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**United Nations Office for Project Services**

**United Nations Office for Project Services budget estimates  
for the biennium 2014-2015 and Review of the UNOPS  
Operational Reserve**

**Report of the Advisory Committee on Administrative and Budgetary  
Questions**

1. The Advisory Committee on Administrative and Budgetary Questions has considered the budget estimates for the biennium 2014-2015 (DP/OPS/2013/6) as well as the conference room paper (DP/OPS/2013/CRP.1), proposing a revised level of minimum requirement for the operating reserve of the United Nations Office for Project Services (UNOPS). During its consideration of the budget estimates and the conference room paper, the Advisory Committee met with the Executive Director of UNOPS, who provided additional information and clarification.

**Budget estimates for 2014-2015**

2. The budget estimates for biennium 2014-2015 amount to \$139.2 million, and consist of \$131.2 million in management resources and \$8 million for potential provisions. In comparison, the budget estimates for biennium 2012-2013 were in the amount of \$148.7 million and consisted of \$139.7 million in management resources and \$8 million for potential provisions (DP/OPS/2013/6, para. 103). The potential provisions are based on an assessment of historic liabilities and write-offs made over the last decade, and are intended to provide adequate cover for potential liabilities and risks (ibid., para. 114).

3. The presentation of UNOPS budget estimates for 2014-2015 is aligned with the harmonized approach adopted by UNDP, UNFPA and UNICEF based on decisions 2010/32, 2011/10, 2012/27 and 2013/9 of the Executive Board.

4. Notwithstanding that UNOPS follows a harmonized approach with UNICEF, UNDP and UNFPA in budget presentation, it has a two-year budget cycle while the others have a four-year cycle. Upon enquiry, the Committee was informed that due to its self-financing business model, UNOPS considers two years as the most relevant time frame for planning its revenue and costs. UNOPS states that usually it has sufficient information for forecasting its revenue for the coming two years; however, it considers it less viable to predict its revenues for a period beyond two years. UNOPS therefore considers it prudent to budget only for two years. The



**Advisory Committee notes the difference in the budgetary cycle of UNOPS compared to UNICEF, UNDP and UNFPA, with which its budget presentation is otherwise aligned.**

5. Table 1 of the budget estimates contains a summary of the resources allocated for 2014-2015 by the seven functional clusters of UNOPS, along with the performance indicators and associated baselines and targets. UNOPS indicates that its management results and budget framework for the biennium 2014-2015 is directly aligned with its global structure as revised and established by the Executive Director in early 2013 (Organizational Directive No. 15 (Addendum 2)) shown in figure 1 of the budget estimates, and is intended to enable more coordinated decision-making and integrate key functional roles within management practices (DP/OPS/2013/6, para. 69). Detailed information on the management results and budget framework is provided in paragraphs 71 to 102 and Annex 1 of the budget estimates.

#### *Management resources*

6. UNOPS indicates a decrease in management resources from \$139.7 million in biennium 2012-2013 to \$131.2 million in biennium 2014-2015 (*ibid.*, para. 103). Upon enquiry, the Advisory Committee was informed that following the mid-term review of UNOPS strategic plan 2012-2013 (DP/OPS/2012/7 and annexes), UNOPS changed its global structure in line with the outcome of the review. This led to the release of resources in the amount of \$6 million annually in management budget. Furthermore, in accordance with the definitions contained in its financial regulations and rules, UNOPS made systematic efforts to charge relevant direct costs to its project partners, using its activity-based costing to determine the effort and cost associated with specific processes, which ensured that costs were distributed more accurately among projects. UNOPS achieved further reductions in the management resources by hiring staff on individual contractor agreements (see paras. 11-12 below). **The Advisory Committee notes the efforts made by UNOPS towards reducing its requirements for management resources.**

#### *Revenue*

7. For the biennium 2014-2015, UNOPS has set its gross revenue target at \$139.2 million, which is composed of \$111.2 million in estimated revenue from project implementation services, \$20 million from advisory and transactional services and \$8 million in miscellaneous revenue (DP/OPS/2013/6, para. 30). Figure 2 of the budget estimates provides a comparative view of the revenue projections for biennium 2014-2015 and the actual revenue realizations in the past, which shows a drop in gross revenue from \$168 million in the biennium 2010-2011 to \$147 million (estimated) in the biennium 2012-2013. Upon enquiry, the Committee was informed that the revenue realized by UNOPS has generally been at the same magnitude as the figures projected in the context of the budget estimates. The exceptionally high level of gross revenue in 2010-2011 was due to unusually large volume of procurement in that biennium. UNOPS also provided the annual trend for net and gross revenues for a period of past ten years, as shown in table 1 below:

**Table 1: Annual revenue figures for UNOPS from biennium 2004-2005 to 2014-2015**

Biennium	Budget Estimates forecast In million US dollars	Gross Revenue (actual) In million US dollars	Net Revenue (actual) In million US dollars
2004-2005	88.0	118.7	102.2
2006-2007	108.7	125.9	109.1
2008-2009	133.3	158.6	135.2
2010-2011	140.1	168.0	150.2
2012-2013	148.7	154.1	132.6
2014-2015	139.2		

*Benchmarks and standards*

8. During the consideration of the budget estimates for 2014-2015, the Advisory Committee was informed that UNOPS has enhanced the quality and efficiency of its services through benchmarking against world-class private and public organizations. It has achieved world-class certifications in ISO 9001 certification for quality management, ISO-14001 certification for environmental management, as well as recognition from entities that maintain global standards in project management and related services, such as Project Management Institute, Chartered Institute of Purchasing and Supply and the International Aid Transparency Initiative. **The Advisory Committee welcomes the efforts made by UNOPS in pursuing excellence and benchmarking itself against established global standards. The Committee encourages UNOPS to share, where relevant, its experience and best practices with other United Nations entities.**

*Procurement*

9. The Advisory Committee notes from Annex 1 to the budget estimates that procurement actions constitute one of the global functions of UNOPS. Upon enquiry regarding the proportion of UNOPS project portfolio being dedicated to the United Nations entities, the Committee was informed that during the period between 2010 and 2012, 47 per cent of the services provided were to such entities.

10. Upon enquiry regarding the rules governing procurement actions of UNOPS, the Committee was informed that UNOPS has a comprehensive regulatory framework for procurement as contained in its Financial Regulations and Rules (Organizational Directive No. 3). Specifically, Regulation 18.02 in UNOPS Financial Regulations and Rules outlines its general procurement principles as: (a) best value for money; (b) fairness, integrity and transparency; (c) effective competition; and (d) the best interests of UNOPS and its clients. UNOPS further informed that the regulatory framework is consistent with the principles of procurement followed by the United Nations entities and that it has issued extensive policy guidance for operational use. **The Advisory Committee expects that UNOPS will continue to align its procurement activities and policies with that of the United Nations entities. The Committee further considers that when working in partnership with the United Nations Secretariat, UNOPS should follow the policies underlying the procurement activities of the Secretariat.**

*Service centres*

11. It is stated in the budget estimates that where possible, UNOPS intends to establish global service centres for achieving economies of scale. Upon enquiry, the Advisory Committee was informed that prior to establishing a global service centre for transactional services, UNOPS makes an assessment of the long-term cost-effectiveness of the centre by taking into account relevant factors, such as the

services to be provided, competencies available in various markets, availability of IT systems, potential for efficiency gains through specialization and local labour costs. The Committee was further informed that UNOPS has one service centre in Bangkok which processes human resources transactions. **The Advisory Committee encourages UNOPS to draw on lessons learned of the service centres of other United Nations entities.**

*Posts and personnel*

12. The total number of posts planned for biennium 2014-2015 is 302 compared to 366 planned in biennium 2012-2013 (DP/OPS/2013/6, table 2). The realignment of UNOPS global structure resulted in a reduction of staff in the first half of 2013, as a consequence of which the planned number of posts for 2014-2015 is the same as the actual status of posts as of mid-2013 (ibid., para. 107).

13. The budget estimates indicate that UNOPS plans to increase the use of individual contractor agreements for personnel funded by the management budget. Consequently, the proposed expenditure for consultants has increased significantly, by \$5.9 million, or 17.4 per cent (ibid., para. 110). The Advisory Committee was informed, upon enquiry, that UNOPS increasingly uses the individual contractor agreements, mainly due to the flexibility required by its self-financing business model. The individual contractor agreements are used to engage either local or international individual contractors to provide either support services or specialized skills, not normally possessed by regular staff, or for which there is no continuing need in UNOPS.

14. The Advisory Committee was further informed that the purpose of the individual contractor agreement is to ensure compliance with the requirement of the United Nations system of competitive selection of individual contractors by introducing one unified contract as compared to six categories used earlier. UNOPS indicated that the individual contractor agreements simplify and rationalize relevant policies and processes, increase flexibility, and reduce time spent on administration of contracts. UNOPS further stated that when appropriate, it uses other types of contracts to employ staff, including temporary appointments, which is similar to the practices of other United Nations entities.

*IPSAS*

15. The Advisory Committee recalls the transition made by UNOPS from the United Nations System Accounting Standards (UNSAS) to the International Public Sector Accounting Standards (IPSAS) in 2012 (DP/OPS/2011/6, para. 10). Upon enquiry, UNOPS provided information on the challenges faced and benefits realized from IPSAS.

16. The main challenges identified were: UNOPS attempted to migrate to IPSAS on a very low budget; many personnel were not sufficiently trained in the technical intricacies of IPSAS; the business model of UNOPS, being unique in the United Nations system, led to special challenges, for instance, in relation to construction contracts, revenue recognition in general, treatment of principal versus agent transactions; the new team of Board of Auditors that took over in the second half of 2012 required adjustments to the earlier-approved accounting policies which necessitated a big shift in the planning assumptions; the Atlas ERP system was not adequately fine-tuned for IPSAS; and financial statements in IPSAS are far more detailed compared to UNSAS and many more disclosures are required.

17. Notwithstanding the challenges faced, UNOPS informed the Committee that the benefits of implementing IPSAS are clearly recognizable. Adoption of IPSAS has supported the reporting of results on a consistent and comparable basis with other United Nations system organizations and other organizations. The requirement of

annual auditing of financial statements, and reporting to the General Assembly the results of such audits, has enhanced the accountability of UNOPS and permitted a more timely assessment of financial reporting. **The Advisory Committee encourages UNOPS to build on the positive outcomes of the implementation of IPSAS.**

**18. The Advisory Committee recommends approval of the budget estimates for biennium 2014-2015 of \$139.2 million consisting of \$131.2 million in management resources and \$8 million for potential provisions.**

#### **Operational reserve**

19. In its budget estimates for biennium 2012-2013 (DP/OPS/2011/5) UNOPS informed the Executive Board that it planned to perform a review of the operational reserve and the mandated minimum requirement, among other items, due to the transition to International Public Sector Accounting Standards. The provisions governing the maintenance and use of the operational reserve is contained in the UNOPS financial regulations and rules; a brief background of the basis of calculating the operational reserve and the related practices followed by UNOPS are provided in paragraphs 2 to 4 of the conference room paper (DP/OPS/2013/CRP.1).

20. Since UNOPS adopted IPSAS as of 1 January 2012, the aptness of the current formula for its operational reserve has required an assessment. UNOPS therefore conducted a review of its operational reserve by engaging a consultancy firm, with the objective to assess its current calculation method and identify alternative methods for the calculation of its reserve. A summary of the review conducted by the consultancy firm is contained in paragraphs 6 to 12 of the conference room paper. Out of the four possible alternatives suggested by the review, two that were considered realistic as well as IPSAS-compliant, were to maintain a reserve representing management expenses for either (i) 6 months or (ii) 3 months.

21. Deriving its conclusions from the two alternatives, UNOPS proposes that the appropriate minimum requirement for the operational reserve should be the equivalent of four months of the average of the previous three years' expense under the management budget (DP/OPS/2013/CRP.1, para. 14). In proposing this level for its operational reserve, UNOPS took into consideration two of the findings of the review conducted by the consultancy firm:

- i. Since almost all projects are pre-funded, there are practically no risks immediately associated with the execution of projects that could influence the operational reserve level;
- ii. As a consequence of the transition to IPSAS, accruals related to end-of-service liabilities for personnel/retirees have to be built, whereas under UNSAS, followed earlier, these were deemed to be covered by the operational reserve. So if the operational reserve target were maintained at the earlier level, those liabilities would be double-counted: once by the accruals made and once by the operational reserve.

22. The Advisory Committee notes from table 3 of the budget estimates that the opening balance of the operational reserve for biennium 2012-2013 is shown as \$33.4 million and for biennium 2014-2015 as \$62.9 million. Upon enquiry, UNOPS provided the basis of arriving at the above figures in the two biennia. UNOPS states that the operational reserve as of 31 December 2011 stood at \$63.3 million and with the application of International Public Sector Accounting Standards, after the allowance made for all known liabilities of \$29.9 million, the revised operational reserve as of 1 January 2012 was recalculated at \$33.4 million. UNOPS realized a net surplus in 2012 amounting to \$8.2 million, which increased its accumulated surplus to \$15.8 million. A credit of \$21.4 million arising from an independent

actuarial valuation of employee benefits at year-end was recognized and added to the accumulated surplus, resulting in an operational reserve balance of \$62.9 million as of 31 December 2012 as per the financial statement audited by the United Nations Board of Auditors. UNOPS assumes zero net revenue in its updated budgetary estimates for 2013, which would result in an estimated operational reserve balance of \$62.9 million as of 31 December 2013.

**23. The Advisory Committee has no objection to the proposed minimum requirement for the operational reserve of UNOPS being the equivalent of four months of the average of the previous three years' expense under its management budget.**