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United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 1999 and

Report of the Board of Auditors

United Nations • New York, 2000

Note

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

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Letters of transmittal and certification

14 July 2000

Sir,

We have the honour to submit the financial statements of the United Nations Office for Project Services (UNOPS) for the biennium ended 31 December 1999, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

The Chairman of the Board of Auditors
United Nations
New York

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

Accept, Sir, the assurance of our highest consideration.

(*Signed*) Bisrat **Aklilu**
Officer in Charge
United Nations Office for Project Services

(*Signed*) Martyn **Evans**
Assistant Director
Division for Finance, Budget and Administration
United Nations Office for Project Services

28 July 2000

Sir,

I have the honour to transmit to you the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 1999, which were submitted by the Officer-in-Charge. These statements have been examined and include the audit opinion of the Board of Auditors.

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

Accept, Sir, the assurances of my highest consideration.

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
and Chairman
United Nations Board of Auditors

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

Chapter I

Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Office for Project Services (UNOPS). The Board has audited the financial statements for the biennium ended 31 December 1999 and conducted management audits of UNOPS project management, business planning and headquarters relocation.

The Board's main findings are as follows:

(a) In the biennium 1998-1999, UNOPS delivered projects with a value of some $1.1 billion and generated fee income of $86.4 million on this work. It also authorized $371 million in disbursements for projects funded by loans from the International Fund for Agricultural Development, for which it received total fees of $9.9 million;

(b) In the biennium 1998-1999, UNOPS had to fund non-recurrent expenditure for the implementation of the Integrated Management Information System (IMIS) and the relocation of the headquarters offices. The total cost of these two projects in the biennium was $18.2 million;

(c) The total recurrent and non-recurrent administrative expenditure of UNOPS of $106 million exceeded its total income of $101 million by $5 million for the 1998-1999 biennium. This was mainly because, as foreseen and approved by the Executive Board, UNOPS had to fund non-recurrent expenditure for the implementation of IMIS and the relocation of the headquarters offices. The total cost of these two projects in the biennium 1998-1999 was $18.2 million;

(d) Although UNOPS planned for IMIS to go live on 1 January 1999, this was delayed until 1 April 1999. UNOPS was only able to start entering the majority of its expenditure data into the system from June 1999. This led to weaknesses in financial control during 1999;

(e) Project objectives, tasks or activities in general lacked quantified measures of success in the project documents, although many of these had the potential to be quantified;

(f) The cost of the relocation of UNOPS headquarters considerably exceeded the estimate. The first estimate by UNOPS of gross costs, in June 1998, was $7.3 million, but by June 1999 it had increased to $12.1 million. By the end of June 2000, the cost of the relocation had increased to $16.8 million, more than 130 per cent above the original estimate. UNOPS considered that the increases were justified since they represented the costs of additional goods or services, which became necessary as the project unfolded and its complexity became clearer;

(g) The contract of UNOPS with the construction manager required it to pay the firm a management fee of 9.25 per cent of the total construction costs. Such an arrangement reduced the incentive for the managing consultants to control costs, since the contractor stood to make more money from higher overall expenditure.

The Board made recommendations to tighten financial management, improve business planning and strengthen project management.

A list of the Board's main recommendations is contained at paragraph 10 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services (UNOPS) for the period from 1 January 1998 to 31 December 1999. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1998 to 31 December 1999 had been incurred for the purposes approved by the governing bodies, whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNOPS presented fairly the financial position as at 31 December 1999. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNOPS. In the biennium 1998-1999, the Board examined the project management, business planning and headquarters relocation of UNOPS.

4. The Board continued its practice of reporting the results of specific audits in management letters, providing detailed observations and recommendations to management.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNOPS which has confirmed the facts upon which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries.

6. A summary of the Board's recommendations is contained in paragraph 10 below. Detailed findings are in paragraphs 12 to 86.

7. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of those of its recommendations approved by the Assembly, subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the

General Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of timetables for the implementation of recommendations;

(b) The disclosure of office-holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

The Board noted that UNOPS had generally complied with the above-mentioned requirements.

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNOPS to implement the recommendations made in its report for the biennium ended 31 December 1995[1] and earlier, and confirms that there are no outstanding matters.

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNOPS to implement the recommendations made in its report for the biennium ended 31 December 1997.[2] Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations of the present report

10. The Board recommends that UNOPS should:

(a) Prepare a full inventory of its non-expendable equipment, both at headquarters and at its regional offices, with a view to providing an historic cost for its non-expendable equipment in the financial statements for the biennium 2000-2001 (para. 15);

(b) Conduct regular reviews, led by its Finance Section, of all unliquidated obligations and cancel those which cannot be substantiated or justified by budget managers (para. 29);

(c) Establish the relationship among the priorities, objectives, activities and tasks included in the business plan and apply this consistently from year to year, providing a full explanation of any changes it makes (para. 43);

(d) Seek to ensure that all project documents contain measurable objectives (para. 54);

(e) Seek to ensure that all project documents contain information on the overall project budget broken down by objective and sub-objective, as appropriate (para. 55).

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[1] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5J* (A/51/5/Add.10).

[2] Ibid., *Fifty-third Session, Supplement No. 5J* (A/53/5/Add.10).

11. The Board's other recommendations appear in paragraphs 33, 40, 45, 56, 57, 62, 65 and 85.

B. Financial issues

1. United Nations accounting standards

12. The Board evaluated the extent to which the financial statements of UNOPS for the biennium ended 31 December 1999 conform to the United Nations accounting standards. The review indicated that the presentation of the financial statements is generally consistent with the standards, except as noted below.

13. Paragraph 49 of the United Nations accounting standards requires United Nations organizations to disclose the inventory value of their non-expendable equipment, furniture and motor vehicles and the method of valuation in a note to the financial statements. Although UNOPS has disclosed the total amount spent on non-expendable equipment during the biennium (see chap. III, note 2, sect. C.2), it has not provided an estimated historic cost of its total holdings of non-expendable equipment.

14. UNOPS does not hold a complete and up-to-date inventory of its non-expendable equipment. Most of its non-expendable equipment is furniture and information technology equipment held at headquarters. As part of its relocation late in 1999, UNOPS purchased a full range of new equipment for the offices. While it holds a full listing of the values of the items purchased as part of this exercise, it has yet to make a full inventory of its older equipment.

15. **The Board recommends that UNOPS prepare a full inventory of its non-expendable equipment, both at headquarters and at its regional offices, with a view to providing an historic cost for its non-expendable equipment in the financial statements for the biennium 2000-2001.**

2. Financial position

16. As shown in statement 1 (see chap. III), the total recurrent and non-recurrent administrative expenditure of UNOPS of $106 million exceeded its total income of $101 million by $5 million for the 1998-1999 biennium. This excess of expenditure over income, after taking account of $1 million in savings from obligations in previous periods represents a worsening of the financial position from the biennium 1996-1997, when UNOPS had a net excess of income over expenditure of $8.2 million. As a result, UNOPS eliminated its accumulated unexpected resources and reduced total reserves by $4 million, from $21.4 million to $17.4 million as at 31 December 1999.

17. During the 1998-1999 biennium, UNOPS increased its administrative expenditure by 51 per cent over the preceding biennium. The majority of this growth was planned and matched by a 30 per cent increase in fee income. This related to the success of UNOPS in gaining new business and diversifying its portfolio. UNOPS extended its client base within the United Nations system and in 1998-1999, for the first time, undertook work for the Department of Political Affairs, the Department of Peacekeeping Operations and the Office of the United Nations High Commissioner for Human Rights.

18. In 1998-1999, as foreseen and approved by the Executive Board, UNOPS had to fund non-recurrent expenditure for the implementation of IMIS and the relocation of the headquarters offices. The total cost of these two projects in 1998-1999 was $18.2 million, some 17 per cent of the entire administrative expenditure of UNOPS.

19. In order to protect the financial viability of the Office, the Executive Board of the United Nations Development Programme (UNDP) and of the United Nations Population Fund had agreed, in decision 97/21 of 18 September 1997,[3] to establish an operational reserve at 4 per cent of the combined administrative and project expenditure of the previous year. The administrative and project expenditure of UNOPS for 1998 was $579.8 million; therefore the level of the operational reserve at 31 December 1999 should be $23.2 million, compared with the actual level of $17.4 million.

20. In its decision 98/20 of 21 September 1998,[4] the Executive Board approved a budget for the biennium 1998-1999, which projected that UNOPS would not generate sufficient income to cover the full cost of the introduction and implementation of IMIS or the relocation of its headquarter premises. The Executive Board agreed to fund these costs from the operational reserve and approved a reduction in the reserve to $11.2 million (2 per cent) as at 31 December 1999. During 1998-1999, UNOPS earned more income than it budgeted for and, as a result, did not need to reduce the reserve to the level approved by the Executive Board.

21. In the biennium 2000-2001, UNOPS expects to fund from the operational reserve a further $1.5 million of expenditure for the implementation of IMIS and has forecast that the reserve will stand at $22.6 million at 31 December 2001. This equates to 3.1 per cent of expected expenditure in 2000. UNOPS intends to restore the reserve to the prescribed level in the biennium 2002-2003.

3. Integrated Management Information System

22. Since UNDP provides UNOPS with some financial services, UNOPS adopted the IMIS accounting system in 1999, in line with the transfer of UNDP to the new system. Although UNOPS planned for IMIS to go live on 1 January 1999, this was delayed until April 1999. UNOPS was only able to start entering the majority of its expenditure data in June 1999. UNOPS encountered many difficulties in introducing IMIS and these problems reduced its ability to effectively manage and control its operations during 1999. The Board noted that:

(a) There were difficulties in building links between IMIS and the various subsystems. As a result, UNOPS could not enter financial data onto IMIS, which created a backlog of information, in particular that relating to inter-office vouchers and imprest expenditure. Although IMIS went live on 1 January 1999, UNOPS was only able to start entering its expenditure data onto the system from June 1999;

(b) The delays in recording transactions led to weaknesses in financial control. UNDP, which provides a treasury management function for UNOPS, was unable to perform regular or timely bank reconciliations throughout 1999, owing to delays in the implementation of IMIS in UNDP. Such reconciliations are a

[3] See DP/1998/1, para. 146.

[4] See DP/1999/1 and Corr.1, para. 92.

fundamental financial control, and their absence increases the risk of financial loss to UNOPS;

(c) The portfolio managers of UNOPS need access to financial information on their projects and this should have been provided by the funds control system. Until November 1999, however, there was no interface between IMIS and the system and, as a result, portfolio managers did not have access to timely, accurate and complete financial information on their projects. Most portfolio managers maintained their own local records of expenditure, which created a risk of inaccuracy in the data;

(d) The information backlog, and the problems in designing an interrogation package, prevented UNOPS from producing timely or accurate reports, for both internal management and funding bodies and donors;

(e) The above-mentioned problems prevented UNOPS from presenting its financial statements for the biennium 1998-1999 to the Board by 30 April 2000, as required by the Financial Regulations. In fact, UNOPS only formally transmitted the financial statements to the Board on 14 July 2000, although it provided an advance copy in draft form on 21 June.

23. The Board was concerned that these problems weakened the financial control systems and reporting abilities of UNOPS during 1999. The Board recognizes that many of the problems related to the process of implementing IMIS. These problems substantially delayed the Board's audit of the financial statements of UNOPS.

4. Unliquidated obligations

24. In statement 1 and schedules 1 and 2 (see chap. III), UNOPS has disclosed unliquidated obligations of $201.1 million as at 31 December 1999. These represent liabilities for the provision of goods and services in the 1998-1999 biennium that UNOPS had entered into before 31 December 1999, but which remained unliquidated as at 31 December 1999. The total expenditure of UNOPS is the sum of these unliquidated obligations and disbursements made during the biennium.

25. The Board's initial examination of the unliquidated obligations of UNOPS indicated that the amounts disclosed in the draft financial statements were overstated. As a result, and at the request of the Board, UNOPS undertook a special exercise to validate a large proportion of its unliquidated obligations. This exercise focused on $60.7 million of unliquidated obligations related to project subcontracts and $75.2 million related to the purchase of non-expendable equipment. UNOPS found that it had overstated unliquidated obligations in these areas by some $15.8 million.

26. Based on the results of this special exercise, UNOPS reduced the value of the unliquidated obligations by $7.85 million. It decided not to adjust $7.95 million of the overstatement, since this related to projects for which it had already issued performance reports.

27. Based on the results of the special exercise and the Board's audit, the Board extrapolated that, even after the adjustments, UNOPS had overstated the value of unliquidated obligations in schedule 1 by up to $17.5 million (8.7 per cent). This amount includes the $7.95 million that UNOPS found in its special exercise, but did not adjust. There were two main reasons for the high level of overstatement:

(a) Some unliquidated obligations included costs that did not relate to the biennium 1998-1999 and where there was no requirement on UNOPS to make payments until the year 2000. This was a particular problem in the areas of consultancy fees and project subcontracts;

(b) For some projects, UNOPS had recorded disbursements during 1999 against old, fully utilized obligations, rather than the correct obligation, which overstated the unliquidated amount of the correct obligations as at 31 December 1999. This was caused by the delayed introduction of IMIS, which led to certifying officers authorizing disbursements without knowing the IMIS obligation reference against which they should have recorded the payments.

28. Although some of the problems were related to the implementation of IMIS, some were directly attributable to a failure by UNOPS staff to fully understand the rules governing the setting-up and retention of unliquidated obligations.

29. The standard policy of UNOPS was to conduct reviews of unliquidated obligations on a regular basis throughout the year. This was not possible in 1999, since the problems with IMIS meant that complete and accurate financial data were not available. The Board also noted that early in 1999, the UNOPS Finance Section had conducted a thorough and comprehensive review of unliquidated obligations as at 31 December 1998 and had cancelled obligations that it considered no longer valid. Although it initiated a similar review as at 31 December 1999, more people were involved and the responsibility for the review was more diffuse. **The Board recommends that UNOPS conduct regular reviews, led by its Finance Section, of all unliquidated obligations and cancel those which cannot be substantiated or justified by budget managers.**

5. Impress accounts

30. The Board examined 68 imprest accounts to ensure that UNOPS had correctly recorded the year-end balances. The Board was pleased to note that UNOPS had considerably improved the management of these accounts compared to that at the end of the 1996-1997 biennium, when the Board was unable to confirm the balances on some 47 imprest accounts. The Board, however, was still unable to confirm the balances on 5 accounts with a combined value of $670,000, since the field offices had failed to return imprest reconciliations and supporting documentation to UNOPS headquarters in New York.

31. It is important that UNOPS examine and reconcile field office imprest returns in order to validate the authenticity and regularity of expenditure incurred at the field office level. As such, UNOPS should follow-up immediately any failure by an imprest holder to submit a monthly reconciliation of its imprest account.

32. The Board also noted that UNOPS headquarters only completed its reconciliation of the December 1999 imprest returns in May 2000.

33. **The Board recommends that UNOPS review, on a monthly basis, the returns from imprest account holders and take immediate action to hasten any missing returns. The Board also recommends that UNOPS promptly reconcile all the returns from imprest account holders so as to ensure that it effectively monitors expenditure disbursed in the field.**

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

34. UNOPS informed the Board that there were no cases in which it had written-off cash, receivables or property during the 1998-1999 biennium.

7. Ex gratia payments

35. UNOPS reported no ex gratia payments during the period under review.

C. Management issues

36. The main role of UNOPS is to manage the project resources of various donors in helping developing countries and countries in transition in their quest for peace, social stability, economic growth and sustainable development. UNOPS offers a broad range of services to United Nations organizations, ranging from overall project management to the provision of single input. It is a self-financing entity, earning management fees for its work.

1. Business planning

37. UNOPS has produced annual business plans since it became a separate entity within the United Nations system in 1995. The business plan is one of the three key documents it produces to manage its activities. The other two documents are the budget estimates and the annual report of the Executive Director on the activities of UNOPS.

38. The Board reviewed the business planning procedures of UNOPS, focusing on the following areas: evolution of the business planning process; monitoring and reporting; and performance in the biennium 1998-1999.

Evolution of the business planning process

39. Since 1995, UNOPS has increased the overall number of financial targets and objectives. In 1996, it amended and expanded its planning approach after reviewing the success of the initial business plan for 1995 and, in 1998, it provided more detailed information on the various types of activity in its portfolio. UNOPS also decided to discontinue some targets completely or replaced them with other measures. Four of the six financial targets in the business plan for 1995 were discontinued or amended in either 1996 or 1997. The reasons for those changes, however, were only fully explained for one target.

40. **The Board recommends that UNOPS provide an explanation for any targets that it discontinues or amends in order to provide continuity to the business planning process.**

41. UNOPS plans to reduce the overall number of non-financial objectives and related tasks and focus more on strategic priorities. Since 1995, however, it has not had a consistent approach in defining its overall strategy or how the elements within that strategy fit together. Table 1 summarizes the relationship among priorities (the highest strategic aims of UNOPS), objectives (its shorter term management goals) and tasks/activities (which support the priorities or objectives).

Table 1
Relationship among priorities, objectives and tasks/activities over time

Year	*Priorities*	*Objectives*	*Tasks activities*
1995	3	0	57 linked to specific priority
1996	3	7 linked to a specific priority	21 linked to specific priority and objective
1997	3	5 not linked to a specific priority	17 linked to specific objective but not specific priority
1998	3	5 not linked to a specific priority	23 linked to specific objective but not specific priority
1999-00	2	0	17 linked to specific priority

Note: UNOPS has not developed a consistent relationship among its priorities, objectives and tasks over time.

42. UNOPS set the same three strategic priorities in the years from 1995 to 1998: improving the quality of service; building and enhancing relationships within the client community; and strengthening its organization. In the plan for 1999-2000, however, it changed the focus to two management priorities: managed growth; and the development of human resources and core competencies. The Board considers that UNOPS did not adequately explain the reasoning behind this significant change in its planning strategy.

43. **The Board recommends that UNOPS establish the relationship among the priorities, objectives, activities and tasks included in the business plan and apply this consistently from year to year, providing a full explanation of any changes it makes.**

44. UNOPS has made efforts to set quantified targets or measures of success in its business plans, such as completion dates, and priority status measures; however, it varied its approach both between and within years. For example, only the 1998 business plan contained quantified performance measures for the three priorities of UNOPS, and only the 1996 plan estimated costs for all tasks, while limited cost information was provided for some tasks in the 1998 and 1999-2000 plans. Objectives, tasks or activities in all years generally lacked quantified measures of success, although many of these had the potential to be quantified.

45. **The Board recommends that, where appropriate, UNOPS disclose performance information in its business plan.**

Monitoring and reporting

46. UNOPS established a comprehensive monitoring schedule for its 1999-2000 business plan, with management meetings to review progress throughout the two-year period. It identified the expected timings of all deliveries and the lead unit responsible for each output. Responsible sections produce reports for each monitoring meeting, maintaining high internal visibility of the progress being made towards the achievement of targets in the business plan. The Board considers that the monitoring schedule deals systematically with each activity listed in the business

plan and should allow UNOPS to clearly summarize performance in the annual report, using the same terms as were used in the original 1999-2000 business plan.

Performance in the biennium 1998-1999

47. The Board reviewed the performance of UNOPS against the objectives it had set for 1998 and 1999. Table 2 summarizes targeted and actual performance against financial objectives in the biennium.

Table 2
Targeted and actual performance against financial objectives for 1998-1999

Objective	*1998 target*	*1998 actual*	*1999 target*	*1999 actual*
Peak budget ($ millions)	900	901	984	924
New project acquisition	715 (750)[a]	763	614	566
New services acquisition	184	248	453	652
Project delivery ($ millions)	544 (550)[a]	538	550	568
Services delivery ($ millions)	158	175	257	196
Total income ($ millions):	44.5	50	51.1	50.7
From interest/other	1.2	2.4	2.6	2.1
Services only	5.1	4.1	5.6	5.8
Project implementation	38.2	43.5	42.9	42.8
Income rate on project implementation (percentage)	6.9	8.1	7.8	7.5
Income from non-traditional sources ($ millions)	4.1	3.2	3.2	unknown
Administrative expenditure ($ millions):	44.5	42	60.6	63.7
Recurring administration	43.6	40.5	48.1	49
IMIS/year 2000 computer problem	3	1.4	4	2.8
Relocation	0	0.1	8.6	11.9

[a] Some targets for 1998 were revised in October 1998; figures in brackets are the original targets. Figures for 1999 actual are still preliminary and not complete for all categories.

48. UNOPS met, or came close to meeting, six of its eight main income and delivery targets in 1998. The 1998 targets for new project acquisition and project delivery were adjusted downwards in October 1998, to reflect management's estimate of what it was likely to achieve. Following the adjustment, UNOPS achieved 107 per cent of the new project acquisition target against 102 per cent of the original target, and 99 per cent of the project delivery target against 98 per cent of the original target.

49. At the time of the Board's review, UNOPS had only preliminary financial performance figures available for 1999, and information on one target was unavailable. Preliminary data indicated that UNOPS had achieved two of its main income and delivery objectives for the year: new services acquisition, at 144 per cent of target; and project delivery at 103 per cent. UNOPS was also close to

achieving its objectives on total income, 99 per cent of target, and income rate on project implementation, 96 per cent. UNOPS did not quite achieve the new project acquisition target, realizing 92 per cent, or its peak budget objective, realizing 94 per cent. The difficulties encountered by UNOPS in achieving these portfolio volume targets were linked to a decline in the resources of its largest client, UNDP. UNOPS did not achieve its service delivery objective, achieving only 76 per cent of the target.

50. UNOPS set five non-financial objectives for 1998 and two for 1999. The 1999-2000 business plan simply stated that four of five objectives were actively pursued in 1998, without identifying which four. UNOPS informed the Board that it carried out substantial work on retooling key automated systems, introducing a business development strategy, introducing an organizational growth and decentralization strategy, and refining fee setting. During 1998, however, UNOPS made little progress towards achieving the fifth objective of introducing a staff development and training strategy. It rescheduled most of the work on this objective for 1999.

51. UNOPS did not fully complete any of the objectives in the 1998 business plan within the planned time-frame. It carried forward into 1999 substantial work on the retooling of key automated systems, particularly in respect of IMIS, which it did not expect to complete until 2000. UNOPS completed a refined fee-setting model but delays in the implementation of IMIS meant that the key management information required to test and implement the model was not available. As a result, UNOPS suspended any further work in this area. The Board trusts that, in drawing up its business plan, UNOPS will ensure that it sets realistic time-frames for its targets.

2. Project management

Introduction

52. UNOPS functions as a management contractor, offering its expertise to the United Nations system or to other bodies that need its services. It implements projects at the request of funding organizations, and can become involved at varying stages in the life of the project to carry out a range of different activities. In the biennium 1998-1999, UNOPS delivered projects with a value of some $1.1 billion and generated fee income of $86.5 million on this work.

53. The Board reviewed UNOPS project management, examining acceptance, implementation, monitoring and completion of projects, within the context of good practice in project management and compliance with UNOPS Handbook on Project Management and Administration and other related guidance. The Board examined 11 projects with a total budget of $59.3 million.

Project acceptance

54. The Board examined the project document, or management service agreement for each project. Project documents were produced by the donor, while the agreements were produced jointly by the donor and UNOPS. In both cases, UNOPS used the document as a reference point throughout the life of the project. The Board noted that all project documents and management service agreements contained background information on the project and a set of objectives which, in 9 of the 11 cases examined, were supported by sub-objectives. The Board noted that not all projects had measurable objectives; for example, one project had the objective of

improving, at the local level, basic infrastructure to provide for the delivery of education. It was not clear how UNOPS would measure the achievement of that objective. While the Board recognizes that it is difficult for UNOPS to apply clear and measurable objectives to all projects, particularly some management service agreements, **the Board recommends that UNOPS seek to ensure that all project documents contain measurable objectives.**

55. In 10 of the projects examined, the project document or management service agreement contained a budget statement, which was broken down by budget headings, such as contracts, training equipment and contingencies. Where budgets were attached to the project document, all but one were phased over the life of the project. The Board noted, however, that UNOPS had only analysed one of the budgets by objective in order to determine the cost of output as well as input. While the Board recognizes that donors often take the lead in preparing budgets, **it recommends that UNOPS should seek to ensure that all project documents contain information on the overall project budget broken down by objective and sub-objective, as appropriate.**

56. Eight of the projects reviewed by the Board provided information on monitoring arrangements. For instance, one project document contained a section on review and evaluation arrangements, which detailed the type and frequency of reporting required for the duration of the life of the project. No such monitoring arrangements were outlined in the remaining three projects reviewed by the Board. **The Board recommends that, before signing project documents or management service agreements, UNOPS ensure that the donor includes details of the project's proposed monitoring regime.**

57. The Board reviewed project documents and management service agreements in order to establish whether the risks involved in the projects had been properly analysed. In 4 of the 11 cases examined, the Board could not identify any such analysis, although the Board identified good practice in other cases. For example, one project listed and prioritized the risks to delivery, ranging from the impact of HIV/AIDS on the workforce to the potential for delays in recruiting project staff. **The Board recommends that UNOPS endeavour to ensure that each project document or management service agreement outline the risks to the project's delivery.**

Project implementation

58. Of the 11 projects examined by the Board, 6 had delayed starts. On average, the delay was just over five months. Reasons for the delays included delays in securing the Government's signature to the project document, delays in securing funds from the donor Government, and problems agreeing on documentation. The Board noted that some of the causes for delayed starts were beyond the control of UNOPS.

59. The Board found that UNOPS clearly set out the mechanisms by which it intended to manage each project at the local level. These provisions appeared appropriate to the circumstances of the individual projects and the Board identified some examples of good practice. For instance, in three of the projects, steering groups or committees, consisting of local representatives, were used to manage and to oversee implementation. The Board welcomes such initiatives to establish sound, representative project steering committees.

Project monitoring

60. The main budget monitoring tool is the project delivery report, which is produced on a monthly basis and contains a summary of expenditure against budget. The Board noted that UNOPS had experienced problems with the introduction of its new management information system, IMIS, which had adversely affected its ability to monitor project budgets effectively during 1999. In particular, there was a time lag of up to six months between a project incurring expenditure and IMIS recording it. In some instances, UNOPS staff were using shadow budgets to monitor projects, creating an additional administrative burden.

61. The project delivery report shows the percentage of expenditure against the approved budget, which UNOPS uses as a measure of project implementation. While UNOPS considers that this is appropriate for specific tasks conducted under management service agreements, the fact that the delivery rate is based solely on input rather than output means that UNOPS cannot use it to assess progress against individual project objectives.

62. **The Board recommends that UNOPS endeavour to strengthen the range of performance indicators included in project documents so as to allow progress against objectives and sub-objectives to be quantified and reviewed as fully as possible.**

63. The Board noted that UNOPS had used project performance evaluation reports for only 4 of the 11 projects reviewed. Such reports provide an analysis of the status of a project's targets and sub-targets, summarize the progress made since the most recent evaluation, and contain recommendations to address the issues arising. The Board considers that the use of such reports improve the monitoring by UNOPS of projects.

64. The Board noted that UNOPS undertook tripartite reviews, or their equivalent, in 3 of the 11 projects reviewed. In these cases, the reviews provided an opportunity to examine the achievements of existing programmes and to adjust the project to take account of changing circumstances.

65. UNOPS only conducts project performance evaluation reports and tripartite reviews when this is required by the project document. Given the value of such reports and reviews to the management of projects, however, **the Board recommends that UNOPS work with funding organizations to undertake periodic project performance evaluation reports and tripartite reviews for all projects.**

3. Relocation project

Background

66. The Board reviewed the management by UNOPS of a project to relocate its headquarters in New York. Until late 1999, UNOPS had occupied offices in the Daily News Building in Manhattan. In September 1997, the managing agents of the building occupied by UNOPS informed UNOPS that it did not intend to renew its lease, and that UNOPS would be required to vacate its offices by the end of September 1999. UNOPS therefore had two years to identify suitable new premises, negotiate a lease, ensure the premises were furnished and equipped to required specifications and move in.

Timetable

67. UNOPS considered the period of notice too short to allow it properly to review its headquarters accommodation strategy. As a result, it did not investigate other options, such as moving away from New York in line with its policy of decentralization. The short timescale meant that UNOPS was unable to consider seriously any options other than leasing office space in Manhattan. It made some efforts to include other locations in the New York area, but rejected them owing to the distance from the United Nations.

68. The Board notes that UNOPS intends to establish a registry of all of its leases throughout the world, and ensure that the terms of all new leases are reviewed to identify any potential problems at the earliest possible stage. The Board supports this initiative.

69. UNOPS moved out of the Daily News Building on 10 December 1999, more than two months behind schedule. UNOPS was unable to provide the Board with a detailed breakdown of its initial timetable for relocation activities, so it is unclear exactly how actual performance compared to the plans. Table 3 illustrates the actual time UNOPS spent on various relocation activities. The selection of a building and the detailed planning for its reconstruction were the most time-consuming elements. UNOPS had originally hoped to finalize the contract with its construction managers in March 1999 and begin construction in June. These activities were not actually completed until July and August 1999, respectively.

Table 3
Time taken to complete relocation activities

Activity	*Dates*	*Number of months*
Finding and selecting new premises	September 1997 to August 1998	11
Lease negotiations	September 1998 to January 1999	5
Appointing architects, engineers and construction managers and preparing and agreeing design plans	September 1998 to July 1999	10
Construction phase	August 1999 to December 1999	4

Note: The relocation process took some 26 months to complete.

70. UNOPS faced penalties for failing to move out of the Daily News Building by the 30 September 1999 deadline imposed by the building managers. UNOPS negotiated with the landlord to reach an acceptable settlement, and paid a rent of $585,000 for the extra time it occupied the building and penalties of $465,000. This was less than the amount originally envisaged.

Selection of premises

71. The main criteria UNOPS identified for its new premises were: (a) close proximity to the United Nations in East Midtown; (b) two or three contiguous floors with total rental area of 75,000 to 90,000 square feet; (c) ready for occupancy by 1 October 1999 at the latest; (d) strong building management track record; (e) class A building; and (f) rents of less than 10 per cent of administrative expenditure.

72. UNOPS employed a firm of consultant architects in March 1998 to conduct a preliminary search for buildings which met these criteria. They identified four possible buildings. In July 1998, UNOPS appointed a firm of real estate brokers to undertake a more detailed search. After considering 164 potential premises, they narrowed the list down to 4. Three of these were the same as those identified by the architects three months earlier. Of the 4 shortlisted sites, UNOPS and the brokers identified 2 first choices.

73. UNOPS used an evaluation methodology that examined quality and cost factors separately. The two first-choice premises scored 8.55 and 7.8, respectively. While the overall net present value of the second of these premises, discounted over 15 years, was lower, at $41.5 million, UNOPS chose the slightly more expensive first option in the Chrysler building at $41.9 million net present value, because it considered that this option provided the best overall value.

Management of the relocation

74. UNOPS formally established a relocation team to manage the project in the spring of 1998, some six months after it first identified the need to move. The team was headed by a procurement specialist and included a legal specialist, a facilities management specialist and the UNOPS office manager. Prior to this, two members of the team had already started to address the need for relocation on a less formal basis. The Board considers that it would have been beneficial for UNOPS to have formally established the relocation team at an earlier date in order to raise the profile of the project within the organization and focus on it the attention of senior management. The Board recognizes there was initially some uncertainty as to whether UNOPS would actually have to move, but considers that it would have been prudent to have had a team in place to prepare a strategy for this eventuality.

75. UNOPS supported the relocation team by bringing in external expertise, as needed. It appointed three principal consultants, for architectural design and planning, for engineering and for construction management. In turn, these consultants appointed and managed over 20 subcontractors, who had provided approximately $7 million worth of works by December 1999. The relocation team also entered into direct contracts for some items, such as office furniture, communications cabling and an audio-visual network.

76. UNOPS sought to maximize the space available in the new premises by installing infrastructure, such as electrical, computer and communications cabling, in as compact a ceiling area as possible. As a result, the work was complex to plan and schedule, with certain operations being dependent upon the completion of others and several different subcontractors involved. Some of the delays in the project stem from this complexity.

Costs

77. The costs of the relocation considerably exceeded the estimates. The first estimate by UNOPS of the gross costs, in June 1998, was $7.3 million but, by June 1999, it had increased to $12.1 million. By the end of June 2000, the cost of the relocation had increased to $16.8 million, more than 130 per cent above the original estimate. The overall cost to UNOPS was reduced by a contribution towards construction of $3.5 million by the new landlord. The final overall cost of relocation will not be known for some time.

78. The original estimate of $7.3 million covered the identification of premises, lease negotiation, re-equipment and the move to a new location, but there was no detailed breakdown of the cost of these different elements. At that stage, UNOPS had neither identified its preferred premises nor entered into lease negotiations, and did not therefore have any detailed information available on the construction and refurbishment requirements that might be associated with the move. The nature of the estimate was thus very general.

79. By the time that UNOPS prepared the budget of $12.1 million, however, it had far more information on the likely costs of relocation. This estimate provided a more detailed cost breakdown and contained items not covered by the original estimate, such as construction management and lease negotiation fees. It also included costs related to the timing of the move and the physical characteristics of the new premises, such as audio-visual facilities, telecommunications equipment and a PABX telephone system.

80. The costs of some individual contracts exceeded the original contractual values. Table 4 indicates the most significant increases.

Table 4
Cost rises on individual contracts

Service	*Original value (United States dollars)*	*Commitments at 31 December 1999 (United States dollars)*	*Increase (United States dollars)*	*Increase (percentage)*
Construction	6 million	7.5 million	1.5 million	25
Architectural design	265 000	715 007	450 007	170
Furniture	2.1 million	2 384 119	284 119	13.5

81. UNOPS considered that the increases were justified, since they represented the costs of the additional goods or services which became necessary as the project unfolded and its complexity became clearer. UNOPS followed standard procurement practices in its management of the project. It appointed all of its contractors through a competitive bidding process and ensured that subcontractors were also appointed in line with competitive bidding norms in public sector. The relocation team also took advice from its retained architects and engineers on the necessity for additional works before approving further expenditure. The relocation team retained an oversight role of all payments made to contractors and subcontractors.

82. The largest contract was with the construction manager, which in turn appointed over 20 subcontractors. UNOPS initially valued the construction contract at $6 million and this was the value at the time that the Procurement Review and

Advisory Committee reviewed the proposed contract in March 1999. The Committee did not approve an upper value for the contract, but determined that the appointment was the result of proper and appropriate procurement procedures. The Committee considered that the technical nature of the project, and the need to quickly approve a number of subcontracts, meant that it was more appropriate to establish a special review committee for the relocation project. That committee reported to the Chief Procurement Officer, who reviewed the financial status of the project on a monthly basis, and authorized increases. By 31 December 1999, UNOPS had made commitments of $7.5 million under the contract and, by 31 March 2000, the total cost had risen to some $8 million.

83. The contract of UNOPS with the construction manager required it to pay the firm a management fee of 9.25 per cent of the total construction costs. Such an arrangement reduced the incentive for the managing consultants to control costs, since the contractor stood to make more money from higher overall expenditure. UNOPS considered the option of a guaranteed maximum price contract which would have capped the management fees, but considered this inappropriate, because when it appointed the construction managers the engineering plans were incomplete and final construction costs could not be accurately estimated. The construction management contract contained neither a target deadline nor any penalty clauses for overruns. UNOPS retained, therefore, all of the risks involved in the late delivery of the project. UNOPS informed the Board that the nature of the local market in New York made such clauses difficult to include in contracts. It attempted, however, to compensate for these weaknesses by engaging an experienced facilities management professional to oversee the construction process and by requiring that all subcontracts be openly and competitively tendered.

84. The Board is concerned that the contract modalities adopted by UNOPS may have contributed to cost overruns, particularly in linking the consultant's remuneration to final costs and the lack of penalties for late delivery. The Board is also concerned that the Procurement Review and Advisory Committee played only a limited role in approving this major contract and did not require management to submit for further review any cost increases above the original estimate.

85. **The Board recommends that, in the future, UNOPS seek to avoid the proportional remuneration of lead contractors as a contract mechanism and seek to include penalty clauses for late delivery.**

4. Cases of fraud and presumptive fraud

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

D. Acknowledgement

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

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

Osei Tutu **Prempeh***
Auditor-General of Ghana

(*Signed*) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

28 July 2000

* The term of office of the Auditor-General of Ghana expired on 30 June 2000, prior to the signing of the present report. The Auditor-General, however, has expressed agreement with the contents of the report. In addition, the relevant audit programme had been approved by the Board and all special instructions given by the Board were carried out.

Annex

Follow-up action taken by the United Nations Office for Project Services to implement the main recommendations of the Board of Auditors in its report for the biennium ended 31 December 1997[a]

Recommendation 9 (a)

1. The United Nations Office for Project Services (UNOPS) should finalize its handbook on procurement procedures as a matter of priority.

Measures taken by the Administration

2. UNOPS has implemented the above-mentioned recommendation.

Comments of the Board

3. The Board is pleased to note the finalization of the procurement handbook.

Recommendation 9 (b)

4. The Office should ensure that procurement plans are drawn up for each project, detailing items to be purchased and indicating a likely timetable for action.

Measures taken by the Administration

5. In order to facilitate effective, timely action and reduce the overall costs of procurement, the staff of the Office have been advised to ensure that appropriate procurement plans are developed on a timely basis in all cases. The Director of Operations will continue to monitor compliance with this directive.

Comments of the Board

6. The Board is pleased to note the action taken.

Recommendation 9 (c)

7. Where requisitions are prepared by procurement staff they should be approved by project managers prior to processing and this approval should be formally evidenced.

Measures taken by the Administration

8. The need to ensure that requisitions are appropriately approved prior to processing and that the entire procurement process is fully documented have again been drawn to the attention of the staff concerned. The policy of the Office in this regard is set forth in its handbook (in particular, chaps. 3 and 9).

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[a] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5J* (A/53/5/Add.10), para. 9.

Comments of the Board

9. The Board is pleased to note the action taken.

Recommendation 9 (d)

10. All field officers should be reminded of the importance of completing the receipt and inspection reports.

Measures taken by the Administration

11. While recognizing that the Office is not always in a position to ensure the completion of the receipt and inspection reports, staff have been advised that every effort must be made to do so. Furthermore, staff have been directed to obtain and document alternative confirmation of satisfactory delivery in those instances where receipt and inspection reports cannot be secured.

Comments of the Board

12. The Board notes the action taken.

Recommendation 9 (e)

13. The international consultant evaluation form should be revised to encourage a more rigorous evaluation of the final output against measurable objectives and targets in the terms of reference; and field offices should be reminded to complete evaluations of special service agreement assignments.

Measures taken by the Administration

14. The Office planned to issue new instructions by 1 May 1999 relating to the use of special service agreements. In addition, a revised evaluation form will permit the Office to capture better the quality of output as they refer to the original terms of reference. The guidelines will provide clear instructions requiring the completion of the evaluation forms for all staff.

Comments of the Board

15. The Board is pleased to note the action taken.

Recommendation 9 (f)

16. The Office should ensure that there is a complete, up-to-date, annual appraisal for every member of the staff and that a central record is maintained of the staff appraisals.

Measures taken by the Administration

17. The UNOPS performance evaluation form continues to be fine-tuned on the basis of experience gained. A staff development component has been incorporated and guidelines which facilitate the completion of the form by providing definitions

of key words and a sample completion of the various performance appraisal components have been issued. The appraisal exercise is conducted online, which allows UNOPS better to monitor compliance.

Comments of the Board

18. The Board will monitor developments in order to assess whether annual appraisals are completed for all staff members.

Recommendation 9 (g)

19. The Office should identify the shortcomings of the present financial reports, establish the key information required, and decide on the form and frequency of the reports.

Measures taken by the Administration

20. UNOPS has made an exceptional effort to implement Release 3 of the Integrated Management Information System (IMIS), which replaced the previous general ledger system. The effort of getting complete and accurate data into IMIS has been more demanding and time-consuming than originally anticipated. Basic reporting on 1999 financial activities has remained limited. Until the system and interfaces that feed IMIS with information and transactions from the field are in place, and the backlog of 1999 data has been liquidated, financial reporting will continue to be limited. Improved reporting tools have been installed that will complement the reporting functionally available in IMIS. As has been indicated in document DP/1999/24, a full suite of reporting systems is, however, not expected to be in place until 2001.

Comments of the Board

21. The Board will keep this matter under review.

Recommendation 9 (h)

22. The Office should ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

Measures taken by the Administration

23. In addition to participating actively in the year 2000 preparedness activities of the United Nations and the United Nations Development Programme (UNDP), UNOPS mounted its own aggressive year 2000 compliance programme. Materials developed by UNOPS were distributed to project managers and to partner organizations, complemented by a help site maintained on its intranet. No significant year 2000-related incidents were reported.

Comments of the Board

24. The Board is pleased to note the satisfactory outcome of the year 2000 transition.

Recommendation 9 (i)

25. The Office should carry out liaison with UNDP to ascertain the extent to which it had assessed the impact of the year 2000 issue for the interface with UNDP systems.

Action taken by the Administration

26. The Office is in regular contact with UNDP on this and related issues.

Comments of the Board

27. The Board is pleased to note the contact between UNOPS and UNDP and the satisfactory outcome of the year 2000 issue as it affected system interfaces.

Recommendation 9 (j)

28. The Office should establish a process for recording and reporting fraud.

Action taken by the Administration

29. While the Office has historically reported cases of fraud and presumptive fraud to the Board of Auditors, procedures have been established and implemented to facilitate further the gathering, recording and reporting of such cases.

Comments of the Board

30. The Board is pleased to note the action taken.

Chapter II

Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 and 2, and the supporting notes of the United Nations Office for Project Services for the biennium ended 31 December 1999. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all respects, the financial position as at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the stated accounting policies of the Office set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the Office which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

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

(*Signed*) John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

Osei Tutu **Prempeh***
Auditor-General of Ghana

(*Signed*) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

28 July 2000

* The term of office of the Auditor-General of Ghana expired on 30 June 2000, prior to the signing of the present report. The Auditor-General, however, has expressed agreement with the contents of the report. In addition, the relevant audit programme had been approved by the Board and all special instructions given by the Board were carried out.

Chapter III

Financial statements for the biennium ended 31 December 1999

STATEMENT I

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 1999, with comparative figures for the biennium ended 31 December 1997

(U.S. dollars)

1996 - 1997			1998 - 1999
	INCOME		
	Support costs and fees:		
34 662 419	UNDP - funded projects		40 014 175
4 319 268	UNOPS as cooperating/associated agency		6 806 845
418 818	Projects on behalf of other United Nations organizations		4 629 919
1 173 934	United Nations International Drug Control Programme-funded projects		2 395 959
12 493 553	Trust Fund projects		15 792 434
13 598 834	Management Service Agreements		16 825 152
66 666 826	Total support costs and fees	(note 3)	86 464 484
6 879 002	IFAD - Loan administration fees	(note 4)	9 925 776
1 527 319	Interest income		3 019 673
3 209 611	Miscellaneous income	(note 5)	1 340 519
150 000	Programme of Assistance to the Palestinian People - accounting services	(note 6)	200 000
78 432 758	**TOTAL INCOME**		100 950 452
	EXPENDITURE		
70 254 817	Administrative expenditures	(schedule 2)	106 009 542
70 254 817	**TOTAL EXPENDITURE**		106 009 542
8 177 941	**NET EXCESS OF EXPENDITURE OVER INCOME**		(5 059 090)
270 395	Savings on prior period obligations		1 016 352
12 976 167	**RESERVES AND ACCUMULATED UNEXPENDED RESOURCES 01 JANUARY 1998**		21 424 503
21 424 503	**RESERVES AND FUND BALANCES 31 DECEMBER 1999**	(statement II)	17 381 765

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

STATEMENT II

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of assets, liabilities, and reserves and unexpended resources as at 31 December 1999, with comparative figures as at 31 December 1997

(U.S. dollars)

1997			1999
	ASSETS		
2 656 767	Cash	(note 7)	8 134 543
17 555 362	Investments	(note 8)	24 896 337
20 212 129	Total cash and investments		33 030 880
118 008	Accrued interest		605 248
737 606	Due from the United Nations International Drug Control Programme	(note 9)	13 275 381
4 154 893	Accounts receivable and deferred charges	(note 10)	4 792 672
12 422 316	Due from UNDP	(note 11)	16 449 932
17 432 823	Total receivable and deferred charges		35 123 233
37 644 952	**Total assets**		**68 154 113**
	LIABILITIES, RESERVES AND UNEXPENDED RESOURCES		
	LIABILITIES		
2 695 479	Advances for IFAD - funded projects	(note 12)	965 007
10 003 371	Accounts payable	(note 13)	43 997 325
3 521 599	Due to other United Nations organizations	(note 14)	5 810 016
16 220 449	Total liabilities		50 772 348
	Reserves and accumulated unexpended resources		
17 555 362	Operational reserve	(note 15)	19 989 688
3 869 141	Accumulated unexpended resources		0
0	Transfer from operational reserve		(2 607 923)
21 424 503	Total reserves and accumulated unexpended resources		17 381 765
37 644 952	**Total liabilities, reserves and accumulated unexpended resources**		**68 154 113**

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

STATEMENT III

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Statement of cash flows for the year 31 December 1999

(U. S. dollars)

NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net excess of expenditure over income		(5 059 090)	
Savings on prior period obligations		1 016 352	
Interest income disclosed under " Investing activities" below		(3 019 673)	
Increase in account receivables			
Total accounts receivable, as at 1 January 1998	4 154 893		
Total accounts receivable, as at 31 December 1999	4 792 672	(637 779)	
Add: Increase (decrease) in liabilities			
Total liabilities, as at 01 January 1998	10 003 371		
Total liabilities, as at 31 December 1999	43 997 325	33 993 954	
Net cash inflow from investing activities			26 293 764
NET CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES			
Interest income		3 019 673	
Increase in accrued interest		(487 240)	
Increase in due from the United Nations International Drug Control Programme		(12 537 775)	
Increase in due from UNDP		(4 027 616)	
Decrease in due to IFAD		(1 730 472)	
Increase in due to other United Nations organizations		2 288 417	
Net cash outflows from financing activities			(13 475 013)
NET INCREASE IN CASH AND CASH EQUIVALENTS			12 818 751
CASH AND INVESTMENTS AS AT 1 JANUARY 1998			20 212 129
CASH AND INVESTMENTS AS AT 31 DECEMBER 1999			**33 030 880**

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

SCHEDULE 1

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Project expenditure and support costs and fees
for the biennium ended 31 December 1999, with comparative figures
for the biennium ended 31 December 1997

(U. S. dollars)

1996 - 1997				1998		1999				1998 - 1999
Project expenditure	Support costs and fees	Project expenditure and support costs and fees		Project expenditure	Support costs and fees	Disbursement	Unliquidated obligations	Total	Support costs and fees	Total project expenditure and support costs and fees
348 639 221	34 662 419	383 301 640	*UNDP Funded Projects*	203 065 089	19 642 204	157 690 625	53 185 969	210 876 594	20 371 971	453 955 858
			UNOPS as Cooperating/Associated Agency							
36 500 540	3 800 597	42 301 137	UNDP funded projects	33 929 585	3 376 859	15 091 606	11 939 358	27 030 964	2 692 614	67 030 022
6 283 668	518 671	6 802 339	Trust Fund projects	4 836 137	413 349	2 814 448	1 400 103	4 214 551	324 023	9 788 060
44 784 208	4 319 268	49 103 476	Sub-total	38 765 722	3 790 208	17 906 054	13 339 461	31 245 515	3 016 637	76 818 082
4 972 411	418 818	5 391 229	*Projects on behalf of other UN Organizations*	25 479 957	1 698 394	35 207 787	12 298 418	47 506 205	2 931 525	77 616 081
15 627 838	1 173 934	16 801 772	*United Nations International Drug Control Programme Funded Projects (UNDCP)*	10 951 408	811 947	11 095 345	10 024 811	21 120 156	1 584 012	34 467 523
			Trust Fund Projects							
50 157 730	4 012 618	54 170 348	Montreal Protocol	28 464 904	2 277 192	7 685 072	11 905 159	19 590 231	1 567 218	51 899 545
36 998 172	2 499 762	39 497 934	Global Environmental Facility	26 328 701	1 816 456	14 550 993	8 784 888	23 335 881	1 600 796	53 081 834
26 168 194	1 442 740	27 610 934	UN Capital Development Fund	10 310 650	651 282	6 167 469	1 843 479	8 010 948	583 679	19 558 559
24 035 321	676 345	24 711 666	Humanitarian and Rehabilitation Assistance for Cambodi	18 715 241	1 331 863	5 946 585	1 232 394	7 178 979	456 470	27 682 553
36 134 585	3 862 088	39 996 673	Other Trust Funds	38 960 578	3 193 347	21 934 615	6 059 320	27 993 935	2 314 131	72 461 991
173 494 002	12 493 563	185 987 556	Sub-total	122 780 074	9 270 140	56 284 734	29 825 240	86 109 974	6 522 294	224 682 482
			Management Services Agreements (MSAs)							
160 102 997	5 281 336	165 384 333	Japan	54 467 690	3 064 545	39 288 229	31 509 187	70 797 416	2 480 677	130 810 328
42 003 172	2 935 595	44 938 767	World Bank Agreements	31 226 888	1 974 336	13 465 705	9 153 253	22 618 958	1 514 292	57 334 474
21 322 753	810 723	22 133 476	Inter-American Development Bank	8 142 161	443 067	958 456	3 146 992	4 105 448	162 482	12 853 158
82 940 551	4 571 180	87 511 731	Other MSAs	42 952 501	2 840 186	26 867 113	38 609 943	65 477 056	4 345 587	115 615 310
306 369 473	13 598 834	319 968 307	Sub-total	136 789 240	8 322 114	80 677 504	82 421 375	162 998 879	8 583 638	316 613 271
893 887 153	66 666 826	960 553 979	*Project expenditure and support costs and fees*	537 831 490	43 535 087	358 762 048	201 085 274	559 857 323	42 929 477	1 184 153 297
	(statement I)			(statement I)					(statement I)	

SCHEDULE 2

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Administrative budget and expenditure
for the biennium ended 31 December 1999, with comparative figures
for the biennium ended 31 December 1997

(U.S. dollars)

1996 - 1997		1998 - 1999 (a)	1998	1999			1998 - 1999	1998 - 1999
Total expenditure	Description	Revised budget	Total expenditure	Disbursements	Unliquidated obligations	Total	Total expenditure	Unencumbered balance
	UNOPS administrative budget and expenditure							
30 032 152	*Salaries and wages*	42 507 000	18 628 186	20 719 972	634 581	21 354 553	39 982 739	2 524 261
11 725 610	*Common staff costs*	15 942 000	6 315 557	7 341 920	475 877	7 817 797	14 133 354	1 808 646
1 570 650	*Official travel*	2 339 000	916 144	1 470 762	425 521	1 896 283	2 812 427	(473 427)
1 634 249	*Contractual services*	1 574 000	592 605	880 337	494 741	1 375 078	1 967 683	(393 683)
6 948 863	*General operating expenses*	8 180 000	3 906 649	4 599 680	544 690	5 144 370	9 051 019	(871 019)
1 047 457	*Supplies*	1 335 000	1 004 125	475 940	23 710	499 650	1 503 775	(168 775)
3 712 306	*Furniture and equipment*	2 510 000	1 377 040	775 906	627 844	1 403 750	2 780 790	(270 790)
3 845 091	*Cost of services provided by UNDP country offices and other UN agencies*	5 992 000	2 859 524	2 649 361	658 081	3 307 442	6 166 966	(174 966)
7 234 163	*Cost of central services*	8 149 000	4 300 300	2 265 400	544 200	2 809 600	7 109 900	1 039 100
67 750 541	***Subtotal***	88 528 000	39 900 130	41 179 278	4 429 245	45 608 523	85 508 653	3 019 347
0	*Information systems project*	5 396 000	1 372 854	2 149 678	540 552	2 690 230	4 063 084	1 332 916
0	*Relocation project*	8 649 000	108 500	7 562 484	6 437 145	13 999 629	14 108 129	(5 459 129)
0	***Subtotal***	14 045 000	1 481 354	9 712 162	6 977 697	16 689 859	18 171 213	(4 126 213)
	IFAD loan supervision		0 (b)	940 349	370 555	1 310 904	1 310 904	(1 310 904)
2 504 276	*Host Government contributions and expenditure*	1 648 013	572 194	294 520	152 058	446 578	1 018 772	629 241
2 504 276	***Subtotal***	1 648 013	572 194	1 234 869	522 613	1 757 482	2 329 676	(681 663)
70 254 817 (statement I)	***GRAND TOTAL***	104 221 013	41 953 678	52 126 309	11 929 555	64 055 864	106 009 542 (statement I)	(1 788 529)

(a) As per DP/1999/39.

(b) 1998 Net Loan Administration fees, funds received less costs incurred, $4,102,473 reflected in Statement I and note 4.

Annex

Notes to the financial statements

Note 1
Objective of UNOPS

The objective of the United Nations Office for Project Services (UNOPS) is to provide high-quality, timely and cost-effective development services for the successful implementation of projects undertaken by Member States.

UNOPS offers the international cooperation community a broad range of services, which include:

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

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

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

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

UNOPS serves its clients while upholding the impartiality and fairness embodied in the Charter of the United Nations.

Note 2
Summary of significant accounting policies

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

As required by its financial regulations, UNOPS maintains the following accounts:

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

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

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

A. Financial policies applicable to the UNOPS account

1. Income

All income is accounted for on an accrual basis.

2. Expenditure

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

B. Financial policies applicable to the special accounts

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

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

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

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

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

(e) **Group training.** Full cost of any training activity held in the current year or beginning in the current year and ending in the following year;

(f) **Equipment.** Full cost of contractual agreement or firm order placed with the supplier prior to the end of the current year up to the amount provided in the current year's budget;

(g) **Miscellaneous.** Cost of events (e.g., hospitality and reports) and other ad hoc items.

Certain flexibility provisions may be applied to expenditure incurred under projects funded by the United Nations Development Programme (UNDP). In any given year, expenditure may exceed an approved project budget for that year by $20,000, or 4 per cent of the year's budget, whichever is greater, provided overall excess expenditure incurred on the programme for that year does not exceed 2 per cent of the total allocated by UNDP to UNOPS for the year.

C. Financial policies applicable to all accounts

1. Exchange rates

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

For the Japanese procurement programme, expenditure incurred in other currencies is fixed at the United Nations operational rate of exchange in effect at the date of the establishment of the related obligation. This procedure was agreed upon with the UNDP Treasury Division, based on the ability of UNDP to enter into hedging arrangements in order to protect against significant fluctuations in exchange rates that might occur between the date of obligation and the date of payment. Any difference between the amount recorded when the purchase order was issued and the payment of such obligation is transferred to UNDP as gains or losses on exchange. These gains or losses are effectively offset by opposite gains or losses booked as a result of having held the currency in UNDP accounts over the period. For the biennium ended 31 December 1999, the total of such differences amounted to the equivalent of $643,224.

2. Capital expenditure

The full cost of non-expendable equipment is charged to the project accounts or the UNOPS administrative budget, as appropriate, in the year in which it is purchased. Items considered non-expendable equipment are purchases of equipment valued at $500 or more per unit with a serviceable life of at least five years, and items of equipment included in any special list for which formal inventory records are maintained. During 1999, non-expendable equipment purchased with funds from the UNOPS administrative budget totalled $4,925,727.

Note 3
Support costs and management fees

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

A. Support costs

Statement I shows that, for the biennium ended 31 December 1999, UNOPS earned a total of $46,821,020 for implementing UNDP-funded projects ($40,014,175 as executing agency and $6,806,845 as cooperating or associated agency).

Statement I also shows that, for the biennium ended 31 December 1999, UNOPS earned $2,395,959 and $15,792,434 for implementing projects funded by the United Nations International Drug Control Programme and UNDP-administered trust funds, respectively.

The item entitled "Projects on behalf of other United Nations organizations" in the amount of $4,629,919 represents support costs earnings from clients of the United Nations system, including the Department of Peacekeeping Operations, the Office of the Iraq Programme, the Office of the United Nations High Commissioner for Human Rights, the Joint United Nations Programme on HIV/AIDS (UNAIDS), the Office of the United Nations High Commissioner for Refugees, the United Nations Research Institute for Social Development and others.

B. Management fees

UNOPS earns management fees for implementing projects under management service agreements, which are agreed upon with its clients and which vary according to the complexity of the services provided. Statement I shows that, for the biennium ended 31 December 1999, $16,825,152 was earned from this category. Included in this amount are fees that UNOPS earns from the procurement services that it provides to projects implemented by Governments and financed with loans from the International Fund for Agricultural Development (IFAD). For the biennium ended 31 December 1999, the total amount earned was $299,733.

Note 4
Loan administration and project supervision

UNOPS earns fees from services it provides to IFAD for loan administration and project supervision. Statement I shows that, for the biennium ended 31 December 1999, UNOPS earned a total of $9,925,776. Of this amount, $4,102,473 represents the net fee (funds received less costs incurred) for 1998. Gross income for 1998 was $5,373,556 and associated expenditure was $1,271,083. From 1 January 1999, UNOPS changed its accounting policy and disclosed the income and expenditure on a gross basis. Accordingly, UNOPS included the full amount of the 1999 loan administration fee of $5,823,303 under income and showed the associated costs of $1,310,904 under expenditure.

Note 5
Miscellaneous income

For the biennium ended 31 December 1999, the amount of $1,340,519 shown in statement I, represents the following (in United States dollars):

Income from projects INT/95/801 and INT/97/802	118 112
Rental income from SCAC Transport (United States of America)	29 960
Development training and communications programme contingency fund	2 675
Rebate of commission from UNOPS travel	157 976
Resources provided by the Government of Denmark in 1998/1999 to defray costs of establishing offices	1 021 922
Miscellaneous income	9 874
Total	**1 340 519**

Note 6
Income from accounting services to the Programme of Assistance to the Palestinian People

UNOPS provides accounting and financial reporting services to the Programme of Assistance to the Palestinian People. Statement I shows that UNOPS earned $200,000 for providing these services for the biennium ended 31 December 1999. Project expenditure and income, reported by UNOPS to the programme for the biennium ended 31 December 1999, amounted to $78,568,301 and $5,382,541, respectively.

Note 7
Cash

The amount of $8,134,543 reported in statement II represents balances of project imprest accounts advanced by UNDP and cash received for various UNOPS contractual arrangements with other United Nations agencies and maintained by UNOPS at project sites and with the UNDP Treasury Division. Except for a petty cash of $1,000, UNOPS does not handle any other cash directly. Funds received from all sources for UNOPS-executed projects are paid to UNDP, and UNOPS makes disbursements through the UNDP Treasury Division or UNDP country offices. The breakdown of the above-mentioned amount consists of:

Convertible (United States dollars)	4 228 326
Convertible (non-United States dollars)	3 509 901
Non-convertible (currency)	396 316
Total (United States dollars)	**8 134 543**

Note 8
Investments

The total investments of UNOPS of $24,896,337 as at 31 December 1999, as reported in statement II, has been invested in bank bonds and term deposits.

Note 9
Due from United Nations International Drug Control Programme

UNOPS implements projects funded by the United Nations International Drug Control Programme and charges support costs at a rate of 7.5 per cent of the reported delivered expenditures. All funding from the programme is received by UNDP on behalf of UNOPS. The amount of $13,275,381 reported in statement II represents the balance due from the programme for the year ended 31 December 1999, as summarized below (in United States dollars):

Balance due to the United Nations International Drug Control Programme at 1 January 1999	57 261
Funds received during 1999	9 371 526
Subtotal	**9 428 787**
Less 1999 expenditures reported to the Programme	(22 704 168)
Balance due from the Programme	13 275 381

Note 10
Accounts receivable and deferred charges

The amount of $4,792,672 reported in statement II consists of (in United States dollars):

Inter-office vouchers pending clearance	2 779 562
Charges awaiting reimbursement from UNDP and other United Nations organizations	1 661 575
Miscellaneous accounts receivable and other deferred charges	351 535
Total	**4 792 672**

Note 11
Due from UNDP

The amount of $16,449,932 reported in statement II represents the inter-fund balance between UNDP and UNOPS. The amount is due from UNDP mainly because, not having a separate treasury function, UNOPS relies on UNDP central services for the custody of its funds and disbursement of its payments.

Note 12
Advances for IFAD projects

The amount of $965,007 reported in statement II represents balances due to Governments for funds received in advance for projects funded by IFAD loans and to IFAD itself for funds received in advance for loan administration and project supervision.

The operating fund accounts maintained for IFAD activities are summarized below (in United States dollars):

	Loan administration and project supervision	*Procurement*	*Total*
Opening balance	50 465	(988 049)	(937 584)
Add: funds received	(5 823 303)	(2 520 670)	(8 343 973)
Less: expenditures/costs incurred	1 310 904	2 275 031	3 585 935
Less: supervision/management fees	4 597 524	133 091	4 730 615
Closing balance(s) due to IFAD/Governments	**135 590**	**(1 100 597)**	**(965 007)**

Note 13
Accounts payable

The amount of $43,997,325 reported in statement II consists of the following (in United States dollars):

Unliquidated obligations, United Nations International Drug Control Programme projects	10 024 810
Unliquidated obligations, other United Nations agencies	12 298 418
Unliquidated obligations, IFAD projects	1 632 503
Unliquidated obligations, UNOPS accounts	11 559 004
Total unliquidated obligations	**35 514 735**
Pension Fund contributions payable	6 498 297
Miscellaneous accounts payable	1 984 293
Total accounts payable	**43 997 325**

Note 14
Amounts due to other United Nations organizations

UNOPS began implementing projects for other United Nations organizations in 1996. As at 31 December 1999, there are 197 projects for 18 agencies. The project agreements specify an advance payment and subsequent progress payments; the reported balance of $5,810,016 in statement II represents interest earned of $224,597 and the unencumbered fund balance of $5,585,419 available for the year ended 31 December 1999, in excess of project expenditures and support costs.

Note 15
Operational reserve

The Executive Board, at its third regular session in 1997, decided to establish the level of the operational reserve of UNOPS at 4 per cent of the combined expenditure on administrative and project budgets of the previous year. The combined 1998 administrative and project expenditures amounted to $579,785,168; 4 per cent of this figure is $23,191,407. Pursuant to Executive Board decision No. 99/15 and in order to meet 1999 non-recurring expenditures, no replenishment was made to the reserve in 1999. The balance in the operational reserve as at 31 December 1999 was $17,381,765.

Note 16
Host Government contributions and expenses

Upon the establishment of UNOPS offices at Copenhagen and Geneva, the following contributions (in United States dollars) were provided by the Governments of Denmark and Switzerland to defray UNOPS costs of relocation, office furniture and equipment, communication and computer systems:

In cash

	Denmark	*Switzerland*	*Total*
Opening balance	432 244	182 190	614 434
Add: funds received	1 033 579	0	1 033 579
Less: expenditure	1 018 772	0	1 018 772
Ending balance	**447 051**	**182 190**	**629 241**

Only that portion of contributions matched by administrative expenditure is recorded as miscellaneous income. Any unexpended balance of contributions is disclosed in accounts payable.

In kind

The estimated market value for office accommodation, utilities and security facilities provided by the Government of Côte d'Ivoire since September 1997 is $77,859.

Note 17
Reimbursement to UNDP country offices and other United Nations agencies

For the biennium ended 31 December 1999, UNOPS reimbursed $6,166,966 for the cost of services provided on its behalf. Of that amount $4,107,838 related to UNDP country offices and $2,059,128 to other United Nations agencies.

Note 18
Cost of central support services

Cost of central support services includes United Nations recharges and auditing under lump-sum arrangements, as well as reimbursements to UNDP for services provided to UNOPS. Services provided were in the areas of finance (mainly Treasury), personnel (mainly administration of UNOPS staff whose costs are funded by the UNOPS account), and servicing provided to the UNOPS governing bodies, such as the Executive Board and Management Coordination Committee.

Note 19
Contingent financial liabilities

UNOPS has not specifically accrued for after-service health insurance costs or liabilities for other types of end-of-service benefits, which will be owed when staff members leave the organization. The disbursements incurred in the financial period when staff members separate are reported as current expenditure. In order to gain a better understanding of the financial dimensions of the liabilities of the Office for after-service health insurance, a consulting actuary is being engaged to carry out an actuarial valuation of post-retirement health insurance as at 1 January 2000.

Note 20
United Nations Joint Staff Pension Fund

UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded-defined benefit plan. The financial obligation of UNOPS to the Fund consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments which might become payable pursuant to article 26 of the Regulations of the Fund.

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