United Nations Nations Unies

BOARD OF AUDITORS

NEW YORK

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Opening remarks to Fifth Committee
on behalf of the Board of Auditors

10 November 2009

In connection with the report of the Board of Auditors
for the year ended 31 December 2008 on the Capital Master Plan
A/64/5 (Vol.V)

Presented by: Imran Vanker

1. Distinguished Chairman and Distinguished Representatives of Member States, Good Morning.

2. It is my pleasure this morning together with my colleagues from the Audit Operations Committee, to introduce a report on behalf of the Chairman of the Board of Auditors, Mr. Terence Nombembe, the Auditor General of South Africa. The report covers the Board's audit of the Capital Master Plan for the year ended 31 December 2008, A/64/5 (Vol. V).

3. This report is an annual study of the CMP conducted by the Board of Auditors, which was first mandated by the General Assembly in resolution 57/292. The audit was performed by members of the French Court of Accounts, who are the lead auditors.

4. During the six years that the Board has reviewed the CMP project, the Board has for the benefit of Member States and the administration flagged the key risks and issues that the project faced. The Board has sought to influence the issues related to the leadership of the project as well as the timing, budget and oversight. All of our reports have received the support of the administration and have been endorsed by the General Assembly.

5. This year, we bring you another report which reflects the rapidly changing circumstances of the CMP project. I refer here to the significant physical construction activities, the extensive relocation work, and the much higher rate of spending. It is in this light that the Board focused on the financial aspects, the budget, the schedule, as well as the procurement activities of the CMP.

6. The presentation this morning will indicate that the independent external auditors of the United Nations are concerned about certain matters. Through this report, the independent auditors are raising awareness, identifying some root causes, and making recommendations about the steps that could be considered to address the problems. Through your questioning, we hope to deepen the understanding of the issues you regard as important, and also provide context to what we found wanting. It is through this combination of interests, together with the management's commitment to do what is necessary and right, that we will be able to influence audit outcomes.

7. Mr. Chairperson, let me begin with an update on recommendations that the Board made before.

8. The CMP implemented six recommendations out of the nine we made last year, while one was under implementation. Two recommendations were not implemented. The first related to the establishment of the Advisory Board. The General Assembly has since also addressed this important oversight issue of the establishment of the Advisory Board. The second unimplemented recommendation related to the need for the CMP to distinguish capital costs from operating costs. However, the Administration while accepting the Board's recommendation as a priority, indicates that it will only be implemented by 31 December 2011. Due to the short time-frame of this project, it is necessary that all recommendations be implemented without delay.

9. This year, the Board made 17 recommendations, including reiterating 3 of the recommendations from last year.

10. Let me highlight four important points, arising from our audit:

(a) the concerns about the total cost of the project,
(b) the disclosure and accuracy of the project calculations,
(c) the uncertainties in the schedule of the project, and
(d) the weakness in procurement and contract management.

11. Regarding the total cost of the project estimated at $1.967 billion in March 2009, this was lower than the one presented in the Secretary-General's fifth progress report on the capital master plan of $2.067 billion. However, it is still higher than the $1.877 billion approved by the General Assembly, indicating that a cost over-run is still possible. We have noted that there has been some reduction in the cost estimates but the reduction in estimated costs recorded so far, was not solely due to the decrease in renovation or relocation costs. Instead, it was partly due to a large reduction in the budget for contingencies (including price escalation) from $478 million to $227 million since the Board's last report.

12. The Board is concerned whether this approach to cost reduction is conservative enough given the time-scale of the project. The ability of the project to remain within the approved budget is dependent on among other things that the specifications of the project

not be further modified; that there are no significant changes to the economic conditions; and that the project does not have to absorb what is described as “the Associated Costs.”

13. Secondly, the Board pointed out the inaccuracy in the project calculations. The amount of $342 million disclosed as construction in progress in the balance sheet encompasses not only the construction costs which actually enhance the value of the Organization’s assets, but also all CMP-funded operating expenses, some of which do not actually increase the value of assets. This accounting treatment inflates the Organization’s construction assets and does arise from the challenge of the Administration to separate capital costs from operating costs in its current accounting systems.

14. Concerning the schedule of the project, the Board, after considering the delay in the initial stages of the project, established that an average slippage of six months could impact the rest of the project if each subsequent stage requires the same time as was 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. However, the Office of the CMP intends to speed up the process.

15. Our last point refers to procurement. Indeed, the Board is concerned about the inadequate level of internal control over contract amendments as well as the non-adherence to the requirements of the Procurement Manual relating to the review and recommendation process. Seven contracts which were entered into in several years ago, have been amended dozens of times with a many-fold increase in their value, under special temporary increases in delegation of authority and change in practice. The new authority was not implemented as envisaged, thus leaving a gap for an extended period of time. As the expenditure on the project increases, the need for expedited procurement approvals need to be always considered against the established rules and procedures of the organisation. The practice of ex post facto approvals cannot replace proper prior review of contract amendments and for this reason we stress the need for the administration to fully implement the recommendations we have made.

Mr. Chairman,

16. My colleagues and I are available to answer any questions distinguished representatives might have.

Thank you.

End.