

## Technical note on UNOPS provisions as per Executive Board decision 2011/21

In its decision 2011/21 the Executive Board “*Welcomes* the improved financial position of UNOPS and the diversification of partners contributing to its project portfolio, and *requests* that a comprehensive overview of the operating reserves and provisions (including the different types of provisions and the amounts presented in the income statement and balance sheet in the last three years) be included in the report prepared under the item on budget estimates for the biennium 2012–2013, which is to be presented to the second regular session 2011 of the Executive Board”.

UNOPS budget estimates 2012–2013 already included relevant information about the operational reserve including a technical note as annex 2. This addendum, prepared after the deadline of submission of documents for the second regular session, provides the requested information regarding provisions.

Provisions are liabilities that are uncertain either due to timing or amount. Provisions are recognized as liabilities in the statement of assets and liabilities because they are present obligations and it is probable that an outflow of resources will be required to settle the obligations.

Contingent liabilities, on the other hand, are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are not recognized in the financial statements but exposure to them is disclosed in the notes to the financial statements.

The level of financial provisions and contingent liabilities are shared with the Board as part of the biennial financial statements. The below information on provisions is from UNOPS financial statements for the two last biennia, 2006 – 2007 and 2008 – 2009, reproduced from the respective statement.

### Financial Statement 2008-2009

#### Note 15: provision and write-off of receivables

(Thousands of United States Dollars)

1. The changes in provisions and write-offs during 2008-2009 were as follows:

	<u>2008-2009</u>	<u>2006-2007</u>
Opening balance on 1 January	25,984	9,356
Used during the biennium (net)	(11,740)	390
Increase during the biennium	22,076	16,238
Closing balance on 31 December	<u>36,320</u>	<u>25,984</u>

2. During 2008-2009, an amount of US\$11.74 million was written off against the provisions that had been made in the prior biennia. Details on write-offs approved during 2008-2009 are provided in the table below:

<b>Amount of provision used during the biennium</b>	<b>2008-2009</b>	<b>Amount recommended for write off by HQPCP</b>
UNDP-Interfund balances relating to the period 1998–2005	5,539	5,539
UN Agencies-Interfund balances relating to the period 1998–2005	3,303	3,654
Imprest accounts – Sudan and Sri Lanka	597	597
Distressed Bank - Ban Café international Bank, Guatemala	191	
Irrecoverable Imprest ARL (project id 44648)	40	
Imprest accounts recovered (written off in prior biennia)	(864)	
Afghanistan secondary roads project (project id 33267)	1,404	
Afghanistan emergency customs modernization (project id 38222)	718	
Afghanistan election project (Project id 40105)	78	78
Afghanistan Kabul school construction (project id 57362)	50	
Sierra Leone health service (project id 31083)	84	
ICT for development-preparatory assistance (project id 30356)	7	
2004-2005 rental receivables at the Chrysler building in New York	575	
Staff receivables	18	
<b>Total</b>	<b>11,740</b>	<b>9,868</b>

3. Provisions made at the end of 2008-2009 were as follows:

<b>Description</b>	<b>2009 Closing Balance</b>
Project-related provisions for periods :	
<b>Pre-2004</b> Significant provisions within the US\$3.4 million include:	3,423
<ul style="list-style-type: none"> <li>• US\$0.8 million: Cash deficits on UNOSAT project 30526</li> <li>• US\$0.8 million: Overspent CFC Kenya project 31014</li> <li>• US\$0.4 million: Relates to unreported prior period expenditure project 30926</li> <li>• US\$0.4 million: UNDP GEF in Kenya project 30944</li> </ul>	

<b>Description</b>	<b>2009 Closing Balance</b>
<p><b>2004-2007</b></p> <p>Significant provisions within the US\$9.3 million include:</p> <ul style="list-style-type: none"> <li>• US\$ 5.0 million: Relates to project 33267 Afghanistan Secondary Roads. This provision was made as a result of claims by contractors (US\$3 million) and the resultant legal fees to settle the matter (US\$1.3 million). Additionally, there was also over expenditure of US\$0.7 million.</li> <li>• US\$0.7 million: Fraudulent vendor in Sudan under project 57994</li> <li>• US\$0.7 million: Aggregate amount of over-expenditure in relation to 74 UNODC projects</li> <li>• US\$0.6 million: WHO basic health project 48286</li> <li>• US\$0.5 million: UNICEF office and guest house construction in Sudan project 46010</li> <li>• US\$0.5 million: UNESCO-funded rehabilitation of Women’s dormitory project 36822</li> </ul>	9,344
<p><b>2008-2009</b></p> <p>Significant provisions within the US\$ 0.1million include :</p> <ul style="list-style-type: none"> <li>• US\$ 0.1 million: possible rejects of expenditure under EOM Afghanistan project 71166</li> </ul>	131
<p><b>UNDP interfund-related (mostly prior to 2007)</b></p> <p>The unreconciled difference in the interfund account with UNDP as at the end of 2006-2007 was US\$40 million. This amount relates to expenditure incurred by UNOPS against projects implemented on behalf of UNDP but rejected when reported. After an extensive analysis and coordination between the finance teams in both organizations, the difference was reduced to US\$18.26 million and consists of unresolved items dating back to 2005-2007 and prior periods. Details of the outstanding balance as at 31 December 2009 are as shown below.</p> <ul style="list-style-type: none"> <li>• US\$2.7 million: relates to Afghanistan election projects 30003, 30386 &amp; 40105</li> <li>• US\$0.9 million: relates to projects from 2004 and before</li> <li>• US\$10.9 million: relates to various project expenditures incurred during 2005</li> <li>• US\$2.6 million: expenses relating to Afghanistan election project 40105</li> <li>• US\$0.7 million: relates to unreconciled refunds made on various projects in 2007</li> <li>• US\$0.25 million: potential rejects regarding project expenditure reported in late 2009</li> </ul>	18,257
<p><b>Distressed bank in Sudan and cash losses</b></p> <p>In 2009 UNOPS became aware of financial difficulties at Nile Commercial Bank in Sudan and during the course of the year a very small balance was recovered from the bank. Hence, a full provision is made against the remaining balance in the bank account.</p>	908
<p><b>Doubtful receivables relating to other UN agencies</b></p> <p>In 2006, a massive cleanup exercise was undertaken to clear the remaining outstanding balances stemming from the (pre-ERP) Inter-Office-Voucher modality of settling inter-agency transactions. Following the outcome of this exercise, balances with agencies were followed up and then settled or written off. Documentation is available against a balance of US\$1.31 million and there is ongoing discussion with the relevant agencies. But considering the age of the remaining balances and the cost of such collection process, UNOPS is taking a conservative approach and has made a provision for the full outstanding amount.</p>	1,310
<p><b>Claims from other agencies</b></p> <p>These relate to recent claims from FAO and UNOG. The one from FAO is for US\$0.4 million for the services rendered. The claim from UNOG for US\$0.8 million relates to payroll expenses in the period 2001- 2004. The validity of both claims is still under investigation by UNOPS.</p>	1,229

<b>Description</b>	<b>2009 Closing Balance</b>
<b>Doubtful staff receivables</b>	45
Salary advances to separated staff going as far back as 2004. These are likely to be declared unrecoverable.	
<b>Doubtful ARLs</b>	382
These relate to ARLs paid during the period 2005- 2007 in the Sudan office. Due to the age of the outstanding amount and the lack of supporting documentation, a provision has been created for the entire outstanding amount.	
<b>Staff claim</b>	40
UNDT ruling is in favour of a staff member who had made a claim against UNOPS. Though UNOPS is in the process of filing an appeal against the ruling, a full provision is made against the estimated amount of compensation to be paid to the staff member.	
<b>General provision relating to prior year ULOs</b>	1,250
The unliquidated obligations (ULO) at the end of 2008-2009 amounted to US\$218.8 million. During the first quarter of 2010, US\$18.8 million or 8.6 per cent of the ULO's was reversed. UNOPS created a provision for ULO reversals of US\$1.25 million based on a conservative estimate of 10 per cent of US\$218.8 million and by applying the average management fee earned during 2009.	
<b>Total provisions as at 31 December 2009</b>	<b>36,320</b>

4. UNOPS for the first time made a general provision of US\$1.25 million relating to prior year ULOs.

## Financial Statement 2006-2007

### Note 13: provision and write-off of receivables

38. The changes in the provision and write-offs during the biennia 2006–2007 and 2004–2005 are as follows:

	<b>2006–2007</b> <i>(US\$ thousands)</i>	<b>2004–2005</b> <i>(US\$ thousands)</i>
Opening balance on 1 January 2007	<b>9,356</b>	557
Used during the period (net)	<b>390</b>	-557
Increase during the period	<b>16,238</b>	9,356
Closing balance on 31 December 2007	<b>25,984</b>	9,356

39. The total write-offs of receivables and payables amounted to credit of US\$ 390,000. Of the amount written off, US\$1,500,000 was provided for in the previous biennium. During the current biennium the total increase in the provision amounted to US\$16,628,000, of which US\$16,238,000 was provided for in the current biennium.

Description	Amount (thousands of United States dollars)
<p><b>Interfund balances relating to the period 1998–2005</b></p> <p>In early 2006 the unreconciled balance with UNDP stood at US\$69.6 million. In July 2006, when a massive clean-up exercise commenced, the unreconciled difference was approximately US\$59.4 million, of which US\$33.4 million was subsequently accepted to be adjusted by UNDP and US\$15.7 million by UNOPS. The remaining items amounting to US\$10.3 million date back to the 1998-2005 period.</p> <p>UNOPS has exhausted a sizable portion of its resources in order to investigate and resolve this matter expeditiously. Moreover, UNOPS feels that it will not be cost beneficial to commit further resources to investigating this matter. Accordingly, pending resolution of this difference between UNOPS and UNDP, UNOPS management decided to take very conservative approach and fully accrue for the liability. Moreover, since some of the difference dates back to 1998 and 1999, UNOPS management feels that due to the seven year document retention policy, applicable for both UNDP and UNOPS, it will not be possible to retrieve documents relating to periods prior to 2001.</p> <p>On this basis, UNOPS management will continue its discussions with UNDP counterparts, aimed at settling these old outstanding balances. UNOPS is making a provision of US\$5.3 million in addition to the provision of US\$5.0 million made in its 2004–2005 financial statements. Consequently, the entire unreconciled balance of US\$10.3 million is now provided for.</p>	US\$10,300
<p><b>Afghanistan elections projects</b></p> <p>Following the 2005 elections in Afghanistan, UNOPS incurred expenditure in excess of available funding. Consultations have taken place with UNDP (trust fund manager) and the donor consortium to obtain additional funds, which will be used to cover the shortfall.</p> <p>Having reduced the outstanding balance following negotiations with UNDP, new received and pledged funds from donors and sale of remaining assets, the best estimate is that the current shortfall amounts to US\$2,529 million. While additional pledges from donors are possible, UNOPS management decided to err on the side of caution and made an additional provision of US\$0.19 million, on top of US\$2.344 million provided for in the 2004–2005 financial statements.</p>	US\$2,529
<p><b>Support to the Judicial Reform in Guatemala project</b></p> <p>This UNDP project was financed by the World Bank with UNOPS implementation of infrastructure (works and goods). The Government of Guatemala queried the cost of three elevators for disabled people, whose technical specifications had been cleared by UNOPS. The lifts were delivered to the premises and the provider is claiming payments. UNOPS undertook the responsibility to settle this issue and take appropriate measures to meet the requirements of the Government by, if necessary, making adaptations to the lifts or any other appropriate measures. Estimated costs are US\$60,000.</p>	US\$60
<p><b>Mozambique Police Project (2000–2004) (MOZ/00/007)</b></p> <p>This UNDP/UNOPS project showed an over-expenditure of some US\$419,000. The matter is currently under review and until completed UNOPS made a provision for the full amount of the over-expenditure.</p>	US\$419

<p><b>Guatemala Imprest Account</b></p> <p>UNOPS received a communication from Price Waterhouse Coopers to the effect that the outstanding amount will be settled by the Central Bank of Guatemala. By the date of drafting the balance sheet, UNOPS had not received the funds.</p>	US\$93
<p><b>Sudan</b></p> <p>At the request of UNOPS management, 13 projects were audited that showed over-expenditures in 2004/2005. On the basis of those investigations, which were confirmed by independent review, the latest amount to be provided for is US\$1,302,266.24. The bulk of this over-expenditure belongs to six United Nations Children's Fund (UNICEF) projects for a total of US\$946,050. Negotiations are ongoing with UNICEF with a view to recovering the balance.</p>	US\$1,302
<p><b>Afghanistan Women's Dormitory Project</b></p> <p>The over-expenditure for the women's dormitory stands at US\$836,188.41. The majority of the expenditure relates to old staff payments (erroneously charged at the time to this project) for a total amount of US\$814,124.41.</p>	US\$836
<p><b>Congo Brazzaville roads project</b></p> <p>UNOPS has been in dispute with UNDP for five years regarding a European Commission-funded project. UNOPS paid a contractor in advance to build 200 km of road but the contractor failed to build the last 3.2 km. UNDP missed the deadline for claiming funds under the funding agreement and by the time it did so, the default had come to light and the European Commission invoked a contractual provision that would allow it to avoid making the last payment. The amount withheld by the European Commission is at least five times greater than the estimated cost of building the remaining 3.2 km. UNOPS offered to finish the road using its administrative budget at a cost of about US\$94,000 but UNDP would like UNOPS to settle the entire amount of some US\$533,000 that the European Commission withheld from them.</p>	US\$533
<p><b>Afghanistan Emergency Customs Modernization Project (38222)</b></p> <p>A sum of US\$723,496.25 may have to be returned to the donor (the World Bank), which does not agree to accept some expenditures. A significant portion of this amount pertains to Administrative and Operational Services (AOS) charged on the funds that had been transferred to the United Nations Industrial Development Organization (UNIDO) and the United Nations Conference on Trade and Development, which were not subject to Administrative and Operational Services charge, as per the management service agreement with the clients. The remainder consists of expenditures that were incorrectly charged to the project, including the purchase of galvanized steel (US\$172,067) used for warehouse construction that was charged to this project due to oversight.</p>	US\$723
<p><b>Afghanistan Secondary Roads Project</b></p> <p>These charges represent the expenditures that were incorrectly charged to the United States Agency for International Development (USAID) project in prior periods due to a series of oversights. The main errors relate to charging the cost of purchase of galvanized steel (US\$308,075) that was used in the construction of warehouses at the United Nations compound, usage of an aircraft (US\$242,975) by personnel belonging to the project and salaries of security guards erroneously charged to the project (US\$438,777.38).</p>	US\$2,002

<p><b>Sri Lanka – Employment Generating Community Development Project</b></p> <p>The project showed an over-expenditure of US\$69,582 due to unplanned increase in the scope of the work required to ensure the sustainability of the road being rehabilitated under the project. When approached, the client indicated that they did not have sufficient funding to cover these additional expenditures.</p>	US\$70
<b>APO – potential over-expenditure relating to project number 51878</b>	US\$2.0
<b>EUO – potential over-expenditure relating to miscellaneous projects</b>	US\$596
<p><b>AFO – Sierra Leone health service project number 31083 (2001–2005)</b></p> <p>UNOPS was engaged by the African Development Bank to provide a variety of activities under this project. Based on the latest financial statement, an over-expenditure of US\$152,000 had been incurred. UNOPS is in contact with the African Development Bank regarding this matter.</p>	US\$152
<b>AFO – miscellaneous project over expenditure</b>	US\$42
<p><b>Imprest accounts</b></p> <p>This write-off provision represents multi-year total discrepancy between the UNOPS General Ledger account 11020 (Imprest) and local project Imprest bank accounts for the period up to 31 December 2006. While the discrepancy is being investigated further, UNOPS has made a provision for the full amount.</p>	US\$835
<p><b>2004/2005 rental receivables at the Chrysler building in New York</b></p> <p>The balance relates to the uncollected rental income arising from the sublease of office space at the Chrysler Building in 2004/2005. Steps have been already taken to collect these past due amounts from the tenants who are mostly other UN agencies. However; UNOPS has taken a conservative approach and reserved for these uncollected amounts.</p>	US\$1,800
<p><b>UN Agencies: Interfund balances relating to the period 1998–2005</b></p> <p>In 2006, a massive clean up exercise was undertaken to clear the balances outstanding through the old IOV modality of settling inter agency transactions. Following the outcome of this exercise, balances with some agencies have been followed up and settled. Considering the age of the remaining balance and the cost of such collection process, a provision has been made.</p>	US\$3,690
<b>Total</b>	<b>US\$25,984</b>