood of a risk materializing, the impact of the risk, the proposed mitigating actions and the assessed level of risk post-mitigation	UNOPS has introduced a framework to capture risks across the business. Risks to delivery/net revenue are captured through the management workspace system and reviewed quarterly by senior management. Other risks are identified through annual business cases and are to be monitored during quarterly assurance updates	The Board has substantively followed-up on risk management in its current report		X			

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	• Assign risk owners to take responsibility for monitoring and controlling each risk							
A/69/5/Add.11, chap. II, sect. A, para. 45	Strengthen its performance information, including by reference to what metrics are used by other United Nations entities. In particular, examine the scope for a metric for price and cost competitiveness, based on prices actually paid; review the suitability of the scorecard measures and annual targets and how they can be widened in the future to cover all UNOPS procurement; and include only those measures that can be measured, with clear time frames for targets that are stretching yet achievable	UNOPS is evaluating how to implement this recommendation, while noting that price benchmarking is difficult. It will review and revise the existing Sustainable Procurement Practice Group's scorecard to reflect clear time frames and indicators that can be measured	Limited progress has been made, but UNOPS expects to complete by the end of 2015		X			

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
A/69/5/Add.11, chap. II, sect. A, para. 52	Establish ways in which the Sustainable Procurement Practice Group can engage more effectively in the development of local procurement strategies	The Sustainable Procurement Practice Group will work with regional offices to implement this recommendation	Limited progress has been made, but UNOPS expect to complete by the end of 2015		X			
A/69/5/Add.11, chap. II, sect. A, para. 56	To maximize the benefits resulting from long-term agreements, UNOPS headquarters should work with country offices using aggregated information to identify where regional and global long-term agreements would be mutually beneficial, such as for medical equipment and supplies	UNOPS has gathered data on available long-term agreements and has started to collate information for devising a strategy to improve realization of benefits from long-term agreements	Limited progress has been made, but UNOPS expect to complete by the end of 2015		X			

Report reference	*Summary of recommendation*	*Administration's comment on status at March 2015*	*Board's comment on status at March 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/69/5/Add.11, chap. II, sect. A, para. 57	To improve the use of and benefits resulting from long-term agreements, UNOPS should collate information on the existence and usage of local and regional long-term agreements available for its use	UNOPS has gathered data on available long-term agreements and has started to collate information for devising a strategy to improve realization of benefits from long-term agreements	Limited progress has been made, but UNOPS expect to complete by the end of 2015		X			
A/69/5/Add.11, chap. II, sect. A, para. 61	To strengthen the professionalization of procurement: use the results of its skills definition and mapping exercise to set out the desired level of training and qualifications for specific procurement roles in UNOPS and identify areas of shortage; and make the sustainable procurement online training course mandatory for all procurement staff within a specified time frame	UNOPS has produced a procurement training strategy setting out expected training for specific roles. The Sustainable Procurement Practice Group has lobbied internally that the online procurement training be mandatory for procurement personnel, and a large number have completed the online training	Good progress has been made, but the online training in not yet mandatory and around half of the 200-250 procurement practitioners have yet to do the course		X			

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
A/69/5/Add.11, chap. II, sect. A, para. 65	Develop a way of monitoring the length of the procurement process, either through the e-procurement or enterprise resource planning systems that are under development and being introduced in 2015 or by distributing a template for capturing procurement information from all centres	UNOPS intends to implement this as part of its e-procurement project	Limited progress has been made, but UNOPS expect to complete by the end of 2015		X			
A/69/5/Add.11, chap. II, sect. A, para. 70	Determine whether lessons from the UNOPS Ethiopia project centre's successful use of UNWebBuy could be applied in other countries in order to promote the catalogue	UNOPS headquarters has engaged with the Ethiopia project centre	UNOPS did identify how the Ethiopia project centre achieved this and some other centres are seeking to develop similar business	X				X

Report reference	Summary of recommendation	Administration's comment on status at March 2015	Board's comment on status at March 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
A/69/5/Add.11, chap. II, sect. A, para. 75	Internal Audit and Investigations Group, in setting its work programme for 2015, and on the basis of the results of the fraud risk-assessment undertaken in 2014, consider carrying out specific audit work to examine controls covering the risk of fraud in procurement	UNOPS is assessing the susceptibility of its processes, including procurement, to fraud, expecting completion in June 2015. Based on the results, Internal Audit will apply its risk-based planning approach	In progress, although will not have been fully implemented in 2015		X			
A/69/5/Add.11, chap. II, sect. A, para. 80	Carry out structured and regular benchmarking exercises, where feasible, of the prices that it obtains. UNOPS should also obtain feedback specific to procurement from its partners	UNOPS notes that the markets it operates in makes price benchmarking difficult. It includes specific questions on procurement services in partner surveys	In progress, but the Board considers it vital that UNOPS makes a concerted effort to overcome difficulties in carrying out price benchmarking		X			
A/69/5/Add.11, chap. II, sect. A, para. 82	Take action to strengthen local capacity-building. This could involve sharing good practices such as procedures to reduce non-compliance in tendering	UNOPS plans to implement this through increased knowledge-sharing, newsletters, face-to-face interventions, online webinars and other measures	Limited progress has been made, but UNOPS expects to complete by September 2015. The Board considers that UNOPS should measure the outputs and outcomes of this effort, not just inputs or processes		X			

Chapter III
Financial report for the year ended 31 December 2014

A. Introduction

1. In accordance with the financial regulations and rules of the United Nations Office for Project Services (UNOPS), the Executive Director of UNOPS has certified the 2014 financial statements of the organization and is pleased to submit them to the Executive Board and the General Assembly, and to make them publicly available. The financial statements have been audited by the Board of Auditors, and its unqualified audit opinion and report are attached. Overall, UNOPS is financially robust and is continuing to make the necessary strategic investments in order to accomplish its strategic plan for 2014-2017.

B. Accountability and transparency as a core value of the United Nations Office for Project Services

2. The UNOPS strategic plan for 2014-2017 focuses on strengthening the capacities of the organization in its three main areas of delivery, namely, project management, infrastructure and procurement, with strategic emphasis on sustainability, focus and excellence.

3. In order to achieve those objectives, UNOPS continued to benchmark its organizational maturity against internationally recognized standards and best practices in use by public and private organizations.

4. Achievements during 2014 included:

(a) UNOPS maintained its International Organization for Standardization (ISO) 9001 certification (quality management systems) and expanded the coverage of its ISO 14001 certification (environmental management systems) to cover infrastructure projects in Afghanistan, Kosovo and the State of Palestine;

(b) UNOPS established and implemented a health and safety management system for infrastructure operations, which is now certified by the United Kingdom-based Occupational Health and Safety Management Systems 18001, the internationally applied standard for such systems. The aim is to reduce the health and safety risks that UNOPS personnel and contractors face when working on potentially hazardous infrastructure projects;

(c) UNOPS continued the inclusion of the European Foundation for Quality Management excellence model as part of the focus on organizational excellence in UNOPS. The budget and business planning processes were further aligned with the UNOPS excellence model, while training in this approach for personnel was conducted.

C. Results of the United Nations Office for Project Services in 2014

Highlights

5. The mission of UNOPS is to serve people in need by expanding the ability of the United Nations, Governments and other partners to manage projects, infrastructure and procurement in a sustainable and efficient manner. UNOPS is a self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from project implementation and from providing high-quality transactional and advisory services.

6. Major operational results in 2014 included construction, design or rehabilitation of 175 bridges, 4,577 kilometres of road, 2 airstrips, 30 schools and 18 hospitals and health clinics. UNOPS procured over 49,000 units of machinery and equipment and more than 5,500 vehicles. Over 17.8 million medical supplies were handled, including the distribution of about 3.6 million diagnostic kits. More than 84,000 individuals were trained in various fields; 684 high-level events and meetings were organized. Mine action work was supported in 17 countries and territories. A full account is provided in the UNOPS annual report (DP/OPS/2015/2).

7. The financial performance of UNOPS in 2014 can be summarized in the following headline figures:

(a) UNOPS increased the worth of the net services it delivered to $1.22 billion, an increase in activity of 17 per cent compared with the previous year. The amount comprised $599.7 million in respect of projects delivered on behalf of UNOPS and $619.6 million in respect of projects delivered on behalf of other organizations;

(b) The net surplus for the year was $9.9 million, which included expenditure of $0.3 million in excess of the non-exchange revenue recognized in the financial period of the $3.8 million grant received from the Government of Denmark. The balance of the net surplus is otherwise comparable to the previous year;

(c) The reserves at the year-end stood at $78.5 million, exceeding the target set by the Executive Board. That figure was derived after taking into account the impact of actuarial loss amounting to $14.2 million on the post-employment benefits recognized in the statement of changes in net assets.

8. Such solid financial results place UNOPS in a position of strength to respond to the requests of its partners, to focus on identifying the relevant talents and skills in support of their growing requirements and to help them to succeed by achieving outstanding results.

Financial statements prepared in accordance with International Public Sector Accounting Standards

9. In accordance with International Public Sector Accounting Standards (IPSAS), a complete set of financial statements has been prepared as follows:

(a) *Statement of financial position*. This statement shows the financial status of UNOPS as at 31 December 2014 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UNOPS to continue delivering partner services in the future;

(b) *Statement of financial performance*. This statement measures the net surplus or deficit as the difference between revenues and the corresponding expenses incurred. The net surplus or deficit is a useful measure of the overall financial performance of UNOPS and indicates whether the organization achieved its self-financing objective for the period;

(c) *Statement of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial performance, for example, actuarial adjustments to employee liabilities;

(d) *Statement of cash flows*. This statement reflects the changes in the cash position of UNOPS by reporting the net movement of cash, classified by operating and investing activities. The ability of UNOPS to generate cash liquidity is an important aspect in assessing its financial resilience. For a more complete picture of the organization's ability to draw upon its cash balances, investments also need to be taken into account;

(e) *Statement of comparison of budget and actual amounts*. This statement compares the actual operational result with the main budget previously approved by the Executive Board.

10. The financial statements are supported by notes that assist users in understanding and comparing UNOPS with other entities. The notes include UNOPS accounting policies and other additional information and explanations.

Financial performance

11. In 2014 the net delivery of services of UNOPS amounted to $1.22 billion, consisting of services delivered on behalf of UNOPS and services delivered on behalf of its partners. This illustrates the total volume of resources handled by UNOPS during the period and represents an increase of 13 per cent in services compared with 2013, which recorded delivery of $1.07 billion. Most of the growth in delivery is explained by an increase in services that UNOPS delivered on behalf of its partners.

12. In 2014 total revenue, representing the actual income attributable to UNOPS, amounted to $673.8 million, as reported in the statement of financial performance. This figure represents a decrease of 6.0 per cent in revenue compared with 2013, when total revenue was $717.1 million. The overall picture is that UNOPS saw a slight decrease in revenue.

13. For accounting purposes, IPSAS distinguishes between a contract where UNOPS acts as a principal and a contract where it acts as an agent. In other words, where UNOPS delivered services on its own behalf, that is, by acting as a principal, the revenue is recognized in full on the statement of financial performance. Where UNOPS delivered services on behalf of its partners, that is, by acting as an agent, only the net revenue is reported on the statement.

14. The difference between gross delivery and IPSAS revenue figures consists of $619.6 million in agency contracts, which are "pass-through" transactions, as explained in the notes to the statements. The table below provides a summary of revenue and expenses against the three core services of UNOPS: infrastructure, project management and procurement. The figures are derived from the financial statements that report the same IPSAS figures against the five principal activities (see note 17).

15. After deducting annual expenses and long-term employee liabilities charges, the net surplus for 2014 was $9.9 million, compared with the net surplus for 2013 of $14.7 million.

Revenue and expenses

(Millions of United States dollars)

	IPSAS revenue	*Add agency transactions*	*Total gross delivery*
Revenue			
Infrastructure	217.8	1.0	218.8
Project management	423.5	474.5	898.0
Procurement	24.7	144.1	168.8
Miscellaneous revenue	4.0		4.0
Non-exchange revenue	3.8		3.8
Total revenue	**673.8**	**619.6**	**1 293.4**

	IPSAS expenses	*Add agency transactions*	*Total gross expenses*
Expenses			
Infrastructure	(204.3)	(1.0)	(205.3)
Project management	(380.2)	(474.5)	(854.7)
Procurement	(15.2)	(144.1)	(159.3)
Total project expenses	**(599.7)**	**(619.6)**	**(1 219.3)**
Less: UNOPS administrative costs	(67.0)		(67.0)
Total expenses	**(666.7)**		**(1 286.3)**
Surplus from services	7.1		7.1
Add: net financial income	2.8		2.8
UNOPS 2014 surplus	**9.9**		**9.9**

United Nations Office for Project Services delivery and direct support

16. UNOPS receives funding from many sources and spends and disburses those same resources in accordance with a range of contract arrangements. In 2014 57 per cent of UNOPS delivery was on behalf of the United Nations system, down from 60 per cent in 2013 but closer to figures from previous years. The largest United Nations partner was the Department of Peacekeeping Operations of the Secretariat, accounting for $237 million, or 19.5 per cent of implementation expenditure, compared with 18.1 per cent in 2013. Specifically, this delivery consisted of providing support for the global peace and security work of the United Nations Mine Action Service. The United Nations Development Programme (UNDP) was the second largest United Nations partner, accounting for $232 million, or 19 per cent of total delivery, a decline of 6 per cent compared with 2013. Other trends

among United Nations partners in 2014 included a second consecutive year of increasing delivery on behalf of the Office of the United Nations High Commissioner for Refugees, from $40 million in 2013 to $58 million in 2014. Support services to the World Health Organization and the United Nations Human Settlements Programme increased during 2014.

17. From another perspective, direct support provided by UNOPS to Governments made up 28 per cent of delivery. The largest partnerships were with the Governments of Afghanistan, Peru and Guatemala. The countries provided with the most support were Afghanistan, Myanmar, Somalia, South Sudan and Mali. A full account is provided in the UNOPS annual report (DP/OPS/2015/2).

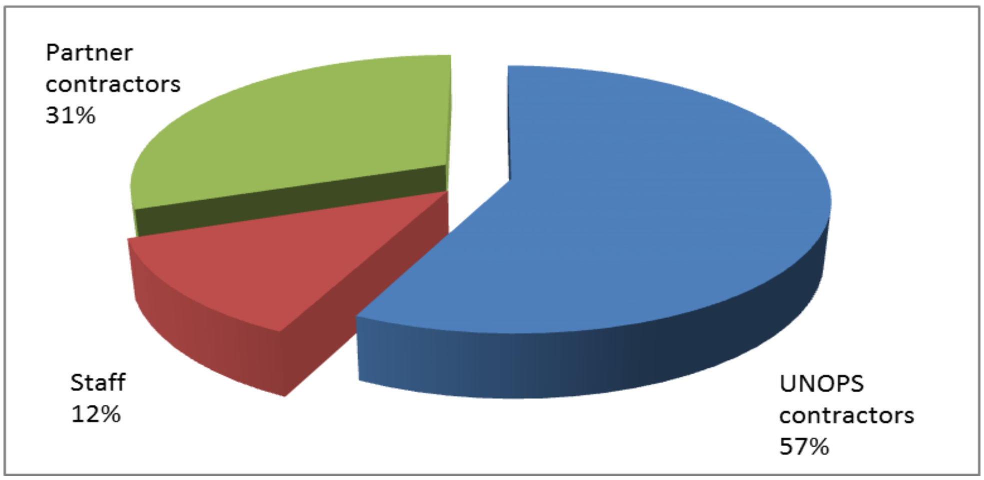
Assets and liabilities

18. The statement of financial position is a comprehensive summary of UNOPS assets and liabilities. All UNOPS liabilities and assets are included, except for the property, plant and equipment asset category. This is because UNOPS continues to apply the IPSAS transitional provision, which allows the organization a period of up to five years to bring property, plant and equipment onto the statement of financial position.

Personnel and employee benefits

19. UNOPS has a highly skilled and engaged workforce. As at 31 December 2014, the UNOPS workforce totalled 6,810 individuals. Of these, 845 were staff and 5,965 had individual contractor agreements (729 international and 5,236 local). UNOPS administers personnel contracts on behalf of a range of partners. In 2014 2,074 of the total number of individual contractors were partner-supervised personnel. This is illustrated in the figure below.

Status and deployment of UNOPS personnel



Source: UNOPS Human Resources Department.

20. UNOPS continued to expand the benefits it offered to its personnel, in accordance with their contracts of employment. For example, from April 2014, UNOPS-supervised local individual contract holders were provided with the option

to register their dependants for health insurance with Vanbreda International at their own cost and, from October 2014, they were offered a provident fund scheme, similar to the existing pension scheme for staff.

21. As at 31 December 2014, the liability to fund after-service health care and end-of-service benefits for qualifying members of the staff stood at $69.5 million. This liability was independently estimated by a specialized actuary. The details of the calculations are contained in note 13. While this amount represents the UNOPS best estimate of the liability, it remains subject to a degree of uncertainty, which is reported in the sensitivity analysis. In recognition of this uncertainty, the actuarial assumptions will be kept under review and the estimate of the liability will be updated on an annual basis.

Financial position at the end of 2014

22. As at 31 December 2014, UNOPS had assets of $1,200.0 million, which more than covered liabilities of $1,051.1 million, leaving net assets of $78.5 million. Although UNOPS now recognizes all liabilities, both long-term and short-term, the assets do not yet include property, plant and equipment, which will be recognized when the transition period allowed by IPSAS is unwound.

23. The most important assets were cash and investments, which amounted to $1,130.0 million at the end of 2014, compared with $1,013.5 million at the end of 2013. The increase of $116.5 million is explained mostly by the fact that there was an increase of $119.7 million in the contributions received from clients for implementation of projects by UNOPS, as indicated in note 15.

24. About 83 per cent of UNOPS cash and investments reflect contributions that have been received in advance from partners and are repayable. The UNOPS cash position demonstrates that it can continue to fund a similar portfolio of future programmes of work with its partners.

Operational reserves

25. As at 31 December 2014, after allowance was made for all known liabilities, the operational reserves held by UNOPS stood at $78.5 million. Significantly, a $14.2 million actuarial loss pertaining to the valuation of employee benefits at the year-end was recognized and has reduced the UNOPS total reserves.

26. In September 2013 the Executive Board approved a change to the UNOPS operational reserve basis to a minimum requirement of four months of the average actual management expenses of the previous three years. The application of that formula resulted in UNOPS having a $19.6 million minimum reserve requirement as at 31 December 2014.

Liquidity

27. The statement of cash flows shows that cash and cash equivalents held by UNOPS increased by $9.5 million during 2014. UNOPS continues to retain a strong cash position.

28. During the same period, UNOPS continued to manage its cash and ensured that any cash exceeding working capital needs was duly handled within its portfolio of investments managed through the UNDP treasury.

Budget outcome

29. The move to IPSAS requires the preparation of a statement of comparison of budget and actual amounts. The statement reports actual revenue and expenses against the Executive Board-approved management budget covering UNOPS administrative costs for the biennium 2014-2015.

30. For 2014 the overall budgetary outcome was positive, with UNOPS achieving a surplus of $8.8 million from its delivery of services, with an additional $2.4 million in finance income. The UNOPS net revenue from management fees, reimbursable services and advisory income totalled $67.7 million in 2014 and was down by 3 per cent from the budgeted revenue target of $70.1 million.

D. System of internal control and its effectiveness

31. The Executive Director is accountable to the Executive Board for establishing and maintaining the system of internal control that conforms and complies with the financial regulations and rules of UNOPS.

Main elements of the system of internal control

32. The main elements of UNOPS internal control comprise the policies, procedures, standards and activities designed to ensure that all operations are conducted in an economical, efficient and effective manner. They include adherence to United Nations policies established by the General Assembly, the Economic and Social Council, the Secretary-General and the Executive Board; the documentation of processes, instructions and guidance promulgated by the Executive Director through UNOPS organizational directives; the delegation of authority through written instruction; the system of personnel performance management; key controls throughout the UNOPS value chain to address any risks to core activities; and the monitoring and communication of results by both management and the Executive Board.

33. UNOPS management of risk is an integral part of the internal control framework. The Executive Director maintains a risk management system to manage a range of strategic and operational risks, including the identification, evaluation and measurement of possible impact on UNOPS, and the selection and maintenance of solutions to mitigate those risks. The objective of risk management is to strengthen UNOPS foresight and insight, so as to respond proactively to opportunities and threats. Risk management informs the prioritization of strategic alternatives and mitigation measures, particularly in the context of UNOPS strategic realignment and business development. Furthermore, risk management helps to calibrate UNOPS internal controls in response to changes in the business and operating environments.

34. As part of the continuous risk management process, UNOPS is implementing a mandatory review process for buildings and other infrastructures. The UNOPS Design Planning Manual for Buildings, which has already been issued, and a similar manual covering transport-related infrastructures, which is expected to be issued later in 2015 together with other guidance materials, will assist infrastructure personnel in reducing UNOPS exposure to infrastructure-related risks.

35. In light of the collapse of a bridge in August 2014, the Executive Office started an immediate review of high-risk infrastructure within South Sudan. The process not only examined in detail those conditions that contributed to the failure of the particular bridge but also considered the full project cycle within the South Sudan portfolio of infrastructure projects. The findings of the review process were quantified and used as a basis for a change programme within South Sudan. Similar processes are envisaged for other countries with large volumes of potentially high-risk infrastructure.

36. Furthermore, the Sustainable Infrastructure Practice Group has a specific focus in 2015 to develop and deliver guidance material and training to senior management, business development and field personnel to ensure the recognition of infrastructure-related risks within the project cycle. This action is intended to deliver significant improvements in risk identification and mitigation in future infrastructure project delivery.

Effectiveness of the system of internal control

37. The UNOPS system of internal control is a continuous process designed to guide, manage and monitor UNOPS core activities. As a result, the system can only provide a reasonable, but not absolute, assurance of effectiveness. Similarly, risks can never be entirely eliminated; however, internal controls help to reduce the likelihood of failure in achieving the expected results and objectives. The Executive Director has therefore reviewed the effectiveness of the system, as reinforced by the UNOPS risk management processes. The review was informed by regular meetings of the Executive Director with major elements of the governance arrangements, including the Executive Board, the Strategy and Audit Advisory Committee, the Audit Advisory Subcommittee, the Director of the Internal Audit and Investigations Group, the Ethics Officer and the Board of Auditors. She also took into account the views of senior managers and staff at Headquarters and in the field, as well as those of partners and key stakeholders. Based on her review, she provided a reasonable, but not absolute, assurance of the effectiveness of the internal control system and confirmed that she was not aware of any significant issues.

38. In 2014 UNOPS began work on a new enterprise resource planning system, designed to better integrate operational processes and systems. This new system should increase the quality of information for management decision-making and enable UNOPS to provide more efficient operational support to partners. The system is a vital element of the continued efforts to optimize UNOPS risk management systems and systematically reinforce internal controls, segregation of duties and compliance. The development of the enterprise resource planning system is on schedule for release on 1 January 2016.

39. The Executive Director was pleased to endorse the proactive approach of UNOPS relating to integrity, ethics and fraud prevention, as illustrated by the findings from the 2014 UNOPS integrity, ethics and anti-fraud survey, which considered the potential for fraud risks. As a result, the UNOPS Ethics Office and the Internal Audit and Investigations Group are now developing an organization-wide training curriculum on fraud awareness, ethics and integrity. This measure is a positive step towards further strengthening the understanding of UNOPS and its partners with regard to ethics and the ways in which to develop strategies to avert fraud or waste, while reporting any such abuse.

40. In addition, UNOPS has initiated an enterprise risk management programme, under the leadership of the Executive Office, to provide an enhanced and updated organizational framework for risk management. This endeavour will involve the development and implementation of processes, tools and systems for the management of risk and seizing of opportunities related to the achievement of UNOPS objectives.

E. Looking ahead

Strategic plan for 2014-2017

41. The Executive Board approved the strategic plan of UNOPS at its annual meeting in June 2013. The new plan was developed after extensive consultation with the majority of UNOPS stakeholders and partners. It describes how UNOPS will focus on contributing directly to helping its partners achieve results through its three delivery practices: sustainable project management, sustainable procurement and sustainable infrastructure. UNOPS will also scale up its ability to address partner demands for the strengthening of national capacity and for advisory services aligned with its core delivery.

UNOPS financial viability

42. The UNOPS finance team has assessed the capability and resilience of UNOPS to continue operating at its current level of activity throughout 2015 and beyond. The assessment included a review of the financial activities in the first quarter of 2015, overall performance in the first year of the strategic plan for 2014-2017, the UNOPS forward order book, the levels of cash and operational reserves and the core investments to be made during the strategic plan for 2014-2017. Furthermore, a review of General Assembly resolutions issued in 2014 was undertaken. Based on the analysis, it is the view of the Executive Director that UNOPS is confident in its ability to remain in operation for many years to come. Accordingly, the 2014 financial statements have been prepared on a going-concern basis.

Chapter IV

Financial statements for the year ended 31 December 2014

United Nations Office for Project Services

I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Reference	*As at 31 December 2014*	*As at 31 December 2013*
Assets			
Non-current assets			
Intangible assets	Note 6	2 018	546
Long-term investments	Note 9	533 972	387 268
Total non-current assets		**535 990**	**387 814**
Current assets			
Inventories	Note 7	3 733	2 118
Accounts receivable	Note 11		
Project accounts receivable		43 383	31 760
Prepayments		14 168	7 855
Other accounts receivable		6 760	6 950
Short-term investments	Note 9	419 660	459 441
Cash and cash equivalents	Note 12	176 302	166 811
Total current assets		**664 006**	**674 935**
Total assets		**1 199 996**	**1 062 749**
Liabilities			
Non-current liabilities			
Employee benefits	Note 13	70 332	51 015
Total non-current liabilities		**70 332**	**51 015**
Current liabilities			
Employee benefits	Note 13	16 737	16 143
Accounts payable and accruals	Note 14	87 949	86 113
Project cash advances received	Note 15		
Deferred revenue		471 108	470 562
Cash held as agent		469 976	356 110
Short-term provisions	Note 20	5 375	50
Total current liabilities		**1 051 145**	**928 978**
Total liabilities		**1 121 477**	**979 993**
Net assets		**78 519**	**82 756**
Reserves			
Operational reserves	Note 16	78 519	82 756
Total liabilities and reserves		**1 199 996**	**1 062 749**

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

United Nations Office for Project Services

II. Statement of financial performance for the period ended 31 December 2014

(Thousands of United States dollars)

	Reference	*As at 31 December 2014*	*As at 31 December 2013*
Revenue			
Revenue from project activities	Note 17	665 999	706 480
Miscellaneous revenue	Note 17	4 004	4 690
Non-exchange revenue	Note 17	3 816	5 966
Total revenue		**673 819**	**717 136**
Expenses			
Contractual services	Note 17	253 199	261 835
Salaries and other benefits — staff	Note 18	132 914	133 566
Other personnel costs — other personnel	Note 18	124 664	116 564
Operational costs	Note 17	69 718	103 776
Supplies and consumables		59 161	56 993
Travel		23 094	28 591
Other expenses		3 802	2 216
Amortization of intangible assets	Note 6	123	98
Total expenses		**666 675**	**703 639**
Finance income	Note 19	1 858	1 728
Foreign exchange gains/(losses)	Note 19	921	(503)
Net finance income		**2 779**	**1 225**
Surplus for the period		**9 923**	**14 722**

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

United Nations Office for Project Services

III. Statement of changes in net assets for the period ended 31 December 2014

(Thousands of United States dollars)

	Reference	
Opening balance as at 1 January 2013	Note 16	62 932
Actuarial gains/(losses) for the period		5 102
Surplus for the period		14 722
Opening balance on 1 January 2014	Note 16	**82 756**
Actuarial gains/(losses) for the period		(14 160)
Surplus for the period		9 923
Closing balance as at 31 December 2014		**78 519**

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

United Nations Office for Project Services

IV. Statement of cash flows for the period ended 31 December 2014

(Thousands of United States dollars)

	Reference	*As at 31 December 2014*	*As at 31 December 2013*
Cash flows from operating activities			
Surplus for the financial period		9 923	14 722
Non-cash movements:			
Amortization of intangible assets	Note 6	123	98
Finance income	Note 19	(1 858)	(1 728)
Foreign exchange gains	Note 19	(921)	503
Net surplus before changes in working capital		**7 267**	**13 595**
Changes in working capital			
Decrease in provision for doubtful debts	Note 11	(1 506)	(266)
Increase in inventories	Note 7	(1 615)	(526)
Increase in accounts receivable	Note 11	(9 927)	(13 072)
Increase in prepayments	Note 11	(6 313)	6 245
Increase in employee benefits (net of actuarial gains)	Note 13	5 751	17 398
Increase in accounts payable and accruals	Note 14	1 836	(232 636)
Increase in project cash advances received	Note 15	114 412	(35 334)
Increase in short-term provisions	Note 20	5 325	(330)
Cash flow impact on changes in working capital		**107 963**	**(258 521)**
Finance income received on cash and cash equivalents	Note 19	58	510
Net cash flows from operating activities		**115 288**	**(244 416)**
Cash flows from investing activities			
Acquisitions of intangible assets — net	Note 6	(1 595)	(361)
Proceeds from maturity of investments	Note 9	712 348	436 970
Purchase of investments	Note 9	(826 936)	(557 595)
Interest income received on investments	Note 19	12 774	15 428
Interest allocated to projects	Note 19	(3 309)	(4 046)
Net cash flows from investing activities		**(106 718)**	**(109 604)**
Add: Foreign exchange gains	Note 19	921	(503)
Net increase in cash and cash equivalents		**9 491**	**(354 523)**
Cash and cash equivalents at the beginning of the period		**166 811**	**521 334**
Cash and cash equivalents at the end of the period		**176 302**	**166 811**

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

United Nations Office for Project Services

V. Statement of comparison of budget and actual amounts for the period ended 31 December 2014

(Thousands of United States dollars)

	Reference	*Biennial 2014/15 management budget*[a] *Original*	*2014 management budget* *Original*	*2014 management budget* *Final*	*2014 actual amounts* *Actuals*	*Difference between final budget and actuals*
Total revenue for the period	Note 23	**139 200**	**62 640**	**70 100**	**67 700**	**(2 400)**
Expenses						
Posts		36 050	16 223	15 751	14 246	(1 505)
Common staff costs		24 400	10 980	10 639	8 332	(2 307)
Travel		7 800	3 510	4 263	3 397	(866)
Consultants		41 850	18 832	21 775	16 654	(5 121)
Operating expenses		15 800	7 110	6 167	5 291	(876)
Furniture and equipment		2 700	1 215	691	905	214
Reimbursements		2 600	1 170	82	919	837
Provisions		8 000	3 600	–	9 115	9 115
Total expenses for the period		**139 200**	**62 640**	**59 368**	**58 859**	**(509)**
Net finance income/cost		–	–	–	2 422	2 422
Surplus/(deficit) for the period		**–**	**–**	**10 732**	**11 263**	**531**

[a] DP/OPS/2013/6.

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

United Nations Office for Project Services
Notes to the financial statements

Note 1
Reporting entity

1. The mission of UNOPS is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS is a self-financing organization, without any assessed contributions from Member States, and relies on the revenue that it earns from project implementation and other services. UNOPS was established as an independent entity on 1 January 1995; its headquarters are located in Copenhagen.

2. UNOPS activities and its management budget are set by its Executive Board. The UNOPS mandate, reconfirmed by the Board in 2010, is to act as a service provider to various actors in the development, humanitarian and peacekeeping arenas, including the United Nations, the agencies, funds and programmes of the United Nations system, donor and recipient Governments, intergovernmental organizations, international and regional financial institutions, non-governmental organizations, foundations and the private sector. The role of UNOPS is to be a central resource for the United Nations system in procurement and contracts management, as well as in civil works and physical infrastructure development, including the relevant capacity development activities. UNOPS delivers value added contributions by providing efficient, cost-effective services to development partners in the areas of project management, human resources, financial management and common/shared services. UNOPS follows a results-oriented approach to the services that it provides. It launches and implements new project operations quickly, transparently and in a fully accountable manner. UNOPS customizes its services to individual partners' needs, offering everything from stand-alone solutions to long-term project management. Services include:

(a) Project management: UNOPS is responsible for the delivery of one or more outcomes of projects, where it coordinates all aspects of implementation of the project as principal;

(b) Infrastructure: UNOPS uses its expertise and experience to construct emergency and permanent infrastructure. It remains responsible for the construction works and therefore accounts for these projects as principal;

(c) Procurement: UNOPS uses its procurement network to purchase equipment and supplies on behalf of and on the basis of the specifications of its customers. It does not take ownership of the procured items, as they are delivered directly to the end customer;

(d) Other services: human resources management services include recruitment, appointment and administration of personnel contracts undertaken by UNOPS on behalf of its partners. The appointed individuals do not work under the direction of UNOPS. Another service offered is fund management or administration, whereby UNOPS acts as an agent pursuant to a mandate set by the partner.

3. The accounting for agent and principal transactions is further described in the accounting policy on project accounting.

Note 2
Basis for preparation

4. UNOPS financial regulation 23.01 requires the preparation of annual financial statements on an accrual accounting basis in accordance with IPSAS, using the historic cost convention. Where IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard is adopted. The accounting policies have been applied consistently in the preparation and presentation of these financial statements.

5. These financial statements are prepared on the basis that UNOPS is a going concern and will continue in operation and meet its mandate for the foreseeable future.

6. These financial statements are prepared on an accrual basis and cover the period from 1 January to 31 December 2014. One transitional provision has been adopted by UNOPS: UNOPS will not recognize property, plant and equipment for a period not exceeding five years from 1 January 2012 (IPSAS 17: Property, plant and equipment).

7. There are currently no exposure drafts or standards issued by the IPSAS Board which have any bearing on the financial statements and disclosures of UNOPS for the year ended 31 December 2014.

Note 3
Summary of significant accounting policies

8. The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Project accounting

9. IPSAS 9: Revenue from exchange transactions distinguishes between a contract where UNOPS acts as a principal and a contract where UNOPS acts as an agent. Therefore, revenue from a project in which UNOPS acts as a principal is recognized in full on the statement of financial performance, while in the case of projects in which UNOPS operates as an agent on behalf of its partners, only the net revenue is reported on the statement of financial performance. Additional information on these agency transactions is provided in note 17. Regardless of the status of UNOPS as principal or agent, all project-related receivables and payables are recognized in the statement of financial position at period-end and reflected in the statement of cash flows. In particular, where UNOPS receives amounts in advance from partners, the excess of cash received over costs and expenses incurred is treated as project cash advances received and reported as a liability; for projects in which the costs incurred exceed the cash received from the client, the balance is reported as a receivable.

(b) Functional and presentation currency

10. The United States dollar is the functional currency of UNOPS and is the currency of these financial statements. The amounts in the financial statements, schedules and notes are rounded to the nearest thousand United States dollars. Transactions, including non-monetary items, in currencies other than United States dollars are translated into dollars at the United Nations operational rate of exchange

on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and unrealized exchange differences (gains and losses) from the translation at year-end are recognized in the statement of financial performance, except for items relating to agency transactions, which are reported in note 17.

(c) Financial instruments

11. Financial assets and financial liabilities relating to a financial instrument are recognized when UNOPS becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are measured at fair value and reviewed for any impairment at each period-end. Assets and liabilities are reported gross, unless there is a legal right to offset. Should any indicators of impairment arise, financial assets will be assessed for their recoverability.

12. Cash and cash equivalents comprise cash on hand, cash at banks, time deposits and money market funds held with financial institutions where the initial term was less than three months. They are held at nominal value less an allowance for any anticipated losses.

13. Investments held by UNOPS are mainly in bonds and notes, certificates of deposit, commercial papers and time deposits with an initial term in excess of three months. All the investments are classified as held-to-maturity, as these are non-derivative financial assets with fixed or determinable payments and fixed maturities that UNOPS has the positive intention and ability to hold to maturity. Investments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent measurements are made at amortized cost, using the effective interest method.

14. The interest income earned on investments is measured using the effective interest method.

15. Receivables are measured at fair value, that is, original invoice amount less an allowance for uncollectable amounts. This calculation includes amounts relating to retentions for work performed but not yet paid for by the client.

16. Payables are measured at fair value, that is, the amount expected to be paid to discharge the liability, and include project cash advances received.

(d) Property, plant and equipment

17. Considering the ongoing discussion regarding the treatment of project assets, UNOPS has chosen to continue applying the transitional provisions in IPSAS 17: Property, plant and equipment, and not recognize property, plant and equipment in the statement of financial position for the 2014 reporting period. However, during 2014, UNOPS continued to work on enhancing the completeness and quality of data on its assets. Based on the significant work completed so far, UNOPS is confident that it will exit the transitional provisions of the standard and report on such assets in the 2015 reporting period. Indicative figures for the opening balance of the 2015 statement of financial position are provided in note 27.

18. The classes of property, plant and equipment to be recognized by UNOPS in future are:

- Land and buildings
- Plant and equipment
- Vehicles
- Communications and information technology equipment
- Leasehold improvements
- Assets under construction

19. For the current financial statements, UNOPS has adopted the transitional provisions of IPSAS 17 as follows:

(a) Property, plant and equipment were not recognized;

(b) No adjustment for the first-time recognition of property, plant and equipment to the opening balance of accumulated surplus as at 31 December 2013 was made;

(c) Expenditure on property, plant and equipment in 2014 was not capitalized; rather, it was treated as an operating expense;

(d) No associated depreciation or impairment of property, plant and equipment expenses was recognized in the period.

20. The policy will be reviewed annually and updated with regard to the transitional arrangement.

21. UNOPS does not have any heritage assets.

(e) Intangible assets

22. UNOPS intangible assets comprise purchased software packages, internally developed software and intangible assets under construction. Annual software licences are expensed and adjusted as necessary for any element of prepayment. In accordance with the transitional provisions of IPSAS 31: Intangible assets, UNOPS recognizes intangible assets prospectively at historic cost from 1 January 2012.

23. Amortization is provided over the estimated useful life of the asset using the straight-line method. The estimated useful life for intangible asset classes is as follows:

Table 1
Amortization of intangible assets

Intangible asset class	*Estimated useful life (years)*	*Capitalization threshold (United States dollars)*
Internally developed software	6	100 000
Software acquired	3	2 500

24. Intangible assets are subject to an annual review to confirm the remaining useful life and to identify any impairment.

(f) Inventories

25. Bulk raw materials purchased in advance for the implementation of projects and supplies on hand at the end of the financial period are recorded as inventories. The inventories are valued at the lower of cost and net realizable value. Cost is estimated using the "first in, first out" method.

(g) Leases

26. UNOPS has reviewed the property and equipment that it leases, and in no instances does it have a significant portion of the risks and rewards of ownership. Accordingly, all leases are recognized as operating leases.

27. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease. A provision is established to cover the cost of making good dilapidations on leasehold properties where required to do so under the terms of the lease.

(h) Employee benefits

28. UNOPS recognizes the following categories of employee benefits:

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

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination indemnity.

Short-term employee benefits

29. Short-term employee benefits comprise salaries, the current portion of home leave, annual leave and those elements of other employee benefits (including assignment grant, education grant and rental subsidy) payable within one year of period-end and measured at their nominal values.

Post-employment benefits

30. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

31. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNOPS and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNOPS of the defined benefit obligation, the plan assets and the costs associated

with the plan with sufficient reliability for accounting purposes. Hence, UNOPS has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The actuarial valuations are carried out using the projected unit credit method. UNOPS recognizes actuarial gains and losses in the period in which they occur directly in net assets/equity.

32. UNOPS contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Other long-term employee benefits

33. Long-term employee benefits comprise the non-current portion of home leave entitlements.

Termination benefits

34. Termination benefits are recognized as an expense only when UNOPS is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

(i) Provisions and contingencies

35. Provisions are made for future liabilities and charges where UNOPS has a present legal or constructive obligation as a result of past events and it is probable that UNOPS will be required to settle the obligation. This example includes those cases where the anticipated cost of completing a construction project is likely to exceed the recoverable amount.

36. Other material commitments that do not meet the recognition criteria for liabilities are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNOPS.

(j) Revenue

37. UNOPS recognizes revenue under exchange transactions, including but not limited to construction projects, implementation projects and service projects, and non-exchange transactions.

38. Where the outcome of a project can be reliably measured, revenue from construction projects (IPSAS 11: Construction contracts) and other exchange transactions (IPSAS 9) is recognized by reference to the stage of completion of the project at period-end, as measured by the proportion of costs incurred for work to date to the estimated total project costs. Where the outcome of the project cannot be estimated reliably, revenue is recognized to the extent that incurred costs are probable to be recovered.

39. Although UNOPS does not receive any voluntary or assessed contributions from Member States, occasional non-exchange revenue arises, most often in relation

to donations and services in kind (IPSAS 23: Revenue from non-exchange transactions). Non-exchange transactions are measured at fair value and disclosed by way of notes to the financial statements. UNOPS has elected not to recognize services in kind in the statement of financial performance but to disclose the most significant in-kind services in the notes to these financial statements.

(k) Expenses

40. UNOPS expenses are accounted for on an accrual basis. Expenses are recognized on the basis of the delivery principle, that is, the fulfilment of a contractual obligation by the supplier when the goods are received or when a service is rendered, or when there is an increase in a liability or decrease in an asset. The recognition of the expense is therefore not linked to when cash or its equivalent is paid.

(l) Taxation

41. UNOPS enjoys privileged tax exemption, and its assets, income and other property are exempt from all direct taxation. Accordingly, no provision is made for any tax liability.

(m) Net assets/equity

42. Net assets/equity is the standard term used in IPSAS to refer to the residual financial position (assets less liabilities) at period-end, comprising contributed capital, accumulated surpluses and deficits, and reserves. Net assets/equity may be positive or negative.

43. In the absence of any capital contributions, UNOPS net assets are represented by the operational reserves. These comprise the accumulated surplus and the actuarial gains or losses in respect of post-employment benefits.

(n) Segment reporting

44. A segment is a distinguishable activity or group of activities for which it is appropriate to report financial information separately. At UNOPS, segment information is based on the principal activities relating to its four separate operational clusters and its headquarters. This is also the manner in which UNOPS measures its activities and financial information is reported to the Executive Director.

(o) Budget comparison

45. The Executive Board approves the biennial budget estimates and, in particular, the net revenue target calculated on an accrual basis. Budgets may be subsequently amended by the Board or through the exercise of delegated authority by the Executive Director to redeploy funds within the approved biennial administrative budget, as well as to increase or reduce funds, provided that the net revenue target for the biennium as established by the Board remains unchanged.

46. The budget and financial statements of UNOPS are prepared on an accrual basis. In the statement of financial performance, expenses are classified according to their nature. In the approved management budget, expenses are classified by cost components or the source of funding against which the expenses will be charged. As

required under IPSAS 24: Presentation of budget information in financial statements, the approved budget is reconciled with the actual amounts presented in the financial statements, quantifying differences in accounting bases and classification.

(p) Critical accounting estimates and judgements

47. The preparation of financial statements in accordance with IPSAS necessarily includes the use of accounting estimates, management assumptions and judgement. The areas where estimates, assumptions or judgement are significant to UNOPS financial statements include, but are not limited to, post-employment benefit obligations; provisions; and revenue recognition. Actual results could differ from the amounts estimated in these financial statements.

48. Estimates, assumptions and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. They are subject to continual review.

Post-employment benefits and other long-term employee benefits

49. The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefits and other long-term employee benefits. Note 13 records the assumptions made during the calculation and a sensitivity analysis of the assumptions.

Provisions

50. Significant judgement is required in the estimation of present obligations that arise from past events, including legal claims and onerous contracts. These judgements are based on prior UNOPS experience with such issues and are the best current estimate of the liability. Management believes that the total provisions for legal matters are adequate, on the basis of currently available information. Additional information is disclosed in notes 20 and 21.

Allowances for doubtful accounts receivable

51. UNOPS has provisions for doubtful receivables, which are detailed in note 11. Such estimates are based on analysis of ageing of customer balances, specific credit circumstances, historical trends and UNOPS experience, also taking into account economic conditions. Management believes that the impairment allowances for these doubtful debts are adequate, on the basis of currently available information. As these doubtful debt allowances are based on management estimates, they may be subject to change as better information becomes available.

Revenue recognition

52. Revenue from exchange transactions is measured according to the stage of completion of the contract. The measurement requires an estimate of costs incurred but not yet paid for, and total project costs. The estimates are prepared by technically qualified staff and advisers, which reduces, but does not eliminate, uncertainty.

Note 4
Financial risk management

53. UNOPS has instituted prudent risk management policies and procedures in accordance with its financial regulations and rules. UNOPS is exposed to a variety of market risks, including, but not limited to, currency risk, credit risk and interest rate risk. The UNOPS approach to risk management is summarized in the section on internal control (chap. III, sect. D).

54. UNOPS investment activities are carried out by UNDP under a service level agreement. Under the terms of the agreement, UNDP applies its investment guidelines and governance framework for the benefit of UNOPS. Investments are registered in the name of UNOPS, with marketable securities held by a custodian appointed by UNDP.

55. The principal objectives of the investment guidelines (listed in order of importance) are:

- Credit risk: preservation of capital, provided by investing in high-quality fixed-income securities emphasizing the creditworthiness of the issuers
- Liquidity risk: flexibility to meet cash requirements by investing in highly marketable fixed-income securities and structuring maturities to align with liquidity requirements
- Income risk: maximization of investment income within the foregoing safety and liquidity parameters. As assets are not marked to market, the carrying values are not affected by changes in interest rates
- Currency risk: UNOPS mitigates risk by matching the currency of cash on hand and investments to the projected need for currency.

56. The UNDP Investment Committee, comprising senior management, meets quarterly to review investment portfolio performance and ensure that investment decisions have complied with the established investment guidelines. UNOPS receives a detailed monthly investment performance report from UNDP that shows the composition and performance of the investment portfolio.

Currency risk

57. UNOPS receives contributions from funding sources and clients in currencies other than the United States dollar and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. UNOPS also makes payments in currencies other than the United States dollar. The main foreign currency exposure is with regard to the euro and the Indian rupee, owing to partner reporting requirements.

58. While the currency risk is closely monitored by management, for example, through the close monitoring of the level of cash balance in local currency bank accounts and the maintenance of bank balances in the same currency as that of the payments to be made to vendors in the case of UNWebBuy procurement, UNOPS uses no hedging instruments to hedge currency risk exposures.

59. The table below shows, as at 31 December 2014, the impact on surplus of the year if the major currencies weakened/strengthened by 15 per cent, which is management's upper estimate of possible movements in the exchange rates against the United States dollar, with all other variables held constant.

Table 2
Impact of currency risk on surplus

	EUR	*DKK*	*GTQ*	*TND*	*XAF*	*GBP*	*MVR*	*INR*	*JPY*	*ILS*
+15 per cent	3 433	(1 127)	567	280	225	157	140	(116)	110	94
-15 per cent	(3 433)	1 127	(567)	(280)	(225)	(157)	(140)	116	(110)	(94)

Abbreviations: DKK, Danish krone; EUR, euro; GBP, British pound; GTQ, Guatemalan quetzal; INR, Indian rupee; ILS, Israeli shekel; JPY, Japanese yen; MVR, Maldivian rufiyaa; TND, Tunisian dinar; XAF, CFA franc.

60. The foregoing sensitivities are calculated with reference to a single moment in time and are subject to change owing to a number of factors, including fluctuating trade receivable and trade payable balances, and fluctuating cash balances.

61. As the sensitivities are limited to year-end financial instrument balances, they do not take account of sales and operating costs, which are highly sensitive to changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, while in reality, commodity prices, interest rates and foreign currencies do not move independently.

62. The following assumptions are made in calculating the sensitivity: all income statement sensitivities also affect equity; and the sensitivity analysis disclosure relates to material cash and receivable and payable balances at year-end.

Credit risk

63. UNOPS has considerable cash reserves, as project funding is received in advance of project execution. The resulting cash reserves are invested in an investment portfolio, which is essentially composed of high-quality government bonds with a limited duration. The management of the portfolio is entrusted to UNDP.

64. UNDP investment guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the guidelines include conservative minimum credit criteria of investment grade for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require continuing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies and banks.

65. UNOPS implements projects worldwide and in post-conflict and rural areas. Considering the condition and areas in which these projects are implemented, some banks are not rated by reference to external credit ratings.

Interest rate risk

66. UNOPS is exposed to interest rate risk on its interest-bearing assets. Owing to the relatively short average maturity and hold-to-maturity classification of a significant portion of the UNOPS investment portfolio, an interest sensitivity analysis related to these investments would not disclose significant variations in value. Held-to-maturity assets are not marked to market; therefore, the carrying values are not affected by changes in interest rates. The UNDP Investment Committee regularly monitors the rate of return on the investment portfolio compared with the benchmarks specified in the investment guidelines.

67. UNOPS uses no hedging instruments to hedge interest rate risk exposures.

Liquidity risk

68. Investments are made with due consideration to UNOPS cash requirements for operating purposes based on cash flow forecasting. The investment approach includes a consideration for investment maturity structuring that takes into account the timing of future funding needs of the organization. UNOPS maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Note 5
Property, plant and equipment

69. Transitional provisions have been applied in the initial recognition of property, plant and equipment. In accordance with paragraph 95 of IPSAS 17, UNOPS will not be recognizing property, plant and equipment in the statement of financial position for a period not exceeding five years from the date of first adoption of accrual accounting (1 January 2012). Accordingly, property, plant and equipment have been expensed at the date of purchase and have not been recognized as assets. Indicative balances of property, plant and equipment are shown at note 27.

Note 6
Intangible assets

Table 3
Intangible assets
(Thousands of United States dollars)

	Internally generated computer software	*Other computer software*	*Intangible assets under construction*	*Total*
Gross carrying amounts as at 1 January 2014	**147**	**277**	**231**	**655**
Additions	–	19	1 592	1 611
Disposals	–	(29)	–	(29)
Gross carrying amounts as at 31 December 2014	**147**	**267**	**1 823**	**2 237**

	Internally generated computer software	*Other computer software*	*Intangible assets under construction*	*Total*
Accumulated amortization and impairment as at 1 January 2014	(38)	(71)	–	(109)
Amortization	(25)	(98)	–	(123)
Less: Removal of amortization on assets disposal	–	13	–	13
Accumulated amortization and impairment as at 31 December 2014	**(63)**	**(156)**	**–**	**(219)**
Net carrying amounts as at 31 December 2014	**84**	**111**	**1 823**	**2 018**

Table 4
Intangible assets — 2013 comparatives
(Thousands of United States dollars)

	Internally generated computer software	*Other computer software*	*Intangible assets under construction*	*Total*
Gross carrying amounts as at 1 January 2013	**147**	**73**	**92**	**312**
Additions	–	239	139	378
Disposals	–	(35)	–	(35)
Gross carrying amounts as at 31 December 2013	**147**	**277**	**231**	**655**
Accumulated amortization and impairment as at 1 January 2013	(14)	(14)	–	(28)
Amortization	(24)	(74)	–	(98)
Less: Removal of amortization on assets disposal	–	17	–	17
Accumulated amortization and impairment as at 31 December 2013	**(38)**	**(71)**	**–**	**(109)**
Net carrying amounts as at 31 December 2013	**109**	**206**	**231**	**546**

70. The gross carrying value of intangible assets amounted to $2.237 million at period-end, which includes internally developed computer software, other computer software (acquired) and intangible assets under construction.

71. Internally developed software relates to the development of the UNOPS management workspace, which creates a unified reporting platform for all business areas (including finance, human resources, procurement, project management, and results and performance management). In 2014 UNOPS had two internal development software projects that will continue in 2015. These projects, which relate to the enhancement of the functionality of the management workspace and the development of a new enterprise resource planning system, are recognized as intangible assets under construction.

Note 7
Inventories

72. Inventories consist mainly of bulk raw materials purchased in advance in relation to projects and supplies on hand. The following table shows the total value of inventories, as presented in the statement of financial position. The carrying amount of inventories is shown by UNOPS operations centre.

Table 5
Inventories
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Inventories	3 733	2 118

Table 6
UNOPS offices holding inventories
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Afghanistan	42	373
Cambodia	29	–
Haiti	372	299
Iraq	1 058	146
Kenya	–	29
Mine Action	2 093	1 026
Sri Lanka	139	245
Total	**3 733**	**2 118**

Note 8
Financial instruments

Table 7
Financial assets
(Thousands of United States dollars)

	As at 31 December 2014				*As at 31 December 2013*			
	Cash and cash equivalents	*Loans and receivables*	*Held-to-maturity investments*	*Total*	*Cash and cash equivalents*	*Loans and receivables*	*Held-to-maturity investments*	*Total*
Investments (note 9)			953 632	953 632			846 709	846 709
Accounts receivable excluding prepayments (note 11)		50 143	–	50 143		38 710	–	38 710
Cash and cash equivalents (note 12)	176 302		–	176 302	166 811		–	166 811
Total	**176 302**	**50 143**	**953 632**	**1 180 077**	**166 811**	**38 710**	**846 709**	**1 052 230**

Table 8
Financial liabilities at amortized cost
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Accounts payable and accruals (note 14)	87 949	86 113
Cash held by UNOPS as agent (note 15)	469 976	356 110
Total	**557 925**	**442 223**

Note 9
Investments

73. All UNOPS investment functions are outsourced and managed by the UNDP treasury, and are measured at amortized cost. At year-end, all investments held by UNOPS were denominated in United States dollars.

74. The investment portfolio comprises low-yield investments in accordance with the organization's prudent risk management procedures. The portfolio is composed as follows:

Table 9
Investment portfolio
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Long-term investments	533 972	387 268
Short-term investments	419 660	459 441
Money market funds and time deposits	108 444	103 012
Total	**1 062 076**	**949 721**

75. The cash and cash equivalents portion includes only money market funds and time deposits managed by the UNDP treasury. Therefore, it excludes cash at banks and cash on hand.

76. The movements in short- and long-term investments for 2014 are as follows:

Table 10
Movements in investments
(Thousands of United States dollars)

	2014	*2013*
Opening balance as at 1 January	**846 708**	**736 247**
Additions (purchases of investments)	826 936	557 595
Disposals (proceeds from maturity of investments)	(712 348)	(436 970)
Recognition of amortized costs	(7 664)	(10 164)
Closing balance as at 31 December	**953 632**	**846 708**
Current portion (short-term investments)	419 660	459 441

77. Both long- and short-term investments are held-to-maturity instruments.

78. Accrued interest of $4.1 million ($4.6 million in 2013) has been included in the statement of financial position as "other accounts receivable" (see note 11 for further details).

Short-term investments

79. Short-term investments are those investments with final maturities at purchase between 91 and 365 days. They consist of money market funds and bonds maturing within one year of the reporting date.

Table 11
Short-term investments
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Money market instruments	155 000	134 936
Bonds	264 660	324 505
Total short-term investments	**419 660**	**459 441**

Long-term investments

80. Long-term investments comprise bonds that mature beyond one year.

Table 12
Bonds
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Bonds	533 972	387 268

81. The investment portfolio of UNOPS consists of high-quality debt instruments (bonds, discount instruments, treasury notes, certificates of deposit and money

market funds). In the table below, the entire portfolio is presented following its credit rating distribution.

Table 13
Credit rating distribution of investments
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
AAA	591 179	631 252
AA+	108 210	120 356
AA-	167 470	83 924
A+	71 773	–
A	15 000	11 176
Total	**953 632**	**846 708**

Note 10
Fair value disclosure on investments

Table 14
Fair value disclosure on investments
(Thousands of United States dollars)

	As at 31 December 2014			*As at 31 December 2013*		
	Fair value	*Value at amortized cost*	*Difference*	*Fair value*	*Value at amortized cost*	*Difference*
Money market instruments — certificates of deposit, commercial papers, discount notes, treasury bills	155 002	155 000	2	134 922	134 936	(14)
Bonds	799 636	798 632	1 004	714 271	711 773	2 498
Total	**954 638**	**953 632**	**1 006**	**849 193**	**846 709**	**2 484**

Note 11
Accounts receivable

82. The accounts receivable of UNOPS are divided into the following categories:

(a) Project accounts receivable: a project receivable is recognized in connection with projects that have incurred expenditure and are awaiting further funding from partners and receivables originating from the UNWebBuy online procurement tool;

(b) Prepayments: payments made in advance of the receipt of goods or services from vendors;

(c) Other accounts receivable: this category includes staff receivables, accrued interest income on investments and other miscellaneous receivables.

83. An overview of these categories can be found in the table below.

Table 15
Accounts receivable
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Project accounts receivable (gross)	50 301	40 223
Less: Bad debt allowance	(6 918)	(8 463)
Project account receivable (net)	**43 383**	**31 760**
Other accounts receivable (gross)	6 866	7 017
Less: Bad debt allowance	(106)	(67)
Other accounts receivable (net)	**6 760**	**6 950**
Total accounts receivable (net) excluding prepayments	**50 143**	**38 710**
Prepayments	14 168	7 855
Total accounts receivable (net) including prepayments	**64 311**	**46 565**

84. As the fair value of the current receivables approximates their carrying amount and the impact of discounting is not significant, no fair value disclosure has been added.

85. As at 31 December 2014, receivables of $6.9 million ($8.5 million in 2013) were impaired and provisions were made against them. This value excludes provisions made against receivables from UNDP that are shown separately through table 18.

86. As at 31 December 2014, receivables of $7.4 million ($7.7 million in 2013) were past due but not impaired, as there is no recent history of default regarding those receivables. The ageing of those receivables exceeds three months.

Table 16
Ageing of receivables
(Thousands of United States dollars)

	Current 0-3 months	*Overdue 3-6 months*	*Overdue 6-12 months*	*Overdue >12 months*	*Total*
Accounts receivable	42 776	4 653	1 619	1 095	50 143

Project accounts receivable

87. The project accounts receivable are reflected in the below table.

Table 17
Project accounts receivable
(Thousands of United States dollars)

	As at 31 December 2014	As at 31 December 2013
Project implementation-related receivables (net)	18 642	30 287
Accounts receivable from UNDP	24 004	1 338
Accounts receivable from other United Nations agencies	737	135
Total project accounts receivable	**43 383**	**31 760**

88. Project implementation-related receivables arise in connection with projects that have incurred expenditure and are awaiting further funding from partners and from the receivables originating from the UNWebBuy online procurement tool. Also included in project-related receivables are amounts receivable from the United Nations Office on Drugs and Crime. The nature of those agreements typically requires UNOPS to perform services prior to invoicing the client and receiving cash/payment.

89. Accounts receivable from UNDP arose as UNOPS provided project-related services to UNDP as well as advance payments made in connection with the use of UNDP bank accounts by UNOPS. The outstanding balance due from UNDP is made up as follows:

Table 18
Accounts receivable — UNDP
(Thousands of United States dollars)

	As at 31 December 2014	As at 31 December 2013
Receivable from UNDP		
Cumulative project expenses and fees due to UNOPS	1 309 308	1 126 187
Less: Bad debt allowance as follows:		
Receivable from UNDP on project expenditure	(2 640)	(2 692)
Net receivable due from UNDP on project implementation activities (including services)	**1 306 668**	**1 123 495**
Payable to UNDP		
Cumulative payable by UNOPS to UNDP to disburse payments on behalf of UNOPS	(1 282 664)	(1 122 055)
Payable to UNDP for services	–	(102)
Gross accounts payable to UNDP	**(1 282 664)**	**(1 122 157)**
Net amounts receivable/(payable) from/to UNDP	**24 004**	**1 338**

90. The accounts receivable from other United Nations entities represent amounts due from the United Nations Entity for Gender Equality and the Empowerment of

Women, and relate mainly to project expenditure incurred by UNOPS when implementing projects on behalf of the agency.

91. Of the balance of project receivables of $43.4 million ($31.8 million in 2013), $7.2 million ($14.0 million in 2013) relates to cash advances due from customers for construction contracts for the period ended 31 December 2014, as detailed in note 17.

Other accounts receivable

92. The other accounts receivable are composed of:

Table 19
Other accounts receivable
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Staff receivables	1 273	1 305
Accrued interest income	4 093	4 579
Miscellaneous receivables	1 394	1 066
Total other accounts receivable	**6 760**	**6 950**

93. The staff receivables relate to salary advances, education grants, rental subsidies and other entitlements.

94. The accrued interest income is composed of interest accruals on investments. Of this amount, a portion has been allocated to project cash advances received, and the balance has been recognized in the statement of financial performance under finance income (see note 19 for further details).

Prepayments

Table 20
Prepayments
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Prepayments	14 168	7 855

95. Prepayments relate to payments made in advance of the receipt of goods or services from a vendor, be it a supplier or an individual contract holder.

Bad debt allowance

96. The movement in bad debt allowance is as follows:

Table 21
Movement in bad debt allowance
(Thousands of United States dollars)

	2014	*2013*
Opening balance as at 1 January		
Project-related	8 463	12 546
Other accounts receivable	67	117
Opening balance	**8 530**	**12 663**
Net increase (decrease) in provision for receivables impairment		
Increase	801	1 356
Receivables written off during the year as uncollectable	(2 000)	(3 943)
Unused amounts reversed	(307)	(1 546)
Net increase (decrease)	**(1 506)**	**(4 133)**
Closing balance as at 31 December		
Project-related	6 918	8 463
Other accounts receivable	106	67
Closing balance	**7 024**	**8 530**

97. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The project-related provisions amount above excludes a provision of $2.6 million related to UNDP inter-fund balances, which are shown separately in table 17.

Note 12
Cash and cash equivalents

98. The cash and cash equivalents of UNOPS are composed of cash on hand, bank account balances, money market funds and time deposits.

Table 22
Cash and cash equivalents
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Cash at banks and on hand	67 949	63 890
Impaired cash balances	(91)	(91)
Money market funds and time deposits	108 444	103 012
Total cash and cash equivalents	**176 302**	**166 811**

99. Cash at banks includes project funds received from clients for the implementation of project activities. Cash advances received from clients for project activities and other UNOPS cash balances are co-mingled and are not held in separate bank accounts.

100. The cash on hand is the cash held in field offices for the purpose of meeting financial needs at field locations.

101. Money market funds and time deposits are investments with an original maturity of less than 90 days.

102. Cash at banks (excluding cash on hand) is denominated in the following currencies:

Table 23
Cash at banks
(Thousands of United States dollars)

Currency	*As at 31 December 2014*	*As at 31 December 2013*
United States dollar	41 567	24 561
Danish krone	8 131	5 212
Euro	6 731	11 857
Japanese yen	4 278	13 985
Indian rupee	1 504	208
Afghan afghani	578	83
Haitian gourde	540	393
Tunisian dinar	492	196
Guatemalan quetzal	489	551
Myanmar kyat	440	298
Other currencies	2 946	6 334
Subtotal cash at banks	**67 696**	**63 678**
Cash on hand	**253**	**212**
Total	**67 949**	**63 890**

103. The credit quality of the cash at banks (excluding cash on hand), by reference to external credit ratings, is summarized in the table below.

Table 24
Credit rating distribution of cash at banks
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
AAA	431	1 510
AA	232	42
A+	7 481	694
A	24 122	36 698
A-	340	838
BBB+	188	–
BBB	15	1 290
BBB-	940	287

	As at 31 December 2014	*As at 31 December 2013*
BB+	93	–
BB	756	770
BB-	195	630
B+	1 122	–
Unrated	31 781	20 919
Subtotal cash at banks	**67 696**	**63 678**
Cash on hand	**253**	**212**
Total	**67 949**	**63 890**

104. UNOPS implements projects worldwide and in post-conflict and rural areas. Considering the conditions and areas in which these projects are implemented, some banks are not rated by reference to external credit ratings.

105. The credit quality of the money market funds and time deposits was as follows:

Table 25
Credit rating distribution of money market funds and time deposits
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
AAA	23 120	52 960
AA-	25 000	50 000
A+	60 323	–
A	1	52
Total	**108 444**	**103 012**

Note 13
Employee benefits

106. The employee benefits liabilities of UNOPS are composed of:

(a) Short-term employee benefits: accrued annual leave, current portion of home leave;

(b) Long-term employee benefits: non-current portion of home leave;

(c) Post-employment benefits: all benefits relating to after-service health insurance and repatriation grant;

(d) Termination benefits: benefits related to termination of contract.

Table 26
Employee benefits liabilities
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Short-term employee benefits	16 495	16 143
Long-term employee benefits	822	588
Post-employment benefits	69 510	50 427
Termination benefits	242	–
Total employee benefits liabilities	**87 069**	**67 158**
Current portion	16 737	16 143
Non-current portion	70 332	51 015

Short-term employee benefits

107. Short-term employee benefits are composed of:

Table 27
Short-term employee benefits
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Annual leave entitlements	14 652	14 052
Home leave entitlements (current portion)	1 790	2 017
Assignment grant on first appointment or reassignment	53	74
Total short-term employee benefits liabilities	**16 495**	**16 143**

108. Home leave allows eligible internationally recruited staff members to visit their home country periodically to renew and strengthen cultural and family ties.

Long-term employee benefits

109. Long-term employee benefits consist of the non-current portion of the home leave entitlement. Rights vested which can be used in the next 12 months are presented as short-term employee benefits, while rights to be used beyond the 12-month period are presented as long-term employee benefits.

Post-employment benefits

110. The post-employment benefits liabilities are composed of:

Table 28
Post-employment benefits liabilities
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
After-service health insurance	52 308	38 229
Repatriation grants	17 202	12 198
Total post-employment benefits	**69 510**	**50 427**

111. Post-employment benefits consist of after-service health insurance, repatriation grants and pension plans. After-service health insurance is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan. A repatriation grant is an entitlement payable to Professional staff on separation, together with related costs in travel and shipment of household effects.

112. These benefits are determined by professional actuaries. As at the end of 2014, total employee benefits liabilities amounted to $69.5 million ($50.4 million in 2013). They are established in accordance with the Staff Regulations of the United Nations and Staff Rules for staff members in the Professional and General Service categories.

After-service health insurance

113. The year-end liabilities for after-service health insurance are derived from the actuarial valuation conducted at year-end 2014.

114. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements. These requirements include 10 years of participation in a United Nations health plan, for those who were recruited after 1 July 2007, and 5 years of participation, for those who were recruited prior to that date.

115. The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2014 were a discount rate of 3.97 per cent, an inflation rate of 2.25 per cent, health-care escalation rates being dependent on the medical plan to which the employee is affiliated; age-related morbidity; and retirement and mortality assumptions consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits. Furthermore, UNOPS-specific withdrawal rates were applied.

116. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2014, net of contributions from plan participants, was estimated by actuaries at $52.3 million ($38.2 million in 2013).

117. On the basis of the foregoing assumptions, it is estimated that the net present value of the liability would increase by 21 per cent if the medical cost trend were increased by 1 per cent and would decrease by 17 per cent if the medical cost trend were decreased by 1 per cent, all other assumptions held constant.

Table 29
Impact of medical cost trend on after-service health insurance liabilities
(Thousands of United States dollars)

	Defined benefit obligations	*Service cost and interest cost*
One percentage point increase	11 151	1 135
One percentage point decrease	(8 753)	(863)

Repatriation grant

118. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant based on length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits.

119. The major assumptions used by the actuary were a discount rate of 3.04 per cent, annual salary increases based on salary scales, grade and step, and travel cost increases of 2.25 per cent per annum. Furthermore, assumptions related to retirement, withdrawal and mortality were made, consistent with those used by the Pension Fund, except for withdrawal, which is based on the historic behaviour of UNOPS employees.

120. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2014 was estimated by actuaries at $17.2 million ($12.2 million in 2013).

121. A sensitivity analysis was performed on the assumptions used in the actuarial valuation. An increase of the discount rate by 0.25 per cent, with all other assumptions held constant, would result in a decrease of the net present value of the liability by less than 2 per cent. A decrease of the discount rate by 0.25 per cent, with all other assumptions held constant, would also result in an increase of the net present value of the liability by less than 2 per cent.

Accounting for post-employment benefits

122. The movement in the defined benefit obligation over the year is as follows:

Table 30
Movement in post-employment liabilities
(Thousands of United States dollars)

	Repatriation	*After-service health insurance*	*Total 2014*	*Total 2013*	*Total 2012*
Liability as at 1 January	**12 198**	**38 229**	**50 427**	**39 192**	**52 743**
Current service cost	2 092	1 714	3 806	4 642	6 331
Interest cost	627	1 936	2 563	1 867	2 340
Benefits paid	(787)	(659)	(1 446)	(1 069)	(823)
Actuarial losses/(gains)	3 072	11 088	14 160	(5 102)	(21 399)
Other	–	–	–	10 897	–
Liability as at 31 December	**17 202**	**52 308**	**69 510**	**50 427**	**39 192**

123. The amounts recognized in the statement of financial performance are as follows:

Table 31
Impact of post-employment benefits on financial performance
(Thousands of United States dollars)

	Repatriation	*After-service health insurance*	*Total 2014*	*Total 2013*
Current service cost	2 092	1 714	3 806	4 642
Interest cost	627	1 936	2 563	1 867
Other	–	–	–	10 897
Expenses as at 31 December	**2 719**	**3 650**	**6 369**	**17 406**

124. The total expense has been included under salaries and employee benefits in the statement of financial performance, and the actuarial losses of $14.2 million ($5.1 million gain in 2013) has been recognized under reserves in the statement of financial position.

125. The principal actuarial assumptions were as follows:

Table 32
Principal actuarial assumptions

	Repatriation	*After-service health insurance*
Discount rate	3.04 per cent	3.97 per cent
Future salary increases (on top of inflation)	United Nations salary scale	United Nations salary scale
Inflation rates	2.25 per cent	2.25 per cent
Mortality rate	United Nations scales	United Nations scales
Turnover rate	UNOPS scales	UNOPS scales

United Nations Joint Staff Pension Fund

126. The Regulations of the Pension Fund provide that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

127. The UNOPS financial obligation to the United Nations Joint Staff Pension Find consists of its mandated contribution at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based

on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

128. The actuarial valuation, performed as at 31 December 2013, revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

129. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

130. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of writing the present report, the General Assembly had not invoked the provision of article 26.

131. In December 2012 and April 2013 the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants in the Pension Fund, with effect not later than from 1 January 2014. The related change to the Regulations of the Fund was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013.

132. In 2014 UNOPS contributions paid to the Pension Fund amounted to $15.7 million ($15.2 million in 2013). Except for the effects of inflation, there are no indications of a material change in the expected contribution in 2015.

133. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which are available from www.unjspf.org.

Termination benefits

134. At year-end, UNOPS had termination entitlement liabilities amounting to $0.242 million.

Note 14
Accounts payable and accruals

Table 33
Accounts payable and accruals
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Accounts payable	24 407	21 870
Accruals	63 542	64 243
Total	**87 949**	**86 113**

Accounts payable

135. Balances of accounts payable as at 31 December 2014 are shown below.

Table 34
Accounts payable
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Accounts payable	24 112	21 080
Accounts payable to other United Nations entities	276	648
Staff payables	19	142
Total accounts payable	**24 407**	**21 870**

136. Accounts payable relate to transactions in which invoices from vendors were received and approved for payment but not yet paid.

137. Payables to staff comprise separation amounts pending payment.

Accruals

138. The accrued charges amounting to $63.5 million ($64.2 million in 2013) are financial liabilities in respect of goods or services that were received or provided to UNOPS during the reporting period but not yet invoiced. Merit rewards accruals, amounting to $1.5 million, are included in this balance.

Note 15
Project cash advances received

139. The project cash advances received represent deferred revenue, which is the excess of cash received over the total of project revenue recognized on projects, and of cash held by UNOPS for projects in which UNOPS serves as a disbursement authority.

Table 35
Project cash advances received
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Deferred revenue	471 108	470 562
Cash held by UNOPS as agent	469 976	356 110
Total	**941 084**	**826 672**

140. Of the balance in deferred revenue of $471.1 million ($470.6 million in 2013), $197 million ($206 million in 2013) relates to cash advances on construction contracts for the year ended 31 December 2014, as detailed in note 17.

Note 16
Operational reserves

141. The operational reserves were as follows:

Table 36
Operational reserves
(Thousands of United States dollars)

	2014	*2013*
Opening balance as at 1 January	56 255	41 533
Surplus for the period	9 923	14 722
Reserve balance	**66 178**	**56 255**
Actuarial gains/losses	12 341	26 501
Closing reserve balance as at 31 December	**78 519**	**82 756**

142. The current operational reserves requirements, approved by the Executive Board on 12 September 2013, provide that the operational reserves should be equivalent to four months of the average of the administrative expenditure for the past three years of operation. Based on this formula, for the period ended 31 December 2014, the operational reserves requirement was $19.6 million. The actual UNOPS operational reserves for the same period amounted to $78.5 million.

143. The main purpose of the operational reserves is to provide for temporary deficits, fluctuations or shortfalls in resources, uneven cash flows, unplanned increases in expenses and costs or any other contingencies, and to ensure continuity in the implementation of the projects undertaken by UNOPS.

Note 17
Revenue and expenses

Non-exchange revenue

144. UNOPS recognized a sum of $3.8 million ($6.0 million in 2013) as non-exchange revenue in 2014, representing a contribution received from the Government of Denmark.

Exchange revenue

145. The exchange revenue of UNOPS comprised $666.0 million ($706.5 million in 2013) in revenue from project activities and $4.0 million ($4.7 million in 2013) from miscellaneous revenue.

146. The revenue and expenses from UNOPS project activities were as follows:

Table 37
Revenue and expenses from project activities
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Construction contracts (infrastructure)	217 837	255 205
Procurement	24 744	22 058
Fund management	70 550	71 934
Human resources administration	33 560	28 087
Other project management	319 308	329 196
Total project-related revenue	**665 999**	**706 480**
***Less*: Project expenses**		
Construction contracts	204 252	240 620
Procurement	15 176	14 044
Fund management	53 805	58 059
Human resources	24 266	20 973
Other project management	302 201	300 584
Total project-related expenses	**599 700**	**634 280**
Net revenue from project activities	**66 299**	**72 200**

147. In 2014 UNOPS revenue was reported using the categories in the table above. For operational reasons and as described in the annual report, UNOPS analyses its revenue according to the following three core service categories: project management, infrastructure and procurement. These categories are detailed in note 1.

Construction contracts

148. The amount of revenue and expenses relating to the construction contracts recognized in the statement of financial performance was as follows:

Table 38
Construction contracts — revenue and expenses
(Thousands of United States dollars)

	Cumulative	*Recognized in prior years*	*Recognized in current year*
Revenue	1 228 841	1 011 004	217 837
Expense	(1 165 122)	(960 870)	(204 252)
Surplus	**63 719**	**50 134**	**13 585**

149. Amounts due to and from customers for construction contract works were as follows:

Table 39
Construction contracts — amounts due to/from customers
(Thousands of United States dollars)

	Projects with net deferred revenue balance	*Projects with net balance project receivable*	*Total*
Cash advances received including accrued interest	(858 738)	(202 582)	(1 061 320)
Revenue recognized over the life of the contract	661 727	209 755	871 482
Amounts due (to)/from customers included in deferred revenue and project receivables, respectively	**(197 011)**	**7 173**	**(189 838)**
Retentions			12 688

150. Cash advances received comprise cash received over the life of both construction contracts and contracts that contain construction and an agency service element (such as procurement services) where the cash advances were not specifically designated for use on the agency service.

Operational costs

151. Operational costs of $69.7 million ($103.8 million in 2013) relate to expenses incurred by UNOPS for a range of activities, which included payments for:

- Rental of office space and vehicles
- Communication costs
- Utilities

Contractual services

152. Contractual services of $253.2 million ($261.8 million in 2013) relate to expenses incurred for a range of UNOPS activities, some of which included payments to:

- Subcontractors for implementation and construction projects
- Vendors for feasibility studies and research on projects

- Engineers for implementation and construction projects
- Vendors for security charges

Note 18
Employee benefits expenses

Table 40
Employee benefits expenses
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Salaries	76 481	75 228
After-service health insurance	3 389	5 486
Annual leave	56	2 012
Home leave	1 070	1 145
Defined contribution plan	15 030	15 498
Repatriation grant	2 547	2 512
Other short-term employee benefit expenses	34 341	31 685
Expenses related to staff	**132 914**	**133 566**
Other personnel expenses	124 664	116 564
Total employee benefits expenses	**257 578**	**250 130**

153. A review of the annual leave balance and corresponding liabilities at year-end required a change of estimates, which resulted in a reduction of $1.702 million in the annual leave expenses reported for the year.

154. Other personnel expenses relate to the remuneration paid to UNOPS individual contractors for salaries, the provident fund and accrued annual leave.

155. In October 2014 UNOPS implemented a provident fund scheme for all UNOPS local individual contractors. The provident fund is a defined contribution plan. The employer contributions of 15 per cent of Local Individual Contractors Agreement fees are fixed and are recognized as an expense. The contractors contribute 7.5 per cent of their fee on a monthly basis. The UNOPS responsibility is to establish arrangements to provide a provident fund facility monitor and to cover administrative costs related to these arrangements. The balance of funds held for the benefit of UNOPS local individual contractors by the provident fund as at 31 December 2014 was $1.9 million, which was included under other personnel expenses in 2014.

156. In accordance with the contract with UNOPS, the provident fund is administered and held by Zurich International on behalf of the local individual contractors. UNOPS obtained financial statements in respect of the year ended 31 December 2014 that were audited by PricewaterhouseCoopers AG, chartered accountants, who gave an unqualified opinion on the statements.

Note 19
Finance income and costs

Table 41
Finance income and costs
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Finance income		
Total finance income received on investments	12 774	15 428
Less: Recognition of amortized cost (note 9)	(7 665)	(10 164)
Total finance income attributable to UNOPS on investments	**5 109**	**5 264**
Less: Finance income/cost allocated to projects	(3 309)	(4 046)
Net finance income retained by UNOPS	**1 800**	**1 218**
Finance income on UNOPS bank balances	58	510
Total finance income	**1 858**	**1 728**

Table 42
Net exchange rate gain/loss
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Net foreign exchange gains	921	(503)

157. The exchange gains are due to the revaluation of non-United States dollar bank balances, assets and liabilities at the end of the period.

Note 20
Short-term provisions

Table 43
Short-term provisions for other liabilities and charges
(Thousands of United States dollars)

	As at 1 January 2014	*Additional provisions*	*Unused amounts reversed*	*As at 31 December 2014*
Claims	–	55	–	55
Leasehold restoration provisions	50	–	–	50
Onerous contracts provisions	–	5 270	–	5 270
Total	**50**	**5 325**	**–**	**5 375**

158. Leasehold restoration provisions reflect an estimate of requirements to return leased properties to the lessors at the end of the lease term in a specified condition. They concern various lease agreements in which UNOPS has the obligation to

remove installed assets. Onerous contracts provisions are related to the estimated cost of remedial work required on projects currently being implemented by UNOPS.

Note 21
Contingencies

Contingent liabilities

159. On the basis of complainants' claims, contingent liabilities at the end of the period amounted to $19.9 million, which represents management's best estimate of the upper limit of the possible financial exposure inclusive of costs and disbursements in relation to the pending litigations and claims.

Table 44
Contingent liabilities
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Project-related claims from clients	19 767	13 144
Staff-related claims	108	323
Total contingent liabilities	**19 875**	**13 467**

160. No provision in relation to such claims was recognized in these financial statements, as legal advice indicates that it is not probable that a significant cash outflow will arise. Other claims for which provision was made are reflected in note 20.

Contingent assets

161. There were no contingent assets at the end of 2014.

Note 22
Commitments

162. UNOPS leases office premises in field locations under non-cancellable and cancellable operating lease agreements. When cancellable, UNOPS is required to give a one- to six-month notice of termination of the agreements. The lease terms are from 1 to 10 years. Some of the operating lease agreements contain renewal clauses that enable UNOPS to extend the terms of the lease at the end of the original lease terms and escalation clauses that may increase annual rent payments on the basis of increases in the relevant market price indexes in the respective countries where the field offices are located.

163. The operating expenses included lease payments for an amount of $7.8 million ($9.1 million in 2013), recognized as operating lease expenses during the year in the statement of financial performance under operational costs.

164. The future minimum lease payments included the amounts that would need to be paid up to the earliest possible termination dates under the respective agreements. The total of future minimum lease payments under non-cancellable operating leases was as follows:

Table 45
Lease commitments
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Within one year	1 875	2 573
Later than one year and not later than five years	3 860	501
Later than five years	3 839	167
Total operating lease commitments	**9 574**	**3 241**

165. UNOPS subleases office premises under cancellable operating lease agreements, generally to other United Nations entities. In most cases, the lessee is required to give 30 days' notice for the termination of the sublease agreement.

166. As at 31 December 2014, the total future minimum lease payments under sublease agreements that UNOPS expects to receive on such agreements that cannot be cancelled was only $0.023 million ($0.012 million in 2013), owing mainly to the 30-day notice period and the 2014 end-date of most significant sublease agreements.

167. Sublease payments amounting to $3.8 million were received in 2014 ($3.1 million in 2013). They were recognized as operating lease revenue during the year in the statement of financial performance, included under miscellaneous revenue. Rental income for office space in the Chrysler building subleased by UNOPS in New York in 2014 amounted to $1.3 million ($1.4 million in 2013).

168. UNOPS commitments included purchase orders and service contracts contracted but not delivered as at year-end. A list of the commitments is given below.

Table 46
Open commitments
(Thousands of United States dollars)

	As at 31 December 2014	*As at 31 December 2013*
Management-related commitments	1 948	2 723
Project-related commitments	137 156	135 759
Total	**139 104**	**138 482**

Note 23
Reconciliation of the statement of comparison of budget and actual amounts

Table 47
Statement of comparison of budget and actual amounts
(Thousands of United States dollars)

	Actual amounts on comparable basis	*Basis difference (excludes intangible assets capitalized)*	*Entity difference (includes projects)*	*Reclassification*	*Amounts in IPSAS financial statements*	*Classification in statement of financial performance*
Revenue	**67 700**	**3 816**	**602 303**	**–**	**673 819**	**Revenue**
Posts	14 246	–	118 668	–	132 914	Salaries and employee benefits
Common staff costs	8 332	–	(8 332)	–	–	Salaries and employee benefits
Travel	3 397	–	19 697	–	23 094	Travel
Consultants	16 654	–	361 209	–	377 863	Contractual services
Operating expenses	5 291	–	64 427	–	69 718	Operational costs
Furniture and equipment	905	(1 472)	59 728	–	59 161	Supplies and consumables
Reimbursements and other	919	–	3 006	–	3 925	Other and amortization of intangible assets
Provisions	9 115	–	–	(9 115)	–	
Total expenses for the period	**58 859**	**(1 472)**	**618 403**	**(9 115)**	**666 675**	
Net finance income/(cost)	2 422	–	357	–	2 779	
Surplus/(deficit) for the period	**11 263**	**5 288**	**(15 743)**	**9 115**	**9 923**	

169. The budget scope of UNOPS is restricted to the management budget, including the net surplus earned on projects. It does not include the revenue and expenses incurred on projects, which represent an entity difference in the reconciliation between the IPSAS statement of financial performance and the actual amounts on a comparable basis to the budget.

170. The UNOPS budget and accounts are prepared on the same basis, except for the acquisition of intangible assets and non-exchange revenue. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flows are prepared on a full accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts is prepared on an accrual basis, except for the acquisition of intangible assets. The approved budget covers the biennium 2014-2015. The annual budget for 2014 was included in statement V.

171. The UNOPS financial regulations and rules specify that the Executive Director has the authority to redeploy resources within the approved management budget and to increase or reduce the total approved management budget allotment, provided that the net revenue target established by the Executive Board for the budget period remains unchanged. As a result, there are some line item differences between the original and final budgets.

Reconciliation of actual amounts from budgetary basis to financial statement basis

172. As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall be reconciled with the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences, where the financial statements and the budget are not prepared on a comparable basis. There may also be differences in formats and classification schemes adopted for the presentation of the financial statements and the budget.

173. According to statement V, the actual revenue for 2014 was 3 per cent lower than the final budgeted amount of $70.1 million. Total management expenditure was about 1 per cent lower compared with the budgeted amount of $59.4 million. Variances at the individual line item level reflect the combined spending decisions of the managers of various budgets in UNOPS in the course of 2014. The savings with regard to staff positions would be explained by vacancies, either because UNOPS could not find appropriate replacements on time or because a decision was taken to keep the position vacant and spend the savings on other priorities.

174. Basis differences occur when the approved budget is prepared on a basis other than the accounting basis.

175. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNOPS for purposes of comparison of budget and actual amounts.

176. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

177. Presentation differences are due to differences in the format and classification schemes adopted for presentation of the statement of cash flows and the statement of comparison of budget and actual amounts.

178. A reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flows for the period ended 31 December 2014 is presented below.

Table 48
Reconciliation with the statement of cash flows
(Thousands of United States dollars)

	Operating	*Investing*	*Total*
Actual amount on a comparable basis as presented in the budget and actual comparative statement	11 263	–	11 263
Basis differences (capitalization of intangible assets)	1 595	(1 472)	123
Entity differences (project income)	(2 812)	–	(2 812)
Changes in working capital	107 963	–	107 963
Movement in investments and interest received	(2 721)	(105 246)	(107 967)
Subtotal	**115 288**	**(106 718)**	**8 570**
Net foreign exchange gains	–	–	921
Actual amount in the statement of cash flows	**115 288**	**(106 718)**	**9 491**

Note 24
Segment reporting

179. Management has determined its reporting segments on the basis of statements of budget reporting as provided to the Executive Director and the Deputy Executive Director.

180. The allocation of the total assets and liabilities of UNOPS segments is not regularly reviewed by management. The accounting system is not adapted so as to generate segment information on assets and liabilities efficiently and reliably. UNOPS believes that such information is not meaningful to the users of these financial statements. Hence, it is not presented.

181. Segment revenue and expenses are those that are directly attributable to the segment or can reasonably be allocated to the segment.

182. As from 2013, the business is considered from an operating cluster perspective.

183. In 2014 UNOPS activities were reported to senior management according to the following segments: Africa region, Eurasia Office, Global Partner Services Office, Latin America and Caribbean region and its headquarters. Comparative information for 2013 is also presented in a separate table.

184. UNOPS headquarters are located in Denmark. The total amounts of its segment revenue and expenses in Denmark and other regions are summarized as follows:

Table 49
Segment reporting
(Thousands of United States dollars)

	Africa region	*Eurasia Office*	*Global Partner Services Office*	*Latin America and Caribbean region*	*Headquarters*	*Total*
Revenue						
Revenue from project activities	117 245	161 439	310 796	75 667	852	665 999
Miscellaneous revenue	162	2 461	15	2	1 364	4 004
Non-exchange revenue	–	–	–	–	3 816	3 816
Total revenue	**117 407**	**163 900**	**310 811**	**75 669**	**6 032**	**673 819**
Expenses						
Amortization of intangible assets	3	22	31	11	56	123
Contractual services	47 533	61 324	112 553	30 205	1 584	253 199
Operational costs	18 653	15 637	25 266	7 037	3 125	69 718
Other expenses	(5 600)	104	241	(63)	9 120	3 802
Other personnel costs	28 158	36 394	27 273	19 938	12 901	124 664
Salaries and employee benefits	7 464	17 482	91 678	4 548	11 742	132 914
Supplies and consumables	12 437	15 139	20 944	8 119	2 522	59 161
Travel	3 055	4 535	11 563	1 854	2 087	23 094
Total expenses	**111 703**	**150 637**	**289 549**	**71 649**	**43 137**	**666 675**

	Africa region	Eurasia Office	Global Partner Services Office	Latin America and Caribbean region	Headquarters	Total
Finance income	–	–	–	–	1 858	1 858
Net foreign exchange gains/(losses)	–	–	–	–	921	921
Net finance income	**–**	**–**	**–**	**–**	**2 779**	**2 779**
Surplus for the period	**5 704**	**13 263**	**21 262**	**4 020**	**(34 326)**	**9 923**

Table 50
Segment reporting — 2013 comparatives
(Thousands of United States dollars)

	Africa region	Eurasia Office	Global Partner Services Office	Latin America and Caribbean region	Headquarters	Total
Revenue						
Revenue from project activities	139 744	186 667	290 692	88 220	1 157	706 480
Miscellaneous revenue	54	1 732	1 445	18	1 441	4 690
Non-exchange revenue					5 966	5 966
Total revenue	**139 798**	**188 399**	**292 137**	**88 238**	**8 564**	**717 136**
Expenses						
Amortization of intangible assets	3	27	19	7	42	98
Contractual services	36 097	68 946	112 350	42 957	1 485	261 835
Operational costs	38 348	33 310	21 263	7 723	3 132	103 776
Other expenses	223	167	784	47	995	2 216
Other personnel costs	28 483	33 206	26 693	19 959	8 223	116 564
Salaries and employee benefits	9 590	20 772	80 356	5 350	17 498	133 566
Supplies and consumables	16 268	13 172	18 229	7 331	1 993	56 993
Travel	5 363	6 483	13 613	1 431	1 701	28 591
Total expenses	**134 375**	**176 083**	**273 307**	**84 805**	**35 069**	**703 639**
Finance income	–	–	–	–	1 728	1 728
Net foreign exchange gains/(losses)	–	–	–	–	(503)	(503)
Net finance income	**–**	**–**	**–**	**–**	**1 225**	**1 225**
Surplus for the period	**5 423**	**12 316**	**18 830**	**3 433**	**(25 280)**	**14 722**

Note 25
Related parties

185. UNOPS is governed by an Executive Board, mandated by the General Assembly, which is responsible for overseeing the work of UNOPS, UNDP and the United Nations Population Fund (UNFPA). The Executive Board is a related party, since it exercises significant influence over UNOPS as governing body.

186. UNOPS maintains a working relationship with the Executive Board and reimburses part of the travel costs, subsistence allowances and office expenses incurred by members of the Board in discharging their official duties, as well as a share of the cost of the Secretariat. The cost of this amounted to approximately $0.2 million in 2014 ($0.2 million for 2013). Members of the Board are elected each year by the Economic and Social Council in accordance with the rules of procedure on membership. Executive Board members are not considered key management personnel of UNOPS as defined under IPSAS.

187. UNOPS considers UNDP and UNFPA related parties, given that all three organizations are subject to common control by the Executive Board. UNOPS has a range of working relationships with UNDP and UNFPA. All of the transactions between UNOPS and the other two organizations are conducted at arm's length. The inter-agency transactions were consistent with normal operating relationships between the organizations and were undertaken on terms and conditions that are normal for such transactions.

Key management personnel

188. The table below provides information on the aggregate remuneration of the executive management personnel.

Table 51
Key management personnel
(Thousands of United States dollars)

	2014	*2013*
Number of full-time positions	2	2
Aggregate remuneration		
Base compensation and post adjustment	452	487
Other entitlements	129	38
Post-employment benefits	118	126
Total remuneration	**699**	**651**
Outstanding advances against entitlements	3	4
After-service health insurance, repatriation grant and leave liability	227	581

189. For the purpose of this disclosure, the Executive Director and the Deputy Executive Director are considered the executive management personnel, as they have the overall authority and responsibility to plan, lead, direct and control the activities of the organization.

190. The aggregate remuneration of the executive management personnel is based on a full-time equivalent basis and includes net salaries, post adjustment, entitlements such as representation allowance, rental subsidy, relocation grant and the costs of pension, after-service health insurance and repatriation grant in accordance with the Staff Regulations of the United Nations and Staff Rules.

191. In 2014 the assignment grant of the incoming Executive Director and the separation-related shipment and travel costs of the outgoing Executive Director amounting to $0.081million were included under other entitlements. These financial statements disclose key management personnel remuneration as well as post-employment liabilities directly attributable to the individuals, with comparable figures provided for 2013 on the same basis.

192. In 2014 there were no known instances of executive management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 26
Services in kind

193. Services in kind for the year amounted to $3.9 million ($3.7 million in 2013), comprising the estimated market rental value of office space provided by the Government of Denmark to accommodate the UNOPS headquarters in Copenhagen.

Note 27
Property, plant and equipment

194. At 31 December 2014, the net book value of UNOPS property, plant and equipment was $13.5 million. These assets fall under the categories indicated in note 3 (d), which will be used for disclosure from 2015 onwards. UNOPS also held $45.4 million worth of assets as a custodian.

195. The table below summarizes the value of the property, plant and equipment held by UNOPS at year-end:

Table 52
Value of property, plant and equipment held by UNOPS as at 31 December 2014
(Thousands of United States dollars)

	Net book value as at 31 December 2014
UNOPS property, plant and equipment	13 480
Property, plant and equipment held as a custodian	45 387

Note 28
Events after reporting date

196. The financial statements were approved for issue on the date on which the Board of Auditors signed the audit opinion. None other than UNOPS has the authority to amend these financial statements.

197. As at the date of signature of the UNOPS financial statements and related notes for the period ended 31 December 2014, there have been no material events, favourable or unfavourable, that have occurred between the balance sheet date and the date on which the financial statements were authorized for issue that would have affected the statements.

Glossary of technical terms

Accounting policies	In 2012 UNOPS adopted IPSAS, which provides a general framework for accounting within the public sector and has to be adapted to meet the circumstances of individual bodies. The details of how IPSAS has been applied are summarized in note 3 to the financial statements
Accrual basis	Accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate
Actuarial gains and losses	After-service health insurance is the only place in the UNOPS financial statements where actuarial gains and losses arise. The after-service health insurance liability is calculated by consulting actuaries on the basis of a set of assumptions, including longevity, the future cost of medical care and the discount rate; and a set of data, including staff numbers, ages and health-care costs incurred in the past. Changes in any one of those factors may increase or decrease the liability. The difference between the assumptions and actual performance, and the effect of changes in assumptions is the actuarial gain or loss and is reported as a direct change on reserves. Any change arising from other factors (e.g., increases in the number of UNOPS employees) is an expense and reported in the statement of financial performance
Amortization	A charge reflecting the consumption of an intangible asset over its useful life
After-service health insurance	The cost that UNOPS expects to pay in the future to discharge its responsibility to assist qualifying employees in funding their health-care costs after separation from UNOPS
Cash and cash equivalents	Cash on hand, cash at banks and deposits held with financial institutions where the initial term was less than three months
Certificate of deposit	A savings certificate entitling the bearer to receive interest
Commercial paper	An unsecured promissory note with a fixed maturity of usually no more than 270 days
Contingent asset	A potential asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNOPS. Contingent assets are not included in the statement of financial position
Contingent liability	A possible obligation of UNOPS that arises from past events with a significant degree of uncertainty as to the likelihood of a payment being made, or the measurement of the liability. Contingent liabilities are not included in the statement of financial position
Depreciation	A charge reflecting the consumption of a tangible asset over its useful life

Employee	UNOPS is a party to the contract of employment of permanent staff employed under the Staff Regulations of the United Nations and Staff Rules, and of individual contractors whose terms and conditions of employment are tailored to the needs of a specific project being delivered with the labour of the employee
Employee benefits	All those costs associated with employing a member of staff. The exact benefits are determined by the contract of employment
Exchange revenue	Revenue generated from transactions in which UNOPS receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange. Most UNOPS contracts are of this nature
Fair value	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. For UNOPS, fair value is usually the cash amount needed to settle a transaction
Financial instruments	Assets and liabilities where there is a contractual right to receive cash from or pay cash to another entity. They include cash and investments and most receivables and payables
Going concern	The financial statements are prepared on the assumption that UNOPS is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all information available about the future, which is a period at least, but is not limited to, 12 months from the date of approval of the financial statements
Individual contractors	Individuals working for UNOPS whose terms and conditions of service are tailored to the needs of the projects on which they are working. See also employee
Impairment	The loss in the future economic benefits or service potential of an asset, over and above the structured charging of depreciation
Investments	Deposits with financial institutions where the initial term was for a period in excess of three months
Intangible assets	Identifiable non-monetary assets without physical substance, including (but not limited to) computer software developed in-house by UNOPS and licensed software packages
International Public Sector Accounting Standards (IPSAS)	The International Public Sector Accounting Standards were developed by the International Federation of Accountants as an integrated set of accounting standards designed to meet the accounting and reporting needs of Governments and public sector bodies. The General Assembly adopted IPSAS with a view to ensuring that, across the board, accounts are prepared on a consistent and comparable basis

Inventory	Assets held in the form of material or supplies that will be used by UNOPS in the future to deliver services. Those items (such as vaccines) held by UNOPS on behalf of a partner under an agency contract are not considered UNOPS inventory under IPSAS
Management budget	The Executive Board approves a biennial budget covering the fee income and related expenses that UNOPS is expected to achieve. Out-turn against the budget was reported under the United Nations system accounting standards in the statement of income and expenditure and is now covered by the statement of comparison of budget and actual amounts
Management expenses	Those costs incurred under the management budget
Money market instruments	Highly liquid short-term debts and securities
Operational reserve	Accumulated surplus built up over past years and the actuarial gains and losses in respect of post-employment benefits
Property, plant and equipment	Tangible assets (including project assets) under the control of UNOPS and: • Used by UNOPS to generate revenue • Expected to be used during more than one reporting period
Principal and agent	IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those that it undertakes on behalf of others (agent). The distinction is whether the economic benefits arising from the contract accrue to UNOPS, except to the extent that a fee may be levied for providing an agency service
Provisions	A liability of uncertain timing or amount
Segment	The three UNOPS regional offices and headquarters
Staff	A generic term that covers permanent staff and individual contractors. See also employee
Transitional provisions	On first implementation of IPSAS, individual standards give relief from the immediate application of aspects of the standard if certain specified criteria are met. This is important because some standards are complex to apply and require significant time to collect the information necessary to enable full implementation. UNOPS has applied all the standards from 1 January 2012 and adopted one important transitional provision in the 2013 financial statements under which UNOPS will take up to five years to implement IPSAS with regard to the recognition of property, plant and equipment
Treasury bill	Short-term debt obligation backed by a sovereign State
Trust funds	Moneys administered by UNOPS on behalf of a donor for the benefit of recipients. These transactions are typically classified as agency

Annex

United Nations Office for Project Services local individual contractors provident fund summary for the year ended 2014

(Thousands of United States dollars)

	2014
Opening balance 1 January 2014	–
Contribution/premium	1 936
Earnings	6
Closing balance 31 December 2014	**1 942**

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