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BOARD OF AUDITORS
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Opening statement to the Fifth Committee

Introduction to the UN Board of Auditors report on the capital master plan for year ended 31 December 2012 (A/68/5 VOL. V)

31 October 2013

Dear Chairman,

Distinguished delegates

On behalf of the Chairman, Mr. Amyas Morse, (UK) and the other Board members, Mr Liu Jiayi (China) and Mr Ludovick Utouh (Tanzania) , I have the honour to introduce the report of the United Nations Board of Auditors on the capital master plan (CMP) for the year ended 31 December 2012.

Background

The circa $2 billion refurbishment of the UN headquarters in New York, the capital master plan, is a complex, high value and high profile refurbishment project to modernize, secure and preserve the architecture of the iconic 1950s campus. This latest annual progress report from the Board focuses on the key developments since we last reported to the Committee in 2012.

Key findings

There has been considerable physical progress since our last report, and with 91 per cent of the available financing committed, and two of the three main buildings largely completed, and the total level of risk to the delivery of the capital master plan is reduced. The Secretariat building has been re-occupied, the renovation of the Conference building is largely complete (May 2013), and work on the General Assembly building has commenced (June 2013). Overall, the CMP is on schedule to complete in 2015, but only with an intense effort from a highly skilled and committed project team, agreement on how to finance the current cost overrun, and a change in scope due to the enhanced security upgrade and the use of $65 million originally budgeted for the renovation of the Library and South Annex.

The key risk to delivery is the completion of the General Assembly building in time for the general debate in September 2014. The schedule has been compressed from 16.5 months to 13.5 months since the Board last reported. The Office of the Capital Master Plan has deployed experienced project managers who are actively applying lessons learned from the refurbishment of the similarly designed conference building that will mitigate some of the scheduling pressure. But there is an inherent uncertainty in the refurbishment of a 1950s building; and delays and issues that have subsequently occurred during the commissioning of the conference centre's state of the art broadcast system could also occur even at the very end of the General Assembly building project.

The anticipated final cost of $2.379 billion is $314 million more than the revised budget of $2.065 billion, some 15 per cent (Table 1 of this statement). This is a net $115 million reduction from the $430 million in excess of the budget we reported last year (paragraph 20 of the report). We note that no new cost pressures or significant risks have emerged since we last reported. In paragraphs 15 to 22 we detail the current financial position of the project, and also the Administration's September 2012 proposal to finance the cost overrun. This included the use of interest from the working capital fund, the $65 million budget of the cancelled renovation of the library and south annex buildings and significant cost efficiencies. The proposal was partially accepted by Member States and the Administration was due to put forward a revised plan in September 2013. We conclude that if no new major risks emerge then completing the capital master plan for the anticipated final cost is achievable, even allowing for the cost of accelerating the schedule for the General Assembly building if this is required.

Note: In addition to our commentary on the overall budget position, summarised above, we have used the term "reducing the cost overrun" to provide commentary on how the Administration plans to finance the difference between the currently approved budget of the capital master plan (that is approved budget plus commitment authority) versus the funds available to complete the project for the current, anticipated final cost. At the time *of audit, the Administration was not seeking a further assessment from Member States, and had presented options to fund the remaining elements of the capital master plan from within existing resources, with the exception of the associated costs. Permission to use existing funds will not reduce the reported budget overrun, but will enable the Administration to reduce the funding gap, or as we have termed it, the cost overrun.*

The position on the Library and South Annex has not changed. At the time of audit the Administration had not presented a costed solution to re-house the functions of these buildings elsewhere and find an alternative use for the buildings in light of security concerns. It was made clear during the audit that this is not the responsibility of the Office of the Capital Master Plan, but is part of wider thinking on the New York campus being led by Under-Secretary-General, Department of Management. We note that the latest Secretary-General's report contains some high-level options. The estimated $65 million budget to refurbish these building is being requested as part of the Administration's proposal to fund the cost overrun. Our view is that any decision on the use of these funds needs to take into account the cost of providing the "functions" of the library and south annex buildings elsewhere. Under the Administration's current approach, this cost would need to be met from a budget other than the capital master plan. We advocate that the Administration is transparent in its reporting to member states as to how much this will cost, if it happens, and where the funding will come from.

We cannot provide firm assurance about the robustness of the process to determine the anticipated final cost. We continue to note that the Office of the Capital Master Plan exerts firm control over expenditure, and shows considerable skill in driving value from its procurements. But we remain concerned over the robustness and analytical basis of cost forecasting. We acknowledge that the Office of the Capital Master Plan utilises expert advice in forecasting final costs, and that some improvements have been made in the last year in assigning costs to identified risks (paragraph 26-28). While this analysis provides the Office of the Capital Master Plan with some assurance, the identified risks are not explicitly linked to the forecast for the anticipated final cost. Additionally and as previously recommended, no structured trend analysis is undertaken to determine any potential liability for future change orders, claims or the costs of unexpected acceleration needed to finish the project.

In response to the Board's recommendations, the Administration has started a project to assess the cost and benefits of flexible use of office space. We view this as a positive development, while noting that our first recommendation on this matter was made in 2011. We believe more flexible use of office space could potentially realise significant cost efficiencies, not least the potential to reduce rented office accommodation in New York. In the meantime, we remain unable to verify the level of occupancy of the renovated United Nations' campus. The Administration could not provide the Board with an auditable basis for the total number of personnel working within the Secretariat or other Headquarters buildings, nor did it have actual occupancy data over a representative period of time. Good information on occupancy is integral to the United Nations developing a practical understanding of its current and future estate requirements, both in New York and across the wider global estate.

The UN does not have a long term asset management strategy for the newly renovated campus or globally for the entire UN estate. But we note that the Administration has commenced a strategic capital review of its estate which we welcome.

Finally, there are a number of lessons in how to deliver a major capital project in the United Nations, both positive and negative, that the Administration needs to learn. We have included an initial "Lessons learned" annex in the report (Annex V), which we intend to build on drawing on the Board's reporting on this project over the last decade.

Chair, this concludes my introduction. The Audit Operations Committee will as ever be available to answer any questions during the informal session of the Committee.

Thank you.

Hugh O'Farrell
Director of External Audit (UK)
Chair, Audit Operations Committee

Table 1: Anticipated final cost against budget & available funding, 31 March 2013 ($million)

	Capital Master Plan	*Associated Costs*	*Secondary Data Centre*	*Total*
Total approved consolidated budget				**2 065**
Total approved project budget[1]	2 061			
Total approved budget for associated costs		-		
Contribution to the secondary data centre from the support account for PKO			4	
Total anticipated final cost to the United Nations				**2 379**
Total anticipated final project costs	2 217			
Total anticipated final associated costs		143		
Total anticipated final costs of the secondary data centre			19	
Variance between budget and total anticipated final cost to the United Nations				**(314)**
Variance between project budget and total anticipated final project cost	(156)			
Variance between budget and total anticipated final associated costs		(143)		
Variance between budget and total anticipated final costs of the secondary data centre			(15)	