

United Nations Nations Unies

BOARD OF AUDITORS
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OPENING STATEMENT TO THE FIFTH COMMITTEE OF THE GENERAL ASSEMBLY ON THE REPORT OF THE BOARD OF AUDITORS ON THE CAPITAL MASTER PLAN FOR THE YEAR ENDED 31 DECEMBER 2010

Mr. Chairman, Distinguished Delegates,

On behalf of the members of the Board, Mr. Liu Jiayi of China, Mr. Terence Nombembe of South Africa and Mr. Amyas Morse of the United Kingdom, I have the honour to introduce the Report of the Board of Auditors on the Capital Master Plan for the year ended 31 December 2010.

Background

The \$2 billion refurbishment of the United Nations headquarters in New York, the capital master plan, is a complex, high value and high profile refurbishment project involving the modernisation, securing and architectural preservation of an iconic 1950s campus style development. General Assembly resolution 57/292 (February 2003) stressed the importance of oversight of the development and implementation of the capital master plan and requested the Board of Auditors (the Board) to produce an annual report on the project. This report presents the findings and recommendations of the Board's annual review of progress on the capital master plan in accordance with the General Assembly's request.

Key messages

There has been important progress on the capital master plan, with over 6,000 people moves from their previous locations into temporary offices, and important elements of the construction work going broadly as planned. The Board has also seen evidence of areas of good practice within the capital master plan, for example, in the integrated team working between the Office of the Capital Master Plan, its professional advisers and the main contractor. Despite the progress, major challenges lie ahead for the capital master plan, with the project entering a critical phase where the flexibility to manage and absorb unexpected problems and pressures on cost and time is greatly reduced.

Cost overruns and pressures

The project, was at 31st March 2011, forecasting a \$79 million (four per cent) over expenditure against current revised budget approved by the General Assembly taking account of commitments for donations and the funds for security enhancements. The Board notes that this cost forecast is incomplete and not sufficiently analytical because it does not include:

- a provision for the most likely costs of identified risks
- a robust and auditable estimate of the cost of all change orders until project completion
- all projected swing space rental costs.

This gives rise to uncertainty as to whether the remaining contingency allowance is sufficient to see the project through to completion, or whether the current reported overrun will increase further.

The Board is therefore of the view that, in light of the additional pressures on costs identified in its report that this situation is more likely to worsen than improve; but that further over expenditure can be minimised if the Administration is able to take quick and firm action to fully address the concerns raised in this report.

In addition, it is increasingly clear that the “associated costs” (which are related to the project, but not in the core scope or budget) cannot be absorbed by the project, as the General Assembly had previously requested, unless there is a reduction in project scope or an increase in budget. As the project moves towards completion and increasing amounts of expenditure are committed the Board considers that the time has come for this issue to be resolved so all can progress on the project with greater certainty.

At the time of reporting there was no viable design solution for security requirements relating to the Dag Hammarskjöld Library and South Annex building. These elements of the project, which the Office of the Capital Master Plan estimate would need \$65 million to renovate, are therefore currently on hold.

Delays and time pressures

The project has a history of over optimistic forecasting and is facing delays, with the overall project completion date slipping from mid-2013 to mid-2014. In particular:

- The first migrations of staff back into the Secretariat Building on current plans are projected to begin three months after the completion projection published in September 2007 (Accelerated Strategy). This is a critical element of the project and any further delays would be very costly and disruptive.
- The schedule for the Conference and General Assembly Buildings has slipped by one

year compared to earlier estimates, as a result of the additional work needed for the enhanced security upgrade. This new work will necessitate some \$100 million of protective work, supported by host nation funding.

The Board has also identified a range of further pressures on the project schedule that will need very careful management, including the reliance on third parties outside the control of the UN to deliver critical work.

Other important issues and risks

The Board highlights a number of other important issues and risks, in particular:

- There is a risk that the Facility Management Services will not be ready at the time of handover and able to take on the state of the art building control systems being put in place. This risk has been recognised, and lessons are being drawn from the problematic handover of the North Lawn Building. Due to project delays, however, there is now a compressed timeframe in which the various buildings will be completed and will need to be handed over to the Facilities Management Services. This will increase the probability of handover problems, and this risk will need very careful and active management.
- The Administration is working to realise the wider opportunities for improved communications and team-working presented by the capital master plan through co-locating senior management in the Secretariat Building and adopting open-plan rather than cellular office space. The Board notes, however, that the Administration is not taking full advantage of the potential for improved office solutions such as flexible desk use policies which could offer a major cost saving opportunity by allowing more staff to be housed in the Secretariat thus reducing

on-going rental cost liabilities and potential cost over-runs. Such benefits remain achievable but the Administration would need to adopt a rigorous, highly supportive, change management approach to handle the inevitable cultural changes necessary in staff working practices.

Mr. Chairman, Distinguished Delegates, this concludes my presentation on the Board's report on the Capital Master Plan for the year ended 31 December 2010. We will be more than happy to respond to any questions from the Committee at the informal session.

Hugh O'Farrell

Director of External Audit (United Kingdom)

9 December 2011