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Report of the Board of Auditors

for the year ended 31 December 2008

Volume V
Capital Master Plan

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Report of the Board of Auditors on the capital master plan for the year ended 31 December 2008

Summary

The Board of Auditors has audited the financial transactions and reviewed the management of the capital master plan for the period from 1 January to 31 December 2008. The Board also audited statement IX, schedule 9.1 (part I) and note 9 to the interim financial statements of the United Nations for the year ended 31 December 2008 as they relate to the capital master plan for the biennium 2008-2009. In addition, the Board reviewed the portion of statement XI of the financial statements, disclosing the associated costs of the capital master plan.

Implementation of previous recommendations

The Board examined the measures taken by the Office of the Capital Master Plan to implement the nine recommendations made in its report for the year ended 31 December 2007 (A/63/5 (Vol. V)). The Office had implemented six recommendations, one was under implementation and two, including the long-outstanding recommendation concerning the establishment of an advisory board, had not been implemented (see annex).

Financial overview

The excess of income over expenditure was $139 million in 2008, which represents 41 per cent of the assessed contributions for the year. This excess originates from the recognition of contributions being faster than the rate of expenditure. The aggregate excess of previous and current years led to a very high cash balance of $863.3 million as at 31 December 2008. This provided the capital master plan fund with a significant interest income of $27.7 million.

Total assets of $1.379 billion were significantly higher than total liabilities of $477.9 million as at 31 December 2008. The cash-to-assets ratio was 0.63:1 as at 31 December 2008. This corresponds to available cash higher than cash requirements for the year and to an increasing but still low completion rate of the construction works. This financial situation nevertheless indicated that the project was still in its early stages.

Total assets increased by 88.7 per cent compared to 2007. This is mainly explained by the increase in total cash (cash and term deposits, and cash pool) from $365.3 million to $863.3 million, or 136.3 per cent, and, to a lesser extent, by the increase in construction work in progress from $113.9 million to $342.1 million, or 200.3 per cent. On the other hand, assessed contributions receivable from Member States decreased from $127.5 million to $78.3 million, or 38.5 per cent.

The Administration has considered since the beginning that all expenditure related to the capital master plan, whatever their nature, were to be recorded as construction in progress. As a consequence, the amount of $342.1 million disclosed as construction in progress in the statement of assets, liabilities and reserves and fund balances encompasses not only expenses which actually enhance the value of the Organization’s assets, but also all operating expenses funded from the plan, some

of which have no impact on this value. This accounting treatment, which inflates the Organization's construction assets, is the consequence of the inability of the Administration to separate capitalized costs from operating costs in the current Integrated Management Information System.

As at 31 December 2008, total liabilities amounted to $477.9 million. They increased significantly compared to 2007 (141 per cent), in greater proportion to assets, mainly due to the increase in unliquidated obligations. The increase in total liabilities also originates from the increase in assessed contributions received in advance, which amounted to $185.6 million as at 31 December 2008, compared to $7.2 million as at 31 December 2007.

Project management

The most recent estimate of the total cost of the project, supplied by the Office to the Board in March 2009, amounted to $1.967 billion, which is $90.7 million higher than the budget of $1.877 billion approved by the General Assembly. This latter estimate is lower than the one of $2.067 billion presented in the Secretary-General's fifth progress report on the capital master plan (A/62/364 and Corr.1) and, to a lesser extent, than the one of $1.974 billion presented in the sixth progress report of the Secretary-General (A/63/477).

The reduction in the project cost estimate is not due to the decrease in renovation or relocation costs, but rather to a large reduction in the budget for contingencies (including price escalation) from $477.8 million to $226.6 million since the Board's previous audit.

This reduction was decided by the Office because major portions of the project had become committed. It also originates from the re-evaluation by the Office of the price escalation assumptions upon which the project cost estimate was based. Overall, the change in the provision for contingencies does not appear conservative enough given the time frame for the execution of the project. As recommended by the Board, the Office improved its monitoring of the economic conditions of the project. The data submitted to the Board, however, showed that this monitoring was still not accurate enough. In addition, the link between the economic assumptions and the components of the cost estimates that are dependent on these assumptions is not apparent. In this regard, the Board considers that the new presentation of the project cost estimate, which merges the former line items of contingencies and forward pricing escalation, makes it more difficult to see the effects of the economic situation on the project and affects how the project costs are monitored.

The Board is of the view that the budget approved by the General Assembly for the capital master plan can be adequate only if the specifications of the project are not further modified and the economic situation does not significantly change from the accepted assumptions. This view does not take the associated costs (see para. 130) into account. In other words, it is unlikely that the Administration can absorb the associated costs within the overall budget approved for the capital master plan, in spite of the General Assembly's request that the Secretary-General make every effort to do so (resolution 63/270, sect. II, para. 9).

Concerning the schedule of the project, the Board established that, considering the delay in the initial stages of the project, particularly the relocation of the Secretariat, an average slippage of six months could have an impact on the rest of the project if each subsequent stage were to require the same time as that initially planned. Based on the Board's current assessment, the project will not be finished in 2013 as planned, unless the renovation work progresses more quickly than forecast. The Office informed the Board that it intends to speed up the process.

Procurement and contract management

Initially, the Director of the Procurement Division was granted a special delegation of authority to approve amendments to capital master plan contracts incurring expenses of up to $2.5 million, compared with $0.5 million for other contracts for the Headquarters. This delegation was given on condition that the amendments would be reviewed by the Headquarters Committee on Contracts on an ex post facto basis. The Headquarters Committee on Contracts, however, advised against this arrangement since it might not accord with the provisions of financial rules 105.13 (b) and (c). Despite this, 26 contractual amendments totalling $19.5 million were made and there was no review by the Committee, either before or afterwards. A gap therefore exists in respect of these transactions in terms of compliance with the Financial Regulations and Rules of the United Nations.

The Director of the Procurement Division was granted a second delegation of authority, raising the limit for the approval of amendments from $2.5 million to $5 million with no review, either before or after, by the Headquarters Committee on Contracts. The Office of Internal Oversight Services was to have carried out periodic ex post facto reviews of the related transactions; however, it indicated that it could not do so as a matter of routine since it does not currently have the resources necessary to perform this function on a regular basis. Under this new delegation of authority, a further 74 contractual amendments totalling $42.7 million were made without the involvement of the Headquarters Committee on Contracts.

A review of the contractual amendments signed in 2008 indicated that their aggregate value reached amounts many times the value of the initial contracts. In addition, the aggregate value of the contractual amendments significantly exceeded the threshold allowed by the Procurement Manual.

The Board is concerned about the inadequate level of internal control over amendments to contracts relating to the capital master plan, as well as the non-adherence to the requirements of the Procurement Manual relating to the review and recommendation process.

Main recommendations

The Board recommends that the Administration:

(a) **Prior to the full implementation of the International Public Sector Accounting Standards, take steps to report in volume I of the financial statements of the United Nations only that portion of capital master plan expenditures that constitutes capital costs as part of construction in progress;**

(b) **Distinguish between the provision for contingencies and that for forward pricing escalation, as was done in the previous presentation of the cost estimate for the project;**

(c) **Keep the extent of the provision for contingencies under review in the event of future modifications to the scope of the capital master plan;**

(d) **Maintain a schedule showing the link between the renovation costs and the (i) actual value of the signed guaranteed maximum price contracts and (ii) estimated value of the guaranteed maximum price contracts to be signed;**

(e) **Make provision for delays in the schedule of the project and continue to consider ways to mitigate delays;**

(f) **Oversee strict compliance by the construction manager with its obligations;**

(g) **Establish the advisory board for the capital master plan;**

(h) **Take appropriate measures to regularize the transactions that occurred under the authority granted to the Director of the Procurement Division in accordance with the memorandum of the United Nations Controller and approved on 15 November 2007;**

(i) **Consider ways and means to increase significantly the level of internal control over amendments to contracts relating to the capital master plan;**

(j) **As long as no ex post facto review procedure is secured, make every effort to involve the Headquarters Committee on Contracts in the adjudication process prior to signing or amending contracts that are within the scope of the authority of that Committee;**

(k) **Adhere strictly to the requirements of the Procurement Manual relating to contractual amendments for new works and services.**

[9 July 2009]

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Letter of transmittal

10 July 2009

I have the honour to transmit to you the report of the Board of Auditors on the capital master plan for the year ended 31 December 2008.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
Chairman, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

A. Introduction

1. Mandate, scope and methodology

1. The capital master plan, which was established pursuant to General Assembly resolution 55/238, encompasses all expenditure relating to the major refurbishment of the United Nations Headquarters complex in New York. It was initially funded through an appropriation from the United Nations regular budget. The General Assembly, in section II, paragraph 24, of its resolution 57/292, established a special account for the capital master plan. Subsequently, appropriations were made to the special account from assessments on Member States. The financial position of the capital master plan is reported as part of statement IX, United Nations capital assets and construction in progress, of the financial statements of the United Nations (see A/64/5 (Vol. I)). Schedule 9.1 (part I) and note 9 to the said financial statements also relate to the capital master plan; in addition, one column of statement XI discloses the associated costs of the plan. Any unexpended balances of appropriations are carried forward into the succeeding bienniums until the project is completed.

2. The Board of Auditors has audited the financial transactions of the capital master plan and reviewed its programme management for the period from 1 January to 31 December 2008. The accounts of the capital master plan are included in the financial statements of the United Nations, on which the Board will express its opinion at the end of the biennium 2008-2009. The audit was conducted in accordance with General Assembly resolution 57/292, in which the Assembly requested the Board to initiate oversight activities with respect to the development and implementation of the capital master plan and to report to it annually thereon. The Board conducted its examination in accordance with article VII of the Financial Regulations of the United Nations and the annex thereto, as well as the International Standards on Auditing.

3. The audit was based on the following broad audit objectives, mentioned by the Board in paragraph 2 of its first report on the capital master plan (A/58/321):

(a) To examine the capital master plan financial statements, including an evaluation of project accounting, payment and reporting systems;

(b) To ascertain compliance with United Nations regulations and rules on procurement and contracting;

(c) To determine adherence to the terms of the contracts, such as deliverables, time and significant provisions;

(d) To review the controls, including internal audit and processes established to properly manage the project.

4. The Board examined the general progress of the capital master plan since its previous report[1] and the way in which the risks associated with the project were determined and managed.

[1] *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5* (A/63/5), vol. V.

5. The present report addresses matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, the views of which have been appropriately reflected in the report.

6. Paragraph 9 below contains a summary of the main recommendations of the Board. The Board's findings and recommendations are presented in detail in paragraphs 47, 55, 61, 66, 68, 78, 85, 86, 90, 92, 102, 105, 113, 120, 121, 127 and 133.

2. Coordination with internal audit

7. The Board coordinated with the Office of Internal Oversight Services (OIOS) in the planning of the audit in order to avoid duplication of effort and determine the extent of reliance that could be placed on its work.

8. The audit took into account paragraphs 15 and 16 of General Assembly resolution 62/87, in which the Assembly requested OIOS to conduct a comprehensive review of the activities, and ensure effective audit coverage, of the capital master plan.

3. Main recommendations

9. The Board recommends that the Administration:

(a) **Prior to the full implementation of the International Public Sector Accounting Standards, take steps to report in volume I of the financial statements of the United Nations (Volume I) only that portion of capital master plan expenditures that constitutes capital costs as part of construction in progress (para. 47);**

(b) **Distinguish between the provision for contingencies and that for forward pricing escalation, as was done in the previous presentation of the cost estimate for the project (para. 55);**

(c) **Keep the extent of the provision for contingencies under review in the event of future modifications to the scope of the capital master plan (para. 66);**

(d) **Maintain a schedule showing the link between the renovation costs and the (i) actual value of the signed guaranteed maximum price contracts and (ii) estimated value of the guaranteed maximum price contracts to be signed (para. 68);**

(e) **Make provision for delays in the schedule of the project and continue to consider ways to mitigate delays (para. 78);**

(f) **Oversee strict compliance by the construction manager with its obligations (para. 90);**

(g) **Establish the advisory board for the capital master plan (para. 102);**

(h) **Take appropriate measures to regularize the transactions that occurred under the authority granted to the Director of the Procurement Division in accordance with the memorandum of the United Nations Controller and approved on 15 November 2007 (para. 113);**

(i) **Consider ways and means to increase significantly the level of internal control over amendments to contracts relating to the capital master plan (para. 120);**

(j) **As long as no ex post facto review procedure is secured, make every effort to involve the Headquarters Committee on Contracts in the adjudication process prior to signing or amending contracts that are within the scope of the authority of the Committee (para. 121);**

(k) **Adhere strictly to the requirements of the Procurement Manual relating to contractual amendments for new works and services (para. 127).**

B. Background

10. In December 2000, the General Assembly, by paragraph 3 of section IV of its resolution 55/238, authorized the Secretary-General to proceed with the preparation of a comprehensive design plan and detailed cost analysis for the capital master plan, a restoration programme for the historic buildings of the United Nations Headquarters in New York which were considered non-compliant with new technical and safety regulations, as well as environmental standards. In December 2002, based on the proposal of the Secretary-General (see A/57/285 and Corr.1), the General Assembly, by paragraph 5 of section II of its resolution 57/292, decided to implement the capital master plan.

11. This plan has since changed several times. In accordance with strategy IV (phased approach), recommended by the Secretary-General in his third annual progress report (A/60/550 and Corr.1-2 and Add.1) and approved by the General Assembly in resolution 60/282 of 30 June 2006, work on the Secretariat Building would be carried out 10 floors at a time. This meant hiring smaller premises off the United Nations site, to which part of its operations would be relocated. By resolution 61/251 of 22 December 2006, the General Assembly approved the project based on this strategy, at a cost estimated at $1.877 billion.

12. The Board of Auditors, in its report to the General Assembly at its sixty-second session,[2] emphasized two major risks: a delay of approximately one year to the proposed schedule and a cost overrun estimated at $150 million. The Board recommended improving project management and enhancing monitoring procedures.

13. Following the appointment of the new Executive Director in July 2007, the Administration was convinced that the operation as previously planned could not be completed by the projected deadline or within the forecasted cost. The Administration estimated a delay of nearly one year and the additional cost (partly due to that extension of the deadline) at $219.6 million. The estimated cost of the operation increased from $1.877 billion to $2.096 billion.

14. Based on the above-mentioned analysis, the Secretary-General, in his fifth progress report (A/62/364 and Corr.1) proposed that the phased approach which provided for the relocation off site of just under 1,000 persons be abandoned, and recommended that the General Assembly endorse acceleration of the approved strategy IV. By resolution 62/87 of 10 December 2007, the General Assembly

[2] Ibid., *Sixty-second Session, Supplement No. 5* (A/62/5), vol. V.

approved a single-phase renovation that provided for the off-site relocation of all staff members working in the Secretariat Building. This implied renting, in New York City, more office swing space than initially planned, and extending the temporary building on the North Lawn so that the entire existing Conference Building could be emptied at the one time.

15. By paragraphs 31 and 32 of resolution 62/87, the General Assembly also approved changes to the schedule for the renovation of the Secretariat Building, the Conference Building and the General Assembly Building, as proposed by the Secretary-General in his fifth progress report, and, by paragraph 38, requested the Secretary-General to ensure by all means that the project costs were brought back within the approved budget.

16. As the change of strategy made it necessary to review a large number of studies commissioned by the Administration for the project, the Office of the Capital Master Plan was unable to give a definitive estimate and a reliable schedule at the time of the audit carried out by the Board in connection with its report to the General Assembly at its sixty-third session. In that report the Board consequently recommended that the Secretary-General, in his sixth annual progress report, present an update on the schedule of the project and provide a new cost estimate for the entire project.[3]

17. In the sixth report (A/63/477), the Secretary-General informed the General Assembly that the operation would be completed within the deadline announced in his fifth report, namely mid-2013, but that the projected budget for the operation, although reduced by $122.1 million since the previous estimate, still overran the budget approved by the General Assembly by $97.5 million. The construction work on the temporary Conference building gave the signal for the operation to begin on the ground and allowed a check to be made that the estimates made for the building corresponded to market prices. The signature of all of the leases necessary for relocating the units removed most of the corresponding risks, and the first relocations of departments began at the time of the audit. The signature of the pre-construction management contract, then of the first contracts at guaranteed maximum prices, moved the project from its analysis and design phase to the construction phase.

C. Detailed findings and recommendations

1. Follow-up of previous recommendations

18. In accordance with paragraph 7 of section A of General Assembly resolution 51/225, the Board examined the measures taken by the Administration to implement the recommendations made in its previous report on the capital master plan.[4]

19. Of the nine recommendations made in its report for the year ended 31 December 2007, the Board found that six (67 per cent) had been fully implemented, one (11 per cent) had been only partially implemented and two (22 per cent) had not been implemented. The Board reiterates the two recommendations not yet implemented, concerning the establishment of the

[3] Ibid., *Sixty-third Session, Supplement No. 5* (A/63/5), vol. V, paras. 25 and 31.
[4] Ibid.

advisory board and distinguishing capitalized costs from operating costs, and the recommendation partially implemented, concerning the economic assumptions used to arrive at the cost estimate for the project.[5]

2. Financial overview

20. According to statement IX of the interim financial statements for the year ended 31 December 2008, the excess of income over expenditure was $139 million in 2008. This represents 41 per cent of assessed contributions for the year. This excess originates from the recognition of contributions being faster than the rate of expenditure.

21. The aggregate excess of previous and current years led to a very high cash balance of $863.3 million as at 31 December 2008. This provided the capital master plan fund with a significant interest income of $27.7 million.

22. Total assets of $1.379 billion were significantly higher than total liabilities of $477.9 million as at 31 December 2008. The cash-to-assets ratio was of 0.63:1 as at that date. This corresponds to available cash being higher than cash requirements for the year and to an increasing but still low completion rate of the construction works. This financial situation nevertheless indicated that the project was still in its early stages.

23. The capital master plan is therefore characterized by an excess of income over expenditure and a very high positive cash balance. These characteristics owe as much to the current stage of the project as to its present financial health.

3. Statement of income and expenditure

(a) Expenditure

24. Expenditure for 2008 amounted to $229.6 million, an increase of 395 per cent over the 2007 expenditure of $46.4 million. This also represents more than twice the amount of the aggregate expenditure for the previous financial years of $113.9 million.[6] The aggregate expenditure for the previous and current financial years was $342.1 million, an increase of 200 per cent compared to 2007.

25. Expenditure, although showing a strong increase, remained limited compared to income. Aggregate expenditure of $342.1 million was 40.4 per cent of total assessed contributions, which stood at $845.8 million as at 31 December 2008.

26. Table 1 gives detailed information on expenditure for the capital master plan during 2008, comparing it with prior periods.

[5] Ibid., paras. 54 and 57 and para. 38, respectively.

[6] The amount takes into account savings made on, and cancellations of, obligations relative to prior periods.

Table 1
Capital master plan expenditure

Item	*Expenditure (Thousands of United States dollars)* Pre-2006	2006	2007	2008	Total	*Share of the total (Percentage)* Pre-2006	2006	2007	2008	Total
Salaries and other staff expenditure	6 318	2 096	3 236	3 999	**15 649**	19.4	5.7	7.0	1.7	**4.5**
Travel	63	11	25	30	**129**	0.2	0.0	0.0	0.0	**0.0**
Contractual services	24 564	33 861	30 279	105 069	**193 773**	75.5	92.7	65.3	45.8	**56.2**
Operating expenses	1 320	545	9 912	20 189	**31 966**	4.1	1.5	21.4	8.8	**9.3**
Acquisitions	271	13	2 942	100 324	**103 550**	0.8	0.0	6.3	43.7	**30.0**
Subtotal, expenditure	**32 536**	**36 526**	**46 394**	**229 611**	**345 067**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cancellation of prior-period obligations	19	1 512	10	1 438	**2 979**	—	—	—	—	—
Total	**32 517**	**35 014**	**46 384**	**228 173**	**342 088**	—	—	—	—	—

Source: Financial statements of the United Nations (vol. I); calculations by the Board of Auditors.

27. As in past years, contractual services represented a large part of expenditure. These services relate mainly to the supplementary studies carried out following the change of strategy and modifications to the scope of the project.

28. The most significant variance compared to previous years was the strong increase in acquisitions. This mainly corresponded to building work on the temporary conference building. Operating expenditure increased, due particularly to rental expenditure.

29. Table 3 of the sixth annual progress report of the Secretary-General on the implementation of the capital master plan (A/63/477) showed planned expenditure as against actual expenditure. Estimates dated October 2008 showed a planned expenditure amount of $519.1 million for 2008 (including $132 million in expenditure made between January and September 2008, and $387 million in expenditure planned between October and December 2008). This amount is significantly higher than the $229.6 million of expenditure actually incurred in 2008. Expenditure for the final quarter of 2008 amounted to only $97.6 million, or 25 per cent of the projected amount. This indicates that the progress of the project was slow compared to forecasts. The reasons for this situation are set forth in section 5 below.

30. In its previous report, the Board recommended distinguishing capitalized costs from operating costs.[7] At the time of the audit, this information could not be provided to the Board. Consequently, the Board considered the recommendation as not implemented. The Administration responded that it was first necessary to define the theoretical scope of each of these two categories, which was part of the preparation for transition to International Public Sector Accounting Standards. It

[7] *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5* (A/63/5), vol. V, para. 57.

also indicated that although the financial system used by the Office, Nova, contained information that could be used to make the distinction between capitalized and operating costs, the Integrated Management Information System (IMIS), currently used by the Secretariat for purposes of accounting, could not make such a distinction.

31. The associated costs (see para. 130) incurred in 2008 were not disclosed as expenditure of the capital master plan fund in the interim financial statements for the year ended 31 December 2008. They were shown in a dedicated column of statement XI of the financial statements, United Nations other special funds. They amounted to $2.5 million in 2008, which included $853,000 in staff expenditure and $855,000 in acquisitions. Of that amount, $1.3 million had been disbursed; the remaining $1.2 million corresponded to unliquidated obligations for the current period. In addition, unliquidated obligations for future periods amounted to $2.1 million. Expenditure was modest with regard to the commitment authorization of $9.5 million granted in July 2008 by the Secretary-General. An analysis of the associated costs is presented in section 7 below.

Unliquidated obligations

32. As at 31 December 2008, unliquidated obligations for the year amounted to $164.2 million. As at that date, total unliquidated obligations, including those relating to future periods, amounted to $277.4 million, an increase of 60.2 per cent compared to $173.2 million as at 31 December 2007. Obligations were covered more than three times by cash.

(b) Income

33. In paragraph 47 of its resolution 62/87, the General Assembly reaffirmed the financing mode for the capital master plan stipulated in paragraphs 14 to 20 of its resolution 61/251, giving Member States the choice between a one-time or multi-year assessment.

34. Twelve Member States opted for the one-time assessment and 180 chose the multi-year option. As at 31 December 2008, the contributions paid by Member States since the beginning of the capital master plan project, excluding contributions paid in advance, amounted to an aggregate amount of $767.4 million, which represents 90.7 per cent of the aggregate assessed contributions of $845.8 million due as at 31 December 2008. Contributions receivable amounted to $78.3 million, including $77.2 million for contributions assessed in 2008 and $1.1 million for prior-year assessments.

35. In addition, as at 31 December 2008, the capital master plan had received $185.6 million in contributions paid in advance. These advances can be broken down into two categories. The first category comprises eight Member States which did not opt for the one-time assessment but nevertheless paid their assessment in a single instalment, a sum that totalled $174.2 million as at 31 December 2008. The second category comprises 17 Member States which chose one assessment option or the other and, for no obvious reason, made payments of $11.4 million in excess of assessed contributions. These advances do not correspond to those in the first category, where a Member State formally chose one assessment option but actually implemented the other.

36. In total, the contributions paid by Member States to the capital master plan since the beginning of the project, including contributions paid in advance, amounted to $953 million as at 31 December 2008, an amount significantly in excess of aggregate expenditure at the same date. As mentioned above, the capital master plan therefore has at present a comfortable cash balance. The working capital reserve of $45 million established pursuant to General Assembly resolution 61/251, fully funded as at 31 December 2008, has not been drawn from thus far.

(c) Management of voluntary contributions

37. By resolutions 57/292, 60/256 and 61/251, the General Assembly called upon the Secretary-General to explore the possibility of private donor funding for the capital master plan and to continue efforts to secure financial resources from the public and private sectors for upgrading facilities and equipment, including the participation of private companies in infrastructural improvements where such participation has no financial implications for the Organization.

38. In a note verbale addressed to Member States on 16 January 2009, the Secretary-General laid down the principles applicable to the voluntary contributions by Member States to the capital master plan. These were envisaged as contributions to the development of certain areas within the Headquarters complex, as had been done during the initial construction. Member States were invited to make a cash donation of between one and five million dollars towards the renovation of a space or building element. In return, donors would have design input and be recognized and identified as the donor of that space.

39. By its resolution 63/270 of 7 April 2009, the General Assembly decided not to endorse this policy. It requested the Secretary-General to make new proposals that would allow Member States, without distinction or conditions, to make donations in compliance both with the principles governing the United Nations and with its Financial Regulations and Rules.

40. The Board was informed that the Secretary-General had not yet received any formal pledge from Member States or any other public or private entity, whether in relation to large projects that require an adaptation of design or smaller projects that concern, for example, the finishings of or equipment for the renovated Headquarters.

41. The Board is aware of the importance of this question and the advantages that would result from the Secretary-General proposing a policy that would allow all Member States, and public and private entities wishing to contribute to the smooth running of the United Nations, to make voluntary contributions, in cash or in kind, to the capital master plan. Voluntary contributions that might have an impact on the definition of the project or determine how certain work would be carried out may hamper the timely completion of the capital master plan.

42. In requesting new proposals in relation to the donation policy, the General Assembly specified that donations should be made without prejudice to the scope, specifications and design of the project and requested the Secretary-General to report to it thereon (resolution 63/270, para. 25). The Board understands this particular request as implying that any new proposal by the Secretary-General should ensure that voluntary contributions made for the capital master plan do not negatively impact upon the schedule of operations.

4. Statement of assets, liabilities and reserves and fund balances

43. As at 31 December 2008, total assets amounted to $1.379 billion, compared to $730.8 million as at 31 December 2007. This increase of 88.7 per cent is mainly explained by the increase in total cash (cash and term deposits, and cash pool) from $365.3 million to $863.3 million, or 136.3 per cent, and, to a lesser extent, by the increase in construction in progress from $113.9 million to $342.1 million, or 200.3 per cent. On the other hand, assessed contributions receivable from Member States decreased from $127.5 million to $78.3 million, or 38.5 per cent.

44. Paragraph 51 of the United Nations system accounting standards provides that the costs incurred during construction or major long-term acquisitions which extend over more than one financial period should be accumulated and disclosed in a separate account. The Administration did disclose construction in progress in a separate account; however, since the beginning of the capital master plan, it has been considering all expenditure related to the project, whatever its nature, as construction in progress. As a consequence, the amount of $342.1 million disclosed as construction in progress in the statement of assets, liabilities and reserves and fund balances encompasses not only expenses which actually enhance the value of the Organization's assets, but also all operating expenses, some of which have no impact on this value.

45. This accounting treatment, which inflates the Organization's assets, is the consequence of the inability of the Administration to separate capitalized costs from operating costs in IMIS.

46. Under the International Public Sector Accounting Standards, the value of tangible assets would not include all operational expenses generated by a renovation programme. The application of those Standards would avoid this type of situation and would mean that the financial statements of the United Nations present a clearer view of the Organization's assets.

47. **The Board recommends that, prior to the full implementation of the International Public Sector Accounting Standards, the Administration take steps to report in volume I of the financial statements of the United Nations only that portion of capital master plan expenditures that constitutes capital costs as part of construction in progress.**

48. As at 31 December 2008, total liabilities amounted to $477.9 million. They increased significantly compared to 2007 (141 per cent) and in greater proportion to that of assets, mainly due to the increase in unliquidated obligations. The increase in total liabilities also originates from the increase in assessed contributions received in advance, which amounted to $185.6 million as at 31 December 2008, compared to $7.2 million as at 31 December 2007.

5. Project management

(a) Cost estimate

49. In his sixth progress report to the General Assembly on the implementation of the capital master plan (A/63/477), the Secretary-General provided an estimate of the overall cost of the operation and its development compared to the previous year, as shown in table 2.

Table 2
Comparison of the total cost estimate for the capital master plan according to the original presentation
(Thousands of United States dollars)

Expense item	*Estimate submitted to the General Assembly at its sixty-second session*[a] *(September 2007)*	*Estimate submitted to the General Assembly at its sixty-third session*[b] *(October 2008)*	*Estimate submitted to the General Assembly at its resumed sixty-third session*[c] *(January 2009)*	*Variance, September 2007-January 2009 (Percentage)*
Construction	964 625	1 032 900	1 040 186	+7.8
Professional fees, management costs	234 508	280 340	286 967	+22.4
Office swing space	254 534	273 441	275 290	+8.2
Library swing space	16 636	2 714	2 714	-83.7
Conference swing space	118 688	149 540	156 367	+31.7
Contingencies	199 859	235 236	212 627	-55.5
Forward price escalation	277 960			
Total	**2 066 810**	**1 974 171**	**1 974 151**	**-4.5**

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] As estimated in A/62/364 and Corr.1.
[b] As estimated in A/63/477.
[c] Supplementary information communicated by the Office of the Capital Master Plan to the General Assembly during its consideration of A/63/477.

50. When it examined the sixth progress report, the General Assembly requested that the Administration supply a new, updated cost estimate for the capital master plan, which was provided on 6 March 2009. The Administration was invited by the General Assembly to review the presentation of the expenditure categories. In particular, the General Assembly requested that the professional fees be redistributed to the other categories, according to the type of service considered (e.g., costs for work supervision were transferred from the fees item to the construction item). This presentation of the cost estimate was adopted by the Office of the Capital Master Plan in the monthly scoreboard established pursuant to the Board's recommendation in its previous report.[8] Table 3 gives the most recent information on this scoreboard at the time of the Board's audit in March 2009, compared to that from estimates previously presented by the Secretariat to the General Assembly.

[8] Ibid., para. 49.

Table 3
Comparison of the total cost estimate for the capital master plan according to the revised presentation
(Thousands of United States dollars)

Expense item	*Estimate submitted to the General Assembly at its sixty-second session (September 2007)*	*Estimate submitted to the General Assembly at its sixty-third session (October 2008)*	*Most recent estimate available at time of audit (March 2009)*	*Variance, September 2007-March 2009 (Percentage)*
Building renovation	1 003 210	1 074 210	1 072 920	+6.9
Swing spaces (construction)	234 592	259 367	248 492	+5.9
Swing spaces (rental)	139 989	147 809	152 309	+8.8
Contingencies	477 819	235 236	226 654	-52.6
Professional fees, management costs	211 200	257 549	267 027	+26.4
Total	**2 066 810**	**1 974 171**	**1 967 402**	**-4.8**

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.

51. The figures in table 2, which shows an overall reduction in the total cost of the operation resulting from a combination of savings and additional costs, are analysed in greater detail below.

52. Building renovation costs increased by $69.7 million, or 6.9 per cent. This increase, which combines price revisions of $75.2 million and savings of $5.5 million, results from the new estimate by the construction manager for the cost of the works. Between the time of presentation to the General Assembly of the sixth progress report and the Board's audit in March 2009, the building renovation costs had been slightly reduced. The Office of the Capital Master Plan considered that these costs would continue to decrease in the following months thanks to the economic climate.

53. Swing space costs (including construction and rental of swing spaces), also known as relocation costs, increased by $26.2 million or 7 per cent. This originates essentially from the increase in the cost of the temporary conference building by $37.7 million, mainly due to the extension of the surface area, from 175,000 to 192,000 square feet. Apart from this aspect, relocation costs were reduced by optimizing the use of the Dag Hammarskjöld Library building.

54. The contingencies item, which decreased by 52.6 per cent, resulted from merging the former contingencies item with that of forward pricing escalation. This merger made it difficult for the Board to assess the reasons for the decrease in contingencies. The Administration justified the merger by the fact that contingencies and price escalation are both unforeseeable conditions of the project. The Board is of the view that although they are both unknown, these two elements are of a different nature. Contingencies, understood as operational contingencies, relate to a kind of randomness which can hardly be measured. On the other hand, price escalation can, to a certain extent, be predicted and gauged. In addition, the disclosure of a separate provision for price escalation shows how the Administration estimates the impact of the economy on the cost of the project. This relates in part to the recommendation made in the Board's previous report that the Administration

monitor the evolution of the economic assumptions and their consequences on the project.[9]

55. **The Board recommends that the Administration distinguish between the provision for contingencies and that for forward pricing escalation, as was done in the previous presentation of the cost estimate for the project.**

56. The Office of the Capital Master Plan did not provide the Board with a definite amount for the price escalation component of the provision for contingencies set by the Office. However, several elements of the detailed cost estimate indicated that this component had been significantly reduced, which partly explains the overall decrease in contingencies. In particular, the Board examined the economic assumptions on which the cost estimate for the project was based. The assumptions regarding price escalation are shown in table 4. The Office took into account the changes in the economy that had occurred since its previous assumptions, made in 2007; it assumed a general decrease in construction costs in New York of 5 per cent in 2009, followed by a progressive resumption of inflation.

Table 4
Annual rate of price escalation, 2004-2014

Index	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
2007 assessment	11.0	8.0	9.0	7.5	4.5	3.5	3.5	3.5	3.5	3.5	3.5
2008 assessment	11.0	8.0	9.0	7.5	7.5	(5.0)	1.8	3.5	3.5	3.5	3.5
Turner construction index	5.4	9.5	10.6	7.7	6.3	..	..	..	..	..	..

Source: Office of the Capital Master Plan.

57. Because of the uncertainties relating to the economy, the Office indicated that it was having difficulties monitoring the economic factors of the cost estimate. In addition, considering the portion of the project between 2009 and 2013, the target date for the end of the works according to the Office, the total price escalation would amount to 7.2 per cent (as against the 18.8 per cent estimated in 2007). This positive figure, while low, does not fully support the decision to decrease the provision for contingencies by 52.6 per cent. Although according to current assumptions price escalation is of less concern than in previous years, the risk of inflation has not completely disappeared in the light of the time scale of the project.

58. The Office commented that the decision to reduce the overall provision for contingencies was made because about one half of the project had already been purchased and committed and, by the early part of 2010, over three quarters of the project would be purchased and committed.

59. Without a precise breakdown of the provision for contingencies, however, the Board was unable to assess fully the adequacy of the amount set by the Office for the price escalation component of this provision.

[9] Ibid., para. 38.

60. As recommended by the Board, the Office improved its monitoring of the economic conditions of the project by adapting its economic assumptions and carrying out impact analyses. Nevertheless, the data submitted to the Board showed that this monitoring was still not accurate enough. In addition, the link between the economic assumptions and the components of the cost estimates that are dependent on these assumptions is not completely apparent.

61. **The Board reiterates its recommendation that the Administration detail the economic assumptions used to arrive at the cost estimate for the project and monitor the evolution of those assumptions and their consequences for the project.**

62. The Office considered the provision for contingencies (excluding price escalation) to be sufficient. In spite of the increase in the estimated costs of renovation since the issuance of the Secretary-General's fifth progress report and the difficulty, according to the Administration, of making savings greater than those allowed by the value engineering programme, the Office considered that, ultimately, the works should cost less than planned. This lower cost would not be the result of a reduction in the cost of labour, which is set by the long-term agreements between the City of New York and the various trade unions, or in the cost of supplies, which is likely to remain stable. Rather, according to the Office, companies participating in the works can be expected to lower their prices by deferring their amortization expenses and lowering their profit margins to ensure continuity of their workload schedule.

63. This assumption is, however, not fully corroborated by the first responses to requests for proposals which give values slightly higher than those expected (see table 5).

Table 5
Changes to the value of guaranteed maximum price contracts
(Thousands of United States dollars)

Contract	*Estimate submitted to the General Assembly at its sixty-third session (October 2008)*	*Initial value of signed contract*[a] *(March 2009)*	*Projected final value of contract*[a] *(March 2009)*	*Change between the first and most recent estimate (Percentage)*
Temporary conference building	95 358	96 022	98 685	+3.5
Swing space, 305 East 46th Street	23 549	22 220	23 294	-1.1
Swing space, United Nations Federal Credit Union building	6 512	8 589	7 985	+22.6
Swing space, third basement	12 104	12 645	12 810	+5.8

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.

[a] The projected final value of the guaranteed maximum price contract includes the cost of amendments to the initial contract, signed or to be signed, and savings expected through lower invoicing.

64. The figures in table 5 show that the projected final value of guaranteed maximum price contracts is, on average, higher than not only the initial estimate before signature but also the value of the contract actually signed. This is mainly due to the value of amendments to signed contracts. As for swing space at the United Nations Federal Credit Union building, the increase in the cost derives also from the fact that the number of floors to be rented rose from two to three after the first estimate provided to the General Assembly at is sixty-third session.

65. The Office indicated that these figures were already outdated as of March 2009. Information gathered by the Board at the beginning of April 2009 indicated that the construction manager's negotiations with its subcontractors meant that contracts already signed could possibly be negotiated down, with savings that could go as high as 10 per cent of the signed contracts. This information should nevertheless be treated cautiously and, for the moment, should not be considered a reason for reducing the provision for contingencies.

66. **The Administration agreed with the Board's recommendation to keep the extent of the provision for contingencies under review in the event of future modifications to the scope of the capital master plan.**

67. Table 5 was drawn up by the Office of the Capital Master Plan at the request of the Board. It is incomplete insofar as it includes only the four guaranteed maximum price contracts that had been signed at the time of the audit. Although the Office stated that this schedule was maintained and reviewed on a weekly basis, it was not able to link the renovation costs with all of the guaranteed maximum price contracts, whether signed or to be signed. Consequently, the Board could not fully audit the guaranteed maximum price contracts, even though they are supposed to take in more than one half of the overall building renovation cost and are presented by the Office as an essential facilitator for meeting the approved budget for the capital master plan.

68. **The Board recommends that the Administration maintain a schedule showing the link between the renovation costs and the (i) actual value of the signed guaranteed maximum price contracts and (ii) estimated value of the guaranteed maximum price contracts to be signed.**

69. The examination of changes to cost estimates shows a reduction of about $100 million compared to the estimate presented in the Secretary-General's fifth progress report, an estimate that exceeded the budget approved by the General Assembly by about $200 million. In reality, however, the cost of the operation, excluding contingencies, increased by about $150 million, 80 per cent of which was due to the increase in both the renovation costs and fees. This is mainly the result of the significant modification of the initial strategy for the capital master plan at an already advanced stage of the operation and of a comprehensive search for savings to meet the budget approved by the General Assembly.

70. It is essentially the state of the economy (the Office re-evaluated the price escalation assumptions upon which the cost estimate for the project was based) and the fact that about one half of the project has been already purchased and committed that have allowed the Office to reduce the overall cost estimate for the project by bringing down the provision for contingencies from $477.8 million to $226.6 million. However, this reduction does not appear conservative enough if one considers the entire period for the execution of the project.

71. In this context, the Board considers that the budget approved by the General Assembly can be adhered to by the Administration only if:

(a) The project is no longer the subject of significant change;

(b) The real state of the economy does not move too far away from the optimistic assumptions upon which the cost estimates are based;

(c) The associated costs are not taken into account (see sect. 7 below).

(b) Schedule

72. Since the Board's previous audit, work has been started on several sites and additional contracts have been signed, some of which are very important owing to their size or their place on the operation's critical path. Some delays are nonetheless a source of concern for the Board, as much for their potential effects on the date of completion of structures and the project in its entirety as for their causes.

73. Table 6 shows, for the main buildings to be renovated, the projected schedule presented by the Secretary-General to the General Assembly at its sixty-second session (see A/62/364 and Corr.1). The fourth column corresponds to the forecasts for the start of the works as at the time of the Board's audit. The last column shows the completion date estimated by the Board on the basis of the previously specified execution time lags. The Office stated that these deadlines were being re-examined.

Table 6
Capital master plan schedule

	Initial schedule[a]		*Schedule as of March 2009*[b]	
Activity	*Start*	*Completion*	*Start*	*Completion*
Construction of temporary conference building	Early 2008	Mid-2009	Beginning 2008	October 2009
Renovation of Conference Building	Mid-2009	Mid-2011	April 2010	April 2012
Renovation of General Assembly Building	Mid-2011	Mid-2013	April 2012	April 2014
Renovation of Secretariat Building	Early 2009	Early 2012	November 2009	November 2012

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] Data from A/62/364 and Corr.1, table 2.
[b] Data established by the Board, based on new projected dates for each stage and without modifying the initially planned execution period.

74. Table 6 shows an average delay of more than six months, based on the same assumptions calculated for the initial schedule. In other words, the initial schedule, which specifies that the operation end by mid-2013, can only be met if the execution time for each stage, especially of the work phases, is reduced.

75. The main risk of not meeting the schedule is delay in the start of work on the Secretariat Building which, in October 2008, was scheduled for the beginning of 2009 but had been postponed to November 2009 at the time of the audit. This delay implies that the three-year period planned for this phase should be reconsidered, which means extending external leases and consequently increasing the cost of the project. The Board was informed that the construction manager was working on establishing a shortened schedule. The Office stated that the work on the Secretariat Building could indeed be accelerated and that it was committed to completing the project in late 2013. However, the three-year period initially planned does not seem too long compared to the periods observed for several similar constructions. In addition, with the important exception of the curtain wall, no contract has been concluded for the Secretariat Building, and therefore none of the construction manager's subcontractors are designated or associated with the current preparatory phase.

76. The work on the Secretariat Building presents many other challenges. In addition to the precautions required for asbestos removal, account needs to be taken of the logistical problems related to the access of about 1,000 workers to the worksites, to deliveries of material and equipment, to waste disposal, in particular asbestos waste, and to the necessity of allowing activities to continue on a site which 2,000 United Nations staff members must continue to access.

77. A difficulty of the same type is also apparent for the temporary room that will house the Security Council. This room was to be laid out in the temporary conference building. However, security imperatives have led the Administration to envisage other arrangements which were still being discussed at the time of the audit in March 2009. The discussions have been prolonged because of new requirements and delays in the work on the temporary conference building, again caused by changes in its design. If the delay in the construction of the temporary Security Council facility were to be confirmed, the start of work on the Conference Building renovation might be delayed by several months. If these works continue for two years, as currently projected, they would not be completed until April 2012, and it is not until then that the renovation of the General Assembly Building and that of the South annexes and Library can start. The completion of the capital master plan would therefore be postponed until April 2014, as shown in table 6.

78. **The Board recommends that the Administration make provision for delays in the schedule of the project and continue to consider ways to mitigate delays.**

79. The delay in starting work on the renovation of the Secretariat Building is due to the following causes:

(a) The delay in relocation, which is related to delays in the provision of swing spaces; these delays are all caused by changes requested by the future occupants to the layout of premises and by delays in the approval of contracts for corresponding works;

(b) Decisions taken by the Administration, primarily that of postponing the start of work until after the relocation of the Executive Office of the Secretary-General, which was to occur only after the conclusion of the sixty-third session of the General Assembly.

80. Concerning the first cause, difficulties related to identifying the staff members to be relocated and defining their swing spaces have been settled. However, the risk of disruption to the activities of the United Nations remains. In addition, while the approval process for the guaranteed maximum price contracts is understandably prolonged as it is a new procedure, progress is slow. The total duration of the process (i.e., examination by the Office of the proposal presented by the construction manager, negotiation, review by the Procurement Division and then by the Headquarters Committee on Contracts before signature) was 84 calendar days for the first guaranteed maximum price contract in the second quarter of 2008. This duration increased to 140 days for the second contract, then decreased to 70 days for the third and to 50 days for the fourth. Considering this experience, the objective of 20 working days that the Administration had set for itself did not appear very realistic. The objective had been raised to 30 working days at the time of the audit.

81. Unlike administrative delays, operational delays appear under control. Admittedly, no worksite of this magnitude is protected from technical hazards, but the preliminary studies, especially those concerning the state of the Building, were carried out with the necessary prudence. It also appears that the original construction of the Building was carried out with a real concern for quality — which can still be seen in the state of the finishings — and with particular rigour — as shown by the as-built construction plans,[10] the fidelity of which was verified by the Office in some parts of the Building. There are two further favourable factors: the absence of asbestos coating on the metallic posts of the structure, which are protected from fire by being enclosed in concrete; and the long experience of asbestos removal professionals in the City of New York.

82. Nevertheless, the risk of delays due to technical hazards remains. The Board has identified at least two such risks.

83. The first risk relates to the discovery of unexpected elements when refurbishing buildings (real condition of metal posts hidden by concrete, thickness and load-bearing capacity of floors). Asbestos is a particular concern. The experience at numerous worksites shows that the risk of discovering asbestos in unexpected places can never be ruled out. In the case of the buildings of United Nations Headquarters, this risk is low because of, first, the absence of asbestos coating on the metallic posts, second, the presence, in the City of New York, of competent and experienced asbestos removal professionals and, third, the precautions taken by the Office of the Capital Master Plan in identifying the location and condition of products containing asbestos. This does not mean that new, in-depth investigations should not be carried out whenever possible, when the Building is no longer occupied, in places such as behind the wood trim, under the floor seals, and between the ducts and inner walls.

84. The second risk comes from potential malfunctions in the supply chain because of a work preparation period that is too short (the award, mobilization and shop drawing period). The Board found that the measures taken to mitigate this risk were not sufficient. The Office stated that the guaranteed maximum price for the Secretariat Building would be presented in August 2009.

85. **The Board recommends that the Administration expedite the preparation and approval of the contracts relating to the Secretariat Building.**

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[10] As-built plans provide a permanent record of the actual structure of a building after its construction.

86. **The Board recommends that the Administration take advantage of the late start of work on the Secretariat Building to make additional checks on the state of the Building, particularly regarding asbestos removal, and establish a very rigorous system for checking progress in regard to works and supplies.**

87. Concerning the relationship of the construction manager with its subcontractors, the quality of work supervision, exercised directly by the construction manager and not outsourced — which is a positive factor from the point of view of internal control — will be an essential condition for meeting the deadlines. The extent of the obligations of the construction manager, which protect the United Nations against any cost overrun (except in the case of changes to the programme or unforeseen events) is an incentive for the construction manager to remain vigilant as concerns the proper execution of the project. In addition, human resources allocated by the construction manager to the management of the works appeared, at the time of the audit, to be up to the magnitude of the project.

88. These resources are paid for by the United Nations, their remuneration being one of the components of the value of each guaranteed maximum price contract. As an example, the cost of supervising the works in the contract covering the first phase of work on the basement (Basement, Package 1) represents about 18 per cent of the amount of subcontracted work.

89. This good remuneration for the construction manager must be considered a positive factor for the success of the project, particularly in an economic climate where the risk of bankruptcy of subcontracting companies is high, and where the tight pricing of their contracts can compromise the quality of work. It is, however, important that the Office ensure that the oversight functions entrusted to the construction manager and specifically paid for by the Organization are effectively carried out. The best way to achieve this is for the Administration to refrain from modifying the programme or taking any decision that would allow the construction manager to consider itself released from its obligations. In any event, the quality of the management of work must be overseen in all of its dimensions: quality monitoring; factory visits; organization of the worksite and its logistics; coordination, in both space and time, of the various contracts and supplies; and rapid replacement of defaulting subcontractors.

90. **The Administration agreed with the Board's recommendation to oversee strict compliance by the construction manager with its obligations.**

(c) Relocation

91. The delays in the first planned relocations were discussed above in connection with the examination of the causes of the delay in starting work on the Secretariat Building. The relocation of 160 staff members to the eighth floor of the swing space building at 380 Madison Avenue, initially planned for completion in mid-March 2009, was delayed by one month, with a very significant acceleration in the price of the layout work. This was caused by a flood in the swing space, an event that was not expected either by the Office or the construction manager. It is by no means certain that the occupation of the other floors of this building will take place under more comfortable circumstances: the approval of the guaranteed maximum price contract covering the layout work, which was planned for mid-March 2009, was also delayed, by almost one month. This resulted from the requirement to redesign the premises following a change to the strategy whereby several units within the same department that had been dispersed among several sites would be brought together prior to their relocation. In another swing space building at 305 East 46th

Street, the delay in relocation was caused by a reappraisal, this time by the future occupants.

92. **The Board recommends that the Administration expedite the relocation of all staff to avoid aggravating the delay in the start of the work on the Secretariat Building.**

93. The Office of the Capital Master Plan commented that the relocation schedule was on track to allow work on the Secretariat Building and, most important, completion of the capital master plan, to remain on schedule; adjustments to individual phases of the schedule for such a complex project as the capital master plan were to be expected. Notwithstanding this response, the Board maintains its recommendation.

(d) Functionalities of the new buildings

94. The Board examined two aspects related to the technical and architectural qualities of the buildings: adaptation of the project to the imperatives of sustainable development; and accordance of respect to the intentions of the initial designers.

95. On the first aspect, particularly as regards energy consumption and greenhouse gas emissions, the objective initially announced by the Office of a 40 per cent reduction did not seem very ambitious given the opportunities offered by the progress made in materials and equipment since 1949. According to more recent estimates made by the Office at the request of the Board, the real savings would be greater, with overall consumption reduced by about one half and consumption relative to heating and air conditioning reduced by nearly three quarters. This overall energy consumption reduction could also provide savings in the operating costs, currently estimated at about $6 million per annum.

96. If these figures are confirmed, it will be more and more difficult to seek further improvements, particularly concerning the large-scale use of renewable, solar or wind energy. The Board wishes to underline that such initiatives could hardly be implemented within the approved budget of the project and in keeping with the work schedule.

97. Concerning respect for the original architecture of the Building, the Board found that excellent guidelines had been established at the beginning of the studies. There is, however, a risk that the attempts to simplify the design or to find budgetary savings might negatively impact compliance with these guidelines. The United Nations might envisage having the advisory board (see below) also monitor this question.

(e) Advisory board

98. In its most recent resolution on the capital master plan, the General Assembly reiterated its decision that an advisory board for the capital master plan should be established, setting 31 December 2009 as the deadline for doing so (resolution 63/270, sect. I, paras. 40 and 41).

99. The establishment of an advisory board was first put forward in 2000 (see A/55/117), and the origin of the request of the General Assembly goes back to 2002 when, in paragraph 19 of section II of its resolution 57/292, it concurred with the intention of the Secretary-General to establish an advisory board which would advise him on financing matters and provide advice on overall project issues (see A/57/285, para. 66). The General Assembly specified that the advisory board must

be independent and impartial and requested the Secretary-General, in establishing it, to reflect wide geographical representation (resolution 57/292, para. 19). It subsequently requested the Secretary-General to ensure that the board provide the necessary level of technical supervision (resolution 62/87, para. 26).

100. As its audit assignment occurred soon after the adoption of General Assembly resolution 63/270, the Board observed that the advisory board was yet to be established. The Board emphasizes that, despite the advanced state of work and the delays that have occurred in setting up the advisory board, its establishment would still be very useful. Admittedly, operational decisions are now taken by the Executive Director of the capital master plan project, but it would still be advantageous to have an entity assisting the Secretary-General. This entity would be responsible, as requested by the General Assembly, for the technical supervision of the project. The Board considers that care should be taken to ensure that the renovation preserves and effectively adapts the Headquarters of the United Nations.

101. In addition to some major decisions that are still to be taken on the conduct of work, questions remain concerning the layout of the conference rooms (for which donations are expected), the areas freed by the temporary building and the worksites, and future construction projects.

102. **The Board reiterates its recommendation that the Secretary-General establish the advisory board for the capital master plan.**

(f) Risks related to staff

103. One of the significant risks of the operation is the reaction of staff members, either following very tangible problems concerning their living and working conditions, or based on psychological reactions or fears, whether founded or not, concerning possible nuisance from the worksite. This risk could lead to the demotivation, or even the departure, of some of the staff members currently working for the Organization.

104. The Office of the Capital Master Plan is aware of this risk, which it is handling through direct communication (public meetings with staff members) and indirect communication (information on its Internet site, and announcements on the Intranet). The Board, however, noticed persistent apprehension on the part of the staff.

105. **The Board recommends that the Administration pursue its communication efforts with staff members regarding aspects of the capital master plan that will affect their working conditions.**

6. Procurement and contract management

(a) Adaptation of procedures to the specificities of the capital master plan

106. At United Nations Headquarters, the authority to procure goods and services rests exclusively with the Procurement Division of the Office of Central Support Services, Department of Management. Because of the necessary segregation of duties between requisitioners and procurement officers, no department within the Secretariat is in principle authorized to procure goods or services directly, or to authorize, modify or revise a contract or purchase order.

107. The Administration, however, considered that the completion of a project as complex as the renovation of United Nations Headquarters required reconciling the Financial Regulations and Rules with the obligation to take swift decisions concerning procurement, which entails adequate procurement planning.

108. As a result, the Executive Director of the capital master plan project sought to have specific rules established for amendments to contracts relating to the capital master plan. Two memorandums were therefore issued to adapt the procurement rules to the capital master plan: the first dated 9 November 2007 and the second dated 3 March 2008.

109. In accordance with the first memorandum dated 9 November 2007, the Director of the Procurement Division received an extended delegation of authority from the United Nations Controller to sign amendments to contracts relating to the execution of the capital master plan which incurred expenditure of up to $2.5 million, compared to the usual authority of $0.5 million. This delegation of authority was given on condition that such amendments be subjected to ex post facto review by the Headquarters Committee on Contracts.

110. This revised procedure was reviewed beforehand by the Chairman of the Headquarters Committee on Contracts who, in addition to other concerns expressed in a memorandum to the Chief of the Procurement Division dated 30 October 2007, deemed it not advisable since, inter alia, ex post facto reporting to the Headquarters Committee on Contracts did not appear to accord with the provisions of financial rules 105.13 (b) and (c). In a memorandum dated 7 November 2007, the Controller noted the concerns raised by the Chairman but decided that, in the light of the specific needs of the capital master plan, the approval procedures should be amended on an experimental basis for a six-month trial period. The Controller then submitted the revised procedure to the Under-Secretary-General for Management, who approved it on 15 November 2007.

111. A few months after the entry into force of the experimental revised procedure, the Chairman of the Headquarters Committee on Contracts, in a note dated 22 January 2008, reiterated his concern that ex post facto reviews were contrary to the provisions of rule 105.13 (c) which stipulates that where the advice of a review committee is required, no final action leading to the award or amendment of a procurement contract may be taken before such advice is received.

112. Despite the position taken by the Chairman of the Headquarters Committee on Contracts and noted by the Controller, 26 contractual amendments, totalling $19.5 million, were executed without the review and the recommendation of the Committee, as required by rule 105.13 (b). A gap therefore exists in respect of these transactions in terms of compliance with the Financial Regulations and Rules of the United Nations.

113. **The Board recommends that the Administration take appropriate measures to regularize the transactions that occurred under the authority granted to the Director of the Procurement Division in accordance with the memorandum of the United Nations Controller and approved on 15 November 2007.**

114. As a result of the concern expressed by the Chairman of the Headquarters Committee on Contracts, the Controller issued the second memorandum dated 3 March 2008, whereby the Director of the Procurement Division was granted the authority to sign amendments incurring expenditure of up to $5 million without the review and recommendation of the Headquarters Committee on Contracts, either

before or after signature of the amendment. This decision applies until such time as the capital master plan is completed. It specifies that the amendments covered by this extended delegation of authority will be periodically reviewed by OIOS.

115. In its report on the comprehensive audit on the capital master plan (A/63/266), OIOS, however, stated that it "will not examine every contractual amendment or change order as a matter of routine audit procedure", as envisaged in the memorandum extending the delegation of authority to the Director of the Procurement Division and approved on 11 March 2008. OIOS indicated to the Board that it could not perform such ex post facto reviews since it did not have the resources necessary to do so on a regular basis. Therefore, the condition specified in the memorandum dated 3 March 2008 was not complied with.

116. Notwithstanding the stipulations of rule 105.13 (b), which vests the Under-Secretary-General for Management with the responsibility to "establish the composition and terms of reference of [review] committees, which shall include the types and monetary values of proposed procurement actions subject to review", the Board is concerned that the practices established by these two memorandums weaken internal control of the procurement activities of the capital master plan and deprive the Organization of the benefits of review by the Headquarters Committee on Contracts.

117. The Board noted that OIOS had considered one option for the Department of Management in relation to internal control was to institute an alternative procedure for conducting ex post facto reviews of contractual amendments and change orders for amounts greater than $200,000 (A/63/266, paras. 26 (b) and 28). The Board does not entirely share the merits of establishing another review committee to carry out the ex post facto review and emphasizes that, in the absence of the involvement of the Headquarters Committee on Contracts, the lacuna in internal control continues to exist. In addition, at the time of the audit, no alternative procedure as recommended by OIOS was in place.

118. As a result of the second memorandum, 74 contractual amendments, totalling $42.7 million, were executed without the review and recommendation of the Headquarters Committee on Contracts, periodic review by OIOS or any other form of ex post facto review.

119. While the Administration has argued that the purpose of issuing the two memorandums was to avoid administrative delays, the Board noted that the Headquarters Committee on Contracts is a headquarters-based committee that meets at least once a week. In addition, the Chairman of that Committee, in an inter-office memorandum dated 30 October 2007, stated that, while recognizing the time sensitive nature of the capital master plan project, the experience of the Committee was that capital master plan cases were very efficiently processed from both the vetting and approval perspectives, routinely received expedited approval and, in the light of their importance, were added to meeting agendas even when received after the applicable deadlines. The Board therefore does not see the merits of bypassing the Headquarters Committee on Contracts for the reason mentioned.

120. **The Board recommends that the Administration consider ways and means to increase significantly the level of internal control over amendments to contracts relating to the capital master plan.**

121. **The Board also recommends that, as long as no ex post facto review procedure is secured, the Administration make every effort to involve the Headquarters Committee on Contracts in the adjudication process prior to signing or amending contracts that are within the scope of the authority of that Committee.**

122. The Procurement Division commented that, owing to the complex nature of the capital master plan design contracts, presentations to the Headquarters Committee on Contracts in relation to such amendments were detailed and lengthy and employed considerable resources during preparation and submission.

(b) Overall analysis of contracts and amendments concluded in 2008

123. The Board has analysed amendments to the capital master plan design contracts arising from the application of the provisions of the two above-mentioned memorandums, and earlier amendments.

124. The number of and amounts involved in the amendments reached unusually high levels in 2008. As shown in table 7, for the seven design contracts concluded for the capital master plan, which originally amounted to $10.7 million, 89 amendments were signed in 2008, for a total amount of $51.3 million. During the period from the award date of those contracts to 31 December 2008, 195 amendments were signed, for a total amount of $100.5 million, bringing the total value of all contracts to $111.2 million, which represents approximately a tenfold increase.

Table 7
Amendments to design contracts for the capital master plan

	Original amount of the contract on signature (Thousands of United States dollars)		*Total amendments signed until 31 December 2008*			*Amendments signed in 2008 only*		
Design contract	*Total estimated value of all services envisaged*[a]	*Total value of services originally committed*[b]	*Number*	*Total amount (in thousands of United States dollars)*	*Total amount (as a percentage of value of services originally committed)*	*Number*	*Total amount (in thousands of United States dollars)*	*Total amount (as a percentage of value of services originally committed)*
Contract A	858	523	9	1 254	239.6	2	440	84.2
Contract B	10 054	3 332	48	35 519	1 066.0	21	21 834	655.3
Contract C	11 310	2 828	25	14 415	509.8	8	5 559	196.6
Contract D	6 658	1 741	50	37 389	2 148.1	31	16 498	947.8
Contract E	2 078	519	20	3 209	617.7	10	1 895	364.8
Contract F	4 212	1 053	24	4 754	451.4	9	1 990	188.9
Contract G	2 393	748	19	3 928	525.0	8	3 042	406.7
Total	**37 563**	**10 744**	**195**	**100 468**	**935.1**	**89**	**51 257**	**477.1**

Source: Office of the Capital Master Plan.

[a] Figures in this column represent the value of all services envisaged in the original contract.

[b] Figures in this column represent only that portion of all services envisaged that was effectively committed as per the terms of the original contract.

125. The Administration indicated that the high number and values of amendments to the design contracts were due to several changes to the project, the two most important being the non-availability of the initial swing space (UNDC-5) and the adoption of accelerated strategy IV. It stated that most of the design contracts were awarded in 2004, when the implementation strategy differed from the one finally approved by the General Assembly in December 2007. Furthermore, the contractual arrangements of the initial contracts were for the design development phase only; all subsequent phases provided for in the contract (namely, construction documents phase, construction bid support phase and construction administration phase) required new decisions, and thus amendments.

126. As shown in table 7, the amendments signed since the award of the initial contracts increased the amount of each contract from between 451 per cent to 2,148 per cent. The Board's analysis of the data presented in table 7, together with its review of some contractual amendments, revealed the following:

(a) The aggregate value of contractual amendments in all cases significantly exceeded the original value of the contracts;

(b) The aggregate value of contractual amendments exceeded the threshold provided for in the Procurement Manual;

(c) A high number of amendments were not subject to review and recommendation by the Headquarters Committee on Contracts because of the extended delegation of authority.

127. **The Board recommends that the Administration adhere strictly to the requirements of the Procurement Manual relating to contractual amendments for new works and services.**

128. The Procurement Division commented that the Administration had benefited greatly from the instruction on additional scope under existing contracts owing to the need for the careful coordination and integration of design works under the complex and extensive capital master plan project. The Division further stated that it was mindful of the risk to the overall capital master plan schedule should a new sourcing exercise be required for any additional scope which could be interpreted as new. The Division also noted that the award of any scope, which could be interpreted as new scope, to vendors currently appointed to the capital master plan could further increase the complexity of the design team, with a concurrent increase in the risk to effective project and programme management, and risk design integration, with a concurrent increase in complexity in the structure of professional indemnities and liabilities.

129. The Board wishes to underline that, despite the changes in the scope of the project, the Administration continued to retain the services of the original suppliers which were selected in 2004. The scope of work has in some instances changed considerably from that originally envisaged and this is reflected in the high value of the amendments signed. During its next audit, the Board will review the appropriateness of this practice.

7. Associated costs

130. Associated costs constitute expenditure not included by the Administration[11] in the initial cost estimate for the capital master plan. They were evaluated (see A/63/582) at $176.7 million (net amount), including $35.8 million for 2008. This expenditure relates to the management of General Assembly meetings and conferences ($2.8 million), the Department of Public Information ($33.9 million), the Office of Central Support Services ($97.1 million) and the Department of Safety and Security ($42.8 million). Some expenditure had to be obligated in 2008 to avoid delaying the project. This is why the Secretary-General granted a limited commitment authorization amounting to $9.5 million in July 2008, then another for an additional amount of $9.8 million in January 2009.

131. In February 2009, the Advisory Committee on Administrative and Budgetary Questions recommended that only expenditure relative to the 2008-2009 biennium be approved, for an amount limited to $30.3 million (see A/63/763). The General Assembly, in paragraph 9 of section II of its resolution 63/270, followed this recommendation, requesting the Secretary-General to make every effort to absorb the associated costs for the biennium 2008-2009 from within the overall budget approved for the capital master plan. In the light of the extensive review of the associated costs by the Advisory Committee on Administrative and Budgetary Questions and the decisions taken by the General Assembly on this matter, the Board decided to focus its review on the implementation of General Assembly resolution 63/270.

132. The Board found that the associated costs were not incorporated in the cost estimate for the project. This resulted from the fact that the Board's audit was carried out immediately after the adoption of resolution 63/270 by the General Assembly, the Office of the Capital Master Plan had therefore not had time to adjust the cost estimate of the project to the decision of the General Assembly.

133. **The Board recommends that, in accordance with General Assembly resolution 63/270, the Administration disclose in the cost estimate for the capital master plan the associated costs approved by the General Assembly.**

8. Internal audit findings

134. In paragraph 15 of its resolution 62/87, the General Assembly requested the Secretary-General to entrust OIOS with a comprehensive review focusing, inter alia, on the structure of the Office of the Capital Master Plan, compliance with United Nations regulations and rules on procurement and contracting, adherence to the terms of contracts, internal controls and processes in place to properly manage the project and other high-risk areas.

135. The Internal Audit Division of OIOS, which comprises a team of two full-time auditors specifically tasked with the audit of the capital master plan, started by performing a risk assessment in May 2008. OIOS then reported the results of its comprehensive audit to the General Assembly (see A/63/266). The main risks identified were as follows: possible delays caused by administrative inflexibility;

[11] The Administration informed the General Assembly of these associated costs in A/62/799 and A/63/582. They include, inter alia, the maintenance of the meetings management and document management systems, the development of a newly designed broadcast facility, and provisions for security coverage of swing space locations and construction activity.

cost increases due to changes in strategy or the content of the project; and insufficient budgetary provision for covering associated costs.

136. In its report, OIOS also disclosed its 2008 audit workplan which, in addition to the comprehensive audit and risk assessment, provided for the audit of the following seven areas: swing space document management; project budgeting and financial control processes of the project; contract management (trade contracts); value engineering process; provision of alternative (swing space) offices, storage and other facilities; security provisions applied to staff, site and assets during the execution of the capital master plan; and the approach to reducing energy consumption.

137. The Office of Internal Oversight Services indicated that, as at 31 March 2009, five of the seven audit assignments, or 71 per cent, had been completed; their conclusions were contained in four reports. The two uncompleted assignments, on contract management and energy consumption reduction, were deferred to 2009 or later.

138. The first report, issued on 10 December 2008, concerned security provisions. OIOS concluded that the Department of Safety and Security did not yet have the appropriate resources or organization to support the project.

139. The second report, issued on 9 January 2009, was on the project budgeting and financial control processes. OIOS found that the invoices were well controlled, but recommended enhancement of the explanations on the development of projected costs in the annual progress report on the capital master plan submitted by the Secretary-General to the General Assembly.

140. The third report, issued on 30 January 2009, covered value engineering. OIOS concluded that the Office of the Capital Master Plan had effectively applied value engineering but that it might not be sufficient to bring the capital master plan back within the approved budget.

141. The fourth report, issued on 30 January 2009, combined the results of the audit of swing space document management and provision of swing space offices, storage and other facilities. OIOS concluded that, while the relocation of staff was in progress, measures should be taken to archive and store records, assist departments to digitize necessary records and address all aspects of project management on a timely basis.

142. **The Board took note of the findings and conclusions of OIOS and underlines the need for the Administration to address them expeditiously.**

D. Acknowledgements

143. The Board would like to thank the staff of the Office of the Capital Master Plan, the Office of Programme Planning, Budget and Accounts, the Procurement Division and the Office of Central Support Services for their cooperation and assistance.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
(Chairman, United Nations Board of Auditors)

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First President of the Court of Accounts of France
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China

10 July 2009

Annex

Status of implementation of recommendations for the year ended 31 December 2007[a]

No.	*Summary of the recommendation*	*Paragraph reference*	*Financial period first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*	*Total*	*Paragraph reference in the present report*
1.	Update the schedule of the project and include it in the sixth annual progress report	25	2007	X					19
2.	Specify in the cost estimate the fees relating to the value engineering programme	28	2007	X					19
3.	Include a new estimate of the cost of the project in the sixth annual progress report	31	2007	X					19
4.	Detail the economic assumptions used to estimate the cost of the project	38	2007		X				56-61
5.	Include optional clauses in contracts	40	2007	X					19
6.	Develop a summary scoreboard showing the situation of the operation	49	2007	X					19
7.	Establish the advisory board	54	2004			X			98-102
8.	Distinguish capitalized costs from operating costs	57	2006			X			30, 44-47
9.	Implement a mechanism for directly linking actual expenses and forecast expenses	65	2007	X					19
	Total			**6**	**1**	**2**	**—**	**9**	
	Percentage share of total			**67**	**11**	**22**	**—**	**100**	

[a] See *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5* (A/63/5), vol. V.

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