OPENING REMARKS AT FIFTH COMMITTEE
AUDIT OPERATIONS COMMITTEE (AOC)
OF THE UN BOARD OF AUDITORS (BoA)
MONDAY 5TH NOVEMBER 2012
IN CONNECTION WITH
THE REPORT OF THE BOARD OF AUDITORS ON
THE CAPITAL MASTER PLAN

Good morning Mr. Chairman and Distinguished Delegates.

On behalf of the Board of Auditors (BoA) and my colleagues in the Audit Operations Committee, I have the honor to introduce the main findings from our report on the capital master plan, which not only covers the events for the year ended 31 December 2011 but also the events, and cost increases for the period between January and March 2012.

Background

The $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.

Key findings

There has been good physical progress on the project

- Moving staff from temporary office space, known as 'swing space', back to the Secretariat Building commenced in mid-2012. If all goes well with the recant of staff to the Secretariat this will represent the completion of a significant project milestone and will help to reduce the overall level of risks to time and cost.

- Projected completion dates for the key campus buildings (Annex IV of the Board's report) are the same as those stated in the Board's previous report, with final project completion due in summer 2014, approximately a year later than planned, largely as a result of the necessary enhanced security upgrade.

- Despite the issues we highlight with the timeliness and robustness of forecasting and cost reporting, the Board remains of the view that the CMP has an experienced project delivery team negotiating contracts and managing contractors effectively and firmly in the best interest of the United Nations.

The final forecast cost is increasing. The Administration's anticipated final cost for the project as at March 2012 was $430 million (22 per cent) over budget.

- When the Board last reported the project, as at February 2011, was forecast to be $79 million (four per cent) over budget.
- In October 2011 the Administration reported that the forecast overrun had increased to $281 million.
- Between October 2011 and March 2012 the Administration reported further increased costs of $149 million, taking the total overrun to $430 million.

The reasons for the cost increases are set out in Table 2 on page 8 of the Board's report.

For the General Assembly to be able to make a timely and well-informed decision on the future funding of the project, the Administration must provide a complete, well justified and robust anticipated final cost

It is essential that there is confidence that the anticipated final cost of the project is as robust as possible, to help those charged with governance understand the impact of any decisions they may make. The Board is unable to give assurance that the Administration's anticipated final cost for the project is based on a comprehensive methodology; and, given the cost and time pressures highlighted in its report considers the final cost is likely to be even higher than currently reported. As a result, the Board as it has stated previously, can provide no assurance that the remaining contingency is sufficient.

Whilst the Administration has begun to improve its cost forecasting, and has stated its intention to contain the costs as much as possible, further significant cost pressures remain and at time of audit there were no reasoned and explicit allowances in the Administration's cost forecast for:

- The majority of remaining project risks;
- Change orders that will be needed but have not yet been identified. The Board's report highlights that if the current rate of change orders continues the total value could rise to around $235 million (compared to the reported value of $131 million as at February 2012);
- All likely acceleration activities to meet the project schedule;
- All current and potential future claims from contractors;
- Up-to-date estimates for the remaining guaranteed maximum price contracts;
- The costs of altering offsite office locations, to the extent that they will be met by the capital master plan budget.

In the meantime, the Board continues to highlight pressures on the already tight schedule to completion, and on costs, all of which could increase costs further. Given the forecast overrun, and the continuing pressures on time and costs, it is likely that the agreed scope of the project is unlikely to be deliverable within the current budget. Whatever the solution to dealing with the cost overrun, it must be agreed before it impacts on the project schedule to avoid further cost increases. For the General Assembly to be confident in the forecast final cost the Administration will need to consider how it can provide improved assurance on the robustness and completeness of the anticipated final cost.

At the time of the report there were no firm proposals for resolving whether the Library and South Annex remained within or outside the scope of the Capital Master Plan, and the likely implications for the budget for this part of the refurbishment.

The potential cost increases should have been highlighted much sooner

The fundamental drivers of the cost increases reported between October 2011 and March 2012 related to the realisation of cost pressures and risks that the Office of the Capital Master Plan had identified long before this time but not included any quantified assessment of in its forecasts.

The Administration did not adequately implement important recommendations, made in the Board's previous report, regarding the need for more analytical and complete cost forecasting, and to include allowances for the risks contained within the risk register. Had they been implemented, the Board considers that the financial difficulties of the capital master plan reported between October 2011 and March 2012 would have been apparent much sooner, facilitating more timely and effective decision making

Greater discipline in the management of contingency would have made a cost overrun in the order of $358 million apparent as early as October 2008

Deficiencies in the timeliness and completeness of project cost reporting (as highlighted in successive previous Board reports) are an important reason behind the recent need for an urgent decision by the General Assembly on commitment authority without sufficient time and full information on which to base its decision.

The Board notes that:

- The full likely costs and risks of the accelerated strategy had not been made clear when those charged with governance were asked to approve it;
- Greater discipline around the reporting and management of the project contingency would have made a cost overrun in the order of $358 million, apparent as early as October 2008.

A contingency is a specific budgetary provision which is allocated so that a project can quickly address the cost impact of project risks, either to help avoid them or to deal with them should they arise, without needing to delay the project and negotiate increased funding. The Board fully supports the concept of well managed contingencies for major projects, however, it is crucial that the Administration does not use contingency funding as a device to absorb general increases in project costs and clearly reports how and when such provisions have been used.

Although the final actual cost of the project would not have changed, if the $496 million funding provided as a project provision had been ring-fenced, rather than partially used to cover the budget deficit then the General Assembly would have been given a more accurate picture of the likely cost of the project in October 2008. Plans could have been put in place to address the deficit at that point, leaving contingency in place to cover the cost impact of risks. Paragraphs 56-62 of our report provide more detail on these points.

There has been positive action to address the Board's previous concerns over the readiness of Facilities Management Service to take control of the campus at handover.

Despite the positive actions handover remains a high risk area requiring close senior management attention.

Significant savings could be realised though harnessing flexible use of office space.

The Board continues to highlight the need for the Administration to assess the potential benefits of a well managed move towards flexible use of office space, in particular through flexible use of desk space facilitated by mobile ICT technology already available within the UN.

This concludes my brief introduction of the Board's report on the capital master plan. Thank you for this opportunity to communicate with the Fifth Committee. My colleagues and I will endeavor, as always, to answer any questions you may have during the informal session of the Committee.

Liu YU
Director of External Audit (China) and
Chair of Audit Operations Committee (AOC)