United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 2011

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-seventh Session
Supplement No. 5J

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United Nations • New York, 2012

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

Abbreviations

GEF	Global Environment Facility
ILO	International Labour Organization
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNOSAT	Operational Satellite Applications Programme of the United Nations Institute for Training and Research
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services
WHO	World Health Organization

Letters of transmittal and certification

27 April 2012

The United Nations Office for Project Services hereby submits the financial statements for the biennium ended 31 December 2011.

We acknowledge the following:

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

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

(*Signed*) Jan **Mattsson**
Executive Director

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

The Chair of the Board of Auditors
United Nations
New York

30 June 2012

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 2011.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

Chapter I

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

We have audited the accompanying financial statements of the United Nations Office for Project Services for the biennium ended 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves (statement II), the statement of cash flows (statement III) and the supporting schedules and notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Office for Project Services as at 31 December 2011 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Other legal and regulatory requirements

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

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

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Office for Project Services (UNOPS) acts as 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 related capacity-development activities. UNOPS headquarters, located in Copenhagen, maintains a decentralized network of five regional offices and more than 20 operations and project centres throughout the world.

The Board of Auditors has audited the financial statements and reviewed the operations of UNOPS for the biennium ended 31 December 2011. The audit was carried out through field visits to UNOPS operations centres in Sri Lanka, the Democratic Republic of the Congo and Jordan and to its regional office in Bangkok, as well as through a review of the financial transactions and operations at headquarters in Copenhagen.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2011 and the results of its operations and cash flows for the biennium then ended, in accordance with United Nations system accounting standards. The Board's unmodified audit report is reflected in chapter I.

Follow-up of previous recommendations

Of the 59 recommendations made for the biennium 2008-2009, 47 (80 per cent) were fully implemented, 11 (18 per cent) were under implementation and 1 (2 per cent) was overtaken by events. This is an improvement compared to the previous biennium, when 71 per cent of the recommendations were fully implemented, 10 recommendations were under implementation and 19 were overtaken by events. The Board notes the significant improvement in the number of recommendations that were fully implemented, an indication that management has taken effective steps to implement the Board's recommendations.

Financial overview

For the period under review, total income amounted to $168 million, compared with $158.6 million for the previous biennium, an increase of 6 per cent. Total expenditure amounted to $141.5 million, compared with $126.1 million for the previous biennium: an increase of 12 per cent, resulting in an excess of income over expenditure of $26.5 million, compared with an excess of $32.5 million in the previous biennium. Total business delivery increased by 9 per cent, from $2.3 billion for the biennium 2008-2009 to $2.5 billion in 2010-2011.

Total assets of UNOPS increased from $747.6 million as at 31 December 2009 to $999 million as at 31 December 2011, primarily because of cash contributions to fund future projects on behalf of its clients, which increased from $424.7 million to $663.6 million. Its cash position improved significantly due to an increase in

contributions received in advance and the settlement by the United Nations Development Programme (UNDP) of a portion of its inter-fund balance of $258.3 million with UNOPS.

Management of programmes and projects

The delivery of projects is one of the central and core services provided by UNOPS to the United Nations system. UNOPS credentials in this regard were advanced by its achievement of the International Organization for Standardization (ISO) 9001 certification during the biennium.

The UNOPS financial statements reflect a provision for write-off of receivables of $37.2 million (2009: $36.3 million), and the organization wrote off $13.2 million (2009: $22 million) during the biennium. Most of the write-offs during the 2010-2011 biennium related to old legacy issues which needed to be cleaned up. Considering its cost recovery margins of 5.7 per cent, it has taken UNOPS approximately $230 million (2009: $416 million) worth of business delivery to cover these write-offs. While the Board notes the decreasing trends in the amounts written off in the financial statements, the Board is concerned that the extent of write-offs remains high at 8 per cent of total revenue, an indication of sometimes inadequate and ineffective management controls over projects, or that UNOPS project management practices have not fully matured.

The UNOPS contributions received in advance account represents a central point for UNOPS programme management activities as it reflects the contributions received from donors to fund project activities. UNOPS had a balance of $663.6 million (2009: $424.7 million) in the account. The Board found that UNOPS recorded unfunded project expenditures of $6.5 million and project overexpenditure of $4.34 million in the account, a process that not only distorts the accounts but prevents management from adequately monitoring the risks associated with such a practice.

While UNOPS delivers diverse services to a variety of clients in challenging environments, its engagement acceptance process for projects did not include a proactive and risk-based review of projects prior to their implementation.

While noting improvements in the process, the Board found that UNOPS still had 116 projects which were past the operational closure date and 57 projects which were past the financial closure date. This is an indication that projects were not closed on time in its system, primarily because of the need for UNOPS to allocate interest earned on the project funds, which is calculated by UNDP only once a year.

Inter-fund balances

Both UNOPS and UNDP improved some of their working arrangements during the biennium, especially the early settlement of balances which resulted in UNOPS collecting inter-fund receivables of $258.3 million from UNDP during the biennium. Despite the effort made during the biennium, UNOPS and UNDP have not fully resolved their inter-fund differences of the previous biennium, amounting to $18 million as at 31 December 2011. UNOPS, however, has made full provision for the difference in its accounts.

While each organization performed its own reconciliation of inter-fund balances, the process did not prevent a new difference of $49 million relating to management service agreements that was incorrectly processed by UNDP as at 31 December 2011. UNOPS made corrections during the biennium amounting to a net of $40.8 million relating to its management service agreements where it had incorrectly coded UNDP projects. UNDP subsequently corrected the difference in its accounts.

The Board is concerned about the adequacy of controls in the management and recording of management service agreements with UNDP because the controls did not detect and prevent the errors in a timely manner, the process was performed only once a year, and submissions between UNDP and UNOPS were made through electronic spreadsheets, a process that exposed both entities to the risk of errors.

Financial management

The Board's review of the financial statements identified items which were not correctly classified in the UNOPS financial statements. The items, however, were not material. The provision for doubtful debts of $37.23 million was not applied against the related receivables and included an aggregate amount of $5.29 million which did not meet the criteria for a provision for doubtful debts. Of this amount, $4.29 million should have been accounted for as a provision for liabilities with uncertain amount and timing while $1 million represented actual expenditure. Also, UNOPS recognized a provision of $827,823 which was in excess of the receivable of $798,779.

Progress towards the implementation of the International Public Sector Accounting Standards

UNOPS was on track with its International Public Sector Accounting Standards (IPSAS) implementation plan and had gone live as at 1 January 2012. UNOPS migrated its asset data into a fixed asset module and had completed the configuration and customization of Atlas, its enterprise resource planning system.

The UNOPS plan, however, did not adequately address activities after 1 January 2012, including the clean-up of legacy balances, and the preparation of "dry run" financial statements. The Board is also concerned about weaknesses, noted in the present report, in regard to asset management and leave management as they will affect the accuracy of the opening balances.

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

UNOPS has accrued end-of-service liabilities amounting to $26.4 million (2009: $16.8 million). This amount included after-service health insurance liabilities of $18.3 million, repatriation grants of $3.6 million, separation and termination grants of $3.2 million, and annual leave accruals of $1.4 million. The amounts related only to staff members funded through the management budget and not staff members funded from the project budget.

For staff funded from project budgets, UNOPS has only disclosed in the notes to the financial statements total end-of-service liabilities actuarially estimated at $34.1 million. The United Nations system accounting standards allow alternative accounting treatments for the recording of end-of-service liabilities, either through disclosure in the statement of assets and liabilities or the notes to the financial statements or in accordance with the policies of the organization. The Board notes however, that treatment under the United Nations system accounting standards is inconsistent and not fully transparent and will result in a leave liability that is not fairly stated.

Procurement and contract management

UNOPS has reported that it recently received certification in procurement policies and procedures from the Chartered Institute of Purchasing and Supply, an independent professional body.

UNOPS maintained a list of contracts that were reviewed by its Headquarters Contracts and Property Committee but did not maintain a list of the cases of exception (waivers) submitted to the various local contract and procurement committees. Its listing with the Headquarters Contracts and Property Committee indicated that 248 cases valued at $305 million over the biennium were not solicited through formal methods. Where formal solicitation is not performed, it restricts the benefits that would be derived from healthy competition for UNOPS services.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that UNOPS:

(a) **Establish a mechanism to separately identify and monitor projects that are implemented in terms of its advance funding policy so as to enable it to adequately manage the associated risks; and record a receivable in its financial statements in relation to projects implemented without the funding in place;**

(b) **Implement controls, supported by adequate reports, to monitor projects that are managed at an award level (group basis) to prevent overexpenditure on projects; and record a receivable to reflect projects that have spent more than the available funding;**

(c) **Incorporate a formal risk-based review of proposed projects before projects are accepted and implemented;**

(d) **Strengthen its oversight role over the Democratic Republic of the Congo Operations Centre in order to address the operational challenges affecting its projects in a timely manner; and consider the adequacy of its oversight and support of centres operating in high-risk environments;**

(e) **Resolve the dispute over inter-fund differences in its accounts with UNDP;**

(f) **Strengthen its project monitoring controls relating to management service agreements in order to detect system coding errors and other errors in a timely manner; and obtain confirmation of outstanding amounts from UNDP before closure of its accounts to ensure reconciling items are detected;**

(g) **Review the design, monitoring and implementation of its results-based-budgeting process and instruments to ensure the organizations and business units are accountable for specific results and the resources used to deliver them;**

(h) **Maintain adequate central records of cases of exception approved by the local contract and procurement committees; and monitor, analyse and report at least annually to senior management on trends in the submission of such cases in order to determine whether they reflect underlying problems in the procurement function; and implement procedures to review purchase orders in order to identify split purchase orders.**

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements and reviewed the operations of UNOPS for the biennium ended 31 December 2011 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, and with the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2011 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with UNOPS financial regulations and rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

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

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

6. Where observations in the present report refer to specific locations, such observations are limited to the locations specified. Furthermore, those observations

do not in any way imply that they are applicable to other locations. Although the Board noted certain weaknesses only in specific locations, some of the recommendations are addressed to the entire organization as the nature of the findings suggests that they are common to other UNOPS offices which would benefit from transversal action.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, the Advisory Committee, in document A/65/498, requested the Board to:

(a) Report to the General Assembly on an annual basis on the progress made in the implementation of IPSAS;

(b) Provide, when requested, advice and guidance on matters relating to the interpretation of IPSAS standards.

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

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

B. Findings and recommendations

1. Follow-up of previous recommendations

10. Of the 59 recommendations made for the biennium 2008-2009, 47 (80 per cent) were fully implemented; 11 (18 per cent) were under implementation; and 1 (2 per cent) was overtaken by events. Details of the status of implementation of these recommendations are shown in the annex.

11. The Board noted an improvement in the status of implementation of its recommendations in comparison to the previous biennium. The Board was satisfied that UNOPS had begun the process of implementing the 11 above-mentioned recommendations.

Recommendation overtaken by events

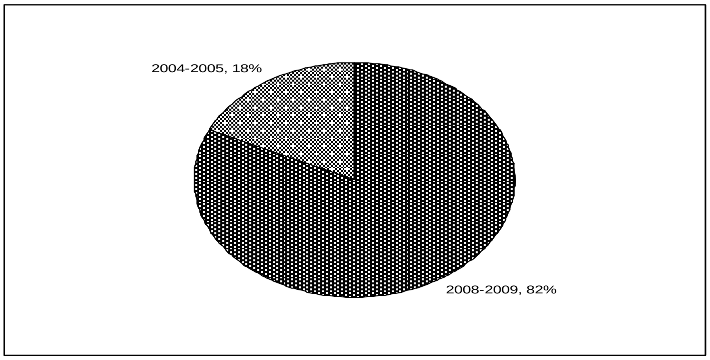
12. The Board previously recommended that UNOPS reconsider the impact of the threshold for capitalization of non-expendable property recorded in the financial statements. UNOPS has since revised its financial regulations and rules, discontinued the concept of capital and non-capital assets and maintained the threshold at $2,500.

Ageing of previous recommendations

13. As requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board evaluated the ageing of its 11 previous recommendations which had not yet been fully implemented (see fig. II.I). Two (18 per cent) of the recommendations were first issued in 2004-2005 while nine

recommendations (82 per cent) were issued in 2008-2009. The two recommendations dating back to 2004-2005 relate to the unresolved UNOPS inter-fund balance differences with UNDP and other United Nations organizations where UNOPS was seeking approval to write off balances relating to the latter. A balance of $18 million in inter-fund differences between UNDP and UNOPS remains unresolved.

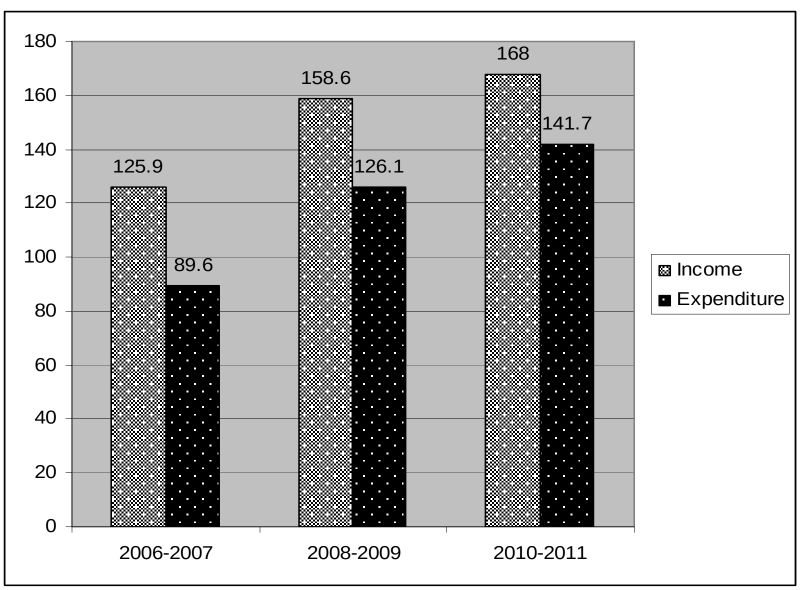
Figure II.I
Ageing of recommendations for the previous biennium which are under implementation or not implemented



2. Financial overview

14. Total income for the period under review amounted to $168 million and total expenditures to $141.5 million, resulting in an excess of income over expenditure of $26.5 million. Comparative income and expenditures for the financial periods 2006-2007 and 2008-2009 are shown in figure II.II.

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

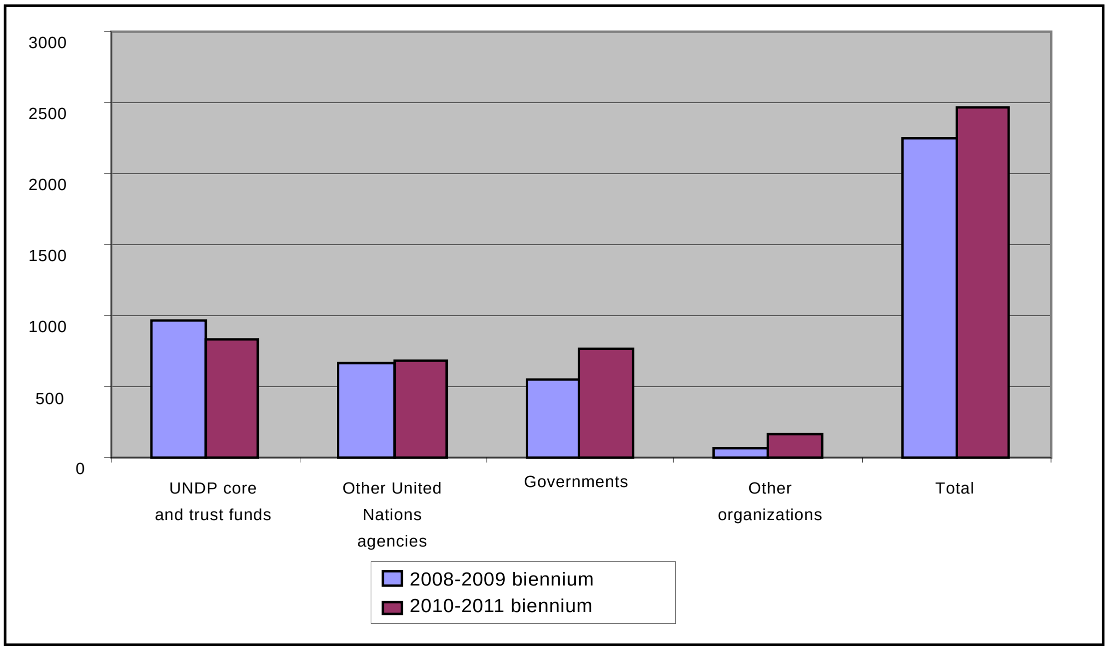


15. The increase in expenditures of $15.6 million, or 12 per cent, was primarily due to increases in staff costs, mostly attributable to the reclassification of posts and the merit award payments made during the biennium.

Total support costs and fees

16. UNOPS total support costs and fees increased by 19 per cent, from $112.2 million for the biennium 2008-2009 to $133.06 million for the biennium 2010-2011, as reflected in figure II.III. Total business delivery increased by 9 per cent, from $2.3 billion for the biennium 2008-2009 to $2.5 billion for 2010-2011. Despite the increase, the average total cost recovery margin stayed relatively constant compared to the prior biennium.

Figure II.III
Total business delivery for the bienniums 2008-2009 and 2010-2011



Cost recovery trends

17. In its previous report (A/65/5/Add.10, chap. II, para. 38), the Board noted a declining trend in the percentage fees earned by UNOPS on its project portfolio. The Board computed the cost recovery margins (support costs and fees/project expenditure delivery) for the bienniums 2010-2011 and 2008-2009 and noted that the margins had remained relatively stable at 5.7 per cent and 5.3 per cent, respectively.

18. The total assets of UNOPS increased from $747.6 million in 2009 to $999 million as at 31 December 2011, primarily because of the cash contributions received to fund future projects on behalf of clients, which increased from $424.7 million to $663.6 million. Its cash position improved significantly because

of the contributions received in advance but also because, during the biennium, UNDP settled with UNOPS its inter-fund receivables of $258.3 million.

19. The UNOPS solvency ratio (assets/liabilities) indicates that the organization is in a stable position, as it has $1.07 (2009: $1.06) to service each dollar of debt when it falls due. UNOPS maintained total reserves of $63.3 million, a level above the reserves of $48.4 million mandated by its Executive Board, calculated as 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years.

3. Financial management controls on projects

20. The main activity of UNOPS is to act as a service provider for the United Nations system in procurement and contract management, as well as in civil works and physical infrastructure, including the relevant capacity-development activities. Its programme activities are generally funded in advance through contributions. UNOPS has the responsibility of managing its programmes in accordance with funding received from, or in some instances promised by, the donors. In this environment, UNOPS programme management has a fundamental and core responsibility not only to ensure that the organization has adequate funds to deliver on the expectations of the donor but that it is also able to generate adequate fees from transactions to cover the operational expenditures that it incurs in the delivery of services.

Financial monitoring of project activities

21. As at 31 December 2011, UNOPS had reported contributions received in advance from donors of $663 million (2009: $424.7 million).

22. In its previous report (A/65/5/Add.10, chap. II, para. 60), the Board noted balances that were included in contributions received in advance where UNOPS could not determine whether the balances represented accounts receivable or potential overexpenditure on projects. The Board recommended that UNOPS implement controls and reports to differentiate accurately between project receivable and payable balances and project balances that represented overexpenditure (ibid., para. 64).

23. The Board's review of the contributions received in advance account during the current biennium still reflected inadequate practices in the management of the transactional activities recorded (see below).

Projects implemented without funding received

24. UNOPS has an advance funding policy that allows some of its projects to incur expenditure before funds are received from donors, mostly through third party procurement and projects carried out via a deferred funding modality. However, UNOPS applied expenditures for some projects against contributions received in advance although the cash or contribution for these particular projects had not yet been received. These transactional activities, amounting to $6.51 million, should be recorded as receivables.

25. The recording of these activities in contributions received in advance obscures the fair presentation of this account and accounts receivables. It also prevents management from separately identifying and tracking programme activities that

were begun without the necessary funding and from taking follow-up action in regard to the outstanding receivable. Effectively, UNOPS is using either its own funds or other project funds from the same funding source to fund the activities. The Board is of the view that the separate identification and recording by UNOPS of the activities in terms of its advance funding policy would enable the organization to adequately manage the associated risks.

Projects with overspent balances

26. UNOPS manages some of its projects as a group in terms of funding source. Based on the funding available for the group, individual budgets were allocated to projects. The Board identified instances in which projects exceeded the budgets available and the amount overspent was applied against the contributions received in advance account.

27. UNOPS indicated that, in some instances, the budget was only exceeded on an individual project basis and not on the full amount of the award from the funding source; hence the amounts were applied against the contributions received in advance account. The Board, however, noted that UNOPS controls were such that expenditure could still be incurred over the allocated budget and even above the funding available on a group basis.

28. UNOPS raised a provision for doubtful debts of $4.3 million related to projects with overexpenditure, which had previously been applied against the contributions received in advance account instead of accounts receivable. This indicates the need for UNOPS to separately track and monitor receivables and the contributions received in advance account.

29. While the Board has made relevant recommendations in its previous report, the Board is making new ones to supplement the previous recommendations. The Board comments further in the present report on the issue of overspent balances and the write-off of balances.

30. **UNOPS agreed with the Board's recommendation that it: (a) establish a mechanism to separately identify and monitor projects that are implemented in terms of its advance funding policy so as to enable it to adequately manage the associated risks; and (b) record a receivable in its financial statements in relation to projects that are implemented without the funding in place.**

31. UNOPS informed the Board that in future it will record a receivable for projects under advance financing.

32. **UNOPS agreed with the Board's recommendation that it: (a) implement controls, supported by adequate reports, to monitor projects that are managed at an award level (group basis) to prevent overexpenditure on projects; and (b) record a receivable to reflect projects that have spent more than the funding available.**

33. UNOPS informed the Board that it will record a receivable and a corresponding impairment in accordance with IPSAS.

Provision for write-off of balances

34. UNOPS financial statements reflect a provision for write-off of receivables of $37.23 million (2009: $36.3 million). During the biennium, UNOPS wrote off

amounts totalling $13.2 million (2009: $22 million). Considering UNOPS recovery margins of 5.7 per cent, it has taken UNOPS approximately $230 million (2009: $416 million) worth of business delivery to cover these write-offs. The Board noted that most of the amounts written off by UNOPS relate to projects or project management activities, including cases in which UNOPS: (a) has overspent on the project; (b) is not able to collect funds from donors but has already incurred expenditure; or (c) lacks the documentation to support its recovery of expenditure.

35. While the Board notes the decreasing trends in the amounts written off in the financial statements of UNOPS and that some of the balances relate to old items, the Board is concerned that the extent of write-offs remains high, an indication of inadequate or less than effective project management practices.

4. Programme and project management

36. UNOPS delivers the majority of its service lines through the implementation of projects, thus it has over the years developed a distinction that allows it to attract projects funds through complementing implementation activities with other entities in the United Nations system. In its previous reports, the Board has highlighted the operational challenges faced by UNOPS in the core area of project management where it noted delays in projects, overspending on projects, and some weaknesses in project monitoring controls.

37. Through its visit to field offices during the biennium, the Board noted improvements in the management of projects. The Board also noted that, in June 2011, UNOPS received the ISO 9001 certification,[1] making it the first United Nations organization to have its global management systems so certified. The commitment of the organization to measure its processes against ISO standards sends an important signal as regards its commitment to quality in the delivery of its business.

38. While noting this accreditation, the Board reviewed project planning, project acceptance, project delivery, project expenditure and project closure at the operations centre level and at UNOPS headquarters.

Project acceptance process

39. UNOPS implements development projects on behalf of a wide range of partners in some of the world’s most challenging environments, ranging from building schools and clearing landmines to training teachers. In this process, it offers a diverse variety of services and projects to its partners. In lieu of its profit-driven objectives, the diversity of services also presents the organization with risks in accepting projects that are at the extremes of its mandate and scope.

40. The UNOPS project acceptance process is generally delegated by the Executive Director to the regional directors, while high-risk projects are to be reviewed by the Executive Director. UNOPS has established the Engagement Acceptance Committee to oversee the acceptance of projects. UNOPS also maintains a system tool to capture information on prospective projects, from initiation to signature of project agreements.

[1] The ISO 9000 standards are related to quality management systems and are designed to help organizations ensure that they meet the needs of customers and other stakeholders.

41. The Board's review of the process indicates that while the Engagement Acceptance Committee performs the review of projects, the process is based only on submission or even after the projects have commenced (i.e., on a passive or reactionary basis). This results in the Committee operating as a ratifying body, without the power to rescind contracts that have been entered into in contravention of established rules and directives.

42. UNOPS informed the Board that it conducts sample reviews of each project lead and that it intends to formalize the process through an improved project management workspace, which will flag high-profile risks for higher level review. The Board is of the view that a formalized and proactive risk-based approach will ensure that UNOPS focuses its attention on areas that will present the organization with higher risks before the projects are implemented.

43. **UNOPS agreed with the Board's recommendation that it incorporate a formal risk-based review of proposed projects before projects are accepted and implemented.**

44. UNOPS informed the Board that it had already implemented processes and controls to address weaknesses by launching a new project management workspace with risk profiles that flag projects requiring high-level review and authorization.

Project closure

45. In its previous report (A/65/5/Add.10, chap. II, para. 171), the Board expressed concern about delays in the closure of projects and recommended that UNOPS establish a short time frame to address the backlog of projects needing closure and to reconsider the appropriateness of its 18-month project closure timetable (ibid., paras. 172-173).

46. The Board reviewed the monitoring tool of UNOPS, the quarterly assurance review, as at 31 December 2011 and noted 116 (2009: 233) projects which had not been operationally closed within 18 months and 57 (2009: 183) projects which had not been financially closed on time. The delay in the closure of projects reflects poor project management controls and results in surplus funds not being returned to donors in a timely manner or the write-offs, where necessary, not being determined and followed up in a timely manner.

47. The Board was also concerned about the accuracy of the quarterly assurance review as it incorrectly listed some projects as ongoing while they were not, and vice versa. UNOPS acknowledged that project closure is an important exercise and stated that it had taken a proactive approach to increase the speed, quality and accountability for project closure in both the operational and financial stages. UNOPS informed the Board that it had closed more than 500 old projects during the 2010-2011 biennium. Furthermore, during the fourth quarter of 2011, it developed the capability to post and calculate interest on project funds without dependency on UNDP, which dependency in the past had delayed the financial closure of projects. This new, independent process for computing interest has been implemented and will immensely speed up the financial closure of projects.

48. **The Board reiterates its previous recommendation that UNOPS: (a) draw lessons from its existing projects and consider measures to enable it to close projects in time; and (b) address the backlog of projects that need closure.**

49. **UNOPS agreed with the Board's recommendation that it monitor the status of projects on a regular basis in order to ensure that the information is accurately reflected in Atlas.**

50. UNOPS informed the Board that it has already implemented processes and controls to monitor the status of projects in Atlas.

Delay in the implementation of projects

51. In its previous report (A/65/5/Add.10, chap. II), the Board reported frequent extensions of projects at UNOPS operations centres. During the period under review, the Board noted significant delays in the implementation of projects in the Democratic Republic of the Congo Operations Centre. The Board's review indicated that some of the delays were attributable to the inability of UNOPS to monitor and manage adequately the activities of its subcontractors.

52. The Board recognizes that the operational environment for the Democratic Republic of the Congo Operations Centre presented exceptional challenges; however, the Board considers that UNOPS practices should be adapted to the high-risk areas in which it operates so as to specifically mitigate those risks through its processes. The Board also considers that while its findings on delays in project implementation during the biennium related to only one operations centre, important lessons can be drawn for consideration in similar environments to advance the application of best practice in high-risk environments. The Board has not seen evidence of a risk-based management approach which ensures that adequate oversight and support is provided to centres located in particularly difficult environments.

53. **The Board recommends that UNOPS strengthen its oversight role over the Democratic Republic of the Congo Operations Centre in order to address the operational challenges affecting its projects in a timely manner.**

54. **The Board also recommends that UNOPS consider the adequacy of its oversight of and the support provided to centres operating in high-risk environments.**

55. UNOPS informed the Board that it has improved its controls by implementing a quarterly online assurance process for every project, and that this would address the issues of data quality, delivery, project time, cost and quality. The quarterly assurance process will provide the appropriate level of oversight and control to address such operational challenges in a timely manner.

5. Inter-fund balances

UNOPS inter-fund balance with UNDP

56. UNOPS and UNDP have a long-standing relationship and, as at 31 December 2011, total business delivery sourced and funded by UNDP amounted to $842.6 million (2009: $976.3 million); UNOPS was able to generate $41.5 million of fee income from this business. The transactional activities between UNOPS and UNDP are conducted through their common enterprise resource planning system (Atlas), where UNOPS implements project activities on behalf of UNDP. Conversely, UNDP provides various administrative services to UNOPS, including treasury and information technology, mostly at the field level.

57. In its previous report (A/65/5/Add.10, chap. II, para. 79) the Board noted that UNOPS and UNDP continued to have residual unresolved inter-fund differences. During the biennium, the Board performed a reconciliation of the amounts disclosed in both the UNOPS and UNDP financial statements and noted differences. The Board noted that there was difference of $49.01 million between the amount recorded by UNOPS and that initially recorded by UNDP, which arose from an incorrect adjustment entered by UNDP on the management service agreement. UNDP subsequently corrected the error in its financial statements.

58. The Board noted that the two agencies communicated during the accounts closure process. However, formal confirmations that would allow for the timely reconciliation of differences were not performed or were not effective because some of the differences were not resolved and captured on time.

Prior-year residual difference

59. The Board noted that there continued to be an unresolved difference of $18 million dating back to prior years for which neither UNOPS nor UNDP now has the documentation to support the validity and thereafter recovery from either entity. The Board noted that UNOPS has already made full provision for the amount and thus its accounts are not affected by the unresolved difference; the balance, however, remains unresolved.

Difference caused by management service agreement transactions

60. The correction to the management service agreement arose because UNOPS had incorrectly coded and reported to UNDP project transactions amounting to $24.5 million. UNOPS submitted the corrections to UNDP which incorrectly captured the transactions in its accounting records. The net impact on UNOPS for the biennium 2008-2009 amounts to $20.6 million and reflects incorrect classification of a contribution received in advance and an inter-fund transaction; however, there is no impact for the 2010-2011 biennium as the amount was adjusted before it was reported to UNDP.

61. The Board is concerned about the adequacy of controls in the management and recording of management service agreements with UNDP, in particular because: (a) the controls did not detect and prevent the errors in a timely manner; (b) the process was performed only once a year; and (c) submissions between UNDP and UNOPS were made through electronic spreadsheets, a process that exposes both entities to the risk of errors.

62. **UNOPS agreed with the Board's reiterated recommendation that it resolve the dispute over inter-fund differences in its accounts with UNDP.**

63. UNOPS informed the Board that it expects the matter to be resolved by the end of 2012.

64. **UNOPS agreed with the Board's recommendation that it: (a) strengthen its project monitoring controls relating to management service agreements in order to detect system coding errors and other errors in a timely manner; and (b) obtain confirmation of outstanding amounts from UNDP before closure of its accounts to ensure that reconciling items are detected.**

65. UNOPS informed the Board that it would implement appropriate control measures to prevent errors in the coding and reporting of inter-fund transactions to UNDP. Furthermore, should errors occur, appropriate mitigating controls would be instituted to ensure that they are detected in a timely manner, and confirmation of inter-fund amounts would be obtained before the 2012 accounts are finalized.

UNOPS inter-fund balances with other United Nations agencies

66. In its previous report (A/65/5/Add.10, chap. II, para. 89), the Board noted that UNOPS had prior-period unreconciled differences which dated back a number of years. The Board recommended that UNOPS continue to follow up the unreconciled inter-fund differences in its accounts and engage with the relevant United Nations agencies in order to resolve the old inter-fund differences.

67. During the biennium, UNOPS stopped transactions with other United Nations agencies through the inter-fund account and transacted with them only on a cash basis. However, the Board noted that there remained inter-fund receivables of $1.3 million originating from the 2006-2007 biennium. UNOPS informed the Board that it had made a submission to its Headquarters Contract and Property Committee to write off the amount following its intensive and unsuccessful efforts at recovery. It has made a provision for the same amount in its financial statements.

6. Financial management

Financial statement disclosure

68. The financial regulations and rules of UNOPS assign to the Executive Director the responsibility for the production of accurate financial statements in accordance with the selected accounting framework. UNOPS, therefore, needs a process adequate to discharge this responsibility appropriately.

69. The Board's review of UNOPS financial statements for the biennium ended 31 December 2011 revealed items that were not correctly classified. The Board considers that these items, individually or in aggregate, are not material:

(a) The Board noted instances in which UNOPS recognized a provision or allowance for doubtful debts in excess of the accounts receivable balance, which would result in negative net realizable amounts. These amounts included a balance of $798,779 held in an account in a Sudanese bank which was facing financial difficulty; UNOPS raised a provision for $827,823, resulting in a negative unrealized amount of $29,044;

(b) UNOPS raised a total provision for doubtful debts amounting to $37.23 million; however, this provision (allowance) was not applied against the related receivables in accordance with how a contra asset account should be treated. The provision also included an amount of $1 million relating to a payment of merit award, and another of $4.29 million relating to a claim made by a contractor against UNOPS. Both these amounts did not meet the criteria for a provision for doubtful debts. The $4.29 million should have been accounted for as a provision for liabilities with uncertain amount and timing and the $1 million represented actual expenditure.

70. UNOPS informed the Board that it will disclose such items separately in the future.

71. **UNOPS agreed with the Board's recommendation that it review the process for the preparation of the financial statements to ensure that the gaps identified by the Board are addressed.**

72. UNOPS informed the Board that, under IPSAS, it will ensure that account balances are correctly classified and disclosed separately between impairment of accounts receivable and provisions for liabilities.

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

73. The Advisory Committee on Administrative and Budgetary Questions, in its review of the Board's reports for the biennium 2008-2009, recommended that the Board prepare an annual report on progress towards the implementation of IPSAS (A/65/498, para. 19). The recommendation was endorsed by the General Assembly in resolution 65/243. Pursuant to the recommendation of the Advisory Committee, the Board, in March 2011, reviewed the readiness of UNOPS in regard to the implementation of IPSAS and issued a letter to management with detailed findings and recommendations at that stage.

74. The Board's review as of May 2012 indicates that UNOPS was on track with its IPSAS implementation plan and had gone live with IPSAS on 1 January 2012. UNOPS has migrated all of its fixed asset data into a fixed asset module and had completed the configuration and customization of Atlas.

75. While the Board noted the progress made by UNOPS in the implementation of IPSAS, it also noted residual areas that needed to be well managed to ensure the successful implementation by UNOPS of the standards:

(a) The UNOPS implementation plan did not address any activity and processes after 1 January 2012 to clean up all legacy balances;

(b) The Board is concerned about the weaknesses in asset management and leave management as reported elsewhere in the present report. If these weaknesses are not addressed, it will affect the accuracy and completeness of the opening balances of the respective items.

76. The Board considers that the areas identified by the Board remain relevant if UNOPS is to achieve the objectives and maximize the possible benefits of the implementation of IPSAS.

77. **The Board recommends that UNOPS develop adequate strategies to address the areas that require attention in its implementation of IPSAS.**

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

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

79. UNOPS financial statements for the biennium ended 31 December 2011 indicate that it had accrued for end-of-service liabilities of $26.4 million (2009: $16.8 million). This included after-service health insurance of $18.3 million,

repatriation grants of $3.6 million, separation and termination grant of $3.2 million and annual leave accrual of $1.4 million.

80. The Board noted that the end-of-service liabilities accrued by UNOPS included only those staff members funded through the management budget. End-of-service liabilities for project-funded staff were estimated through an actuarial valuation at $34.1 million and were fully disclosed in the notes to the financial statements. They were not recorded in the statement of assets and liabilities as a provision for the liabilities.

81. The United Nations system accounting standards allow alternative accounting treatments for recording of end-of-service liabilities through either disclosure in the statement of assets and liabilities or in the notes to the financial statements, in accordance with the policy of the organization concerned. The Board notes, however, that treatment under the United Nations system accounting standards is inconsistent and not fully transparent.

82. The Board is aware that the accrual of all of UNOPS end-of-service liabilities, including project staff, will lead to a reduction of the organization’s net operational reserves from $63.261 million to $32.7 million. This level would be below the mandatory level of $48.4 million required by the Executive Board of UNOPS.

83. **UNOPS agreed with the Board’s recommendation that it fully recognize and provide for its end-of-service liabilities in its implementation of IPSAS.**

84. UNOPS informed the Board that it will fully provide for end-of-service liabilities in the 2012 financial statements.

Leave liability

85. In its previous report (A/65/5/Add.10, chap. II, para. 110) the Board was of the view that the UNOPS annual leave liability calculated through the actuarial valuation was not in compliance with IPSAS as it included future days to be accumulated and was a discounted amount. The Board recommended that UNOPS consider revising its policy for the valuation of the annual leave liability in its implementation of IPSAS.

86. The Board noted that UNOPS continued to calculate its annual leave liability based on an actuarial valuation. IPSAS 25 has since been revised to provide that annual leave can be considered both a short-term and long-term benefit. The Board is still of the view that determining the annual leave liability through an actuarial valuation understates the liability as it does not recognize that part of the liability that will be incurred through use, but only the part that will be paid out on retirement. This method therefore considers leave to be a long-term benefit only.

87. The Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency has also considered the issue of leave and considers it to have both short-term and long-term components. The Board is aware that the computation of the leave liability using an actuarial method is an issue that affects all organizations of the United Nations system and it will seek to address this issue with them.

88. **The Board reiterates its previous recommendation that UNOPS consider revising its policy for the valuation of the annual leave liability in its implementation of IPSAS.**

89. UNOPS informed the Board that it will consult with other United Nations agencies and harmonize with them its policy for accounting for the annual leave liability.

9. Results-based budgeting and management

90. A budget is an important instrument for ensuring the efficient allocation of resources. Results-based budgeting is a programme budgetary process in which: (a) programme formulation revolves around a set of predetermined objectives and expected results; (b) expected results are derived from and are linked to outputs; and (c) actual performance is measured by objectives and by performance indicators. It uses a logical framework which is formulated to ensure that expected results are specific, measurable, attainable, realistic and time-bound.

91. The approved budget of UNOPS for the 2010-2011 biennium indicates that UNOPS had 16 strategic functions. Under each function, one performance indicator was identified, even where a function had a number of objectives. The allocation of a single indicator to a number of objectives did not accurately reflect the activities and objectives to be achieved within each function. UNOPS informed the Board that the Advisory Committee on Administrative and Budgetary Questions had raised the matter with UNOPS and, on this basis, it had since made adjustments to its indicators in the 2012-2013 support budget.

92. The Board noted that the budgeted amounts in the documented results-based budget did not correlate with the internal operations centre and regional budgets, which are monitored by management. The Board considers this to be an indication that the results-based budget framework submitted to the Executive Board and the General Assembly did not reflect the reality on the ground and that therefore the instruments sighted and approved by the governing body were not linked to operational activities.

93. UNOPS stated that it did not track or monitor its budget based on functions as they were too broad; also, in order to monitor expenses in the results-based budget, it would need to track how all management-funded personnel spend their working hours, along with their participation in corporate functions and activities. However, it will move to report specifically on results-based budgeting by streamlining the process with the management budget and the balanced score card.

94. **UNOPS agreed with the Board's recommendation that it review the design, monitoring and implementation of its results-based-budgeting process and instruments to ensure the organizations and business units are accountable for specific results and the resources used to deliver them.**

95. UNOPS informed the Board that it had already implemented the recommendation: in submitting the 2012-2013 budget estimates, it had reviewed and enhanced the design of its results-based management framework. Furthermore, to ensure the accountability of relevant managers for results, UNOPS, in the context of the mid-term review of its strategic plan for 2010-2013, had conducted an extensive review of all relevant performance indicators, associated targets and results and of its budget estimates for 2010-2011 and 2012-2013, including additional performance indicators established through agreements on internal targets.

10. Procurement and contract management

96. UNOPS is a central procurement resource in the United Nations system. UNOPS procures and delivers goods and services, and is responsible for the implementation of projects in sectors such as education, elections, environment, governance, health, mine action and public works. UNOPS procures on behalf of United Nations agencies, Governments, intergovernmental organizations, international financial institutions and non-governmental organizations.

97. UNOPS reported that it recently received certification in procurement policies and procedures from the Chartered Institute of Purchasing and Supply. The Board considers that an independent review of its procurement processes provides a useful benchmark of the UNOPS process and that this is a good development.

98. During its review of the UNOPS procurement activities, the Board noted areas in which there were weaknesses in the field:

(a) Supplier evaluations are an essential control in a procurement function to ensure that UNOPS continues to engage only suppliers which will provide it with good value for money. In its interim review in 2010, the Board noted that UNOPS did not consistently perform supplier evaluations; however, in 2011, following the Board's recommendations, UNOPS began to perform such evaluations;

(b) Exceptions to the use of formal methods of solicitation, while allowed by UNOPS financial rule 118.05 in exceptional cases, do not carry the benefits that would be derived from effective competition for UNOPS services. UNOPS maintained a list of cases of exception submitted to its Headquarters Contract and Property Committee, but did not maintain a list of the cases submitted to the various local contract and procurement committees to enable them to track and monitor the extent of exceptions at the local level. Also, the list of approvals by the UNOPS Headquarters Contract and Property Committee indicated that a total of 248 cases over the biennium, valued at $305.9 million, had not been solicited through formal means;

(c) The Board's review of the Democratic Republic of the Congo Operations Centre reflects significant deficiencies in the procurement process applied by that country office. Although the Board's findings applied only to that Centre, the Board considers it highly likely that its findings are relevant to other UNOPS centres considered to be high risk;

(d) The Board noted instances in the Democratic Republic of the Congo Operations Centre in which purchase orders in excess of the procurement authority delegated to the same supplier for the same product were split in order to expedite the procurement process and bypass review by the local procurement committee.

99. **UNOPS agreed with the Board's recommendation that it: (a) maintain adequate central records of cases of exception approved by the local contract and procurement committees; and (b) monitor, analyse and report at least annually to senior management on trends in the submission of such cases in order to determine whether they reflect underlying problems in the procurement function.**

100. **UNOPS agreed with the Board's recommendation that it implement procedures to review purchase orders in order to identify split purchase orders.**

101. UNOPS informed the Board that it will pay adequate attention to the recommendation and take appropriate measures to implement it.

11. Non-expendable property management

102. According to the accounting policies of UNOPS, non-expendable property consists of items valued at $2,500 or more per unit at the time of purchase and with a serviceable life of three years or more. Note 17 to the financial statements reflects total non-expendable property holdings as at 31 December 2011 valued at $10.5 million, a minor change from the previous period balance of $10.6 million.

103. In its previous report (A/65/5/Add.10, chap. II, paras. 280-325), the Board noted a number of asset management weaknesses at UNOPS, including inadequate maintenance of asset registers and inadequate physical verification procedures.

104. The Board has observed gradual improvements in the maintenance of asset registers. Although the discrepancies were irrelevant, the Board noted inaccuracies in the asset registers maintained by UNOPS, in which assets were recorded at incorrect prices, locations and identification numbers. The Board also noted that the Democratic Republic of the Congo Operations Centre incorrectly applied the UNOPS accounting policy and did not include in its asset register project assets that were transferred from projects to management functions.

Inconsistent practices in inventory certification process

105. The Board noted that the practices followed at UNOPS locations for recording the physical condition of assets during year-end certification were inconsistent. As a result: (a) not all centres documented the condition of assets in the asset register; (b) information regarding the condition of assets was not disclosed in the UNOPS consolidated asset register; and (c) assets which had been identified as missing on the inventory count sheets were still included in some asset registers as at 31 December 2011.

106. Inaccurate asset records will affect the management stewardship of the assets. Also, there is a risk that the discrepancies will have an impact on the IPSAS opening balances.

107. **UNOPS agreed with the Board’s recommendation that it: (a) address the discrepancies in its asset registers to ensure it is able to accurately account for its asset inventory and prepare accurate opening balances for IPSAS purposes; and (b) address the inconsistencies in the asset inventory certification process.**

108. UNOPS informed the Board that it will communicate clear instructions or guidelines on the asset certification process for IPSAS to all field offices and that the instructions will be made available on the Intranet for easy access by all personnel involved in the certification process.

12. Human resources management

109. In its previous report (A/65/5/Add.10, chap. II, paras. 331-333), the Board noted that UNOPS field offices managed leave outside the Atlas system, using a manual process. The Board recommended that UNOPS develop a system with program controls which would allow all UNOPS offices to confirm and monitor leave accurately.

110. In October 2010, UNOPS rolled out its global leave management system in Atlas, which is used to record and report on all payroll transactions, including leave. The Board, however, noted the following weaknesses in leave management throughout the organization: (a) differences between the actual leave balances as per the attendance record cards and the leave balance maintained in the system; (b) leave transactions were not always supported by adequate documents or approvals; and (c) some staff members were granted advance annual leave days in excess of the number of days allowed by UNOPS policy.

111. The Board considers that leave management controls are necessary to ensure that the process is not subject to abuse. Also, accurate leave balances will be particularly important with the implementation of IPSAS, which will require accrual of leave balances and the disclosure of such balances in the statement of assets and liabilities.

112. **The Board recommends that UNOPS improve its controls on leave management by ensuring that: (a) all leave taken is approved and recorded in the system and is supported by adequate documentation; and (b) leave records are reviewed and reconciled on a regular basis.**

Payroll management

113. UNOPS has outsourced the management and processing of payroll to UNDP. Outsourcing, however, does not transfer full responsibility for ensuring the accuracy, validity and completeness of the payroll transactions to the service organization. The Board noted that one staff member who had resigned on 1 May 2011 continued to be paid a salary until July 2011, resulting in an overpayment of $27,033. This overpayment was an indication of inadequate control by UNOPS regarding the validation of payroll.

114. **The Board recommends that UNOPS: (a) perform monthly validation checks on its payroll to ensure its completeness and accuracy; and (b) monitor and review all terminations to ensure that employees are removed from the payroll once they have separated from the organization.**

13. Information technology

115. The Board performed a review of the general controls in the Atlas system at UNDP headquarters, the results of which are contained in its report on UNDP for the biennium ended 31 December 2011 (A/67/5/Add.1).

116. In its previous report on UNOPS (A/65/5/Add.10, chap. II, para. 359), the Board recommended that UNOPS implement a formal disaster recovery and business continuity plan that encompasses all types of disastrous events that would impact on both information systems processes and end-user functions.

117. The Internal Audit and Investigations Group noted that four operations centres and regional offices had not developed disaster recovery and business continuity plans during the biennium, indicating that the Board’s recommendation had not been fully implemented.

118. **The Board reiterates its previous recommendation that UNOPS implement a formal disaster recovery and business continuity plan that**

encompasses all types of disastrous events that would impact on both information systems processes and end-user functions.

14. Governance and the internal audit function

Audit committee

119. Governance can be defined as the combination of processes and structures implemented by an organization to inform, direct, manage and monitor its activities towards the achievement of its objectives. Oversight is an integral part of the system of governance, providing assurance that the activities of the organization are in accordance with its legislative mandates and are conducted in the most efficient and effective manner, that all funds are fully accounted for and that staff adhere to the highest standards of professionalism, integrity and ethics. In implementing relevant General Assembly resolutions, most United Nations organizations have established internal and external oversight structures, albeit with varying compositions, mandates and terms of reference.

120. The Board has previously considered the role of the Strategy and Audit Advisory Committee of UNOPS, especially in the light of its revised role and terms of reference, approved by the Executive Board in 2009. The Board considered that the Strategy and Advisory Committee was not fully functional as an audit committee and that this had resulted in gaps in the UNOPS governance arrangements. Specifically, the Board was concerned that the Committee (a) had only a discretionary role over the activities of the internal audit department and (b) had not reviewed the financial statements.

121. Following the Board's recommendation and reflecting the growth of the organization, the Strategy and Audit Advisory Committee, in consultation with the Executive Director, decided to establish the Audit Advisory Subcommittee which will focus on audit and finance issues. The terms of reference of the Subcommittee provide that, in fulfilling its advisory role in oversight, the Subcommittee may, at its discretion or at the invitation of the Executive Director, review and provide advice on internal and external audit activities and issues.

122. The Board sees an increased need for a properly constituted and functional audit committee, especially in the context of the new accounting regime under IPSAS and the role of internal audit in relation to the internal controls of the entity. The Board will keep this matter under review.

Internal audit function

123. The Board coordinated with the Internal Audit and Investigations Group in the planning of the audit to avoid duplication of effort. In addition, the Board reviewed the internal audit coverage of the operations of UNOPS to assess the extent to which it could rely on the work of the Internal Audit and Investigations Group.

124. The Board noted the Group had performed its own risk assessment to inform its selection of audit areas. While the Group planned to perform two audits directly in 2011, one audit was regarded as too minor to be completed on its own, while the other was included in the 2012 workplan. The Board has no overall concern regarding the coverage of internal audit of UNOPS activities.

C. Disclosures by management

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

125. UNOPS informed the Board that, in accordance with financial rule 123.12, no property losses were written off in the biennium 2010-2011 ($0.04 million in 2008-2009). In accordance with financial rule 123.09, accounts receivable losses of $10.4 million were also written off during the biennium ($13.1 million in 2008-2009).

2. Ex gratia payments

126. As required by UNOPS financial regulation 20.01, UNOPS informed the Board that no ex gratia payments had been made for the period under review.

3. Cases of fraud and presumptive fraud

127. UNOPS reported to the Board nine cases of fraud and presumptive fraud. The details provided by UNOPS are as follows:

(a) A UNOPS consultant failed to disclose a conflict of interest in the selection of an award to a company of which his wife was a member. As a result of the investigation, the consultant's contract was terminated;

(b) Two staff members colluded with a company to award it a contract of $99,220. Both staff members were separated from service and recovery of the amount of $74,000 paid against the contract is in progress;

(c) A staff member favoured a company by awarding it a contract of $237,000. The contract was terminated before any payments were made and the staff member resigned before the investigation was completed;

(d) A staff member had misappropriated about $300 in cash given by another staff member to be deposited into his bank account. The staff member has been charged with misconduct and the amount has been recovered;

(e) A staff member forged the signature of a colleague to award a contract to a consultant. The staff member has been charged with misconduct, and his response is pending;

(f) A staff member forged the signatures of two colleagues on a document he sent to a UNOPS review committee to support a submission to extend the contract of an individual contractor. There was no evidence that the forgery was intended to alter the outcome or that the staff member had personally benefited. The staff member was demoted for misconduct;

(g) A staff member used for personal gain airline reward tickets valued at some $8,000 which had been given to UNOPS. The staff member claimed that he did not realize that he could not do so; the investigation has been completed and the recovery of the full amount is being finalized as of the date of the present report;

(h) Nine local personnel committed medical insurance reimbursement fraud in an amount of approximately $130,000. There was no financial loss to UNOPS, as the claims were made against the medical insurance company. The nine personnel were separated from UNOPS when the project they were working on was completed, which occurred before the fraud was discovered. UNOPS has requested the Office of Legal Affairs of the United Nations Secretariat to refer the case to national authorities for legal recourse in accordance with applicable national laws;

(i) UNOPS identified several other cases of attempted fraud involving medical and dental insurance claims made by local personnel for small amounts from the medical insurance provider. In most cases, no reimbursements were made. UNOPS sustained no financial loss and has taken appropriate disciplinary action, including demotion, dismissal and termination of contract, to deal with these matters.

D. Acknowledgement

128. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of UNOPS and the members of his staff during the audit.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Annex

Status of implementation of recommendations for the biennium ended 31 December 2009

Summary of recommendation	*Paragraph reference (A/65/5/Add.10, chap. II)*	*Financial period in which first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Review accounting policies regarding revenue recognition	45	2006-2007	X			
Establish procedures to review the reasonability of the interest income	48	2008-2009	X			
Regularly monitor administrative budgets on a line-by-line basis	51	2008-2009	X			
Address validity of obligations	57	2008-2009	X			
Implement controls and reports regarding project receivable and payable balances	64	2008-2009		X		
Improve controls of classification to prevent and detect errors in financial reporting	65	2008-2009	X			
Account for funds received in advance from donors as a liability	69	2008-2009	X			
Reclassify credit/debit balances in receivables/payables	72	2008-2009	X			
Resolve disputed inter-fund differences with United Nations Development Programme	83	2004-2005		X		
Follow up rejected project expenditures	86	2008-2009		X		
Follow up unreconciled inter-fund differences	91	2004-2005		X		
Consider revising its policy for valuation of the annual leave liability	111	2008-2009		X		
Review the validity, accuracy and completeness of data used in the computation of end-of-service liabilities	116	2008-2009	X			
Develop a funding plan for end-of-service liabilities	122	2008-2009		X		
Comply with the imprest account closure guidelines	129	2008-2009	X			
Obtain appropriate approval for write-off of losses in accordance with rule 123.12 of the financial regulations and rules	134	2008-2009	X			
Develop a policy on the management of petty cash	147	2008-2009	X			
Review budget-setting methods	160	2008-2009	X			
Improve monitoring controls over project delivery	161	2006-2007	X			
Establish a short time frame to address projects needing closure	172	2008-2009	X			
Reconsider the appropriateness of its 18-month project closure timetable	173	2008-2009	X			

Summary of recommendation	*Paragraph reference (A/65/5/Add.10, chap. II)*	*Financial period in which first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Analyse all currently listed projects and identify projects to be closed	178	2008-2009		X		
Regularly monitor the status of projects	179	2006-2007	X			
Take further steps in monitoring the status of projects	185	2008-2009		X		
Maintain project files in support of financially closed projects	186	2008-2009	X			
Monitor project-level system controls	194	2006-2007	X			
Review the progress of each project on a regular basis	199	2008-2009	X			
Consult with client prior to changing budget information	206	2008-2009	X			
Define and implement procedures in regard to project management	212	2008-2009	X			
African Regional Office to implement procedures to enable discharge of its oversight roles	220	2008-2009	X			
Review approach to project management	221	2008-2009	X			
Investigate the differences between the 2008 Atlas project status report and the related expenditure report	227	2008-2009	X			
Implement processes to ensure the timely implementation of projects	233	2008-2009	X			
Address the leadership vacancy on project 30985	237	2008-2009	X			
Implement project controls/guidelines to ensure the timely implementation of projects	244	2008-2009	X			
Establish procedures to monitor project deliverables	245	2008-2009	X			
Maintain and update risk and quality logs	250	2008-2009	X			
Review the progress of each project on a regular basis	255	2008-2009	X			
Implement procedures to ensure effective oversight and monitoring of project activities	258	2008-2009	X			
Take steps to ensure all projects are assigned or allocated to project managers in Atlas	265	2008-2009	X			
Address the incompatible functions and lead time in vendor registration	274	2008-2009	X			
Roll out the asset management module in Atlas to all offices	283	2004-2005	X			
Investigate assets listed as faulty/redundant	292	2006-2007	X			
Address discrepancies noted in asset records	293	2008-2009		X		
Follow up with Kenya Operations Centre in regard to asset management	295	2008-2009	X			
African Regional Office to perform asset inventory counts and asset reconciliations on a	300	2008-2009	X			

Summary of recommendation	*Paragraph reference (A/65/5/Add.10, chap. II)*	*Financial period in which first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
regular basis						
Strengthen controls relating to the certification of assets	304	2008-2009	X			
Perform counts of project assets on a regular basis	308	2008-2009	X			
Implement controls to enable better control of project assets	312	2008-2009		X		
Reconsider the financial impact of non-capitalized assets	324	2008-2009				X
Continue to monitor staff performance assessments	329	2006-2007	X			
Develop a computerized system for monitoring leave	333	2008-2009	X			
Monitor gender distribution	338	2008-2009	X			
Comply with guidelines in regard to retroactive individual contractor agreements	347	2008-2009	X			
Comply with guidelines in regard to release of final payment to individual contractors	351	2008-2009	X			
Implement a succession plan	356	2008-2009	X			
Implement a formal disaster recovery plan and business continuity plan	359	2008-2009		X		
Consider enforcing the current setting on the active directory	362	2008-2009	X			
Strengthen governance and oversight arrangements	375	2008-2009	X			
Total		**59**	**47**	**11**		**1**
Percentage		**100**	**80**	**18**		**2**

Chapter III
Financial report for the biennium ended 31 December 2011

1. The Executive Director of UNOPS has the honour to submit his financial report for the biennium ended 31 December 2011, together with the audited financial statements for the biennium. This submission is made in conformity with the financial regulations and rules of UNOPS. The financial statements cover all of the funds for which the Executive Director is responsible and consist of three statements and two schedules, accompanied by notes which are an integral part of the financial statements.

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

2. Until 31 December 1994, the Office for Project Services was part of UNDP. As such, its financial activities for periods up to 31 December 1994 were reported by that organization.

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

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

5. In February 2009, in its decision 2009/4, the Executive Board approved the UNOPS financial regulations and rules. The financial statements and notes for the biennium 2010-2011 are prepared and presented in accordance with those regulations and rules.

6. In conformity with its financial regulations and rules, UNOPS maintains separate accounting and other financial records for UNOPS accounts, that is, those established for the purpose of accounting for all revenue to UNOPS and for all expenditure made by UNOPS against that revenue. Included in the UNOPS accounts include project accounts, which constitute the formal, separate record of all financial transactions pertaining to projects.

7. UNOPS maintains separate accounts for the identification, administration and management of the resources entrusted to its charge, to account for the project budgets (UNOPS portfolio) granted to UNOPS for implementation, the project expenditure (UNOPS project delivery) and the management fees earned (UNOPS income) from the implementation of such projects. The UNOPS portfolio consists of all projects accepted by UNOPS for implementation and the total value of their budgets.

B. Accounting practices and policies

Financial regulations and rules

8. The financial statements, schedules and notes contained in the present report have been prepared in accordance with the UNOPS financial regulations and rules.

Presentation of financial statements

9. The financial statements have been prepared in accordance with the United Nations system accounting standards, taking due account of the fact that UNOPS is self-financed: that is, its administrative expenditures are financed entirely by the income it earns.

10. Total assets, as reflected in statement II, amounted to $999.0 million for the biennium ended 31 December 2011, compared to $727.0 million for the previous biennium. The increase in total assets was due to a significant increase in cash and term deposits.

11. The cash and term deposits balance at the end of the biennium 2010-2011 increased to $971.5 million from $444.1 million at the end of 2008-2009. The increase in the cash and term deposits is mainly attributable to three major factors:

(a) UNOPS project delivery for the biennium 2010-2011 was $2.334 billion, representing a 9 per cent increase compared to $2.146 billion in biennium 2008-2009, as shown in schedule 1 of the financial statements. The $188 million increase in project delivery comprises both an increase of $298 million with Governments, intergovernmental organizations, international financial institutions, multilateral arrangements, non-governmental organizations and trust funds, and a decrease of $110.3 million with the United Nations and its organizations. UNOPS delivered project expenditure of $1.442 billion on behalf of the United Nations and its agencies for the biennium 2010-2011, compared to $1.552 billion for 2008-2009;

(b) The change in the modality for the cash settlement of the inter-fund balances with UNDP. During 2010, the monthly cash settlement of the UNOPS inter-fund balance with UNDP resulted in an increase in the cash balance of $297.6 million and a reduction in the inter-fund balance;

(c) The reduction in the inter-fund balance of $297.6 million and the concomitant increase in the UNOPS investment portfolio, a result of the enhanced modality for cash settlement with UNDP.

12. Compared to the previous biennium, liabilities increased for the biennium ended 31 December 2011, by $251.5 million to $935.7 million. The increase was mostly due to a significantly higher volume of contributions received in advance and an increase in post-retirement benefit liabilities, including after-service health insurance.

13. Contributions received in advance represent the excess of cash received over expenditure incurred on cash-based projects at the end of the biennium 2010-2011. The considerable increase, in comparison with previous bienniums, is attributable to the significant growth in business relating to the implementation of projects funded by recipient Governments and international financial institutions.

14. While the increase in project delivery during the biennium 2010-2011 amounted to $187.7 million, the unliquidated obligations balance decreased by $74.3 million. At the end of 2011, the unliquidated obligations balance stood at approximately 13.6 per cent of total project expenditure (the lowest historical ratio for UNOPS), whereas the comparative figure at the end of the previous biennium was 20 per cent. This reflects the improved management of purchase orders as an integral part of the more rigorous monitoring of project activities.

15. UNOPS has provided $37.2 million for write-offs of receivables, of which the amount of $17.2 million relates to inter-fund transactions with UNDP, mostly prior to 2007. UNOPS has taken a conservative approach and has provided fully for the entire balance.

Accounting policies

16. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 2 to the financial statements.

C. Accounts

17. As shown in statement I, for the biennium ended 31 December 2011 UNOPS income from all sources totalled $168.0 million, and its administrative expenditure amounted to $141.5 million. Income for the biennium 2010-2011 therefore exceeded administrative expenditure by $26.5 million. During the period under review, provisions and write-offs of receivables of $13.2 million, savings on prior-period obligations of $1.2 million and a prior-period adjustment of $6.0 million were recorded. Therefore, the net excess of income over expenditure (net revenue) amounted to $13.3 million, while the total contribution to the operational reserves amounted to $20.5 million.

18. Comparative figures for the biennium ended 31 December 2009 were as follows: income and administrative expenditure totalled $158.6 million and $126.1 million, respectively, an excess of income over expenditure of $32.5 million. Write-offs, prior-period adjustments and a one-off transfer to reserves (due to the partial takeover of the UNDP Inter-Agency Procurement Services Organization) amounted to $22.1 million, $3.4 million and $3.9 million, respectively. The contribution to operational reserves was $17.7 million.

Income

19. Project delivery increased by 9 per cent, from $2.146 billion during the biennium 2008-2009 to $2.334 billion during the biennium 2010-2011, and is reflected in schedule 1 to the financial statements. UNOPS expanded its business in such areas as financial management and procurement services, where the management fees typically range from 1 to 4 per cent. The average management fee for traditional project management remained largely unchanged from the previous biennium.

20. The total income of $168.0 million earned for the biennium ended 31 December 2011 was derived as follows: $133.1 million (79 per cent) from project implementation services; $16.3 million (10 per cent) from advisory and reimbursable services; and $18.6 million (11 per cent) from interest income and other miscellaneous income.

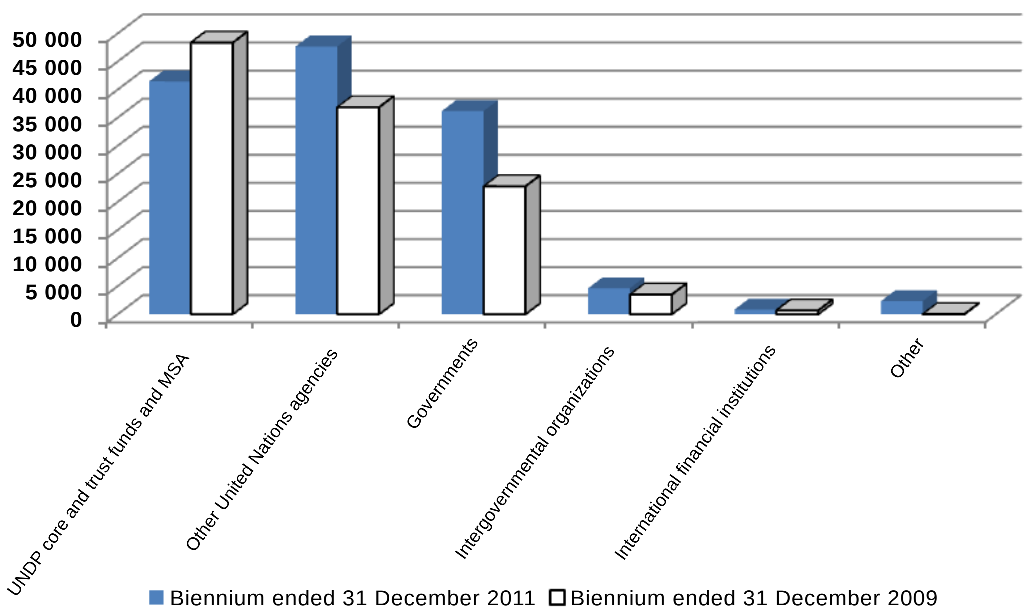
21. Compared to income of $158.6 million for the biennium ended 31 December 2009, UNOPS income for the biennium ended 31 December 2011 increased by $9.4 million (6 per cent).

1. Income from project implementation

22. Income earned from project implementation for the biennium ended 31 December 2011 amounted to $133.1 million and is presented in schedule 1 of the financial statements. This income was derived as follows: $41.4 million (31 per cent) from the projects funded by UNDP, including UNDP-administered trust funds and management service agreements; $47.7 million (36 per cent) from projects implemented on behalf of other United Nations organizations; $4.6 million (3 per cent) from projects funded by intergovernmental organizations; $36.2 million (27 per cent) from projects implemented on behalf of Governments; $0.8 million (1 per cent) from projects implemented on behalf of international financial institutions; and $2.3 million (2 per cent) from other sources.

23. For comparative purposes, income earned from project implementation for the biennium ended 31 December 2009 amounted to $112.2 million and was derived as follows: $48.3 million (43 per cent) from the projects funded by UNDP, including UNDP-administered trust funds and management service agreements; $36.9 million (33 per cent) from projects implemented on behalf of other United Nations organizations; $3.5 million (3 per cent) from projects funded by intergovernmental organizations; $22.8 million (20 per cent) from projects implemented on behalf of Governments; and $0.7 million (1 per cent) from projects implemented on behalf of international financial institutions.

Figure III.I
Income from project implementation for the bienniums ended 31 December 2011 and 31 December 2009
(Thousands of United States dollars)



Abbreviation: MSA, management service agreements.

2. Other income

24. During the biennium ended 31 December 2011, UNOPS earned $16.3 million in income for advisory and reimbursable services from the Global Fund to Fight AIDS, Tuberculosis and Malaria, the United Nations Population Fund and the International Fund for Agricultural Development. For comparative purposes, for the biennium ended 31 December 2009, UNOPS earned $30.0 million in advisory and reimbursable services income, of which $14.2 million related to the European Union Election Observation Mission. For the biennium ended 31 December 2011, UNOPS executed European Union Election Observation Mission projects amounting to $19.9 million, which were included in the 2010-2011 management fees.

25. UNOPS earned $18.6 million in miscellaneous income for the biennium ended 31 December 2011, compared to $16.5 million in the previous biennium.

Administrative budget and expenditure

26. The budget estimates approved by the Executive Board of UNOPS are not considered appropriations, and UNOPS does not take such approved budgets as authorizations to spend. The budgets approved by the Executive Board represent the best estimates of expenditure to be incurred; actual expenditure is incurred only when sufficient income is projected to be available.

Operational reserves

27. The Executive Board, in its decision 2001/14, approved the proposal to change the basis for the calculation of the level of the operational reserves of UNOPS to 4 per cent of the rolling average of the combined administrative and project expenditure for the previous three years. The application of that formula results in an operational reserves requirement of $48.4 million as at 31 December 2011. For the biennium ended 31 December 2011, statement I shows reserves and fund balances of $63.3 million, which exceed the required level of the operational reserves by 31 per cent. UNOPS has again managed to accrue sufficient reserves to cover all liabilities and fully replenish its operational reserves to the level mandated by the Executive Board. The comparative figure for the biennium ended 31 December 2009 is $42.7 million, or 2 per cent above the then applicable operational reserves requirement.

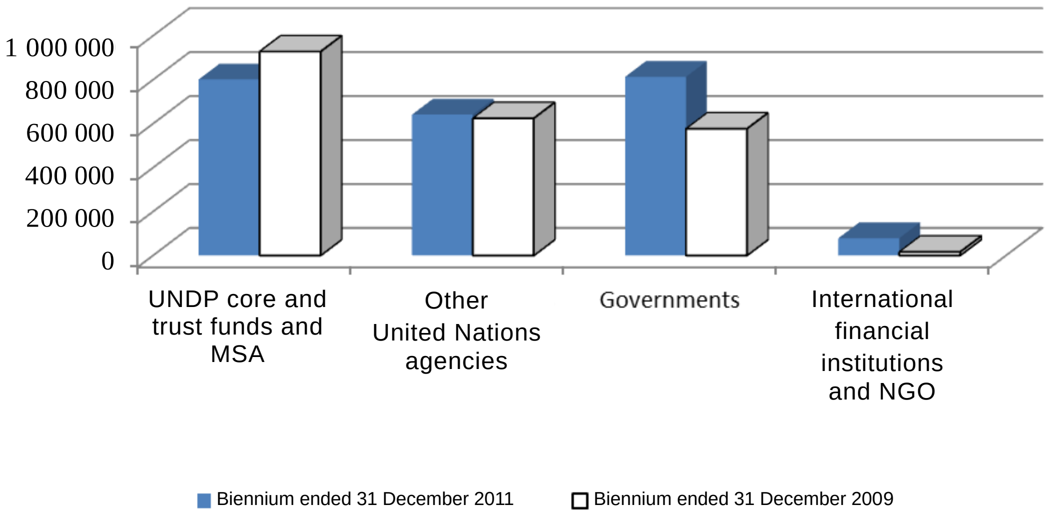
Ex gratia payments, write-offs and prior-period adjustments of cash and receivables

28. During the biennium ended 31 December 2011, no ex gratia payments were made and write-offs amounted to $12.3 million. For comparative purposes, during the biennium ended 31 December 2009, there were also no ex gratia payments made and write-offs amounted to $11.7 million.

Portfolio

29. The value of the UNOPS portfolio changes continuously as new projects are accepted for implementation and the budgets of existing projects are revised.

Figure III.II
UNOPS portfolio for the bienniums ended 31 December 2011 and 31 December 2009
(Thousands of United States dollars)



Abbreviations: MSA, management service agreements; NGO, non-governmental organizations.

30. The total value of the UNOPS portfolio amounted to $2.334 billion for the biennium 2010-2011 and was derived as follows: $801.2 million (34 per cent) from UNDP-funded and UNDP-administered trust funds, as well as projects funded under the management service agreement modality; $641.0 million (28 per cent) from projects implemented on behalf of other United Nations organizations; $813.1 million (35 per cent) from projects implemented on behalf of Governments; and $78.6 million (3 per cent) from projects implemented on behalf of international financial institutions and non-governmental organizations.

31. For comparative purposes, the portfolio for the biennium 2008-2009 totalled $2.146 billion and was derived as follows: $928.0 million (43 per cent) from UNDP-funded and UNDP-administered trust funds, as well as projects funded under the management service agreement modality; $624.5 million (29 per cent) from projects implemented on behalf of other United Nations organizations and funded under the management service agreement modality; $577.1 million (27 per cent) from projects implemented on behalf of Governments; and $16.6 million (1 per cent) from projects implemented on behalf of international financial institutions and non-governmental organizations.

Project delivery

32. As reflected in schedule 1, UNOPS incurred project expenditure (including management fees) totalling $2.467 billion for the biennium 2010-2011, reflecting an increase of $208 million (9 per cent) over incurred project expenditure (including management fees) totalling $2.258 billion for 2008-2009.

Chapter IV

Financial statements for the biennium ended 31 December 2011

Statement I

United Nations Office for Project Services

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2011, with comparative figures for the biennium ended 31 December 2009

(Thousands of United States dollars)

		2010-2011	*2008-2009*
Income			
Management fees	(note 3 and schedule 1)	133 059	112 157
Advisory and reimbursable services income	(note 4)	16 315	29 959
Miscellaneous income	(note 5)	18 639	16 490
Total income		**168 013**	**158 606**
Total expenditure	**(schedule 2)**	**141 470**	**126 136**
Excess of income over expenditure		**26 543**	**32 470**
Provision and write-off of receivables	(note 16)	13 222	22 076
Net excess of income over expenditure		**13 321**	**10 394**
Prior-period adjustments: savings on cancellation of prior-period obligations	(note 6)	1 169	1 086
Prior-period adjustments: other		6 038	2 285
Transfer to reserves		0	3 900
Operating reserve beginning of period		**42 733**	**25 067**
Operating reserve end of period	**(statement II)**	**63 261**	**42 733**

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

Statement II

United Nations Office for Project Services

Statement of assets, liabilities and reserves as at 31 December 2011, with comparative figures as at 31 December 2009

(Thousands of United States dollars)

		2011	*2009*
Assets			
Cash and term deposits	(note 7)	971 466	444 070
Accounts receivable	(note 8)	26 632	42 716
Inter-fund accounts receivable	(note 9)	888	240 202
Total assets		**998 986**	**726 988**
Liabilities			
Inter-fund accounts payable	(note 10)	58 251	–
Contributions received in advance	(note 11)	663 631	404 054
Unliquidated obligations	(note 12)	144 500	218 797
Accounts payable	(note 13)	5 677	8 295
Post-retirement and end-of-service benefits	(note 14)	26 432	16 789
Provision for write-off	(note 16)	37 234	36 320
Total liabilities		**935 725**	**684 254**
Reserves			
Operating reserve	(note 15)	63 261	42 733
Total reserves		**63 261**	**42 733**
Total liabilities and reserves		**998 986**	**726 988**

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

Statement III

United Nations Office for Project Services

Statement of cash flows for the year ended 31 December 2011, with comparative figures for the year ended 31 December 2009

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Cash flows from operating activities		
Net excess of income over expenditure (statement I)	13 321	10 394
(Increase)/decrease in account receivable	16 084	12 359
(Increase)/decrease in inter-fund balances receivable	239 315	40 720
Increase/(decrease) in inter-fund balances payable	58 251	–
Increase/(decrease) in contributions or payments received in advance	259 577	287 198
Increase/(decrease) in unliquidated obligations	(74 297)	20 937
Increase/(decrease) in accounts payable	(2 617)	1 581
Increase/(decrease) in other liabilities	10 557	13 491
Less: interest income	(5 730)	(3 606)
Net cash flows from operating activities	**514 460**	**383 074**
Cash flows from investing activities		
Increase due to merger	–	3 900
Plus: interest income	5 730	3 606
Net cash flows from investing activities	**5 730**	**7 506**
Cash flows from financing activities		
Prior-period adjustments	7 207	3 371
Net cash flows from financing activities	**7 207**	**3 371**
Net increase/(decrease) in cash and term deposits	**527 396**	**393 951**
Cash and term deposits at the beginning of the period	**444 070**	**50 118**
Cash and term deposits at the end of the period	**971 466**	**444 070**

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

Schedule 1

United Nations Office for Project Services

Project expenditure and support costs and fees for the biennium ended 31 December 2011, with comparative figures for the biennium ended 31 December 2009

(Thousands of United States dollars)

	2011			*2010*			*2010-2011*	*2008-2009*
Details	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
United Nations	**647 635**	**40 302**	**687 938**	**794 616**	**48 814**	**843 431**	**1 531 368**	**1 643 511**
United Nations departments and offices	**160 758**	**12 252**	**173 010**	**177 791**	**12 517**	**190 308**	**363 318**	**328 792**
Department of Economic and Social Affairs	99	8	107	–	–	–	107	–
Department of Peacekeeping Operations	152 501	11 627	164 128	167 243	11 721	178 964	343 093	302 473
Department of Political Affairs	305	24	330	1 578	113	1 691	2 020	2 225
Executive Office of the Secretary-General	4 252	341	4 593	5 184	415	5 598	10 191	5 768
Office for the Coordination of Humanitarian Affairs	2 749	193	2 942	2 942	205	3 147	6 089	5 726
Office of the United Nations High Commissioner for Human Rights	0	–	0	(42)	1	(41)	(41)	11 717
United Nations Register of Damage	851	60	911	886	62	948	1 859	884
United Nations: other entities	**70**	**5**	**76**	**773**	**56**	**829**	**905**	**2 793**
Joint United Nations Programme on HIV/AIDS	–	–	–	(0)	12	12	12	1 667
United Nations Entity for Gender Equality and the Empowerment of Women	70	5	76	773	44	817	893	1 130
United Nations University	–	–	–	–	–	–	–	(4)
United Nations: other related bodies	**89 301**	**5 854**	**95 154**	**92 368**	**5 531**	**97 899**	**193 054**	**208 627**
International Renewable Energy Agency	(5)	–	(5)	24	–	24	18	–
UN Web Buy	62 673	3 327	66 000	65 766	3 689	69 456	135 455	134 656
United Nations Development Group	13 918	746	14 664	16 386	1 027	17 413	32 077	68 011
United Nations Economic Commission for Europe	(1)	(0)	(1)	–	–	–	(1)	5 328
Water Supply and Sanitation Collaborative Council	12 715	1 781	14 496	10 192	815	11 007	25 504	631
United Nations programmes and funds	**47 161**	**3 121**	**50 282**	**38 206**	**2 434**	**40 641**	**90 923**	**106 818**
International Trade Centre	39	3	42	–	–	–	42	31
Office of the United Nations High Commissioner for Refugees	11 825	982	12 807	9 767	795	10 562	23 369	14 337

Details	*2011*			*2010*			*2010-2011*	*2008-2009*
	Project expenditure	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
United Nations Capital Development Fund	8	–	8	(1)	–	(1)	7	322
United Nations Children's Fund	9 470	677	10 148	4 162	254	4 416	14 563	53 648
United Nations Environment Programme	7 176	379	7 554	9 379	481	9 861	17 415	13 057
United Nations Human Settlements Programme	3 260	170	3 430	7 741	388	8 129	11 559	5 951
United Nations Office on Drugs and Crime	12 069	675	12 744	5 516	400	5 916	18 660	14 002
United Nations Population Fund	2 062	144	2 206	1 113	79	1 192	3 398	2 947
United Nations World Food Programme	1 252	91	1 343	530	37	566	1 909	2 523
United Nations Development Programme (UNDP)	**334 118**	**17 871**	**351 989**	**467 098**	**23 574**	**490 672**	**842 661**	**976 331**
UNDP core funds	**71 321**	**4 571**	**75 892**	**65 914**	**4 787**	**70 702**	**146 593**	**164 211**
UNDP management service agreement	**–**	**–**		**–**	**–**			
UNDP — Bilateral donors	992	9	1 001	5 928	281	6 209	7 210	34 577
UNDP — Lending institutions	1 878	66	1 944	55	(35)	20	1 965	23 185
UNDP — non-governmental organizations	1 035	72	1 107	2 202	157	2 359	3 466	5 652
UNDP — Recipient Governments	129 599	4 886	134 485	264 907	9 924	274 831	409 316	509 865
UNDP — Trust funds	–	–	–	–	–	–	–	60
UNDP multi-donor trust funds and joint programmes								
UNDP joint programme	59 055	3 206	62 261	25 392	1 409	26 801	89 062	12 871
UNDP multi-donor trust fund	70 239	5 061	75 300	102 700	7 051	109 751	185 050	225 909
United Nations research and training institutes	**3 201**	**320**	**3 521**	**3 143**	**269**	**3 412**	**6 933**	**3 668**
United Nations Institute for Disarmament Research	3 992	315	4 307	2 184	176	2 359	6 667	876
United Nations Institute for Training and Research	(836)	–	(836)	–	–	–	(836)	1 921
United Nations Interregional Crime and Justice Research Institute	45	4	49	959	93	1 052	1 101	871
Specialized agencies	**13 026**	**880**	**13 905**	**15 237**	**4 433**	**19 670**	**33 575**	**16 484**
Food and Agriculture Organization of the United Nations	1 125	67	1 192	243	13	256	1 448	6 694
International Fund for Agricultural Development	5 510	345	5 856	3 487	260	3 747	9 603	6 264
International Labour Organization	1 126	82	1 208	940	133	1 072	2 280	(5)
United Nations Educational, Scientific and Cultural	1 574	118	1 692	–	–	–	1 692	2 243

	2011			*2010*			*2010-2011*	*2008-2009*
Details	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
Organization								
United Nations Industrial Development Organization	(1)	(0)	(2)	–	–	–	(2)	–
Universal Postal Union	–	–	–	998	69	1 067	1 067	–
World Health Organization	3 691	268	3 959	9 570	3 957	13 527	17 486	1 288
Governments	**296 716**	**15 652**	**312 369**	**433 674**	**20 517**	**454 192**	**766 560**	**545 156**
Afghanistan	62 593	3 788	66 381	62 824	4 209	67 032	133 413	79 075
Argentina	91 059	3 257	94 317	133 211	4 163	137 374	231 691	34 399
Australia	1 917	127	2 044	–	–	–	2 044	109
Austria	882	55	937	2 624	184	2 808	3 744	399
Belgium	1 320	92	1 413	–	–	–	1 413	–
Cambodia	236	16	253	1 764	123	1 887	2 140	128
Canada	8 131	581	8 712	–	–	–	8 712	829
China	62	6	68	675	32	707	775	2 337
Democratic Republic of the Congo	523	38	561	13 226	828	14 054	14 614	6 467
Denmark	1 208	85	1 293	–	–	–	1 293	–
Germany	176	7	183	1 285	84	1 369	1 552	1 798
Greece	(59)	(3)	(62)	–	–	–	(62)	1 031
Haiti	4 504	303	4 806	2 294	161	2 455	7 261	3 807
India	8 937	616	9 554	80 445	3 797	84 242	93 796	220 023
Italy	6 512	471	6 983	8 067	598	8 665	15 648	2 074
Japan	2 759	193	2 952	–	–	–	2 952	–
Kosovo	2 520	170	2 691	541	37	578	3 268	–
Kuwait	869	61	930	–	–	–	930	–
Liberia	5 517	249	5 766	698	56	754	6 520	3 719
Lithuania	823	58	881	–	–	–	881	–
Luxembourg	1 017	71	1 088	–	–	–	1 088	–
Mongolia	79	2	82	49	50	99	181	–
Mozambique	218	9	227	–	–	–	227	–
Myanmar	26 534	399	26 933	30 584	457	31 040	57 973	52 660

	2011			2010			2010-2011	2008-2009
Details	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
Netherlands	–	–	–	–	–	–	–	586
Nigeria	563	70	633	322	–	322	955	–
Norway	3 937	197	4 134	–	–	–	4 134	5 417
Republic of Korea	1 405	98	1 504	38	3	40	1 544	–
Senegal	–	–	–	–	–	–	–	5 901
South Africa	1 066	85	1 151	–	–	–	1 151	–
South Sudan	–	–	–	–	–	–	–	3 457
Spain	1 834	121	1 955	–	–	–	1 955	–
Sri Lanka	4 688	234	4 922	23 559	1 237	24 796	29 718	31 391
Sudan	2 886	176	3 062	19 388	1 081	20 469	23 531	21 331
Sweden	11 466	802	12 268	973	68	1 042	13 310	–
Switzerland	4 116	225	4 341	620	45	665	5 007	–
Turkey	–	–	–	–	–	–	–	51
United Arab Emirates	72	5	77	–	–	–	77	–
United Kingdom of Great Britain and Northern Ireland	8 049	609	8 658	7 816	573	8 389	17 047	1 303
United Republic of Tanzania	–	–	–	–	–	–	–	(4)
United States of America	21 732	1 956	23 688	21 547	1 315	22 861	46 549	28 853
Occupied Palestinian Territory	6 565	421	6 986	21 124	1 419	22 542	29 528	38 016
Intergovernmental organizations	**47 625**	**3 200**	**50 825**	**35 046**	**1 428**	**36 474**	**87 299**	**57 445**
African Union	649	45	694	–	–	–	694	17
Economic Community of West African States	966	68	1 033	–	–	–	1 033	–
European Commission	43 496	2 795	46 292	35 046	1 428	36 474	82 766	39 867
Nile Basin Initiative	282	292	574	–	–	–	574	16 460
Southern African Development Community	2 232	–	2 232	–	–	–	2 232	1 101
International financial institutions	**15 100**	**632**	**15 732**	**2 946**	**200**	**3 145**	**18 877**	**9 709**
African Development Bank	2 663	211	2 874	–	–	–	2 874	682
Central American Bank for Economic Integration	(0)	–	(0)	–	–	–	(0)	–
Common Fund for Commodities	17	1	18	21	2	23	41	750
Inter-American Development Bank	839	–	839	134	–	134	973	–

Details	2011			2010			2010-2011	2008-2009
	Project expenditure	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Project expenditure*	*Support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*	*Total project expenditure and support costs and fees*
World Bank	11 582	420	12 002	2 791	198	2 989	14 990	8 276
Multilateral arrangements	**20 643**	**1 065**	**21 708**	**940**	**66**	**1 006**	**22 715**	**(10)**
Global Alliance for Improved Nutrition	–	–	–	–	–	–	–	(10)
Global Fund to Fight AIDS, Tuberculosis and Malaria	20 614	1 064	21 678	940	66	1 006	22 684	–
International Food Policy Research Institute	10	1	11	–	–	–	11	–
International Union for Conservation of Nature	19	1	20	–	–	–	20	–
Non-governmental organizations	**7 393**	**531**	**7 924**	**3 024**	**207**	**3 231**	**11 155**	**2 225**
American Red Cross	3 892	292	4 184	2 270	170	2 441	6 624	–
Hammer Forum	549	38	587	–	–	–	587	10
International non-governmental organization	–	–	–	534	13	546	546	1 559
Millennium Promise	2 632	176	2 807	–	–	–	2 807	–
Non-governmental organization	–	–	–	120	12	132	132	547
Save the Children	–	–	–	–	–	–	–	109
United Methodist Committee on Relief	321	25	346	99	12	111	457	–
Other	**–**	**–**	**–**	**56**	**–**	**56**	**56**	**190**
Private sector	**30**	**1**	**31**	**–**	**–**	**–**	**31**	**–**
Trust funds	**28 314**	**436**	**28 750**	**109**	**8**	**117**	**28 867**	**83**
Project expenditure and support costs and fees	**1 063 458**	**61 820**	**1 125 277**	**1 270 412**	**71 239**	**1 341 652**	**2 466 929**	**2 258 308**
		(statement I)			**(statement I)**			

Schedule 2
United Nations Office for Project Services

Administrative budget and expenditure for the biennium ended 31 December 2011, with comparative figures for the biennium ended 31 December 2009
(Thousands of United States dollars)

	2010-2011	*2010-2011*	*2008-2009*
Description	*Revised budget*	*Total administrative expenditure*	*Total administrative expenditure*
Salaries and wages	47 210	43 187	39 867
Common staff costs	33 203	31 707	28 881
Official travel	6 981	6 846	7 465
Contractual services	29 469	27 420	18 966
General operating expenses[a]	24 773	27 399	17 238
Supplies	1 199	1 124	998
Furniture and equipment	1 868	2 013	6 003
Reimbursement of cost of services provided by UNDP and other United Nations agencies	3 157	1 774	6 717
Total	**147 860**	**141 470**	**126 136**
		(statement I)	

[a] Includes unrealized foreign exchange loss of $3.4 million incurred in 2011. Refer to note 5 for more details.

Notes to the financial statements

Note 1
Objectives of the United Nations Office for Project Services

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 was established as an independent entity on 1 January 1995 and is based in Copenhagen.

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

(a) Project management;

(b) Procurement;

(c) Human resources management;

(d) Financial management;

(e) United Nations common services.

Note 2
Summary of significant accounting policies

Reporting period

3. The UNOPS reporting period is biennial. The audited financial statements cover the period from 1 January 2010 to 31 December 2011, and reflect the application of the accounting policies set out below.

General framework

4. UNOPS activities are accounted for in accordance with:

(a) The financial regulations approved by its Executive Board and the financial rules established by its Executive Director under those regulations. The version of the UNOPS financial regulations and rules applicable for the biennium 2010-2011 took effect on 1 February 2009;

(b) The United Nations system accounting standards adopted by the Administrative Committee on Coordination (since renamed United Nations System Chief Executives Board for Coordination), which are based to a large extent on relevant accounting standards issued by the International Accounting Standards Committee. Where differences between the two sets of standards exist, it is mainly because of the essentially non-commercial nature of United Nations activities.

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

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

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

(c) Financial statements should clearly and concisely disclose all significant accounting policies that have been used;

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

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

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

Income

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

7. During the biennium ending 31 December 2011, UNOPS continued to recognize revenue, in compliance with the United Nations system accounting standards, based on the amount of disbursements made and open signed purchase orders as recorded at the end of the biennium.

Expenditure

8. All UNOPS expenditure is accounted for on an accrual basis, except for costs relating to staff entitlements, which are recorded on a cash basis (costs related to the early separation programme, various leave balances and after-service health insurance are, however, recorded on an accrual basis). All purchase orders that are supported by legally binding commitments entered into on or before 31 December 2011 for goods and services are accrued and recorded as expenses.

Cash and term deposits

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

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

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

12. UNOPS investments are made with the intention that they be held to maturity.

Property, plant and equipment

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

Contributions received in advance

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

15. As part of the year-end closing procedure, all contributions received and expenses incurred on cash-based projects is reflected in the contributions received in advance account.

Reporting currency and rounding policy

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

Other currencies

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

18. All assets and liabilities in currencies other than United States dollars, including cash and term deposits, are translated at the United Nations operational rate of exchange in effect on 31 December 2011. Exchange differences (gains and losses) are transferred to the projects and administrative budget to which the transactions relate.

Employee benefits

19. The employee benefits are broadly grouped under four categories:

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

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

(c) Other long-term employee benefits, such as commuted annual leave, repatriation grants and travel grants on separation;

(d) Termination benefits, such as termination indemnity and payments in lieu of notice which are accrued as soon as the commitment to terminate the service is taken.

20. The liabilities under after-service health insurance, accrued annual leave and repatriation grants are determined on an actuarial basis.

21. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a defined benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, together with 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 General Assembly has invoked the provision of article 26, following a 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.

Provisions and contingent liabilities

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

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

Operational reserves

24. At its second regular session 2003, the Executive Board decided to change the basis for the calculation of the level of the operational reserve of UNOPS to 4 per cent of the rolling average of the combined administrative and project expenditures for the previous three years. The continued validity of this formula was confirmed by an independent review conducted in the fourth quarter of 2006.

Budget comparison

25. The Executive Board approves the biennial budget estimates and, in particular, the net revenue target. Budgets may be subsequently amended by the Executive Board or through the exercise of delegated authority by the Executive Director (as determined by financial regulation 14.02) to redeploy funds within the approved biennial administrative budget, as well as to increase or reduce funds, provided the net revenue target for the biennium as established by the Executive Board remains unchanged. This delegation of authority is required to meet the changing demands for UNOPS services by its partners.

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

Note 3
Management fees

27. Total gross income earned by UNOPS during the biennium 2010-2011 was as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Management fees	133 059	112 157

28. Project delivery increased by 9 per cent, from $2.146 billion during the biennium 2008-2009 to $2.334 billion during 2010-2011, and is the major reason for the 19 per cent increase in the management fees earned.

29. The management fees of $133.1 million for the biennium 2010-2011 include management's best estimate of $0.2 million which relates to fees earned on unliquidated obligations accrued at the end of that biennium, where the obligations were subsequently cancelled in the first quarter of 2012.

Note 4
Advisory and reimbursable services income

30. Income generated during the biennium 2010-2011 from advisory and reimbursable services was as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Global Fund to Fight AIDS, Tuberculosis and Malaria	13 164	7 059
International Fund for Agricultural Development	279	6 637
United Nations Population Fund	571	866
European Union Election Observation Mission	32	14 215
Other service income	2 269	1 182
Total	**16 315**	**29 959**

31. The income from the Global Fund to Fight AIDS, Tuberculosis and Malaria for the biennium 2010-2011 increased by 86 per cent due to an increased level of business, with UNOPS acting as the Fund's local agent in several countries in Africa, Europe, Middle East and Asia.

32. On the other hand, UNOPS activities with the International Fund for Agricultural Development have decreased after the agreement ended (with the exception of activities related to project closure) during the biennium 2008-2009.

33. UNOPS provided logistical support to the European Union Election Observation Mission in Afghanistan, a project which ended in December 2009 (with the exception of activities related to project closure). However, throughout the biennium 2010-2011, UNOPS continued to implement other European Union election observation projects, amounting to $19.9 million. The revenue from these projects was reclassified and is now included under management fees.

Note 5
Miscellaneous income

34. Miscellaneous income for the biennium 2010-2011 was as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Interest income	5 730	3 606
Rental income	3 268	3 599
Support services income	6 575	4 618
Other miscellaneous income	3 066	4 667
Total	**18 639**	**16 490**

35. The 59 per cent growth in interest income during the biennium 2010-2011 was due to the increase in inflow of cash from projects and the diversification of the investment portfolio, compared to 2008-2009.

36. Rental income is generated by sub-letting office space in the Chrysler Building in New York to other United Nations agencies. For more information, see note 19.

37. Support services income of $6.6 million was earned from operations in Afghanistan by providing various support services, such as the leasing of armoured vehicles, high-security installations and communications facilities, to other United Nations agencies.

38. Other miscellaneous income includes foreign exchange gains of $2.8 million realized during 2010. During 2011, UNOPS incurred an unrealized foreign exchange loss of $3.4 million, which is included under total expenditure incurred for the biennium 2010-2011.

Note 6
Prior-period adjustments

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Savings on cancellation of prior-period obligations	1 169	1 086
Savings on prior-period adjustments: other	6 038	2 285
Total	**7 207**	**3 371**

39. Savings of $1.17 million due to the cancellation of prior-period obligations against administrative funds accrued for the biennium 2008-2009 which were overestimated or were no longer required, are credited to reserves for the biennium 2010-2011 and reflected as a prior-period adjustment.

40. An extensive project closure and clean-up exercise was carried out during the biennium 2010-2011. The outcome of this exercise was a net surplus of $0.25 million for UNOPS. The write-back of project balances amounting to $6.04 million is reflected in statement I as a prior-period adjustment, while the amount of $5.79 million written off is included in provisions and write-off of receivables.

Note 7
Cash and term deposits

41. Treasury services are outsourced by UNOPS to UNDP. Cash and investment balances at the end of the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Cash	212 060	184 445
Term deposits	759 406	259 625
Total	**971 466**	**444 070**

42. The cash and term deposits balance at the end of the biennium 2010-2011 increased to $971.5 million from $444.1 million at the end of 2008-2009. The increase in the cash and term deposits balance is related to the movement of $297.6 million in the inter-fund balances and the inflow of project funds of $260 million over the same period.

43. Of the total cash and term deposits balance of $971.5 million at the end of the biennium 2010-2011, $212.1 million was represented by balances in 62 UNOPS bank accounts in various countries. By maintaining significant cash balances in select local currencies, some of the exposure risks relating to exchange rate fluctuations were mitigated through natural hedging. The principal cash balances are broken down as follows:

	Currency	*Amount in United States dollars (thousands)*	*Percentage*
Bank of America, New Delhi	Indian rupee	27 600	13
Danske Bank, Copenhagen	Danish kroner	46 700	22
Danske Bank, Copenhagen	Japanese yen	40 300	19
Other bank accounts	Various	97 460	46
Total		**212 060**	**100**

44. Due to the continued volatile and unstable situation of the financial markets during the biennium 2010-2011, the total investment portfolio of UNOPS comprises safe and secure, albeit lower-yield investments, broken down as follows:

(Thousands of United States dollars)

Investment type	*2010-2011 amount*	*Percentage*
Money markets	86 154	11
Commercial papers, treasury bills and certificates of deposit	163 935	22
Bonds and notes	509 317	67
Total	**759 406**	**100**

45. The following table provides an overview of the UNOPS investment portfolio at the end of the biennium 2010-2011:

(Thousands of United States dollars)

Instrument type	*Issuer*	*Rating*	*Maturity date*	*Value at par*	*Amortized amount*
Bond	Asian Development Bank	AAA	01/09/2015	15 000	14 947
Bond	Asian Development Bank	AAA	04/09/2012	15 200	15 616
Bond	African Development Bank	AAA	01/10/2012	10 000	10 080
Bond	African Development Bank	AAA	15/03/2016	15 000	15 025
Bond	African Development Bank	AAA	15/03/2016	10 000	10 021
Bond	Bank Nederlandse Gemeenten, New York	AAA	17/01/2012	5 000	5 003
Bond	Bank of England	AAA	07/03/2014	20 000	19 963
Bond	Bank of England	AAA	19/03/2012	20 000	20 092
Bond	Council of Europe	AAA	16/02/2016	25 000	25 163
Bond	European Investment Bank	AAA	10/02/2012	25 000	25 048
Bond	European Investment Bank	AAA	15/12/2014	20 000	19 975
Bond	Eurofima	AAA	28/05/2013	4 000	4 044
Bond	Eurofima	AAA	05/09/2013	20 000	21 062

Instrument type	*Issuer*	*Rating*	*Maturity date*	*Value at par*	*Amortized amount*
Bond	Export Development Canada	AAA	19/03/2012	10 000	10 041
Bond	Export Development Canada	AAA	19/03/2012	15 000	15 070
Bond	Export Development Canada	AAA	24/09/2012	6 415	6 484
Bond	International Bank for Reconstruction and Development	AAA	05/02/2015	10 000	10 036
Bond	International Bank for Reconstruction and Development	AAA	02/01/2013	20 000	20 000
Bond	Inter-American Development Bank	AAA	22/04/2014	15 000	15 459
Bond	Inter-American Development Bank	AAA	22/10/2012	6 000	6 065
Bond	Inter-American Development Bank	AAA	22/10/2012	5 431	5 490
Bond	International Finance Corporation	AAA	15/05/2013	14 000	14 592
Bond	Japanese Bank for International Cooperation	AA-	22/03/2012	13 900	14 033
Bond	Japanese Bank for International Cooperation	AA-	06/07/2012	6 800	6 835
Bond	KFW International Finance	AAA	15/05/2012	25 000	25 398
Bond	Neder Waterschapsbank	AAA	17/02/2012	10 000	10 007
Bond	Nordic Investment Bank	AAA	28/01/2013	15 000	15 184
Bond	Oesterreiche Kontrollbank	AA+	16/10/2012	10 000	10 337
Bond	Société de financement de l’économie française	AA+	30/01/2012	10 000	10 012
Bond	Société de financement de l’économie française	AA+	11/06/2012	25 000	25 211
Bond	Kingdom of Sweden	AAA	07/12/2012	11 400	11 392
Bond	Network Rail Infras Fin PLC	AAA	17/01/2012	20 000	20 012
Bond	Government of Austria	AA+	22/02/2012	9 154	9 213
Bond	Bank of England	AAA	07/03/2014	10 000	10 190
Bond	Kingdom of Denmark	AAA	14/05/2012	22 000	22 153
Bond	Government of Germany	AAA	21/09/2012	10 000	10 063
Commercial paper	Corporacion Andina de Fomento	A+	08/03/2012	25 000	24 979
Commercial paper	Corporacion Andina de Fomento	A+	15/02/2012	25 000	24 989
Commercial paper	Government of Finland	AAA	18/01/2012	15 000	14 998
Commercial paper	Government of New Zealand	AA+	21/06/2012	25 000	24 971
Commercial paper	Kingdom of Sweden	AAA	19/01/2012	25 000	24 999
Certificate of deposit	International Bank for Reconstruction and Development	AAA	12/01/2012	20 000	20 000
Money market fund	Goldman Sachs Funds	AAA	01/01/2012	86 154	86 154
Treasury bill	United States Treasury N/B	AA+	08/03/2012	29 000	29 000
Balance as at 31 December 2011				**754 454**	**759 406**

Note 8
Accounts receivable

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Advisory and reimbursable service receivables	4 399	11 620
Project-related receivables	15 084	26 196
Rental receivables	147	127
Staff advances and other staff receivables	1 932	1 861
Other miscellaneous receivables	5 070	2 912
Total	**26 632**	**42 716**

46. Advisory and reimbursable service receivables amounting to $4.4 million comprise amounts receivable from the Global Fund to Fight AIDS, Tuberculosis and Malaria. The nature of such agreements typically requires UNOPS to perform services prior to invoicing the client and receiving funds.

47. Project-related receivables arise in connection with projects that have incurred expenditure and are awaiting further funding from partners. The reason for the decrease in the project-related receivables balance compared to the biennium 2008-2009 was that receivables originating from the UNWebBuy online procurement tool decreased by $8 million during 2010-2011. UNOPS introduced timelier invoicing, stricter controls and monitoring of project expenditure and accounts receivables, which led to better cash flows.

48. The rental receivables relate to the rent due from tenants which sub-lease office space in the Chrysler Building in New York from UNOPS.

49. Staff advances and other staff receivables relate to salary advances, education grants, rental subsidies, travel and other entitlements.

50. Other miscellaneous receivables includes $4.6 million relating to interest receivable on investments.

Note 9
Inter-fund accounts receivable

51. Inter-fund accounts receivable represent amounts due from other United Nations agencies. UNOPS inter-fund accounts receivable mainly relate to UNOPS incurring project expenditures when implementing projects on behalf of other United Nations agencies.

52. During the biennium 2010-2011, the regular cash settlement of the inter-fund account with UNDP continued, resulting in a significant reduction of the outstanding inter-fund balance and a concomitant increase in UNOPS cash and term deposits (for more details, see note 10). The inter-fund accounts receivable balances at the end of the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

	2010-2011	2008-2009
United Nations Development Programme	–	237 731
United Nations Population Fund	185	411
Other United Nations agencies	703	2 060
Total	**888**	**240 202**

Note 10
Inter-fund accounts payable

53. Inter-fund accounts payable represent amounts due to other United Nations agencies. UNOPS inter-fund accounts payable resulted mainly from amounts owed by UNOPS to other United Nations agencies for services provided by them. At the end of the biennium 2010-2011, almost all of the UNOPS inter-fund accounts payable were with UNDP, as UNOPS made use of UNDP banking services in various field locations to disburse payments on its behalf. The inter-fund accounts payable balance with UNDP is represented mainly with transactions from the month of December 2011, pending cash settlement. The inter-fund accounts payable balances at the end of the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

	2010-2011	2008-2009
United Nations Development Programme	57 819	–
Other United Nations agencies	432	–
Total	**58 251**	**–**

Note 11
Contributions received in advance

54. Contributions received in advance represent the excess of cash received over expenditure incurred on cash-based projects at the end of the biennium 2010-2011.

(Thousands of United States dollars)

	2010-2011	2008-2009
Contributions received in advance	663 631	404 054

55. The 64 per cent increase as at 31 December 2011 compared to 31 December 2009 is attributable to the growth in business relating to the implementation of projects funded by recipient Governments and other cash-based projects. The balance of these contributions as at 31 December 2011 is broken down as follows:

(Thousands of United States dollars)

Contributions received in advance	*2010-2011 amount*	*Percentage*
Contributions received in advance by UNOPS in the final quarter of 2011	148 651	22
Trust funds managed by UNOPS for its clients	193 027	29
Tuberculosis drug procurement project (which stipulated extended and staggered delivery schedules from 12 to 36 months)	17 788	3
Three Diseases Fund project	14 975	2
Other contributions	289 190	44
Total	**663 631**	**100**

Note 12
Unliquidated obligations

56. Unliquidated obligations include liabilities relating to the cost of personnel services received, contracts and purchase orders entered into as at 31 December 2011.

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Unliquidated obligations	144 500	218 797

57. As at 31 December 2011, the unliquidated obligations of $144.5 million represented 13.6 per cent of total 2011 project expenditure compared to 20 per cent, or $218.8 million, of total 2009 project expenditure. The improved management of purchase orders and better control and monitoring of project activities resulted in the reduction of unliquidated obligations.

Note 13
Accounts payable

58. Balances of accounts payable as at the end of the biennium 2010-2011 are as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Payables to staff	126	1 000
Other payables	5 551	7 295
Total	**5 677**	**8 295**

59. Payables to staff comprise mainly of travel advances raised but pending payment.

60. Other payables of $5.6 million relate to regular expenditure transactions incurred with payments pending.

Note 14
Employee benefits

61. End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits, commutation of unused annual leave balances and separation and termination benefits. The liabilities for after-service health insurance, repatriation benefits and unused annual leave balances were computed based on an actuarial valuation carried out by a consulting actuary engaged by the United Nations Secretariat for that purpose.

After-service health insurance: $18.3 million

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

63. The major assumptions used by the actuary to determine the liabilities for after-service health insurance were a discount rate of 4.5 per cent, an inflation rate of 2.5 per cent, health-care escalation rates of 8.4 per cent in the 2010-2011 biennium, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and 6 per cent in 2010-2011, grading down to 4.5 per cent in 2027 and later years for medical plans outside of the United States of America; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. Another factor in the after-service health insurance valuation is the consideration of contributions by all plan participants in determining the organization’s residual liability. Thus, contributions from retirees are deducted from the gross liability and, commencing with the 31 December 2011 valuation, a portion of the contributions from active staff is also deducted to arrive at the organization’s residual liability in accordance with the cost-sharing ratios authorized by the General Assembly.

64. On the basis outlined in paragraph 63, the net present value of UNOPS accrued liability as at 31 December 2011, net of contributions from plan participants, was estimated by actuaries engaged by the United Nations Secretariat at $18.3 million.

65. Based on the assumptions in paragraph 63, it is estimated that the net present value of the liability would increase by 25 per cent or decrease by 19 per cent, respectively, if medical costs were to increase or decrease by 1 per cent, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 29 per cent or decrease by 21 per cent, respectively, if the discount rate were to decrease or increase by 1 per cent, all other assumptions remaining constant.

Repatriation benefits: $3.2 million

66. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are

entitled to a repatriation grant which is based upon length of service, and travel and removal expenses. Those benefits are collectively referred to as repatriation benefits.

67. The major assumptions used by the independent actuary engaged to carry out an evaluation of the benefits were: a discount rate of 4.5 per cent, annual salary increases ranging from 4.5 per cent to 9.1 per cent, based on age and category of staff members; and travel cost increases of 2.5 per cent per annum.

Unused annual leave: $1.4 million

68. Upon end of service, staff members holding fixed-term, permanent or continuing appointments may commute unused annual leave days up to a maximum of 60 working days.

69. The major assumptions used by the actuary engaged to carry out a valuation of unused annual leave days were: a discount rate of 4.5 per cent; and an annual rate of increase in accumulated annual leave balances of 12.5 days in the first three years, 3 days per year in the fourth to fifth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days. The salary is assumed to increase annually at rates ranging from 4.5 per cent to 9.1 per cent, based on the age and category of the staff member.

70. Total employee benefit liabilities relating to after-service health insurance, the repatriation grant and unused annual leave as at 31 December 2011 amounted to $22.9 million and were fully funded.

71. The separation and termination benefits of $3.6 million relate to project staff only.

72. The net end-of-service and post-retirement benefit liabilities as at 31 December 2011 are summarized in the following table:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
After-service health insurance gross obligation	30 825	17 394
Offset from retiree contribution	(12 527)	(6 826)
Net liabilities	**18 298**	**10 568**
Repatriation grant	3 211	4 132
Annual leave	1 355	832
Subtotal	**22 863**	**15 532**
Separation and termination	3 568	1 257
Total	**26 432**	**16 789**

73. At the time of preparation of the present report the General Assembly had not invoked the provision under article 26 relating to actuarial deficiency payments to the United Nations Joint Staff Pension Fund. Hence at present there is no liability on the part of UNOPS to make extraordinary payments to the Pension Fund.

74. UNOPS, in anticipation of the implementation of the International Public Sector Accounting Standards in 2012, obtained an actuarial valuation of end-of-service and post-retirement benefits for project-funded staff. As at 1 January 2012, those benefits amounted to $34.1 million and are made up of $21.6 million for after-service health insurance, $9.6 million for repatriation grants and $2.9 million for unused annual leave.

75. The actuarial valuation was based on the same baseline assumptions used to compute the employee benefit liabilities for all other United Nations agencies as at 31 December 2011. However, UNOPS is engaged in discussions with the actuaries to obtain an actuarial valuation for project-funded staff based on historical data and statistical trends specific to UNOPS.

Note 15
Operational reserves

76. As mentioned in paragraph 24 above, the formula for calculating operational reserve requirements was originally approved by the Executive Board in 2003 and stipulated that the operational reserve should be equivalent to 4 per cent of the rolling average of the combined administrative and project expenditure for the previous three years of operation. Based on this formula, the operational reserve requirement for the biennium ending 31 December 2011 was $48.4 million.

77. Actual UNOPS operational reserves for the biennium ended 31 December 2011 amounted to $63.3 million, about 31 per cent more than the obligatory reserve amount.

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

Note 16
Provisions and write-offs of receivables

79. The changes in provisions and write-offs during the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Opening balance on 1 January 2010	36 320	25 984
Used during the biennium	(12 308)	(11 740)
Increase during the biennium	13 222	22 076
Closing balance on 31 December 2011	**37 234**	**36 320**

80. During the biennium 2010-2011, an amount of $12.3 million was written off against provisions made in previous bienniums or against UNOPS reserves. Write-offs approved during the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

	Amount	*Amount recommended by Headquarters Contract and Property Committee*
Write-offs against provisions made		
Afghanistan: Conservation Corps (project 44057)	14	14
Afghanistan: counter-narcotics criminal justice system (project 44060)	19	19
Afghanistan: emergency custom modernization (project 38222)	85	85
Afghanistan: National Emergency Employment Programme for Rural Access (project 30027)	15	15
Afghanistan: National Emergency Employment Programme for Rural Access (project 30031)	677	677
Afghanistan: National Emergency Employment Programme for Rural Access (project 30032)	80	80
Afghanistan: payment system development (project 30028)	32	32
Afghanistan: support for the Kajakai Gates completion study (project 44551)	304	304
Afghanistan: UNICEF project for rehabilitation and development (project 30015)	164	164
Afghanistan: Women’s dormitory (project 36822)	455	455
Argentina: technical assistance (project 30059)	83	83
Argentina: Educación Nación (project 35141)	388	388
CFC-funded (various projects)	1 220	1 220
DPKO-funded (various projects)	630	630
El Salvador: Proyecto de Desarrollo Rural en la Region Central (project 30245)	28	28
Fight against Poverty and Exclusion in Central America (project 30164)	59	59
GEF overspent projects (various projects)	70	70
GEF overspent projects (various projects)	92	92
GEF overspent projects (various projects)	96	96
ILO-funded (various projects)	269	269
Imprest account-related	(5)	
Iraq: Civil Society Forum (project 40468)	178	178
Iraq: return and reintegration of internally displaced persons (project 37395)	118	118
Jerusalem: write-off due to cash theft	4	4
MSA-funded (various projects)	158	158
Funded by Office for the Coordination of Humanitarian Affairs (various projects)	238	238
Other	3	
Peru: Programa de Fortalecimiento de la Superintendencia Nacional de Administración Tributaria (project 43408)	71	71
Recipient Government-funded (various projects)	122	122
Staff-related receivables	22	
Sudan: funded by Office for the Coordination of Humanitarian Affairs (projects 37804 and 40664)	279	279

	Amount	*Amount recommended by Headquarters Contract and Property Committee*
Switzerland UNOSAT: Earth Observation-based geographic information web service for humanitarian crisis management (project 30526)	836	836
Switzerland: programme of activities in support of the Albanian and refugee population (project 30041)	312	312
Switzerland: project in support of war-torn society (project 37142)	105	105
Syrian Arab Republic: Eastern Region Economic Development Programme (project 42014)	185	185
Travel advance to staff taken hostage	1	
UNAIDS-funded (various projects)	408	408
UNICEF-funded (various projects)	2 016	2 016
WHO-funded (various projects)	627	627
Write-off: Sri Lanka (project 49629)	2	
Subtotal	**10 460**	**10 437**
Other payments against reserve balance		
Merit rewards paid in 2011	1 573	
United Nations Dispute Tribunal judgment	69	
Unrealized foreign exchange losses on UNWebBuy transactions	206	
Subtotal	**1 848**	
Total transactions against provisions/reserve balance	**12 308**	**10 437**

Abbreviations: CFC, Common Fund for Commodities; DPKO, Department of Peacekeeping Operations; GEF, Global Environment Facility; ILO, International Labour Organization; MSA, management service agreement; UNOSAT, Operational Satellite Applications Programme; UNAIDS, Joint United Nations Programme on HIV/AIDS; UNICEF, United Nations Children's Fund; WHO, World Health Organization.

81. Provisions made at the end of the biennium 2010-2011 were as follows:

(Thousands of United States dollars)

Description	*Amount*
Project-related provisions	
Prior to 2004	
Significant provisions within the $1.2 million include the following:	
• $0.2 million: Project 32269, relating to a marine biodiversity project with UNDP	1 214
• $0.3 million: Project 30919, relating to a civil works project	
• $0.4 million: Project 30944, UNDP and Global Environment Facility project, Kenya	

<table>
<tr><th>Description</th><th>Amount</th></tr>
<tr><td>2004-2009
Significant provisions within the $9.6 million include the following:
• $4.3 million: relates to project 33267, Afghanistan secondary roads. This provision resulted from claims made by contractors ($3 million) and the resultant legal fees to settle the matter ($1.3 million)
• $2 million: relates to a fraudulent vendor in the Sudan in connection with project 57994
• $0.5 million: support provided to Government of Peru. Provision relates to dispute with contractor concerning advances (project 56954)
• $0.15 million: support provided to Government of Peru. Provision relates to dispute with contractor (project 57892)
• $0.20 million: claim by Government of Germany concerning project 62699 in Jerusalem
• $0.45 million: European Commission rejected expenses concerning project 60620
• $0.40 million: overspending in United States-funded project in Liberia (project 45860)
• $0.17 million: various fund level balances on UNEP projects
• $0.28 million: relates to late payments to a contractor in a civil works project (project 32050)</td><td>9 562</td></tr>
<tr><td>2010-2011
Significant provisions within the $4.2 million include the following:
• $4.1 million: overspending in election project in Côte d’Ivoire (project 76301)
• $0.1 million: potential rejects regarding project expenditure in 2011</td><td>4 198</td></tr>
<tr><td>UNDP: inter-fund-related (mostly prior to 2007)
The unreconciled difference in the inter-fund account with UNDP as at the end of the biennium 2006-2007 was $40 million. The amount relates to expenditure incurred by UNOPS against projects implemented on behalf of UNDP but rejected when reported. After an extensive analysis and coordination between the finance teams at both organizations, the difference was reduced to $17.2 million and consists of unresolved items dating back to the period 2005-2007 and prior periods. Details of the outstanding balance as at 31 December 2011 are as follows:
• $1.9 million: relates to Afghanistan election projects 30003 and 30386
• $10.9 million: relates to various project expenditures incurred during 2005
• $2.6 million: expenses relating to Afghanistan election project 40105
• $0.8 million: relates to projects dating from 2004 and earlier
• $0.7 million: relates to unreconciled refunds made on various projects in 2007
• $0.2 million: potential rejects regarding project expenditure reported in late 2009</td><td>17 241</td></tr>
<tr><td>Distressed bank in the Sudan and cash losses
In 2009, UNOPS became aware of financial difficulties at the Nile Commercial Bank in the Sudan. As a result, UNOPS has not been able to transfer the remaining balance from its account. UNOPS has made efforts to recover the funds throughout the period 2009-2011 and will continue its efforts in 2012.</td><td>828</td></tr>
<tr><td>Doubtful receivables relating to other United Nations agencies
In 2006, a massive clean-up exercise was undertaken to clear the remaining outstanding balances stemming from the pre-enterprise resource planning modality for settling inter-agency transactions by means of inter-office vouchers. Following that exercise, balances with some agencies have been followed up, settled or written off. Considering the age of the remaining balance and the cost of such a collection process, a provision has been made for the remaining balance.</td><td>1 310</td></tr>
</table>

Description	Amount
Claims from other agencies	
This provision relates to a recent claim from the United Nations Office at Geneva for $0.6 million related to payroll expenses during the period 2001- 2004. The validity of this claim is under investigation by UNOPS.	600
Doubtful staff receivables	
This provision relates to salary advances paid to separated staff going as far back as 2004. They are likely to be declared unrecoverable.	49
Doubtful advances recoverable locally	
This provision relates to advances recoverable locally paid during the period 2005-2007 in the Sudan office. Due to the age of the outstanding amount and the lack of supporting documentation, a provision has been created for the entire outstanding amount.	382
Provision made for payments under the merit rewards and recognition programme.	1 000
General provision relating to prior-year unliquidated obligations	
The unliquidated obligations at the end of 2011 amounted to $140 million. UNOPS created a provision for a possible loss of fees for unliquidated obligation reversals of $0.85 million, based on a conservative estimate of 10 per cent of $140 million and by applying the average management fee earned during 2011.	850
Total provisions as at 31 December 2011	**37 234**

82. Information on the $17.2 million provision made for the outstanding UNDP inter-fund balance is provided in the table above. UNOPS and UNDP have, under the broad oversight of the Office of Legal Affairs, agreed in principle to a mechanism whereby any respective responsibilities in regard to such a balance would be determined by a panel of independent experts, which shall do so in the form of recommendations to the management of the two organizations. UNOPS and UNDP agree to carry out such recommendations promptly. The terms of reference for the mechanism are currently being finalized.

Note 17
Property, plant and equipment

83. The historical cost of fully expended property, plant and equipment as at the end of the biennium 2010-2011 was as follows:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
UNOPS headquarters		
Opening balance	2 970	3 810
Additions during biennium	470	628
Disposals during biennium	(2 311)	(457)
Disposals due to revision of assets threshold	–	(1 011)
Adjustments	(151)	–
Closing balance	**978**	**2 970**

	2010-2011	*2008-2009*
UNOPS regional offices and operations centres		
Opening balance	7 668	6 509
Additions during biennium	2 136	4 541
Disposals during biennium	(310)	(1 968)
Disposals due to revision of assets threshold	–	(1 414)
Adjustments	79	–
Closing balance	**9 573**	**7 668**
Total closing balance	**10 551**	**10 638**

84. Capitalized assets are neither amortized nor depreciated.

85. Of the total capital assets of $10.6 million, $0.1 million of assets were not in use at year end and were identified for disposal. UNOPS follows corporate governance processes for asset write-offs, which are in progress for the $0.1 million in assets identified for disposal.

Note 18
Contingent liabilities

86. Contingent liabilities are potential obligations that may be incurred depending upon the occurrence and outcome of future events. The contingent liabilities as at 31 December 2011 amounted to approximately $13.5 million, an amount which represents management's good faith estimate of the upper limit of the possible financial exposure, inclusive of costs and disbursements in relation to the currently pending litigations and claims.

87. A summary and details of the contingent liabilities according to the assessment of the General Counsel as at the end of the biennium 2010-2011 are provided in the following table:

(Thousands of United States dollars)

Description	*No money due to the claimants as at 31 December 2011*
Project-related claims from contractors	12 761
Staff-related claims	725
Total	**13 486**

Name of entity	*Management's description of matter (including current status and amount claimed)*	*Management's estimate of the financial exposure (inclusive of costs and disbursements)*	*Counsel's assessment*	*Potential financial exposure*
Contractor 1 versus UNOPS	Claim by contractor for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS in 2008. Amount claimed: $573,896.	Potential financial exposure: $573,896 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	574
Contractor 2 versus UNOPS	Claim by contractor for reimbursement for escalation in the price of base construction materials. Status: notice of intent to commence arbitration served to UNOPS in 2008. Amount claimed: $767,448.	Potential financial exposure: $767,448 (subject to the final ruling of the arbitral tribunal) and arbitration-related expenditure to be determined.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	767
Contractor 3 versus UNOPS	Claim by contractor for reimbursement for escalation in the cost of base construction materials. Status: notice of intention to pursue amicable settlement served to UNOPS in 2008. Amount claimed: $264,993.	Potential financial exposure: $264,993 (subject to the final ruling of an arbitral tribunal) and arbitration-related expenditure to be determined.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	265
Contractor 4 versus UNOPS	Claim by contractor for wrongful termination of contract. Status: notice of dispute served to appointing authority in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law. No formal notice since 2007. Amount claimed: $509,994.	Potential financial exposure: $509,994 (subject to the final ruling of the arbitration tribunal) and arbitration-related expenditure to be determined.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	510
Contractor 5 versus UNOPS	A bid protest was sent to UNOPS on 16 April 2008 claiming that UNOPS had awarded a contract in error to a different company. In accordance with the protestor's interpretation, the bid opening report showed an error in price that favoured the other company and made it appear to be the second lowest bidder. Amount claimed: $145,500.	Potential financial exposure: $145,500.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	146
Contractor 6 versus UNOPS	Potential claim. UNOPS cancelled an award to this company for failure to provide a performance guarantee. UNOPS attempted to cash in its bid security. In reply, contractor 6 indicated its intention to seek arbitration. The claimant informed UNOPS of its intention to seek arbitration on 3 September 2008. No formal notice has yet been received.	Potential financial exposure: none specified. Contract value was approximately $4.6 million. Assuming it can be proven that UNOPS was at fault, claimable loss would depend on factors such as whether contractor 6 has found a replacement buyer.	Current assessment is that no money is due to the claimant from UNOPS under the contract.	4 600
Contractor 7 versus UNOPS	Potential claim. The claimant in 2008 indicated possibility of a counterclaim should amicable settlement fail. Amount claimed: $248,824 plus interest plus additional costs (e.g., damage to reputation).	Potential financial exposure: $248,824 plus interest plus additional costs (e.g., damage to reputation).	Current assessment is that no money is due to the claimant from UNOPS under the contract.	300

Name of entity	*Management's description of matter (including current status and amount claimed)*	*Management's estimate of the financial exposure (inclusive of costs and disbursements)*	*Counsel's assessment*	*Potential financial exposure*
Contractor 8 versus UNOPS	The claimant leased equipment to a UNOPS contractor in Afghanistan in 2004 and 2005. The equipment was retained by UNOPS after the expulsion of the contractor from the site for reason of default in 2006, in accordance with the terms of the contract. Claimant has demanded the return of the equipment and/or compensation. UNOPS is no longer in possession of the equipment, which was sold to offset the costs it incurred in completing the construction works, pursuant to negotiated settlement with the contractor. Claimant does not have recourse to arbitration or formal dispute resolution methods as no contractual relationship existed between UNOPS and the claimant. The claimant reiterated the claim in 2009.	Amount of claim not specified.	Current assessment is that no money is due to the claimant from UNOPS.	Not specified
Contractor 9 versus UNOPS	The claim encompasses claims made in 2009 by nine companies in relation to 11 contracts. The claim was submitted to UNOPS as a class action but will be split into individual claims should it reach formal dispute resolution. The claimants argue that they were entitled to the payment of bonuses on their construction contracts, which were not paid to them by UNOPS. The works relate to the secondary roads project implemented in Afghanistan.	Potential financial exposure: $2,178,422.	Current assessment is that no money is due to the claimants from UNOPS under the contracts.	2 178
Contractor 10 versus UNOPS Contractor 11 versus UNOPS (potentially, another claimant against UNOPS could be contractor 12, which insured the export transaction)	Contractor 10 claims that a contract between it and UNOPS (for the supply of electronic and communications equipment in the amount of $84.5 million) was formed on the basis of a document dated 23 April 2006, which was signed by the then UNOPS Country Coordinator for Afghanistan. The review undertaken by UNOPS indicates that the document was not intended to be a binding contract (i.e., no UNOPS project was established for this activity and no approval to sign any such contract was ever sought from the UNOPS contracts committees or Chief Procurement Officer). Contractor 11 financed contractor 10 and appears to be unable to recover money from contractor 10. Moreover, it appears from discussions with contractor 11 that contractor 10 has drawn $67 million against the former's financing, as compared to the full value of the credit	Although contractor 10 appears to claim the full contract value (up to $84.5 million) from UNOPS, documents from contractor 10 indicate that only some $23 million in goods and related services were delivered to the UNOPS warehouse.	Current assessment is that claims are without merit.	Not specified

Name of entity	*Management's description of matter (including current status and amount claimed)*	*Management's estimate of the financial exposure (inclusive of costs and disbursements)*	*Counsel's assessment*	*Potential financial exposure*
	facility ($84.5 million). Contractor 11 claims that contractor 10 and a (then) UNOPS staff member agreed that contractor 11 would be entitled to the money allegedly due from UNOPS under the alleged contract between contractor 10 and UNOPS.			
Contractor 13 versus UNOPS	Three construction contracts of contractor 13 were terminated by UNOPS in 2011 following failure on the part of contractor 13 to complete or execute the works on time. Contractor 13 is now claiming force majeure events (rebel/military attacks in Fizi, Democratic Republic of the Congo) and that wrong data provided by UNOPS in the tender specifications were used as the basis for the contractor's bid.	Potential financial exposure: $3,194,850.	Current assessment is that no money is due from UNOPS.	3 195
Contractor 14 versus UNOPS	UNOPS had a contract with contractor 14 for the delivery and installation of solar panels. Contractor 14 failed to deliver and the contract was terminated in 2011. The contractor claims that the termination was an abuse of right by UNOPS.	Not specified. The total contract price was $847,113.	Current assessment is that no money is due from UNOPS.	Not specified
Contractor 15 versus UNOPS	Contractor 15 brought claims against UNOPS in 2011 for (a) the destruction of the wall of the guard room and damage to some of the machinery, such as the mixer and drilling machine, allegedly occurring in Afghanistan; and (b) expenses incurred due to the suspension of the works.	Potential financial exposure: $74,284.	Current assessment is that no money is due from UNOPS.	74
Contractor 16 versus UNOPS	Contractor 16 is claiming payment of an invoice, under a 2008 contract. As the report submitted by Contractor 16 in 2009 did not meet the requirements set forth in the contract, the payment was not made. Contractor 16 asked for payment in 2011.	Potential financial exposure: $124,720.	Current assessment is that no money is due from UNOPS.	125
Claimant versus UNOPS	The claimant's spouse died in a road accident. UNOPS was carrying out works on the road at the time. No date was specified in the claim notice. The claim does not specify why the claimant considers UNOPS to be at fault, or include any further details.	Potential financial exposure: 3 million Sri Lankan rupees (equivalent to $27,300).	Current assessment is that no money is due from UNOPS.	27
Staff member 1 versus UNOPS	Staff member 1 was in a post that was abolished in early 2007. The staff member applied for a particular post but was not selected. The staff member filed an appeal with the United Nations Dispute Tribunal, which decided in the staff member's favour, and awarded compensation. After the case, the staff member claimed (in 2011) that he was also entitled to	Assuming that the staff member's recourse to the United Nations Dispute Tribunal is successful, the potential financial exposure could be up to $135,000.	Current assessment is that the staff member's claims are without merit.	135

Name of entity	*Management's description of matter (including current status and amount claimed)*	*Management's estimate of the financial exposure (inclusive of costs and disbursements)*	*Counsel's assessment*	*Potential financial exposure*
	termination indemnity (in addition to the compensation awarded by the United Nations Dispute Tribunal). Staff member 1 has now filed another claim with the Tribunal.			
Staff member 2 versus UNOPS	Staff member 2 served with UNOPS during two separate periods (1997-2002 and 2003-2007). The staff member filed an appeal with the United Nations Joint Appeals Board claiming that his separation benefits should have been calculated on the basis of continuous service from 1997 to 2007. Staff member 2 also sought to take home leave shortly before his separation. UNOPS informed the staff member that he was not entitled to home leave under UNOPS rules because he was due to be separated from service soon thereafter. Staff member 2 included this claim in his appeal. The case has been transferred to the United Nations Dispute Tribunal.	Assuming that the staff member's recourse to the United Nations Dispute Tribunal is successful, the potential financial exposure could be up to $90,000.	Current assessment is that the staff member's claims are without merit.	90
Staff member 3 versus UNOPS	Staff member 3 was the UNOPS Director. Her 2010 performance was appraised as only partially meeting expectations. Her contract was not renewed and she filed a claim with the United Nations Dispute Tribunal.	Assuming that the staff member's recourse to the United Nations Dispute Tribunal is successful, the potential financial exposure could be up to $500,000.	Current assessment is that the staff member's claims are without merit. Even assuming that the claim has merit, the amount sought by the staff member exceeds by far the amounts calculated using principles established by both the United Nations Dispute Tribunal and United Nations Appeals Tribunal.	500

Note 19
Lease agreement

88. The lease agreement for the Chrysler Building in New York expires on 31 December 2014. The lease amount is set at $1.9 million per year for the remainder of the lease period (three years).

89. UNOPS has provided the lessor with a letter of credit for $3.0 million, issued by the Europe Arab Bank and valid until 30 April 2015.

90. The total outstanding liability relating to this lease agreement as at 31 December 2011 was $5.7 million.

Note 20
Contributions in kind

91. Contributions in kind for the biennium 2010-2011 amounted to $4.38 million, comprising estimated market rental value of office space provided by the Government of Denmark ($4.35 million), and free warehouse space in Sri Lanka, free usage of two mobile storage units and in-kind engineering advice ($0.03 million).

Note 21
Budgetary performance

92. As reported in schedule 2, the final budget for the biennium 2010-2011 was $147.9 million. The actual expenditure during the same period was $141.5 million. The budget originally approved by the Executive Board for the biennium was $135.2 million. For further information on the approval and subsequent amendment of the biennial administrative budget, see paragraph 25 above.

93. The budget proposals for the biennium 2010-2011 underpin the objectives of the UNOPS strategic plan, 2010-2013 (DP/2009/36) and the format and framework of the UNOPS budget are in line with the harmonized results-based-budget approach of UNDP, UNFPA and UNICEF. The balanced scorecard is the central management tool used to drive improved performance and organizational maturity at all levels of the organization. Accordingly, the management results framework of the 2010-2013 strategic plan is structured around the four perspectives of the UNOPS balanced scorecard: partner, business process, people and financial. A refined management results framework was endorsed by the Executive Board in the context of the UNOPS budget estimates for the biennium 2012-2013.

94. UNOPS reports on both operational and management results in conjunction with the annual report of the Executive Director, which is reviewed by the Executive Board at its annual session.

Note 22
Ex gratia payments

95. During the biennium ended 31 December 2011, no ex gratia payments were made, as was the case for the biennium ended 31 December 2009.

Note 23
Cash flow statement

96. Cash flow from operational activities increased by $131.4 million during the biennium 2010-2011 compared to the previous biennium. As explained in note 7, the two main contributing factors were the growth in business from cash-based projects and changes in the modality for the cash settlement of inter-fund balances with UNDP.

Note 24
Disclosure of related parties and compensation of executive and other key management personnel

97. The following table provides information on the aggregate remuneration paid to executive management personnel:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Number of individuals	2	2
Base compensation and post adjustments	905	838
Entitlements	131	109
Pension and health plans	173	157
Total remuneration	**1 209**	**1 104**
Outstanding advances against entitlements	25	15
Outstanding loans	–	–

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

99. The aggregate remuneration paid to the executive management personnel includes net salaries, post adjustment and entitlements, such as representation allowance, rental subsidy, relocation grant and employer pension and health insurance contributions.

100. Advances against entitlements may be made to executive management personnel in accordance with the Staff Regulations and Rules of the United Nations.

101. Executive management personnel are eligible for post-retirement benefits, in accordance with the rules applying to staff members (see note 14). As the actuarial valuation at the end of the biennium 2010-2011 provides information on these benefits at an aggregate rather than an individual staff level, it is not possible to reliably quantify the net present value of these benefits in relation to the executive management personnel only.

102. The executive management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

103. During the biennium 2010-2011, executive management personnel were not in receipt of any payments under the UNOPS merit recognition, rewards and sanction policy.

104. The following table provides information on the aggregate remuneration paid to the other key management personnel:

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Number of individuals (average)	13	13
Base compensation and post adjustments	4 354	2 836
Entitlements	1 052	901
Pension and health plans	923	594
Total remuneration	**6 329**	**4 331**
Outstanding advances against entitlements	54	74
Outstanding loans	–	–

105. Other key management personnel include regional directors and directors at headquarters. Their aggregate remuneration comprises the same payroll components described in paragraph 99 above.

106. Advances against entitlements that may be made to other key management personnel are in accordance with the Staff Regulations and Rules of the United Nations and hence are on terms and conditions which are no more or no less favourable than those that UNOPS offers to other personnel.

107. The increase in the remuneration of other key management personnel largely resulted from a reclassification of posts that was processed during 2010. In addition, remuneration-related expenditure during 2009 was lower owing to several vacancies that were filled towards the end of the year.

108. Other key management personnel are eligible for post-retirement benefits, as described in paragraph 101 above.

109. Other key management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

110. During the biennium 2010-2011, other key management personnel were in receipt of merit reward payments totalling $31,710.

111. During the biennium 2010-2011, there were no known instances of executive or other key management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 25
UNOPS recognition, rewards and sanctions policy

(Thousands of United States dollars)

	2010-2011	*2008-2009*
Provision for recognition rewards	1 000	–

112. During 2011, the UNOPS recognition, rewards and sanctions policy was implemented on a pilot basis; the policy is fully supported by the International Civil Service Commission. In 2011, UNOPS made merit reward payments to personnel amounting to $1.57 million for their performance in 2010. The policy applies to UNOPS personnel who work directly for UNOPS and whose performance is managed by it.

113. The aims of the UNOPS recognition, rewards and sanctions policy are as follows:

(a) To enable managers to recognize and reward excellent performance;

(b) To reward both individual and team contributions;

(c) To support an organizational culture of innovation and entrepreneurial spirit;

(d) To promote and reinforce UNOPS core values;

(e) To focus all personnel on UNOPS business targets;

(f) To reinforce UNOPS performance management with meaningful and relevant consequences.

114. The merit reward payments are capped at 20 per cent of UNOPS net revenue after taking into account all provisions (excluding the provision for reward payment). In addition, reward payments to any member of personnel may not exceed 10 per cent of the relevant salary reference point. An amount of $1 million has been provided for the payment of merit recognition rewards during 2012.

Note 26
Events after reporting date

115. As of the date of signature of the UNOPS financial statements and the related notes for the biennium ended 31 December 2011, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements were authorized for issue that would have impacted those statements.

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