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United Nations Office for Project Services

Financial report and audited financial statements

for the year ended 31 December 2015

and

Report of the Board of Auditors

United Nations • New York, 2016

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

Letter dated 31 March 2016 from the Executive Director and the Acting Chief Financial Officer and Comptroller of the United Nations Office for Project Services addressed to the Chair of the Board of Auditors

The United Nations Office for Project Services (UNOPS) hereby submits its annual financial statements for the year ended 31 December 2015.

We acknowledge that:

- The management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on the management's best estimates and judgments.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNOPS internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- The management provided the Board of Auditors and 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*) Grete **Faremo**
Executive Director

(*Signed*) Chitra **Venkat**
Acting Chief Financial Officer/Comptroller

Letter dated 30 June 2016 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 financial statements of the United Nations Office for Project Services for the year ended 31 December 2015.

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

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS), which comprise the statement of financial position as at 31 December 2015 (statement I) and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended and the notes to the financial statements.

Responsibility of management for the financial statements

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

Responsibility of the auditors

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

In our opinion, the transactions of UNOPS that have come to our notice or 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*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

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

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

30 June 2016

Chapter II
Long-form report of the Board of Auditors

Summary

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2015 and examined a range of managerial issues. The Board examined financial transactions and operations at UNOPS headquarters in Copenhagen and examined field operations in Geneva and New York.

Opinion

2. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

3. UNOPS has increased the value of project implementation at an average of 14 per cent a year since 2012, despite the challenging environments in which it operates. Its financial reserves remain sound, but more could be done to plan their utilization to support business development. Similarly, UNOPS needs to exploit the wealth of financial information available to it and improved systems to better understand its performance, including the value of its order book.

4. UNOPS is working to enhance its risk and compliance frameworks, and this offers opportunities to improve the consistent application of and compliance with its rules and regulations. In particular, it needs to enhance its business acceptance processes to ensure that risks are understood, communicated to senior management where necessary, and appropriately managed. The Board is not convinced that all high-risk or novel projects are fully considered in the context of the whole business before agreements with partners are signed.

Key findings

Financial performance and management

5. UNOPS continues to deliver an overall surplus on its operations and exceeds the minimum level of reserves set by the Executive Board by some $79.1 million, and there remains no clear strategy to manage the accumulated surplus. For the financial year 2015, it achieved a surplus of $14.3 million, with $11.8 million of that total reflecting the surplus achieved from its project activities over its support costs. UNOPS operational reserves have increased by $16.2 million to $99.2 million, exceeding the minimum level of reserves set by the Executive Board of $20.1 million. While UNOPS management has previously outlined its commitment to use this reserve for future projects supporting its goals, no firm plans have yet been established to achieve this.

6. The overall financial health of UNOPS is robust and has further improved in 2015. While current liabilities continue to exceed its current assets, the overall position of UNOPS against key liquidity indicators has improved, owing to a greater proportion of investments held on a short-term basis following the insourcing of its treasury services, from the United Nations Development Programme. UNOPS has sufficient financial resources to meet its total liabilities, which include obligations to discharge project agreements over future years.

7. UNOPS has now completed the full implementation of IPSAS, but the full benefits of using better data to support improved decision-making have yet to be fully realized. UNOPS has restated its financial statements to unwind the transitional provisions of IPSAS 17 in respect of its property, plant and equipment assets. It has now recognized some $12.6 million of property, plant and equipment which are under its ownership and control as at 31 December 2015. UNOPS has now fully integrated IPSAS financial information, which is reflected in its financial statements. However, more work is needed in order to consider how best to utilize this data to support in-year financial management and decision-making.

Enterprise risk management

8. While the proposed risk management model should help enhance the management of risk, the current delivery plan appears optimistic and lacks integration with other change management programmes, and its complexity creates a risk to its effectiveness. The proposed risk management framework represents a comprehensive re-engineering of how risk is identified, assessed and managed. This marks a significant departure from the previous models used, brings together key elements of the wider governance, risk and compliance frameworks, and supports a coherent model of assurance on which the Executive Director can rely. Ultimately, this could lead to the ability to provide a statement on internal control. However, given its complexity, the current delivery plan to embed processes by the end of 2016 appears optimistic and is dependent on taking into account feedback from stakeholders, obtaining final approval and providing training to all staff. Since the audit visit, management has recognized the need for implementation in stages, and the focus will be on new engagements only during 2016.

9. Significant progress has been made by the Infrastructure and Project Management Group in defining minimum standards and establishing quality assurance for project designs. In response to deficiencies identified in some projects implemented by UNOPS, the Group has prepared manuals for the construction of buildings, with minimum standards, guidance and protocols, and has established risk-based quality assurance with regard to proposed designs. Project managers have not, however, fully complied with instructions with regard to content or timing, leading to delays in project delivery from awaiting certification.

UNOPS Business Improvement and Innovation Programme

10. UNOPS has deployed its new enterprise resource planning system, oneUNOPS, in line with its revised plan; however, a review of system and fraud risks was not conducted until after deployment. While the system was deployed on 1 January 2016, UNOPS encountered some initial issues with regard to the completeness of vendor and contractor data, which led to some $2.2 million in payments being rejected by banks. In its previous report, the Board recommended that UNOPS obtain

independent external assurance over the implementation of the system; UNOPS has engaged an external consultant, but this was not done until after implementation.

11. UNOPS has identified the expected savings from operating oneUNOPS; however, it may not be able to fully quantify the benefits of the system. While UNOPS has identified that hosting its own solution will save $1.5 million per annum, the quality of existing milestone and activity data may make the full benefits of the new system difficult to quantify. In addition, while existing systems have provided detailed management information, UNOPS has not identified the full requirements of users with respect to information from its new system with a view to informing decision-making, monitoring and reporting.

On business development and engagement acceptance procedures

12. UNOPS has increased the value of project implementation steadily since 2012, at an annual average growth of 14 per cent, and the total value of new business acquired in the year was $281 million higher in 2015 than in 2014. However, recent growth in the value of new business acquired is driven largely by changes to existing agreements rather than the signing of entirely new ones. UNOPS does not know the value of its order book on any one day. Having such information would help to better manage the business. UNOPS is doing more work on behalf of trust funds and multilateral institutions, but no direct delivery on behalf of the private sector took place in 2015.

13. UNOPS is becoming more systematic in its approach to business development through, for example, investment in support tools and training. There remains more to be done to embed these developments in country offices to ensure that official development assistance flows into countries are thoroughly considered, comprehensive analysis of strengths, weaknesses, opportunities and threats is consistently undertaken and detailed strategies for engaging partners are set out. UNOPS has strengthened the coherence of key partner management since 2014 and, while this has not yet delivered clear overall business development benefits, there are signs of improvement. There is, however, still a risk that partner relations will be undermined by variable and inconsistent engagement.

14. Existing arrangements for approving proposed engagements are not sufficiently robust. The broad mandate and strategy of UNOPS means that there is a risk that its areas of work overlap with those of other bodies of the United Nations system. The Board also found that its senior-level forum (the Engagement Acceptance Committee) for advising the Executive Director on whether to approve proposed engagements could be used more effectively to assess at an early stage those engagements with the highest risks to UNOPS. For example, in one high-value infrastructure project (the National Museum of Peru), headquarters had very limited time to fully consider the risks and so consented to the agreement being signed subject to a full risk assessment being completed soon afterwards. More generally, the Board found that specialist reviewers at UNOPS were sometimes not given sufficient time to review engagements before legal agreements with partners were signed and some legal agreements were signed before the new engagement had been authorized. Moreover, UNOPS does not consistently charge a higher management fee for new engagements that it identifies as high risk.

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

(a) **Reassess the approved minimum level of operational reserves and establish a strategic approach to the use of reserves, and also make greater use of the improved financial data available from IPSAS reporting;**

(b) **Carefully review the enterprise risk management implementation plan so as to ensure that all steps are deliverable within a realistic time frame and are aligned with other initiatives, allow for suitable training and skills development, and consider using it as a platform to create a statement of internal control;**

(c) **Build on recent progress by becoming more structured in its approach to business development across its network of offices, through training and knowledge-sharing and by applying tools and templates developed at headquarters;**

(d) **Revise its engagement acceptance processes to include determining the value of involving other United Nations partners with a substantive mandate;**

(e) **Use the proposed new risk and quality framework to involve the Engagement Acceptance Committee at the earliest stage in high-risk engagements, and use the new framework to strengthen engagement acceptance processes and guard against non-compliance. The Committee's terms of reference should be reconsidered with a view to introducing greater formality to the approval processes for higher-risk projects;**

(f) **As part of its efforts to strengthen engagement acceptance processes, take steps to prevent the practice of signing agreements without engagement authority, for example, by amending the oneUNOPS system to prevent non-compliance.**

Key facts

$1.45 billion	Total project services provided, $593.3 million as the principal and $852.1 million delivered on behalf of other organizations
$14.3 million	Net surplus achieved in the year to 31 December 2015
$99.2 million	Operational reserves at 31 December 2015 against a minimum level of reserves of $20.1 million as defined by the Executive Board
$1.61 billion	Value of future business acquired in 2015 (compared with $1.33 billion in 2014)
$7.6 million	Forecast cost of new enterprise resource planning system, oneUNOPS

A. Mandate, scope and methodology

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

2. The Board of Auditors has audited the financial statements of UNOPS for the financial year ended 31 December 2015 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the financial regulations and rules of UNOPS as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the UNOPs governing body and whether they had been properly classified and recorded in accordance with the UNOPS financial regulations and rules.

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

5. The Board also reviewed UNOPS operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations with a focus on the management of infrastructure projects, one of the core management services of UNOPS. During the course of the audit, the Board visited UNOPS headquarters in Copenhagen and examined operations in Geneva and New York, together with surveys of operations in Jordan, Kenya and Panama. The Board also worked with

the UNOPS Internal Audit and Investigations Group to provide coordinated audit coverage and to take note of the findings arising from its work.

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

B. Follow-up to previous recommendations

7. Of the 43 existing recommendations, 22 (51 per cent) had been fully implemented, 18 (42 per cent) were under implementation, 1 (2 per cent) had not been implemented and 2 (5 per cent) had been closed by the Board. An implementation rate of 51 per cent is a significant increase compared with the 31 per cent reported in the previous UNOPS report and demonstrates the commitment of management to implement the Board's recommendations.

8. The Board has closed its recommendations to develop an operational reserve policy and to establish plans for the use of surplus reserve balances. While it has found little substantive progress on this issue, the Board considers that management should re-evaluate the policy on the basis of its significant balances and transactions. The recommendation not implemented by UNOPS relates to the alignment of incentives for personnel with the overall business objectives of breaking even. The Board again highlights the fact that because incentive schemes are not aligned with business objectives, the interests of personnel are not aligned with the interests of the organization. Details of progress against all previous recommendations are contained in the annex.

Status of implementation of recommendations

	Fully implemented	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
Total	**22**	**18**	**1**	**–**	**2**
Percentage	51	42	2	–	5

Source: Board of Auditors.

C. Financial performance and management

Financial results

9. In General Assembly decision 48/501, the United Nations Office for Project Services (UNOPS) was established as a separate, self-financing entity to provide capacity-building services, including project management, procurement and the management of financial resources. To cover its expenses, UNOPS charges clients fees for services rendered. In 2015, UNOPS reported a surplus of $14.3 million, representing 2.1 per cent of expenditures incurred as a principal[1] of $671.5 million. The surplus has increased from $9.9 million in 2014, representing 1.5 per cent of expenditures incurred as a principal of $666.7 million.

[1] UNOPS undertakes activities as both a principal and an agent. As a principal, UNOPS undertakes activities on its own behalf, and as an agent UNOPS undertakes activities on the behalf of partners.

10. The surplus that UNOPS generates from its project activities is used to cover its central support costs. As shown in table II.1, since 2012 UNOPS has generated surpluses from its project activities of between $65.1 million to $87.2 million. During this period, UNOPS has generated a cumulative surplus from its operating activities of $38.9 million, with annual results ranging from a surplus of $6.5 million to $13.5 million. The net surplus generated each year includes interest from cash and investments.

Table II.1
Analysis of surpluses reported by UNOPS
(Thousands of United States dollars)

	2015	*2014*	*2013*	*2012*
Surplus from project activities[a,b]	**87 168**	**66 299**	**72 200**	**65 125**
Miscellaneous and non-exchange revenue	2 841	7 820	10 656	3 034
Non-project expenses[c]	(78 259)	(66 975)	(69 359)	(61 614)
Surplus from operations	**11 750**	**7 144**	**13 497**	**6 545**
Net finance income	2 585	2 779	1 225	1 631
Reported surplus	**14 335**	**9 923**	**14 722**	**8 176**

Source: UNOPS financial statements.
[a] Direct project revenue less direct project expenditures.
[b] In 2015, reported expenditures were impacted by the initial recognition of property, plant and equipment. Previously, assets were fully expensed on acquisition rather than depreciated over their useful economic lives.
[c] Total expenditure less direct project expenditures.

Operational reserves

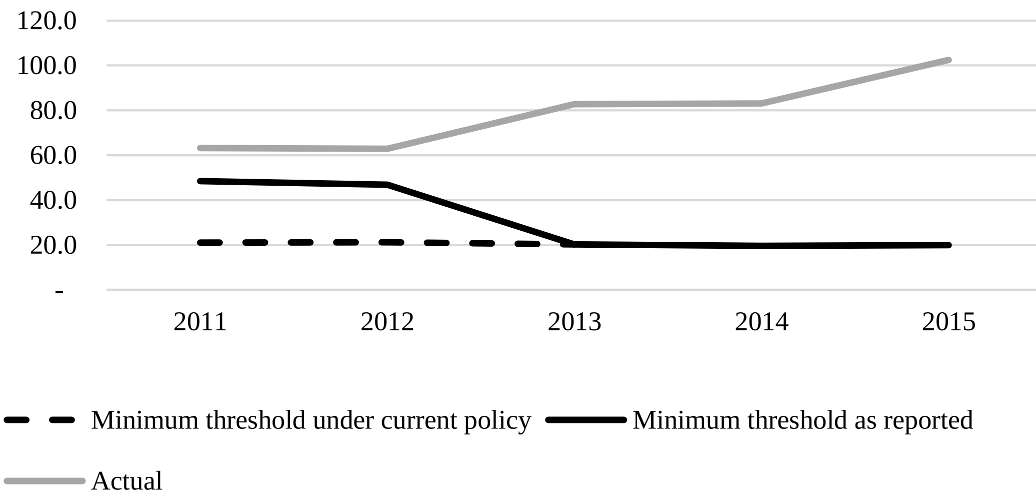
11. As the Board has previously identified, these reported surpluses have continued to contribute to a significant operational reserve, in contrast to the strategy adopted by the Executive Board to achieve break-even over the biennium. Operational reserves as at 31 December 2014 were revised up by $4.5 million to $83.0 million to take into account the first-time recognition of property, plant and equipment after unwinding the transitional provisions of IPSAS 17. Operational reserves further increased in 2015 to $99.2 million owing to the achievement of a surplus of $14.3 million and the recognition of an actuarial gain of $1.8 million on revaluation of post-employment benefits.

12. In 2013, the Executive Board approved a policy to establish a minimum operational reserve, which is set at the equivalent of four months of the average management expenses for the previous three years, as reported in statement V. At 31 December 2015, this equated to $20.1 million. The divergence between the reported operational reserves and the minimum level required continued to increase in 2015 (see figure II.I). At 31 December 2015, reported operational reserves exceeded the minimum target set by $79.1 million (2014: $63.4 million).

Figure II.I

Operational reserves as at 31 December 2015

(Millions of United States dollars)



Note:

In 2013, UNOPS changed its minimum reserves policy from 4 per cent of the average management expenses for the previous three years.

13. Management has not reassessed whether the policy level for the minimum reserve threshold remains appropriate, particularly given the recent actuarial gains enjoyed and the impact from the restatement of reserves due to the initial recognition of property, plant and equipment. The Board has also previously recommended that UNOPS establish plans for the use of its surplus reserve balances. Some investment projects have been identified which will utilize some of this reserve, but there remains no clear plan for investment of the reserve as a whole. While the Board understands that UNOPS is looking to simplify the process to enable reserve funds to be accessed for investment, further action needs to be taken to ensure that reserves are utilized to best effect.

14. In assessing the level of reserves, the cash-flow risks facing UNOPS and the known future liabilities (for example, for post-employment benefits) should be taken into account. UNOPS has begun to earmark sections of its investment portfolio against its employee benefit liabilities in 2016, but should consider the level of its operating reserve required to ensure that these expenses will not need to be reflected in future project costs. This would provide greater confidence and clarity with respect to the fact that future project services are not subsidizing the costs incurred on previous activity.

15. **The Board recommends that UNOPS reassess the approved minimum level of operational reserves in order to take into account actuarial gains and losses previously incurred and the inclusion of property, plant and equipment.**

16. **The Board further recommends that UNOPS consider how the reserve surplus might be utilized, in the context of a strategic review of UNOPS operational resourcing needs.**

Financial management

17. The Board has analyzed the financial health of UNOPS using a range of key ratios, as set out in table II.2. At both the project and entity levels, financial performance improved in 2015. As in previous years, current liabilities exceeded current assets; however, total assets exceeded total liabilities. Overall, liquidity improved during the year owing to a change in the proportion of short- and long-term investments and an increase in cash and cash equivalents.

Table II.2
Financial ratios

Description of ratio	*31 December 2015*	*31 December 2014*	*31 December 2013*	*31 December 2012*
Current ratio[a] Current assets: current liabilities	0.85	0.63	0.73	0.79
Total assets: total liabilities[b] Assets: liabilities	1.07	1.07	1.08	1.05
Cash ratio[c] Cash + short-term investments: current liabilities	0.82	0.56	0.67	0.76
Quick ratio[d] Cash + short term investments + accounts receivable: current liabilities	0.84	0.62	0.72	0.78
Project surplus (margin percentage)[e] Direct project revenue — direct project expenses	$87.2 million (12.8 per cent)	$66.3 million (10.0 per cent)	$72.2 million (10.2 per cent)	$65.1 million (9.6 per cent)
Net surplus (margin percentage) Revenue — expenses	$14.3 million (2.1 per cent)	$9.9 million (1.5 per cent)	$14.7 million (2.1 per cent)	$8.2 million (1.2 per cent)

Source: UNOPS financial statements.

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

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

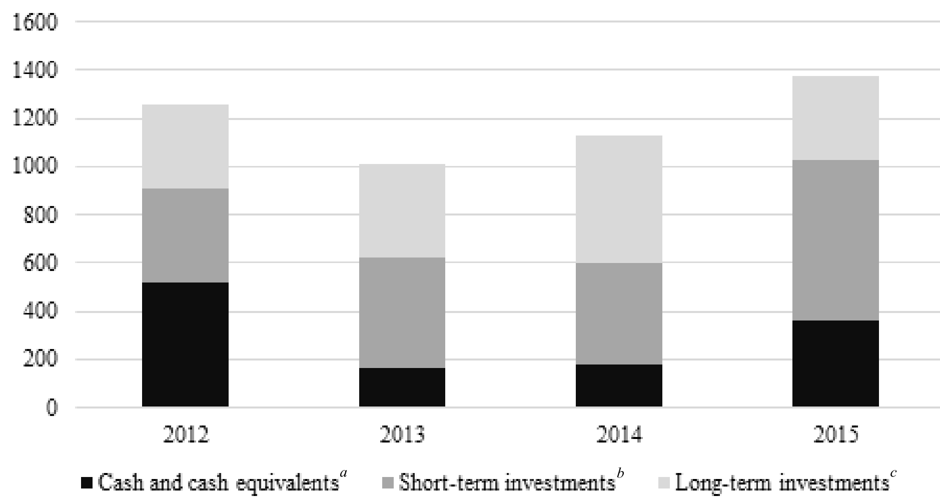
[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

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

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

18. At 31 December 2015, UNOPS held total cash and investments of $1,377 million (2014: $1,130 million) as shown in figure II.II. Throughout 2014, UNOPS reviewed its cash flow requirements in order to be able to purchase investments with longer maturities, which provide a greater return. As shown below, however, throughout 2015, investments with shorter maturities were favoured to aid its transition to operating its own treasury function from 1 January 2016, which has been insourced from the United Nations Development Programme.

Figure II.II
Classification of UNOPS cash and investments
(Millions of United States dollars)



Source: UNOPS financial statements.
[a] Cash at hand and at bank + investments with a maturity of less than 90 days.
[b] Investments with a maturity of between 91 days and one year.
[c] Investments with a maturity of greater than one year.

19. In accordance with UNOPS operating procedures, funding is received from project sponsors in advance of the commencement of projects. At 31 December 2015, UNOPS recognized $1,049.0 million in project cash advances (2014: $950.3 million), including $537.3 million classified as deferred revenue (2014: $480.3 million). This is equivalent to 9.5 months of principal delivery (2014: 8.7 months), indicating that UNOPS remains in a healthy financial position. Prior-year comparators have been restated to take into account the first-time recognition of property, plant and equipment, as set out in note 5 to the financial statements.

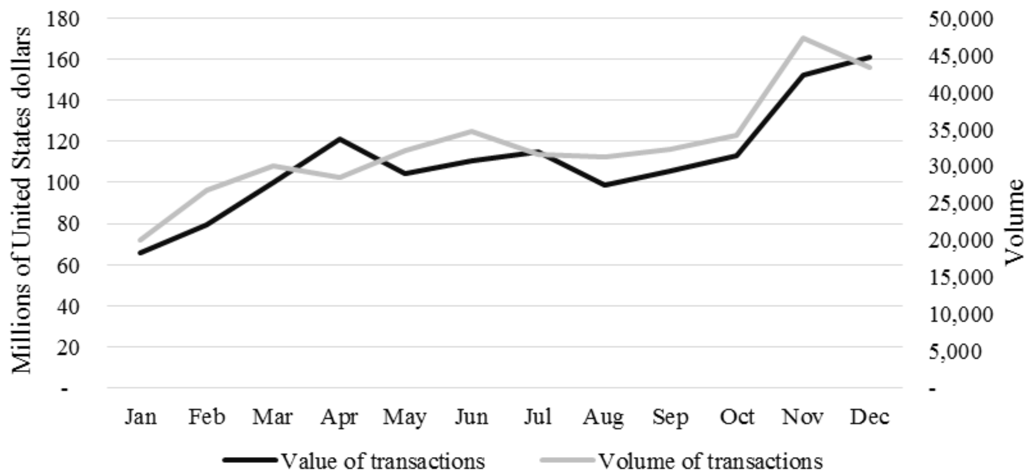
Implementation of the International Public Sector Accounting Standards

20. IPSAS provide transitional provisions to facilitate compliance with accrual-based accounting on first-time adoption. The provisions either allow an entity additional time to meet the full requirements of a standard or to provide relief from some of its requirements. On adopting IPSAS in 2012, UNOPS elected to invoke transitional provisions relating to the reporting of property, plant and equipment.

21. In 2015, UNOPS unwound the impact of its last transitional provision and fully recognized property, plant and equipment in its financial statements. In its statement of financial position, it recognized property, plant and equipment with a net book value of $14.0 million and $12.6 million as at 31 December 2014 and 31 December 2015, respectively. UNOPS has also reported that it holds $45.8 million in property, plant and equipment as a custodian. These assets are held on behalf of the United Nations Mine Action Service and have not been recognized in the statement of financial position as they are not owned or controlled by UNOPS.

22. With the integration of asset information into its financial records, UNOPS now has full financial information available to it to inform its business decisions. As the Board has previously reported, transactions closely follow the pattern of project delivery in that activity is low in the first quarter, improves in quarters two and three and is high in the final quarter. This is shown in figure II.III.

Figure II.III
UNOPS transactional activity, 2015



Source: Board of Auditors analysis of UNOPS data.

23. The quality of reporting by UNOPS in its financial statements remains good, and the processes for compiling the annual financial statements and the supporting audit trail enable the audit process to operate efficiently. These processes have continued to work well despite the continuing absence of a chief financial officer at a time of significant change. However, more can be done through the year to better utilize the data available and the opportunities presented by IPSAS and the arrival of oneUNOPS. While project invoices, accruals and expenditure data reflecting both agency and principal-based transactions are entered directly into the core financial systems, the Board identified that, during 2015, other IPSAS information requiring manual adjustments (for example, deferred revenue, cash held as an agent and provisions) was not regularly identified from financial records. This meant that the full suite of IPSAS information was not produced on a quarterly basis and that, consequently, the potential extra information provided was not available to be used to inform management decisions. With the inclusion of property, plant and equipment information in its financial records, it is timely for UNOPS to consider how to enhance its regular internal reporting by utilizing full IPSAS information.

24. **The Board recommends that UNOPS review the adjustments it currently makes for the purposes of producing IPSAS-compliant statements and consider which, if any, it should conduct more regularly so as to further enhance the financial information provided to management during the year to inform decisions.**

D. Enterprise risk management

25. UNOPS operates in challenging physical and financial environments, both of which create a significant range of strategic and operational risks. The Board noted in its previous report that the Executive Director had established a clear plan to introduce enterprise risk management in three phases, supported by external consultancy and additional dedicated staff resources. In the first phase of implementation, the existing frameworks were assessed, with a view to establishing a clear, practical and appropriate model for UNOPS. This was scheduled to be completed in March 2016. The Board considers enterprise risk management to be a key tool to underpin the UNOPS management fee business model and to support decision-making for the challenging environment in which UNOPS operates. It has also considered the progress made in implementing risk management against the previous plan. While there were pockets of risk assessment activity, and the matter is on the agenda at weekly management meetings, there was no systematic assessment or collation of the key risks and their mitigation during 2015. The Board considers this to be a risk to the operations of UNOPS.

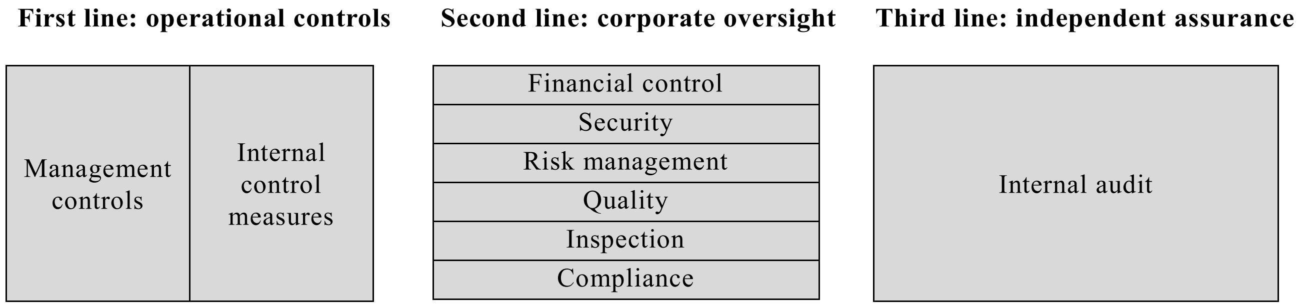
Risk management framework

26. The proposed risk management framework was presented to the UNOPS Executive Board in March 2016. The framework represents a re-engineering of how risk might be identified, assessed and managed in UNOPS and is intended to align and integrate risk management with project pipelines, acceptance decisions and management and delivery life cycles. It encompasses key areas which are integral to risk management processes, namely, governance and compliance. The addition of these aspects will enhance the management of risk and the assurance which the framework can provide to the Executive Director.

27. While the new framework is a positive development, it will increase the complexity of risk management implementation and the resources which will be required to support it. This could have an impact on the timetable for implementation, further delaying the ability of UNOPS to have a systematic assessment of its risks. At the time of the audit, in April 2016, UNOPS was considering implementing the framework in July 2016. The Board notes that existing risk management arrangements remained in place in 2015; however, these were not being operated effectively. The Board considers that, despite the weekly senior management meetings held to discuss and consider approaches to emerging risks, risk management processes were ineffective during the period.

28. The Board recognizes that the new framework is comprehensive. Its focus on governance and compliance will drive the assurance that the Executive Director and donors can gain from its operation. It will support what is known as the “three lines of defence” model as set out in figure II.IV. The operation of this model will enable UNOPS to support the further development of the assurance that the Executive Director provides in chapter III, on internal control, to the point where UNOPS could consider issuing a statement on internal control.

Figure II.IV
UNOPS risk management lines of defence



Source: UNOPS governance, risk and compliance framework.

Statement on internal control

29. A statement on internal control is an accountability document that forms part of the financial statements of an organization and that describes the effectiveness of its internal controls and is personally signed by the Executive Director. It constitutes an articulation of the governance, risk and internal control framework, setting out the assurances which an organization obtains to confirm their satisfactory operation. It would provide a focus for the work of the Audit Advisory Committee and would be supported and underpinned by the new framework and the assurances provided by the Internal Audit and Investigations Group. Statements on internal control increase the transparency of internal control and risk frameworks and are a positive source of assurance for donors. It should be considered how the new framework, if adopted, might support the compilation of a statement on internal control, which would ensure that the process has a clear and tangible output for donors. It would also serve to strengthen the focus on the need to ensure greater compliance.

Implementation of the framework

30. While the Board believes that the proposed risk management framework is a positive development, the current delivery plan for implementation starting July 2016 appears optimistic and is still dependent on key decisions as to whether to adopt the proposed framework and there is a narrow time frame within which to take into account feedback from stakeholders. The Board also believes that the new risk management framework needs to take account of a wide range of other developments related to oneUNOPS and business change. It is important that the framework be sufficiently embedded across all the business processes and have the support of other change groups which are running in parallel with the risk management framework. The Board was concerned that it had not seen how all these various developments were being integrated.

31. The Board also notes that there are other risks associated with the implementation of the framework that, in its view, would need to be managed in parallel with the main action plan, including the following:

- UNOPS should ensure suitable and timely awareness training on the framework to ensure that staff have sufficient understanding of their roles and the expected benefits and behaviours required. Following the audit visit, management has identified a need to plan for such training;

- UNOPS should keep the core risk management theme central to the framework, so that the key output, a systematic assessment of risks and their mitigations, is not lost;
- UNOPS should identify and address any skill gaps to ensure that risk management expertise is spread sufficiently across the organization and is not dependent upon single individuals;
- UNOPS should use the opportunity to ensure there is a clear communication trail to support any changes to regulations and rules, which is lacking in the current framework of governance;
- UNOPS should ensure that expected roles and responsibilities are clearly defined in order to avoid any overlapping mandates and responsibilities.

32. **The Board recommends that, if adopted, the new governance, risk and compliance framework be used to support the development of a statement on internal control to bring together the structure of the processes and the assurances that underpin them.**

33. **The Board further recommends that UNOPS consider the implementation plan for the new framework, ensuring that it is sufficiently detailed, clear and realistic, incorporating sufficient training and communication plans, and has clear accountabilities and clear linkage to other UNOPS initiatives.**

Infrastructure risk management

34. The Board has previously reported[2] on the management of infrastructure risks in response to deficiencies identified in some construction projects implemented by UNOPS in the Sudan and South Sudan. In 2015, UNOPS identified the requirement for further remedial work to be performed on a hospital constructed in Afghanistan. UNOPS has recognized an additional provision of $500,000 for the required work to be undertaken.

35. The Infrastructure and Project Management Group has developed a design planning manual for buildings, providing a technical framework and minimum requirements for infrastructure design. The manual sets out guidance and protocols for the design process, technical objectives, performance requirements and instructions for project managers, peer reviewers and design practitioners. The Group is currently preparing similar manuals for transport, including bridges, and utility projects, to be published in 2016 and 2017, respectively.

36. Designs for projects deemed to be low-risk are required to be peer-reviewed by a certified member of the Infrastructure and Project Management Group staff, whereas those deemed to be medium- or high-risk must be submitted to the Group for external review for certification, prior to implementation. UNOPS has signed agreements with 40 external design reviewers for the provision of an independent review.

37. Administrative instructions set out the minimum required content to facilitate the review, requiring managers to ensure that the review stage was appropriately planned prior to implementation. The Infrastructure and Project Management Group ascertained that 22 out of 24 designs submitted in 2015 failed to comply with the

[2] See A/70/5/Add.11 and Corr.1.

minimum content or timing considerations, leading to implementation delays. The Group is in discussion with the team managing oneUNOPS to integrate the certification process into the project initiation process. In the Board's view, this should enhance compliance and monitoring mechanisms and encourage earlier submission of designs. There is, however, no time frame for the implementation of this process.

38. **The Board recommends that UNOPS ensure that the certification of projects in line with the manuals is incorporated within oneUNOPS workplans, to reinforce compliance.**

E. Business improvement and innovation programme

39. As part of its strategic plan for the period 2014-2017, UNOPS has embarked on the transformation of its business processes through its Business Improvement and Innovation Programme, which seeks to improve business in the following areas:

- Enterprise resource planning — business process transactional support
- Enterprise project management — plan-to-execution project workflow and support
- Business relationship management — global visibility and intelligent partner management

40. The implementation of the organization's new enterprise resource planning solution, oneUNOPS, is the cornerstone of the Programme, providing the infrastructure and information required to support project and business relationship management. In the course of 2015, UNOPS completed the specification and build of oneUNOPS, which was designed to replace the three legacy systems: Atlas, the management workspace information tool and the Global Contracting System (GLOCON). The system was deployed across headquarters and field offices on 1 January 2016.

Implementation

41. oneUNOPS was deployed on 1 January 2016, in line with its approved timetable, which had been revised to take into account the insourcing of systems and processes, for example, banking. Recognizing the importance of training to the success of oneUNOPS, a series of role-based training courses was initiated. This included the training of "champions" nominated by regional offices, specialist payroll training for the Global Shared Service Centre and a suite of online training courses. Members of the implementation team regularly monitored the uptake of courses and obtained feedback on their quality from participants. The approach to providing training for these new systems was comprehensive.

42. In preparation for the initiation of the payment systems, the implementation team performed consistency checks between vendor and employee data stored in Atlas and contractor data stored in GLOCON and oneUNOPS. While UNOPS had ensured that data loaded was consistent, it had not ensured that the information recorded (payee data fields) was sufficient for the payment protocols used by all UNOPS banking providers. This led to 54 payments of a value of $2.2 million being initially rejected in January; however, the data issue was subsequently rectified. In

the context of a significant system change, few operational difficulties were experienced in the transition.

43. In the Board's previous report,[3] it recommended that UNOPS obtain independent expert assurance over the system controls and configuration prior to the planned implementation date. While UNOPS had engaged an external consultant to perform a fraud risk review on the oneUNOPS system, this was not performed prior to implementation, and consequently UNOPS lacked assurance over the operation and configuration of the system prior to its implementation. It will need to ensure that, once this work is complete, any system weaknesses identified are addressed and that management consider whether the report has provided the required assurance over the new system. In future, project assurance evaluations should be built into the programme prior to implementation. The Board has not undertaken a review of system controls in the light of the external review, since all transactions in the new system fall outside its period of certification. However, it will note and consider the content during its audit in 2016.

44. **The Board recommends that, on receipt of the system controls and configuration report, UNOPS evaluate the recommendations made by the external consultant to consider whether it provides sufficient assurance and, in the event of any weaknesses, undertake a review to determine whether any such weaknesses have been exploited.**

Benefits realization

45. In its initial business plan, UNOPS had approved a budget of $8.7 million, including licences, support, consultancy and attributable staff costs. To 31 December 2015, UNOPS had recognized costs of $5.5 million. The implementation team is currently forecasting that the total for the project will be $7.6 million, $1.1 million (12.5 per cent) below its initial budget. This projected budget saving is due to the use of internal expertise instead of consultancy; lower service and maintenance costs than forecast; and limited use of its contingency budget.

46. The strategic budgeting team has reviewed comparable costs between Atlas and oneUNOPS and has estimated that the cost of running oneUNOPS in 2016 is $2.7 million, including decommissioning costs. Comparable services under Atlas cost $4.2 million in 2015. The team also estimates that further savings of $856,000 will be realized in 2017 owing to one-off Atlas closure costs in 2016. These savings arise from the reduced costs associated with operating its own systems as compared with fees previously paid to service providers.

47. While UNOPS has quantified the direct benefits from implementing its enterprise risk management solution, it has not quantified the indirect benefits which it will achieve through more efficient processes. The implementation team has identified issues with workflow and milestone data in legacy systems which mean that measurement of the efficiencies which should be gained through revising processes will not be possible against current baselines. For example, project managers were required to record key project milestones within the Leads[4] system.

[3] A/70/5/Add.11 and Corr.1.

[4] UNOPS legacy system for recording and reviewing possible new engagements.

The team found that dates recorded did not reflect the dates when activities took place. These dates are automatically recorded within oneUNOPS.

48. **The Board reiterates its previous recommendation that UNOPS obtain viable benchmark cost data to inform a review of the benefits arising from process improvements.**

49. **The Board recommends that future significant investments be subject to, in advance, a more robust analysis in terms of process benefits and cost savings to better inform the evaluation of a project's success and to inform future implementation.**

Business intelligence

50. The previous management information system used by UNOPS, management workspace, provided detailed information and dashboards for all staff, from project managers to senior management. While management and project managers were unable to determine the current value of their portfolios, they were able to determine available funds and pipeline delivery for projects and regional and corporate results on net revenue, recovery and business secured.

51. The implementation team reviewed reports used by staff on the legacy systems, identifying a minimum number of the most frequently used reports, for example, the financial status and health of projects/organizational units. At the time of the audit, the implementation team had not yet established users' reporting requirements with regard to the new reporting functionality. The delay in identifying user requirements means that the benefits of the new system are being deferred.

52. **The Board recommends that a suite of key business reports and other critical reporting functions be agreed upon with users, to ensure that the benefits of oneUNOPS are being fully realized.**

F. Business development and engagement acceptance

53. As a self-funded organization, it is essential that UNOPS maintain a steady flow of future engagements to ensure its medium-term financial sustainability. This means delivering on its existing commitments while also developing new relationships and opportunities. UNOPS should undertake only those engagements that, following proper assessment of the risks, are considered to be consistent with its mandate, strategy and policies, including with regard to price.

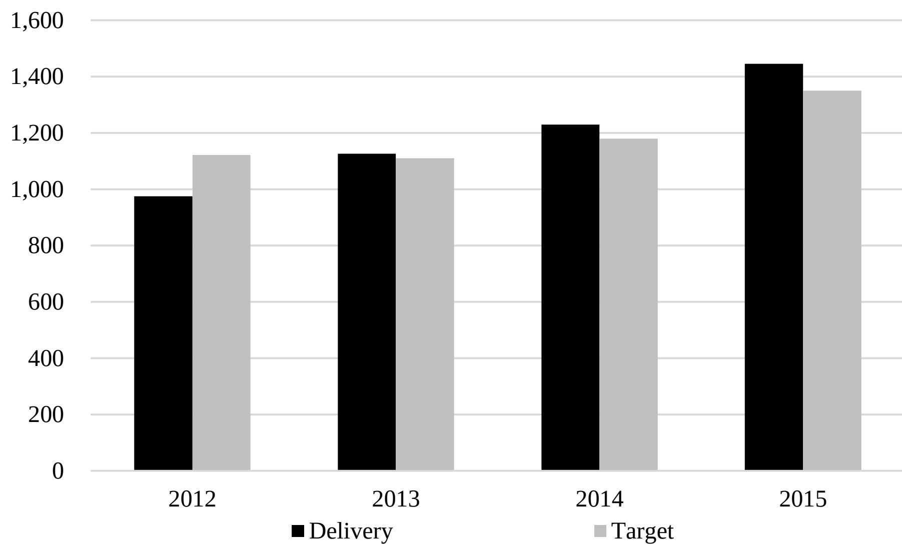
54. Although now in a strong financial position, UNOPS faced significant financial difficulties in the middle of the past decade. In 2012, UNOPS identified weak business development as a continuing concern and determined that it should achieve "traction in business development", one of six so-called "must-wins" for the organization. The Board has examined the following:

- Performance in acquiring new business since 2012
- Progress in improving how UNOPS does business development
- Procedures for agreeing on new engagements

Performance in acquiring new business since 2012

55. The Board examined the performance of UNOPS since 2012, including across regions and country offices. UNOPS performed strongly in 2015, delivering $1.45 billion worth of projects, advice and transactional services (as agent and as principal) and exceeding its target of $1.35 billion. This followed steady annual growth since 2012 (see figure II.V), equivalent to 14 per cent a year. Growth in delivery also exceeded targets in three of the past four years.

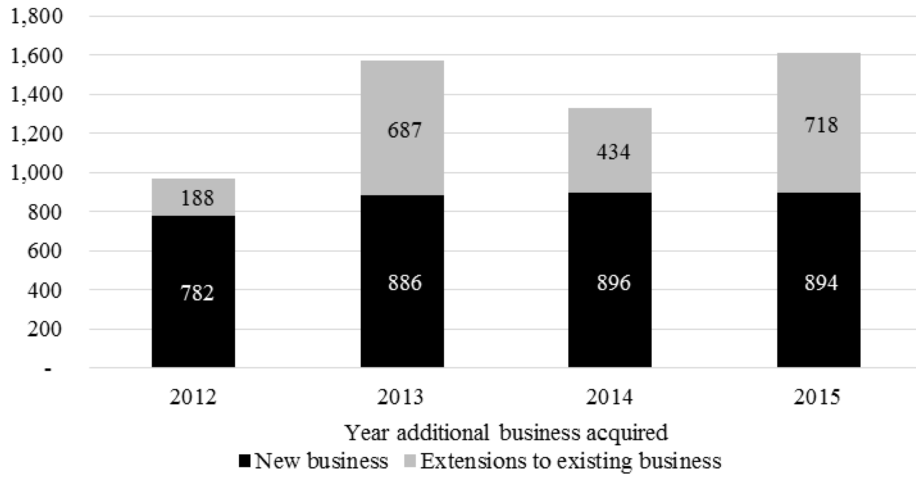
Figure II.V
UNOPS delivery, 2012-2015
(Millions of United States dollars)



Source: Board of Auditors analysis of UNOPS performance data.

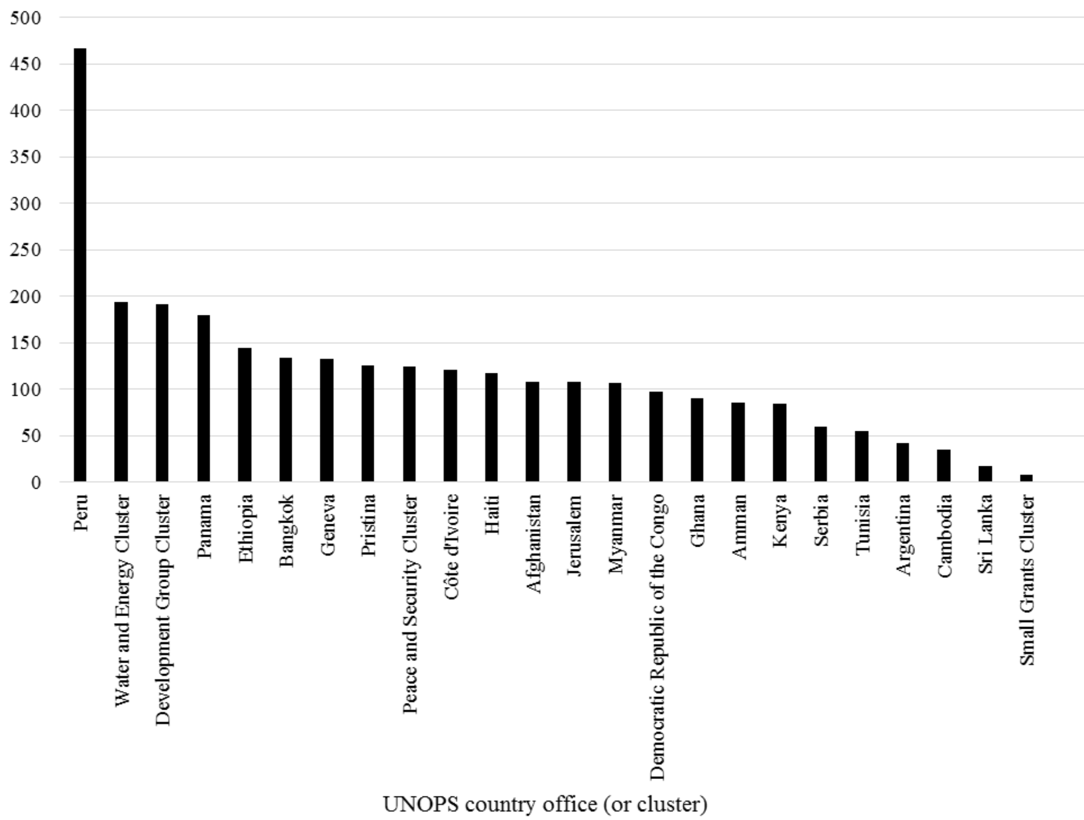
56. UNOPS acquired future business worth $1.61 billion in 2015, up from $1.33 billion in 2014 (see Figure II.VI) and 7 per cent ahead of the target of $1.5 billion. However, the value of new leads, around 55 per cent of business signed in 2015, has remained broadly stable since 2012, with strong performance in 2013 and 2015 underpinned by revisions to existing agreements. When reviewed at the level of individual offices, performance in acquiring business in 2015 against target shows wide variation (see Figure II.VII).

Figure II.VI
UNOPS performance in acquiring additional business, 2012-2015
(Millions of United States dollars)



Source: Board of Auditors analysis of UNOPS performance information.
Notes:
1. Graph shows the value of business agreements signed in a year, whether extensions to existing agreements or entirely new business.
2. Revisions to existing agreements can be in the form of amendments or adjustments; amendments involve more significant changes to contracts. In 2015, amendments accounted for $646 million of the $718 million total value of revisions. These figures show the value added by revisions.

Figure II.VII
Country office 2015 performance against targets for acquiring additional business
(Percentage)



Source: Board of Auditors analysis of UNOPS performance information.
Note: The performance of the Peru office reflects the very large museum project agreed upon in late 2015 (see para. 83).

57. The Board's review found that UNOPS does not know the value of its order book at any point in time, owing in part to the limitations of its (outgoing) financial system. It records the cumulative value of "orders in hand" (agreements signed) in a calendar year, but does not combine this data with the pattern of delivery of the orders so as to provide a statement of the value of its order book on a given day. The Board is of the view that access to this information would improve financial risk management and inform decisions concerning medium-term resource allocation and progress against strategic objectives and targets.

58. **The Board recommends that UNOPS use the functionality of the oneUNOPS system to enable analysis of the value of its order book and to forecast future delivery and the management fee it will earn.**

59. Around half of project implementation in 2015 was on behalf of the funds, programmes and agencies of the United Nations. This is down from 65 per cent in 2012, partly because UNOPS now implements more projects resourced by trust funds (up from 3.9 per cent of delivery to 13.3 per cent) and multilateral institutions

(from 3.5 per cent to 7.6 per cent). The number of partners increased from 107 in 2012 to 122 in 2015.

60. In its strategic plan for 2014-2017, UNOPS said it wanted to increase partnerships with the private (for-profit) sector, an objective endorsed by its Executive Board. While the private sector is funding UNOPS indirectly through trust funds — an area where UNOPS is doing more work — its direct delivery through partnerships with the private sector has not increased, with no projects implemented in 2015.

61. UNOPS has taken some initial steps to develop business with the private sector. By April 2016, UNOPS had signed eight memorandums of understanding which set out a general commitment to work with non-State and non-United Nations partners, including private sector organizations. It is also exploring the concept of a social impact investment model in which private individuals or organizations might invest. To grow its business with the private sector, UNOPS will need to move on from these general agreements to demonstrate the successful implementation of projects with positive social impacts as well as private returns. Such projects could expose UNOPS to different types and levels of risk, and engagement acceptance and risk management processes will need to accommodate these.

62. A growth area for one of the regional offices has been in "hosting" services. Currently, UNOPS provides hosting services for three organizations, and this number is expected to increase in 2016. Hosting involves providing administrative services skills and global reach, through these organizations becoming part of UNOPS. As the host, UNOPS will support new programmes developed by these organizations. However, these arrangements are novel, and the policies and procedures for UNOPS pre-engagement reviews have not fully kept pace. So, again, the means of assessing and managing any risks associated with these engagements are not yet well defined.

63. **The Board recommends that UNOPS strengthen its engagement acceptance and risk management processes so that they are sufficiently robust to support the assessment of new or novel lines of business.**

Approach to business development

64. In 2012, UNOPS identified eight areas in which it needed to improve its approach to business development. Table II.3 also shows the assessment by UNOPS of its approach at that time and the Board's summary assessment of key developments since 2012 using the same criteria. The Board engaged country offices in Amman, Geneva, Nairobi and Panama, recognizing that most business development in UNOPS is done locally, often using successful implementation as a lever. Further consideration is given to three key business development themes below the tables.

Table II.3
Business development summary assessment

Theme	*UNOPS self-assessment (2012)*	*Key facts and Board of Auditors assessment (2015)*
Business development strategy	• No overall strategy as to partners, geographies, services, etc. • No country business development strategies • Ad hoc and opportunistic approach to business development	• UNOPS produced a corporate business development strategy in 2014, building on themes in the strategic plan for the period 2014-2017 • The Board identified some progress in developing a more systematic approach to country office business development in the four offices it engaged, but noted opportunities for further improvement (see further details below)
Business development resources	• No organized business development function; lack of headquarters support for business development • Insufficient use of existing knowledge and expertise • Lack of dedicated funding for business development	• Headquarters partnerships team in place since 2014 (22 personnel)[a] • 87 business development personnel in country offices (around 2 per cent of the UNOPS field workforce) • In 2016, $12 million (22 per cent) of the UNOPS regular management budget was allocated to business development • Regional variation in business development resources and budgets in 2016: for example, each Latin America and Caribbean Office Region business development officer has a new business target of $53 million compared with $9 million in the African region • In addition to the regular management budget: ◦ UNOPS estimates that, in 2015, it spent $1.6 million on longer-term investments in business development ◦ For 2016, UNOPS allocated $7 million of its overall management budget to longer-term investments through a new investment fund. Some of this spend will target business development
Business development approach and skills	• No common or structured method • Limited skills and experience of personnel	• Significant effort to improve the business development skills of UNOPS personnel, for example, business development training for over 250 personnel in 2014 and 2015 • Standard business development methodology produced in February 2015 but work on local implementation needed

Theme	*UNOPS self-assessment (2012)*	*Key facts and Board of Auditors assessment (2015)*
Key account management	• Unclear roles for engaging partners and no "key account managers" • No consistent mapping and relationship management	• Liaison Office teams now in place and allocated to particular partners. But liaison teams are small and vulnerable to personnel turnover • Key partner management networks also operating since 2014 • Impact on business development not yet clear (see further details below)
Intelligence about partners	• Lack of intelligence about partner priorities and plans • Not measuring success of relations with partners	• Partner Intelligence Hub created in 2014 to provide a repository of documents • Regular partner survey conducted, with some improvements to the methodology for the 2016 survey, including the use of a third party to help administer the survey (see further details below)
Business development systems	• Engagement Acceptance IT system (Leads system) not properly integrated and no customer relationship management system	• UNOPS headquarters personnel report lack of clarity in the field about roles and responsibilities relating to the Leads system • From January 2016, information technology (IT) platform for reviewing future engagements moved to oneUNOPS, the new UNOPS enterprise resource planning system. Process modified to encourage earlier recording of business in the pipeline • New customer relationship management system planned for mid-2016
Culture and collaboration	• Lack of business development culture • Insufficient cooperation across UNOPS	• 2015 UNOPS people survey found that only 33 per cent of headquarters personnel were satisfied with the effectiveness of communication, indicating some concern about collaboration with the field (see further details below)
Pricing model	• Pricing model difficult to explain and discuss with partners	• UNOPS revised the pricing model after 2012, but partners continued to highlight a lack of clarity about apportioning of direct support costs to projects • UNOPS 2016 partner reputational survey identified pricing as an area for improvement (see further details below)

Source: Board of Auditors analysis of UNOPS information and interviews with UNOPS and partner personnel.

[a] Includes 16 personnel in liaison offices (of which 4 are interns).

Business development strategy

65. UNOPS produced a business development strategy in 2014 which prioritized work on key partner management, sustainable private partnerships, new business development processes and the improvement of workforce skills. UNOPS headquarters also published a standard methodology for business development in February 2015 and provided supplementary toolkits supporting systematic consideration of official development assistance flows, country and partner priorities and subsequent partner engagement. The Board's analysis of country office documents and discussions with personnel in Amman, Geneva, Nairobi and Panama indicated some progress in developing a more systematic approach at country level. Typical activities that the Board noted included:

- Strengthening local business development strategies;
- Analysing key partner objectives and resources
- Planning outreach activities to partners

66. In its review, the Board also highlighted the distinctive business development strategies of country offices. For example, there was an emphasis in Panama (and the wider Latin American and Caribbean region) on developing technical and advisory capacity, on exploring public-private partnership models and on longer-term work with international financial institutions. Geneva, on the other hand, was focusing on developing "hosting" arrangements on behalf of partners (see para. 60 above).

67. The Board found in its review of four country office strategies in different regions that they varied in the extent to which they analysed official development assistance information and used it as a source of business intelligence. Comprehensive strength, weaknesses, opportunities and threats (SWOT) analyses of country offices were not always regularly and routinely undertaken. Detailed strategies for engaging partners were only sometimes set out in documentation provided to the Board. The Internal Audit and Investigations Group has also identified scope for country offices to adopt a more structured and proactive approach to business development planning and for them to place greater emphasis on portfolio diversification.

68. **The Board recommends that UNOPS build on recent progress by becoming more structured in its approach to business development strategy across its network of offices, through training and knowledge-sharing and by applying tools and templates developed at headquarters.**

Key account management

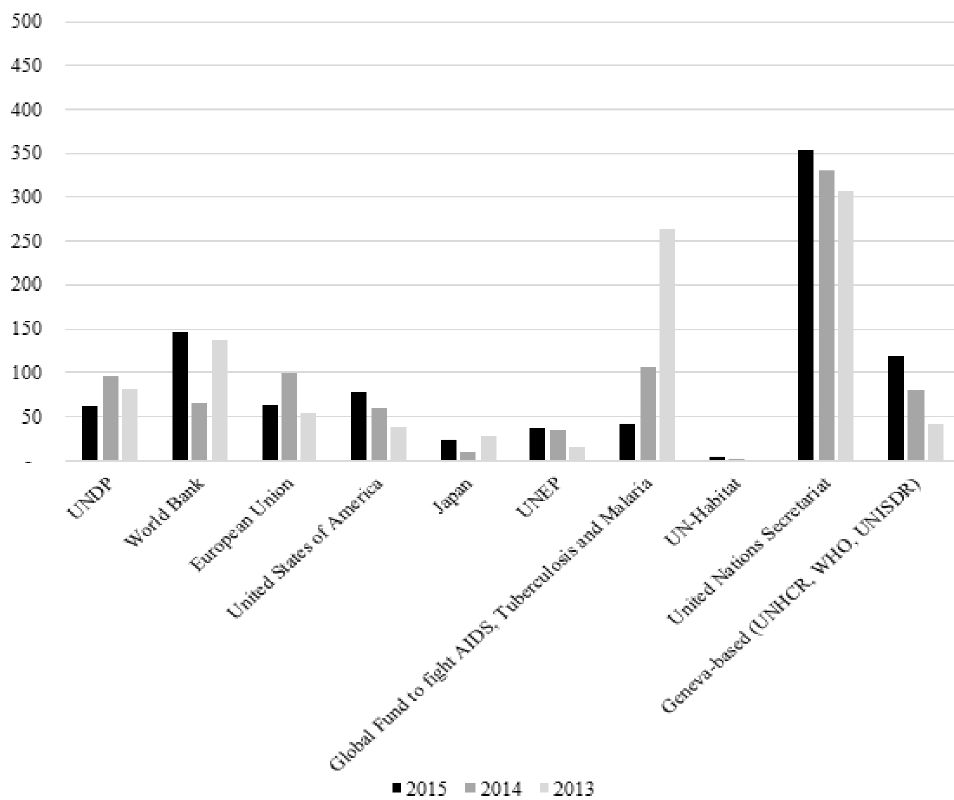
69. Without clearly defined responsibilities for engaging partners, there is a risk that partner relations will be undermined by limited and contradictory information flows from different parts of the business, leading to mixed messages and suboptimal outcomes. Strategic engagement of partners requires stable relationship-building over the medium term.

70. UNOPS has now established partner liaison offices to provide better engagement with some partners. Country-based liaison offices, managed by the Partnerships Director, operate in Brussels and Washington, D.C. A liaison team also operates from New York, reporting to the Executive Director. A liaison team in Nairobi responsible

for managing relations with the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme was disbanded in 2015, with responsibility for managing the relationships transferred to Copenhagen.

71. In 2014, UNOPS created a global network of key partner managers[5] to supplement liaison teams. An analysis of levels of business acquired with key partners in recent years (see figure II.VIII) shows improved performance for 7 of its 10 key partner groups in 2015 as compared with 2013. However, because of a reduction in business agreed upon with the Global Fund, there was an overall reduction of 4 per cent in total business acquired from key partners between 2013 and 2015.

Figure II.VIII
UNOPS key partners: business acquired, 2013-2015
(Millions of United States dollars)



Source: Board of Auditors analysis of UNOPS performance information.
Abbreviations: UNDP, United Nations Development Programme; UNEP, United Nations Environment Programme; UNHCR, Office of the United Nations High Commissioner for Refugees; WHO, World Health Organization; UNISDR, Inter-Agency Secretariat of the International Strategy for Disaster Risk Reduction.

[5] Key partners were identified on the basis of historical importance and future potential.

72. UNOPS acknowledges that the small size of liaison teams limits their capacity and makes them vulnerable to personnel turnover.[6] More generally, and while the Board's engagement with country offices did highlight instances of a more strategic approach being taken, UNOPS recognizes that it has more to do to engage partners on a strategic level and to participate in inter-agency development forums on a sustained basis to build trust and promote knowledge exchange. This is a task for country offices as much as it is for headquarters. In the meantime, there remains a risk that partner relations will be undermined by variable and inconsistent engagement. UNOPS will need to monitor the ongoing impact of key account management.

73. Results from the UNOPS 2016 partner survey[7] nevertheless suggest that overall satisfaction with UNOPS is high among current and past partners, with 84 per cent satisfied, compared with 77 per cent in 2014. Of 256 current partner survey respondents, 87 per cent stated that they were likely to renew their partnership with UNOPS. However, a minority of partners identified scope for improvement in areas which may partly be addressed through more sustained relationship-building by UNOPS. More than 1 in 10 current and past partners reported that value for money was a weakness, including concerns about lack of clarity on pricing. A similar proportion of respondents referred to flexibility, timeliness and perceived bureaucracy as areas for improvement. The Board also identified similar concerns on the part of some UNOPS partners in New York and Geneva. The Board makes further observations and a recommendation on pricing below.

Culture and collaboration

74. A strong culture of collaboration can help promote business development, for example, through the sharing of knowledge about a partner or engagement model. The UNOPS 2016 Global People Survey showed that 57 per cent of all respondents were satisfied with levels of communication between headquarters and field office personnel, but for headquarters teams satisfaction declined to just 33 per cent. A concern about the extent of collaboration was also reflected in the Board's discussions with UNOPS personnel. There is scope to strengthen and further incentivize collaboration between country offices and headquarters functions, potentially through the performance management system. In the meantime, the emphasis by UNOPS on internal financial targets for country offices and clusters risks weakening incentives for collaboration.

Engagement acceptance

75. The Board has assessed the approach taken by UNOPS to engagement acceptance, including as to whether UNOPS is accepting engagements in line with its mandate, strategy, policies and procedures.

[6] For example, the Global Outreach and Liaison Team in Copenhagen consists of three staff serving the Nordic countries, and partners based in Rome, Geneva and the Republic of Korea.

[7] Based on 414 interviews of current UNOPS partners (259 interviews), past partners (37 interviews), prospective partners (36 interviews) and other individuals with influence (82 interviews).

Wide mandate leading to very diverse delivery

76. In December 2010, the General Assembly reaffirmed the mandate and role of UNOPS[8] as a central resource for the United Nations system:

- In procurement, contract management, civil works and physical infrastructure development and related capacity development
- In project and financial management, human resource and common/shared services delivery
- Working with Governments, intergovernmental organizations, financial institutions, non-governmental organizations, foundations and the private bodies operating in the development, humanitarian and peacekeeping areas

77. Informed by its mandate and the decisions of its Executive Board (2012/16 and 2012/24), the UNOPS strategic plan for the period 2014-2017 focuses on national capacity-building through sustainable project management, infrastructure and procurement services.

78. In its review of a sample of 16 engagements signed in 2015, the Board did not identify any cases which appeared to be outside its mandate or clearly counter to its strategy. Nevertheless UNOPS engages in a wide range of activities. Analysis of the largest engagements of UNOPS in 2015 (amounting to over $10 million) found services relating to:

- Infrastructure, including roads, housing, a hospital and a museum
- Projects, including landmine removal and logistical support for the Ebola response
- Procurement, including of medical equipment
- Fund management, human resources services and "hosting"

79. UNOPS therefore needs to be mindful in accepting new business that it may also lie within the mandates of other organizations in the United Nations system which may be well placed to assist UNOPS or the mandates of which UNOPS might be considered to be infringing upon. While the Board recognizes that there are some mechanisms for coordination at the country level, UNOPS policy and process instructions provide little direction or guidance on how to manage potentially overlapping mandates. In its review of documents and discussions with personnel, the Board highlighted instances of some difficulties in the relations between UNOPS and parts of the United Nations prompted by competition for resources. While some competition may help drive efficiencies and lead to better outcomes for partners, there is a risk that it may lead to missed opportunities to collaborate and share knowledge and expertise. UNOPS therefore has a role to play in constructively managing these relations, in line with its aspirations as set out in its strategic plan for the period 2014-17.

80. **To improve coordination within the United Nations system, the Board recommends that UNOPS revise its engagement acceptance processes to include identifying where there is value in involving other United Nations partners with a substantive mandate.**

[8] See General Assembly resolution 65/176.

Weaknesses in current engagement acceptance process

81. In the context of such diversity in the nature of the potential projects that UNOPS can implement, it is also important that UNOPS have an efficient and effective engagement acceptance process to manage risk and, if necessary, prioritize potential projects competing for resources. UNOPS has a process that provides for expert review of proposed engagements to assess their risks and support their development. Depending on the nature of the engagement, reviewers can include finance, infrastructure, legal, procurement and project management experts. Reviewers' comments are provided on an advisory basis, and the director responsible, usually the regional director, may choose to go ahead despite a reviewer's concerns. This, in the view of the Board, is acceptable, provided that (a) reviewers have sufficient time to fulfil their function and that their comments and any remaining concerns are made visible to others, and (b) the director concerned is held to account for the decision. Until the end of December 2015, the review and authorization of new engagements and revisions was supported by the Leads system. In January 2016, the Leads functionality was incorporated within oneUNOPS. UNOPS is planning wider changes to the engagement acceptance process as from late 2016 as part of reforms to its risk management approach.

82. The Board examined a sample of new engagements in 2015.[9] Comments and responses had been obtained and were visible through the UNOPS intranet. However, the Board also found that reviewers were sometimes not provided with sufficient time to examine an engagement prior to the signing of the legal agreement. For around 15 per cent of engagements, it took four or fewer weeks between their being entered into the Leads system[10] and legal agreement being reached, which allowed reviewers only a narrow time frame for review. In over 40 per cent of these cases, project developers logged high risks on the Leads system, including, for example, in relation to bridge design in South Sudan. Entering potential new engagements into Leads at an early stage is also important because it can help in identifying potential conflicts of interest. For example, UNOPS was unsuccessful in obtaining the local fund agent role in Ethiopia for the Global Fund because UNOPS was already acting as procurement agent for the Government of Ethiopia. The local fund agent bid team at the UNOPS Geneva office had been unaware of the procurement role in Ethiopia.

83. In the Board's discussions with headquarters officials, a common perception was also identified that new engagements were sometimes put into leads very late in the process, which reduced the time available for proper review. The Board notes, for example, that a major ($131 million) extension of a National Museum of Peru project was entered into leads only on 16 December 2015 and the legal agreement signed on 24 December. Headquarters had, however, had some awareness of the project prior to December. This particular case is highlighted in greater detail below.

84. **The Board recommends that UNOPS: (a) use the introduction of oneUNOPS as an opportunity to enforce offices' recording of leads earlier in their development; and (b) consider further steps to ensure adequate review time by the specialist reviewers.**

[9] The Board analysed new engagements, totalling 142 cases, over two quarters in 2015: 1 January-31 March 2015 and 1 October-31 December 2015.

[10] As from 2016, the IT platform for reviewing engagements has been transferred from the Leads system to the oneUNOPS enterprise risk management system.

85. UNOPS has an Engagement Acceptance Committee that provides advice on proposed engagements. According to its terms of reference (in 2009), it reviews engagements that the Executive Director, or personnel to whom the Executive Director has delegated the appropriate authority, decides should be referred for advice. Internal guidance lists the types of high risks that require a regional director (or other person with delegated authority) to seek advice from the Committee, including those relating to implementation, reputation, or legal or financial risk. Table II.4 shows that most of the 29 engagements considered by the Committee in 2015 were submitted for financial reasons, either because of the high value of the engagement or because the proposed management fee was not in line with pricing policy. Only one (3 per cent) of the cases was submitted for review because of implementation risk and only five (29 per cent) of the cases were submitted early in their development (“lead stage”). It is therefore not clear to the Board that the senior-level forum for advising the Executive Director on whether to accept engagements is being used effectively.

86. The National Museum of Peru project (see para. 83 above) also highlights some concerns relating to the use of the Engagement Acceptance Committee. To move the project forward without delay, the Committee secretariat provided the regional director with approval swiftly, on the condition that a full review be carried out to ensure that the relevant risks were identified, recorded and addressed. The Committee also suggested that a disclaimer be included in the client agreement stating that the proposal was conditional upon a full review of the risks by UNOPS. The agreement was duly signed by the regional director, although a full disclaimer could not be included because UNOPS advised the Board of Auditors that it would be contrary to national legislation. A risk assessment by the UNOPS Peru office reported that the risks could be managed.

87. In the Board’s opinion, the arrangements surrounding the Engagement Acceptance Committee, reference to which can be triggered at the discretion of regional directors, mean that it may not be consulted in some high-risk cases. Cases that were seen by the Committee in 2015 may not have represented the full spectrum of the types of high risk. The Board also considers that the role of the Committee could be set out more clearly and that compliance around it should be strengthened.

88. **The Board recommends that the proposed new risk and quality framework be used to involve the Engagement Acceptance Committee at the earliest stage in high-risk engagements and that the new framework be used to strengthen engagement acceptance processes and guard against non-compliance. The Committee’s terms of reference should be reconsidered to ensure greater formality with respect to approval processes for higher-risk projects.**

Table II.4
Engagement Acceptance Committee: submission reason and stage, 2015

Reason for submission	*Number of cases*	*Stage of submission*	*Number of cases*
Implementation/scope	1	Lead (preliminary)	5
Legal	1	Pre-engagement	13
Financial	22	Initiation/finalization	11
Reputational	5		
Total	**29**		**29**

Source: UNOPS management information.
Note: The lead stage (now called the opportunity stage on the oneUNOPS system) is a preliminary phase at which the lead is recorded and consideration given to whether the engagement is consistent with UNOPS strategy and to whether there are any key risks. The pre-engagement stage is when the project brief and outline business case are prepared. The initiation and finalization stages cover the completion of the project initiation document and the signing of the legal agreement.

Signing of new business agreements

89. Legal agreements for new projects can be entered into with partners only after the engagement has been authorized. To test compliance with authorization processes, the Board randomly sampled 30 engagements finalized in 2015. It found that five legal agreements were signed before the engagement was authorized. In another three cases, it was unable to ascertain whether the agreement was signed after the engagement was authorized, because the copy of the agreement uploaded to Leads was undated. The Board notes that the UNOPS Internal Audit and Investigations Group has also previously recommended that agreements be signed only after approval from the engagement authority.[11] Incidents of country offices bypassing controls by entering into legal agreements before engagements have been authorized place UNOPS at risk.

90. **The Board recommends that, as part of its efforts to strengthen engagement acceptance processes, UNOPS take steps to prevent the practice of signing agreements without engagement authority, for example, by amending the oneUNOPS system to prevent non-compliance.**

UNOPS management fee

91. The UNOPS policy on pricing[12] states that each engagement should be charged a management fee to cover:

- Its share of UNOPS indirect costs (including a contribution to maintain UNOPS operational reserve);
- A risk increment to enable UNOPS to recover any costs that may not be billable to a particular client or may be incurred as a result of unforeseen risk (for example, an emergency situation, delayed payments or contractual disputes).

92. UNOPS calculates an engagement's indirect costs, which are based on its value and the cost of UNOPS personnel involved, using one of three models which

[11] Activity report for 2014 of the Internal Audit and Investigations Group of UNOPS.
[12] Organizational directive 22.

give rise to what was referred to in the Leads system as the minimum fee. The value of the risk increment on top of the minimum fee is expected to vary according to the level of risk associated with a project, taking account of, for example, the location, the client, the service delivered and the complexity (see figure II.IX, y-axis). In the Board’s analysis, it treated any amount charged in excess of the minimum fee as the “risk increment”, in line with pricing policy. A management fee below the minimum prescribed in the pricing policy may indicate that UNOPS has chosen not to recover its indirect costs for the project or that it considers its indirect costs to be lower than suggested by the pricing model; for example, because of economies of scale derived from multiple similar agreements with a partner.

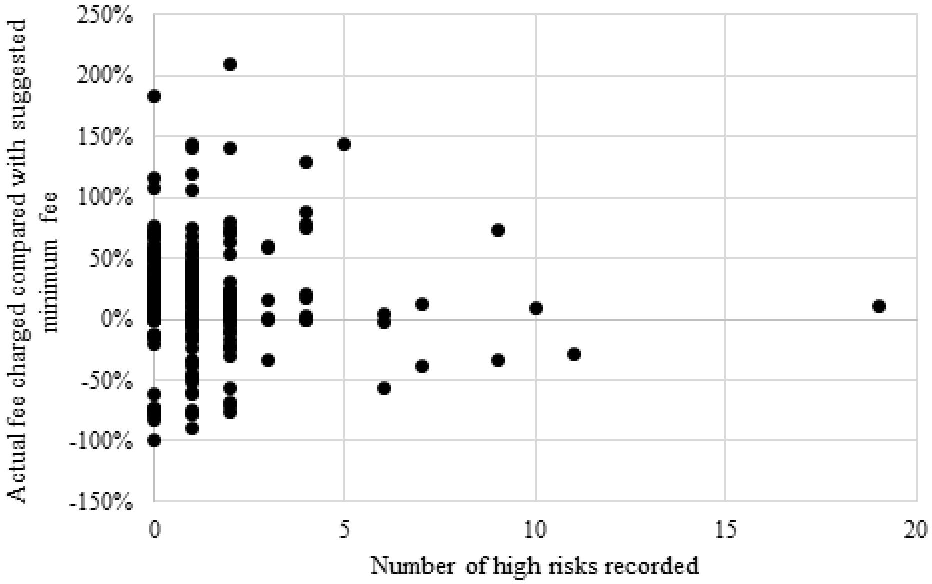
93. In figure II.IX pricing information is also compared with the number of high risks recorded in Leads for each lead (shown on the x-axis) finalized in 2015. It shows that:

- In nearly a quarter (22 per cent) of agreements, the fee charged was less than the minimum fee suggested in the pricing policy (representing a total fee shortfall of $5.1 million over the duration of the agreements). Over a third (36 per cent) of these cases relate to UNOPS mine action work, for which an overarching agreement exists
- In nearly three quarters (73 per cent)[13] of agreements, the fee charged was more than the minimum fee prescribed in the pricing policy, suggesting that risk increments totalling $11.9 million were charged in these cases
- There is no clear relationship between price and risk: in other words, projects identified as high-risk on the basis of the number of high risks allocated to them do not necessarily charge a higher risk increment in the calculation of the management fee.

[13] Five per cent of agreements charged the minimum fee prescribed by the pricing policy.

Figure II.IX

New engagements finalized in 2015: comparing the number of high risks identified with the price charged relative to the minimum fee



Source: UNOPS management information.

Notes:

1. UNOPS advised the Board that it had conducted a specific quality assurance exercise during late 2015, which it believes has improved the accuracy of the data recorded, although it is possible that there are still some inaccurate data.
2. New leads only (excludes amendments and adjustments to existing agreements).

94. In January 2016, UNOPS issued additional guidance to country offices on how they might calculate a risk increment in excess of the minimum fee. The additional guidance is intended to result in a more systematic approach to the incorporation of risk into pricing. However, it is unclear to the Board whether this new approach will lead to higher pricing on average, thus increasing the already high surpluses and reserves. It is also unclear to what extent risk is already factored into the pricing of the minimum fee. If risks overall do not materialize to the extent envisaged in project pricing, there is currently no process for returning "increments" to the donor community. There is therefore a case for a more comprehensive review of the pricing policy, to consider how it should best take account of risk in ways that are consistent, transparent and evidence-based.

95. **The Board recommends that UNOPS: (a) conduct a comprehensive review of the pricing policy to consider how best to take risk into account in ways that are consistent, transparent and evidence-based; and (b) develop a policy for the use of accumulated financial surpluses arising from "risk increments" received but not ultimately required.**

G. Management disclosures

Write-off of losses of cash, receivables and property

96. Management has informed the Board that, in 2015, it had formally written off assets of $448,000, including overspending of $198,000[14] and project charges of $141,000 rejected by clients. At 31 December 2015, management has also reported provisions of $11.2 million for claims and onerous contracts.

Ex gratia payments

97. Management reported no ex gratia payments in 2015, and no items have come to the Board's attention from its audit testing. However, greater attention should be paid to review processes to ensure that transactions of this nature are identified, whatever their magnitude.

Cases of fraud and presumptive fraud

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

99. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention. The Board also enquires whether management has any knowledge of any actual, suspected or alleged fraud. The Board has not identified any instances of fraud in its audit, and no cases have come to its attention through its testing.

100. During its audit, the Board noted that UNOPS had not yet undertaken a clear fraud risk assessment to identify areas of the business which would be susceptible to risk. This would help focus management control effort and will be of particular importance at a time of change within the business. It will also help to focus internal audit effort. The Board's recommendations in this area remain outstanding.

101. The Board noted that the Internal Audit and Investigations Group had a proactive approach to investigation and that, during 2015, UNOPS completed its investigations of five cases of fraud with an impact on UNOPS valued at $32,100. These cases were reported to the Board in March 2016. The Group's annual workplans are also comprehensive and risk-focused, providing a good level of assurance to management. The cases concluded, and action taken by management, are set out in Table II.5. Appropriate action had been taken by UNOPS against the perpetrators of the frauds. The Group also highlighted to the Board a number of proactive measures taken during 2015. However, the Board remains concerned that, in the context of the nature of UNOPS and the operational environment in which it works, the level of reported fraud remains low, as is the case with many other United Nations entities. For example, the

[14] Overspending occurs when UNOPS has incurred expenditure in excess of agreed programme budgets with clients and is therefore extracontractual.

greater detail and control functionality of oneUNOPS can be used to undertake data analytics to review expenditure trends and authorizations.

Table II.5
Fraud investigations concluded

Nature of fraud	*Impact of fraud on UNOPS (United States dollars)*	*Action taken by management*
Misspending of project funds by grantee	8 600	Vendor has been barred from future contracts for five years, and management is considering taking action for restitution
Misappropriation of funds by contractor	8 200	Contractor would have been charged with misconduct if not already separated. Management intends to refer this case to national authorities
Use of funds by staff member without authorization	5 000	The staff member has been separated from service, and management has recovered spent funds
Submission of fraudulent bank guarantee to obtain advance payment for a construction contract	Nil	Vendor has been barred from future contracts for three years
Submission of fraudulent medical/dental insurance claims by 42 personnel members	10 300	17 personnel were separated from service. 25 would have been charged with misconduct if not already separated
Total	**32 100**	

H. Acknowledgement

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

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

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

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

30 June 2016

Annex

Status of implementation of recommendations

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/67/5/Add.10, chap. II, para. 48, 2010-2011 A/67/5/Add.10, chap. II, annex, 2010-2011	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. Analyse all currently listed projects and identify projects to be closed.	The backlog has been reduced from 544 in March 2015 to 179 at the end of 2015. Of these 179 projects pending for closure, the closure team, in close collaboration with the field offices, has already managed to close 30 projects since mid-January 2016. Of the 149 projects still in the backlog, 31 are from the backlog in existence when the recommendation was made. Although UNOPS had planned to clear the backlog by the end of 2015, that was not possible, owing to the transition to oneUNOPS, the retirement of the project closure tool and problems in reaching clients. UNOPS plans to clear the backlog by the end of 2016.	The Board notes that the Infrastructure and Project Management Group has closed 30 projects in 2016 and has developed a plan to close down the remaining 149 pending projects by the end of 2016.		X		
A/68/5/Add.10 and Corr.1, chap. II, para. 24	Clearly identify the envisaged benefits from accruals-based information and associated revised management procedures; and appoint a senior responsible owner for realizing such benefits and embedding new ways of working throughout the organization.	With the launch of the new enterprise risk management system, UNOPS has moved away from a monthly accrual process to more of a real-time accrual process.	While the Board notes that live accruals information is provided through the new UNOPS enterprise risk management system, there remains further scope to utilize the accruals type information to inform business decisions and planning.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/68/5/Add.10 and Corr.1, chap. II, para. 31	Increase the visibility of funding provided for end of service liabilities by establishing a separate reserve account for after-service benefits.	A separate portfolio has been set up for post-employment benefits as of 1 January 2016.	The Board notes that UNOPS has established an investment account to offset the impact of employee benefits liabilities to be reported in the 2016 financial statements. As at 29 February 2016, UNOPS has $70.1 million of investments earmarked against its post-employment liabilities of $70.9 million. However, no separate reserve has yet been created.		X		
A/68/5/Add.10 and Corr.1, 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.	A senior Risk Officer has been appointed. The Risk and Quality Group has developed a revised risk management framework and is currently identifying the tolerance of UNOPS for risk.	The Board notes the establishment of the Risk and Quality Group; however, work on identifying specific fraud risk and risk appetite is ongoing and more needs to be done to engage with the potential fraud risks faced by UNOPS.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/68/5/Add.10 and Corr.1, chap. II, para. 51	Examine the costs and benefits of performing mandatory background checks on all new recruits, vendors and other partners or contractors.	It is mandatory for all suppliers who are awarded contracts to be registered in the United Nations Global Marketplace, in which the mandatory information required by the vendor is cross-referenced with UNOPS, United Nations and World Bank ineligible vendors. Vendors that have been sanctioned are automatically flagged and cases referred to the UNOPS ineligibility administrator for review. Vendor sanctions are now included in the oneUNOPS system. UNOPS has signed a contract with a background check service provider and the service is being used for specific cases where deemed necessary. UNOPS management does not believe that it is cost-effective for these checks to be conducted for all personnel in key functions.	The Board notes the use of the United Nations Global Marketplace; and that the People and Change Practice Group and Internal Audit and Investigations Group submitted a proposal for mandatory background checks to the growth and innovation fund. However, this was rejected by management as it would require other funding and is to be considered in future budgets. The recommendation has been treated as implemented as it was subject to consideration by management.	X			
A/68/5/Add.10 and Corr.1, 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 analyses the engagement assurance results on a regular basis to see which offices and engagements are not on schedule. On the basis of those results, the relevant country offices are approached and support is provided. In 2015, the South Sudan Operations Centre and the Democratic Republic of the Congo Operational Hub, received assistance in the planning of specific projects. Delivery support services were also given to the Haiti Operations Centre and the Côte d'Ivoire Operational Hub. The project Management Office's implementation programme also focuses on establishing project management offices that can support country programmes in the better planning and delivery of projects. Given the above-mentioned efforts and ongoing actions, we consider this recommendation to have been fully	UNOPS needs to complete its quantitative analysis of a sample of project cost and time extensions for this recommendation to be considered to have been implemented.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
		implemented. Further, in 2015, UNOPS conducted several project management capacity assessment, implementation support and operational infrastructure and project management office implementation missions with the aim of assisting country offices in applying UNOPS project management methodology and improving implementation and performance, in order to increase customer and client satisfaction and programme/project success. The missions covered how country offices should conduct current capability assessments, project "health" checks and training and how to engage in the provision of project, programme or portfolio management and business development support.					
A/68/5/Add.10 and Corr.1, chap. II, para. 76	Encourage its clients to accept the inclusion of contingency budget for projects, which might necessitate a corresponding reduction in other components of the budget, in addition to processes for releasing contingency that are acceptable to clients.	The use of contingency has been encouraged through budgeting guidance, project planning guidance and a budgeting checklist, in particular for construction projects. Project managers are encouraged to identify the major project risks and assumptions in terms of cost, time and quality and exposing these to partners, and agree upon including the contingency. However, on many occasions, budgets are too tight to accommodate a contingency budget, or funding sources may have restrictions on including one in the budget. UNOPS guidance on works contracts also suggests the inclusion of at least 6 to 12 per cent contingency. The importance of contingency budgets is also emphasized in the updated draft project management methodology, in the financial management chapter. UNOPS considers this recommendation to have been implemented.	The Board notes that a contingency budget is encouraged, for example through the project management training course. UNOPS is provided with some additional security through the risk increment to the management risk, which is now charged in around three quarters of projects.	X			

General Assembly session/paragraph	Summary of recommendation	Management's comments on status — April 2016	Board's comments on status — April 2016	Fully implemented	Under implementation	Not implemented	Closed by the Board
A/68/5/Add.10 and Corr.1, chap. II, para. 82	Develop a mechanism to generate better information on the post-completion performance of buildings.	Guidance material has been incorporated in the monitoring and evaluation toolkit issued in January 2016. This has been rolled out through webinars that are available on the intranet to all UNOPS personnel for general use. A decision has been made, for budgetary reasons, to delay the revised design planning manual for buildings until the second quarter of 2017. Updated material, including any feedback from the monitoring and evaluation toolkit usage, will be incorporated at that time. Further work will be done in 2016 to implement the mechanism on the ground.	The Board considers that this recommendation will be implemented once feedback from the MandE toolkit is incorporated in the design planning manual.		X		
A/68/5/Add.10 and Corr.1, chap. II, para. 90	Work with its partners to establish processes to better capture information on the outcomes to which UNOPS activities contribute, particularly in terms of project.	On 9 September 2015, the Global Reporting Initiative programme presented a final report on the Initiative materiality assessment and the three-year Initiative programme budget, which have both been unanimously accepted and approved by the members of the Corporate Operations Group and the Executive Director. This approval provides the basis to proceed with the Initiative reporting process. The UNOPS sustainability report using the Global Reporting Initiative and annual report will be combined and will be released in June 2016. The reports will assist UNOPS in identifying the level of contribution to sustainability, and thus the results will enable UNOPS to look into unsatisfactory areas and address them accordingly.	The Board has reviewed the draft Global Reporting Initiative report that UNOPS is to publish in summer 2016. Although the Board agrees that the recommendation has been implemented, UNOPS should continue to improve the information it captures on project outcomes.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 9	Prepare reports on financial, performance and risk management that include a full analysis and explanation of significant variances.	In its 2014 midyear review and every quarter since then, UNOPS integrated the global portfolio and regional performance with its quarterly assurance and business planning processes. The purpose was to establish a clear link between project and corporate performance, while optimizing the use of corporate tools and systems, and improving the ability of UNOPS to manage performance and risks. Analysis, informed by reports from the management workspace system, and explanation of significant	The Board notes the reports and commentaries submitted in 2015 by field offices, including explanations for significant variances. Consideration will need to be given to the reporting functionality within oneUNOPS during 2016.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
		variance is made as relevant at each level of the integrated review process. From this extensive review process, key aspects of risk and performance are escalated and eventually discussed in meetings between the regional and global portfolio managers and the Deputy Executive Director, with action agreed as required.					
A/69/5/Add.11 and Corr.1, chap. II, para. 12	Critically review its accrual accounting treatment and closure procedures to ensure that financial information is available in real time in the management workspace system. In UNOPS should continue to enhance the system so that it meet the needs of country offices.	With the launch of the new enterprise risk management system, UNOPS has moved away from a monthly accrual process to more of a real-time accrual process.	The Board notes that the new UNOPS enterprise risk management system provides accruals based information in real time. However, it is important that this information is used and reviewed by country offices to confirm its accuracy and to inform their understanding of expenditures.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 21	Review its operational reserves policy and establish, with the approval of its Executive Board, plans for the use of surplus reserve balances.	UNOPS will utilize a portion of the reserves to fund investment projects that support the goals of the organization. The identification of such projects is an ongoing process and investments will be made as they are identified. To enhance the level of utilization of the investment fund, a committee consisting of senior managers both from field operations and from headquarters is currently working on clear guidance on eligibility criteria and processes related to utilization of the investment funds. It should also be noted that the formula for calculating the operational reserve is only about two years old and thus launching a review at this stage would be premature. It should further be noted that the reserve calculation identifies a minimum threshold below which it would be operationally and financially risky for UNOPS to operate.	The Board has found little substantive progress on this issue; it has closed the existing recommendation and made a new more specific recommendation for consideration this year.				X

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/69/5/Add.11 and Corr.1, chap. II, para. 34	Take practical steps to implement enterprise risk management strategies, policies and procedures across the entity without further delay. Specifically: • Identify, document and assess key risks to achieving strategic objectives • Regularly update and monitor risk information that can be aggregated at enterprise 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	The enterprise risk management system will, together with UNOPS work on consolidation of corporate oversights, address the recommendation during 2016 and conclude by mid-2017. The enterprise risk management system will document the risk exposure and oversee tolerances in the governance structure, which will be reflected in the enterprise risk management system process. The opportunity management and engagement acceptance process will strive to ensure that UNOPS engages after a complete risk assessment informing the decision to sign agreements. The quarterly assurance process will require risk owners to assess, verify and/or update the risk assessments on a quarterly basis, which are then aggregated at the regional and corporate levels with additional inputs from each. Risk owners will be assigned in line with the delegation of authorities and the main risks can be viewed at all levels on a regular basis.	The Board notes work being undertaken on the risk framework and has reported on progress to date. The Board remains concerned about the delayed implementation of risk management and the risks to the delivery of a functional system of risk management by the end of 2016. The Board further notes that UNOPS has established a Risk and Quality Group to assess and review its risk appetite.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/69/5/Add.11 and Corr.1, chap. II, para. 45	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 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 recently embedded a category management structure to bring a strategic focus to its large procurement categories. This has included hiring people with specific category expertise and knowledge of the market, including prices, to embed this knowledge throughout UNOPS (at headquarters and in the field). Procurements are delivered on a per project basis and understanding the external market is critical to ensuring that suppliers offer the best price possible. Within the procurement policy and process, market research is a critical function and category managers, where appropriate, perform market research to ascertain the market price for goods and services before issuing a tender. The majority of tenders are open and competitive, providing UNOPS with the best market rate and ensuring it gets the best value for money for its donors, partners and clients. UNOPS awards undergo rigorous review by the local property and contracts committee or the Headquarters Contracts and Procurement Committee before issuing contracts, which ensures that due consideration and research has been given to the competitiveness of prices achieved.	The Board notes recent improvements to performance metrics and other performance information.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 52	Establish how the Sustainable Procurement Practice Group can engage more effectively in the development of local procurement strategies	The collection of procurement plans has now been reworked, and processes are in place for this recurring task, which also includes incorporating procurement plans into the continuous development and update of category strategies. The category team will regularly develop and update category strategies, which will include strategies on how the Procurement Group can support local and regional procurement.	The Board notes the emphasis UNOPS has given to procurement plans and category strategies.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/69/5/Add.11 and Corr.1, chap. II, para. 56	To maximize the benefits from long-term agreements, 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.	With a new and complete category management team in place at headquarters, the new category management approach is fully functioning. A number of global long-term agreements have been developed on the basis of analysis of UNOPS procurement spend and procurement plans, including global consultant services, high-risk labour services and infrastructure-related goods and services. The category management team will, as part of the category management strategy, continue to develop global and local long-term agreements in collaboration with country offices.	The Board notes the improvement in the approach to using long-term agreements.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 57	To improve the use of and benefits from long-term agreements, collate information on the existence and usage of local and regional long-term agreements available for its use.	With the category management team now in place at headquarters, the new category management approach is fully functioning. A number of global long-term agreements have been developed on the basis of analysis of UNOPS procurement spend and procurement plans, including global consultant services, high-risk labour services and infrastructure-related goods and services. The category management team will, as part of the category management strategy, continue to track global and regional long-term agreement usage.	The Board notes the improvement in long-term agreements and the provision of information about them.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 61	To strengthen the professionalization of procurement, (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.	The Procurement Group has fully integrated into its workstream the provision of various training courses for specific procurement roles at UNOPS, through a combination of online and onsite courses, and is meeting its target for mandatory completion of the online sustainable procurement course.	The Board notes the development of the new procurement training strategy.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/69/5/Add.11 and Corr.1, chap. II, para. 65	Develop a way of monitoring the length of the procurement process, either through e-procurement or enterprise risk management systems that are under development and being introduced in 2015 or by distributing a template for capturing procurement information from all centres.	Procurement requisitions have now been introduced into the new enterprise risk management system, oneUNOPS, enabling the system to track the time it takes from when the initial procurement need is logged until a contract is issued. This can report timelines from the initial requisition, purchase order creation, receipt and payment.	The Board notes that procurement times are now shown in management information.	X			
A/69/5/Add.11 and Corr.1, chap. II, para. 75	The Internal Audit and Investigations Group should, in setting its work programme for 2015, and on the basis of the results of the fraud risk assessment in 2014, consider carrying out specific audit work to examine controls covering the risk of fraud in procurement.	A fraud risk assessment exercise was initiated in 2015, but decommissioned owing to organizational changes. It was further decided that a fraud risk assessment should not be conducted until the revised internal control and risk frameworks are in at least an advanced draft stage. It could then provide useful input before finalization of the frameworks and form the baseline for continuous improvement efforts by management to mitigate the risk of fraud. The development of a fraud risk assessment has therefore been postponed until the third quarter of 2016.	The Board notes that the fraud risk assessment is now to be restarted later in 2016.		X		
A/69/5/Add.11 and Corr.1, chap. II, para. 80	Carry out structured and regular benchmarking exercises, where feasible, of the prices that it obtains. UNOPS should also obtain feedback specific to procurement from its partners.	The new e-sourcing solution is being rolled out throughout UNOPS in 2016. The solution tracks the sourcing and solicitation process and is integrated through the enterprise risk management system to allow for the monitoring and tracking of the end-to-end procurement process.	The Board notes that UNOPS has carried out some price benchmarking and, through its partner survey, obtained feedback on satisfaction with procurement services.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/69/5/Add.11 and Corr.1, chap. II, para. 82	Take action to strengthen local capacity-building. This could involve sharing good practices such as procedures to reduce non-compliance in tendering.	Since the beginning of 2015, the Procurement Group has continued to increase interactions with UNOPS country offices, including online and on-site training, knowledge-sharing activities through webinars, face-to-face missions and a number of measures to strengthen capacity-building. The Procurement Group staff are also now located in the Latin America and the Caribbean regional office, as well as in Nairobi and, as of 2016, in Myanmar. Some of the latter have joint reporting structures. In September 2015, members from all regions participated in a three-day procurement group workshop at which best practices were shared and joint planning for next year took place.	The Board notes the efforts to strengthen local capacity.	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 15	Review its operational reserve policy and establish, with the approval of its Executive Board, clear plans for the use of surplus reserve balances and, to this effect, establish a target reserve to manage this reduction.	UNOPS will utilize a portion of its reserves to fund investment projects that support the goals of the organization. The identification of such projects is an ongoing process and investments will be made as they are identified. To enhance the level of utilization of the investment fund, a committee consisting of senior managers both from field operations and from headquarters is currently working on clear guidance on eligibility criteria and a process for utilization of the investment funds. It should also be noted that the formula for calculating the operational reserve is only about two years old and thus that launching a review at the present stage would be premature. It should further be noted that the reserve calculation identifies a minimum threshold below which it would be operationally and financially risky for UNOPS to operate.	The Board has found little substantive progress on this issue and has closed this recommendation, superseding it with a new recommendation.				X

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 26	Review the basis of its directly attributable support costs and management fees to ensure consistency, equity and transparency in the light of the principles of the new pricing model. In particular: (a) Ensure that reporting on the mine action project reflects the scale of directly attributable support costs currently embedded in programme costs in addition to management fees charged; (b) Review recovery rates on individual contractor agreements managed for partners to ensure that charge rates are equitable across partners and better reflect the actual costs incurred.	(a) Financial reports issued to the United Nations Mine Action Service by the UNOPS Peace and Security Cluster will be changed as of 30 April 2016 to reflect new terminology for some categories of direct and indirect costs, as defined in the memorandum of understanding signed on 3 August 2014. Reporting on centrally managed direct costs will be clarified once negotiations between UNOPS headquarters and the Secretariat's Office of the Controller on this matter have been concluded. (b) UNOPS fully agrees with the observation that costs charged should be linked to the number of contracts processed in these agreements. This, in fact, is done through the UNOPS cost attribution model (centrally managed direct costs), whereby, in every contract, whether for partner personnel or UNOPS personnel, positions bear the cost of all associated human resources support processes such as payroll. Hence, when costing partner personnel projects, the number of staff contracts administered on an annual basis is reflected in the overall budget proposal. Since the element that is driving the cost is already reflected in the costing of a project, UNOPS has also made efforts to harmonize the pricing of contracts. All UNOPS memorandums of understanding include a standard flat fee of 9 per cent for project contracts. Moreover, UNOPS has now placed the coordination of the global memorandums of understanding for human resources services with the People and Change Practice Group to ensure that new agreements are priced consistently, are fair and correctly reflect the number of personnel being managed in the budget proposal.	The Board notes revised reporting to the Mine Action Service with locally allocated direct costs being more clearly identified. The Board further notes ongoing discussions with the United Nations Secretariat's Office of the Controller regarding the reporting of centrally allocated direct costs. While the Board notes that revised memorandums of understanding have been signed with United Nations partners at a flat rate of 9 per cent, this remains based on transactional value, not on actual costs incurred. The Board has further reported in 2015 on the UNOPS pricing policy.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 33	Obtain specific independent expert assurance on the integrity of the implementation of the enterprise resource planning system, as well as its progress and the adequacy of its configuration prior to the planned implementation date of each phase.	The Internal Audit and Investigations Group, in coordination with the Business Improvement and Innovation Programme team, has engaged external consultants to conduct a fraud risk assessment of the new processes and systems released as of 1 January 2016. The assessment was conducted at the beginning of February 2016, and a draft report is expected shortly. Additional work will need to be done internally to determine whether the changes in processes and systems have resulted in increased, decreased or the same level of residual risk.	While the Board notes that UNOPS has engaged an external consultant to perform a fraud risk assessment on the implementation of its enterprise risk management, this was completed after deployment with reporting four months after the system went live. The Board has made a subsequent recommendation.	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 36	Reconfirm the level of expected savings arising from the implementation of enterprise resource planning and seek to obtain viable benchmark cost data to inform a review of the realized process cost benefits.	Initial estimates of the savings have been computed by the strategic budgeting team. A final analysis of the savings and benefits from process optimization and automation will be conducted later this year following a restructuring of information and communications technology that is currently being worked on.	The Board notes that UNOPS has identified initial savings estimates of $1.5 million based on comparable expenditure as included in its 2015 report. UNOPS has not, however, yet established how to fully measure total savings.		X		
A/70/5/Add.11 and Corr.1, chap. II, para. 39	Further explore opportunities to improve business process efficiency by standardizing work practices and processes, delegations of authority and alignment of access rights to improvements in the internal control framework and based on the needs of the business.	The Business Improvement and Innovation Programme team is currently working with the new Risk and Quality Group on this as part of the broader work the Group is performing on revamping organizational policies and governance structures (including the internal control framework). While some gains are expected by midyear, broader changes which may result in longer-term gains are likely to be instituted towards the end of 2016.	The Board notes that UNOPS has begun to analyse workflows for business processes. The Board further notes that the completed fraud risk assessment identified weaknesses in the internal control framework which UNOPS is addressing. These include segregation of duties and reviewing of exceptions.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1. chap. II, para. 46	In keeping with gender equality objectives of the United Nations, continue to address the gender imbalance in its workforce and evaluates the impact of its initiatives.	Addressing the imbalance is an ongoing process and the impact of the initiatives put in place to address it are being assessed on an annual basis using relevant key performance indicators.	The Board notes the increased number of gender-related key performance indicators in 2016; and also the increased proportion of women in the workforce in 2015 (34 per cent) compared with 2014 (31 per cent).	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 49	Examine whether the increases in senior management and international personnel are consistent with its operating model and its capacity-building objective.	UNOPS has determined that the increase in the number of international positions is not in line with its strategy to build more on national capacities, although this was required over the past one to two years. This was due primarily to large increases in the number of positions at headquarters, where the majority of personnel are international, but also to bringing on board some specialized programmes to host, with a rather higher number of specialists at international levels also in headquarters locations, including Geneva, New York and Brussels. This has been registered as one of the activities for review in the 2016 workplan as well as the balanced scorecard on people.	The Board acknowledges UNOPS findings in response to our recommendation and, in turn, UNOPS' decision to include performance targets in 2016 to address recent increases in senior management and international personnel.	X			

General Assembly session/paragraph	Summary of recommendation	Management's comments on status — April 2016	Board's comments on status — April 2016	Fully implemented	Under implementation	Not implemented	Closed by the Board
A/70/5/Add.11 and Corr.1, chap. II, para. 58	(a) Obtain feedback from practice groups on the performance of the People and Change Practice Group as a business partner; (b) Manage and monitor the benefits of recent organizational reforms, including the Global Shared Service Centre; (c) Develop a measure covering the cost-efficiency of the human resources function, such as the human resources staff to workforce ratio.	(a) Informal feedback has been sought, and has been perceived as positive. The People and Change Practice Group was invited to participate in work-planning workshops organized by UNOPS practice groups; however, as of 2016, the business partnering functional will be dissolved into a cross-functional practice between the two main streams of talent and change management; (b) The Global Shared Services Centre was established further to a cost/benefit analysis and is still in line with the initial cost-benefit analysis carried out; (c) This is in the workplan for 2016.	The Board notes feedback sought from other specialist groups and participation in joint planning workshops by the People and Change Practice Group. The Board also notes UNOPS plans to develop a human resources cost-efficiency measure in 2016 and to conduct further benefit monitoring of the Global Shared Service Centre in 2016.		X		
A/70/5/Add.11 and Corr.1, chap. II, para. 62	The People and Change Practice Group, working with the other practice groups, collect and assess information on the knowledge and experience of its workforce to inform future skills and workforce planning.	This is being addressed in the form of competencies identified for key functions within the organization.	The Board notes UNOPS progress in identifying competencies for roles but encourages it also to consider the skills of its existing workforce. UNOPS should then consider steps necessary to address gaps in the skills of its existing workforce.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 67	(a) Develop clear business-led criteria for assessing requests from personnel to change engagement terms from staff to an individual contractor agreement; (b) Monitor the impact of this policy on the workforce.	The criteria are spelled out in the relevant policies. During the initial period of the launch of the administrative instruction, several cases were received and processed; however, no further cases have been submitted in the past 10 months.	The Board's analysis of the relevant UNOPS administrative instruction confirms that its People and Change Practice Group will consider the interests of UNOPS in responding to requests to convert from staff to individual contractor agreements. However, the business criteria to be considered before agreeing to a change are not fully specified. The Board remains of the view that changes of this kind should be monitored because they may present longer-term risks linked to personnel performance, reduced management capability and project liability.		X		
A/70/5/Add.11 and Corr.1, chap. II, para. 70	Monitors turnover rates as a result of resignations, to inform its workforce planning.	Workforce planning is currently being conducted at the level of retirement expectations of staff. The turnover rate is used as the basis for all workforce planning in the set-up of the corporate talent benches as a reference to the estimated remaining number of candidates throughout the bench life cycle.	The Board notes that in 2015 UNOPS analysed turnover caused by early resignation/ separation. Regular monitoring of turnover would constitute implementation of this recommendation.		X		

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 75	(a) Fully test future business case assumptions to ensure that they are supported by evidence and adequately reviewed; (b) Closely monitor the impact of changes to terms for local contractors to ensure that the expected benefits are realized in practice; (c) Implement measures to address the very high turnover levels among international individual contractors, subject to a careful analysis of the causes of turnover and characteristics of such positions.	The cost analysis developed to support the case for the introduction of the provident fund and other benefits was quite accurate in that the objective of reducing turnover rates by 30 per cent was realized. The high turnover rates among international individual contractors is not to be compared with local individual contractors, as the nature of the expertise is different in terms of calibre and in terms of expected duration as compared with the latter.	The Board notes monitoring data from UNOPS which shows that the local individual turnover was 30 per cent in 2015 (using UNOPS preferred 90-day monitoring measure) compared with 43 per cent in 2014. The Board notes that measures to reduce turnover of particular categories of international individual contractors (e.g. project managers) are currently being developed. The Board understands that UNOPS will introduce such measures only if it considers that they pass a test of costs and benefits.		X		
A/70/5/Add.11 and Corr.1, chap. II, para. 78	Continue its work to establish standard job descriptions and terms for senior positions and, once implemented, take steps to ensure that these are used in practice.	Job description standardization for senior positions has been completed.	The Board acknowledges recent work by UNOPS to implement a range of standardized job descriptions which are now accessible through UNOPS intranet.	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 81	Implement a system for reliable reporting and analysis of recruitment processing times, covering the period from when a vacancy first occurs through to the post being filled.	On track for 2016, given lower priority owing to the enterprise risk management implementation, therefore shifted forward for later implementation.	The Board notes UNOPS introduction of the new enterprise risk management system and the proposal to produce the relevant reports in 2016.		X		

General Assembly session/paragraph	Summary of recommendation	Management's comments on status — April 2016	Board's comments on status — April 2016	Fully implemented	Under implementation	Not implemented	Closed by the Board
A/70/5/Add.11 and Corr.1, chap. II, para. 84	Expand its use of workforce rosters across the business so that it is better placed to recruit and allocate people swiftly in response to business needs.	Benches are being established, with the Head of Support Services bench already fully established in 2015, and the Operation Centre Director bench, the Head of Programme and Project Manager benches are being established with the aim of completion by June 2016. These positions were selected as UNOPS sees them to be business-critical for its global operation.	The Board acknowledges UNOPS significant work in this regard. The People and Change Practice Group has designated performance indicators for 2016 to support monitoring of this area.	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 88	Evaluate the impact of its recent additional investment in training, including as to whether the type and distribution of training provided is addressing the gaps between current workforce skills and future business needs.	This is the driver behind the evaluation of the training functions being more in line with a learning strategy that will contribute to corporate goals. A learning strategy paper is being developed to focus on the corporate needs and drive the competencies needed.	The Board notes UNOPS plans to align future learning with corporate strategy and to evaluate impact in this regard.		X		
A/70/5/Add.11 and Corr.1, chap. II, para. 93	Develop and communicate a promotion policy as soon as reasonably possible. The policy should address key issues such as in what circumstances staff and individual contractors can compete for a position, and when positions should be advertised externally.	The recommendation has been addressed through the talent management framework launched in September 2015.	The Board notes the launch by UNOPS of a talent management framework which (a) aims to strengthen the use of internal rosters and talent benches as a means of retaining and developing individual contractor agreements and staff talent and (b) provides more procedural clarity where individual contractor agreements are regraded to better reflect the role performed.	X			

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 94	Further develop its approach to strategic workforce planning by implementing a more systematic approach to talent management which includes all personnel from all contract modalities.	The recommendation has been addressed through the talent management framework launched in September 2015.	The Board acknowledges UNOPS implementation of a new talent management framework (incorporating a revised policy and administrative instruction).	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 98	(a) Identify ways of disaggregating personnel performance more clearly through performance appraisal; (b) Strengthen underlying systems for identifying and addressing underperformance.	The recommendation has been addressed through the talent management framework launched in September 2015.	The Board notes that UNOPS introduced additional disaggregation in its 2015 performance appraisal. UNOPS also published further guidance to managers to address underperformance. As part of its work on an updated talent management framework, UNOPS has introduced standardized job descriptions and competency requirements which should provide for a clearer framework in which to assess performance.	X			
A/70/5/Add.11 and Corr.1, chap. II, para. 101	Review the merit award scheme to ensure that it is consistently aligned to the achievement of its objective of a break-even.	UNOPS has conducted various internal evaluations to assess the impact of its recognition policy, including merit pay. UNOPS will review the recognition policy to ensure and reconfirm alignment between the programme and organizational goals in the coming year.	The Board notes that the alignment with break-even is yet to take place and that UNOPS has plans to address that in the coming year. The 2015 merit awards amounted to $2.4 million.			X	

General Assembly session/paragraph	*Summary of recommendation*	*Management's comments on status — April 2016*	*Board's comments on status — April 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Closed by the Board*
A/70/5/Add.11 and Corr.1, chap. II, para. 106	Establish clear deliverables to monitor the progress made in implementing the new enterprise risk management plan in accordance with the agreed timetable, seeking to prioritize key elements such as the identification of top-level strategic risks and mitigations.	UNOPS has revised the enterprise risk management programme to bring it into line with the wider governance, risk and compliance framework so as to ensure a comprehensive and integrated approach to risk management at the engagement, regional and corporate levels. Thus far, a number of activities have been/are being undertaken, including: stakeholder consultations regarding the conceptual approach to risk, the production of concept notes for risk and governance, review of the UNOPS governance framework, ongoing revision of the opportunity management, engagement acceptance and quarterly assurance processes in oneUNOPS, the development of the enterprise risk management process, tools and techniques. Key deliverables scheduled for 2016 include: • Established risk governance; • Risk management and risk assessment processes, tools and techniques in place; • Engagement-level risk assessments are completed for all new UNOPS engagements prior to agreement; • All new engagements complete quarterly assurance based on the risk profile established at the time of engagement; • First regional-level risk assessments carried out and preparation carried out for first corporate level risk assessments Q1 2017	The Board has noted developments in progressing the risk management processes within UNOPS which are expected to be in place by 2017; however, the risk of failing to achieve identification of top-level risks by 2017 remains high, given the complexity of the new framework.		X		
Total				**22**	**18**	**1**	**2**
Percentage				**51**	**42**	**2**	**5**

Chapter III
Financial report for the year ended 31 December 2015

A. Introduction

1. In accordance with the financial regulations and rules of the United Nations Office for Project Services (UNOPS), the Executive Director of UNOPS has certified the 2015 financial statements of the organization and is pleased to submit them to the Executive Board and the General Assembly, and to make them publicly available. The financial statements have been audited by the Board of Auditors, and its unqualified audit opinion and report are attached. Overall, UNOPS is financially robust and is continuing to make the necessary strategic investments in order to accomplish its strategic plan for 2014-2017.

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

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

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

4. Achievements during 2015 included:

(a) UNOPS was awarded gold level in the Sustainable Procurement Review in 2015 by the Chartered Institute of Procurement and Supply. This makes UNOPS the first United Nations organization and only the fourth organization in the world to achieve gold level from the Institute;

(b) As part of its ongoing efforts to align its work with global frameworks, UNOPS launched a dedicated disaster risk reduction for resilience strategy in 2015. UNOPS was selected to chair the steering committee of the International Recovery Platform, responsible for overseeing and providing strategic guidance to the Platform secretariat, which currently consists of representatives from 17 organizations, including the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank. The Platform is a key pillar in the implementation of the Hyogo Framework for Action, a global disaster risk reduction plan;

(c) UNOPS maintained its International Organization for Standardization (ISO) 9001 certification (quality management systems) and expanded the coverage of its ISO 14001 certification (environmental management systems) to cover infrastructure projects in Guatemala and Sri Lanka, complementing existing coverage of projects in Afghanistan, Kosovo and the Jerusalem office. Furthermore, UNOPS achieved certification to the internationally applied the British standard for occupational health and management systems, OHSAS 18001, for its operations in Kosovo and Jerusalem. This achievement forms the basis for UNOPS compliance with CEB/2015/HLCM/7/Rev.2, the adoption of occupational safety and health systems in all United Nations organizations.

C. Results of the United Nations Office for Project Services in 2015

Highlights

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

6. Major operational results in 2015 included construction, design or rehabilitation of 38 bridges, 2,572 kilometres of road, 2 airstrips and 1 helipad, 46 schools and 2 university facilities as well as 25 hospitals, 105 health clinics, 13 specialist health facilities and 3 medical warehouses. UNOPS procured close to 39,000 units of machinery and equipment and more than 6,200 vehicles. Over 40 million medical supplies were handled, including the distribution of about 10 million condoms, over 10 million needles and close to 3 million mosquito nets. More than 62,000 individuals were trained in various fields; 268 high-level events and meetings were organized, and it provided logistical support to 1,461 missions. Mine action work was supported in 17 countries and territories. A full account is provided in the UNOPS annual report (DP/OPS/2016/2).

7. The financial performance of UNOPS in 2015 can be summarized in the following headline figures:

(a) UNOPS increased the worth of the net services it delivered to $1.45 billion, an increase in activity of 18 per cent compared with the previous year. The amount comprised $593.3 million in respect of projects delivered on behalf of UNOPS and $852.1 million in respect of projects delivered on behalf of other organizations;

(b) The net surplus for the year was $14.3 million;

(c) The reserves at the year-end stood at $99.2 million, exceeding the target set by the Executive Board. That figure was derived after taking into account the impact of actuarial gain amounting to $1.8 million on the post-employment benefits recognized in the statement of changes in net assets, as well as a $4.5 million adjustment to reserves made through the statement of changes in net assets on recognition of property, plant and equipment as at 1 January.

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

Financial statements prepared in accordance with International Public Sector Accounting Standards

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

(a) *Statement of financial position*. This statement shows the financial status of UNOPS as at 31 December 2015 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UNOPS to continue delivering partner services in the future;

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

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

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

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

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

Financial performance

11. In 2015, the net delivery of services of UNOPS amounted to $1.45 billion, consisting of services delivered on behalf of UNOPS and services delivered on behalf of its partners. This illustrates the total volume of resources handled by UNOPS during the period and represents an increase of 18 per cent in services compared with 2014, which recorded delivery of $1.22 billion. Most of the growth in delivery is explained by an increase in services that UNOPS delivered on behalf of its partners.

12. In 2015, total revenue, representing the actual income attributable to UNOPS, amounted to $683.3 million, as reported in the statement of financial performance. This figure represents an increase of 1.4 per cent in revenue compared with 2014, when total revenue was $673.8 million. The overall picture is that UNOPS saw a slight increase in revenue.

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

14. The difference between gross delivery and IPSAS revenue figures consists of $852.1 million in agency contracts, which are "pass-through" transactions, as

explained in the notes to the statements. The table below provides a summary of revenue and expenses against the three core services of UNOPS: infrastructure, project management and procurement. The figures are derived from the financial statements that report the same IPSAS figures against the five principal activities (see note 17).

15. After deducting annual expenses and long-term employee liabilities charges, the net surplus for 2015 was $14.3 million, compared with the net surplus for 2014 of $9.9 million.

Revenue and expenses

(Millions of United States dollars)

	IPSAS revenue	*Add agency transactions*	*Total gross delivery*
Revenue			
Infrastructure	170.4	2.7	173.1
Project management	482.1	696.2	1 178.3
Procurement	28.0	153.2	181.2
Miscellaneous revenue	2.4		2.4
Non-exchange revenue	0.4		0.4
Total revenue	**683.3**	**852.1**	**1 535.4**

	IPSAS expenses	*Add agency transactions*	*Total gross expenses*
Expenses			
Infrastructure	**(159.1)**	**(2.7)**	**(161.8)**
Project management	**(416.7)**	**(696.2)**	**(1 112.9)**
Procurement	**(17.5)**	**(153.2)**	**(170.7)**
Total project expenses	**(593.3)**	**(852.1)**	**(1 445.4)**
Less: UNOPS administrative costs	**(78.2)**		**(78.2)**
Total expenses	**(671.5)**		**(1 523.6)**
Surplus from services	11.8		11.8
Add: net financial income	2.5		2.5
UNOPS 2014 surplus	**14.3**		**14.3**

United Nations Office for Project Services delivery and direct support

16. In 2015, 50 per cent of UNOPS delivery was on behalf of the United Nations system. In terms of actual volume, delivery on behalf of United Nations partners increased slightly from $698 million to $710 million dollars. Trends among United Nations partners included a third consecutive year of increasing delivery on behalf of the Office of the United Nations High Commissioner for Refugees (UNHCR), from $58 million in 2014 to $64 million in 2015. Support services to UNEP and the World Health Organization increased during 2015. The largest United Nations partner was the Department of Peacekeeping Operations of the Secretariat, accounting for $251 million, or 18 per cent, of implementation expenditure. Specifically, this

delivery comprised provision of support to the global peace and security work of the United Nations Mine Action Service. UNDP was the second-largest United Nations partner, accounting for $173 million, or 12 per cent, of total delivery, a 7 percentage point decline compared with 2014.

17. From another perspective, direct support provided by UNOPS to Governments made up 22 per cent of delivery. The largest partnerships were with the Governments of Afghanistan, Peru and Ethiopia. The countries to which UNOPS delivered the most support were Myanmar, Afghanistan, Somalia, South Sudan and Peru, in that order. A full account is provided in the UNOPS annual report (DP/OPS/2016/2).

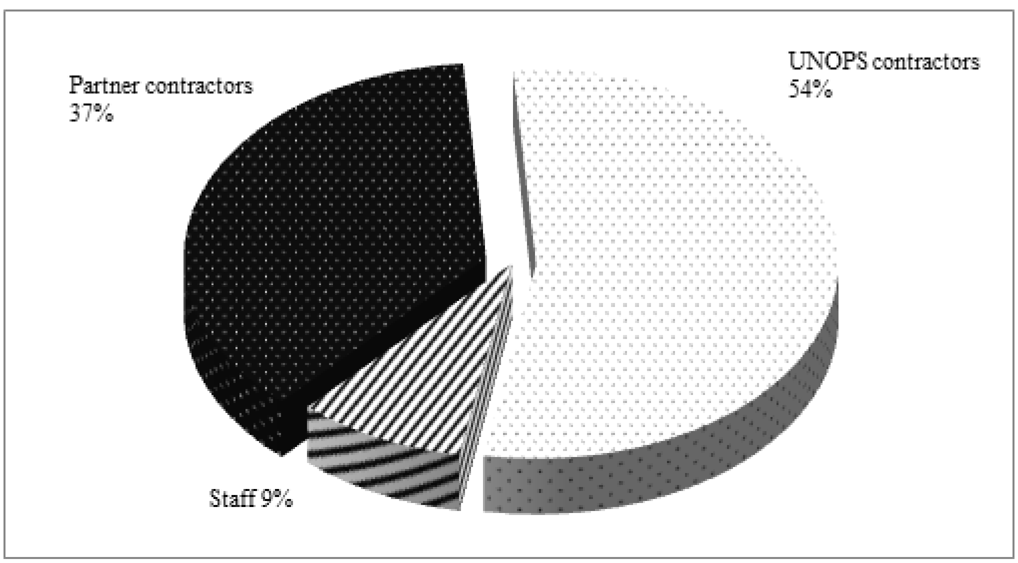
Assets and liabilities

18. The statement of financial position is a comprehensive summary of UNOPS assets and liabilities. All UNOPS liabilities and assets are included. On exiting the transitional provisions of IPSAS 17: Property, plant and equipment, UNOPS has recognized property, plant and equipment for the first time and prior-period comparative figures for 2014 in the statement of financial position have been restated.

Personnel and employee benefits

19. UNOPS has a highly skilled and engaged workforce. As at 31 December 2015, the UNOPS workforce totalled 9,852 individuals. Of these, 863 were staff and 8,989 had individual contractor agreements (1,037 international and 7,952 local). UNOPS administers personnel contracts on behalf of a range of partners. In 2015, 3,698 of the total number of individual contractors were partner-supervised personnel. This is illustrated in the figure below.

Status and deployment of UNOPS personnel



Source: UNOPS Human Resources Department.

20. UNOPS introduced a new talent management framework to identify, develop and retain key UNOPS personnel for business-critical roles. During an annual awards ceremony, seven individuals and five project teams were recognized for their exceptional contributions in areas including innovation and United Nations core values.

21. In 2015, the Global Shared Service Centre, providing cost-effective transactional services in personnel contract administration, benefits and entitlements and payroll, was strengthened through the insourcing of personnel administration and payroll functions that had previously been outsourced to UNDP.

22. As at 31 December 2015, the liability to fund after-service health care and end-of-service benefits for qualifying members of the staff stood at $70.9 million. This liability was independently estimated by an actuarial firm. The details of the calculations are contained in note 13. While this amount represents the best estimate of the liability of UNOPS, 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 2015

23. As at 31 December 2015, UNOPS had assets of $1,424.7 million, which more than covered liabilities of $1,325.5 million, leaving net assets of $99.2 million.

24. The most important assets were cash and investments, which amounted to $1,376.8 million at the end of 2015, compared with $1,129.9 million at the end of 2014. The increase of $246.9 million is explained mostly by the fact that there was an increase of $99.2 million in the contributions received from clients for implementation of projects by UNOPS, as well as $115.4 million made available by UNDP, as indicated in notes 14 and 15.

25. About 76 per cent of UNOPS cash and investments reflect contributions that have been received in advance from partners and are repayable. The UNOPS cash position demonstrates that it can continue to fund a similar portfolio of future programmes of work with its partners.

Operational reserves

26. As at 31 December 2015, after allowance was made for all known liabilities, the operational reserves held by UNOPS stood at $99.2 million. Significantly, a $5.1 million actuarial gain pertaining to the valuation of employee benefits at the year-end as well as a $4.5 million adjustment to reserves in relation to the capitalization of UNOPS property, plant and equipment were recognized and have increased the total reserves.

27. On the basis of the minimum operational reserve requirement calculation approved by the Executive Board in September 2013, UNOPS was required to maintain at a minimum $20.1 million operational reserves as at 31 December 2015. This is based on the requirement to maintain four months of the average actual management expenses of the previous three years.

Liquidity

28. The statement of cash flows shows that cash and cash equivalents held by UNOPS increased by $186.4 million during 2015. UNOPS continues to retain a strong cash position. This was due mainly to the need to maintain an adequate level of cash balance to ensure a smooth transition to the new enterprise resource planning system launched in January 2016, as well as to the associated reduced level of utilization of UNDP bank accounts by UNOPS.

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

Budget outcome

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

31. For 2015, the overall budgetary outcome was positive, with UNOPS achieving a surplus of $13.3 million from its delivery of services, with an additional $2.2 million in finance income. The UNOPS net revenue from management fees, reimbursable services and advisory income totalled $78.7 million in 2015 and was up by 9 per cent from the budgeted revenue target of $72.1 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 has embarked on enhancing the risk management system to improve the management of the full range of strategic and operational risks, including the identification, evaluation and measurement of possible impact on UNOPS, and the selection and maintenance of solutions to mitigate those risks. The objective of risk management is to strengthen UNOPS foresight and insight, so as to respond proactively to opportunities and threats. Risk

management informs the prioritization of strategic alternatives and mitigation measures, particularly in the context of UNOPS strategic realignment and business development. Furthermore, risk management helps to calibrate UNOPS internal controls in response to changes in the business and operating environments.

35. As part of the continuous risk management process, UNOPS has implemented a mandatory review process for when UNOPS is involved in the construction of buildings and other infrastructure. The UNOPS Design Planning Manual for Buildings, and the manual covering transport-related infrastructures, were issued in 2015 together with related guidance materials. This will assist in mitigating UNOPS exposure to infrastructure-related risks.

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

37. Furthermore, the Sustainable Infrastructure Practice Group had a specific focus in 2015 to develop and deliver guidance material and training to senior management, business development and field personnel to ensure the recognition of infrastructure-related risks within the project cycle. This action delivered significant improvements in risk identification and mitigation in future infrastructure project delivery. In October 2015, the Executive Director decided to merge the two practices of project management and infrastructure to further strengthen and streamline control over, and guidance for, the implementation of the high-risk infrastructure projects.

Effectiveness of the system of internal control

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

39. In 2015, UNOPS implemented a new enterprise resource planning system, designed to better integrate operational processes and systems. The new system improves the quality of information for management decision-making and enables UNOPS to provide more efficient operational support to partners. The system is a vital element of the continued efforts to optimize UNOPS risk management systems

and systematically reinforce internal controls, segregation of duties and compliance. The enterprise resource planning system went live on 1 January 2016.

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

41. In addition, under the leadership of the Executive Office, a specific corporate group was established in October 2015 to lead UNOPS work on risk and quality to enable delivery of a significantly enhanced and updated organizational framework for risk management by ensuring integration and focus throughout the organization. This endeavour was expanded in close cooperation with the UNOPS Legal Counsel, and will involve the development and implementation of processes, tools and systems as part of an integrated approach to governance, risk and compliance. The task for the initiative during 2016 is to review and overhaul the UNOPS legislative framework, internal control framework, risk management and compliance, including an enhanced approach to UNOPS processes and procedures for opportunity management and engagement acceptance. By making this the focus of one specific working group, UNOPS will achieve a truly integrated and efficient approach to governance, risk and compliance, based on the existing processes, procedures and systems.

E. Looking ahead

Strategic plan for 2014-2017

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

UNOPS financial viability

43. The UNOPS finance team has assessed the capability and resilience of UNOPS to continue operating at its current level of activity throughout 2016 and beyond. The assessment included a review of the financial activities in the first quarter of 2016, overall performance in the first year of the strategic plan for 2014-2017, the UNOPS forward order book, the levels of cash and operational reserves and the core investments to be made during the strategic plan for 2014-2017. Furthermore, a review of General Assembly resolutions issued in 2015 was undertaken. On the basis of the analysis, it is the view of the Executive Director that UNOPS is confident in its ability to remain in operation for many years to come. Accordingly, the 2015 financial statements have been prepared on a going-concern basis.

Chapter IV

Financial statements for the period ended 31 December 2015

United Nations Office for Project Services

I. Statement of financial position as at 31 December 2015

(Thousands of United States dollars)

	Reference	*As at 31 December 2015*	*As at 31 December 2014 (restated)*[a]
Assets			
Non-current assets			
Intangible assets	Note 6	2 714	2 018
Property, plant and equipment	Note 5	12 629	13 984
Long-term investments	Note 9	347 045	533 972
Total non-current assets		**362 388**	**549 974**
Current assets			
Inventories	Note 7	2 630	3 733
Accounts receivable	Note 11		
Project accounts receivable		15 107	43 096
Prepayments		8 125	14 168
Other accounts receivable		6 672	6 760
Short-term investments	Note 9	667 070	419 660
Cash and cash equivalents	Note 12	362 687	176 302
Total current assets		**1 062 291**	**663 719**
Total assets		**1 424 679**	**1 213 693**
Liabilities			
Non-current liabilities			
Employee benefits	Note 13	71 187	70 332
Total non-current liabilities		**71 187**	**70 332**
Current liabilities			
Employee benefits	Note 13	17 881	16 737
Accounts payable and accruals	Note 14	175 742	87 949
Project cash advances received	Note 15		
Deferred revenue		537 334	480 293
Cash held as agent		512 130	469 976
Short-term provisions	Note 20	11 214	5 375
Total current liabilities		**1 254 301**	**1 060 330**
Total liabilities		**1 325 488**	**1 130 662**
Net assets		**99 191**	**83 031**
Reserves			
Operational reserves	Note 16	99 191	83 031
Total liabilities and reserves		**1 424 679**	**1 213 693**

[a] Please refer to note 5 regarding the impact of the restatement of the 2014 comparatives.

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 2015

(Thousands of United States dollars)

	Reference	*As at 31 December 2015*	*As at 31 December 2014*
Revenue	Note 17		
Revenue from project activities		680 435	665 999
Miscellaneous revenue		2 445	4 004
Non-exchange revenue		396	3 816
Total revenue		**683 276**	**673 819**
Expenses			
Contractual services	Note 17	229 730	253 199
Other personnel costs — other personnel	Note 18	156 113	124 664
Salaries and other benefits — staff	Note 18	137 207	132 914
Operational costs	Note 17	60 257	69 718
Supplies and consumables		49 317	59 161
Travel		24 825	23 094
Other expenses		10 191	3 802
Depreciation on property, plant and equipment	Note 5	3 795	–
Amortization of intangible assets	Note 6	91	123
Total expenses		**671 526**	**666 675**
Finance income	Note 19	2 977	1 858
Foreign exchange gains/(losses)	Note 19	(392)	921
Net finance income		**2 585**	**2 779**
Surplus for the period		**14 335**	**9 923**

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 2015

(Thousands of United States dollars)

	Reference	
Opening balance as at 1 January 2014	Note 16	**82 756**
Actuarial gains/(losses) for the period		(14 160)
Surplus for the period		9 923
Opening balance on 1 January 2015	**Note 16**	**78 519**
Adjustment on property, plant and equipment		4 512
Adjusted opening balance, 1 January 2015		**83 031**
Actuarial gains/(losses) for the period		1 825
Surplus for the period		14 335
Closing balance as at 31 December 2015		**99 191**

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 2015

(Thousands of United States dollars)

	Reference	As at 31 December 2015	As at 31 December 2014
Cash flows from operating activities			
Surplus for the financial period		14 335	9 923
Non-cash movements			
Amortization of intangible assets	Note 6	91	123
Depreciation of property	Note 5	3 795	–
Finance income	Note 19	(2 977)	(1 858)
Foreign exchange gains	Note 19	392	(921)
Net surplus before changes in working capital		**15 636**	**7 267**
Changes in working capital			
Increase in provision for doubtful debts	Note 11	215	(1 506)
Decrease in inventories	Note 7	1 103	(1 615)
Decrease in accounts receivable	Note 11	27 862	(9 927)
Decrease in prepayments	Note 11	6 043	(6 313)
Increase in employee benefits (net of actuarial gains)	Note 13	3 824	5 751
Increase in accounts payable and accruals	Note 14	87 793	1 836
Increase in project cash advances received	Note 15	99 195	114 412
Increase in short-term provisions	Note 20	5 839	5 325
Cash flow impact on changes in working capital		**231 874**	**107 963**
Finance income received on cash and cash equivalents	Note 19	73	58
Net cash flows from operating activities		**247 583**	**115 288**
Cash flows from investing activities			
Acquisitions of intangible assets — net	Note 6	(787)	(1 595)
Acquisitions of property, plant and equipment — net	Note 5	(2 440)	
Proceeds from maturity of investments	Note 9	846 850	712 348
Purchase of investments	Note 9	(911 670)	(826 936)
Interest income received on investments	Note 19	10 879	12 774
Interest allocated to projects	Note 19	(3 638)	(3 309)
Net cash flows from investing activities		**(60 806)**	**(106 718)**
Add: Foreign exchange gains	Note 19	(392)	921
Net increase in cash and cash equivalents		**186 385**	**9 491**
Cash and cash equivalents at the beginning of the period		**176 302**	**166 811**
Cash and cash equivalents at the end of the period		**362 687**	**176 302**

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 2015

(Thousands of United States dollars)

	Reference	*Biennial 2014/15 management budget*[a] *Original*	*2015 management budget* *Original*	*2015 management budget* *Final*	*2015 actual amounts* *Actuals*	*Difference between final budget and actuals*
Total revenue for the period	Note 23	**139 200**	**71 500**	**72 132**	**78 670**	**6 538**
Expenses						
Posts		36 050	21 805	12 459	11 840	(619)
Common staff costs		24 400	16 067	8 360	8 519	159
Travel		7 800	4 403	4 648	3 891	(757)
Consultants		41 850	25 196	26 963	21 043	(5 920)
Operating expenses		15 800	10 509	7 199	6 671	(528)
Furniture and equipment		2 700	1 795	673	1 099	426
Reimbursements		2 600	1 681	141	832	691
Provisions		8 000	(1 115)	–	11 489	11 489
Total expenses for the period		**139 200**	**80 341**	**60 443**	**65 384**	**4 941**
Net finance income/cost		–	(2 422)	–	2 171	2 171
Surplus/(deficit) for the period		**–**	**(11 263)**	**11 689**	**15 457**	**3 768**

[a] DP/OPS/2013/6.

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

United Nations Office for Project Services
Notes to the financial statements

Note 1
Reporting entity

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

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

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

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

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

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

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

Note 2
Basis for preparation

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

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

6. These financial statements are prepared on an accrual basis and cover the period from 1 January to 31 December 2015.

7. There are currently no exposure drafts or standards issued by the IPSAS Board which have any bearing on the financial statements and disclosures of UNOPS for the period ended 31 December 2015.

Note 3
Summary of significant accounting policies

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

(a) Project accounting

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

(b) Functional and presentation currency

10. The United States dollar is the functional currency of UNOPS and is the currency of these financial statements. The amounts in the financial statements, schedules and notes are rounded to the nearest thousand United States dollars. Transactions, including non-monetary items, in currencies other than United States dollars are translated into dollars at the United Nations operational rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and unrealized exchange differences (gains and losses) from the translation at period-end are recognized in the statement of

financial performance, except for items relating to agency transactions, which are reported in note 17.

(c) Financial instruments

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

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

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

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

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

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

(d) Property, plant and equipment

17. UNOPS recognizes property, plant and equipment at their historical cost less depreciation and impairment losses, in line with IPSAS 17: Property, plant and equipment. UNOPS depreciates its property, plant and equipment on a straight-line basis over their estimated useful life with the exception of land and assets under construction, which are not depreciated. Property, plant and equipment are also subject to a systematic annual review to confirm the remaining useful life and to identify any impairment.

18. Individual items of property, plant and equipment are capitalized when their original acquisition value is equal to or greater than the threshold of $2,500 for asset classes except for leasehold improvements, where the applicable threshold is $10,000.

19. The estimated useful life ranges and capitalization thresholds for the various classes of property, plant and equipment are as follows:

Table 1
Depreciation of property, plant and equipment

Tangible asset class	*Estimated useful life (years)*	*Capitalization threshold (United States dollars)*
Land and buildings	10-40	2 500
Vehicles	5-20	2 500
Leasehold improvements	10	10 000
Plant and equipment	8-10	2 500
Communications and information technology equipment	3-10	2 500

20. UNOPS had chosen to avail itself of the transitional provision of IPSAS 17: Property, plant and equipment on initial adoption of IPSAS in 2012, and thus the financial statements for the year ended 31 December 2014 property, plant and equipment items were not recognized. As at 31 December 2015, all property, plant and equipment items in service were recognized in the financial statements upon exiting the transitional provision. Consequently, the 2014 comparative amounts have been restated. Further details are disclosed in note 5.

(e) Intangible assets

21. 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.

22. 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 2
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

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

(f) Inventories

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

(g) Leases

25. 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.

26. 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

27. UNOPS recognizes the following categories of employee benefits:

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

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination indemnity.

Short-term employee benefits

28. 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

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

30. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNOPS and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNOPS of the defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNOPS has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS 25. The actuarial valuations are carried out using the projected unit credit method. UNOPS recognizes actuarial gains and losses in the period in which they occur directly in net assets/equity.

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

Other long-term employee benefits

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

Termination benefits

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

(i) Provisions and contingencies

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, for example, 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 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 such issues and are the best current estimate of the liability. Management believes that the total provisions for legal matters are adequate, on the basis of currently available information. Additional information is disclosed in notes 20 and 21.

Allowances for doubtful accounts receivable

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. The measurement requires an estimate of costs incurred but not yet paid for, and total project costs. The estimates are prepared by technically qualified staff and advisers, which reduces, but does not eliminate, uncertainty.

Note 4
Financial risk management

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) of the Executive Director's statement accompanying these financial statements.

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, owing 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 2015, 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 3
Impact of currency risk on surplus

	EUR	*PEN*	*GTQ*	*JOD*	*RSD*	*PYG*	*HTG*	*ETB*	*XOF*	*GBP*
+10 per cent	4 461	392	(226)	182	140	114	113	(110)	100	(90)
-10 per cent	(4 461)	(392)	226	(182)	(140)	(114)	(113)	110	(100)	90

Abbreviations: ETB, Ethiopian birr; EUR, euro; GBP, British pound; GTQ, Guatemalan quetzal; HTG, Haiti Gourde; JOD, Jordanian dinar; PYG, Paraguay guarani; PEN, Peru nuevo sol; RSD, Serbian dinar; XOF, CFA franc.

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

60. As the sensitivities are limited to period-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. UNOPS recognized all property, plant and equipment in service, including those items that had been fully depreciated for the first time on exiting the transitional provisions of IPSAS 17 as highlighted in note 3. The recognition resulted in the restatement of the property, plant and equipment balance as at 1 January 2015 with a cost of $29.4 million and an associated accumulated depreciation of $15.4 million. Consequently, the opening balance of net assets as at 1 January 2015 was restated and increased by $4.5 million in the statement of changes in net assets (statement III) in relation to the capitalization of administrative assets. Further, deferred revenue was increased by $9.2 million in relation to project assets where funds were received from partners in advance, while accounts receivable was reduced by $0.3 million on the capitalization of project assets on projects where funds were not received in advance.

69. At 31 December 2015, the net book value of UNOPS property, plant and equipment was $12.6 million. UNOPS also held $45.8 million worth of assets as a custodian under service concession arrangements.

70. The table below summarizes property, plant and equipment held by UNOPS as at 31 December 2015 under each of the classes referred to in note 3.

Table 4
Property, plant and equipment by class
(Thousands of United States dollars)

	Administrative budget	*Project*	*Total*
Vehicles	1 302	3 248	4 550
Land and building	2 863	214	3 077
Plant and equipment	491	2 441	2 932
Communications and information technology equipment	1 218	178	1 396
Leasehold improvements	273	401	674
Net carrying amounts as at 31 December 2015	**6 147**	**6 482**	**12 629**

Table 5
Property, plant and equipment by class — 2014 comparatives
(Thousands of United States dollars)

	Administrative budget	*Project*	*Total*
Vehicles	1 105	3 988	5 093
Land and building	2 730	240	2 970
Plant and equipment	579	3 019	3 598
Communications and information technology equipment	1 326	258	1 584
Leasehold improvements	307	432	739
Net carrying amounts as at 31 December 2014	**6 047**	**7 937**	**13 984**

71. The table below shows the movement in property, plant and equipment held by UNOPS during the period.

Table 6
Movement in property, plant and equipment
(Thousands of United States dollars)

	Vehicles	*Plant and equipment*	*Land and building*	*Communications and information technology equipment*	*Leasehold improvements*	*Total*
Gross carrying amounts as at 1 January 2015	15 023	4 984	4 474	4 064	790	29 335
Additions	2 099	254	482	725	15	3 575
Disposals	(2 335)	(613)	(6)	(591)	–	(3 545)
Gross carrying amounts as at 31 December 2015	**14 787**	**4 625**	**4 950**	**4 198**	**805**	**29 365**
Accumulated depreciation and impairment as at 1 January 2015	(9 931)	(1 386)	(1 503)	(2 480)	(50)	(15 350)
Depreciation	(2 009)	(490)	(373)	(843)	(80)	(3 795)
Less: Removal of depreciation on asset disposal	1 703	183	2	521	–	2 409
Accumulated amortization and impairment as at 31 December 2015	**(10 237)**	**(1 693)**	**(1 874)**	**(2 802)**	**(130)**	**(16 736)**
Net carrying amounts as at 31 December 2015	**4 550**	**2 932**	**3 076**	**1 396**	**675**	**12 629**

Note 6
Intangible assets

Table 7
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 2015	**147**	**267**	**1 823**	**2 237**
Additions	–	29	1 049	1 078
Disposals	–	(70)	(263)	(333)
Gross carrying amounts as at 31 December 2015	**147**	**226**	**2 609**	**2 982**
Accumulated amortization and impairment as at 1 January 2015	(63)	(156)	–	(219)
Amortization	(24)	(67)	–	(91)
Less: Removal of amortization on assets disposal	–	42	–	42
Accumulated amortization and impairment as at 31 December 2015	**(87)**	**(181)**	**–**	**(268)**
Net carrying amounts as at 31 December 2015	**60**	**45**	**2 609**	**2 714**

Table 8
Intangible assets — 2014 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 2014	147	277	231	655
Additions	–	19	1 592	1 611
Disposals	–	(29)	–	(29)
Gross carrying amounts as at 31 December 2014	**147**	**267**	**1 823**	**2 237**
Accumulated amortization and impairment as at 1 January 2014	(38)	(71)	–	(109)
Amortization	(25)	(98)	–	(123)
Less: Removal of amortization on assets disposal	–	13	–	13
Accumulated amortization and impairment as at 31 December 2014	**(63)**	**(156)**	**–**	**(219)**
Net carrying amounts as at 31 December 2014	**84**	**111**	**1 823**	**2 018**

72. The gross carrying value of intangible assets amounted to $2.714 million at year-end, which includes internally developed computer software, other computer software (acquired) and intangible assets under construction.

73. Internally developed software relates to the development of the UNOPS management workspace, which creates a unified reporting platform for all business areas (including finance, human resources, procurement, project management, and results and performance management). The development cost of phase 1 of oneUNOPS, the new enterprise resource planning system, has been recognized as intangible assets under construction. The development cost of $0.263 million incurred in prior periods in relation to this reporting platform, recognized as an asset under construction at the end of 2014, was expensed in 2015 as most of its functionalities were being addressed in the development of the new UNOPS enterprise reporting system, oneUNOPS.

Note 7
Inventories

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

Table 9
Inventories
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Inventories	2 630	3 733

Table 10
UNOPS offices holding inventories
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Afghanistan	63	42
Democratic Republic of the Congo	413	–
Cambodia	–	29
Côte d’Ivoire	12	–
Ethiopia	156	–
Haiti	200	372
Iraq	–	1 058
Mine Action	1 734	2 093
Sri Lanka	52	139
Total	**2 630**	**3 733**

Note 8
Financial instruments

Table 11
Financial assets
(Thousands of United States dollars)

	As at 31 December 2015				*As at 31 December 2014*			
	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)	–	–	1 014 115	1 014 115			953 632	953 632
Accounts receivable excluding prepayments (note 11)	–	21 779	–	21 779		49 856	–	49 856
Cash and cash equivalents (note 12)	362 687	–	–	362 687	176 302		–	176 302
Total	**362 687**	**21 779**	**1 014 115**	**1 398 581**	**176 302**	**49 856**	**953 632**	**1 179 790**

Table 12
Financial liabilities at amortized cost
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Accounts payable and accruals (note 14)	175 742	87 949
Cash held by UNOPS as agent (note 15)	512 130	469 976
Total	**687 872**	**557 925**

Note 9
Investments

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

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

Table 13
Investment portfolio
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Long-term investments	347 045	533 972
Short-term investments	667 070	419 660
Money market funds and time deposits	25 000	108 444
Total	**1 039 115**	**1 062 076**

77. 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.

78. The movements in short- and long-term investments for the period are as follows:

Table 14
Movements in investments
(Thousands of United States dollars)

	2015	*2014*
Opening balance as at 1 January	**953 632**	**846 708**
Additions (purchases of investments)	911 670	826 936
Disposals (proceeds from maturity of investments)	(846 850)	(712 348)
Recognition of amortized costs	(4 337)	(7 664)
Closing balance as at 31 December	**1 014 115**	**953 632**
Current portion (short-term investments)	667 070	419 660

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

80. Accrued interest of $3.5 million ($4.1 million in 2014) has been included in the statement of financial position as "other accounts receivable" (see note 11 for further details).

Short-term investments

81. 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 15
Short-term investments
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Money market instruments	50 000	155 000
Bonds	617 070	264 660
Total short-term investments	**667 070**	**419 660**

Long-term investments

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

Table 16
Bonds
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Bonds	347 045	533 972

83. 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 17
Credit rating distribution of investments
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
AAA	788 703	591 179
AA+	78 611	108 210
AA-	5 202	167 470
A+	71 187	71 773
A	50 000	15 000
A-	20 412	–
Total	**1 014 115**	**953 632**

Note 10
Fair value disclosure on investments

Table 18
Fair value disclosure on investments
(Thousands of United States dollars)

	As at 31 December 2015			*As at 31 December 2014*		
	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	49 992	50 000	(8)	155 002	155 000	2
Bonds	963 033	964 115	(1 082)	799 636	798 632	1 004
Total	**1 013 025**	**1 014 115**	**(1 090)**	**954 638**	**953 632**	**1 006**

Note 11
Accounts receivable

84. 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.

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

Table 19
Accounts receivable
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Project accounts receivable (gross)	22 256	50 014
Less: Bad debt allowance	(7 149)	(6 918)
Project account receivable (net)	**15 107**	**43 096**
Other accounts receivable (gross)	6 762	6 866
Less: Bad debt allowance	(90)	(106)
Other accounts receivable (net)	**6 672**	**6 760**
Total accounts receivable (net) excluding prepayments	**21 779**	**49 856**
Prepayments	8 125	14 168
Total accounts receivable (net) including prepayments	**29 904**	**64 024**

86. 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.

87. As at 31 December 2015, receivables of $7.1 million ($6.9 million in 2014) were impaired and provisions were made against them. This value excludes provisions made against receivables from UNDP that are shown separately through table 38.

88. As at 31 December 2015, receivables of $7.3 million ($7.4 million in 2014) 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 20
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	14 513	2 472	4 056	738	21 779

Project accounts receivable

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

Table 21
Project accounts receivable
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Project implementation-related receivables (net)	12 696	18 642
Accounts receivable from UNDP[a]	–	23 717
Accounts receivable from other United Nations agencies	2 411	737
Total project accounts receivable	**15 107**	**43 096**

[a] In 2015, the interfund with UNDP had a net payables balance, which is discussed in note 14.

90. 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.

91. The accounts receivable from other United Nations entities include amounts due from the United Nations Secretariat, the United Nations Entity for Gender Equality and the Empowerment of Women and the United Nations Population Fund. The amounts relate mainly to project expenditure incurred by UNOPS when implementing projects on behalf of the agency and in connection with staff on secondment. In 2015, the interfund with UNDP has a net payable balance and is discussed in note 14.

92. Of the balance of project receivables of $15.1 million ($43.1 million in 2014), $2.5 million ($7.2 million in 2014) relates to cash advances due from customers for construction contracts for the period ended 31 December 2015, as detailed in note 17.

Other accounts receivable

93. The other accounts receivable are composed of:

Table 22
Other accounts receivable
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Staff receivables	1 559	1 273
Accrued interest income	3 456	4 093
Miscellaneous receivables	1 657	1 394
Total other accounts receivable	**6 672**	**6 760**

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 23
Prepayments
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Prepayments	8 125	14 168

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 24
Movement in bad debt allowance
(Thousands of United States dollars)

	2015	*2014*
Opening balance as at 1 January		
Project-related	6 918	8 463
Other accounts receivable	106	67
Opening balance	**7 024**	**8 530**

	2015	*2014*
Net increase (decrease) in provision for receivables impairment		
Increase	1 359	801
Receivables written off during the year as uncollectable	(224)	(2 000)
Unused amounts reversed	(920)	(307)
Net increase (decrease)	**215**	**(1 506)**
Closing balance as at 31 December		
Project-related	7 149	6 918
Other accounts receivable	90	106
Closing balance	**7 239**	**7 024**

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 $3.4 million related to UNDP interfund balances, which are shown separately in table 38.

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 25
Cash and cash equivalents
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Cash at banks and on hand	337 779	67 949
Impaired cash balances	(92)	(91)
Money market funds and time deposits	25 000	108 444
Total cash and cash equivalents	**362 687**	**176 302**

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 26
Cash at banks
(Thousands of United States dollars)

Currency	*As at 31 December 2015*	*As at 31 December 2014*
United States dollar	286 576	41 567
Euro	25 041	6 731
Peruvian nuevo sol	3 934	188
Uruguayan peso	2 235	168
Jordanian dinar	1 927	101
Serbian dinar	1 798	50
Japanese yen	1 425	4 278
Israeli shekel	1 274	185
Sri Lankan rupee	1 274	372
CFA franc	1 266	170
Other currencies	10 935	13 886
Subtotal cash at banks	**337 685**	**67 696**
Cash on hand	**94**	**253**
Total	**337 779**	**67 949**

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 27
Credit rating distribution of cash at banks
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
AAA	–	431
AA	–	232
A+	214 848	7 481
A	77 485	24 122
A-	246	340
BBB+	–	188
BBB	7 150	15
BBB-	2 721	940
BB+	701	93
BB	1 011	756
BB-	1 301	195

	As at 31 December 2015	*As at 31 December 2014*
B+	2 199	1 122
Unrated	30 023	31 781
Subtotal cash at banks	**337 685**	**67 696**
Cash on hand	**94**	**253**
Total	**337 779**	**67 949**

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 was as follows:

Table 28
Credit rating distribution of money market funds and time deposits
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
AAA	–	23 120
AA-	–	25 000
A+	25 000	60 323
A	–	1
Total	**25 000**	**108 444**

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 grant;

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

Table 29
Employee benefits liabilities
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Short-term employee benefits	17 806	16 495
Long-term employee benefits	334	822
Post-employment benefits	70 853	69 510
Termination benefits	75	242
Total employee benefits liabilities	**89 068**	**87 069**
Current portion	17 881	16 737
Non-current portion	71 187	70 332

Short-term employee benefits

108. Short-term employee benefits are composed of:

Table 30
Short-term employee benefits
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Annual leave entitlements	15 171	14 652
Home leave entitlements (current portion)	2 635	1 790
Assignment grant on first appointment or reassignment	–	53
Total short-term employee benefits liabilities	**17 806**	**16 495**

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 31
Post-employment benefits liabilities
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
After-service health insurance	54 432	52 308
Repatriation grants	16 421	17 202
Total post-employment benefits	**70 853**	**69 510**

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. The actuarial valuation of liabilities regarding after-service health insurance and the repatriation grant was undertaken by a firm of independent professional actuaries. At the end of 2015, total employee benefits liabilities amounted to $70.9 million ($69.5 million in 2014). They are established in accordance with the Staff Regulations of the United Nations and Staff Rules for staff members in the Professional and General Service categories.

113. In December 2015 the General Assembly took a decision to make certain changes to the compensation package of United Nations staff members. The major changes covered in Assembly resolution 70/244 related to a change in the mandatory age of separation; the establishment of a unified salary scale, moving away from the differentiation between single and dependent salary scales; setting a global ceiling for the education grant; a hardship allowance based on categorization of duty station; the establishment of a flat amount for the non-family allowance; and a revision of the accelerated home leave entitlement vesting. These changes are scheduled to be phased in over an 18-month period starting on 1 July 2016. The changes taking effect in July 2016 will be considered for the valuation of post-employment benefits for 2016.

After-service health insurance

114. The year-end liabilities for after-service health insurance are derived from the actuarial valuation conducted at year-end 2015.

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

116. The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2015 were a discount rate of 4.24 per cent, an inflation rate of 2.25 per cent, health-care escalation rates being dependent on the medical plan to which the employee is affiliated; age-related morbidity; and retirement and mortality assumptions consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits.

117. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2015, net of contributions from plan participants, was estimated by actuaries at $54.4 million ($52.3 million in 2014).

118. On the basis of the assumptions above, it is estimated that the net present value of the liability would increase by 20 per cent if the medical cost trend were increased by 1 per cent and decrease by 16 per cent if the medical cost trend were decreased by 1 per cent, all other assumptions held constant.

Table 32
Impact of medical cost trend on after-service health insurance liabilities
(Thousands of United States dollars)

	Defined benefit obligations	*Service cost and interest cost*
One percentage point increase	11 097	1 084
One percentage point decrease	(8 756)	(827)

Repatriation grant

119. 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.

120. The major assumptions used by the actuary were a discount rate of 3.79 per cent, annual salary increases based on salary scales, grade and step, and travel cost increases of 2.25 per cent per annum. Furthermore, assumptions related to retirement, withdrawal and mortality are made consistent with those used by the Pension Fund.

121. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2015 was estimated by actuaries at $16.4 million ($17.2 million in 2014).

122. 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 2.5 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 3 per cent.

Accounting for post-employment benefits

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

Table 33
Movement in post-employment liabilities
(Thousands of United States dollars)

	Repatriation	*After-service health insurance*	*Total 2015*	*Total 2014*	*Total 2013*	*Total 2012*
Liability as at 1 January	**17 202**	**52 308**	**69 510**	**50 427**	**39 192**	**52 743**
Current service cost	1 511	2 344	3 855	3 806	4 642	6 331
Interest cost	485	2 060	2 545	2 563	1 867	2 340
Benefits paid	(2 535)	(697)	(3 232)	(1 446)	(1 069)	(823)
Actuarial losses/(gains)	(242)	(1 583)	(1 825)	14 160	(5 102)	(21 399)
Other	–	–	–	–	10 897	–
Liability as at 31 December	**16 421**	**54 432**	**70 853**	**69 510**	**50 427**	**39 192**

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

Table 34
Impact of post-employment benefits on financial performance
(Thousands of United States dollars)

	Repatriation	*After-service health insurance*	*Total 2015*	*Total 2014*
Current service cost	1 511	2 344	3 855	3 806
Interest cost	485	2 060	2 545	2 563
Expenses as at 31 December	**1 996**	**4 404**	**6 400**	**6 369**

125. The total expense has been included under "salaries and employee benefits" in the statement of financial performance, and the actuarial gains of $1.8 million ($14.2 million loss in 2014) has been recognized under "reserves" in the statement of financial position.

126. The principal actuarial assumptions were as follows:

Table 35
Principal actuarial assumptions

	Repatriation	*After-service health insurance*
Discount rate	3.79 per cent	4.24 per cent
Future salary increases (on top of inflation)	United Nations salary scale	United Nations salary scale
Inflation rates	2.25 per cent	2.25 per cent
Mortality rate	United Nations scales	United Nations scales
Turnover rate	UNOPS scales	UNOPS scales

United Nations Joint Staff Pension Fund

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

128. The UNOPS financial obligation to the United Nations Joint Staff 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 only payable if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

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

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

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

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

133. In 2015, UNOPS contributions paid to the Pension Fund amounted to $16.2 million ($15.7 million in 2014). Except for the effects of inflation, there are no indications of a material change in the expected contribution in 2016.

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

Termination benefits

135. At year-end, UNOPS had termination entitlement liabilities amounting to $0.075 million ($0.242 million in 2014).

Note 14
Accounts payable and accruals

Table 36
Accounts payable and accruals
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Accounts payable	120 931	24 407
Accruals	54 811	63 542
Total	**175 742**	**87 949**

Accounts payable

136. Balances of accounts payable as at 31 December 2015 are shown below.

Table 37
Accounts payable
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Accounts payable to UNDP[a]	115 394	–
Accounts payable other	5 397	24 112
Accounts payable to other United Nations entities	140	276
Staff payables	–	19
Total accounts payable	**120 931**	**24 407**

[a] In 2014, the interfund with UNDP had a net receivable balance.

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

138. Payables to staff comprise separation amounts pending payment.

139. Accounts payable to UNDP arose mainly in connection with the use of UNDP bank accounts by UNOPS. The outstanding balance due to UNDP is made up as follows:

Table 38
Accounts payable — UNDP
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Receivable from UNDP		
Cumulative project expenses and fees due to UNOPS	1 421 412	1 309 021
Less: Bad debt allowance as follows:		
Receivable from UNDP on project expenditure	(3 399)	(2 640)
Net receivable due from UNDP on project implementation activities (including services)	**1 418 013**	**1 306 381**
Payable to UNDP		
Cumulative payable by UNOPS to UNDP to disburse payments on behalf of UNOPS	(1 533 372)	(1 282 664)
Payable to UNDP for services	(35)	–
Gross accounts payable to UNDP	**(1 533 407)**	**(1 282 664)**
Net amounts receivable/(payable) from/to UNDP	**(115 394)**	**23 717**

Accruals

140. The accrued charges amounting to $54.8 million ($63.5 million in 2014) are financial liabilities in respect of goods or services that were received or provided to UNOPS during the reporting period but not yet invoiced.

Note 15
Project cash advances received

141. 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 39
Project cash advances received
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Deferred revenue	537 334	480 293
Cash held by UNOPS as agent	512 130	469 976
Total	**1 049 464**	**950 269**

142. Of the balance in deferred revenue of $537.3 million ($480.3 million in 2014), $223 million ($197 million in 2014) relates to cash advances on construction contracts for the period ended 31 December 2015, as detailed in note 17.

Note 16
Operational reserves

143. The operational reserves were as follows:

Table 40
Operational reserves
(Thousands of United States dollars)

	2015	*2014*
Opening balance as at 1 January	66 178	56 255
Adjustment on property, plant and equipment capitalization	4 512	–
Adjusted opening balance, 1 January	70 690	56 255
Surplus for the period	14 335	9 923
Reserve balance	**85 025**	**66 178**
Actuarial gains/losses	14 166	12 341
Closing reserve balance as at 31 December	**99 191**	**78 519**

144. The current operational reserves requirements, approved by the Executive Board, provide that the operational reserves should be equivalent to four months of the average of the administrative expenditure for the past three years of operation. Based on this formula, for the period ended 31 December 2015, the operational reserves requirement was $20.1 million. The actual UNOPS operational reserves for the same period amounted to $99.2 million.

145. 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

146. The non-exchange revenue of $0.04 million recognized during the year relates to assets donated to UNOPS.

Exchange revenue

147. The exchange revenue of UNOPS comprised $680.4 million ($666.0 million in 2014) in revenue from project activities, $2.4 million ($4.0 million in 2014) from miscellaneous revenue.

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

Table 41
Revenue and expenses from project activities
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Construction contracts (infrastructure)	170 384	217 837
Procurement	27 989	24 744
Fund management	88 775	70 550
Human resources administration	31 916	33 560
Other project management	361 371	319 308
Total project-related revenue	**680 435**	**665 999**
***Less*: Project expenses**		
Construction contracts	159 042	204 252
Procurement	17 526	15 176
Fund management	64 906	53 805
Human resources	21 362	24 266
Other project management	330 431	302 201
Total project-related expenses	**593 267**	**599 700**
Net revenue from project activities	**87 168**	**66 299**

149. During the period, 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

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

Table 42
Construction contracts — revenue and expenses
(Thousands of United States dollars)

	Cumulative	*Recognized in prior years*	*Recognized in current year*
Revenue	1 182 394	1 012 010	170 384
Expense	(1 117 512)	(958 470)	(159 042)
Surplus	**64 882**	**53 540**	**11 342**

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

Table 43
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[a]	(910 277)	(130 711)	(1 040 989)
Revenue recognized over the life of the contract[b]	687 051	133 253	820 304
Amounts due (to)/from customers included in deferred revenue and project receivables, respectively	**(223 226)**	**2 542**	**(220 685)**
Retentions			7 921

[a] As at 31 December 2015.
[b] For the year ended 31 December 2015.

152. 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

153. Operational costs of $60.3 million ($69.7 million in 2014) relate to expenses incurred by UNOPS for a range of activities, which included payments for:

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

Contractual services

154. Contractual services of $229.7 million ($253.2 million in 2014) relate to expenses incurred for a range of UNOPS activities, some of which included payments to:

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

Note 18
Employee benefits expenses

Table 44
Employee benefits expenses
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Salaries	77 256	76 481
After-service health insurance	4 027	3 389
Annual leave	466	56
Home leave	1 124	1 070
Defined contribution plan	15 844	15 030
Repatriation grant	411	2 547
Other short-term employee benefit expenses	38 079	34 341
Expenses related to staff	**137 207**	**132 914**
Other personnel expenses	156 113	124 664
Total employee benefits expenses	**293 320**	**257 578**

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

156. In October 2014 UNOPS implemented a provident fund scheme for all UNOPS local individual contractors. The provident fund is a defined contribution plan. The employer contributions of 15 per cent of Local Individual Contractors Agreement fees are fixed and are recognized as an expense. The contractors contribute 7.5 per cent of their fee on a monthly basis. The UNOPS responsibility is to establish arrangements to provide a provident fund facility, and to monitor and cover administrative costs related to these arrangements. The balance of funds held for the benefit of UNOPS local individual contractors by the provident fund as at 31 December 2015 was $13.7 million ($1.9 million in 2014), which was included under other personnel expenses in 2015.

157. In accordance with the contract with UNOPS, the provident fund is administered and held by Zurich International on behalf of the local individual contractors. UNOPS obtained financial statements from Zurich International in respect of the year ended 31 December 2015 that were audited by PricewaterhouseCoopers AG, chartered accountants, who gave an unqualified opinion on the statements.

Note 19
Finance income and costs

Table 45
Finance income and costs
(Thousands of United States dollars)

	As at 31 December 2015	As at 31 December 2014
Finance income		
Total finance income received on investments	10 879	12 774
Less: Recognition of amortized cost (note 9)	(4 337)	(7 665)
Total finance income attributable to UNOPS on investments	**6 542**	**5 109**
Less: Finance income/cost allocated to projects	(3 638)	(3 309)
Net finance income retained by UNOPS	**2 904**	**1 800**
Finance income on UNOPS bank balances	73	58
Total finance income	**2 977**	**1 858**

Table 46
Net exchange rate gain/loss
(Thousands of United States dollars)

	As at 31 December 2015	As at 31 December 2014
Net foreign exchange gains (loss)	(392)	921

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 47
Short-term provisions for other liabilities and charges
(Thousands of United States dollars)

	As at 1 January 2015	Additional provisions	Unused amounts reversed	As at 31 December 2015
Claims	55	6 021	(55)	6 021
Leasehold restoration provisions	50	–	–	50
Onerous contracts provisions	5 270	1 100	(1 227)	5 143
Total	**5 375**	**7 121**	**(1 282)**	**11 214**

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. They concern various lease agreements in which UNOPS has the obligation to

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

Note 21
Contingencies

Contingent liabilities

160. At year-end, all cases reported at the end of 2014 were closed, including cases where provision had been made. There were no other new cases during the year that remained open at year-end. Claims for which provision was made are reflected in note 20.

Table 48
Contingent liabilities
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Project-related claims from clients	–	19 767
Staff-related claims	–	108
Total contingent liabilities	**–**	**19 875**

Contingent assets

161. There were no contingent assets at the end of December 2015.

Note 22
Commitments

Lease commitments

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

163. The operating expenses include lease payments for an amount of $6.3 million ($7.8 million in 2014) recognized as operating lease expenses during the year in the statement of financial performance under operational costs.

164. 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 49
Lease commitments
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Within one year	2 013	1 875
Later than one year and not later than five years	3 528	3 860
Later than five years	3 085	3 839
Total operating lease commitments	**8 626**	**9 574**

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

166. As at 31 December 2015, the total future minimum lease payments under sublease agreements that UNOPS expects to receive on such agreements that cannot be cancelled was only $0.081 million ($0.023 million in 2014), owing mainly to the 30-day notice period and the 2014 end-date of most significant sublease agreements.

167. Sublease payments amounting to $1.9 million were received in 2015 ($3.8 million in 2014). They were recognized as operating lease revenue during the year in the statement of financial performance, included under miscellaneous revenue.

Open commitments

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

Table 50
Open commitments
(Thousands of United States dollars)

	As at 31 December 2015	*As at 31 December 2014*
Management-related commitments	1 522	1 948
Project-related commitments	156 391	137 156
Total	**157 913**	**139 104**

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

Table 51
Statement of comparison of budget and actual amounts
(Thousands of United States dollars)

	Actual amounts on comparable basis	*Basis difference (excludes intangible assets and property, plant and equipment capitalized)*	*Entity difference (includes projects)*	*Reclassification*	*Amounts in IPSAS financial statements*	*Classification in statement of financial performance*
Revenue	**78 670**	**–**	**604 606**	**–**	**683 276**	**Revenue**
Posts	11 840	–	125 367	–	137 207	Salaries and employee benefits
Common staff costs	8 519	–	(8 519)	–	–	Salaries and employee benefits
Travel	3 891	–	20 934	–	24 825	Travel
Consultants	21 043	–	364 800	–	385 843	Contractual services
Operating expenses	6 671	–	53 586	–	60 257	Operational costs
Furniture and equipment	1 099	659	47 559	–	49 317	Supplies and consumables
Reimbursements and other	832	–	13 245	–	14 077	Other, amortization and depreciation of intangible assets and property, plant and equipment
Provisions	11 489	–	–	(11 489)	–	
Total expenses for the period	**65 384**	**659**	**616 972**	**(11 489)**	**671 526**	
Net finance income/(cost)	2 171		414	–	2 585	
Surplus/(deficit) for the period	**15 457**	**(659)**	**(11 952)**	**11 489**	**14 335**	

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

170. The UNOPS budget and accounts are prepared on the same basis, except for the acquisition of property, plant and equipment and 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 property, plant and equipment and intangible assets. The

approved budget covers the biennium 2014-2015. The annual budget for 2015 was included in statement V.

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

Reconciliation of actual amounts from budgetary basis to financial statement basis

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

173. According to statement V, the actual revenue for 2015 was 9 per cent higher than the final budgeted amount of $72.1 million. Total management expenditure was about 8 per cent higher compared with the budgeted amount of $60.4 million. Variances at the individual line item level reflect the combined spending decisions of the managers of various budgets in UNOPS in the course of 2015. The savings with regard to consultants reflect prudent financial management whereby UNOPS continuously seeks to achieve management results at the lowest possible cost. Prudence is manifested in the scrutiny of each spending decision throughout the year according to cost/benefit, including adjustment of spending on consultants according to workload. Savings in one expense category can also be used to address additional, unforeseen requirements in other expense categories.

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

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

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

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

178. A reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flows for the period ended 31 December 2015 is presented below.

Table 52
Reconciliation with the statement of cash flows
(Thousands of United States dollars)

	Operating	*Investing*	*Total*
Actual amount on a comparable basis as presented in the budget and actual comparative statement	15 457	–	15 457
Basis differences (capitalization of intangible assets)	3 227	659	3 886
Entity differences (project income)	(462)	–	(462)
Changes in working capital	231 873	–	231 873
Movement in investments and interest received	(2 512)	(61 465)	(63 977)
Subtotal	**247 583**	**(60 806)**	**186 777**
Net foreign exchange gains	–	–	(392)
Actual amount in the statement of cash flows	**247 583**	**(60 806)**	**186 385**

Note 24
Segment reporting

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

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

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

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

183. During the major part of the period, 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. During the second half of the year, an organizational directive setting out a new organizational structure was issued. It was partially rolled out starting in the middle of the third quarter of 2015, with the final changes under the directive taking effect as at 1 January 2016. As a result, the segment report for the year ended 31 December 2015 has been prepared on the basis of the organizational structure that was in place for the major part of the year. Comparative information for 2014 is also presented, in a separate table.

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

Table 53
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	128 914	137 268	319 598	79 726	14 929	680 435
Miscellaneous revenue	205	1 657	3	38	542	2 445
Non-exchange revenue	–	396	–	–	–	396
Total revenue	**129 119**	**139 321**	**319 601**	**79 764**	**15 471**	**683 276**
Expenses						
Contractual services	53 950	45 393	108 719	21 451	217	229 730
Other personnel costs	35 827	41 086	35 040	26 571	17 589	156 113
Salaries and employee benefits	6 540	15 113	93 206	3 289	19 059	137 207
Operational costs	10 853	13 033	20 908	9 259	6 204	60 257
Supplies and consumables	8 130	6 174	26 143	8 534	336	49 317
Travel	4 338	4 257	11 291	2 388	2 551	24 825
Other expenses	211	87	(57)	(187)	10 137	10 191
Depreciation of property, plant and equipment	1 308	1 418	69	473	527	3 795
Amortization of intangible assets	–	24	1	9	57	91
Total expenses	**121 157**	**126 585**	**295 320**	**71 787**	**56 677**	**671 526**
Finance income	–	–	–	–	2 977	2 977
Net foreign exchange gains/(losses)	–	–	–	–	(392)	(392)
Net finance income	**–**	**–**	**–**	**–**	**2 585**	**2 585**
Surplus for the period	**7 962**	**12 736**	**24 281**	**7 977**	**(38 621)**	**14 335**

Table 54
Segment reporting — 2014 comparatives
(Thousands of United States dollars)

	Africa region	*Eurasia Office*	*Global Partner Services Office*	*Latin America and Caribbean region*	*Headquarters*	*Total*
Revenue						
Revenue from project activities	117 245	161 439	310 796	75 667	852	665 999
Miscellaneous revenue	162	2 461	15	2	1 364	4 004
Non-exchange revenue	–	–	–	–	3 816	3 816
Total revenue	**117 407**	**163 900**	**310 811**	**75 669**	**6 032**	**673 819**

	Africa region	Eurasia Office	Global Partner Services Office	Latin America and Caribbean region	Headquarters	Total
Expenses						
Amortization of intangible assets	3	22	31	11	56	123
Contractual services	47 533	61 324	112 553	30 205	1 584	253 199
Operational costs	18 653	15 637	25 266	7 037	3 125	69 718
Other expenses	(5 600)	104	241	(63)	9 120	3 802
Other personnel costs	28 158	36 394	27 273	19 938	12 901	124 664
Salaries and employee benefits	7 464	17 482	91 678	4 548	11 742	132 914
Supplies and consumables	12 437	15 139	20 944	8 119	2 522	59 161
Travel	3 055	4 535	11 563	1 854	2 087	23 094
Total expenses	**111 703**	**150 637**	**289 549**	**71 649**	**43 137**	**666 675**
Finance income	–	–	–	–	1 858	1 858
Net foreign exchange gains/(losses)	–	–	–	–	921	921
Net finance income	**–**	**–**	**–**	**–**	**2 779**	**2 779**
Surplus for the period	**5 704**	**13 263**	**21 262**	**4 020**	**(34 326)**	**9 923**

Note 25
Related parties

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

186. UNOPS maintains a working relationship with the Executive Board and reimburses part of the travel costs, subsistence allowances and office expenses incurred by members of the Board in discharging their official duties, as well as a share of the cost of the Secretariat. The cost of this amounted to approximately \$0.01 million during 2015 (\$0.2 million for 2014). Members of the Board are elected each year by the Economic and Social Council in accordance with the rules of procedure on membership. Executive Board members are not considered key management personnel of UNOPS as defined under IPSAS.

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

Key management personnel

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

Table 55
Key management personnel
(Thousands of United States dollars)

	2015	*2014*
Number of full-time positions	2	2
Aggregate remuneration		
Base compensation and post adjustment	422	452
Other entitlements	38	129
Post-employment benefits	135	118
Total remuneration	**595**	**699**
Outstanding advances against entitlements	3	3
After-service health insurance, repatriation grant and leave liability	226	227

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

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

191. These financial statements disclose key management personnel remuneration as well as post-employment liabilities directly attributable to the individuals, with comparable figures provided for 2014 on the same basis.

192. In 2015, there were no known instances of executive management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 26
Services in kind

193. Services in kind for the period amounted to $4.3 million ($3.9 million in 2014), $4.1 million of which is attributed to 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

194. 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.

195. Significant progress was made towards settlement of a long-outstanding legal case and provision has been made for the estimated value of the settlement cost on the basis of the decision of the arbitration committee and advice from legal counsel.

196. As at the date of signature of the UNOPS financial statements and related notes for the period ended 31 December 2015, there have been no other material events, favourable or unfavourable, that have occurred between the balance sheet date and the date on which the financial statements were authorized for issue that would have affected the statements.

Glossary of technical terms

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

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

Management budget	The Executive Board approves a biennial budget covering the fee income and related expenses that UNOPS is expected to achieve. Out-turn against the budget was reported under the United Nations system accounting standards in the statement of income and expenditure and is now covered by the statement of comparison of budget and actual amounts
Management expenses	Those costs incurred under the management budget
Money market instruments	Highly liquid short-term debts and securities
Operational reserve	Accumulated surplus built up over past years and the actuarial gains and losses in respect of post-employment benefits
Property, plant and equipment	Tangible assets (including project assets) under the control of UNOPS and: • Used by UNOPS to generate revenue • Expected to be used during more than one reporting period
Principal and agent	IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those that it undertakes on behalf of others (agent). The distinction is whether the economic benefits arising from the contract accrue to UNOPS, except to the extent that a fee may be levied for providing an agency service
Provisions	A liability of uncertain timing or amount
Segment	The three UNOPS regional offices and headquarters
Staff	A generic term that covers permanent staff and individual contractors. See also employee
Transitional provisions	On first implementation of IPSAS, individual standards give relief from the immediate application of aspects of the standard if certain specified criteria are met. This is important because some standards are complex to apply and require significant time to collect the information necessary to enable full implementation. UNOPS has applied all the standards from 1 January 2012 and adopted one important transitional provision in the 2013 financial statements under which UNOPS will take up to five years to implement IPSAS with regard to the recognition of property, plant and equipment
Treasury bill	Short-term debt obligation backed by a sovereign State
Trust funds	Moneys administered by UNOPS on behalf of a donor for the benefit of recipients. These transactions are typically classified as agency

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