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United Nations Office for Project Services

Financial report and audited financial statements

for the year ended 31 December 2013

and

Report of the Board of Auditors

United Nations • New York, 2014

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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Letters of transmittal and certification

Letter dated 22 May 2014 from the Executive Director and the Chief Financial Officer and Comptroller of the United Nations Office for Project Services addressed to the Chair of the Board of Auditors

The United Nations Office for Project Services (UNOPS) hereby submits its audited annual financial statements for the year ended 31 December 2013.

We acknowledge that:

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

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

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

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

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Office for Project Services for the year ended 31 December 2013.

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

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2013, which comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets, the statement of cash flows, the statement of comparison of budget and actual amounts and the notes to the financial statements.

Responsibility of management for the financial statements

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

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements 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 as to whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2013 and the financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

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

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

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

(*Signed*) **Liu** Jiayi
Auditor General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the United Republic of Tanzania

30 June 2014

Chapter II

Long-form report of the Board of Auditors

Activity of the United Nations Office for Project Services in 2013: key facts

1,500	Number of active projects
60	Countries of operation
6,000 staff	Employed by UNOPS
$1.2 billion	Overall project delivery in the amount of $717.1 million as the principal and $438.2 million delivered on behalf of other organizations
$14.7 million	Revenue surplus
$82.8 million	Operational reserves at 31 December 2013
$749 million	Goods and services procured
4.7 per cent	UNOPS share of United Nations procurement
$73 million	Goods procured by UNWebBuy users

Summary

Background

1. The United Nations Office for Project Services (UNOPS) provides management services that contribute to United Nations system peacebuilding, humanitarian and development operations. UNOPS is dependent on fees generated from providing project services and operates through three delivery practices: project management, procurement and infrastructure.

2. The UNOPS 2014-2017 strategy was designed to improve the organization's efficiency, increase its focus and ensure that it paid greater attention to sustainability. In 2013, UNOPS delivery amounted to $1.2 billion, representing a 17 per cent increase over the previous year. The total comprised $717.1 million for projects where UNOPS acted as the principal and $438.2 million for projects delivered on behalf of other organizations.

3. The Board of Auditors audited the financial statements and reviewed the operations of UNOPS for the year ended 31 December 2013, in accordance with General Assembly resolution 74 (I). The audit was carried out by examining the financial transactions and operations carried out at UNOPS headquarters in Copenhagen. In order to review field operations, including local procurement and financial management practices, the Board also undertook visits to the country offices in Haiti and South Sudan. Project delivery by those offices totalled $111 million in 2013, or approximately 10 per cent of UNOPS total delivery.

Scope

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and have been discussed with UNOPS management, whose views have been appropriately reflected. Annex I to the present report sets out the mandate, scope and methodology of the Board in full.

5. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of UNOPS as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). 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.

6. The Board also reviewed UNOPS operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The present report considers the adequacy of UNOPS financial and risk management, its procurement activity and health and safety issues regarding its construction sites.

Audit opinion

7. The Board issued an unmodified audit opinion on the financial statement of UNOPS for the year ended 31 December 2013. The Board's opinion is set out in chapter I.

Key findings

Financial management

8. **In recent years, UNOPS has invested in new financial management systems that offer a modern and flexible platform for providing key management information. However, exploitation of the potential benefits and efficiencies offered by the infrastructure is weak.** For example, analysis of variance from expected performance is superficial, and many users believe the information generated is inaccurate owing to the failure to incorporate full accrual information. As a consequence of that and other limitations, the country offices visited by the Board preferred to rely upon local spreadsheet systems rather than the corporate management workspace system. Proposed substantial future investments in financial management systems provide an opportunity for UNOPS to address the weaknesses. UNOPS informed the Board that it had enhanced accrual accounting procedures for 2014, with a view to providing a more complete picture of project expenditures and implementation revenue.

9. **Following a review of project costing, UNOPS concluded that 25 per cent of its projects were most likely to have been underpriced, and a new pricing model designed to distribute and recover indirect costs more fairly across projects was therefore introduced in July 2013.** However, in certain circumstances and with the approval of the Engagement Acceptance Committee, country offices may accept projects in which costs are under-recovered and in which some costs are defrayed against other headings such as management expenses. This approach may lead to a lack of transparency and inconsistency in project pricing if not carefully controlled.

10. **At 31 December 2013, operating reserves were $82.8 million, four times higher than the minimum level of $20.2 million set by the Executive Board.** The significant level of undesignated reserves provides UNOPS the opportunity to make further strategic investments or to modify future financial targets and pricing strategies.

Risk management

11. **UNOPS policy on risk management provides a theoretical framework for a reliable risk management system; however, it does not establish clear procedures for implementing enterprise risk management.** Effective risk management provides a systematic approach to assessing and acting on risks to ensure that organizational objectives are achieved. UNOPS risk appetite, risk escalation and risk ownership procedures are not well defined. These gaps were acknowledged by management, and UNOPS is currently preparing a revised entity risk management directive and corporate risk registers to help assess and monitor the risks to achieving its objectives.

Procurement

12. **Procurement is a vital component of UNOPS delivery, both “transactional” procurement and procurement within projects. The value of goods and services procured has declined to $749 million in 2013 from a peak of $1,015 million in 2010 and the UNOPS share of the United Nations system’s total procurement stood at 4.7 per cent in 2013, which is down from 7.0 per cent in 2010.** The main factor underlying this decline was UNOPS losing over $300 million of business in Argentina and Peru, following regulatory changes. UNOPS also considered that it needed to communicate better the added value of its procurement services and differentiate its offering in the context of other competitors. Its new procurement strategy aims to expand its procurement business and develop its role as a provider of procurement services within the United Nations system, by strengthening its processes and organization.

13. **In June 2013, UNOPS introduced a balanced scorecard to measure the performance of its headquarters procurement group, and to some extent the performance of the rest of its performance business. UNOPS performance against the targets has so far been mixed, and some components of the scorecard are not yet measurable.** While the scorecard is useful, the Board noted that UNOPS does not carry out systematic price benchmarking and has only limited information to demonstrate the value for money of its procurement services compared to competitors. UNOPS explained that it had not carried out such benchmarking owing to difficulties in obtaining relevant price data, given the nature and location of the work. It agreed that for some commodities price benchmarking would help in strengthening UNOPS communications on how it assures value for money.

14. **UNOPS demonstrates a number of the characteristics of a modern procurement system, and it has obtained a certificate of sustainable procurement at the silver level from the Chartered Institute of Purchasing and Supply.** However, there remains scope to improve its governance arrangements, procurement staffing, information technology support systems and performance framework. UNOPS has recognized this and is engaged in ongoing actions to strengthen its procurement organization in those areas.

Overall conclusion

15. UNOPS has successfully implemented accrual accounting for annual financial reporting and has invested in modern information systems in recent years. However, the benefits of those initiatives are not being fully realized and are embedded in core business practices such as planning, budgeting, project costing and performance monitoring. As a service organization, understanding costs and their accurate allocation to projects is fundamental to the pricing of work. While the break-even objective has been pursued, it has not been effectively translated into detailed policies and procedures at the country or project levels, where there remains scope for projects to under-recover or reallocate costs. Transparency on project costing is vital to UNOPS understanding of the full cost of operations and for customers.

16. While UNOPS is improving the ways in which it manages procurement activity (both transactional procurement and procurement within projects), it needs to do more to place price competitiveness and value added at the core of its strategy if it is to expand its procurement business. Although UNOPS has the building blocks of a strong procurement function in place, it needs enhanced information to demonstrate

that it provides value for money — it lacks sufficient key data to benchmark its results in terms of the price and quality of the services it provides, compared with other United Nations entities. UNOPS considers that such benchmarking would need to be carried out by an entity with a remit that extends beyond one United Nations organization, such as the Office of Internal Oversight Services or the Joint Inspection Unit.

Recommendations

17. The detailed recommendations of the Board are included throughout the report. UNOPS informed the Board that it had accepted all of the recommendations. The main recommendations are that UNOPS:

(a) **Prepare reports on financial, performance and risk management that include a full analysis and explanation of significant variances;**

(b) **Critically review its accrual accounting treatment and closure procedures in order to ensure that financial information is available in real time in the management workspace system and continue to enhance the system to meet the needs of country offices;**

(c) **Review its operational reserves policy and establish, with the approval of its Executive Board, plans for the use of surplus reserve balances;**

(d) **Implement risk management strategies, policies and procedures across UNOPS at the corporate and project levels without further delay;**

(e) **Strengthen its procurement performance information, including the value added by its procurement function, and refine the set of targets to be included in a procurement scorecard;**

(f) **Carry out structured and regular benchmarking exercises, where feasible, of the prices that it obtains.**

Previous recommendations

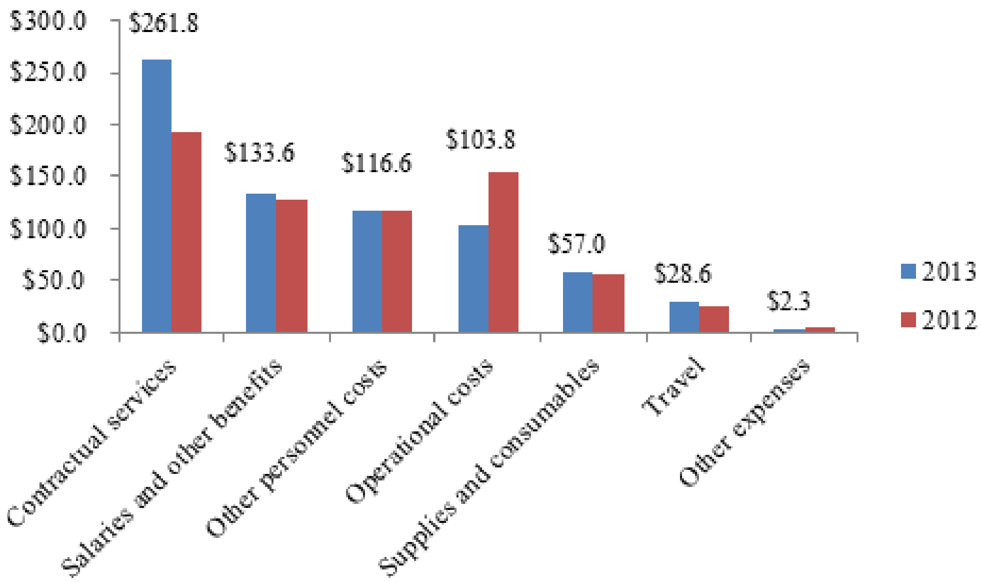
18. As at 31 March 2014, of the 28 recommendations made for 2012 and earlier, 11 (39 per cent) had been implemented, 14 (50 per cent) remained under implementation and 3 (11 per cent) had not been implemented. While the Board recognizes some positive progress, at the time of our audit in May 2014, there was very little action to actively manage fraud risks across UNOPS. Subsequently, UNOPS informed the Board that it had appointed a Senior Risk Officer to coordinate the assessment and continuous improvement of procedures and tools for risk management, particularly with regard to potential fraud and the achievement of the organization’s management results. Annex II to the present report contains a detailed commentary on the status of previous recommendations.

A. Financial matters

Financial overview

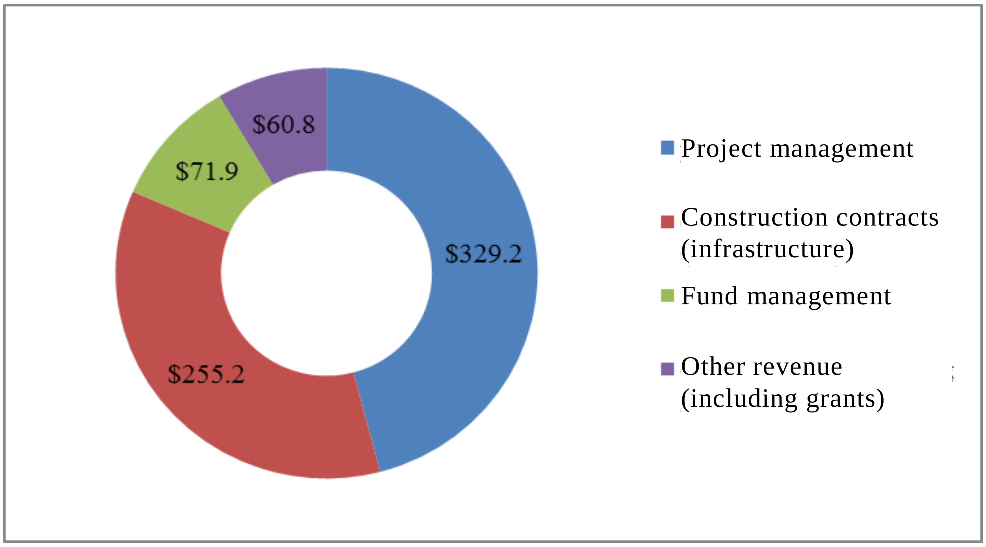
1. UNOPS reported a surplus of $14.7 million in 2013 (2012: $8.2 million). Expenses totalled $703.7 million (compared with $676.6 million in 2012) as shown in figure I below. Of the total revenue of $717.1 million (compared with $683.2 million in 2012), almost half (47 per cent), as in 2012, was related to project management services and a further $255.2 million (37 per cent) was generated from construction contracts (compared with $253.8 million in 2012) (see figure II). UNOPS reported interest income of $1.2 million (compared with $1.6 million in 2012) separately.

Figure I
Expenses of the United Nations Office for Project Services, 2013
(Millions of United States dollars)



Source: UNOPS 2013 financial statements.

Figure II
Revenue of the United Nations Office for Project Services, 2013
(Millions of United States dollars)



Source: UNOPS 2013 financial statements.

2. At 31 December 2013, UNOPS held total cash and investments of $1,014 million (compared with $1,258 million in 2012). Funding is usually received in advance of activities, and at 31 December 2013 UNOPS held advances from project sponsors in the amount of $826.7 million (compared with $862.0 million in 2012), including $470.6 million classified as deferred revenue. That is equivalent to total delivery for nine months, and shows that the financial position of UNOPS is solid, with an agreed forward-looking programme of work. This is also illustrated by financial indicators (see table 1) that remain broadly consistent over time and demonstrate that UNOPS has sufficient assets to cover both its immediate and longer-term liabilities. The statement of the Executive Director provides a more comprehensive analysis of UNOPS results in 2013.

Table 1
Financial ratios

Description of ratio	*31 December 2013*	*31 December 2012*	*1 January 2012*
Current ratio[a]			
Current assets: current liabilities	0.73	0.79	0.86
Total assets: total liabilities[b]			
Assets: liabilities	1.08	1.05	1.03
Cash ratio[c]			
Cash and short-term investments: current liabilities	1.09	1.05	1.04
Quick ratio[d]			
Cash, investments and accounts receivable: total liabilities	1.07	1.04	1.02

Source: UNOPS 2013 financial statements.

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

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

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

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

Financial management

3. UNOPS is a self-financing body, and reliable and timely financial information is therefore critical to the organization in respect of maintaining financial stability and achieving performance targets. UNOPS has modernized its financial practices over recent years, including by upgrading its core management information system, the management workspace system. In 2012, UNOPS developed plans to invest a further $15.5 million in its:

(a) Service delivery model by refining its costing and pricing methodology and enhancing its catalogue of transactional services available to customers;

(b) Pursuit of excellence through accreditation (for example, the International Organization for Standardization (ISO) 14001 environmental management standard);

(c) Enabling systems, through the development of a new enterprise resource planning system.

4. UNOPS also commissioned an external review by the European Foundation for Quality Management in June 2013. UNOPS informed the Board that it was the first organization to receive a four-star level rating at an initial assessment. The assessment report indicated areas for improvement in the monitoring of results. The Board examined the quality of management information available to UNOPS senior management and how effectively it is used to manage performance.

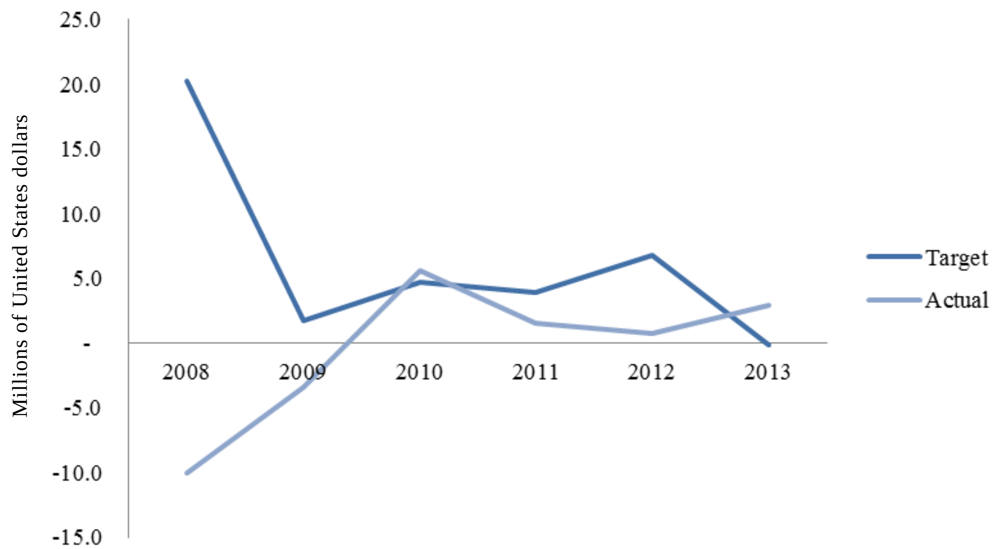
Performance monitoring

5. The management workspace is central to UNOPS performance, assurance and risk management systems. It is a modern online information system that draws data

together from multiple sources across the organization. Key components of the system are the “red/amber/green” visual dashboards used to report quarterly performance against key performance indicators and assurance ratings.

6. The key performance indicators are agreed upon with business units each year on the basis of past performance and are monitored on a real-time basis. They include net revenue,[1] business acquisition[2] and recovery rates on implementation services.[3] UNOPS has reported variable performance against its net revenue targets in recent years. Over the period 2008-2013 (see figure III), UNOPS underperformed against targets in 2008 and 2009, but has since significantly improved its financial performance and increased its operational reserve from $25 million to $82.8 million. Since 2009, UNOPS has also set challenging net revenue targets equivalent to 1.0 per cent, or less, of its planned total delivery and has generally been successful in achieving them.

Figure III
Net revenue



Source: UNOPS management workspace.
Note: The net revenue for 2013 per management workspace system was $2.92 million. The reported financial statements surplus was $14.7 million.

7. UNOPS profiled delivery of its $1.1 billion programme of work evenly across the year; however, while it achieved the overall target delivery rate (99 per cent), the reported monthly performance varied considerably. Approximately 20 per cent of annual activity was delivered in December 2013. The uneven performance across the year reflected a combination of significant factors, including donor demand and the timing of staff annual leave.

[1] Net engagement revenue less management expense (management expenses are indirect costs incurred in the management and administration of the organization).
[2] Total delivery value of new and extended agreements signed (total expenses, agency cash outflows and management fees).
[3] Delivery over management expenses.

8. The reasons for the variances were not, however, fully analysed or documented. In the first quarter of 2013, for example, delivery was 30 per cent below target and the performance report simply stated that this might indicate that goods and services receipts had not been booked in a timely manner. The absence of meaningful analysis and of an explanation in respect of major variances has severely limited the usefulness of the performance reports examined since senior management cannot take fully informed decisions on corrective action required.

9. **With a view to supporting enhanced accountability and informed decision-making, the Board recommends that UNOPS prepare reports on financial, performance and risk management that include a full analysis and explanation of significant variances.**

10. In the country offices visited, local staff did not have confidence in the management workspace system and preferred to use local spreadsheets to monitor financial targets and budgets. The local monitoring tools contained little or no narrative on performance, were not consistent with management workspace system information and could not be aggregated to provide meaningful explanations of performance across UNOPS as a whole. Data held on such spreadsheets are also less secure and more prone to error and inconsistencies in the way that they are used by individual offices. Maintaining local parallel systems undermines the credibility of the management workspace system and is an unnecessarily costly and inefficient use of resources.

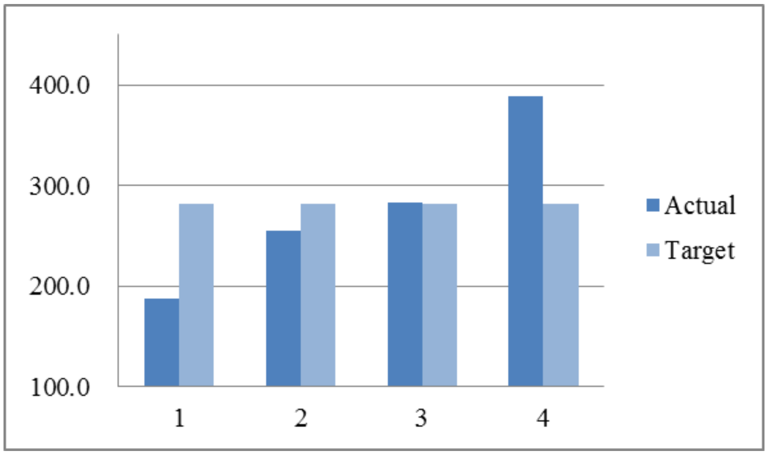
11. UNOPS has determined that the core reason for the use of local performance and financial monitoring tools was its quarterly closure procedures, which UNOPS informed the Board had been partially addressed through changes made to the period closure procedures as from May 2014, and should be fully addressed in the design of the new enterprise resource planning system, in which accruals and fees would be accounted for upon approval of the relevant transaction.

12. **In developing the new enterprise resource planning solution, the Board recommends that UNOPS critically review its accrual accounting treatment and closure procedures to ensure that financial information is available in real time in the management workspace system. In the meantime, the Board recommends that UNOPS continue to enhance the system so that it meets the needs of country offices.**

Performance targets

13. Over the past three years senior management agreed upon annual performance targets with business units in June. Monitoring performance against targets was therefore not carried out in the first six months of the year. In order to facilitate timely performance management, targets need to be agreed by the start of the year and subsequently revised, where necessary. As noted, UNOPS targets assume that delivery will follow a regular linear pattern across the year. Historical performance does not support that assumption, and the target is therefore not credible or useful for measuring actual performance. In South Sudan, for example, seasonal variations in construction work are inevitable because of the rainy season. Other factors such as client budgets and funding cycles also influence delivery. Corporate performance against the 2013 quarterly delivery targets is shown in figure IV.

Figure IV
Quarterly delivery, 2013
(Millions of United States dollars)



Source: UNOPS management workspace.

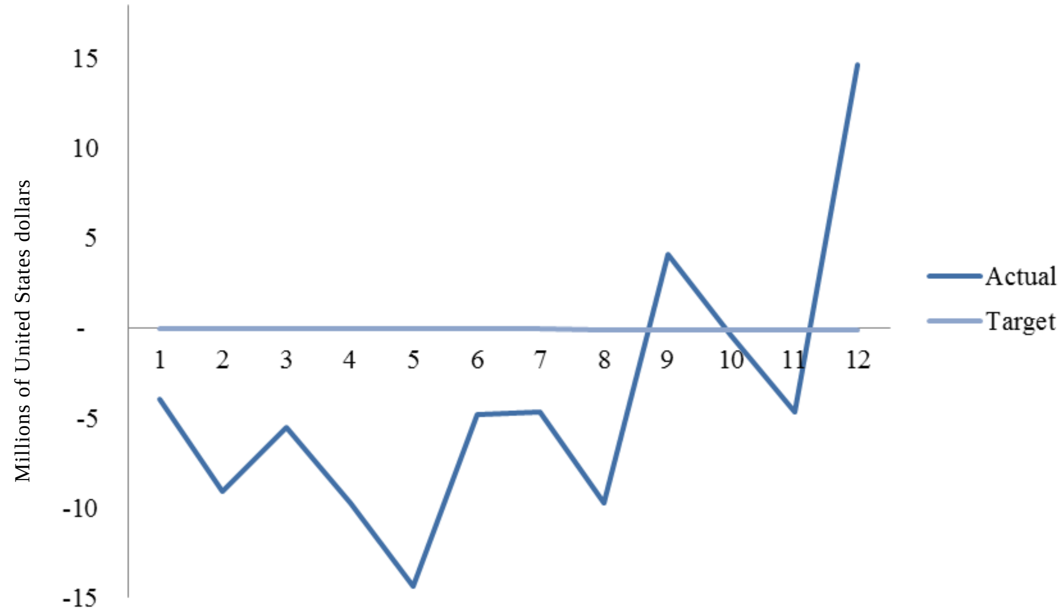
14. **The Board recommends that UNOPS develop a more realistic delivery forecast based on historical trends and known factors, such as seasonal variations, to support more effective management of delivery during the year.**

Financial management information

15. IPSAS accrual-based financial information provides an opportunity to establish and report on the full costs of operations to support improved decision-making and enhanced financial management. Although UNOPS successfully implemented IPSAS in 2012, the quarterly and annual financial reporting processes do not support real-time reporting of the financial position of UNOPS. Full accrual accounting information is only recorded annually to meet corporate financial reporting requirements, and partial accrual accounts are prepared only quarterly.

16. The effect of the quarterly accrual updates on reported performance is shown in figure V, where four performance peaks are clearly visible (March, June, September and December). The distortions in reported performance would be avoided if the accounting system contained full accrual information.

Figure V
Net revenue of the United Nations Office for Project Services, by month in 2013



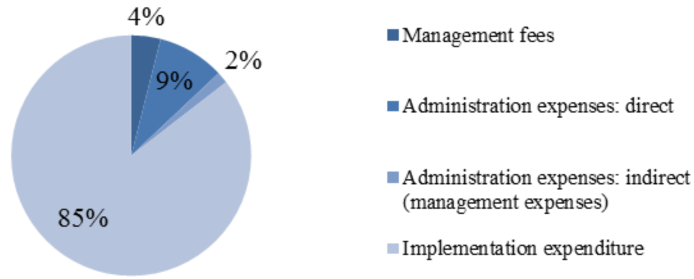
Source: UNOPS management workspace.

Administration costs

17. The 2012 partner survey reported that 38 per cent of partners thought UNOPS provided cost-effective service. While acknowledging that cost-effectiveness is not the only criterion against which to assess UNOPS and while recognizing that such assessments are often subjective and may reflect unrealistic expectations, the survey highlights the importance of ensuring that UNOPS and its partners understand the full costs of their activities.

18. However, comprehensive information on costs is not currently available and UNOPS does not always separate the elements that comprise programme costs from direct administrative expenses charged to projects, such as office rent, accounting and other support services. Indirect administrative expenses ("management expenses"), are monitored, but administrative costs may be treated inconsistently. Although the Haiti operations centre used activity codes to monitor administration costs (see figure VI), such a practice is not consistently adopted.

Figure VI
Haiti, financial performance, 2013



Source: UNOPS accounting records.

Operating reserves

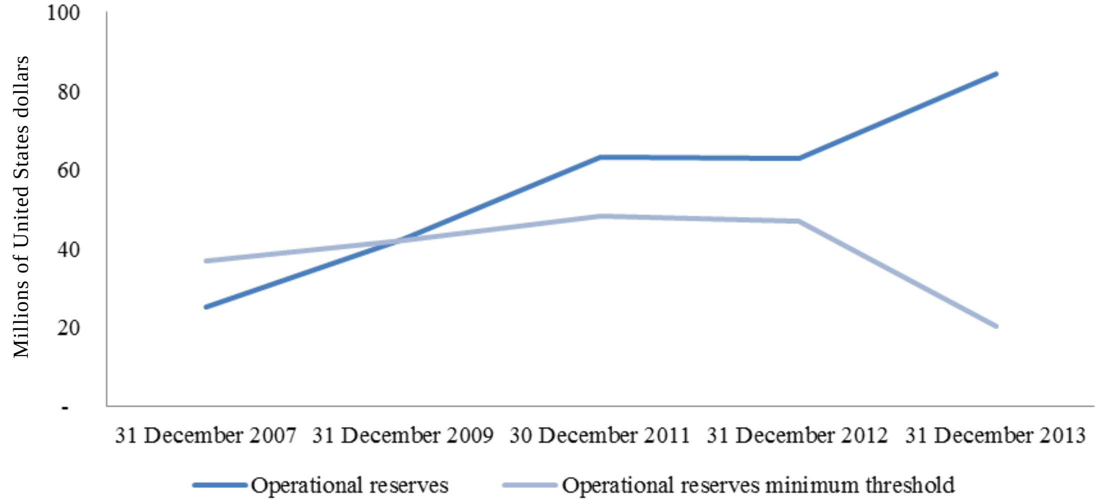
19. UNOPS operates on the basis of full-cost recovery[4] and sets its management fees accordingly. The Executive Board approved a minimum threshold for UNOPS operational reserves, and in January 2014[5] it approved an operational reserve level equivalent to four months of the average of the expenses of the previous three years under its management budget. The purpose of the reserve is to assure the financial viability of UNOPS as a going concern.

20. In its fourth quarter performance statement, UNOPS reported a sound financial base that enables UNOPS to make further long-term strategic investments. That result is supported by a review of reserve movements which show that, since 2009, UNOPS has significantly grown its reserves. As at 31 December 2013, UNOPS reserves had reached $82.8 million, four times higher than the minimum level of $20.2 million set by the Executive Board (see figure VII). While that total includes actuarial gains of $26.5 million, UNOPS has now built up significant levels of undesignated reserves that are far in excess of the minimum level required.

21. **The Board recommends that UNOPS review its operational reserves policy and establish, with the approval of its Executive Board, plans for the use of surplus reserve balances.**

[4] UNOPS financial regulations and rules, rule 9.01.
[5] DP/2014/2.

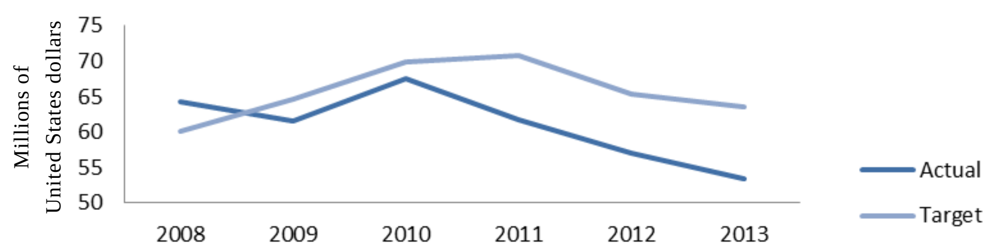
Figure VII
Growth in the reserves of the United Nations Office for Project Services, 2007-2013



Source: UNOPS financial statements.

22. In 2013, UNOPS planned to hold reserves at the 2012 level through a "break-even" net revenue target. In practice, UNOPS reported an overall surplus of $14.7 million; nonetheless, 22 out of its 43 operational units did not meet their revenue targets. A net underspend of $10 million (15 per cent) of management expenses (see figure VIII) contributed significantly to the surplus. While UNOPS ascribes the overall variance to a mixture of prudence among senior managers at its headquarters and savings identified in the field to achieve revenue targets, it does not analyse individual variances during the year to establish whether the initial budgets were realistic or whether real cost savings were being achieved. Furthermore, UNOPS does not believe any patterns would emerge that would inform planning.

Figure VIII
Management expenses of the United Nations Office for Project Services, 2008-2013

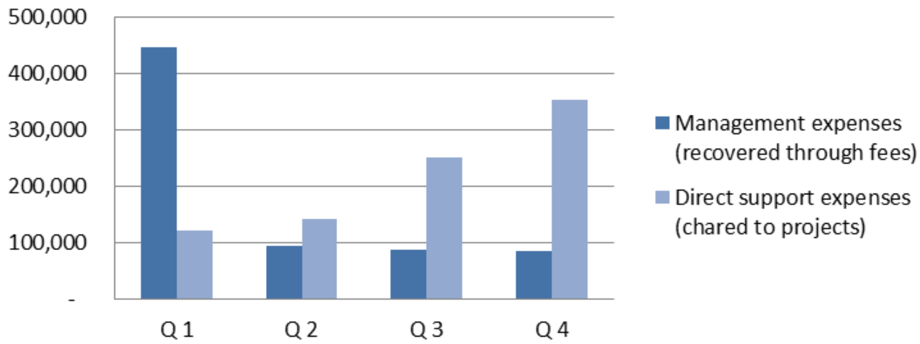


Source: UNOPS management workspace.

23. An analysis of management expenses shows that significant underspends were recorded in the Latin America and Caribbean region. The reported underspends were largely due to the re-classification of administrative costs from "management

expenses" to "direct support costs", rather than any real reduction in the total administration costs. UNOPS reported that with increasing operational and organizational maturity, it is now able to recognize more direct costs and charge those costs where appropriate. This is illustrated in the case of Peru (see figure IX). Without a consequential decrease in management expenses, such practices could lead to an increase in the amounts recovered from donors.

Figure IX
Peru quarterly expenses, 2013
(United States dollars)



Source: Board of Auditors analysis of quarterly expenses.

Project costing and fees

24. Until 2013, a flat rate fee (usually 7 per cent) was charged on projects designed to recover management expenses rather than aiming for full-cost recovery in respect of individual projects. Following a review of project costing, UNOPS estimated that 25 per cent of its projects were most likely to have been underpriced. A new pricing model designed to distribute and recover indirect costs more fairly across projects was therefore introduced in July 2013.

25. Under the new pricing model, while every project should operate on the basis of a full-cost recovery, with the approval of the Engagement Acceptance Committee, offices would be able to accept projects that did not fully recover costs, for example, to generate future business opportunities, and any revenue shortfalls could be met from the management expenses budget of the local offices. However, unless UNOPS maintains detailed records of the elements of the project costs transferred to management expenses, the full costs of individual projects will still not be known. UNOPS will therefore lose track of the scale of the losses incurred in respect of its projects.

26. **In developing the new enterprise resource planning solution, the Board recommends that UNOPS take the opportunity to ensure that the full cost of projects can be tracked, including any costs charged to management expenses. UNOPS should regularly review this information to ensure that project recovery rates remain acceptable.**

Performance and risk management

27. Quarterly assurance reports rated red/amber/green are available in the UNOPS management workspace system for each activity and each office involved in

financial, risk and performance management. The ratings cover aspects of financial, risk and performance management and are supported by a checklist of six questions. UNOPS monitors the submission of the quarterly assurance reports. The compliance rates have been high across the organization.

28. The Board reviewed the quality of the assurance reports for 23 operational offices and found that there was limited justification to support the overall assurance ratings provided. The reports did not reference other relevant performance information and were often inconsistent with other data such as performance ratings based on key performance indicators. Consequently, the assurance reports did not provide a reliable basis for explaining performance or for supporting decision-making. For example, the Board's review identified six country offices with green or amber ratings in respect of assurance reports on finance issues, but with red ratings in the management workspace system financial dashboard.

29. UNOPS informed the Board that the assurance ratings take into account a broader range of factors, including the judgement of the manager on the ground in determining the status of specific engagements. While UNOPS considers that the assurance ratings provided by managers may be more realistic than the automated assessment generated within the management workspace system, there is a need to ensure that the overall assurance ratings are fully supported and that differences with the system are fully explained.

Risk management

Risk management framework

30. UNOPS implements approximately 1,500 projects in some 60 countries and faces a wide range of strategic and operational risks. In that environment, delivering a programme of activity worth $1 billion on a break-even basis allows only a very small margin for error. The risk management framework establishes the general principles of risk management, including defining the categories of risk, ownership and the related management processes. It also recognizes the importance of the engagement of the Executive Board in the risk management process.

31. An organizational directive No. 27 establishes the policy and framework on internal control and risk management. It identifies many of the expected components of a risk management system, but does not establish formal procedures for implementing risk management in practice. The document also fails to address issues such as "risk appetite", how to escalate risks, how risk ownership will be determined or how risk registers will be used. Those gaps are acknowledged by management, which is preparing a revised entity risk management directive. An enterprise level risk register is also under development to help assess and monitor the major risks involved in achieving UNOPS strategic objectives.

32. A new project risk template has also been developed to identify key project risks. However, the risks are not linked to UNOPS strategic objectives or classified into categories that would facilitate the clear assignment of risk owners (examples of potential risk categories could include human resources and environmental, financial or legal risks). This will make it more difficult to assign ownership of risks and to elevate significant risks to the appropriate owner on a consistent basis. It will also be difficult to aggregate risk assessments to form a view of the overall level of risk to achieving individual strategic objectives.

33. The risk template does not require assessments of the severity of the impact should a risk materialize and does not allow for mitigating actions to be recorded or the level of residual risk following mitigation to be tracked. In order to ensure that risks are properly identified and managed these weaknesses should be addressed.

34. **The Board recommends that practical steps be taken to implement enterprise risk management strategies, policies and procedures across the entity without further delay. Specifically, UNOPS should:**

- **Identify, document and assess key risks to achieving strategic objectives**
- **Regularly update and monitor risk information that can be aggregated at the entity level**
- **Document risk tolerances so that they are understood and applied throughout the organization**
- **Use risk registers to record the likelihood of a risk materializing, the impact of the risk, the proposed mitigating actions and the assessed level of risk post-mitigation**
- **Assign risk owners to take responsibility for monitoring and controlling each risk**

B. Procurement

35. The UNOPS mandate includes a role as a central resource for the United Nations system in procurement. In practice, this means running procurement systems for the United Nations (such as UNWebBuy, an e-catalogue), managing procurement projects (transactional services) and other projects where procurement is a component (implementation services, such as physical infrastructure projects that involve works contracts) and providing procurement advisory services.

36. Procurement, including transactional procurement and procurement within development projects, is a major part of UNOPS business, accounting for $749 million of its expenditure in 2013. This included a range of different goods and services, totalling $499 million (67 per cent) spent on services and $250 million (33 per cent) spent on goods. The largest category of procurement spending comprised engineering and construction services (see table 2).

Table 2
Procurement by product category, 2013

Partner	*Value of UNOPS procurement (millions of United States dollars)*	*Percentage of UNOPS procurement*
Engineering and construction services	237.0	31.6
Humanitarian aid and United Nations Mine Action Service	111.8	14.9
Motor vehicles, parts and other transport equipment	102.2	13.6
Medical and lab equipment and supply, including bed nets	66.9	8.9
Other services (for example, travel)	63.9	8.5
Other goods (for example, security/safety equipment and supply)	62.8	8.4
Human resources, consultants and management support	29.5	3.9
Environmental and regional development/management	21.6	2.9
Workshop and training	20.4	2.7
Computer equipment and accessories, including software	18.3	2.4
Transport services	15.0	2.0
Total procurement expenditure	**749.3**	**100**

Source: Board of Auditors analysis of UNOPS management information.

37. UNOPS procures for United Nations entities, intergovernmental organizations, non-governmental organizations and national Governments, and it was the seventh highest United Nations entity in terms of procurement spending in 2013.[6] Its procurement for United Nations entities was around $300 million in respect of goods and services, including the United Nations Mine Action Service (part of the Department of Peacekeeping Operations), for which UNOPS procurement totalled $172 million (see table 3). UNOPS does relatively little business on behalf of the entities with the highest procurement spending since they have their own significant procurement capability.

[6] According to the UNOPS “2013 annual statistical report on United Nations procurement”, the procurement volume of United Nations organizations is as follows: Procurement Division of the Department of Management ($2.997 billion), United Nations Children’s Fund ($2.741 billion), United Nations Development Programme ($2.629 billion), World Food Programme ($2.477 billion), Office of the United Nations High Commissioner for Refugees ($953 million) and World Health Organization ($772 million).

Table 3
Main procurement partners, by value, 2013

Partner	*Value of UNOPS procurement (millions of United States dollars)*	*Percentage of UNOPS procurement*
United Nations Mine Action Service	172.0	23.0
World Bank	62.5	8.3
Government of Peru	42.7	5.7
United Nations Development Programme	38.8	5.2
Government of Guatemala	30.9	4.1
Global Fund to Fight AIDS, Tuberculosis and Malaria	29.3	3.9
Government of Japan	26.7	3.6
Japanese International Cooperation Agency	25.6	3.4
Government of Ethiopia	22.6	3.0
European Commission	19.3	2.6
Total procurement expenditure for top 10 partners	**470.5**	**62.8**

Source: Board of Auditors analysis of UNOPS management information.

Performance of the United Nations Office for Project Services in procurement

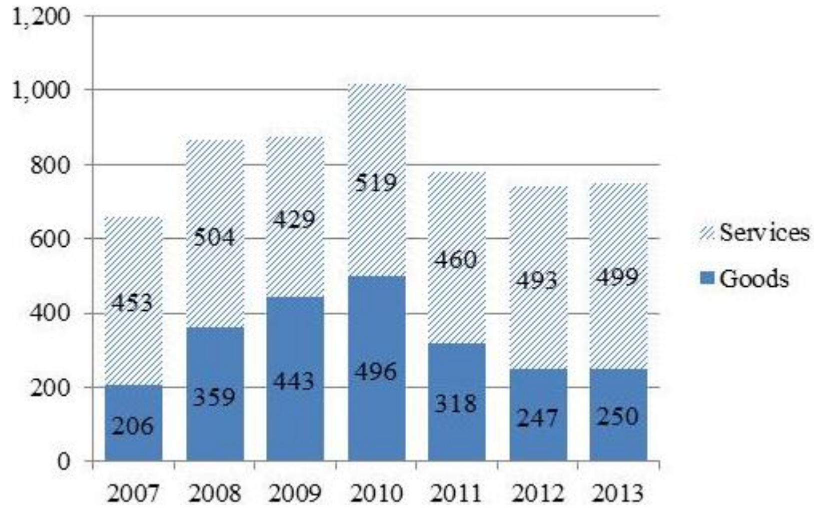
38. Most United Nations entities have in-house capacity for procurement and some have lead agency capacity for procurement of certain specialist goods. The entities are also exempt from taxes and custom duties. In its strategic plan 2010-2013 (September 2009), UNOPS considered that it was well placed to strengthen its role as a shared-services provider to the United Nations system, while recognizing that it needed to persuade other entities of the case for it to do so. UNOPS considered that there were particular opportunities in the procurement of common goods, public procurement for Governments and taking a lead in sustainable procurement.

39. However, the value of goods and services procured by UNOPS has declined by $266 million (26 per cent) since its 2010 peak of $1,015 million (see figure X). The main factor underlying the decline was the loss by UNOPS of over $300 million in respect of business in Argentina and Peru, following regulatory changes signifying that much of the existing UNOPS business was no longer feasible in those countries. The UNOPS share of total United Nations system procurement remained modest, falling from 7.0 per cent in 2010 to 4.7 per cent in 2013, with its share of goods (as opposed to services) procured declining more rapidly (see figure XI). UNOPS also considered that its procurement services needed to communicate better the added value in the face of competition from the private sector and other United Nations entities.

Figure X

Value of United Nations Office for Project Services procurement, 2007-2013

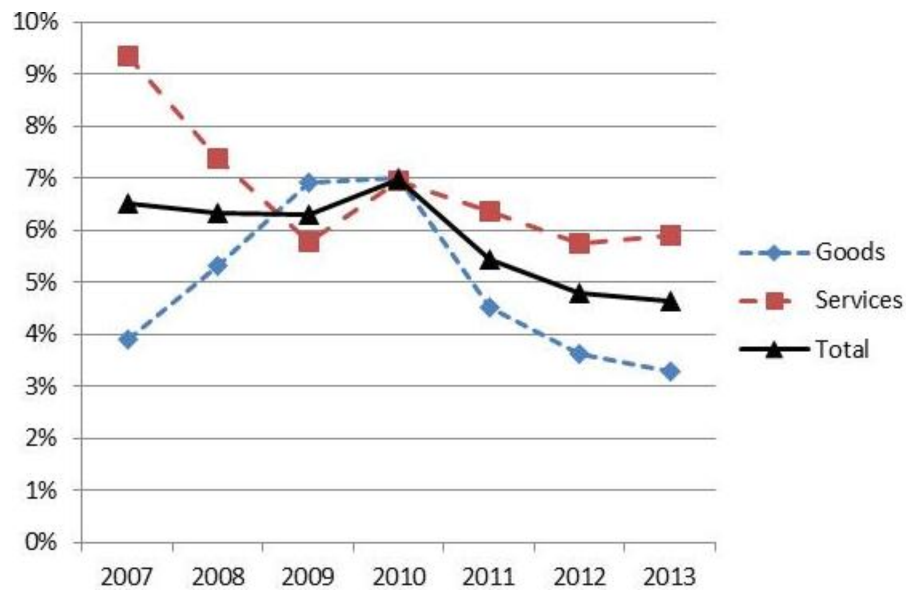
(Millions of United States dollars)



Source: Board of Auditors analysis of 2008, 2010 and 2012 annual statistical reports on United Nations procurement; UNOPS management information.

Figure XI

United Nations Office for Project Services share of United Nations system procurement for goods and services and in total, 2007-2013



Source: Board of Auditors analysis of annual statistical reports on United Nations procurement, 2008, 2010, 2012 and 2013.

Note: This analysis is based on total procurement reported by all organizations of the United Nations system, which was $16.1 billion in 2013.

40. In its 2012 strategy review, UNOPS concluded that it needed to strengthen its procurement role, in particular its focus on sustainability and how it added value. After a restructuring process undertaken during 2012 and 2013, UNOPS introduced a balanced scorecard in June 2013, primarily for its headquarters sustainable procurement practice group, which included 15 metrics and targets.

41. Its progress in 2013 against the targets has been mixed, with 7 targets achieved, 3 not achieved (including two that UNOPS treats as longer-term targets) and another 5 where performance information is not yet available (see table 4). Some targets are taking longer than a year to achieve while others were greatly exceeded in 2013, such as the increase in revenue from the Office of the United Nations High Commissioner for Refugees (UNHCR) and the Global Fund to Fight AIDS, Tuberculosis and Malaria. UNOPS considers that the targets were "estimates" that were set to help establish baseline performance for its headquarters sustainable procurement practice group.

Table 4
Performance against the balanced scorecard, 2013

Measure	*Annual target*	*2013 result*	*Summary*
Management expenses (of the Sustainable Procurement Practice Group)	$3,165,153	$3,119,000	Achieved
Reduction in percentage of vehicle spending outside of UNWebBuy	≥ 20%	36%	Achieved
Increase in engagement revenue from UNHCR and the Global Fund to Fight AIDS, Tuberculosis and Malaria (fee)	≥ 10%	81%	Achieved
Increase in engagement revenue from UNHCR and the Global Fund to Fight AIDS, Tuberculosis and Malaria (value)	≥ 10%	120%	Achieved
Timely implementation of internal audit recommendations	≥ 90%	90%	Achieved
Procurement notices published	≥ 80%	98%	Achieved
Personnel performance appraisal completion rates	≥ 90%	96%	Achieved
Procurement volume handled by UNWebBuy	$80,000,000	$72,681,443	Not achieved in 2013, and treated as a longer-term target
Knowledge partnerships established and managed	5	4	Not achieved
Procurement practitioners trained in Sustainable Procurement	≥ 80%	23%	Not achieved in 2013, and treated as a longer term target
Personnel attitude	≥ 80%	Not yet available (2013 staff survey results are due later in 2014)	Unknown (2012 performance was 38%)
Partner satisfaction	≥ 80%	Not available (not included in partner survey)	Unknown

Measure	*Annual target*	*2013 result*	*Summary*
Procurement notices with criteria for sustainability	≥ 10%	Not available (requires new IT module)	Unknown
Average duration of procurement exercises	≤ 80 days	Not available (requires new IT module)	Unknown
Professional certification success rate	≥ 80%	Not available (data not collected yet)	Unknown

Source: UNOPS (The performance figures have not been audited by the Board of Auditors).
Abbreviations: IT, information technology; UNHCR, Office of the United Nations High Commissioner for Refugees.

42. To expand its procurement business in a way that is consistent with wider efforts to harmonize and simplify United Nations processes, UNOPS aims to differentiate itself from competitors offering better all-round value than other procurement service providers. In particular, UNOPS wants to be recognized for speed, reliability, integrity, transparency and client service orientation.

43. However, the Board considers that the balanced scorecard should do more to demonstrate UNOPS procurement performance against those values for which it wants to be recognized, for example:

- While there are metrics for speed and transparency, information is not currently available centrally and performance therefore cannot be measured.
- There are no metrics for reliability or integrity.
- The metric for client service and partner satisfaction with procurement was not covered in the 2012 partner survey.

44. In addition, the scorecard does not include any metrics that would demonstrate the price and cost competitiveness of UNOPS and the financial value of its procurement services to its partners.

45. **The Board recommends that UNOPS strengthen its performance information, including by reference to what metrics are used by other United Nations entities. In particular, it should: (a) examine the scope for a metric for price and cost competitiveness, based on prices actually paid; (b) review the suitability of the scorecard measures and annual targets and how they can be widened in the future to cover all UNOPS procurement; and (c) include only those measures that can be measured, with clear time frames for targets that are stretching yet achievable.**

UNOPS procurement arrangements

46. The Board assessed UNOPS procurement using the following characteristics of a modern procurement system:

- A strong and effective governance structure
- A competent and dedicated procurement staff
- An integrated and robust information technology support system

- An independent and transparent procurement challenge and oversight mechanism
- An effective and responsive performance framework, including benchmarking

47. The Board notes that, in 2013, UNOPS passed an interim reassessment for the Corporate Certification Standard of the Chartered Institute of Purchasing and Supply and obtained certification from the Institute at the silver level for sustainable procurement.

Governance structure

48. The procurement network of the United Nations System Chief Executives Board for Coordination is promoting work to increase collaboration. UNOPS is an active participant in the network.

49. Within UNOPS, procurement is a largely decentralized operation. Most procurement is carried out in country offices as part of development projects. Authority and responsibility for such procurement is delegated to country directors and regional directors. They are required to ensure that procurement activity complies with financial rules and regulations, the Procurement Manual, the directives of other organizations and UNOPS processes. The Deputy Executive Director is the Chief Procurement Officer, with responsibility for overall corporate oversight of procurement activity.

50. The Sustainable Procurement Practice Group is responsible for the development and implementation of all procurement policy. The Practice Group, which is based at UNOPS headquarters, developed the procurement strategy and oversees its implementation. It is the central repository of expertise in sustainable procurement, provides advice and develops training.

51. Country offices determine their own strategies for procurement. The Board visited operations centres in Haiti and South Sudan, two of the major procurers. Management in those operations centres recognized the strategic importance of good procurement to their business, but also recognized the need to increase the emphasis in their country strategies on how to improve procurement locally and generate more procurement business in their country. The Sustainable Procurement Practice Group has minimal involvement in the procurement strategies of individual operations centres. Increased engagement could bring value by helping to strengthen local strategies, improving consistency with the overall strategy, as well as providing a local perspective at UNOPS headquarters.

52. **The Board recommends that UNOPS establish ways in which the Sustainable Procurement Practice Group can engage more effectively in the development of local procurement strategies.**

53. UNOPS has 82 global long-term agreements (May 2014) with suppliers, with the aim of securing common goods and services at competitive prices and in a way that is efficient to administer. The long-term agreements are concentrated in certain areas of expenditure, such as consultants, motor vehicles and transport services, but there are some gaps, such as medical supplies ($67 million of procurement, but no long-term agreements) and humanitarian aid/mine action services ($112 million of procurement, but no long-term agreements). UNOPS acknowledges that it is behind schedule on its review and development of long-term agreements, stating that this is because of recruitment difficulties.

54. A review conducted by the Joint Inspection Unit of long-term agreements in the United Nations system in 2013[7] concluded that greater use of the agreements could create administrative efficiencies and deliver best value for money through demand aggregation. It also highlighted that simply setting up a long-term agreement did not secure those benefits, a view agreed with by the Board. Strategic identification of where long-term agreements would be beneficial, good planning and forecasting of demand and volumes, and strong contract management were all considered to be important. As a whole, the Joint Inspection Unit assessed the use of long-term agreements by UNOPS favourably, but noted that the long-term agreements that had been analysed did not include estimated quantities or have clear performance indicators.

55. The Sustainable Procurement Practice Group has had very limited engagement with operations centres regarding local long-term agreements, although it has created a template for local use, and does not yet know what local long-term agreements are in place and how they are being used. Without this information, UNOPS headquarters cannot know how well long-term agreements are being used or the full extent to which there are gaps in the availability of such agreements that it can help to fill.

56. **The Board recommends that, in order to maximize the benefits resulting from long-term agreements, UNOPS headquarters work with country offices using aggregated information to identify where regional and global long-term agreements would be mutually beneficial, such as for medical equipment and supplies.**

57. **The Board also recommends that, in order to improve the use of and benefits resulting from long-term agreements, UNOPS collate information on the existence and usage of local and regional long-term agreements available for its use.**

Procurement staff

58. UNOPS has around 200 to 250 staff who are procurement practitioners. According to the 2012 staff survey, a large majority (83 per cent) of those staff members are satisfied overall with their jobs. However, they are much less positive about how well UNOPS is performing, with only 50 per cent being positive about its timeliness, 50 per cent being positive about its efficiency and 62 per cent being positive about its reliability.

59. UNOPS has lacked detailed central information on the relevant experience and training, for example in respect of the previous employment of its procurement staff and other staff expected to understand procurement processes (project managers, in particular). Without that information, it is unclear whether the staff have sufficient commercial expertise to overlay good procurement practice. However, through its 2014 procurement community mapping initiative, UNOPS is mapping technical skills across the organization. The results will be compared with an assessment of skills needs of UNOPS, which is also scheduled for completion in 2014.

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[7] Joint Inspection Unit, *Review of long-term agreements in procurement in the United Nations system*, 2013.

60. UNOPS emphasizes the need for its procurement staff to gain professional accreditation. Such training is delivered mainly through Chartered Institute of Purchasing and Supply qualifications and the UNOPS online training course. From the 2012 staff survey, 83 per cent of procurement staff were aware of the professional qualifications and 64 per cent credited their supervisors with encouraging them to undertake training. Response to the procurement module of the project manager foundation course has been good. In 2013, UNOPS introduced two additional procurement training courses, including an online course aimed at all UNOPS procurement personnel. Many UNOPS personnel have yet to undergo that new training (see table 5).

Table 5
UNOPS staff completing sustainable procurement training, 2013

Number of staff	*Training course*	*Relevant population*
46	Sustainable procurement online training course	Around 200-250 procurement practitioners
71	Sustainable procurement workshop (held at UNOPS headquarters and regions)	Around 300 project managers
135	Half-day procurement module as part of the project manager foundation course	New project managers. Since 2011, the module has been attended by 287 UNOPS project managers, out of a target population of around 300.

Source: Board of Auditors analysis of information provided by UNOPS.
Note: The sustainable procurement online training and workshops were introduced during 2013.

61. **In order to strengthen the professionalization of procurement, the Board recommends that UNOPS: (a) use the results of its skills definition and mapping exercise to set out the desired level of training and qualifications for specific procurement roles in UNOPS and identify areas of shortage; and (b) make the sustainable procurement online training course mandatory for all procurement staff within a specified time frame.**

Integrated information technology systems

62. UNOPS uses a range of information technology (IT) systems to support procurement activity. In some respects, it works satisfactorily, although it is not well integrated and significant improvements are needed in some areas.

63. UNOPS is developing a new enterprise resource planning system. Consultants had reported that the existing system lacked much of the functionality expected of a modern system. A new system will need to provide increased functionality and work in conjunction with the new e-procurement system that UNOPS will be introducing in late 2015, in order to provide better management information on procurement activity.

64. The Board's visits to two operations centres in Haiti and South Sudan identified that the centres had developed their own spreadsheet solutions to track the progress of their procurement exercises. However, the information was incomplete and, in places, unreliable and neither operations centre used the information to carry out an aggregate analysis of their performance. Analysis would highlight, for example, where delays have occurred in the process. In addition, UNOPS headquarters does not have oversight of the information collected at the office level. Given that UNOPS has established a target on its balanced scorecard (see figure XV)

identifying that the average length of the procurement process is 80 days or less, information needs to be monitored and analysed more systematically.

65. **The Board recommends that UNOPS develop a way of monitoring the length of the procurement process, either through the e-procurement or enterprise resource planning systems that are under development and being introduced in 2015 or by distributing a template for capturing procurement information from all centres.**

66. UNOPS runs the UNWebBuy system, which is an e-catalogue of goods, predominantly comprising motor vehicles, generators and solar panels. UNOPS country offices, other United Nations entities and partner Governments can browse the catalogue and obtain quotations, which are prepared by a team of four procurement officers at UNOPS headquarters. UNWebBuy is intended to make procurement easier by including freight costs and track and trace options wherever the goods are to be delivered. It is underpinned by long-term agreements that are competitively tendered to achieve competitive prices.

67. The IT system used for UNWebBuy has some limitations. For example, maintenance of the information on products other than vehicles can be time consuming. UNOPS recognizes that an expansion of UNWebBuy would necessitate a system where new goods could be added easily and quickly, and the prices updated as necessary. It has therefore developed a business case for investing in a new IT system that is easier for customers to use and for UNOPS to maintain.

68. Procurement through UNWebBuy totalled $73 million in 2013, the highest amount since 2008 although still below the UNOPS target of $80 million. Use of UNWebBuy by UNOPS offices is uneven, with the Ethiopia project centre using it most, with $23.6 million (37 per cent of the total). While heavy reliance on one country office for business is a potential concern, there may be lessons to be learned from success in that country. For example, only nine UNOPS country offices placed orders totalling over $200,000 in 2013. There may be scope for other offices therefore to exploit UNWebBuy to increase their procurement.

69. UNOPS has not identified why the use of UNWebBuy is so variable across countries and United Nations entities. While there is a lack of conclusive evidence, some of the reasons, aside from varying needs across countries, appear to include a restrictive product range (beyond the 300 types of vehicles offered), and the perceptions and misunderstandings of country offices in respect of the catalogue (such as whether catalogue transactions will count towards their business performance targets).

70. **The Board recommends that UNOPS determine whether lessons from the UNOPS Ethiopia project centre's successful use of UNWebBuy could be applied in other countries in order to promote the catalogue.**

Procurement challenge and support mechanisms

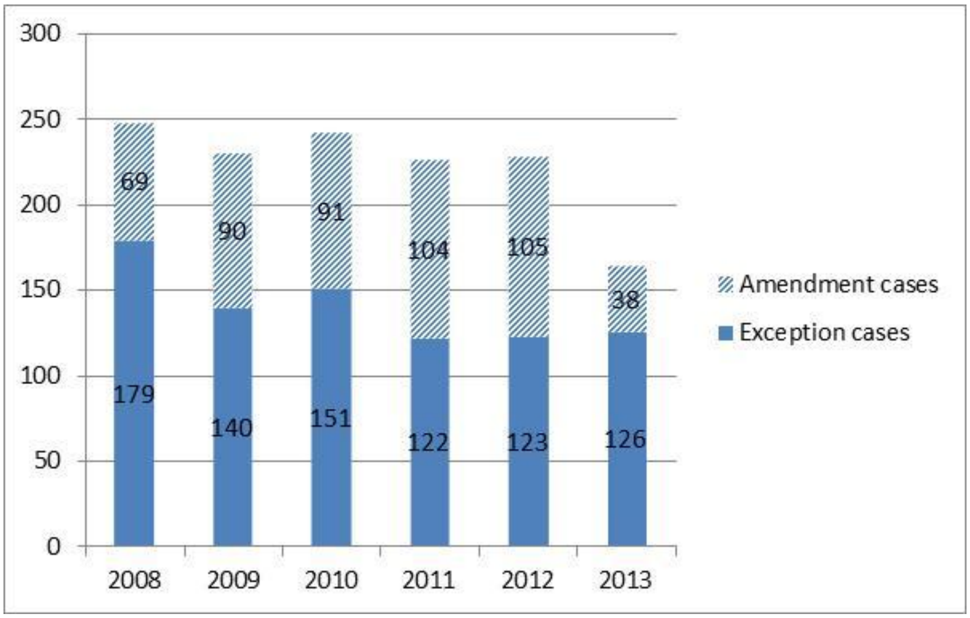
71. Independent challenges and support for the procurement function in UNOPS come from contracts and property committees, as well as from the Internal Audit and Investigations Group.

72. UNOPS uses competitive tendering with formal and informal methods of solicitation. Awards are granted by procurement authorities after review by

procurement reviewers or, where applicable, the Headquarters Contracts and Property Committee and/or Local Contracts and Property Committee.

73. The extent to which the Headquarters Contracts and Property Committee or the Local Contracts and Property Committee has been required to consider exceptions to the use of formal methods of solicitation (for example, single or sole source procurement, or amendments to existing contracts without competition), has been significantly reduced, from 248 in 2008 to 164 in 2013 (see figure XII).

Figure XII
Use of contract amendments and exceptions in procurement processes, 2008-2013



Source: Board of Auditors analysis of UNOPS headquarters contracts and property committee information (covering headquarters and local contracts and property committees).

74. The UNOPS Internal Audit and Investigations Group has been active in carrying out audits of country offices and projects (both of which can cover aspects of procurement) as well as in producing a report in 2013 on vendor management. The overall opinion in the report was that internal control was "partially satisfactory", reflecting the need to improve data quality and monitoring of the vendor database. The Group has also investigated some cases of collusion in procurement. In response to the Board's previous recommendation, the Group will provide support for the preparation of an organization-wide fraud risk assessment.

75. **The Board recommends that the UNOPS Internal Audit and Investigations Group, in setting its work programme for 2015, and on the basis of the results of the fraud risk assessment undertaken in 2014, consider carrying out specific audit work to examine controls covering the risk of fraud in procurement.**

76. UNOPS advised that it has subsequently appointed a Senior Risk Officer who will prepare the organization fraud risk assessment, which will be relied upon by the Internal Audit and Investigations Group for setting its 2015 work programme.

Performance framework

77. A key component of the performance framework is the balanced scorecard of the Sustainable Procurement Practice Group. The scorecard was introduced in 2013 and needs improvement in terms of the selection of metrics included, the level of some of the targets and the availability of information to measure against targets.

78. Another key component of procurement performance is benchmarking information on the competitiveness of the prices obtained. The UNOPS approach is to take assurance from the use of competitive processes to obtain good prices, rather than directly comparing prices across projects and transactions. For individual procurement exercises, UNOPS requires evaluation committees to assess the reasonableness of prices put forward by each bidder if there are less than three compliant offers: by comparing prices to other bidders and by using the knowledge of staff members or contracted technical experts.

79. There is, however, no formal benchmarking at the operations centre regional or global level. UNOPS explained that it had not carried out such benchmarking owing to difficulties in obtaining relevant price data, given the nature and location of the work. It agreed that for some commodities price benchmarking would help in strengthening UNOPS communications on how it assures value for money. The most recent report seen by the Board that included benchmarking of UNOPS was a 2010 report by the Office of Internal Oversight Services on the programme evaluation of the Office of Central Support Services, which included the finding that UNOPS appeared to be procuring goods at the lowest price among the four United Nations entities benchmarked. There is also a lack of focused information about whether UNOPS partners consider that UNOPS procurement (whether transactional or within projects) represents good value for money — the partner survey from 2012, for example, does not sufficiently distinguish users of UNOPS procurement services from other partners. As a result, there is insufficient, relevant information that UNOPS could use to strengthen its communications on how it assures value for money.

80. **The Board recommends that UNOPS carry out structured and regular benchmarking exercises, where feasible, of the prices that it obtains. UNOPS should also obtain feedback specific to procurement from its partners.**

81. UNOPS can have a significant impact on the markets in the countries in which it operates, which is why it aims to promote the use of local suppliers and contractors. On its visits to Haiti and South Sudan, the Board identified that a significant proportion of tenders were not complying with specifications, sometimes resulting in UNOPS having to retender bids, with subsequent time and cost implications.

82. **The Board recommends that UNOPS take action to strengthen local capacity-building. This could involve sharing good practices such as procedures to reduce non-compliance in tendering.**

C. Disclosures by management

Write-offs of losses of cash, receivables and property

83. UNOPS informed the Board that in 2013 it had formally written off assets of $8.76 million (compared with $1.8 million in 2012). That balance included

$8.74 million written off against existing impairment provisions and $20,000 charged to expenses in 2013.

Ex gratia payments

84. UNOPS informed the Board that it had made no ex gratia payments in 2013.

Cases of fraud and presumptive fraud

85. During 2013, UNOPS imposed disciplinary action in respect of four cases reported in earlier years. It also completed its investigations of nine new cases of fraud valued at $85,758, which comprised five cases of medical fraud and four involving embezzlement, fraud, collusion and the theft of assets. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNOPS directly.

D. Acknowledgement

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

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

(*Signed*) **Liu** Jiayi
Auditor General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the United Republic of Tanzania

30 June 2014

Annex I

Mandate, scope and methodology

The Board of Auditors has audited the financial statements and reviewed the operations of UNOPS for the financial period ended 31 December 2013 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the financial regulations and rules of UNOPS and with the International Standards on Auditing. The 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.

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 2013 and its financial performance and its cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenditure had been properly classified and recorded in accordance with the 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.

The Board also reviewed UNOPS operations under financial regulation 7.5 with a focus on the management of infrastructure projects, one of the core management services of UNOPS.

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

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

Annex II

Status of implementation of recommendations

As at 31 March 2014, of the 28 recommendations made for 2012 and earlier, 14 (50 per cent) remained under implementation, 3 (11 per cent) had not been implemented (see section A below) and 11 (39 per cent) had been implemented (see section B below). While the Board recognizes that there has been some positive progress, there has been very little action to actively manage fraud risks throughout UNOPS or define its tolerance to different types of fraud risk.

Most of the seven open recommendations relating to infrastructure (items 10 to 16) should be closed in 2014 through ongoing actions. The Board will continue to work with UNOPS to monitor the effectiveness of the action taken.

A. Recommendations under implementation or not implemented

No.	*Financial period in which first made and reference*	*Summary of recommendation*	*UNOPS action*	*Board's assessment of action*
1	2010-2011 (A/67/5/Add.10, chap. II, para. 48)	Draw lessons from its existing projects and consider measures to enable it to close projects in time; and address the backlog of projects needing closure	Under implementation (due December 2014) The quarterly assurance review allows UNOPS to better track the status of projects, including the documentation of projects needing closure. UNOPS established an online project closure tool to help field offices that track projects to close and facilitate a smooth closure process. The project closure tool has helped to reduce the backlog of projects needing closure and is included in the project management foundation course UNOPS has set up a task force informally, which includes the relevant practices (i.e. project management, integrated practice advice and support, finance), to review all projects and identify those that need to be closed. They closed 26 projects and are currently working on 122, out of which 20 are subject to operational closure. The task force is looking at outstanding cases; at the same time, the Finance Practice Group is regularly looking after project closure in close coordination with the operations centres	Partially implemented
2	2010-2011 (A/67/5/Add.10, chap. II, para. 53)	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	UNOPS conducted a "maturity assessment mission" in the Democratic Republic of the Congo in July 2013, in order to assess management controls, benefits management, financial management, stakeholder management, risk management, organizational governance and resource management	Partially implemented The UNOPS Internal Audit and Investigations Group carried out an operational audit of the operational hub in the Democratic Republic of the Congo, giving an overall rating of partially satisfactory

No.	*Financial period in which first made and reference*	*Summary of recommendation*	*UNOPS action*	*Board's assessment of action*
			A follow-up mission was undertaken in August 2013. The Sustainable Project Management Practice Group is also planning an additional follow-up mission in 2014. Moreover, the status of projects in the operations centre is being monitored through quarterly assurance (engagements and operations centre) and the management workspace system	
3	2010-2011 (A/67/5/Add.10, chap. II, para. 54)	Consider the adequacy of its oversight and support provided to centres operating in high-risk environments	Under implementation (due December 2014) UNOPS is addressing the adequacy of its oversight and support in high-risk environments on two fronts: risks in the country of operation, and project and programme risks. UNOPS planned seven maturity missions to support centres operating in high-risk environments (namely, Afghanistan, Democratic Republic of the Congo, Haiti, Jerusalem, Myanmar, South Sudan and Sri Lanka). Three missions have already been completed by December 2013. They have allowed a better understanding of the challenges faced by the centres and the development of targeted improvements. UNOPS plans to expand the maturity missions to support other centres and assess progress in those already assessed. UNOPS is currently developing a project and programme risk management strategy The development of risk guidance for projects is being finalized and will be released and piloted in 2014, and work is in progress to develop risk guidance at the programme level which will promote proactive risk management with the use of standard processes, templates and guidance	Partially implemented

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
4	2010-2011 (A/67/5/Add.10, para. 107)	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 address the inconsistencies in the asset inventory certification process	UNOPS has corrected the discrepancies noted in its fixed asset register, and clear IPSAS instructions on asset certification and physical verification processes to its field offices were shared as a part of the certification process of project assets for 2012 UNOPS continues to apply IPSAS transitional provisions and will recognize its project assets prospectively from 1 January 2014 and all its administrative assets from that date	Not implemented UNOPS has continued to adopt IPSAS transitional arrangements for its property, plant and equipment. We have continued to find errors and omissions in asset data in the field and a lack of comprehensive guidance for UNOPS asset management
5	2008-2009 (A/67/5/Add.10, chap. II, annex)	Analyse all currently listed projects and identify projects that need to be closed	Under implementation. Response as in item 1 above	Partially implemented
6	2012 (A/68/5/Add.10, chap. II, para. 24)	Clearly identify the envisaged benefits from accrual-based information and associated revised management procedures; and appoint a senior responsible owner for realizing such benefits and embedding new ways of working throughout the organization	UNOPS is working to identify the envisaged benefits and will appoint a senior responsible owner for realizing such benefits and embedding new ways of working throughout the organization	Not implemented
7	2012 (A/68/5/Add.10, chap. II, para. 31)	Establish a separate reserve account for after-service benefits in order to increase the visibility of funding provided for end-of-service liabilities	UNOPS is currently working with the United Nations Development Programme (UNDP) Treasury Section to increase the visibility of the funds invested towards end-of-service liabilities by having those funds ring-fenced solely for the purpose of serving the UNOPS end-of-service liabilities	Not implemented UNOPS has not established such a reserve and will consider it further for the 2014 financial statements
8	2012 (A/68/5/Add.10, chap. II, para. 44)	Appoint a fraud risk owner, or senior risk officer, at a suitably senior level, to be accountable for the active management of fraud risks throughout UNOPS activities; perform a comprehensive organization-wide fraud risk assessment to identify the major types of fraud risk UNOPS faces; and define UNOPS tolerance to different types of fraud risk and ensure that fraud controls are commensurate with that risk-appetite	UNOPS will appoint a senior risk officer to support senior management in exercising this responsibility, particularly with regard to fraud. The Internal Audit and Investigations Group has indicated in its 2014 annual workplan that an organization-wide fraud risk assessment will be carried out; the exercise will be led by management and the Group will provide support. UNOPS will continue to review its accountability framework to ensure that it is appropriately calibrated to reflect the organization's tolerance to different types of fraud risk	Partially implemented UNOPS has made very limited progress on this recommendation although it has informed the Board of Auditors that it has appointed a senior risk officer to coordinate the management of risks

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
9	2012 (A/68/5/Add.10, chap. II, para. 51)	Examine the costs and benefits of performing mandatory background checks on all new recruits, vendors and other partners or contractors	The UNOPS Sustainable Procurement Practice Group recognizes the potential benefits of using formal background checks and similar tools for suppliers, contractors and partners based on the risk profile of the supplier and/or the project. The Sustainable Procurement Practice Group and Internal Audit Investigation Group have agreed to work together to assess the costs and benefits of applying mandatory formal background checks for vendors, contractors, and partners. In its analysis, the Human Resources Practice Group indicated that the benefits outweighed the costs, and, going forward, the Group started to implement background checks for specific positions	The Board has seen no evidence that such background checks have been performed in 2012 This recommendation remains under implementation
10	2012 (A/68/5/Add.10, chap. II, para. 62)	Give careful consideration to ensuring that the new infrastructure strategy is understood by all infrastructure staff	UNOPS accepts the importance of communicating the new infrastructure strategy effectively to all personnel. Since September 2013 an additional two-day training workshop on sustainable infrastructure for project managers has been added to the regular project management foundation course. Furthermore, the strategy will also be communicated through various other methods, including the annual global management meeting and the sustainable infrastructure community of practice. The strategy provisions will ultimately be embedded in all guidance material and govern the infrastructure delivery of UNOPS. UNOPS will consider the cost/benefit of a non-Headquarters infrastructure training programme in order to assure that the policy provisions are embedded in operations	Partially implemented The impact should be apparent in due course from the 2014 global personnel survey

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
11	2012 (A/68/5/Add.10, chap. II, para. 67)	Examine the extent of changes to agreements and the causes of delays in the completion of projects throughout its infrastructure portfolio	UNOPS will examine the extent of changes to agreements and the causes of delays in the completion of projects throughout its infrastructure portfolio. UNOPS will develop a system to collect and analyse relevant data on both individual construction contracts and overall infrastructure projects in order to enable a systematic review of the underlying factors and hence to be better able to influence the timeliness of project delivery	Partially implemented However, progress has been limited so far because the contract management module is not yet ready and there is uncertainty about whether dates can be captured from the management workspace system
12	2012 (A/68/5/Add.10, chap. II, para. 76)	Encourage its clients to accept the inclusion of contingency budgets for projects, which might necessitate a corresponding reduction in other components of the budget as well as processes for releasing contingency that are acceptable to clients	UNOPS released a project-level budgeting toolkit in July 2013 that provides guidance on how to build, communicate and monitor project budgets. The guidance also discusses the use of contingency budgets	Partially implemented The impact should be apparent in new engagements initiated as from July 2013
13	2012 (A/68/5/Add.10, chap. II, para. 77)	Investigate the extent and causes of precision spending and assess whether its processes or guidance need to change as a result	UNOPS will investigate the extent and causes of precision spending and assess whether its processes or guidance need to change as a result. This will be included as a work item in the Project Management and Infrastructure Practice Group workplans for 2014	Partially implemented However, there is little evidence of progress to date
14	2012 (A/68/5/Add.10, chap. II, para. 82)	Develop a mechanism to generate better information on the post-completion performance of buildings	Performance of infrastructure post construction is a core element of delivery of sustainable solutions and will be embedded as a sustainability element throughout UNOPS delivery. It is also part of the ISO quality assurance process now in place in UNOPS. The method for implementation is being considered as part of the development of the sustainable infrastructure practice strategy. The implication for this post-occupancy evaluation process, which may involve multiple stakeholders and the resultant outcomes, requires further analysis	Partially implemented

No.	*Financial period in which first made and reference*	*Summary of recommendation*	*UNOPS action*	*Board's assessment of action*
15	2012 (A/68/5/Add.10, chap. II, para. 85)	Develop a strategy to encourage clients to engage more with the partner centre, including providing feedback	UNOPS will devise a strategy to further engage clients through the partner centre. Currently UNOPS is using the project management foundation course to promote the use of the partner centre and provide advice to attendees on how to engage clients using the partner centre. A series of communication releases are planned to advise operations centres on the availability of the partner centre A fresh roll-out of the partner centre tool will include instructions, guidance, training and WebEx sessions about the tool, and encourage project managers to invite partners to use the tool as part of the 2014 workplan of the Sustainable Project Management Practice Group. This exercise will be followed closely with each operations centre on a business as usual basis	Partially implemented
16	2012 (A/68/5/Add.10, chap. II, para. 90)	Work with its partners to establish processes to better capture information on the outcomes to which UNOPS activities contribute, in particular in terms of project beneficiaries	The UNOPS strategic plan for 2014-2017 focuses on sustainability and national capacity in three key operation areas — project management, infrastructure and procurement — in an effort to contribute to partners' results and their achievement of development outcomes UNOPS launched a sustainability programme in early 2013 to embed sustainability principles, including the focus on outcomes. A strategy for mainstreaming sustainability was released and several orientation workshops have been conducted for UNOPS headquarters and operations centres The UNOPS global management meeting held in 2013 focused on sustainability Based on the commitments made in the UNOPS strategic plan for 2014-2017, UNOPS now collects sustainability performance information at the project level for its annual results-based reporting process	Partially implemented

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
			Furthermore, UNOPS has developed a tool, the sustainability marker (sustainability screening tool), for project assessment, monitoring and reporting, which was piloted in 2013 and will be further tested in 2014 before a full roll-out	
17	2012 (A/68/5/Add.10, chap. II, para. 92)	Either enhance the online assurance tool to enable drilling down to project-level assurance where an engagement includes multiple large projects or set up more of its engagements as single projects	Since the assurance tool included only three of the six project success criteria, it was considered necessary to complete the tool with the remaining indicators in 2013 prior to enhancing the tool with either drilling down to the project level or setting up awards as a single project for any new engagement. During 2013, the Sustainable Project Management Practice Group worked on revamping the engagement assurance and the operations centres assurance process with the inclusion of all six project success criteria. In 2014, the tool will be reviewed in the light of this recommendation and other necessary improvements	Partially implemented

B. Recommendations fully implemented

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
1	2010-2011 (A/67/5/Add.10, chap. II, para. 64)	Strengthen 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 that reconciling items are detected	UNOPS has implemented appropriate controls to prevent errors in the coding and reporting of inter-fund transactions to UNDP. Furthermore, appropriate mitigating controls have been put in place to ensure that errors are detected in a timely manner. UNOPS has also initiated the obtaining of confirmations of inter-fund amounts	Implemented

No.	Financial period in which first made and reference	Summary of recommendation	UNOPS action	Board's assessment of action
2	2010-2011 (A/67/5/Add.10, chap. II, para. 71)	Review the process for the preparation of the financial statements in order to ensure the gaps identified by the Board are addressed through its processes	UNOPS has: (a) taken steps to ensure a more organized and pragmatic approach for the 2013 accounts closure, including evidence-based management reviews of the financial statements and has set a timetable for the preparation of its accounts for the year ended 31 December 2013; (b) organized additional technical training and enhanced guidance on accrual accounting; and (c) prepared interim financial statements as part of the annual workplan for its finance team	Implemented. The 2013 financial statements presented for audit were of good quality
3	2010-2011 (A/67/5/Add.10, chap. II, para. 99)	Maintain adequate central records of exception cases 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 exception cases to determine whether these reflect underlying problems in the procurement function	The records of exception cases approved following review by the local contract and property committees have been centralized. The Headquarters Contract and Property Committee held a meeting in September 2013 specifically to look at these records in order to report to the Executive Chief Procurement Officer on trends and any underlying problems. The meeting was held in addition to the regular monitoring and support of the committees by the Headquarters Contract and Property Committee. Furthermore, the Procurement Practice Group monitors all cases, picks up salient issues from those cases and takes appropriate action on an ongoing basis, for example, training interventions, production of knowledge pieces and review of procurement policies. In 2013, this was done on a number of occasions, for example, with webcasts and newsletters on specific topics to all procurement practitioners	Implemented

No.	*Financial period in which first made and reference*	*Summary of recommendation*	*UNOPS action*	*Board's assessment of action*
4	2010-2011 (A/67/5/Add.10, chap. II, para. 114)	Perform monthly validation checks on its payroll to assure it of its completeness and accuracy; and monitor and review all the terminations to ensure that employees are removed from the payroll once they have separated from the organization	In line with the service level agreement between UNOPS and UNDP, the payroll function for staff is performed by UNDP. UNDP performs monthly validation checks on the payroll to assure of its completeness and accuracy and UNDP also ensures that employees are removed from the payroll once UNOPS notifies that they have been separated from the organization. UNOPS has added an additional control in the Finance Practice Group to check that terminated staff members are removed from payroll in order to avoid overpayments	Implemented. UNOPS implemented a further control over new starters in the reconciliation process undertaken in the fourth quarter of 2013
5	2004-2005 (A/65/5/Add.10, chap. II, para. 91)	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 (similar to item 1 above)	In 2012, UNDP and UNOPS appointed a panel of three experts to review the outstanding matter related to inter-fund differences. The parties agreed to the panel's recommendations and implemented the outcome in the 2013 financial statements	Implemented
6	2012 (A/68/5/Add.10, chap. II, para. 19)	Establish a detailed timetable for the year-end preparation of its financial statements encompassing the cleansing of accounting records, the preparation of comprehensive supporting schedules, and a detailed and evidence-based management review of the draft financial statements prior to its submission to the auditors; develop an IPSAS accounting manual to provide guidance to staff on accrual accounting; and consider preparing interim financial statements to spread the workload of finance more evenly across the year and to facilitate early identification of accounting issues	UNOPS has: (a) taken steps to ensure a more organized and pragmatic approach for the 2013 accounts closure, including evidence-based management reviews of the financial statements and has set a timetable for the preparation of its accounts for the year ended 31 December 2013; (b) organized additional technical training and enhanced guidance on accrual accounting; and (c) prepared interim financial statements as part of the annual workplan for its finance team	Implemented
7	2008-2009 (A/65/5/Add.10, chap. II, para. 83)	Resolve the dispute over inter-fund differences in its accounts with UNDP	In 2012, UNDP and UNOPS appointed a panel of three experts to review the outstanding matter related to inter-fund differences. The parties agreed to the panel's recommendations and implemented the outcome in the 2013 financial statements	Implemented

No.	*Financial period in which first made and reference*	*Summary of recommendation*	*UNOPS action*	*Board's assessment of action*
8	2012 (A/68/5/Add.10, chap. II, para. 37)	Reconcile the inter-fund account with UNDP on a regular, and at least quarterly, basis, posting correcting entries as appropriate to its accounting system to maintain the overall reliability of the accounting records	UNOPS has noted the value of such safeguards and has implemented a quarterly reconciliation of inter-fund balances, which will help to keep track of balances and promptly identify issues	Implemented
9	2012 (A/68/5/Add.10, chap. II, para. 38)	Establish additional safeguards to avoid differences arising in future, including fully settling transactions in cash at regular intervals	UNOPS has noted the value of such safeguards and has implemented a quarterly reconciliation of inter-fund balances, which will help to keep track of balances and promptly identify issues	Implemented. The inter-fund balance was significantly settled during 2013
10	2012 (A/68/5/Add.10, chap. II, para. 55)	Review and analyse the results of the survey as part of its review of fraud policies and procedures; and consider whether its personnel require further training in expected ethical behaviour and in procedures to be followed when reporting fraud or misconduct	UNOPS has: (a) conducted a follow-up survey that was launched in October 2013 and the Internal Audit and Investigations Group reported to management on the outcome; and (b) hired an external firm to conduct an in-person ethics training workshop on 7 November 2013	Implemented
11	2012 (A/68/5/Add.10, chap. II, para. 80)	Assess the value of mandatory design reviews for projects where the risk of problems with design is high, and in such a way as to minimize the cost to clients	UNOPS has assessed design reviews UNOPS has drafted a design planning manual for buildings, setting out the technical objectives and functional statements; performance recommendations and requirements; and minimum standards for infrastructure design with the aim of establishing clear and consistent guidelines for UNOPS designers (both in-house and external) Design reviews will be piloted in 2014, and a roster of staff capable of doing reviews will be set up. Sign-off of the design will be required	Implemented

Chapter III
Financial report for the year ended 31 December 2013

A. Introduction

1. In accordance with the financial regulations and rules of UNOPS, the Executive Director of UNOPS has certified the 2013 financial statements of the organization and is pleased to submit them to the Executive Board and the General Assembly, as well as make them publicly available. The financial statements have been audited by the Board of Auditors, and its unqualified audit opinion and report are attached. Overall, UNOPS is financially robust and is currently making the necessary strategic investments in order to accomplish its strategic plan for 2014-2017.

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

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

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

4. Achievements during 2013 included:

(a) UNOPS underwent an external performance assessment conducted by the European Foundation for Quality Management in May 2013 that resulted in UNOPS being recognized and certified for its organizational excellence. The assessment identified core strengths and highlighted areas for future improvement by benchmarking UNOPS against the "best in class" among other organizations that follow the excellence framework;

(b) UNOPS was awarded two project management certifications from APMG-International and two accreditations from the Project Management Institute. The awards designated UNOPS as an accredited consulting organization, an accredited training organization, a registered education provider and a registered consultant that now provides fully accredited project management training and advisory services across many of its activities;

(c) The UNOPS Sustainable Infrastructure Practice Group received International Organization for Standardization (ISO) 14001 certification, the world's most recognized environmental management standard. As a result, UNOPS will actively assess and manage its environmental impact and promote environmental management systems across its infrastructure and construction portfolio.

5. The Executive Director firmly believes that those prestigious standards reflect the commitment and dedication of UNOPS to consistently delivering high-quality products and services that promote the best interests of its partners.

C. Results of the United Nations Office for Project Services in 2013

Highlights

6. The mission of UNOPS is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS is a self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from project implementation and from providing high-quality transactional and advisory services.

7. Key operational results in 2013 included constructing or renovating 81 bridges, 22 schools, 3,560 km of roads, and 26 hospitals and health clinics. More than 47,000 individuals were trained in various fields; 288 high-level meetings were organized; 7.7 million medical supply items were handled; and mine action work was supported in 18 countries and territories. A full account is provided in the UNOPS annual report (DP/OPS/2014/2).

8. The financial performance of UNOPS in 2013 can be summarized in the following headline figures:

(a) UNOPS increased the worth of the services it delivered to $1.155 billion, a 17 per cent increase in activity compared with the previous year. The amount comprised $717.1 million in respect of projects delivered on behalf of UNOPS and $438.2 million in respect of projects delivered on behalf of other organizations;

(b) The net surplus for the year increased to $14.7 million, which included $5.1 million in non-exchange revenue recognized in the financial period, which is earmarked for use in future periods out of a $6.0 million grant received from the Government of Denmark. The balance of the net surplus is otherwise slightly higher than the previous year and broadly in line with the management's expectations;

(c) The reserves at the year-end stood at $82.8 million, exceeding the target set by the Executive Board.

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

Implementation of International Public Sector Accounting Standards

10. In accordance with IPSAS, a complete set of financial statements has been prepared as follows:

(a) *Statement of financial position.* This statement shows the financial status of UNOPS as at 31 December 2013 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UNOPS to continue delivering partner services in the future;

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

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

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

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

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

Financial performance

12. In 2013, the total delivery of services of UNOPS amounted to $1.155 billion, consisting of both services delivered on behalf of UNOPS and services delivered on behalf of its partners. This illustrates the total volume of resources handled by UNOPS during the period and represents an increase of 17.2 per cent in services compared with 2012, which recorded delivery of $985.6 million. Most of the growth in delivery is explained by an increase in services that UNOPS delivered on behalf of its partners, in particular the organization's administration of pooled trust funds.

13. In 2013, total revenue, representing the actual income attributable to UNOPS, amounted to $717.1 million, as reported in the statement of financial performance. This represents an increase of 5.0 per cent in revenue, compared with 2012, when total revenue was $683.2 million. The overall picture is that UNOPS achieved a slight increase in revenue, reflecting a gradual increase in business.

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

15. The difference between delivery and revenue figures consists of $438.2 million in agency contracts, which are "pass-through" transactions, as explained in the notes to the statements. The table below provides a summary of revenue and expenses against the three core services of UNOPS: infrastructure, project management and procurement. The figures are derived from the financial statements that report the same IPSAS figures against the five principal activities (see note 17).

16. After deducting annual expenses and long-term employee liabilities charges, the net surplus for 2013 was $14.7 million, compared with the net surplus for 2012 of $8.2 million.

Revenue and expenses

(Thousands of United States dollars)

	IPSAS revenue	*Add agency transactions*	*Total gross delivery*
Revenue			
Infrastructure	255.2	6.7	261.9
Project management	429.2	279.5	708.7
Procurement	22.1	152.0	174.1
Miscellaneous revenue	4.7		4.7
Non-exchange revenue	5.9		5.9
Total revenue	**717.1**	**438.2**	**1 155.3**

	IPSAS expenses	*Add agency transactions*	*Total gross expenses*
Expenses			
Infrastructure	(240.6)	(6.7)	(247.3)
Project management	(379.6)	(279.5)	(659.1)
Procurement	(14.0)	(152.0)	(166.0)
Total project expenses	**(634.2)**	**(438.2)**	**(1 072.4)**
Less: UNOPS administrative costs	(69.4)		(69.4)
Total expenses	**(703.6)**		**(1 141.8)**
Surplus from services	13.5		13.5
Add: net financial income	1.2		1.2
UNOPS 2013 surplus	**14.7**		**14.7**

United Nations Office for Project Services delivery and direct support

17. UNOPS receives funding from many sources and spends and disburses those same resources in accordance with a range of contract arrangements. In 2013, 60 per cent of UNOPS delivery was on behalf of the United Nations system, down from 65 per cent in 2012. UNDP continued to be the most important partner for UNOPS, accounting for funding of $280 million, or 25 per cent, of which $30 million came from UNDP regular resources, with the remaining $250 million coming from or being administered by UNDP. This included $16 million where UNOPS was in direct partnership with UNDP, $71 million from the Global Environment Facility, $73 million in management service agreements, where funding typically came from host countries, and $90 million from UNDP multi-partner trust funds on behalf of the United Nations Development Group. The second largest United Nations partner was the Department of Peacekeeping Operations of the Secretariat, accounting for delivery of $204 million, or 18.1 per cent.

18. From another perspective, direct support provided by UNOPS to Governments made up 29 per cent of all of the services provided by the organization, including

partnerships with international financial institutions such as the World Bank and management service agreements. The largest partnerships where UNOPS provided such direct support were with the Governments of Afghanistan, Guatemala and Peru. The largest countries of delivery were Afghanistan, Haiti, Myanmar, Somalia and South Sudan. A full account is provided in the UNOPS annual report (DP/OPS/2014/2).

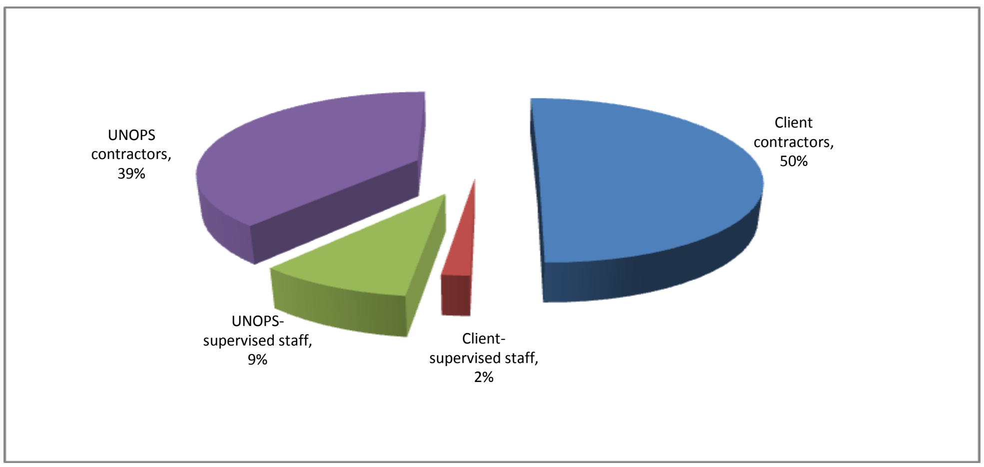
Assets and liabilities

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

Personnel and employee benefits

20. UNOPS has a highly skilled and engaged workforce. As at 31 December 2013, there were 7,602 individuals under contract, comprising 850 staff employed under the Staff Rules and Staff Regulations of the United Nations and 6,752 persons engaged on individual contracts. Of the total labour force, 48 per cent were supervised and worked for UNOPS, with the remaining 52 per cent working for partners. This is illustrated in the figure below.

Status and deployment of UNOPS personnel



Source: UNOPS Human Resources Department.

21. UNOPS continued to expand the benefits it offered to its personnel, in accordance with their contracts of employment. For example, during 2013, UNOPS announced its plan to offer a comprehensive health insurance scheme to all personnel and, beginning in 2014, it provides individuals not already receiving a pension with the opportunity to invest in a provident fund scheme with matched contributions. In accordance with IPSAS requirements, UNOPS continued to recognize its employee benefits in the financial statements, whether the individual was supervised by UNOPS or a partner organization.

22. As at 31 December 2013, the liability to fund after-service health care and end-of-service benefits for qualifying members of the staff stood at $50.4 million. This has been independently estimated by a specialized consulting firm. The details of their calculations are contained in note 13. While this represents the UNOPS best estimate of the liability, it remains subject to a degree of uncertainty which is reported in the sensitivity analysis. In recognition of this uncertainty, the actuarial assumptions will be kept under review and the estimate of the liability will be updated on an annual basis.

Financial position at the end of 2013

23. As at 31 December 2012, UNOPS had assets of $1,062.7 million, which more than covered liabilities of $980.9 million, leaving net assets of $82.8 million. Although UNOPS now recognizes all liabilities, both long-term and short-term, the assets do not yet include property, plant and equipment, which will be recognized and retrospectively stated when the transition period allowed by IPSAS is unwound.

24. The most important assets were cash and investments, which amounted to $1,015.5 million at the end of 2013, compared with $1,257.6 million at the end of 2012. The decrease of $242.1 million is mostly explained by the fact that there was a $261.7 million reduction in UNOPS liabilities payable to other United Nations entities, as indicated in note 14. This reflects the fact that, in the usual course of business, UNOPS is promptly settling its outstanding balances with other United Nations entities.

25. Some four fifths of UNOPS cash and investments reflect contributions that have been received in advance from partners and are repayable. This cash-rich position is similar to the previous year's and clarifies the fact that during 2013 UNOPS signed a record level of agreements with partners. The UNOPS cash position demonstrates its assurance that it will continue to fund a similar portfolio of future programmes of work with its partners.

Operational reserves

26. As at 31 December 2013, after allowance was made for all known liabilities, the operational reserves held by UNOPS stood at $82.8 million. Significantly, a credit of $5.1 million arising from an actuarial valuation of employee benefits at the year-end has been recognized and added to the UNOPS total reserves.

27. In September 2013, the Executive Board approved a change to the UNOPS operational reserve basis to a minimum requirement of four months of the average actual management expenses of the previous three years. The application of that formula resulted in UNOPS having a $20.2 million minimum reserve requirement as at 31 December 2013.

Liquidity

28. The statement of cash flows recorded that cash and cash equivalents held by UNOPS decreased by $354.5 million during 2013. The decrease was due primarily to the fact that UNOPS was prompt in settling its liabilities payable to other United Nations entities in the amount of $261.7 million and purchased more investments than matured during the period, resulting in an overall $109.6 million cash outflow

into investing activities. These cash outflows were made in the usual course of business, and UNOPS continues to retain a strong cash position.

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

Budget outcome

30. The move to IPSAS requires the preparation of a statement of comparison of budget and actual amounts. The statement reports actual revenue and expenses against the Executive Board-approved management budget covering UNOPS administrative costs for the biennium 2012-2013.

31. For 2013 the overall budgetary outcome was positive, with UNOPS achieving a surplus of $7.5 million from its delivery of services, with an additional $1.3 million in finance income. The UNOPS net revenue from management fees, reimbursable services and advisory income totalled $64.1 million in 2013 and was slightly down from the budgeted revenue target of $68.6 million.

D. System of internal control and its effectiveness

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

Main elements of the system of internal control

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

34. UNOPS management of risk is an integral part of the internal control framework. The Executive Director maintains a risk management system to manage a range of strategic and tactical risks, including the identification, evaluation and measurement of possible impact on UNOPS, and the selection and maintenance of solutions to mitigate those risks. The objective of risk management is to strengthen UNOPS foresight and insight, so as to respond proactively to opportunities and threats. Risk management informs the prioritization of strategic alternatives and mitigation measures, particularly in the context of UNOPS strategic realignment and business development. Furthermore, risk management helps to calibrate UNOPS internal controls in response to changes in the business and operating environments. As a consequence, and in order to consolidate various existing risk management processes of UNOPS, the Executive Director has formalized several initiatives in a bid to advance the organization’s overall maturity in managing risk.

Effectiveness of the system of internal control

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

36. The Executive Director was pleased to endorse the proactive approach of UNOPS relating to integrity, ethics and fraud prevention, as illustrated by the findings from the 2013 UNOPS integrity, ethics and anti-fraud survey, which considered the potential for fraud risks. As a result, the UNOPS Ethics Office and the Internal Audit and Investigations Group are now developing an organization-wide training curriculum on fraud awareness, ethics and integrity. This is a positive step towards further strengthening the understanding of UNOPS and its partners with regard to ethics and the ways in which to develop strategies to avert fraud or waste, while reporting any such abuse.

E. Looking ahead

Strategic plan for 2014-2017

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

UNOPS financial viability

38. The UNOPS finance team has assessed the capability and resilience of UNOPS to continue operating at its current level of activity throughout 2014 and beyond. The assessment included a review of the financial activities in the first quarter of 2014, overall performance in the final year of the strategic plan for 2010-2013, the UNOPS forward order book, the levels of cash and operational reserves and the core investments to be made during the strategic plan for 2014-2017. Based on that analysis, it is the view of the Executive Director that UNOPS is confident in its ability to remain in operation for many years to come. Accordingly, the 2013 financial statements have been prepared on a going-concern basis.

Chapter IV
Financial statements for the year ended 31 December 2013

United Nations Office for Project Services

I. Statement of financial position as at 31 December 2013

(Thousands of United States dollars)

	Reference	*As at 31 December 2013*	*As at 31 December 2012*
Assets			
Non-current assets			
Intangible assets	Note 6	546	285
Long-term investments	Note 9	387 268	351 098
Total non-current assets		**387 814**	**351 383**
Current assets			
Inventories	Note 7	2 118	1 592
Accounts receivable	Note 11		
Project accounts receivable		31 760	19 801
Prepayments		7 855	14 100
Other accounts receivable		6 950	5 571
Short-term investments	Note 9	459 441	385 149
Cash and cash equivalents	Note 12	166 811	521 334
Total current assets		**674 935**	**947 547**
Total assets		**1 062 749**	**1 298 930**
Liabilities			
Non-current liabilities			
Employee benefits	Note 13	51 015	39 890
Total non-current liabilities		**51 015**	**39 890**
Current liabilities			
Employee benefits	Note 13	16 143	14 974
Accounts payable and accruals	Note 14	86 113	318 749
Project cash advances received	Note 15		
Deferred revenue		470 562	589 664
Cash held as agent		356 110	272 341
Short-term provisions	Note 20	50	380
Total current liabilities		**928 978**	**1 196 108**
Total liabilities		**979 993**	**1 235 998**
Net assets		**82 756**	**62 932**
Reserves			
Operational reserves	Note 16	82 756	62 932
Total liabilities and reserves		**1 062 749**	**1 298 930**

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

United Nations Office for Project Services

II. Statement of financial performance for the period ended 31 December 2013

(Thousands of United States dollars)

	Reference	*As at 31 December 2013*	*As at 31 December 2012*
Revenue			
Revenue from project activities	Note 17	706 480	680 126
Miscellaneous revenue	Note 17	4 690	3 034
Non-exchange revenue	Note 17	5 966	–
Total revenue		**717 136**	**683 160**
Expenses			
Contractual services	Note 17	261 835	193 262
Salaries and other benefits — staff	Note 18	133 566	128 047
Other personnel costs — other personnel	Note 18	116 564	117 043
Operational costs	Note 17	103 776	154 647
Supplies and consumables		56 993	54 892
Travel		28 591	24 440
Other expenses		2 216	4 257
Amortization of intangible assets	Note 6	98	27
Total expenses		**703 639**	**676 615**
Finance income	Note 19	1 728	1 713
Foreign exchange gains/(losses)	Note 19	(503)	(82)
Net finance income		**1 225**	**1 631**
Surplus for the period		**14 722**	**8 176**

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

United Nations Office for Project Services

III. Statement of changes in net assets for the period ended 31 December 2013

(Thousands of United States dollars)

	Reference	
Opening balance as at 1 January 2012	Note 16	63 261
Changes resulting from initial application of IPSAS		(29 904)
Adjusted opening balance as at 1 January 2012		**33 357**
Actuarial gains/(losses) for the period		21 399
Surplus for the period		8 176
Opening balance on 1 January 2013	Note 16	**62 932**
Actuarial gains/(losses) for the period		5 102
Surplus for the period		14 722
Closing balance as at 31 December 2013		**82 756**

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

United Nations Office for Project Services

IV. Statement of cash flows for the period ended 31 December 2013

(Thousands of United States dollars)

	Reference	*As at 31 December 2013*	*As at 31 December 2012*
Cash flows from operating activities			
Surplus for the financial period		14 722	8 176
Non-cash movements:			
Amortization of intangible assets	Note 6	98	27
Finance income	Note 19	(1 728)	(1 713)
Foreign exchange losses	Note 19	503	82
Net surplus before changes in working capital		**13 595**	**6 572**
Changes in working capital			
Decrease in provision for doubtful debts	Note 11	(266)	576
Increase in inventories	Note 7	(526)	(751)
Increase in accounts receivable	Note 11	(13 072)	6 893
Decrease in prepayments	Note 11	6 245	(2 190)
Increase in employee benefits (net of actuarial gains)	Note 13	17 398	9 488
Decrease in accounts payable and accruals	Note 14	(232 636)	151 431
Decrease in project cash advances received	Note 15	(35 334)	114 230
Decrease in short-term provisions	Note 20	(330)	(220)
Cash flow impact on changes in working capital		**(258 521)**	**279 457**
Finance income received on cash and cash equivalents	Note 19	510	891
Net cash flows from operating activities		**(244 416)**	**286 920**
Cash flows from investing activities			
Acquisitions of intangible assets – net	Note 6	(361)	(312)
Proceeds from maturity of investments	Note 9	436 970	649 766
Purchase of investments	Note 9	(557 595)	(795 791)
Interest income received on investments	Note 19	15 428	13 709
Interest allocated to projects	Note 19	(4 046)	(3 869)
Net cash flows from investing activities		**(109 604)**	**(136 497)**
Less: Foreign exchange losses	Note 19	(503)	(82)
Net decrease in cash and cash equivalents		**(354 523)**	**150 341**
Cash and cash equivalents at the beginning of the period		**521 334**	**370 993**
Cash and cash equivalents at the end of the period		**166 811**	**521 334**

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

United Nations Office for Project Services

V. Statement of comparison of budget and actual amounts for the period ended 31 December 2013

(Thousands of United States dollars)

	Reference	Biennial 2012/13 management budget[a]	2013 management budget	2013 management budget	2013 actual amounts	Difference between final budget and actuals
		Original	Original	Final	Actuals	
Total revenue for the period	Note 23	**148 700**	**68 599**	**68 599**	**64 065**	**(4 534)**
Expenses						
Posts		50 900	18 163	16 804	17 324	520
Common staff costs		30 000	12 795	13 129	14 579	1 450
Travel		7 600	2 471	3 023	2 574	(449)
Consultants		23 000	12 693	17 020	13 204	(3 816)
Operating expenses		23 800	7 030	7 557	6 729	(828)
Furniture and equipment		1 000	680	737	1 259	522
Reimbursements		3 400	111	70	70	–
Provisions		8 000	–	–	791	791
Implications of IPSAS		1 000	–	–	–	–
Total expenses for the period		**148 700**	**53 943**	**58 340**	**56 530**	**(1 810)**
Net finance income/cost		–	–	–	1 347	1 347
Surplus/(deficit) for the period		**–**	**14 656**	**10 259**	**8 882**	**(1 377)**

[a] DP/OPS/2011/5.

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

United Nations Office for Project Services
Notes to the financial statements

Note 1
Reporting entity

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

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

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

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

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

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

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

Note 2
Basis for preparation

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

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

6. These financial statements are prepared on an accrual basis and cover the period from 1 January to 31 December 2013. One transitional provision has been adopted by UNOPS: UNOPS will not recognize property, plant and equipment for a period not exceeding five years from 1 January 2012 (IPSAS 17: Property, plant and equipment).

7. There are currently no exposure drafts or standards issued by the IPSAS Board awaiting implementation. There are no significant changes to the standards proposed for 2013 that are likely to affect the financial statements of UNOPS.

Note 3
Summary of significant accounting policies

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

(a) Project accounting

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

(b) Functional and presentation currency

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

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

(c) Financial instruments

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

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

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

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

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

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

(d) Property, plant and equipment

17. During the first two quarters of 2013 UNOPS conducted further work to obtain the necessary information on the existence and valuation of property, plant and equipment to ensure full compliance with the requirements of IPSAS. Difficulties were encountered during this work, particularly in the application of the definition of property, plant and equipment to project assets, which were addressed during the second half of the year, and it developed a workplan to bring property, plant and equipment as of 1 January 2014. UNOPS has chosen to adopt the transitional provisions in IPSAS 17: Property, plant and equipment and not recognize property, plant and equipment in the statement of financial position for a period of up to five years.

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

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

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

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

(b) No adjustment for the first-time recognition of property, plant and equipment to the opening balance of accumulated surplus as at 31 December 2012 was made;

(c) Expenditure on property, plant and equipment in 2013 was not capitalized, but treated as an operating expense;

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

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

21. UNOPS does not have any heritage assets.

(e) Intangible assets

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

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

Table 1
Amortization of intangible assets

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

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

(f) Inventories

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

(g) Leases

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

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

(h) Employee benefits

28. UNOPS recognizes the following categories of employee benefits:

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

(b) Post-employment benefits;

(c) Other long-term employee benefits.

Short-term employee benefits

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

Post-employment benefits

30. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined-benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the Assembly, together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the 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 Fund as at the valuation date.

31. As one of the participating organizations, UNOPS is not in a position to identify its share of the underlying financial position and performance of the plan on the basis of IPSAS 25: Employee benefits with sufficient reliability for accounting purposes and will therefore account for this plan as a defined contribution plan.

32. The after-service health insurance programme at UNOPS and the repatriation grant at UNOPS are defined-benefit plans. Accordingly, a liability is recognized to

reflect the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The actuarial valuations are carried out using the projected unit credit method.

Other long-term employee benefits

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

(i) Provisions and contingencies

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

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

(j) Revenue

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

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

38. Although UNOPS does not receive any voluntary or assessed contributions from Member States, occasional non-exchange revenue arises, most often in relation to donations and services in kind (IPSAS 23: Revenue from non-exchange transactions). Non-exchange transactions are measured at fair value and disclosed by way of notes to the financial statements. UNOPS has elected not to recognize services in kind in the statement of financial performance but to disclose the most significant in-kind services in the notes to these financial statements.

(k) Expenses

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

(l) Taxation

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

(m) Net assets/equity

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

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

(n) Segment reporting

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

(o) Budget comparison

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

45. The budget and financial statements of UNOPS are prepared on an accrual basis. In the statement of financial performance, expenses are classified according to their nature. In the approved management budget, expenses are classified by cost components or the source of funding against which the expenses will be charged. As required under IPSAS 24: Presentation of budget information in financial statements, the approved budget is reconciled with the actual amounts presented in the financial statements, quantifying differences in accounting bases and classification.

(p) Critical accounting estimates and judgements

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

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

Post-employment benefits and other long-term employee benefits

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

Provisions

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

Allowances for doubtful accounts receivable

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

Revenue recognition

51. Revenue from exchange transactions is measured according to the stage of completion of the contract. This requires an estimate of costs incurred but not yet paid for, and total project costs. These estimates are prepared by technically qualified staff and advisers, which reduce, but do not eliminate, uncertainty.

Note 4
Financial risk management

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

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

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

- Credit risk: preservation of capital, provided by investing in high-quality fixed-income securities emphasizing the creditworthiness of the issuers.

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

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

Currency risk

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

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

58. The table below shows, as at 31 December 2013, the impact on surplus of the year if the major currencies weakened/strengthened by 10 per cent, which is management's upper estimate of possible movements in the exchange rates against the United States dollar, with all other variables held constant.

Table 2
Impact of currency risk on surplus

	EUR	*JPY*	*DKK*	*GTQ*	*INR*	*PEN*	*MVR*	*KES*	*ARS*	*HTG*
+10 per cent	1 593	(1 030)	(455)	222	201	(70)	(61)	(47)	42	(15)
-10 per cent	(1 593)	1 030	455	(222)	(201)	70	61	47	(42)	15

Abbreviations: ARS, Argentine peso; DKK, Danish krone; EUR, euro; GTQ, Guatemalan quetzal; HTG, Haitian gourde; INR, Indian rupee; JPY, Japanese yen; KEN, Kenyan shilling; MVR, Maldives rufiyaa; PEN, Peruvian nuevo sol.

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

60. As the sensitivities are limited to year-end financial instrument balances, they do not take account of sales and operating costs, which are highly sensitive to

changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, while in reality commodity prices, interest rates and foreign currencies do not move independently.

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

Credit risk

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

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

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

Interest rate risk

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

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

Liquidity risk

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

Note 5
Property, plant and equipment

68. Transitional provisions have been applied in the initial recognition of property, plant and equipment. In accordance with paragraph 95 of IPSAS 17, UNOPS will

not be recognizing property, plant and equipment in the statement of financial position for a period not exceeding five years from the date of first adoption of accrual accounting (1 January 2012). Accordingly, property, plant and equipment have been expensed at the date of purchase and have not been recognized as assets.

Note 6
Intangible assets

Table 3
Intangible assets
(Thousands of United States dollars)

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

Table 4
Intangible assets — 2012 comparatives
(Thousands of United States dollars)

	Internally generated computer software	*Other computer software*	*Intangible assets under construction*	*Total*
Gross carrying amounts as at 1 January 2012	**–**	**–**	**–**	**–**
Additions	147	73	92	312
Disposals	–	–	–	–
Gross carrying amounts as at 31 December 2012	**147**	**73**	**92**	**312**
Accumulated amortization and impairment as at 1 January 2012	–	–	–	–
Amortization	(14)	(14)	–	(28)
Less: Removal of amortization on assets disposal	–	–	–	–
Accumulated amortization and impairment as at 31 December 2012	**(14)**	**(14)**	**–**	**(28)**
Net carrying amounts as at 31 December 2012	**133**	**59**	**92**	**284**

69. Rounding adjustments have been made to the 2012 opening amortization balances above.

70. The gross carrying value of intangible assets amounts to $0.655 million at period-end, which includes internally developed computer software, other computer software (acquired) and intangible assets under construction.

71. Internally developed software relates to the development of the UNOPS management workspace project, which creates a unified reporting platform for all business areas (including finance, human resources, procurement, project management, and results and performance management). In 2013, UNOPS had one internal development software project that will continue into 2014. This project, which enhances the functionality of the management workspace, is recognized as an intangible asset under construction.

Note 7
Inventories

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

Table 5
Inventories
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Inventories	2 118	1 592

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

	As at 31 December 2013	*As at 31 December 2012*
Afghanistan	373	–
Democratic Republic of the Congo	–	152
Haiti	299	323
Iraq	146	–
Kenya	29	–
Mine Action	1 026	732
Sri Lanka	245	64
South Sudan	–	321
Total	**2 118**	**1 592**

Note 8
Financial instruments

Table 7
Financial assets
(Thousands of United States dollars)

	As at 31 December 2013				*As at 31 December 2012*			
	Cash and cash equivalents	*Loans and receivables*	*Held-to-maturity investments*	*Total*	*Cash and cash equivalents*	*Loans and receivables*	*Held-to-maturity investments*	*Total*
Investments (note 9)			846 709	846 709			736 247	736 247
Accounts receivable excluding prepayments (note 11)		38 710	–	38 710		25 372		25 372
Cash and cash equivalents (note 12)	166 811		–	166 811	521 334			521 334
Total	**166 811**	**38 710**	**846 709**	**1 052 230**	**521 334**	**25 372**	**736 247**	**1 282 953**

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

	As at 31 December 2013	*As at 31 December 2012*
Accounts payable and accruals (note 14)	86 113	318 749
Cash held by UNOPS as agent (note 15)	356 110	272 341
Total	**442 223**	**591 090**

Note 9
Investments

73. All UNOPS investment functions are outsourced and managed by the UNDP treasury and are measured at amortized cost. All investments are held and amortized in United States dollars.

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

Table 9
Investment portfolio
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Long-term investments	387 268	351 098
Short-term investments	459 441	385 149
Money market funds and time deposits	103 012	339 759
Total	**949 721**	**1 076 006**

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

76. The movements in short- and long-term investments for 2013 are as follows:

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

	2013	*2012*
Opening balance as at 1 January	**736 247**	**599 240**
Additions (purchases of investments)	557 595	795 791
Disposals (proceeds from maturity of investments)	(436 970)	(649 766)
Recognition of amortized costs	(10 164)	(9 018)
Closing balance as at 31 December	**846 708**	**736 247**
Current portion (short-term investments)	459 441	385 149

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

78. Accrued interest of $4.6 million ($3.8 million in 2012) has been included in the statement of financial position as "other accounts receivable" (see note 11 for further details).

Short-term investments

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

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

	As at 31 December 2013	*As at 31 December 2012*
Money market instruments	134 936	149 897
Bonds	324 505	235 252
Total short-term investments	**459 441**	**385 149**

Long-term investments

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

Table 12
Bonds
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Bonds	387 268	351 098

81. The investment portfolio of UNOPS consists of high-quality debt instruments (bonds, discount instruments, treasury notes, certificates of deposit and money market funds). In the table below, the entire portfolio is presented following its credit rating distribution.

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

	As at 31 December 2013	*As at 31 December 2012*
AAA	631 253	543 710
AA+	120 356	96 646
AA-	83 924	57 197
A	11 176	38 694
Total	**846 709**	**736 247**

Note 10
Fair value disclosure on investments

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

	As at 31 December 2013			*As at 31 December 2012*		
	Fair value	*Value at amortized cost*	*Difference*	*Fair value*	*Value at amortized cost*	*Difference*
Money market instruments — certificates of deposit, commercial papers, discount notes, treasury bills	134 922	134 936	(14)	149 899	149 897	2
Bonds	714 271	711 773	2 498	590 436	586 350	4 086
Total	**849 193**	**846 709**	**2 484**	**740 335**	**736 247**	**4 088**

Note 11
Accounts receivable

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

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

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

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

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

Table 15
Accounts receivable
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Project accounts receivable (gross)	40 223	32 347
Less: Bad debt allowance	(8 463)	(12 546)
Project account receivable (net)	**31 760**	**19 801**
Other accounts receivable (gross)	7 017	5 688
Less: Bad debt allowance	(67)	(117)
Other accounts receivable (net)	**6 950**	**5 571**
Total accounts receivable (net) excluding prepayments	**38 710**	**25 372**
Prepayments	7 855	14 100
Total accounts receivable (net) including prepayments	**46 565**	**39 472**

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

85. As at 31 December 2013, receivables of $8.5 million ($12.7 million in 2012) were impaired and provisions were made against them.

86. As at 31 December 2013, receivables of $7.7 million ($11.0 million in 2012) were past due but not impaired as there is no recent history of default regarding those receivables. The ageing of those receivables exceeds three months.

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

	Current 0-3 months	*Overdue 3-6 months*	*Overdue 6-12 months*	*Overdue >12 months*	*Total*
Accounts receivable	30 967	5 789	1 731	223	38 710

Project accounts receivable

87. The project accounts receivable are composed of:

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

	As at 31 December 2013	*As at 31 December 2012*
Project implementation-related receivables (net)	30 287	19 594
Accounts receivable from UNDP	1 338	–
Accounts receivable from other United Nations agencies	135	207
Total project accounts receivable	**31 760**	**19 801**

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

89. Accounts receivable from UNDP arose as UNOPS provided project-related services to UNDP which were higher in value than the payables resulting from the use of UNDP banking services according to the service-level agreement with UNDP, as well as advance cash received to cover project costs incurred and fee revenue on projects implemented for UNDP as at the end of December 2013. The outstanding balance due from UNDP is made up as follows:

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

	As at 31 December 2013	*As at 31 December 2012*
Receivable from UNDP		
Cumulative project expenses and fees due to UNOPS	1 126 187	980 519
Less: Bad debt allowance as follows:	(2 692)	(20 140)
Receivable from UNDP on project expenditure incurred before 2007	–	(17 241)
Receivable from UNDP on project expenditure incurred after 2008	(2 692)	(2 899)
Net receivable due from UNDP on project implementation activities (including services)	**1 123 495**	**960 379**
Payable to UNDP		
Cumulative payable by UNOPS to UNDP to disburse payments on behalf of UNOPS	(1 122 055)	(1 217 256)
Payable to UNDP for services	(102)	(5 503)
Gross accounts payable to UNDP	**(1 122 157)**	**(1 222 759)**
Net amounts receivable/(payable) from/to UNDP	**1 338**	**(262 380)**

90. Following the decision of the Panel on the settlement of long-outstanding inter-fund balances, UNOPS received from UNDP a net amount of $6.4 million, which has been incorporated into the 2013 financial statements.

91. The accounts receivable from other United Nations entities represent amounts due from the United Nations Capital Development Fund and relate mainly to project expenditure incurred by UNOPS when implementing projects on behalf of the agency.

92. Of the balance of project receivables of $31.8 million ($19.6 million in 2012), $14.0 million ($7.0 million in 2012) relates to cash advances due from customers for construction contracts for the period ended 31 December 2013, as detailed in note 17.

Other accounts receivable

93. The other accounts receivable are composed of:

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

	As at 31 December 2013	*As at 31 December 2012*
Staff receivables	1 305	1 012
Accrued interest income	4 579	3 759
Miscellaneous receivables	1 066	800
Total other accounts receivable	**6 950**	**5 571**

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

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

Prepayments

Table 20
Prepayments
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Prepayments	7 855	14 100

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

Bad debt allowance

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

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

	2013	*2012*
Opening balance as at 1 January		
Related to projects	12 546	12 038
Other accounts receivable	117	49
Opening balance	**12 663**	**12 087**
Net increase (decrease) in provision for receivables impairment		
Increase	1 356	1 666
Receivables written off during the year as uncollectable	(3 943)	(401)
Unused amounts reversed	(1 546)	(689)
Net increase (decrease)	**(4 133)**	**576**
Closing balance as at 31 December		
Project-related	8 463	12 546
Other accounts receivable	67	117
Closing balance	**8 530**	**12 663**

98. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The project-related provisions amount above excludes a provision of $2.7 million related to UNDP inter-fund balances, which are shown separately in table 17.

Note 12
Cash and cash equivalents

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

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

	As at 31 December 2013	*As at 31 December 2012*
Cash at banks and on hand	63 890	182 391
Impaired cash balances	(91)	(816)
Money market funds and time deposits	103 012	339 759
Total cash and cash equivalents	**166 811**	**521 334**

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

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

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

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

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

Currency	*As at 31 December 2013*	*As at 31 December 2012*
United States dollar	24 561	116 168
Japanese yen	13 985	2 083
Euro	11 857	31 996
Danish krone	5 212	92
Argentine peso	1 510	3 395
Peruvian nuevo sol	868	6 753
Maldives rufiyaa	767	–
Kenya shilling	694	183
Other currencies	4 224	21 478
Subtotal cash at banks	**63 678**	**182 148**
Cash on hand	**212**	**243**
Total	**63 890**	**182 391**

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

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

	As at 31 December 2013	*As at 31 December 2012*
AAA	1 510	2 580
AA+	–	3 395
AA	42	–
AA-	–	100
A+	694	673
A	36 698	115 680
A-	838	(79)
BBB+	–	6 862
BBB	1 290	17 059
BBB-	287	51

	As at 31 December 2013	*As at 31 December 2012*
BB+	–	825
BB	770	–
BB-	630	(26)
B	–	43
Unrated	20 919	34 985
Subtotal cash at banks	**63 678**	**182 148**
Cash on hand	**212**	**243**
Total	**63 890**	**182 391**

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

106. The credit quality of the money market funds and time deposits is as follows:

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

	As at 31 December 2013	*As at 31 December 2012*
AAA	52 960	139 767
AA+	–	24 992
AA-	50 000	125 000
A+	–	50 000
A	52	–
Total	**103 012**	**339 759**

Note 13
Employee benefits

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

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

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

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

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

	As at 31 December 2013	*As at 31 December 2012*
Short-term employee benefits	16 143	14 974
Long-term employee benefits	588	698
Post-employment benefits	50 427	39 192
Total employee benefits liabilities	**67 158**	**54 864**
Current portion	16 143	14 974
Non-current portion	51 015	39 890

Short-term employee benefits

108. Short-term employee benefits are composed of:

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

	As at 31 December 2013	*As at 31 December 2012*
Annual leave entitlements	14 052	13 469
Home leave entitlements (current portion)	2 017	1 451
Assignment grant on first appointment or reassignment	74	54
Total short-term employee benefits liabilities	**16 143**	**14 974**

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

Long-term employee benefits

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

Post-employment benefits

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

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

	As at 31 December 2013	*As at 31 December 2012*
After-service health insurance	38 229	26 083
Repatriation grants	12 198	13 109
Total post-employment benefits	**50 427**	**39 192**

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

113. These benefits are determined by professional actuaries. As at the end of 2013, total employee benefits liabilities amounted to $50.4 million ($39.2 million in 2012). These employee benefits are established in accordance with the Staff Rules and Staff Regulations of the United Nations for staff members in the Professional and General Service categories.

114. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined-benefit plan.

115. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan.

116. UNOPS and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNOPS of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Accordingly, UNOPS has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The contributions of UNOPS to the plan during the financial period are recognized as expenses in the statement of financial performance.

After-service health insurance

117. The year-end liabilities for after-service health insurance are derived from the actuarial valuation conducted at year-end 2013.

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

119. The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2013 were a discount rate of 4.9 per cent, an inflation rate of 2.5 per cent, health-care escalation rates being dependent on the medical plan to which the employee is affiliated starting at 4.9 per cent up to 8.2 per cent in 2013-2014, grading down to 4.5 per cent in 2027 and later years; age-related morbidity; and retirement and mortality assumptions consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits. Furthermore, UNOPS-specific withdrawal rates are applied.

120. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2013, net of contributions from plan participants, was estimated by actuaries at $38.2 million ($26.1 million in 2012).

121. On the basis of the assumptions above, it is estimated that the net present value of the liability would increase by 19 per cent if the medical cost trend were increased by 1 per cent and decreased by 5 per cent if the medical cost trend were decreased by 1 per cent, all other assumptions held constant.

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

	Defined benefit obligations	*Service cost and interest cost*
One percentage point increase	7 250	821
One percentage point decrease	(5 829)	(642)

Repatriation grants

122. The year-end liabilities for repatriation grants are derived from the actuarial valuation conducted in 2013, adjusted for change in discount rate.

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

124. The major assumptions used by the actuary were a discount rate of 4.9 per cent, annual salary increases based on salary scales, grade and step, and travel cost increases of 2.5 per cent per annum. Furthermore, assumptions related to retirement, withdrawal and mortality are made consistent with those used by the Pension Fund, except for withdrawal, which is based on the historic behaviour of UNOPS employees.

125. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2013 was estimated by actuaries at $12.2 million ($13.1 million in 2012).

126. A sensitivity analysis has been performed on the assumptions used in the actuarial valuation. An increase of the discount rate by 0.25 per cent, with all other assumptions held constant, would result in a decrease of the net present value of the liability by less than 1 per cent. A decrease of the discount rate by 0.25 per cent, with all other assumptions held constant, would also result in an increase of the net present value of the liability by less than 1 per cent.

Accounting for post-employment benefits

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

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

	Repatriation	*After-service health insurance*	*Total 2013*	*Total 2012*
Liability as at 1 January	**13 109**	**26 083**	**39 192**	**52 743**
Current service cost	2 533	2 109	4 642	6 331
Interest cost	563	1 304	1 867	2 340
Benefits paid	(776)	(293)	(1 069)	(823)
Actuarial losses/(gains)	(3 231)	(1 871)	(5 102)	(21 399)
Other	–	10 897	10 897	–
Liability as at 31 December	**12 198**	**38 229**	**50 427**	**39 192**

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

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

	Repatriation	*After-service health insurance*	*Total 2013*	*Total 2012*
Current service cost	2 533	2 109	4 642	6 331
Interest cost	563	1 304	1 867	2 340
Other		10 897	10 897	–
Expenses as at 31 December	**3 096**	**14 310**	**17 406**	**8 671**

129. The total expense has been included under “salaries and employee benefits” in the statement of financial performance, and the actuarial gains of $5.1 million ($21.4 million in 2012) has been recognized under “reserves” in the statement of financial position. Other employee benefits liability amounting to $10.9 million of after-service health insurance liability relates to additional retirees brought into the UNOPS book subsequent to the resolution of the inter-fund dispute with UNDP.

130. The principal actuarial assumptions were as follows:

Table 32
Principal actuarial assumptions

	Repatriation	*After-service health insurance*
Discount rate	4.90 per cent	4.90 per cent
Future salary increases (on top of inflation)	Salary scale	Salary scale
Inflation rates	2.50 per cent	2.50 per cent
Mortality rate	United Nations scales	United Nations scales
Turnover rate	UNOPS scales	UNOPS scales

United Nations Joint Staff Pension Fund

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

132. The UNOPS financial obligation to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the 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 at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

133. The latest actuarial valuation, performed as at 31 December 2011, revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The actuarial deficit was attributable primarily to the lower-than-expected investment experience in recent years. The next actuarial valuation will be conducted as at 31 December 2013.

134. As at 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

135. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of writing of the present report, the General Assembly had not invoked the provision of article 26.

136. In July 2012, the Pension Board noted in its report on its fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 was expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants in the Fund, with effect from not later than 1 January 2014. The related change to the Pension Fund's Regulations was approved by the Assembly in December 2013. The increase in the normal retirement age will be reflected in the actuarial valuation of the Fund as at 31 December 2013.

137. In 2013, UNOPS contributions paid to the Pension Fund amounted to $15.2 million ($14.8 million in 2012). Except for the effects of inflation, there are no indications of a material change in the expected contribution in 2014.

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

Note 14
Accounts payable and accruals

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

	As at 31 December 2013	*As at 31 December 2012*
Accounts payable	21 870	289 207
Accruals	64 243	29 542
Total	**86 113**	**318 749**

Accounts payable

139. Balances of accounts payable as at 31 December 2013 are shown below.

Table 34
Accounts payable
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Accounts payable	21 080	26 744
Accounts payable to other United Nations entities	648	262 380
Staff payables	142	83
Total accounts payable	**21 870**	**289 207**

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

141. Payables to staff comprise separation amounts pending payment.

Accruals

142. The accrued charges amounting to $64.2 million ($29.5 million in 2012) are financial liabilities in respect of goods or services that have been received or provided to UNOPS during the reporting period but not yet invoiced. Merit rewards' accruals, amounting to $2.4 million, are included in this balance. Other accrued charges relate mainly to goods or services that have been received by or provided to UNOPS for the implementation of client projects.

Note 15
Project cash advances received

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

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

	As at 31 December 2013	*As at 31 December 2012*
Deferred revenue	470 562	589 664
Cash held by UNOPS as agent	356 110	272 341
Total	**826 672**	**862 005**

144. Of the balance in deferred revenue of $470.6 million ($589.7 million in 2012), $206 million ($249.8 million in 2012) relates to cash advances on construction contracts for the year ended 31 December 2013, as detailed in note 17.

Note 16
Operational reserves

145. The operational reserves are as follows:

Table 36
Operational reserves
(Thousands of United States dollars)

	2013	*2012*
Opening balance as at 1 January	41 533	33 357
Surplus for the period	14 722	8 176
Reserve balance	**56 255**	**41 533**
Actuarial gains/losses	26 501	21 399
Closing reserve balance as at 31 December	**82 756**	**62 932**

146. A new formula for calculating operational reserve requirements approved by the Executive Board on 12 September 2013 stipulated that the operational reserve should be equivalent to four months of the average of the administrative expenditures for the past three years of operation. Based on this formula, for the period ended 31 December 2013, the operational reserves requirement was $20.2 million. The actual UNOPS operational reserves for the same period amounted to $82.8 million.

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

Note 17
Revenue and expenses

Non-exchange revenue

148. UNOPS recognized a sum of $6.0 million (nil in 2012) as non-exchange revenue in 2013, representing a contribution received from the Government of Denmark.

Exchange revenue

149. The exchange revenue of UNOPS comprises $706.5 million ($680.1 million in 2012) in revenue from project activities and $4.7 million ($3.0 million in 2012) from miscellaneous revenue.

150. The revenue and expenses from UNOPS project activities are as follows:

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

	As at 31 December 2013	*As at 31 December 2012*
Construction contracts (infrastructure)	255 205	253 758
Procurement	22 058	17 173
Fund management	71 934	55 379
Human resources administration	28 087	35 834
Other project management	329 196	317 982
Total project-related revenue	**706 480**	**680 126**
***Less*: Project expenses**		
Construction contracts	240 620	238 649
Procurement	14 044	9 315
Fund management	58 059	43 300
Human resources	20 973	29 147
Other project management	300 584	294 590
Total project-related expenses	**634 280**	**615 001**
Net revenue from project activities	**72 200**	**65 125**

151. In 2013, UNOPS revenue was reported using the categories in the table above. For operational reasons and as described in the annual report, UNOPS analyses its revenue according to the following three core service categories: project management, infrastructure and procurement. These categories are detailed in note 1.

Construction contracts

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

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

	Cumulative	*Recognized in prior years*	*Recognized in current year*
Revenue	1 249 654	994 449	255 205
Expense	(1 184 489)	(943 869)	(240 620)
Surplus	**65 165**	**50 580**	**14 585**

153. Amounts due to and from customers for construction contract works are as follows:

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

	Projects with net deferred revenue balance	*Projects with net balance project receivable*	*Total*
Cash advances received including accrued interest	(927 329)	(50 759)	(978 088)
Revenue recognized over the life of the contract	721 563	64 727	786 290
Amounts due (to)/from customers included in deferred revenue and project receivables, respectively	**(205 766)**	**13 968**	**(191 798)**
Retentions			12 136

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

Operational costs

155. Operational costs of $103.8 million ($154.6 million in 2012) relate to expenses incurred by UNOPS for a range of activities, which include payments for:

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

Contractual services

156. Contractual services of $261.8 million ($193.2 million in 2012) relate to expenses incurred for a range of UNOPS activities, some of which include payments to:

- Subcontractors for implementation and construction projects
- Vendors for feasibility studies and research on projects
- Engineers for implementation and construction projects
- Vendors for security charges
- Service contract holders that are not under direct UNOPS supervision

Note 18
Employee benefits expenses

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

	As at 31 December 2013	*As at 31 December 2012*
Salaries	75 228	73 994
After-service health insurance	5 486	6 774
Annual leave	2 012	1 524
Home leave	1 145	1 161
Defined contribution plan	15 498	14 796
Repatriation grants	2 512	1 897
Other short-term employee benefit expenses	31 685	27 901
Expenses related to staff	**133 566**	**128 047**
Other personnel expenses	116 564	117 043
Total employee benefits expenses	**250 130**	**245 090**

157. Other personnel expenses relate to the remuneration paid to UNOPS individual contractors for salaries and accrued annual leave.

Note 19
Finance income and costs

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

	As at 31 December 2013	*As at 31 December 2012*
Finance income		
Total finance income received on investments	15 428	13 709
Less: Recognition of amortized cost (note 9)	(10 164)	(9 018)
Total finance income attributable to UNOPS on investments	**5 264**	**4 691**
Less: Finance income/cost allocated to projects	(4 046)	(3 869)
Net finance income retained by UNOPS	**1 218**	**822**
Finance income on UNOPS bank balances	510	891
Total finance income	**1 728**	**1 713**

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

	As at 31 December 2013	*As at 31 December 2012*
Net foreign exchange loss	(503)	(82)

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

Note 20
Short-term provisions

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

	As at 1 January 2013	*Additional provisions*	*Unused amounts reversed*	*As at 31 December 2013*
Claims	330	–	(330)	–
Leasehold restoration provisions	50	–	–	50
Total	**380**	**–**	**(330)**	**50**

159. Leasehold restoration provisions reflect an estimate of requirements to return leased properties to the lessors at the end of the lease term in a specified condition. This concerns various lease agreements in which UNOPS has the obligation to remove installed assets.

Note 21
Contingencies

Contingent liabilities

160. On the basis of complainants' claims, contingent liabilities at the end of the period amounted to $13.5 million, which represents management's best estimate of the upper limit of the possible financial exposure inclusive of costs and disbursements in relation to the pending litigations and claims.

Table 44
Contingent liabilities
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Project-related claims from clients	13 144	25 855
Staff-related claims	323	493
Total contingent liabilities	**13 467**	**26 348**

161. No provision in relation to these claims has been recognized in these consolidated financial statements, as legal advice indicates that it is not probable that a significant cash outflow will arise. Other claims for which provisions have been made are reflected in note 20.

Contingent assets

162. There were no contingent assets at the end of 2013 following the resolution of a matter reported in 2012, which was decided in favour of UNOPS in 2013.

Note 22
Commitments

163. UNOPS leases office premises in field locations under non-cancellable and cancellable operating lease agreements. When cancellable, UNOPS is required to give a one- to six-month notice of termination of the lease agreements. The lease terms are between 1 and 15 years. Some of these operating lease agreements contain renewal clauses that enable UNOPS to extend the terms of the leases at the end of the original lease terms and escalation clauses that may increase annual rent payments on the basis of increases in the relevant market price indexes in the respective countries where the field offices are located.

164. The operating expenses include lease payments for an amount of $9.1 million (8.5 million in 2012) recognized as operating lease expenses during the year in the statement of financial performance under "operational costs".

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

Table 45
Lease commitments
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Within one year	2 573	2 534
Later than one year and not later than five years	501	1 911
Later than five years	167	27
Total operating lease commitments	**3 241**	**4 472**

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

167. As at 31 December 2013, the total future minimum lease payments under sublease agreements that UNOPS expects to receive on sublease agreements that cannot be cancelled was only $0.012 million ($0.012 million in 2012), owing mainly to the 30-day notice period and the 2013 end date of most significant sublease agreements.

168. Sublease payments amounting $3.1 million were received in 2013 ($2.9 million in 2012) and recognized as operating lease revenue during the year in the statement of financial performance and are included in "miscellaneous revenue". Rental income for office space in the Chrysler building subleased by UNOPS in New York in 2013 amounted to $1.4 million ($1.5 million in 2012).

169. UNOPS commitments include purchase orders and service contracts contracted but not delivered as at year-end. A list of these commitments is given below.

Table 46
Open commitments
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Management-related commitments	2 723	394
Project-related commitments	135 759	126 244
Total	**138 482**	**126 638**

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

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

	Actual amounts on comparable basis	*Basis difference (excludes intangible assets capitalized)*	*Entity difference (includes projects)*	*Reclassification*	*Amounts in IPSAS financial statements*	*Classification in statement of financial performance*
Revenue	**64 065**	**5 966**	**647 105**	**–**	**717 136**	**Revenue**
						Payments
Posts	17 324	–	116 242	–	133 566	Salaries and employee benefits
Common staff costs	14 579	–	(14 579)	–	–	Salaries and employee benefits
Travel	2 574	–	26 017	–	28 591	Travel
Consultants	13 204	–	365 195	–	378 399	Contractual services
Operating expenses	6 729	–	97 047	–	103 776	Operational costs
Furniture and equipment	1 259	(262)	55 996	–	56 993	Supplies and consumables
Reimbursements and other	70	–	2 244	–	2 314	Other and amortization of intangible assets
Provisions	791	–	–	(791)	–	
Total expenses for the period	**56 530**	**(262)**	**648 162**	**(791)**	**703 639**	
Net finance income/(cost)	1 347	–	(122)	–	1 225	
Surplus/(deficit) for the period	**8 882**	**6 228**	**(1 179)**	**791**	**14 722**	

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

171. The UNOPS budget and accounts are prepared on the same basis, except for the acquisition of intangible assets and non-exchange revenue. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flows are prepared on a full accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts is prepared on an accrual basis, except for the acquisition of intangible assets. The approved budget covers the biennium 2012-2013. The annual budget for 2013 was included in statement V.

172. The UNOPS financial regulations and rules specify that the Executive Director has the authority to redeploy resources within the approved management budget and

to increase or reduce the total approved management budget allotment, provided that the net revenue target established by the Executive Board for the budget period remains unchanged. As a result, there are some line item differences between the original and final budgets.

Reconciliation of actual amounts from budgetary basis to financial statement basis

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

174. According to statement V, the actual revenue for 2013 was 7 per cent lower than the final budgeted amount of $68.6 million. Total management expenditure was 3 per cent lower compared with the budgeted amount of $58.3 million.

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

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

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

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

179. A reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flows for the period ended 31 December 2013 is presented below.

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

	Operating	*Investing*	*Total*
Actual amount on comparable basis as presented in the budget and actual comparative statement	8 882	–	8 882
Basis differences (capitalization of intangible assets)	360	(262)	98
Entity differences (project income)	5 578	–	5 578
Changes in working capital	(258 521)	–	(258 521)
Movement in investments and interest received	(715)	(109 342)	(110 057)
Subtotal	**(244 416)**	**(109 604)**	**(354 020)**
Net foreign exchange losses	–	–	(503)
Actual amount in the statement of cash flows	**(244 416)**	**(109 604)**	**(354 523)**

Note 24
Segment reporting

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

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

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

183. As from 2013, the business is considered from an operating cluster perspective. Effective early 2013, UNOPS underwent a change of operational structure to better reflect the activities of the organization. The three main objectives for the restructuring were to:

(a) Establish sustainable delivery practices;

(b) Strengthen business development throughout the organization;

(c) Optimize presence in proximity to donors and projects, and control costs.

184. As a result of that realignment process, the Asia-Pacific region and the Europe and Middle East region were merged and the Eurasia Office was formed. Another outcome of the restructuring was the amalgamation of the activities of the North America Office into a new portfolio called the Global Partner Services Office by combining the former with operations in several locations into one management structure.

185. Consequently, for 2013, UNOPS activities were reported to senior management according to the following segments: Africa region, Eurasia Office, Global Partner Services Office, Latin America and Caribbean region and its headquarters. Comparative information for 2012 is not presented, as the new structure took effect only in 2013 and the accounting system is not adapted to generate comparative segment information.

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

Table 49
Segment reporting
(Thousands of United States dollars)

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

Note 25
Related parties

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

188. UNOPS maintains a working relationship with the Executive Board and reimburses part of the travel costs, subsistence allowances and office expenses incurred by members of the Board in discharging their official duties, as well as a share of the cost of the Secretariat. The cost of this amounted to approximately $0.2 million for 2013 ($0.2 million for 2012). Members of the Board are elected each year by the Economic and Social Council in accordance with the rules of procedure on membership. Executive Board members are not considered key management personnel of UNOPS as defined under IPSAS.

189. UNOPS considers UNDP and UNFPA related parties, given that all three organizations are subject to common control by the Executive Board. UNOPS has a

range of working relationships with UNDP and UNFPA. All of the transactions between UNOPS and the other two organizations are conducted at arm's length. The inter-agency transactions were consistent with normal operating relationships between the organizations and were undertaken on terms and conditions that are normal for such transactions.

Key management personnel

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

Table 50
Key management personnel
(Thousands of United States dollars)

	As at 31 December 2013	*As at 31 December 2012*
Number of individuals	2	2
Aggregate remuneration		
Base compensation and post adjustment	487	448
Other entitlements	38	56
Post-employment benefits	126	125
Total remuneration	**651**	**629**
Outstanding advances against entitlements	4	4

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

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

193. In 2013, there were no known instances of executive management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 26
Services in kind

194. Services in kind for the year amounted to $3.7 million ($2.5 million in 2012), which is made up of the estimated market rental value of office space provided by the Government of Denmark to accommodate the UNOPS headquarters in Copenhagen.

Note 27
Events after reporting date

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

196. With regard to the long-outstanding balance on the inter-fund with UNDP, in February 2014 the Panel of Experts gave their opinion on the allocation of financial responsibility between UNOPS and UNDP. As a result, UNOPS received a net amount of $6.4 million and incurred an increase in its after-service health insurance liabilities of $10.9 million, which have been incorporated into the 2013 financial statement.

197. As at the date of signature of the UNOPS financial statements and related notes for the period ended 31 December 2013, other than the above-mentioned Panel decision on inter-fund settlement, there have been no material events, favourable or unfavourable, that have occurred between the balance sheet date and the date on which the financial statements were authorized for issue that would have affected the statements.

Glossary of technical terms

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

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

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

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