

REFERENCE: AC/1650

Advisory Committee on
Administrative and Budgetary Questions

19 December 2007

Dear Mr. Mattsson,

Enclosed please find the report of the Advisory Committee on Administrative and Budgetary Questions on the UNOPS budget estimates for the biennium 2008-2009.

I should be grateful if you would place this report before the Executive Board at its forthcoming session.

Yours sincerely,



Rajat Saha
Chairman

Mr. Jan Mattsson
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United Nations Office for Project Services

Budget estimates for the biennium 2008-2009

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Executive Director of the United Nations Office for Project Services (UNOPS) on the budget estimates for the biennium 2008-2009 (DP/2008/13). During its consideration of the report, the Advisory Committee met with the Executive Director of UNOPS, who provided additional information and clarification.

I. Budget format and presentation

2. As indicated in paragraphs 3 and 9 of the budget document, the presentation of the budget estimates for the biennium 2008-2009 is based on the harmonized approach for results-based budgeting format agreed upon by UNDP, UNICEF and UNFPA. However, in contrast with the harmonized approach, the starting point for UNOPS is at the level of strategic objectives, rather than functions due to the distinct nature of UNOPS' activities (DP/2008/13, para.18).

3. As explained in the document, the budget has been prepared based on UNOPS' Business Strategy 2007-2009, which aims to achieve the following key goals: financial viability, strong workforce motivation and competencies, best-in-class

business processes, high client satisfaction and strengthened partnerships. UNOPS has translated these goals into ten strategic performance objectives in the budget to promote its capacity to contribute more, as a service provider, to the peace-building, humanitarian and development operations of the United Nations (DP/2008/13, para.4). Budget proposals by the ten objectives are contained in table 4 of the document and by functions in table 5.

4. The Committee notes that, in some cases, the current presentation neither provides sufficient information on levels of operational expenditures for measurement of cost effectiveness, nor on bases against which achievement of expected results could be assessed. Upon enquiry, the Committee was provided with a table on targets and baseline explanation, which is attached as annex I of this report. The Committee recommends that such an approach be used in preparation of future budgets. The Committee also notes that UNOPS recognizes those shortcomings in the budget presentation and that, as the adoption of results-based budgeting approach has just started, UNOPS will continue its efforts to improve the budget presentation.

5. In order to ensure greater budgetary transparency, the Advisory Committee is of the view that it is important to include in the budget estimates information on major objects of expenditure under post and non-post costs. Within non-post costs, information should be provided on sub-headings (other staff costs, non-staff compensation, consultants and experts, travel of representatives, travel of staff, contractual services, general operating expenses, hospitality, supplies and materials, furniture and equipment, grants and contributions) as is being done by the United Nations. The Advisory Committee has recommended that these changes to the format

of budget submissions be considered by the Executive Boards of other funds and programmes. It also recommends that they be considered by the Executive Board of UNOPS.

II. Budget estimates for 2008-2009

6. As shown in table 1 of the document, the proposed budget for the biennium 2008-2009 is estimated at \$120,009,901. The Committee notes that the gross revenue target for 2008-2009 is set at \$133,343,900, based on an expected delivery of services at \$2.173 billion. This includes a projected increase in demand for traditional UNOPS services, taking into consideration of growing demand in the services during 2006, as well as the services that will be transferred with the Inter-Agency Procurement Services Office (IAPSO) from UNDP to UNOPS as of 1 January 2008, pursuant to decision 2007/38 of the Executive Board (see annex of A/61/350/Add.1) (DP/2008/13, paras.10 and 11).

7. As indicated in paragraph 2 of the budget document, the estimates for 2008-2009 include an increase of approximately one million dollars, as compared with the appropriation for 2006-2007, representing close to zero nominal-growth for UNOPS. The main constraints for the proposed biennial budget level are: (a) the recommendation to replenish the operational reserve at the level of 10 per cent of the gross revenue, or \$13,334,000; (b) the need to build up reserves fully for after-service health insurance, estimated at up to \$5.9 million; (c) the significant cost increases caused chiefly by the weak US dollar, with an estimated currency impact of \$10.82 million, and (d) projected inflation impact of \$5.58 million. The Committee notes that

UNOPS intends to fully fund ASHI liabilities by the end of 2009 (DP/2008/13, para.15).

8. Information with regard to post changes and by locations is contained in table 3 of the document. The Committee notes, from paragraph 19 of the document, that all 31 additional posts at the Headquarters are a result of the transfer of IAPSO to UNOPS. The proposed net increase of 21 posts in regional offices and Operations Centres aims to ensure that core functions are systematically carried out by staff and not, as has at times been the case in the past, by service contract holders. As of 2008, each Regional Office would have posts for a Deputy Regional Director, a Procurement Officer, a Legal Officer, a Human Resources Officer, and one ICT support staff. In Operational centres, there would be at least one Administration/Finance Officer. The organigramme of UNOPS, at the current and the proposed levels, is attached as annex I of this report.

9. The Committee recommends that the Executive Board approve the proposal for the new posts and that the Board closely monitor the funding for these posts.

III. Status of negotiations with UNDP on inter-fund balance and Afghanistan elections shortfall

10. The issue of an unreconciled balance of \$9.9 million in the UNOPS/UNDP inter-fund account was reviewed by the Committee when it considered the report of the Board of Auditors on the financial statements of UNOPS for the biennium ended 31 December 2005 (A/61/350/Add.1, paras.5-7). UNOPS indicates that while it is

difficult to predict the outcome of any settlement now, provisions will be made in certified financial statements for 2006-2007 based on information available at that time (DP/2008/13, para.13).

11. Upon enquiry, the Committee was informed that, in July 2006, the new Executive Director of UNOPS launched a financial clean-up exercise. In that context, UNOPS determined that the unreconciled inter-fund balance with UNDP was in the region of \$59.1 million, rather than \$22,000 which was the working assumption held by both agencies before the clean-up exercise. UNOPS hired a team of forensic accountants from Deloitte Financial Advisory Services LLP and Deloitte & Touche LLP to speed up this complex exercise, the origin of which dated back to 1998. The joint work by UNOPS, UNDP and Deloitte finally identified the unreconciled balance as \$10.3 million. Following written advice by Deloitte and UNOPS internal audit, UNOPS recommended to proceed with UNDP the write-off of the unreconciled balance, given that the commitment of resources to reconcile the account had reached the point of diminishing returns and was becoming disproportionately high and likely ineffective. The amount of \$5 million that UNOPS made as a "bad debt provision" in its financial statements for 2004-2005 may change, depending on the final agreement with UNDP as to how the remaining unreconciled amount should be split.

12. The Advisory Committee recalls the recommendations of the Board of Auditors on the matter and its related comments (A/61/350/Add.1, paras. 5 to 6) and encourages UNOPS to finalize settlement with UNDP as a matter of priority.

13. With respect to the cost overrun for the elections in Afghanistan, upon enquiry, the Committee was informed that UNDP, the trust fund manager for the 2005 elections in Afghanistan, sub-contracted UNOPS to provide all logistical support. UNOPS overspent the budget allocated by UNDP by some 8 per cent, or \$15.1 million before the elections, due to a number of factors including the rapidly deteriorating security situation on the ground. UNDP asked UNOPS to incur these additional expenses against a verbal promise of reimbursement at a later stage. Subsequently, UNDP organized a donor conference in June 2006 to raise extra funds and received new pledges, which, if they materialize, would reduce the shortfall by some \$9.7 million. In addition, UNOPS is in the process of disposing of the remaining elections assets and this may reduce the shortfall further to about \$4.3 million. UNOPS made a related "bad debt provision" of \$2.344 million in its financial statements for 2004-2005. This amount may have to be adjusted, subject to the final status of donor contributions and the amount of proceeds generated by the assets sale.

IV. Operational Reserve

14. In its report A/61/350/Add.1, the Advisory Committee shared the concern of the Board of Auditors regarding the level of UNOPS' operational reserve, which dropped from \$23.1 million in the biennium 2002-2003 to \$4.4 million in 2004-2005. The level of the reserve is adjusted annually to represent 4 per cent of the average total expenditure over the previous three years. The Board notes that, on the basis of projections, the operational reserve for 2006-2007 should be \$32.6 million, whereas it was projected to be only \$18.9 million (A/61/350/Add.1, para.9).

15. As indicated in paragraph 16 of the budget document, the reserve requirement currently stands at \$30.3 million and it should reach the level of \$42.5 million by the end of 2009. However, while the goal for UNOPS is to rebuild the reserve to the required level as soon as possible, UNOPS believes that overcharging clients to increase revenues or under-investing in operational capacity to reduce expenditures would carry great risks for the sustainability of operations. Therefore, UNOPS proposes to target the level of contribution to the operational reserve at 10 per cent of total projected gross revenue, or \$13.3 million, to bring the reserve level to \$36.1 million by the end of 2008-2009, before any extraordinary losses from 2004-2005 and earlier years to be reflected in the Financial Statement for 2006-2007 (see paras.10-14 above).

V. Implementation of recommendations by the Board of Auditors

16. The Advisory Committee emphasizes the importance of timely implementation of recommendations of the Board of Auditors. The Committee recommends that UNOPS include in its future budget presentations detailed information on the implementation of the Board's recommendations.

Measure	Target	Baseline explanation
Contribution to the operational reserves (USD million)	\$13.33	Target based on replenishment requirements that Management will meet by 2010.
Implementation rate of external audit recommendations:	75%	No baseline available in UNOPS, but the target was set based on management's experience from other agencies.
Reduction in imprest transactions share of total delivery	80%	New indicator. Target based on baseline at time of target setting. Imprest transactions share of total delivery stood at approximately 25%.
Client satisfaction with the timeliness of UNOPS reporting	75%	No baseline. Baseline will be determined first quarter of 2008. Target was set based on desired result.
Client satisfaction with the quality of UNOPS reporting	75%	No baseline. Baseline will be determined first quarter of 2008. Target was set based on desired result.
Client overall satisfaction with UNOPS as a service provider	80%	No baseline. Baseline will be determined first quarter of 2008. Target was set based on desired result.
Client satisfaction with the ability of UNOPS to communicate clearly	80%	No baseline. Baseline will be determined first quarter of 2008. Target was set based on desired result.
Number of Standard Operating Procedures in active use	25	New indicator. No baseline. Baseline will be determined in 2008.
Headquarters Contracts and Property Committee case deferrals rate	10%	Baseline based average deferral rate for Q1, Q2 and Q3 2007 which stood at 14%.
Number of registered members to the Communities of Practice	900	Baseline based on cumulative number of registered members in Q3 of 2007. The number stood at 443.
Communities of Practice usage	5	No baseline. Baseline will be determined first quarter of 2008. Target was set based on qualified estimate. Target to be adjusted in first quarter of 2008.
Training rate	50%	Baseline based on 2007 performance as it stood at Q3. Training rate at Q3 stood at 20.5%.
Number of staff professionally certified (within biennium)	100	Target based on resources allocated to certification of staff. By Q3 2007, 20 staff had been certified professionally during the year.
Female-to-male ratio in the workforce ¹	0.65	Baseline based on 2007 performance for Q2 and Q3 respectively. Performance stood at 0.61 in Q2 and 0.60 in Q3.
Female-to-male ratio in the professional categories ²	0.50	Baseline based on 2007 performance for Q2 and Q3 respectively. Performance stood at 0.38 in both Q2 and Q3.
Job satisfaction rate	85%	Baseline based on last year's Staff Attitude Survey. Job satisfaction rate stood at 82%.
Staff perception of the appropriateness of security arrangements in the workplace	90%	New Indicator. No baseline. Baseline will be determined early 2008 following launch of Staff Attitude Survey. Target was set based on desired result.

¹ Baseline included all 100, 200 and 300 series staff members (project staff included). Q2: 853 persons Q3: 860 persons. Attempt to set targets taking into account the business environment of a specific region were made following feedback from 2 regions: NAO and MEO. A new baseline will be constructed based on core staff only in January 2008 based on fresh data from the system where the gender of the new approved posts for 2008 will be accessible to calculate the new baselines.

² See footnote above

Organigramme

Annex II

