I. Purpose of this report

1. In its decision 2022/13, the Executive Board requested that UNOPS freeze further transfers of funds out of the operational reserve into the growth and innovation reserve, the S3i reserve, accumulated surpluses, or for any purpose other than daily operations.

2. At the same time, the Executive Board requested that UNOPS develop a timeline to implement all outstanding recommendations of the United Nations Board of Auditors, the Advisory Committee on Administrative and Budgetary Questions, and the Joint Inspection Unit, and later noted UNOPS activities in that regard.

3. Further, the Executive Board requested that UNOPS urgently implement all recommendations made by the Internal Audit and Investigations Group (IAIG), including an increase in its budget to execute its mandate, and those related to UNOPS overall management structures.

4. Finally, the Executive Board requested the inclusion of all recommendations of the two independent third-party reviews in a comprehensive response plan, and approved the creation of a second deputy executive director position, as recommended by the independent third-party reviews (see annex I for UNOPS organigram as of January 2023).

5. This report sets forth the UNOPS financial outlook for 2023 and describes the budgetary impact of the above-mentioned decision within the framework of the biennial budget estimates, 2022-2023, approved in decision 2021/21. In particular, UNOPS is implementing a revised cost recovery policy designed to set net engagement revenue to zero, thus eliminating the accumulation of UNOPS reserves.

6. The Executive Board is requested to approve the transfer of up to $35.4 million out of the operational reserve into the 2023 budget for one-time investments and the revised net revenue target for 2023.

II. Financial outlook for 2023

7. The annual budget review by the Executive Director was concluded during the last quarter of 2022. The final budget for 2023 (see table 1, below) indicates that the
revenue will increase by $18.1 million to an estimated total of $118.4 million when compared to the original 2022-2023 budget estimate. This positive development is due to newly concluded engagements, some of which, signed in 2022, apply the revised cost recovery policy.

### Table 1. Resource plan

<table>
<thead>
<tr>
<th>Resources</th>
<th>Budget estimates 2022/23 (original)</th>
<th>Budget estimate 2023 (original)</th>
<th>Budget 2023 (final)</th>
<th>Variance between original and final 2023 budget</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at beginning of period*</td>
<td>344.7</td>
<td>360.4</td>
<td>15.7</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total revenue on budget basis</td>
<td>200.5</td>
<td>100.2</td>
<td>118.4**</td>
<td>18.2</td>
<td>18</td>
</tr>
<tr>
<td>Net assets after the impact of revenue on budget basis</td>
<td>545.2</td>
<td>478.8</td>
<td>33.8</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

#### Use of resources

| Management resources                           | 181.3                              | 90.6                            | 138.0***            | 47.4                                          | 52         |
| Write-offs, provisions and contingency surplus | 19.2                               | 9.6                             | -****               | (9.6)                                         | (100)      |
| Total use of resources                         | 200.5                              | 100.2                           | 138.0               | 37.8                                          | 38         |

#### Balance of resources

| Net revenue on budget basis                    | 0                                  | 0                               | (19.6)              | (19.6)                                        | -          |
| Response plan-related investments from reserves| 0                                  | 0                               | (35.4)              | (35.4)                                        | -          |
| Change to net assets on budget basis           | 0                                  | 0                               | (55.0)              | (55.0)                                        | -          |
| Net assets on budget basis at end of period    | 344.7                              | 344.7                           | 305.4               | (39.3)                                        | (11)       |

*Net assets for the final budget 2023 are as of UNOPS financial statements for the period ended 31 December 2021.*

*Estimate as of November 2022, with a positive outlook for additional revenue in 2023.

***Of this amount, $100 million relates to ongoing positions, for which a vacancy rate of 15 per cent may be expected during the financial period. This may translate into budget savings for estimated $15 million.

****In line with the International Public Sector Accounting Standards (IPSAS), UNOPS does not budget for write-offs, provisions or contingency surplus in its final budget. The actual amount is reported as part of the financial statements.

8. A number of investments in 2023 have been identified as critical to effectively addressing the recommendations from the two third-party reviews. They can be divided into six categories, as set out below. In total, it is estimated that they would require a one-off transfer from the reserve of up to $35.4 million.

(a) **Mandate and strategy.** The midterm review+ process and the restated strategic plan, 2022-2025, will present the UNOPS strategic intent and direction, anchored in the role to expand implementation capacity as set by the General Assembly mandate. It will be attuned to: (i) support for the Sustainable Development Goals; (ii) the needs of partners; and (iii) the responsibility to act according to United Nations values. The required investment is estimated at $0.5 million.

(b) **Governance and management.** UNOPS is redesigning its operating system and selecting and implementing integrated platforms with the best suited digital products, with a view to replace the enterprise resource planning system, starting in 2023. An independent report commissioned in 2022 highlighted areas of significant business benefit to UNOPS. The United Nations 2.0 system-wide capacity mapping for 2022 survey categorized the current progress of UNOPS as ‘at risk’ compared to other United Nations entities. UNOPS has prioritized investment in two key areas: (i)
enabling the transformation of our human resources function, and (b) implementing an integrated customer relationship management system. UNOPS will invest in digital capability building, including the skills and knowledge required to ensure that the culture and infrastructure of the organization enable digital practices. Investments will be instrumental to reconnecting UNOPS with the wider United Nations system and aligning UNOPS impact with the 2030 Agenda for Sustainable Development. Those priorities focus on accelerating our value proposition and enhancing UNOPS processes, ways of working and knowledge management. The required investment is estimated at $21.1 million.

(c) Risk management and control environment. The focus will be on mainstreaming risk management into all aspects of UNOPS operations, including strategic planning and budgeting processes and the quarterly review of operations. The goal is to strengthen risk-informed decision-making and to embed risk considerations in the development of engagement opportunities and partnerships. Those activities will be covered through existing resources.

(d) Ethics, compliance and organizational culture. The independent third-party reports recommended the implementation of a structured change management process to facilitate efficient, effective organizational change. Strategic capability-building efforts will support the UNOPS culture change. Key resources are earmarked in accordance with the study conducted by the Joint Inspection Unit on change management in the United Nations system. The required investment is estimated at $1.7 million.

(e) Financial and performance management. In 2023 UNOPS will invest in performance- and business improvement initiatives, including the redesign of its due diligence function and related processes. A key activity with regard to improvement of the control environment is the revision of UNOPS Financial Regulations and Rules and an approach and timeline will be presented to the Executive Board in 2023. Strategic capability-building efforts in that area will improve performance through all phases of the project cycle and promote a culture of performance, compliance and accountability. The required investment is estimated at $2.4 million.

(f) S3i future. In line with Executive Board decisions,8 UNOPS is working with the United Nations Office of Legal Affairs, which is mandated to attempt the recovery of funds from S3i investments. UNOPS has already handed over all necessary documentation to the Office to pursue the recovery efforts. To that end the Office temporarily increased internal staffing in 2022 for 2023 by two professional positions and started to contract external counsel to pursue recovery across several jurisdictions. UNOPS has limited visibility of those activities, but is responsible for covering the costs, estimated at $8 million. An additional $1.7 million will be dedicated to programmatic support to enable countries affected by S3i to transition out of those activities.

9. At the time of preparation of the budget estimates for 2022-2023, the net assets in budget terms were stated as $344.7 million. As at 31 December 2021, UNOPS audited financial statements reflected net assets/equity of $360 million. That amount is not inclusive of any additional revenue balance following the closure of 2022 accounts, given that UNOPS changed its cost recovery policy only mid-year. Noting Executive Board decision 2022/13 to transfer into the operational reserve any uncommitted balance as part of those assets, the reserve would be sufficient to accommodate the present request.

III. Conclusion

10. The demand for UNOPS services remains strong, which leads to an improved financial outlook for 2023 in terms of revenue. At the same time, to implement Board

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8 Decisions 2022/13, 2022/21 and 2022/24
decisions related to recommendations of the United Nations Board of Auditors, the strengthening of the Internal Audit and Investigation Group, and the comprehensive response plan, additional management resources are needed in 2023. The timeline for several actions necessary for the complete implementation of these recommendations continues until 2025; consequently, the cost of activities beyond 2023 will be included in the budget estimates for 2024-2025, to be presented to the Executive Board at its second regular session 2023.

11. The Executive Board is therefore requested to approve a transfer of up to $35.4 million from the operational reserve, after applying any net revenue surplus for 2022, as well as the related changes in UNOPS net revenue and net assets, to implement the above-mentioned decisions.
Annex I. UNOPS Organigram
(effective January 2023)