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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE UNITED NATIONS OFFICE FOR PROJECT SERVICES FOR THE BIENNIUM ENDED 31 DECEMBER

(FINAL VERSION)

Contents

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Office for Project Services (UNOPS). The Board has audited the financial statements for the biennium ended 31 December 2001.

The Board's main findings are as follows:

(a) The Board has modified its opinion in view of the financial position of UNOPS and its ability to fund in full any deficit from the operational reserve. A further significant shortfall in income could lead to the exhaustion of the operational reserve, especially since UNOPS is not budgeting for a surplus but to break-even in 2002;

(b) UNOPS acknowledges that it may need to take further measures should the amount of its deficit exceed the level of its operational reserve. However, UNOPS did not have a contingency plan on measures to be taken in the event that the 2002 operations result in a deficit which cannot be absorbed by the remaining balance of the operational reserve.

(c) Actual project delivery for the biennium 2000-2001, has been less than the forecast project delivery by some 19 per cent while actual project delivery for the biennium 1998-1999 was in line with projections. The related actual project income for the biennium 2000-2001 was less than the forecast project income by 17 per cent, while for the biennium 1998-1999, the actual project income exceeded forecast project income by some 5 per cent;

(d) The changes in administration cost structures as well as changes in project management hours have resulted in the PMO workload system being unable to accurately compute and monitor the real cost of executing each project;

(e) As compared to the prior biennium recurrent administrative expenditure had increased significantly by some 20 per cent to a level of $105 million for the biennium 2000-2001 while income decreased. UNOPS 2000-2001 administrative costs were not commensurate with project and other service income;

(f) UNOPS opted to set a target of $503.2 million which included some $13.2 million worth of project delivery with a moderate to high risk;

(g) Separation costs estimated at $2.2 million would effectively reduce the present operational reserve to $2.3 million. Also, separation costs have not been finalized and would impact directly on operational reserves since these costs have not been provided for elsewhere;

(h) The Board is concerned that UNOPS may not cover all its proposed administrative expenditure budget of $45.3 million (capped at $44 million) with the projected level of income. UNOPS has informed the Board that it has prepared a

proposed budget for 2002 of $44 million which will be submitted through the MCC to the EB for approval;

(i) UNOPS has estimated the future value of after-service health insurance benefits amounting to $38.7 million. The balance is not funded.

The Board made recommendations on continued diversification the business portfolio within the United Nations system, establishment of a reliable system for computing and monitoring costs, the exercise of caution in budgetary estimates and development of a contingency plan to address measures to be taken in the event further deficits cannot be funded from the operational reserve.

A list of the Board's main recommendations is included in paragraph 11 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services (UNOPS) for the biennium 2000-2001. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000-2001 have been incurred for the purposes approved by the governing bodies, whether income and expenditure has been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNOPS presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements. The Board has modified its opinion to emphasise its concern regarding the significant risk that may cause UNOPS to curtail its operations as disclosed in note 15 of the financial statements. Also, the

operational reserve as at 31 December 2001 was not at the level required by the Executive Board.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNOPS. In the biennium 2000-2001, the Board focused primarily on UNOPS' ability to continue at the present level of operations.

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

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

6. A summary of the Board's recommendations is contained in paragraph 11 below. Detailed findings are in paragraphs 13 to 93.

7. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of those of its recommendations approved by the Assembly, subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the General Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

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

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

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

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

1. Previous recommendations not fully implemented

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

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

2. Main recommendations

11. The Board recommends that UNOPS should:

(a) Prepare a contingency plan to be submitted to the Executive Board for approval, to address measures to be taken in the event of the operational reserve being unable to absorb possible deficits (para. 77).

(b) Exercise caution in its budgetary assumptions and income projections to ensure that realistic targets are established (para. 22);

(c) (i) Continue to review its medium term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP with a view to aligning its project delivery approach; and (ii) embark on a strategy to further diversify its client base within the United Nations system (para. 26);

(d) Evaluate the basis and calculation of the cost of services with a view to ensuring that all costs are identified and recovered, and that it ensure that the piloted system addresses all shortcomings identified in the PMO workload system (para. 31);

(e) Review the funding mechanism and targets for end-of-service benefits. Due to the unique funding principles of UNOPS, the board considers that UNOPS may need to expedite its consideration of funding the end-of-service liabilities (para. 53);

(f) Evaluate its procedures for controlling costs with a view to meeting project delivery needs, while ensuring flexibility to adapt to increases in the level of service delivery (para. 39);

(g) Continuously monitor actual performance against clearly defined targets and assess the specific methods to restore the operational reserve to its required level (para. 47);

(h) Consider presenting to the Executive Board for approval variable budgets based on several levels of activity, clearly identifying the most likely level of activity (para. 59);

(i) Compile a clear and definite action plan on how, where and when staff savings will be made and monitored; and that costs should be closely monitored and a revised submission made through the Management Co-ordinating Committee to the Executive Board (EB) in order to obtain approval should it become evident that the required level of administrative expenditure will not be met (para. 67).

12. The Board's other recommendations are shown in paragraphs 43, 49, 51, 62, 73, 79, 87, 90 and 92.

B. Background

13. UNOPS was a division of UNDP until 1994. In its resolution 48/501 of 19 September 1994, the General Assembly approved the establishment of the United Nations Office for Project Services in order to consolidate United Nations project management and help UNDP focus on its mandate as the central funding and coordinating body for operational activities. UNOPS was formed to be totally self-financing and receives no financial contributions, but earns its fees by charging other United Nations organizations (UNOPS clients) for services rendered. These services include project management, selecting and hiring project personnel, procuring goods, organizational training, managing financial resources and administering loans.

14. The Executive Board, being an intergovernmental body of the General Assembly, overviews the results of UNOPS particularly from a point of view of the donors. A Management Coordinating Committee (MCC) was established pursuant to a report of the Secretary-General[1] and by Executive Board decision 94/32. The MCC is chaired by the Administrator of UNDP and the other members are from: the Department of Management (DM), the Department of Economic and Social Affairs (DESA) and the United Nations Office for Project Services (UNOPS). The MCC provides policy and management direction and to ensure transparency of UNOPS operations. The Secretary-General proposed that the MCC should expand its current members by inviting representatives of a few of UNOPS' major clients in the United Nations system to participate in its proceedings. The Board was pleased to note that the first meeting of the expanded MCC

took place on 18 June 2002.[2] A Working Group was also established in April 2002 to assist the MCC in its work, which specifically included assisting UNOPS in revising its 2002 budget. The Working Group consists of one representative of each of the members of MCC.

15. The Secretary-General, in the note dated 25 January 2002, outlined the role of UNOPS in the United Nations system and reiterated his support for the continued work of UNOPS as a "separate and identifiable entity that is self-financing", as originally intended by Member States. He added that if UNOPS were to continue to meet its key objective of being self-financing, it was essential that it receive sufficient business from organizations in the United Nations system. He therefore, encouraged all United Nations entities – starting with components of the Secretariat – to avail themselves of the services of UNOPS as long as that option remained cost-effective, although there was no obligation on the part of United Nations organizations to work through UNOPS.

C. Financial issues

16. UNOPS has prepared its financial statements according to UNSAS 4, that, on the basis that the organization has neither the intention nor the necessity to curtail materially the scale of its operations, since it is a going concern. UNOPS, under the guidance of MCC and its Working Group, has made significant efforts to achieve an improved financial position in 2002 and to at least move from a significant deficit of $12.4 million

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[1] DP/1994/52.
[2] Note of the Secretary-General (DP/2002/CRP.5) on UNDP-UNOPS relationship

(after savings on prior period obligations) in 2000-2001 to breaking even in 2002. Signed contracts on the funds control system on 14 June 2002 show UNOPS has $707 million worth of project portfolio available for implementation for 2002 as well as having $274.3 million for future years. However, the Board is concerned that if UNOPS does not break even in 2002, as is being budgeted for, there is a possibility that the low level of its operational reserve of some $5 million may not enable it to absorb the resulting deficit. There is a significant risk that both internal and external factors could influence the achievements on which forecasts and projections are based. Although UNOPS is a self-financing entity, it may not borrow funds nor have "working capital" to bridge resource requirements, if the need arises, and has to rely on its operational reserve for this purpose. Consequently, due to a material uncertainty, there is the potential for a curtailment of operations.

1. Financial overview

17. UNOPS incurred a deficit of $15.6 million for the biennium 2000-2001, (including non-recurrent authorized expenditure of $ 3 million) before savings on prior period obligations of $3.2 million which results in a net deficit of $12.4 million. Income for the biennium decreased by 9 per cent to $92.4 million compared to $101 million in the biennium 1998-1999. Total administrative expenditure amounted to $108 million in 2000-2001 compared to $106 million in the 1998-1999 biennium. However, recurrent expenditure amounted to $105 million compared to $87.8 million in the biennium 1998-1999, representing an increase of some 20 per cent. The deficit resulted in a reduction of the operational reserve from $17.4 million in the biennium 1998-1999 to

$5 million in the biennium 2000-2001. The deficit was primarily caused by a reduction in project delivery and related income with a simultaneous increase in recurrent administrative expenditure.

2. Project income

18. Project income remains UNOPS' main source of income representing some 81 per cent of total income of $92.4 million in the biennium 2000-2001 compared to 85 per cent of the total income for the biennium 1998-1999.

Actual versus forecast project delivery and related income

19. Income is earned by delivering project implementation services and other services such as loan administration. UNOPS charges a percentage of project delivery as support cost income. The income per category is indicated in annex II. The UNOPS budget for any year is revised annually, and the Executive Board approved the 2001 revised budget on 13 September 2001. As shown in Annex II, actual project delivery was lower than forecast project delivery for the last 5 years with the exception of 1999. (1997- $36.9 million lower; 1998- $12.2 million lower; 1999- $9.9 million higher; 2000- $118.9 million lower; 2001- $111.3 million lower). The difference between the forecast project income compared to actual project income for the last five years is also shown in annex II. The Board noted that 1998 and 1999 were the only years in which actual project income exceeded forecast project income by the amount of by $5.3 million and

$0.1 million, respectively. For 1997, 2000 and 2001, actual project income was lower than forecast project income by the amounts of $0.3 million, $5.9 million and $9.5 million, respectively.

20. Actual project delivery for the **biennium 2000-2001 was less than the forecast** project delivery by some 19 per cent **while simultaneously actual project income was** less than forecast project income by **some 19 per cent. Actual delivery for the** biennium 1998-1999 **approximated the forecast project delivery while related actual** project income **exceeded projected project income by some 6 per cent.**

21. Total income consists of project income, service income and other income (including savings on prior period obligations). Annex II further shows the relationship forecast and actual total income for 1997 to 2001. The actual total income exceeded the total forecast income by $5.6 million in 1998 and by $0.8 million in 1999. Total actual income was lower than total forecasted income by $0.1 million in 1997, $3.1 million in 2000 and $9.6 million in 2001.

22. **The Board recommends that UNOPS exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets are established.**

Client portfolio

23. UNOPS enters all projects for which signed project documents have been attained on the Funds Control System. As at 14 June 2001, the total cumulative project value for

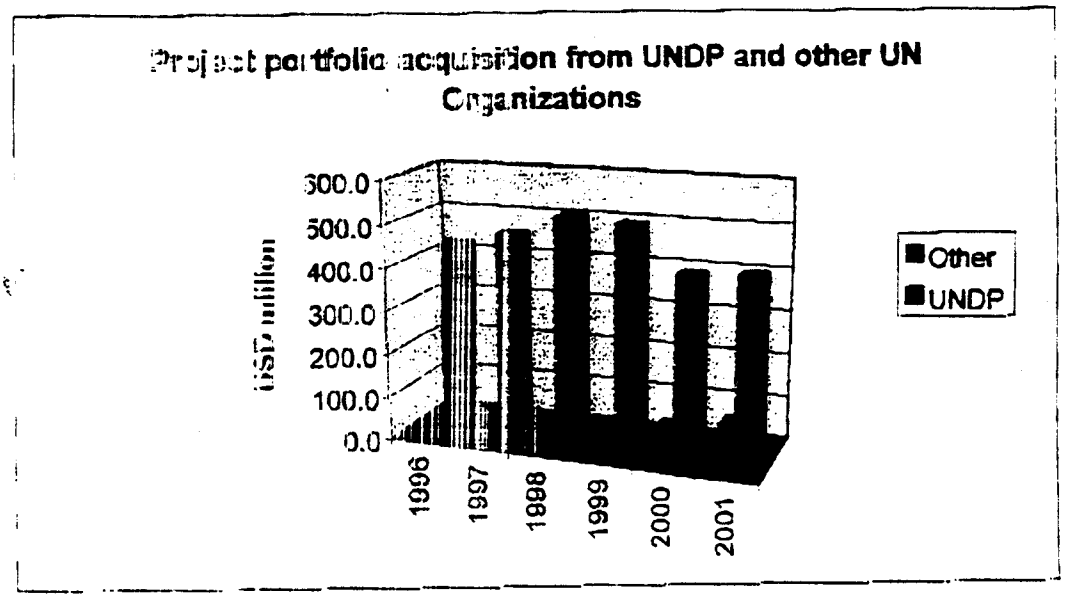
2002 is $981 million. The cumulative project values at the end of 1999, 2000 and 2001 were $1,520 million, $1,493 million and $1,411 million, respectively. The Board noted that actual project delivery for 1999, 2000 and 2001 was $560 million (37 per cent), $471 million (32 per cent) and $505 million (36 per cent), respectively. UNOPS' forecasted delivery for 2002 was $503 million (52 per cent) although the total cumulative project value could increase further during the year and therefore decrease the rate of actual delivery to cumulative project values. UNOPS also indicated to the Board that it had further accepted projects to the value of some $98 million for 2002 although these had not been entered on the Funds Control System at the time of the audit.

24. The Board considers that UNOPS' financial position could be improved if these accepted projects were to be delivered while the related administrative costs are simultaneously contained within reasonable levels.

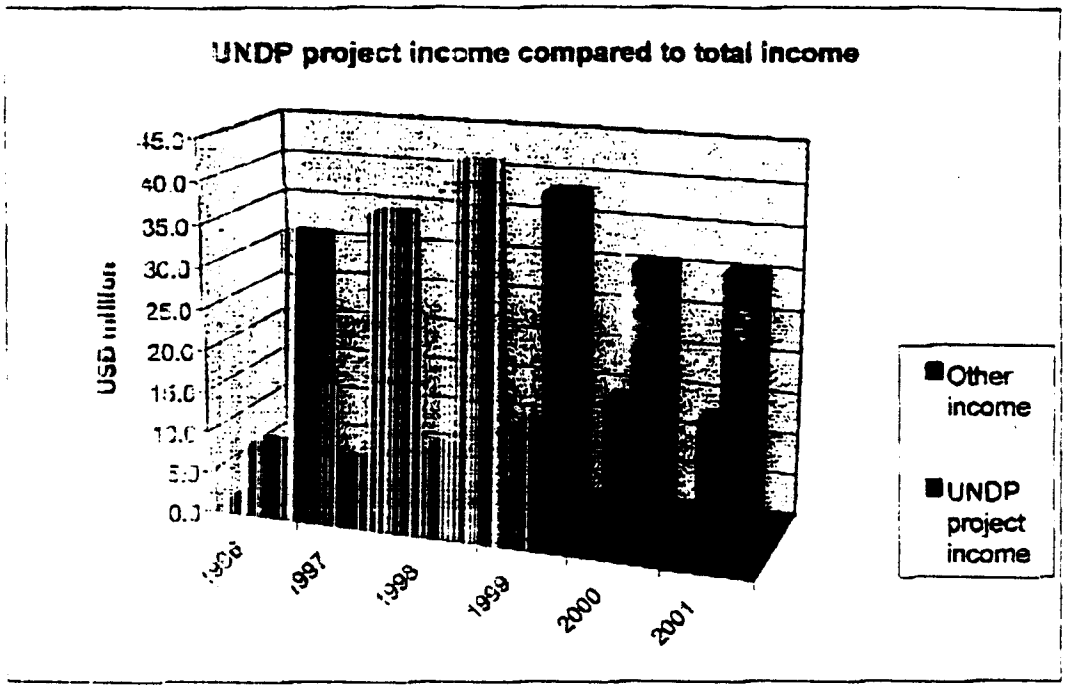
25. UNDP remains UNOPS' largest client since the latter's inception. Income earned from UNDP is in the form of project income. UNOPS had started to diversify its service delivery to other United Nations organizations since 1996 in order to fulfill its mission to be a service provider to the entire United Nations system while simultaneously reducing its dependency on any one client or service. Income from UNDP decreased from $79.4 million (23 per cent) in the biennium 1998-1999 to $61.5 million in the biennium 2000-2001. Income from UNDP represented some 92 per cent of total project income of $86.4 million in the biennium 1998-1999 compared to 82 per cent in the biennium 2000-2001 when total project income amounted to $74.6 million. The Board recognized

that UNDP's preferred modality for project implementation over the recent years was national execution and to a lesser extent, direct execution. This was partly the reason for the decrease in projects entrusted to UNOPS. The UNOPS project portfolio is illustrated in graphs 1. The project income from UNDP also represents some 67 per cent of total UNOPS income in the biennium 2000-2001 compared to 79 per cent in the biennium 1998-1999. Graph 2 below illustrates UNDP's share of UNOPS income compared to other sources.

Graph 1: UNOPS project portfolio



Graph 2: Income from UNDP compared to other income



26. The Board recommends that UNOPS: (i) continue to review its medium term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP with a view to aligning its project delivery approach; and (ii) embark on a strategy to fully diversify its client base within the United Nations system through assistance from appropriate senior levels of each potential client organization and the Management Co-ordination Committee.

Project cost recovery and income rates

27. The Secretary-General has stated in the note dated 25 January 2002, that, "In order to preserve the self-financing nature of its mandate, it is essential that the services provided by UNOPS are made on a reimbursable basis at the full cost of those services".

28. UNOPS uses a Project Management Officer (PMO) workload system to calculate the estimated cost of delivering services. An amount is then added by the system based on built-in assumptions to cover the level of central service support to the PMO in relation to their workload from which UNOPS derives the income rate to be charged. The Board considers that it would be prudent for UNOPS to add a fixed margin on the full costs of a project to provide for risks and contribution to the operational reserve while ensuring they remain cost effective.

29. UNOPS performed a review of the PMO workload system late in 1999. The Board noted the following from the results of this review:

(a) Fees and support costs are calculated assuming that project management costs are proportional to the time the project management officers spend on it;

(b) The annual cost is calculated by dividing the annual administration cost by the number of PMO months actually worked and multiplying the result by the number of months spent on each project per year;

(c) The system was developed in 1987 (when UNOPS was still part of UNDP) and as the portfolio of UNOPS grew and changed little was done to adapt the system to changes in portfolio and management methods.

30. UNOPS indicated that the PMO workload system assumptions had not been revised since 1997. **The changes in administrative cost structures as well as changes in project management hours have resulted in the PMO workload system being unable to accurately compute and monitor the real cost of executing each project.** The Board is pleased to note that a new system of calculating the cost of services was being piloted in the UNOPS Geneva Office.

31. The actual rate of project income as a percentage of project delivery was 7.5 per cent in 2001, which was 0.2 per cent lower than the budgeted rate of 7.7 per cent for a reduced income of some $1 million. The Board noted that different rates are charged for different projects and clients, with the maximum rate being 10% for some UNDP projects funded under regular resources depending on the estimated costs to be incurred. The project income as a percentage of project delivery, excluding other services, for the past years is depicted in table 1 below. The table reflects that the rate of project income peaked in 1998 but has dropped to 7.5 per cent in 2001. The combined effect of lower delivery with a corresponding drop in the project income rate resulted in a significant reduction in project income.

Table 1: Project income as a percentage of project delivery (in millions of United States dollars

Year	Project delivery (A)	Project income (B)	Percentage (A/B)
1996	430.8	31.6	7.3
1997	463.1	35.0	7.6
1998	537.8	43.5	8.1
1999	559.8	43.0	7.7
2000	471.1	36.8	7.8
2001	504.7	37.9	7.5

32. The Board recommends that UNOPS should evaluate the basis and calculation of the cost of services with a view to ensuring that all costs are identified and recovered while ensuring they remain cost effective and that the piloted system addresses all shortcomings identified in the existing PMO workload system. Furthermore, UNOPS should consider the feasibility of using a fixed margin to be able to better control fluctuations in cost recovery rates, while ensuring it remains cost-effective.

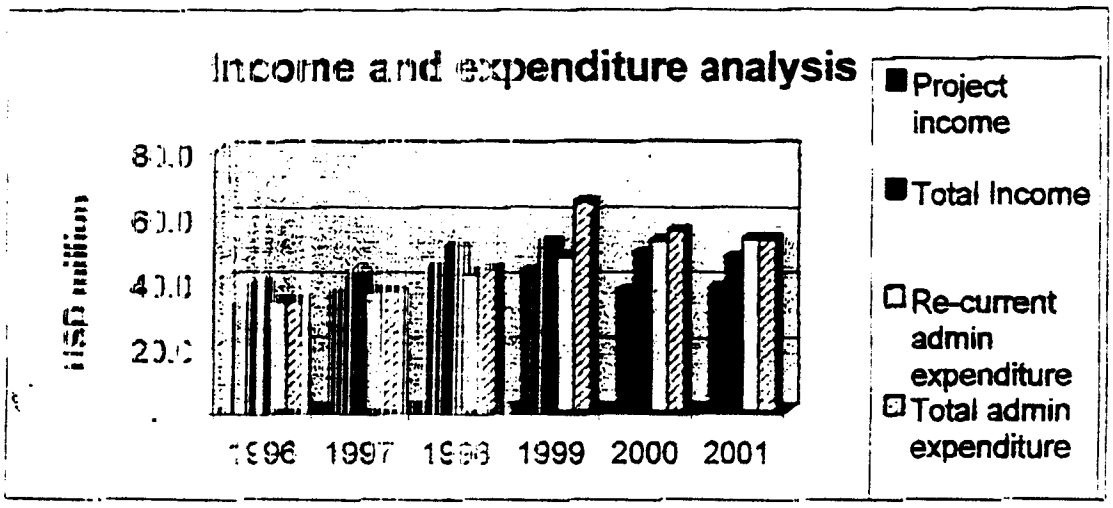
33. The Board noted that according to UNOPS internal minutes and a report by a consulting firm, delivery was impacted by the economic down turn and political instability in a number of countries where UNOPS is operating and that some of the consequences were beyond its control.

3. Administrative expenditure

34. Total administrative expenditure for the biennium was $108 million as detailed in Annex IV. The administrative expenditure includes an amount of $3 million in respect of

non-recurrent information systems costs for which the Executive Board's prior approval was obtained to charge directly against the operational reserve. An analysis in graph 3 reflects the relationship between the project income, total income, recurrent administrative expenditure and total administrative expenditure.

Graph 3: Analysis of project income, total income, recurrent administrative expenses and total administrative expenses.



35. The total administrative expenditure increased by 2 per cent, from $106 million in 1998-1999 to $108 million in the current biennium. Non-recurrent costs amounting to $18.2 million were included in the $106 million for the biennium 1998-1999: $14.1 million was incurred in the relocation of UNOPS headquarters to the Chrysler Building and $4.1 million related to the implementation of the IMIS system. The Board had reported on these costs in its previous report A/55/5/Add.10. **If these non-recurrent**

costs are excluded, recurrent administrative expenditure increased by 20 per cent from $87.8 million in the biennium 1998-1999 to $105 million (excluding non-recurrent information system cost of $3 million) in biennium 2000-2001. The majority of the 2000-2001 increase is due to an 18 per cent increase in salaries and wages to $47.3 million, a 27 per cent increase in common staff costs to $17.9 million and a 50 per cent increase in general operating expenditure to $13.5 million.

36. In its previous report[3] made detailed observations regarding the relocation of UNOPS from the Daily News and 820 Second Avenue buildings and its concern that the relocation cost of $14.1 million in 1998-1999 had exceeded the original estimated costs of $7.3 million. The lease for space in the Chrysler building is for 3 five-year terms. The monthly rental for the office space in the Chrysler Building amounts to $301,200, $309,500 and $320,300 for 2000, 2001 and 2002, respectively, therefore a cost of $7.3 million for the biennium 2000-2001.

37. UNOPS provided the Board with information comparing its present rental costs to the costs that it would have incurred in its previous locations. The combined market related rate of these two premises would have amounted to $261,000 per month compared to the Chrysler Building with an average cost of $305,400 per month for the biennium 2000-2001. The total space leased by UNOPS amounted to 74,916 square feet in its previous locations compared to the current 79,615 square feet currently occupied (some 5,100 square feet more) in the Chrysler Building. Therefore, the biennium

2000-2001 UNOPS' rental costs were some $1.07 million higher than what it would have cost in the premises previously occupied.

38. The high administrative cost was an indication that UNOPS administrative core based on forecasted project delivery of $616 million in 2001, had increased disproportionately in relation to the level of project delivery which averaged at $494.6 million per year for the period between 1996 to 2001. The average project income over the same period amounted to $38 million (7.7 per cent) indicated in Annex V. As shown in Annex II, UNOPS' actual recurrent administrative expenditure was consistently less than budgeted recurrent administrative expenditure with the exception of 2,000 for which actual administrative expenditure was higher by $0.7 million. The difference between the actual recurrent administrative expenditure and the budgeted recurrent administrative expenditure is as follows: 1997- $1.8 million; 1998- $1.6 million; 1999- $0.7 million; 2001- $2.5 million. The Board is concerned that for the biennium 2000-2001, UNOPS administrative costs were not aligned to project and other service income.

39. The Board recommends that UNOPS evaluate its procedures for controlling costs with a view to meeting project delivery needs, while ensuring flexibility to adapt to increases and decreases in the level of service delivery.

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[3] Official Records of the General Assembly, Fifty-fifth session, Supplement No. 5J (A/55/5Add.10).

4. Budget revisions (2001)

40. The Executive Director presented to the Executive Board, in September 2001, a revised budget for 2001 based on actual financial data as at the end of June 2001. The revised budget reflected increases in income of $5.2 million and administrative expenditure of $3.7 million with a projected surplus of $1.5 million. However, this projected surplus was higher by $7.1 million from the actual deficit in 2001. Table 2 below outlines the revisions.

Table 2: Comparison of original and revised budget to actual (in millions of United States dollars)

	First revised budget 2001 (A)	Latest budget 2001 (B)	Difference (B)-(A)	Actual 2001 (C)	Variance between Actual and revised (B)-(C)
Delivery Projects	590.0	616.0	26	507.0	109
Project income	42.7	47.4	4.7	37.9	9.5
Services and other income	8.9	9.4	0.5	9.3	0.1
Total income	51.6	56.8	5.2	47.2	9.6
Total expenses	(51.6)	(55.3)	3.7	(52.8)	2.5
Surplus (deficit)	**0**	**1.5**	**1.5**	**(5.6)**	

41. The Board noted that the actual financial position at the end of June 2001 as per the UNOPS financial system was as follows: project delivery was $287.3 million, project

income was $21.5 million, other income was $4.3 million and administrative expenses were $23.7 million.

42. A basic extrapolation of the financial performance for the first six months of 2001 with the addition of annual administrative costs which were not yet incurred by June (for example taxes) would have indicated project delivery of $574 million and a resulting shortfall of $1.5 million. The Operations Review Group (ORG) which focuses on operational issues affecting UNOPS, meetings holds twice monthly. According to the minutes of the ORG meeting of 2 August 2001, actual delivery at 31 July 2001 was a cumulative amount of $302.4 million. ORG concluded that a monthly delivery of approximately $53 million was required from August 2001 to meet the target for 2001, which was set at $615 million. The Board is therefore concerned that the budget assumptions related to project delivery in 2001 were overly optimistic even though UNOPS had managed to somewhat curb recurrent administration expenditure by some $2.5 million as reflected in Annex II.

43. **The Board recommends that UNOPS should prepare budgets and revisions thereto on a basis which is more in line with realistic project delivery.**

5. Operational reserve

44. UNOPS regulation 8.3 provides that an operational reserve shall be established at a level approved by the Executive Board . The operational reserve may be utilized for:

(a) Shortfall in income;

(b) Uneven cash flow;

(c) Professional or contractual liabilities associated with UNOPS services,

(d) Liabilities associated with UNOPS personnel contracts financed from the UNOPS account.

45. In its decision 98/20 of 21 September 1998, the Executive Board approved a budget for the biennium 1998-1999, which projected that UNOPS would not generate sufficient income in the biennium to cover the full costs of introduction and implementation of IMIS or the relocation of its headquarter premises. The Executive Board agreed to fund these costs, which were estimated at $11.4 million, from the operational reserve in so far as they were not covered by income. The Executive Board also approved a reduction of the operational reserve to $11.2 million at 31 December 1999. The reserve balance as at the end of December 1999 was, in fact, $17.4 million due to the fact that surplus income over expenditure was higher than originally forecasted. At the end of 1999, UNOPS forecasted that the reserve would increase to a level of $22.6 million at 31 December 2001, and expressed its intention to restore the reserve to the prescribed level in the biennium 2002-2003. In the course of the Board's interim audit in September 2001, UNOPS provided information projecting that its operational reserve would amount to $14.3 million at the end of the biennium 2000-2001 in line with DP 2000/37. In its decision 2001/14 in September 2001, the Executive Board approved the proposal to change the basis for the calculation of the level of the UNOPS operational reserve to 4 per cent of the rolling average of the combined administration

and project expenditures for the three previous years, which would imply a level of $23.1 million at the end of December 2001. The actual level of the reserve as at 31 December 2001 of some $5 million is $18.1 million lower than the required level following an operating deficit of $15.6 million (prior to savings on prior period obligations of $3.2 million). Annex V reflects the movements in the operational reserve since 1996. The operational reserve is backed by short-term investments in call accounts.

46. The Board is concerned that **this decreasing trend could lead to the exhaustion of the operational reserve, especially since UNOPS is not budgeting for a surplus, but to break even in 2002.** UNOPS would therefore not have the financial resources needed to bridge difficult periods in future.

47. **The Board recommends that UNOPS continuously monitor actual performance against clearly defined targets and assess the specific methods to restore the operational reserve to its required level. The Board further recommends that UNOPS should communicate such performance and measures taken to the Executive Board.**

6. Unliquidated obligations

48. As per note 13 of the financial statements, total unliquidated obligations (ULOs) amounted to $31.3 million. Of this amount $7.3 million (23 per cent) related directly to UNOPS' own expenditure accounts. The Board noted that only $0.81 million of such

ULOs were liquidated as at 31 May 2002. The Board noted that UNOPS reviews ULOs three times a year in May, August and November. UNOPS indicated that as at 31 May 2002, based on its first review, less than $62,000 of these ULOs would be cancelled. In view of the present financial situation, the Board is of the opinion that a more regular review of ULOs could have enabled UNOPS to cancel invalid ULOs during the biennium 2000-2001 and thereby improve its financial position at year-end.

49. While the Board recognizes **the efforts made by UNOPS to review** unliquidated obligations (ULOs), it **recommends that UNOPS should conduct more** regular reviews of all ULOs in a timely **manner.**

7. Other sources of income

50. UNOPS earns fees from the Rome-based International Fund for Agricultural Development (IFAD) for services it provides in respect of loan administration and project supervision. This is the second largest source of income for UNOPS. In the biennium 2000-2001, UNOPS earned $12.2 million, compared to $9.9 million in the biennium 1998-1999. Schedule 2 of the financial statements indicates costs of $1.9 million and $1.3 million incurred against these earnings in the biennia 2000-2001 and 1998-1999, respectively. UNOPS supervised a total of 115 projects and administrated a loan portfolio of $2.3 billion, as at 31 December 2001. The Board noted that:

(a) The specific expenditure disclosed in the financial statements included only travel and accommodation, and consultants' fees:

(b) UNOPS maintains an office in Rome in respect of IFAD services and IFAD projects are visited regularly by UNOPS staff. The expenditure which has been disclosed does not include the costs associated with: salary and overheads of UNOPS staff; the rental of an office in Rome, administration and communication at Headquarters and the related costs of the 'Asia' and 'Africa II' divisions which also undertake project supervision over IFAD loans. UNOPS were confident that all IFAD related costs were fully recovered due to the overall positive performance of the IFAD, "Asia" and "Africa II" divisions. On the basis of schedule 2, the Board was therefore unable to determine whether the fees earned for the IFAD supervision services rendered, did in fact cover all costs incurred.

51. The Board **recommends that UNOPS should (i) compute the full costs incurred in respect of services to IFAD to determine the feasibility of this service line; and (ii) disclose the full IFAD costs in schedule 2 to the financial statements.**

8. End-of-service liabilities

52. UNOPS has not provided for after-service health insurance liabilities in its financial statements. However, the estimated liability has been disclosed in note 20 to the financial statements and amounted to $38.9 million as at 31 December 2001. UNOPS informed the Board that a consulting actuary has been engaged to propose alternatives to

fund this liability. The Board also noted that UNOPS, in accordance with its accounting policy, did not accrue for or disclose liabilities in respect of annual leave and other termination benefits. The Board is concerned that since UNOPS' operational reserve was already at a very low level, separation benefits actually incurred may not be fully funded.

53. The Board recommends that **UNOPS should, in conjunction with the United Nations and other funds and programmes, review the funding mechanism and budget for end-of-service benefits. The Board considers that UNOPS may need to expedite its consideration of funding the end-of-service liabilities given its unique funding principles of UNOPS.**

9. Forecasts for 2002

Budget exercise

54. As a result of the financial position of UNOPS as at 31 December 2001 and the concerns expressed by the Executive Board, there was doubt about UNOPS ability to continue at the present level of operations. Therefore, the Board of Auditors reviewed UNOPS' plans for future actions, with a view to assessing the reasonableness of the assumptions made for the 2002 budget.

55. In January 2002, the Executive Director of UNOPS made a presentation to the Executive Board concerning the predicted result for 2001 and budgeting methods used in compiling the 2002 budget. In response to the 2001 result, UNOPS management called for a more detailed, substantiated and conservative approach to revise the 2002 financial

targets and administrative expenditure while also identifying the obstacles that led to the 2001 shortfall. Subsequent to the presentation of the financial results to MCC in March 2002, the committee raised concerns about the 2002-2003 budget and requested the organization to compile an achievable budget for 2002. UNOPS aimed to demonstrate by mid-year whether it would be on course to meet the 2002 targets.

56 UNOPS undertook a portfolio review with a new methodology where after an in depth analysis of projects, elements were classified into "guaranteed, hard or soft" in order to estimate the project delivery for 2002, "Guaranteed delivery" refers to projects based on approved budgets where internal and external factors affecting delivery are non-existent or minimal. "Hard Delivery" refers to signed projects and pipeline projects awaiting budget approval and where there is a low probability that delivery against those funds will be affected. "Soft delivery" is based on projects at conceptual stage or still under negotiation with a moderate to high probability that delivery of approved projects will be affected by internal or external risk factors.

57. The estimated project delivery according to the three categories was as follows: "Guaranteed" - $335.2 million; "Hard" - $154.8 million; "Soft" - $113.4 million. The estimated project delivery and resulting project income for 2002 was set at $503.2 million and $35.4 million respectively, taking the above categories into account. The Board noted that the total hard and guaranteed delivery only amounted to $490 million which meant that the remainder of the projected delivery is made of "soft delivery" of $13.2 million

(2.6 per cent) which would translate to project income of $0.9 million using the average forecast project income rate of 7 per cent.)

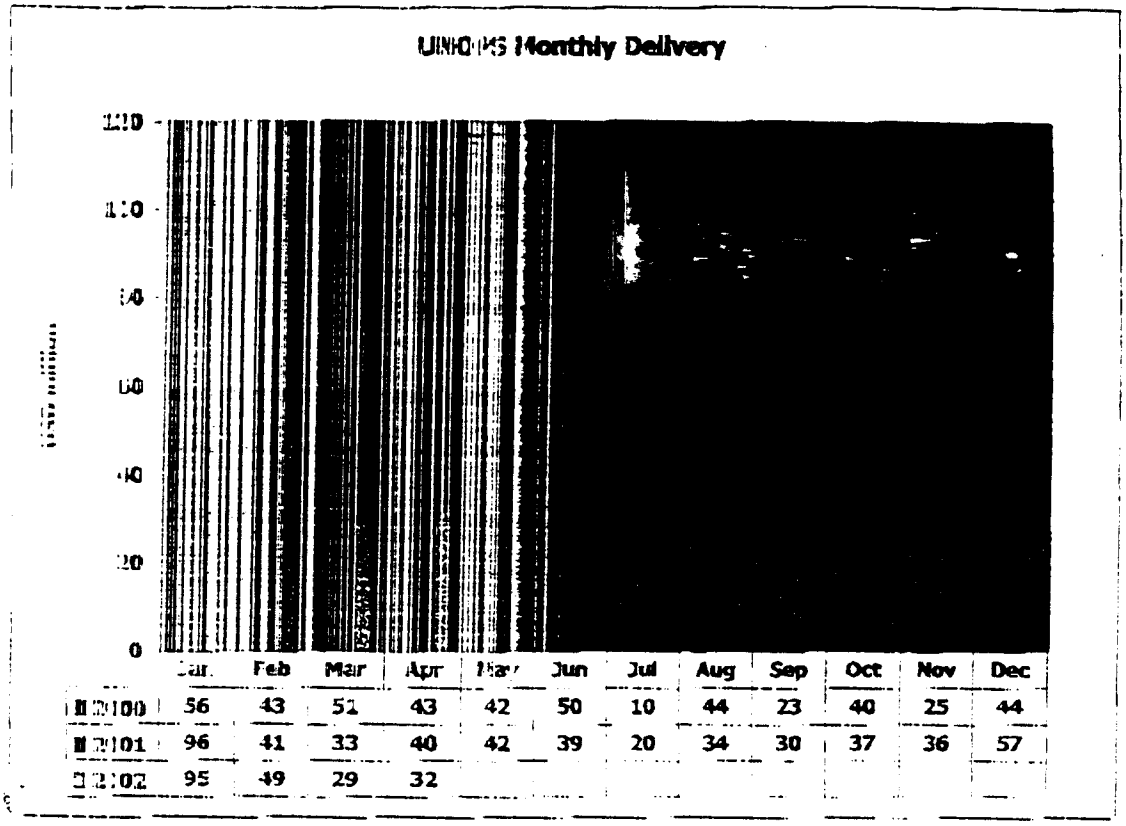
58. Each division chief was also required to assess his division's delivery for 2002, and to establish for which they would be held personally accountable. The aggregate of the "divisional chiefs' commitment" was some $509.8 million. The Board was concerned that UNOPS opted to set a target of $503.2 million that included some $13.2 million worth of project delivery with a moderate to high risk. The inability of UNOPS to meet this delivery forecast could result in a loss of support cost income in the range of $573,000 to $924,000 at the expected earnings rate of 7 per cent.

59. **The Board recommends that UNOPS consider presenting to the Executive Board for approval variable budgets based on several levels of activity, clearly identifying the most likely level of activity.**

Income strategy

60. The Board reviewed the various analyses performed by UNOPS to monitor the delivery of each division. One such analysis is presented in graph 4 below, which compares the actual 2000, 2001 and 2002 project delivery as at 30 April 2002.

Graph 6: UNICPS delivery per month



51. Cumulative delivery, as a percentage of total delivery, as at April was on average 41 per cent for 2000 and 41.6 per cent for 2001. As at April 2002 the actual cumulative delivery results amounted to 40.8 per cent of the forecast 2002 total delivery. The estimated delivery of $503.2 million for 2002 is relatively consistent with the actual delivery of $504.7 million for 2001. Also, the cumulative delivery of $205 million as at 30 April 2002 is relatively consistent with 2001 delivery of $210 million at that time. However, the Board noted that the 2002 budget provided that project income should be based on an average of 7 per cent of delivery while for the 2000 and 2001 year the percentages were 7.3 and 7.5, respectively. This resulted in project income for 2002

estimated at $35.2 million compared to $37.8 million in 2001 although the project delivery is relatively the same. While UNOPS had been purposefully conservative in setting the rate of project income in anticipation of achieving a higher return, the Board noted that actual rate of project income as at the end of April 2002 was indeed 7 per cent only. UNOPS informed the Board that for May 2002, project delivery amounted to $49 million.

62. The Board recommends that **UNOPS continue to closely monitor the rate of project income and to re-evaluate any assumptions as well as overall project income strategy and policy.**

Administrative expenditure strategy

63 Various administrative budget proposals were prepared for the 2002 year. The first budget requests from individual Division Chiefs to senior management amounted to $52.7 million. This amount was reduced by a UNOPS Executive Group to $47 million as reflected in the budget submitted to MCC on 7 April 2002. MCC took a decision at that meeting that the administration expenditure for 2002 should be capped at $43 million and that that ceiling should not be exceeded without MCC's approval. The amount capped is in line with the initial UNOPS income projections for 2002.

64. The MCC's Working Group then conducted a detailed review of the budgetary and staffing level issues involved in order to identify the base administrative budget level for 2002. Subsequently, a further revised budget was drawn up by UNOPS reflecting

total administration expenditure of $45.3 million. The Working Group had made suggestions to reduce expenses by a further $1.3 million. The budget was discussed with the MCC on 30 May 2002 who agreed to a revised cap of $44 million. UNOPS informed the Board that a budget to meet the cap of $44 million had been prepared and was submitted to MCC to review. The summary of the actual administrative expenditure costs for 2000 and 2001 as well the various budgeted administrative costs and the cumulative administrative expenditure to April 2002 are presented in annexes IV and VI.

65. The Board noted that while the 2002 budget had not yet been finalized, UNOPS had already spent 35 per cent of the $44 million budget cap as at 30 April 2002 without taking the possible effects of the savings of staff costs into account. Most of the amounts payable to the United Nations for central services had been obligated in the beginning of the year. However, no amount had yet been paid or obligated to UNDP for central services and internal audit services, which amounted to $2.3 million per the 2002 budget as well as tax which in prior years amounted to $2 million.

66. The Board noted that while the actual staff related costs in April were in line with the percentage of total costs of previous years, it still made up the largest portion of expenditure (65 per cent). The number of personnel paid against the UNOPS administrative budget as at December 2001 was 427. During the budgetary process a number of posts were identified as being unnecessary following a functional review. The total number of professional and general staff to be affected by the staff cuts initially amounted to 21 and 23 respectively. In addition two Junior Professional officers and 10

persons working as independent contractors under Special Service Agreements were also affected by the cuts (therefore 66 positions in total). UNOPS expected the cuts to result in separation costs of $2.2 million but had not determined the resulting savings. Separation costs would effectively reduce the present operational reserve of $5 million to $2.8 million. UNOPS had to identified further reductions in the operational division from the reduction of short-term contracts although this exercise had been conducted after the Board's review.

67. The Board recommends that a clear and definite action plan be compiled on how, where and when savings from staff cuts will be made and monitored and that all costs should be closely monitored and a revised submission made to MCC in order to obtain approval should it become evident that the required cap of administrative expenditure will be exceeded.

68. In terms of the lease agreement UNOPS is responsible for the total cost but the landlord may take into consideration the potential timely notice in order to secure other tenants. UNOPS has decided to re-deploy staff, as far as possible, and intends to relocate some staff currently in New York. The rest of the staff will be consolidated within the Chrysler Building and the remaining space will be sublet. The Board confirmed that sub-leasing is an option according to the lease agreement.

69. The Board noted that UNOPS had commenced informal dialogue with other United Nations organizations to lease a part of the expected vacant space at the Chrysler

Building. One contract had been signed for 9 months of 2002 resulting in income of $45,000 (3 units). Three other organizations have expressed an interest in letting a total of 68 units. Had the contracts been signed by 1 July 2002, the expected rental income of $0.54 million would have been earned over the remaining 6 months of the year. This would mean that UNOPS would still have to cover $3.26 million of the annual rental costs of the Chrysler Building. Since there were no firm commitments in place, there is still some doubt that savings will in fact be achieved in 2002 in this regard.

70. UNDP is in the process of implementing a new Enterprise Resource Planning (ERP) system. The current working arrangement between UNOPS and UNDP is stated in the Executive Board's decision 94/12 of 9 June 1994 is that, UNOPS administrative support, including that relating to financial and personnel matters, will continue to be provided by UNDP.

71. Currently, both UNDP and UNOPS use IMIS as the principal accounting system. Due to numerous functions that are being performed by UNDP for UNOPS (such as investment management, bank management, internal audit) the Board is of the opinion that UNOPS would have to consider whether UNOPS will have to implement changes to its current system in order to continue in the current relationship with UNDP; implement a new system or modify IMIS in such a way that UNOPS can manage the system independently; create a bridge between UNOPS' system and UNDP future ERP system and/or perform a feasibility study for the United Nations Secretariat to possibly undertake tasks currently performed by UNDP.

72. While UNOPS information technology personnel were involved with UNDP in the selection process of the new ERP system, no reference to the impact of future change or modification of system for UNOPS had been made in the 2002 budget. Since UNDP plans to implement ERP in 2004, UNOPS does not have much time to properly plan and implement its own ICT strategy. Related costs could be significant and though the amount relating thereto is still uncertain UNOPS has only included in the budget the cost of time spent by the staff involved in the UNDP ERP process. The costs relating to ICT may have an impact on the operational reserve to the extent not covered by income. UNOPS informed the Board that UNDP has not informed it of costs associated to the ERP.

73. The Board **recommends that UNOPS intensify it efforts to attain and make provision for all possible and foreseeable expenditure in respect of information and communications technology both in the 2002 budget, and beyond. The specific effects of a new computer system on accurate financial reporting should be considered rather urgently.**

Conclusion on 2002 budget forecast

74. The Board notes with concern that for the 2002 budget (version as at 31 May 2002), UNOPS' last budget proposal of $45.3 million exceeded the forecast income of $43 million by $2.3 million. UNOPS has subsequently estimated its income at $44.3 million by reassessing expected income from other services. UNOPS intends to

cover expenses estimated at $2.2 million, relating to staff separation, from the operating reserve. The Board **is concerned that UNOPS may not cover all its administrative** expenditure of $45.3 **million (capped at $44 million) with the projected level of** income, bearing in mind the is volatility of project income and the problems experienced with the PMIO workload system. Furthermore, ERP related costs may not be provided for in 2002 although later incurred of necessity. **Also, separation costs have not been** finalized and **would impact directly on operational reserves since these costs have** not been provided for elsewhere.

75. UNOPS disclosed, in note 15 of the financial statements for the biennium 2000-2001, the risks that could impact on the curtailment of future operations and the measures taken by management to address these.

76. UNOPS also did not have a contingency plan on measures to be taken in the event that the 2002 operations result in a deficit which cannot be absorbed by the remaining balance of the operational reserve.

77. The Board recommends **that UNOPS prepare a contingency plan to be** submitted to the **Executive Board for approval, to address measures to be taken in** the event of the operational reserve **being unable to absorb possible deficits.**

10. Junior professional officers

78. The Board noted that UNOPS has the benefit of some 30 Junior Professional Officers JPOs that render services at little cost to the organization since these staff are remunerated by the donor countries. Most of these JPO's are assigned at a P-2 level and would therefore cost approximately $100,000 per person per annum to replace with permanent staff.

79. The Board **recommends that UNOPS should consider expanding the use of junior professional officers as a cost-effective mechanism especially in these times of financial constraints.**

11. Reform plan

80. In November 2000, UNOPS recognized the need to redesign its operations and management. The development of the "reform plan" was undertaken in 2001 and the blueprint was completed by February 2002. UNOPS decided to defer the implementation of the reform plan until the outcome of an internal review by the Secretary-General was made known. In a note dated 25 January 2002, the Secretary-General outlined key recommendations for operational improvements and expressed his satisfaction that UNOPS had initiated measures to implement them.

81. The reform plan focuses on the restructuring of UNOPS around its clients and not necessarily around geographical locations. UNOPS management is of the opinion that UNOPS would be in a situation to render better service to its clients with improved communication lines between UNOPS and other United Nations organizations. Nevertheless, the fee structure and the cost structure have not yet been addressed in the reform plan. The MCC suspended the implementation of the reform plan until the 2002 budget is approved in June 2002. The Board is of the opinion that the reform plan should be reviewed by MCC in conjunction with the budget for 2002 so that all short-term and medium-term assumptions are appropriately addressed in context of the sustainability on UNOPS and to ensure that the recommendations made by the Secretary-General were implemented.

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

82. UNOPS wrote off an amount of $202,000 in respect of costs incurred in excess of project budgets as a result of the appointment of a person on a two-year contract for a specific project. The parties to the project were not able to absorb the excess costs. The division of UNOPS involved was of the view that lack of information from implementing IMIS and the office move resulted in the error being detected at a late stage. UNOPS is putting in place a mechanism to ensure that staff are aware of total cost of project personnel.

13. *Ex gratia* payments

83. UNOPS informed the Board that there were no *ex gratia* payments during the biennium 2000-2001.

D. Management issues

1. Service level agreement

84. UNOPS reimburses UNDP for the cost of, *inter alia*, UNDP central support services, which include finance, administration, personnel and internal audit. The Memorandum of Understanding between UNDP and UNOPS indicates that the *"relevant delineation of the respective functions and responsibilities between UNOPS and UNDP and their corresponding costs shall be covered in separate subsidiary agreements"*.

85. The Board noted that there were draft service level agreements between UNOPS and UNDP. However, the Board was concerned that, with the exception of internal audit services, the respective functions and responsibilities between UNOPS and UNDP were not finalized and the draft agreements did not cover human resources.

86. The Executive Board urged UNDP and UNOPS to develop a more transparent chargeback structure. This situation underlines the need for a properly communicated service level agreement that is open and transparent and which assigns responsibility and accountability.

87. **The Board recommends that the agreements between UNOPS and UNDP be finalized expeditiously, in order to regulate the functions of central services received from UNDP and should include the respective functions, responsibilities and cost structures between UNOPS and UNDP. Furthermore, the Board recommends that a service level agreement be concluded for human resources.**

2. Internal oversight reports

88. The Office of Audit and Performance Review (OAPR) of UNDP perform the internal oversight function for UNOPS. During the biennium ended 31 December 2001, OAPR completed a number of internal audits and investigations at UNOPS, which are summarized as follows:

Table 3: Summary of internal audit investigations at UNOPS

Internal audit and oversight services provided	Reports issued		Total
	2000	2001	
Internal audits/reviews of functions	5	1	6
Internal audits/reviews of projects	23	15	38
Internal audits/reviews of organizational units	5	4	9
Total UNOPS audits/reviews	33	20	53

89. The majority of the reports focused on projects. As in the previous biennium, OAPR did not perform any audits evaluating and reporting on the reliability of the accounting and other data developed by UNOPS for the production of financial statements.

90. The Board recommends that UNOPS should arrange for internal oversight coverage on financial procedures, controls and data.

3. Information and communications technology

91. General controls establish a framework of overall control over the ICT environment and provide reasonable assurance that the ICT environment supports the overall objectives of internal control which are important as they serve as the foundation for controls of all application systems and ensure the effective operation of procedures, including the controls over the design, implementation, security, use and amendment of programmes and files. The findings of these reviews highlighted that, although some general controls were in place, several weaknesses existed in the control environment as a whole. The most significant control weaknesses at UNOPS were:

a) There was no formally documented, approved and updated information technology strategic plan, disaster recovery plan, or backup and restore procedures;

b) Activity logs and access violation logs were not generated and consequently, not reviewed by UNOPS for the UNIX servers;

c) System administrators at UNOPS shared the same system administrator identification, which could lead to a lack of accountability; and

d) Weaknesses were identified in protection against virus infiltration and illegal software.

92. The Board recommends that UNOPS should compile a short- and long-term ICT strategic plan for the deployment of ICT, which should be updated, on a continuous basis; and (ii) develop formally documented and approved procedures or guidelines on aspects such as security, disaster recovery planning, backups, system development.

4. Cases of fraud and presumptive fraud

93. UNOPS informed the Board that there were no cases of fraud and presumptive fraud.

E. Acknowledgement

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

Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

François **Logerot**
First President of the Court of Accounts of France

25 June 2002

ANNEX I

Follow-up on action taken to the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999[a]

The Board has followed up on the actions taken by UNOPS to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A summarizes the status of implementation of all the previous recommendations while table B details specifically those recommendations not implemented, and those recommendations under implementation which require further comment.

In its previous report, the Board had made 13 recommendations. A total of 10 (77 per cent) of these recommendations were implemented, and 3 (23 per cent) were under implementation.

[a] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5J* (A/55/5/Add.10), para. 10.

Table A: Summary of status of implementation of recommendations for the biennium 1998-1999

Topic	Implemented	Under Implementation	Not Implemented	Total
COMPONENT A Financial issues				
1. Expendable and non-expendable equipment	Para. 10(a)			1
2. Unliquidated obligations	Para. 10(b)			1
3. Bank and cash management		Para. 33		1
[redacted]				
COMPONENT B Management issues				
1. Business planning	Par. 40 Para. 10(c) Par. 45			3
2. Project management	Para. 10(d) Para. 10(e) Para. 56 Para. 57	Para. 62 Para. 65		6
3. Relocation	Para. 85			1
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 3: Details on previous recommendations for the biennium 1998-1999 not implement or under implementation

Management			
		As at 30 April 2002	
Component/Area of concern	Recommendation 1998-1999	Specific management action/comments	Comments of the Board
(A)	(B)	(C)	(D)
Imprest accounts Paragraph 33	The Board recommends that UNOPS review, on a monthly basis the returns from imprest account holders and take immediate action to hasten any missing returns. The Board also recommends that UNOPS promptly reconcile all the returns from imprest account holders so as to ensure that it effectively monitors expenditure disbursed in the field.	The imprest accounts will be reconciled on a monthly basis	Under implementation The Board identified instances where incorrect balances had been reflected in the overall imprest reconciliation. While not material enough for this report, the differences were reported to UNOPS in a management letter. The Board will keep this under review.
Project management Paragraph 62	The Board recommends that UNOPS endeavor to strengthen the range of performance indicators included in project documents so as to allow progress against objectives and sub objectives to be quantified and reviewed as fully as possible.	Substantive review of progress of project is currently conducted though regular reporting, monitoring missions and the PPER and TPR process. UNOPS believes that the strengthening of this review process is the appropriate way to develop the monitoring of project progress	Under implementation. The Board noted improvements and will continue to keep this matter under review.
Project Management Paragraph 65	The Board recommends that UNOPS work with funding organizations to undertake periodic project performance evaluation reports and tripartite reviews for all projects.	Substantive review of progress of project is currently conducted though regular reporting, monitoring missions and the PPER and TPR process. UNOPS believes that the strengthening of this review process is the appropriate way to develop the monitoring of project progress	Under implementation. The Board noted improvements and will continue to keep this matter under review.

ANNEX II Actual income and expenditure compared to budget for 1997 to 2001

Actual income and expenditure compared to budget for 1997 to 2001
(stated in USD Millions)

	Budget/ forecast 1997	Actual 1997	Difference (actual from forecast/ budget)	Budget/ forecast 1998	Actual 1998	Difference (actual from forecast/ budget)	Budget/ forecast 1999	Actual 1999	Difference (actual from forecast/ budget)	Budget/ forecast 2000	Actual 2000	Difference (actual from forecast/ budget)	Budget/ forecast 2001	Actual 2001	Difference (actual from forecast/ budget)
Delivery - Projects	500.0	463.1	(36.9)	550.0	537.8	(12.2)	550.0	559.9	9.9	590.0	471.1	(118.9)	616.0	504.7	(111.3)
Income															
Income from Project Portfolio	35.3	35.0	(0.3)	38.2	43.5	5.3	47.9	48.0	0.1	42.7	36.8	(5.9)	47.4	37.9	(9.5)
Income from Services only	4.0	3.7	(0.3)	5.1	4.1	(1.0)	5.6	5.8	0.2	6.1	6.5	0.4	8.0	7.0	(1.0)
Other income	1.3	1.8	0.5	1.2	2.5	1.3	2.6	3.1	0.5	2.8	5.2	2.4	1.4	2.3	0.9
Total Income	40.6	40.5	(0.1)	44.5	50.1	5.6	51.1	51.9	0.8	51.6	48.5	(3.1)	56.8	47.2	(9.6)
Total Recurring Admin Expenditure	38.5	36.7	1.8	43.6	42.0	1.6	48.1	47.4	0.7	51.6	52.3	(0.7)	55.3	52.8	2.5
Net surplus/(deficit)	2.1	3.8	1.7	0.9	8.1	7.2	3.0	4.5	1.5	-	(3.8)	(3.8)	1.5	(5.6)	(7.1)

ANNEX III: Analysis of project income (in thousands of United States dollars)

Income:	Project delivery 2000-2001	Project income 2000-2001	Project income 1998-1999	Increase/(Decrease) from 1998-1999	%
UNDP	292 712	26 693	40 014	(13 321)	(33)
Implementing agency (UNDP)	55 043	4 926	6 807	(1 881)	(28)
Trust funds projects (UNDP)	193 130	14 773	15 792	(1 019)	(6)
MSAs (UNDP)	242 829	15 150	16 825	(1 675)	(10)
UNDCP	24 744	1 793	2 396	(603)	(25)
Other UN organizations	167 238	11 285	4 630	6,655	(144)
Sub-total: Project Income	975 746	**74 619**	**86 464**	**(11 845)**	**(14)**
IFAD		12 211	9 926	2,285	23
Advisory service		1 167	0	1 167	100
Interest income		1 914	3 019	(1 105)	(37)
Miscellaneous income		2 256	1 341	915	68
PAPP		275	200	75	38
Total	975 746	**92 443**	**100 950**	**(8 507)**	**(8)**

ANNEX IV: Analysis of administration expenditure

Object of expenditure	Actual 2000 admin expenditure	Actual 2001 admin expenditure	Original 2002 budget	Initial 2002 revised budget	End of May revised 2002 budget	Actual April 2002	% of 2nd revised budget
Staff resource costs							
Salaries	15,833	18,790	19,875	18,440	15,953	5388	33.8%
Common staff costs	8,069	9,058	8,083	8,522	8,373	2076	24.8%
Temporary assistance	2,751	1,839	1,381	1,355	1,105	580	52.5%
Activities of limited duration (ALD)	3,309	3,779	4,007	3,240	3,240	1004	31.0%
Overtime	193	94	102	41	41	34	82.9%
Consultants	2,245	2,672	2,149	2,020	1,701	1078	63.4%
Subtotal	16,587	34,232	35,577	31,618	30,413	10,160	33.4%
Rental, maintenance and non expendable equipment							
Rental and maintenance premises	4,501	4,747	4,702	4,659	4,650	1625	34.9%
Rental and maintenance of equipment	180	157	179	179	180	74	41.1%
Furniture and equipment	358	123	71	44	44	27	61.4%
Subtotal	5,137	5,027	4,952	4,882	4,874	1,726	35.4%
Information Technology							
Mainframe Hardware	-	41		1	1	-	0.0%
Maintenance of PC Hardware	-	23	323	233	233	90	38.6%
Computer systems equipment	194	605	958	373	273	80	29.3%
System development contracts	136	-		-	-		
Subtotal	330	669	1,281	607	507	170	33.5%
Other Admin Expenditure							
Training	563	195	141	26	26	43	165.4%
Staff travel	2,780	2,060	2,085	1,275	1,027	467	45.5%
Contracts	849	1,363	1,227	639	584	452	77.4%
Printing and publications	109	73	64	10	10	8	80.0%
Communications	1,132	1,139	1,418	1,145	956	592	61.9%
Miscellaneous services	437	714	554	505	505	129	25.5%
Office supplies	317	358	279	201	201	131	65.2%
Hospitality	19	22	18	4	4	2	50.0%
Subtotal	5,116	5,924	5,786	3,805	3,313	1,824	55.1%
UN and UNDP mandated costs							
- UNDP country office service costs	3,104	2,702	2,633	2,633	2,633	561	21.3%
- Services provided by UNDP/OSLPF	1,020	921	900	793	793		0.0%
- UNDP central support services	2,156	1,738	1,662	1,528	1,528		0.0%
- United Nations central services	1,180	1,664	1,206	1,206	1,206	1082	89.7%
Subtotal	7,560	6,925	6,401	6,160	6,160	1,643	26.7%
TOTAL RECURRENT ADMIN EXPENDI	36,699	52,777	53,997	47,072	45,267	15,523	34.3%
Non recurrent administration expenditure							
Information system project	3,006	-	-	-			
Subtotal	3,006	-	-	-	-		
GRAND TOTAL	39,405	52,777	53,997	47,072	45,267	15,523	34.3%

Total expenditure for the biennium 2000-2001 amounted to $108 million.

ANNEX V: Table prepared by UNOPS for the monitoring of the prior period financial parameters

1996	33.6	430.8	7.3%	31.6	3.2	3.1	38.2	4.6		13.0	17.6	6.8
1997	36.7	463.1	7.6%	35.0	3.7	1.6	40.5	3.6		17.6	21.4	18.6
1998	42.0	537.8	8.1%	43.5	4.1	2.5	50.1	8.1	1.5	21.4	29.5	20.0
1999	47.4	559.9	7.7%	43.0	5.8	3.1	51.9	4.5	16.7	29.5	17.4	23.2
2000	52.3	471.1	7.8%	36.8	6.5	5.2	48.5	-3.8	3.0	17.4	10.6	25.0
2001	52.8	504.7	7.5%	37.9	7.0	2.3	47.2	-5.6		10.6	5.0	23.1
Total	264.8	2967.4	7.7%	227.8	30.3	18.3	276.4	11.6	21.2	109.5	101.5	116.7
Average	44.1	494.6	7.7%	38.0	5.1	3.1	46.1	1.9	3.5	18.3	16.9	19.5

1995 - 1998: Services income prior to changing fees and travel income.

1995: UNOPS payments to UNDP COs were treated as a reduction of portfolio income not as an admin expenditure.

ANNEX VI: Analysis of expenditure sub totals as a % of total

Object of expenditure	Actual 2000 admin expenditure	Actual 2001 admin expenditure	Original 2002 budget	Initial 2002 revised budget	End of May revised 2002 budget	Actual April 2002
Staff related costs	68.5%	69.1%	70.0%	69.8%	68.5%	65.4%
Rental, maintenance and non expendable equip	9.8%	9.5%	8.2%	10.4%	10.8%	11.1%
Information Technology	0.6%	1.3%	2.4%	1.3%	1.1%	1.0%
Other Admin Expenditure	6.6%	7.0%	8.6%	5.3%	6.0%	11.8%
UNDP related costs	14.5%	13.1%	11.9%	13.1%	13.6%	10.6%

CHAPTER II

Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 and 2 and the supporting notes of the United Nations Office for Project Services for the biennium ended 31 December 2001. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2001 and the results of its operations and cash flows for the period then ended in accordance with the stated accounting policies of the Office set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our opinion above, we draw attention to the financial position of the Office as disclosed in note 15 to the financial statement. Given the Office's financial position as at 31 December 2001 and the possible failure to meet its 2002 targets, UNOPS may not be able to fund in full any deficit from the operational reserve. This situation may result in the Office having to curtail the scale of its operations.

The operational reserve is not at the level required by the Executive Board of the Office as at 31 December 2001. Except for the level of the operational reserve, in our opinion, the transactions of the Office, which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

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

Shauket A. Fakie
Auditor-General of the Republic of South Africa

Guillermo N. Carague
Chairman, Philippine Commission on Audit

François Logerot
First President of the Court of Accounts of France

25 June 2002