

12 June 2006

Original: English

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**Annual session 2006**

12 to 23 June 2006, Geneva

Item 11 of the provisional agenda

**United Nations Office for Project Services**

**UNOPS plan of action:  
Financial statements for the biennium 2004-2005**

*Elements of a decision*

The Executive Board may wish to take note of and endorse the plan of action and request UNOPS to inform the Board at its second regular session of progress achieved in implementing the action plan to ensure the availability of certified statements by 30 November 2006.

## I. Background

1. The United Nations Board of Auditors (BOA), in its preliminary review of the UNOPS financial statements for the biennium ended 31 December 2005, noted that several areas remained incomplete for audit purposes. BOA indicated that UNOPS would receive a qualified opinion if no remedial action were taken.
2. The UNOPS financial rules and regulations stipulate that the biennial financial statements should be submitted for audit on 15 April of the year following the Biennium under review. Remedial action will require additional time to successfully complete the further adjustments now required.
3. Following discussions with BOA and the secretariat of the Advisory Committee on Administrative and Budgetary Questions, UNOPS herewith submits to the Executive Board for its approval a proposed course of action to ensure the successful resubmission of its financial statements by 30 November 2006.

## II. Main task areas

4. The observations made by BOA are similar to its observations for the bienniums 2002-2003 and 2000-2001 as well as for prior years. The UNOPS comprehensive audit observation action plan for the period 2004 -2005 did not completely resolve fundamental finance system issues that the organization experiences.
5. Specific tasks called for by BOA include:
  - (a) *Deferred expenditure* (global adjustment made to reconcile the general ledger to the detailed transaction ledgers, in particular those related to payroll costs and disbursements made in the field through imprest accounts). BOA recommended that UNOPS identify project and administrative expenditure in the deferred expenditure account that pertain to the 2004 -2005 biennium and adjust the project delivery, revenue and administrative expenditure as reflected in the financial statements. This will require UNOPS to identify transactions reported after the deadline for closing the accounts that have been booked as deferred expenditure in 2005, and properly classify and disclose them. Furthermore, in the event that project expenditure exceeds project budgets and no authorization had been obtained from UNOPS clients for the overrun, the expenditure would have to be considered as a 'loss incurred' in the administrative expenditure section of the income statement.
  - (b) *Suspense accounts* (transactions for which posting not known due to lack of data). BOA recommended that UNOPS analyse all suspense accounts to determine the underlying reasons for transactions not being processed to the correct expenditure accounts, and that all suspense accounts be cleared on a regular basis to ensure that the financial statement amounts are presented fairly.
  - (c) *Accounts payable* (lack of available documentation to support balances reported in the accounts). Since monthly creditor reconciliations are not performed, and unmatched entries negatively affect the accuracy and validity of UNOPS account balances, BOA recommended that UNOPS conduct a complete review of its 'accounts payable' balances for the purpose of identifying matching transactions and performing the required amendments to the accounts.

(d) *Aging of accounts receivable* (absence of review of recoverability of balances reported in the accounts). BOA recommended that UNOPS conduct a critical analysis of its 'accounts receivable' balances to determine the recoverability of these amounts, especially considering that these balances originated in prior bienniums and may not be recoverable. Furthermore, owing to the fact that debtors' reconciliations are not being performed, UNOPS should scrutinize other balance sheet accounts as there may be entries that have not been matched – that is, payment may have been received on these accounts but not posted to the correct general ledger account.

(e) *Inter-fund balances* (absence of reconciliation of amount owed or due between the relevant organizations responsible, in particular with UNDP). The audit team recommended that UNOPS, in consultation with UNDP and UNFPA, reconcile the inter-fund balances. BOA stipulated a clear, complete audit trail for the reconciling. BOA also recommended that, prior to reconciliation of the inter-fund accounts, UNOPS conduct a clean-up exercise on its own balance sheet in respect of unmatched transactions and unusual account balances, including clearing the suspense and deferred-expenditure accounts.

### **III. Course of action**

6. UNOPS will put in place a dedicated project team. An accounting firm, assisted by key staff of the Division of Finance, will lead the team. Deliverables of the project team are to: (a) prepare the adjusted financial statements to be re-represented for audit; (b) identify the underlying procedural and systems weaknesses that have led to persistent deficiencies in UNOPS accounting practices; and (c) establish a system of controls to prevent recurrence of those problems.

7. It will be necessary to retain the services of an external firm to lead the clean-up for three principal reasons: (a) to provide professional and technical guidance as well as state-of-the-art solutions to enable this task to be completed on time, and in particular as regards reconciliation of the UNDP-UNOPS inter-fund balances; (b) UNOPS will require independent advice and personnel to make the necessary organizational and procedural changes to avoid recurrence of the same weaknesses in financial control; and (c) a team of external consultants working alongside with a dedicated team in the Division of Finance will permit UNOPS to ensure the continuity of current operations and avoid any build-up of processing backlogs.

8. A request for proposal to experienced firms has been issued. It is expected that the firm would be contracted by late June and that the team would commence work in early July and complete its work by 30 October 2006.

9. The deliverables pertain to: (a) identification of the overall work methodology and preparation of a detailed work plan for the clean-up, including recommendations for the mix of internal and external resources to ensure effective implementation of the work plan; (b) preparation of the 2004-2005 financial statements, together with schedules to support the balance sheet captions reported; and (c) a final report summarizing all findings and including recommendations for changes in policies, procedures, work flows, staffing and systems of the UNOPS finance function.

10. Given the ambitious UNOPS transition plan for 2006-2007, it will be critical to balance UNOPS staff resources between business continuity requirements and the clean-up exercise, which is required to be completed by November 2006. The assistance of an external firm will augment scarce UNOPS staff resources and enable UNOPS to expeditiously build up its finance operations in Copenhagen.

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