



General Assembly

Distr.: General
24 November 2015

Original: English

Seventieth session

Agenda item 131

**Financial reports and audited financial statements, and reports
of the Board of Auditors**

Strategic heritage plan of the United Nations Office at Geneva

Note by the Secretary-General

Pursuant to section V, paragraph 11, of General Assembly resolution 68/247 A, the Secretary-General has the honour to transmit herewith the first report of the Board of Auditors on the strategic heritage plan of the United Nations Office at Geneva.



Letter of transmittal

**Letter dated 30 November 2015 from the Chair of the Board of
Auditors addressed to the President of the General Assembly**

I have the honour to transmit to you the first report of the Board of Auditors on the strategic heritage plan of the United Nations Office at Geneva.

(Signed) **Mussa Juma Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

Report of the Board of Auditors on the strategic heritage plan of the United Nations Office at Geneva

Summary

The strategic heritage plan involves the renovation of the United Nations Office at Geneva to meet the requirements of the Organization and address health, safety and working conditions. The Office serves as a global centre for the Organization's sustainable development, humanitarian, human rights, disarmament and disaster risk reduction activities. The United Nations Office at Geneva complex is the largest United Nations conference centre in Europe, and the Office has 191 permanent and observer missions accredited to it.

On 27 December 2013, the General Assembly, in its resolution 68/247 A, concurred with the need to address the health, safety, usability and access needs at the United Nations Office at Geneva. The Assembly also stressed the importance of oversight with respect to the development and implementation of the strategic heritage plan and requested the Advisory Committee on Administrative and Budgetary Questions to request the Board of Auditors to initiate oversight activities and to report thereon to the Assembly. Pursuant to that resolution, on 27 January 2014 the Chair of the Advisory Committee requested the Board of Auditors to consider the matter and to report thereon to the Assembly. In response, the Chair of the Board of Auditors confirmed on 27 August 2014 that the Board would audit and report on the strategic heritage plan.

The project is currently projected to cost CHF 836.5 million (\$869.54 million) and is expected to be completed in 2023. It is proposed to be implemented in two phases: the construction of the new building is targeted to commence in 2017 and to be completed by 2019, and the renovation of the existing buildings will be completed in 2023.

Overall conclusion

The strategic heritage plan is currently at the stage of seeking approval from the General Assembly. While there were no issues that should inhibit approval of the project, there were areas of concern that had implications for both the timely completion of the project and its overall costs that merited attention going forward. The Board acknowledges that the strategic heritage plan management team has made a very credible effort to take cognizance of the lessons learned from previous projects, including the capital master plan, but the real test is how well they are applied in practice. Similarly, while the governance structure put in place is largely adequate, the real test of efficacy is how effectively its structures actually operate, which would be known only in due course. At present, there is a need for a clearer definition of responsibilities between the Advisory Board and the Steering Committee that have been set up to advise the Director-General of the United Nations Office at Geneva on issues arising during the course of the project.

The timelines for seeking financial approvals and for bringing the project forward are aggressive and may pose challenges for the Administration. Given that delays have already been experienced in the preliminary activities of finalization of the master design plan, the concept design and the detailed project design,

achievement of the timelines will require very close monitoring of the various activities, as well as subactivities, of the project, coupled with proactive action to address the impediments that may arise.

While acknowledging that there are a number of pricing books, models and standards relating to such construction and renovation projects and that it is for the Administration to decide which to adopt as a reference point for its estimates, the Board notes that it is important that there be a clear and objective basis for any such estimations. Hence, the cost estimates and, specifically, allowances for overheads and profits, consultants' fees and contingencies should be refined and preferably based on established industry guidelines or standards set by internationally accepted standard-setting bodies and transparently enhanced for location, as necessary. These have an important bearing on the overall cost of the project.

There is also a need to more closely align the procurement and contracting processes with the stipulations and safeguards of the Financial Regulations and Rules of the United Nations, as well as the United Nations Procurement Manual. While there may be circumstances where some relaxation of the stipulations may be necessary in the interest of timely implementation of a project of such complexity, the need to safeguard and protect the interests of the United Nations in the event of a contractor failing to discharge his or her contractual obligations should be ensured.

The Board's key findings and recommendations are summarized below.

Key findings

Activities planned and accomplished during 2015

It had been envisaged that the design master plan would be completed by the lead design firm in March 2015. This was critical, as the design master plan set the overall design strategy and guidelines that constitute the overarching internal control framework, including quality assurance mechanisms, for the design and construction activities that would follow. It was also planned that evaluation of the building and in-depth site assessments, the concept or schematic design for the strategic heritage plan, development of detailed designs for the construction of the new building, renovation of the existing conference building A, fire protection of the historical archives, development of the detailed cost estimates and preparatory activity for tender documentation would be completed in 2015.

Deliverables targeted for completion in 2015 have not been fully achieved. There were significant gaps in respect of the concept design and certain essentials that still remained to be delivered at the time of approval to commence the detailed design. The detailed design stage commenced on 28 September 2015, and initiation of preparatory activity for tender documentation is now expected to commence in May 2016. Such slippages may have an adverse impact in terms of timelines for the project and firming up of the cost estimates.

Lessons learned from the capital master plan and other projects

While the strategic heritage plan management team has taken note of most of the major issues or lessons learned from previous projects, including the capital master plan, including with regard to scoping and associated costs, knowledge of the local market, life cycle of assets, consultations with stakeholders, project manuals, risk management, change control and contingency management, the true value of the

lessons would lie in how effectively they are actually embedded in the implementation of the project. Certain activities that are important from the internal controls point of view, such as the development of project manuals, including change controls, need to be expedited.

Delay in project design

There have been delays in the completion of many of the activities relating to project design up to 56 days. They were attributed to a variety of reasons, including delays in the retrieval of archived documents necessary for the structural and geotechnical surveys and in the submission of actual location information and its review by management for the conduct of intrusive tests, rescheduling of surveys for some locations stated to be inaccessible and a delay in the revision process for the final concept design.

Preliminary budget and cost estimates

The detailed costs have been worked out by the consultant and were submitted on 29 July 2015 for various buildings under the strategic heritage plan. The cost of many items was on a lump-sum basis and arrived at on the basis of historical and local market conditions without a detailed supporting rate analysis. The Board also noted that allowances made for some elements, such as overheads and profits, consultants' fees and contingencies, appeared to be in excess of what was indicated in commonly used industry standards. For instance, the percentage for preliminaries in the estimate was 14 per cent,^a against 10-13 per cent in some standard pricing books, such as the *Spon's Architects' and Builders' Price Book*, or industry practices; the percentage for overheads and profits was 5 per cent,^b against a typical industry percentage of 2.5 per cent; allowance for consultants' fees was 16.12 per cent,^c against 7.0-10.5 per cent advocated by an internationally recognized industry body; and contingencies were at 18.11 per cent,^d against the 6-12 per cent recommended by the United Nations Office for Project Services. While acknowledging that there are different pricing books and standards in the industry itself and that the quantum of such allowances would depend on the nature and complexity of specific projects, the Board notes that cost estimates should normally be based on some established industry standard duly enhanced for location, as necessary. This would be more transparent and objective and enhance assurance as to the financial soundness of the cost estimates.

Governance structure

A provisional Advisory Board has been constituted and a provisional Chair appointed to provide independent and impartial advice to the Director-General of the United Nations Office at Geneva for issues arising from the implementation of the project. A Steering Committee has also been established to provide oversight of the project and its implementation and to support the Director-General by providing advice and guidance regarding project design, construction, budget and changes in scope of the project.

However, the terms of reference for both the Advisory Board and the Steering Committee provided very preliminary information with respect to their roles and responsibilities and did not clearly define their distinct mandates.

Internal controls

There had already been delays in the completion of several activities, such as completion of the design master plan (by 28 days), concept design completion (by 45 days), initiation of a detailed design for phase I of the new building (by 42 days) and initiation of a detailed design for phase I of the renovation (by 56 days). This underlined the imperative need for a robust mechanism of internal control in order to reduce the overall impact on the cost and schedule of the project.

Development of a project manual is currently in progress. The existence of an updated manual is an important element of internal control and is extremely significant for creating documentation with respect to such critical issues as justifications, procedures and mechanisms adopted for changes with respect to the scope, cost and schedule of the project.

Procurement and contracting

The Administration confirmed to the Board that the relevant regulation of the Financial Regulations and Rules of the United Nations that enunciated the general principles to be given due consideration when exercising procurement functions, as well as the provisions of the United Nations Procurement Manual in relation to ethical standards and responsibilities in procurement, would be adhered to. This included provisions relating to security instruments, including performance and payment bonds, and financial protection in case of default, including liquidated damages.

A review of ongoing contracts indicated delays in deliverables under different contracts for the provision of programme management services and the provision of civil and structural engineering services and in the submission of the final report by the consultant under a contract for survey for hazardous material. However, there was no provision for levy of liquidated damages for delays attributable to the contractors in any of those contracts. In one contract, there was a provision for limitation of liability of the contractor, which constituted a deviation from the standard terms of contract envisaged in the Procurement Manual. Hence, there was significant divergence between the procurement actions and the stipulations of the Financial Regulations and Rules of the United Nations and the United Nations Procurement Manual.

Risk management

The strategic heritage plan, being a major construction and renovation project, involves a wide variety of risks. Risk assessment and mitigation thus becomes a priority area of concern for the project. The primary risks identified currently include: (a) management of foreign currency exposure, since two currencies are involved in the funding and execution of the project, namely Swiss francs and United States dollars; (b) maintenance strategy for the assets created; (c) the stringent timelines, which involve coordinated actions by various interrelated parties; (d) scope control, contingency spending and management of change orders; and (e) protection and preservation of artworks.

Main recommendations

On the basis of its review of the activities so far, the Board recommends, in order to strengthen the implementation process going forward and to mitigate the risks, that the Administration:

(a) **Monitor the implementation of various activities to minimize time overruns and take proactive remedial measures to meet project timelines without any dilution of the quality and scope of the project deliverables;**

(b) **Expedite such activities as the development of project manuals, including change control, ensure the inclusion of security standards at the design stage and maintain a consultation process with all stakeholders to ensure a smooth transition;**

(c) **Formulate specific risk mitigation plans for each identified risk area so that there is no impediment during the course of implementation of the project that compromises stipulated cost or timelines;**

(d) **Refine and update the preliminary budget estimates on the basis of a standard schedule and proper analysis of rates with reference to standardized pricing books and established industry guidelines set by internationally recognized standard-setting bodies with enhancement for local conditions, as necessary;**

(e) **Refine the terms of reference of the Advisory Board and the Steering Committee for clarity, with clear definition of their responsibilities and jurisdiction;**

(f) **Ensure adherence to the provisions of the Financial Regulations and Rules of the United Nations and the Procurement Manual to protect the interests of the Organization and minimize deviations therefrom. Where such deviations are deemed necessary, there must be clear and transparent justification along with approval of the competent authorities.**

The Administration informed the Board that it concurred with the recommendations and had initiated various actions recommended.

^a Of facilitating works plus building works.

^b Of facilitating works plus building works plus preliminary works.

^c Of total building work.

^d Of the base estimated cost.

Contents

| | <i>Page</i> |
|--|-------------|
| Letter of transmittal | 2 |
| Strategic heritage plan: key facts | 9 |
| A. Mandate, scope and methodology | 9 |
| B. Background of the project | 10 |
| C. Audit findings | 12 |
| 1. Activities planned and accomplished during 2015 | 12 |
| 2. Lessons learned from the capital master plan and other projects | 14 |
| 3. Delay in project design | 15 |
| 4. Cost estimates | 16 |
| 5. Local approvals and clearances | 18 |
| 6. Budgetary process | 19 |
| 7. Project governance | 22 |
| 8. Engagement with stakeholders | 24 |
| 9. Procurement and contracting | 25 |
| 10. Risk management | 28 |
| D. Recommendations | 29 |
| E. Acknowledgements | 30 |

Strategic heritage plan: key facts

Objective: To modernize and renovate the United Nations Office at Geneva complex at the Palais des Nations in Geneva

| | |
|-------------------------|---|
| \$869.54 million | Proposed cost of project |
| 2015 | Detailed designing and budgeting |
| 2017 | Commencement of project |
| 2019 | Completion of construction of new building |
| 2023 | Completion of renovation of existing building |

A. Mandate, scope and methodology

1. The strategic heritage plan involves the renovation of the United Nations Office at Geneva to meet the requirements of the Organization and address health, safety and working conditions. In September 2013, the Secretary-General submitted a detailed implementation plan and cost analysis for the strategic heritage plan (see [A/68/372](#)), which brought out the urgent need to address critical health and safety risks and the long-term viability of operations and business continuity at the Office. The project was proposed to be funded through a multi-year capital investment strategy including assessed contributions and voluntary donations alongside other potential sources, such as preferential loans from the host nation. The strategy envisaged that detailed design work and procurement would start early in 2015, with a view to commencing construction no later than early 2017 and project completion by the end of 2023.

2. On 27 December 2013, the General Assembly, in its resolution 68/247 A, concurred with the need to address the health, safety, usability and access needs of the United Nations Office at Geneva and approved \$16.6 million to continue technical assessments and design work under the strategic heritage plan during 2014. The Assembly also stressed the importance of oversight with respect to the development and implementation of the strategic heritage plan and requested the Advisory Committee on Administrative and Budgetary Questions to request the Board of Auditors to initiate oversight activities and to report annually thereon to the Assembly.

3. Pursuant to the above-mentioned resolution, on 27 January 2014 the Chair of the Advisory Committee requested the Board of Auditors to consider the matter and report thereon annually to the General Assembly. In response, the Chair of the Board of Auditors confirmed on 27 August 2014 that the Board of Auditors would audit and report on the strategic heritage plan. The Board conveyed that the reporting stages should be in consonance with the actual phases of implementation of the project so as to ensure a tangible and meaningful outcome. Hence, annual reporting might be excessive, as in some years the Board might be reporting on relatively immaterial changes in project status. The first report of the Board would be prepared during the last quarter of 2015 and would focus on those areas that would most effectively aid and inform the Fifth Committee in its consideration of the strategic heritage plan. These would include the rigour and completeness of the

project's design and budgeting processes, the proposed project governance, management and commercial arrangements and the management of risks going forward. The Board underlined that, to maintain its independence, it would not be validating the budgets or forecasts of the Administration and that the first report would not constrain or compromise, in any manner, the Board from subsequently making observations as to the management or governance of the project that it may consider necessary during the process of actual audit. The initial report would provide an opinion only on the robustness of the processes to arrive at the budget. Thus, there would be a total of five reports, including the present one, linked to the proposed schedule of works that would provide appropriate external oversight assurance at key decision points. In non-reporting years, the Board would continue to monitor the progress of the project and, if any significant issue were to arise, it would be covered in volume I of the report of the Board or some other output for the Advisory Committee and the Fifth Committee.

4. The current audit exercise was conducted in accordance with General Assembly resolutions 74 (I) and 68/247 A and in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing, as applicable.

B. Background of the project

5. The Palais des Nations, originally built for the League of Nations, comprises a historic building complex completed in 1937 and expanded in the 1950s, to which a conference facility and office tower and building E were added in 1973. The buildings contain 34 major conference rooms and some 2,800 workspaces, including 222 touchdown workspaces for conference participants. The United Nations Office at Geneva serves as a global centre for the Organization's sustainable development, humanitarian, human rights, disarmament and disaster risk reduction activities. The United Nations Office at Geneva complex is the largest United Nations conference centre in Europe, and the Office has 191 permanent and observer missions accredited to it. More than 35 entities of the United Nations system have a presence in Geneva, including the headquarters of five specialized agencies.

Key objectives of the project

6. Since the construction of the Palais des Nations in 1937 and building E in 1973, the compound has undergone only minimal maintenance and repairs that were considered necessary for the Office's operations. Such limited maintenance over time has resulted in an increase in maintenance requirements and cost, as well as an increasing risk to the safety, security and health of United Nations delegates, staff and the more than 100,000 visitors per year. As a result of the gradual deterioration of the Palais des Nations buildings over several decades, the strategic heritage plan was initiated to renovate and modernize the compound. The key objectives of the plan were:

- (a) To guarantee and ensure the business and operational continuity of the Palais des Nations by maintaining its day-to-day business;
- (b) To meet all relevant regulations related to fire protection, health and life safety and building code compliance;
- (c) To meet all relevant regulations relating to persons with disabilities, including provisions for accessibility and technology;

(d) To repair and update the building enclosure and the electrical, mechanical and plumbing systems in order to meet relevant health and safety regulations and reduce energy costs;

(e) To upgrade the existing information technology networks, broadcasting facilities and conference systems in compliance with industry standards;

(f) To optimize the use of the available interior spaces and conference facilities, providing flexible and functional conference rooms;

(g) To preserve the heritage, prevent irreversible deterioration or damage and restore and maintain the capital value of the Palais des Nations and its contents.

Estimated cost

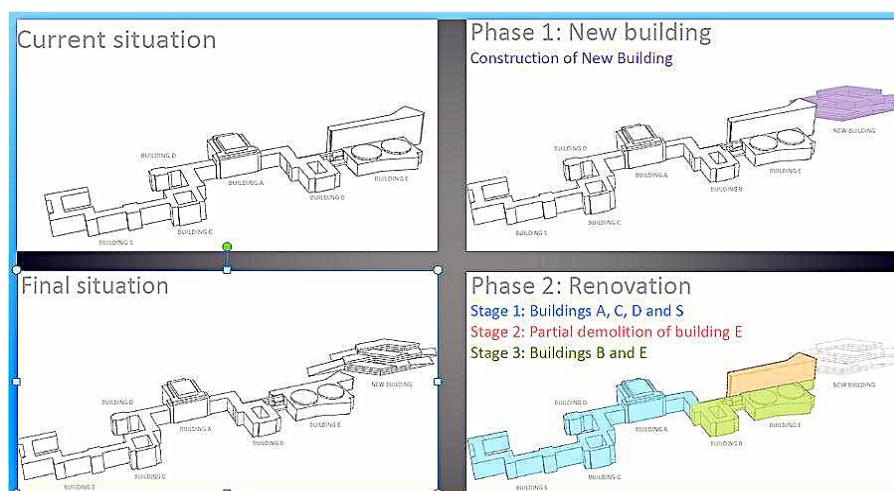
7. The project is currently projected to cost CHF 836.5 million (\$869.54 million)¹ and is expected to be completed in 2023. The Government of the host country has offered a loan package of CHF 400 million (\$415.8 million) covering both the construction and renovation parts of the project at a zero rate of interest.

8. The host Government has conveyed that the formal application for the loan will need to be submitted in January 2016 in order to obtain the funds needed in January 2017.

Implementation schedule

9. The project is proposed to be implemented in two phases. The construction of the new building is targeted to commence in 2017 and to be completed by 2019. The renovation of the existing buildings will be carried out from 2019 to 2023. During that time, the new building will serve as temporary swing space. It is proposed that the construction firm for the construction of the new building be appointed early in 2017 and that for the renovation of the existing buildings early in 2019. The broad phasing is depicted in the figure below.

Phasing of construction



¹ All conversions are at the United Nations operational rate of exchange of \$1 = CHF 0.962 as at 1 September 2015.

Approval sought from the General Assembly

10. In the second annual progress report of the Secretary-General (A/70/394 and Corr.1), the General Assembly was requested: (a) to approve the project scope, schedule and estimated cost in the total amount of CHF 836.5 million (\$869.54 million), of which CHF 41.2 million was projected expenditure under the regular budget for the biennium 2014-2015; (b) to make a decision on the loan package offered by the host country; and (c) to decide on the scheme of appropriation and currency of assessment. The Assembly was also requested to establish a multi-year special account for the accounting of the project and a working capital reserve in an amount of \$20 million.

C. Audit findings

1. Activities planned and accomplished during 2015

11. The Secretary-General, in his first progress report (A/69/417), outlined the following steps to be taken during 2015:

(a) Completion of the design master plan by the lead design firm in March 2015, which was critical, as it set the overall design strategy and guidelines that constitute the overarching internal control framework, including quality assurance mechanisms, for the design and construction activities that would follow;

(b) Completion and evaluation of the building and in-depth site assessments, which would allow the specialist design firm to finalize the detailed physical building assessment, which must take place before the firm could proceed to the concept/schematic design. The in-depth assessments would not only aid in the development of the overall design and cost estimate but also reduce uncertainty regarding the scope of remediation work that would need to be undertaken and hence allow for greater certainty in both the project schedule and the estimated project cost;

(c) Completion of the concept or schematic design for the entire strategic heritage plan. The concept/schematic design set the basis for the development of the detailed cost estimate and the tender package (including of detailed drawings, specifications and bill of quantities) deemed necessary for the launching of tenders to select the construction firm in order to enable construction activities to start no later than the first quarter of 2017;

(d) Development of detailed designs for the construction of the new permanent building, renovation of conference building A and fire protection of the historical archives in building B;

(e) Development of the detailed cost estimate for the entire strategic heritage plan;

(f) Initiation of preparatory activity for tender documentation.

12. The status with respect to each of the above-mentioned activities at the time of completion of the audit (23 October 2015) was as follows:

(a) The lead design firm submitted the initial interim design appraisal feasibility and master plan on 20 March 2015 and the final design appraisal feasibility and master plan on 24 April 2015. A review by management indicated the

need for certain further upgrades, and the lead design firm resubmitted the final design appraisal feasibility and master plan on 1 September 2015. The submission was found by the management to be “substantially” complete;

(b) At the time of completion of the audit on 23 October 2015, the lead designer and other strategic heritage plan consultants had concluded a number of in-depth site assessments to the level required to move the design forward, which included a detailed architectural survey, a mechanical, electrical and plumbing survey, a fire and life safety analysis, an accessibility survey, a detailed hazardous material survey, a geotechnical survey and a topographical survey;

(c) The lead design firm submitted the 50 per cent level of the draft concept design on 5 June 2015 and the 100 per cent draft on 20 July 2015. On 19 and 31 August 2015, the lead design firm resubmitted the final draft of the concept design. While these were found by the strategic heritage plan team to be “substantially” complete, a resubmission was deemed necessary to address further additional comments with particular regard to value engineering. The detailed cost estimate for the project based on the concept design was provided by the design firm as part of the concept design submission;

(d) The detailed design stage for the new building commenced on 28 September 2015. Issuance of the notice to proceed with the detailed design for building A and building B archives was being issued;

(e) The detailed cost estimates will be based on the detailed design once further developed and included in future submittals for review by the strategic heritage plan team;

(f) The preparation of tender documentation for the new building was due to commence in May 2016 and be completed in October 2016.

13. The Board observed the following:

(a) The concept design submitted by the contractor had various shortcomings, such as inadequate internal coordination of various components of the concept design, the format of the report not being in line with the contract, the content not meeting the requirements, the scope of the project not being in line with the contract and budget limits being met through scope control;

(b) The format of the report of the design master plan submitted by the contractor, even after various revisions recommended by the United Nations Office at Geneva, did not meet all the criteria;

(c) The lead designer and other strategic heritage plan consultants had concluded a number of in-depth site assessments, which were stated to be sufficient to move the design forward, but it was not clear whether all the planned assessments had been carried out.

14. Thus, there were significant gaps in the concept design, and certain essentials still remained to be delivered at the time of approval to commence the detailed design. The detailed design stage commenced on 28 September 2015, and preparation of tender documentation is now expected to commence in May 2016. It is clear that all the deliverables targeted for completion in 2015 have not been fully achieved. As the concept design is the foundation for the subsequent detailed

designs and cost estimates, such slippages may have an adverse impact in terms of timelines for the completion of the project and firming up of the cost estimates.

15. The Administration informed the Board that the strategic heritage plan team was closely monitoring the work and taking proactive steps to ensure that project timelines were met without loss of quality.

2. Lessons learned from the capital master plan and other projects

16. The Advisory Committee and the Fifth Committee have repeatedly stressed on various occasions that the lessons learned from the implementation of various construction and renovation projects must be taken note of and appropriately factored into the planning, design, costing and implementation of subsequent projects, including the strategic heritage plan. The lessons highlighted would, if taken on board, improve the chances of success by shrinking risk and promoting learning and standard-setting and enable a move towards being an Organization with a modern asset management approach and project delivery capability.

17. The strategic heritage plan management team has taken note of most of the major issues or lessons learned from the previous projects. These included scoping and associated costs, knowledge of the local market, life cycle of assets, consultations with stakeholders, project manuals, risk management, change control and contingency management. Regarding the appointment of an independent technical adviser, management believes that the combination of a risk management consultant, an Advisory Board and a Steering Committee provides appropriate independent technical assurance.

18. At this stage, the Board sees no reason to differ from the assessments of management relating to the factoring in of the lessons learned from previous projects. However, the Board would stress the following:

(a) Application of the lessons is not an end in itself and should not be reduced to mere procedural compliance. The true value of the lessons would lie in how effectively they are actually used to monitor the execution of the project, which would be evident only as the implementation progresses;

(b) In some areas that are extremely important from the internal controls point of view, such as the development of project manuals, work needs to be stepped up and manuals finalized at the earliest. The manuals would be indispensable in providing the required documentation to ensure that the project achieves the planned milestones, especially in times of incumbency changes;

(c) Change control, which has been stated as being a part of the manual, also needs to be firmed up with clearly defined delegation of powers and identification of authorities for approving changes;

(d) United Nations security standards are stated to be under finalization by the Department of Safety and Security of the Secretariat. This too needs to be pursued, and the incorporation at the design stage of additional requirements arising from security concerns and their execution as part of the project need to be ensured;

(e) Difficulties in migrating to the swing space cannot be overemphasized, and the strategic heritage plan should continue to maintain continuous engagement with staff and stakeholders to ensure a smooth transition.

19. The Administration noted that the Office of Central Support Services would have an ongoing role of ensuring that lessons learned from other capital projects are incorporated. The project manual was now substantially complete, security standards had been included in the design and the budget of the project and extensive consultation with stakeholders would continue.

3. Delay in project design

20. In its resolution 68/247 A, the General Assembly requested the Secretary-General to reduce the planning phase as far as possible with an aim to start construction work at the earliest opportunity, while ensuring robust internal project control mechanisms in the context of the scope, cost, schedule and quality of the strategic heritage plan. According to the first progress report of the Secretary-General (A/69/417), the work related to the design master plan was expected to begin in October 2014 and to be completed by March 2015 before proceeding with the concept/schematic design, which was scheduled to begin by April 2015. The Administration added that the design-bid-build strategy² would be used for construction of the new building and either a design-bid-build or a design-build contract for the renovation contract and that a single contractor would be engaged for each.

21. To achieve the time targets, subsidiary activities were to follow certain timelines. The Board noted delays in completion of many of those activities, as set out in table 1 below.

Table 1
Delay in completion of activities

| <i>Activity</i> | <i>Original stipulated date</i> | <i>Actual completion date</i> | <i>Delay (days)</i> |
|---|---------------------------------|---|---------------------|
| 1 Design master plan | 20 February 2015 | 20 March 2015 | 28 |
| 2 Feasibility study — interim | 17 March 2015 | 20 March 2015 | 3 |
| 3 Concept design interim final phases | 17 July 2015 | 20 July 2015 | 3 |
| 4 Concept design final cost | 30 July 2015 | 7 August 2015 | 8 |
| 5 Concept design final plus comment | 14 August 2015 | 18 August 2015 | 4 |
| 6 Concept design completion notice | 14 August 2015 | 28 September 2015 | 45 |
| 7 Start of detailed design for phase I of project — new building | 17 August 2015 | 28 September 2015 | 42 |
| 8 Detailed design for phase I of project — new building — interim draft | 14 October 2015 | In progress ^a | |
| 9 Start of detailed design for phase I of renovation | 17 August 2015 | 12 October 2015 | 56 |
| 10 Building B1 design development — interim draft | 14 October 2015 | In progress ^b | |
| 11 Hazardous material survey | 21 April 2015 | 31 July and 31 August 2015 ^c | |

^a Detailed design started on 28 September 2015.

^b Detailed design started on 12 October 2015.

^c Delay was due to rescheduling of surveys on account of inaccessible locations.

² In this process, the detailed construction drawings for all components of the construction works are completed before bids are invited to engage a contractor to undertake the work.

22. The delays were attributed to a variety of reasons, including delays in the retrieval of archived documents necessary for the structural and geotechnical surveys and in the submission of actual location information and its review by management for the conduct of the intrusive tests, rescheduling of surveys for some locations stated to be inaccessible and a delay in the revision process for the final concept design.

23. In accordance with the revised timelines, detailed design was to commence on 31 August 2015 and expected to be completed by 28 October 2016. However, the detailed design process actually commenced on 28 September and on 12 October 2015 for new construction and renovation, respectively. The Administration intends to commence the construction work for the new building on 5 May 2017 and for the renovation on 8 March 2019.

24. There have been delays in the finalization of concept design and slippages in the commencement of detailed design work. The Administration also informed the Board that a period of 12 to 15 months would be required for procurement. Furthermore, the request for the loan from the host Government had to be made by January 2016 if it was to be considered by the host nation's Parliament for it to be made available from January 2017. It is evident that the timelines are very tight and that any slippage will delay the process of seeking financial support from the host country, which will, in turn, delay the commencement of the project. The Administration will need to continuously monitor time overruns and take appropriate remedial measures to achieve construction milestones.

25. The Administration stated that mitigation strategies were being developed to recover the schedule.

4. Cost estimates

Preliminary budget estimates

26. The detailed costs have been worked out by the consultant and were submitted on 29 July 2015 for various buildings under the strategic heritage plan. The cost estimates were based on a broad conceptual design and may change as the design progresses and more project details become available. The Administration informed the Board that the rates for the cost estimates were based on: (a) historical data from some recent projects undertaken by the consultants in the Geneva area; (b) comparative rates from similar projects elsewhere, after adjusting for location and escalation; and (c) industry standard pricing books, such as the *Spon's Architects' and Builders' Price Book*, along with location factors. Regarding verification of the cost estimate, the Administration informed the Board that the cost estimates provided by the consultant had been validated at a number of levels.

27. The Board noted that many items were on a lump-sum basis, based on historical and local market conditions, without a detailed supporting rate analysis. The Board noted, for instance, the following:

(a) In arriving at rates for replacement of doors and windows, the window replacement cost, averaging CHF 1,500 per square meter (\$1,559), was included in the cost plan. The same rates were adopted for both doors and windows. It was not known how the rate was arrived at and how it was applicable for both doors and windows. The Administration stated that the design was still at the conceptual level

and that the window material and costs were based on a recently completed window replacement project at the Palais des Nations;

(b) The amount of CHF 18,460,000 (\$19,189,189) was planned for the removal of toxic hazardous material. The Board was informed that allowances had been made in consultation with local experts for the removal of hazardous materials. Such allowances are, by their very nature, based on average rates and are subject to review as more detailed and extensive surveys are completed. The report of the survey was to be submitted on 21 April 2015, but the final draft of the hazardous material assessment was completed only on 31 August 2015. That report should have been used as the basis for working out the cost per ton or square area in a verifiable manner and factored into the analysis of rates. Simply depending on cost consultants' professional judgement and opinion is not sufficient;

(c) The Board was informed that, where data from sources other than projects local to the site were used, the data had been adjusted to reflect pricing levels and specifications in Geneva, which generally attracts a premium of up to 20 per cent compared with the rest of Europe. The Board could not get a detailed calculation in support of that figure. The Board observed that it must be ensured that the factor of 20 per cent was arrived at on the basis of a comparative analysis and technical judgement and sufficiently documented for a better understanding and audit trail.

28. The Board also observed that cost estimates should normally be based on some standardization founded on published data duly enhanced for location, as necessary. The Board noted the following:

(a) *Allowances for overheads and profits.* Based on the consultant's estimates, the building cost had been enhanced by 14 per cent of the project cost (facilitating work plus building work) for the main contractor for preliminaries and by a further 5 per cent for contractor overheads and profits. The Board noted that, looking at industry standard pricing books, such as the *Spon's Architects' and Builders' Price Book*, the percentage for preliminaries ranged from 10 per cent to 13 per cent, against the 14 per cent allowed in the estimates. Similarly, a typical percentage for overheads and profits was 2.5 per cent (facilitating works plus building works plus preliminary works), against the 5 per cent allowed in the estimates. Hence, the cost enhancements for preliminaries and overheads and profits appeared to be on the higher side when benchmarked against standard industry practice;

(b) *Consultant's fees.* The cost estimate included a provision for consultant fee allowances in the amount of CHF 164,306,161 (\$170,796,425), which was 16.12 per cent of the total building work. According to the Royal Institute of British Architects plan of work, a definitive internationally accepted model for the building design and construction process, the maximum percentage of consultancy fees for new work and works to existing buildings is 7.0 per cent and 10.5 per cent, respectively. The Board observed that provisions for consultant fee allowances should be based on established industry guidelines or those set by internationally recognized standard-setting bodies;

(c) *Contingency allowances.* The Administration stated that the amount of project contingency had been calculated using industry best practice and benchmarks against similar major projects. The allocation of contingency within the project was based on a risk analysis approach to specific cost elements within the project according to current risks. On the basis of the foregoing, the total overall contingency

sum for the strategic heritage plan was established at the concept design stage at CHF 91.9 million (\$95.53 million), which worked out to 18.11 per cent of the base estimated cost. The Board acknowledges that the approach has shifted from a fixed percentage to a risk analysis-based amount. However, the Board notes that the Joint Inspection Unit, in its report on capital/refurbishment/construction projects across the United Nations system organizations (JIU/REP/2014/3), stated that the United Nations Office for Project Services recommended the inclusion of a contingency sum of about 6-12 per cent in the procurement submission as a contingency allowance to cover unforeseen and unknown components. The overall contingency of 18.11 per cent was on the higher side compared with that Office's recommendations. The Administration stated that, while the Organization periodically benchmarked itself against other entities, comparison to such entities and acceptance of recommendations would be considered only where applicable.

29. The Administration stated that there was no standard or proper schedule available in the marketplace and that commercially published documentation, which, by its very nature, was based on averages, was out of date. It added that the concept stage cost plan had been prepared using real data and the cost consultant's professional judgement and opinion.

30. While acknowledging that there are a number of pricing books, models and standards relating to such construction and renovation projects and that it is for the Administration to decide which to adopt as a reference point for their estimates, taking into account the nature and complexity of the project and locational issues, the Board notes that it is important that there be a clear and objective basis for any such estimations. Hence, the cost estimates and specifically allowances for overheads and profits, consultant's fees and contingencies should be refined and preferably based on established industry guidelines or standards set by internationally accepted standard-setting bodies and transparently enhanced for location, as necessary. This would be more transparent and objective and enhance assurance as to the financial soundness of the cost estimates.

5. Local approvals and clearances

31. The Administration informed the Board that, in accordance with the precedent set by all other known projects by international organizations in Geneva and previous projects on the Palais des Nations, the United Nations Office at Geneva intended to submit the documentation necessary to obtain building permits on a voluntary basis to ensure that critical local standards and codes were met, particularly with regard to fire, life safety and utility connections. Geneva Canton permit application required detailed technical information from the end of the detailed design/technical design stage. The application was scheduled to be submitted early in 2016. A strategic heritage plan operational group had been established with the Permanent Mission of Switzerland and the Building Foundation for International Organizations with coordination as one of its prime functions.

32. Zoning derogations will be required for the construction of the new building. As such derogations cannot be approved until the formal permit has been submitted, formal approval has been obtained from local authorities on a preliminary basis to ensure that the project being developed will be supported once a request for the permit is made. Such clearances may take from 8 to 12 months. In accordance with the latest status of activity, the detailed design/technical design stage is scheduled to

be completed by October 2016 and tender documentation process can commence only thereafter. Construction is proposed to commence in May 2017. Hence, if submission of the application for building permits from the local authorities is possible only after October 2016, and even assuming that the clearances are obtained within 60 days, commencement of the project in May 2017 seems optimistic.

33. The Administration agreed that the project timeline was aggressive but added that this aspect was planned to be addressed by holding informal meetings with various local officials during the design development process to ensure that the design was developed in line with local codes and by applying for voluntary building permits after the completion of the detailed design. The building permit process will thus occur in parallel with the tendering process to ensure that the permit is obtained in time for the commencement of construction, in May 2017.

6. Budgetary process

34. The cost of the strategic heritage plan project is currently pegged at CHF 836.5 million (\$869.5 million), of which CHF 400 million (\$415.8 million) is proposed to be met with an interest-free loan from the host country. The loan amount for the new construction is CHF 125 million (\$129.9 million), which is to be repaid over 50 years, starting in 2019, and the loan amount for the renovation is CHF 275 million (\$285.9 million), which is to be repaid over 30 years, starting in 2023. The balance of the cost of the project is proposed to be met from assessments on Member States with three possible options, namely, upfront appropriation, expenditure-based appropriations and a mix of upfront and expenditure-based appropriations. The modalities for the options have yet to be finalized. Other possible alternative funding sources are also being explored.

Voluntary contributions from Member States

35. The Board noted that the renovation of Conference Room I funded by Turkmenistan had been completed and that the design work for the renovation of Conference Room XVII to be funded by the United Arab Emirates had been completed and site works were in progress, with scheduled completion in 2016. The two works have been excluded from the scope of the strategic heritage plan project. In addition, design for the renovation of Conference Room XIX had been developed by Qatar but that renovation works had not yet been started.

36. The United Nations Office at Geneva informed the Board that expressions of interest had been received from China for a conference room and from a private donor for a welcome centre. However, no firm commitments had been made yet. It was added that, based on experience, the donations were to be considered mainly as an option to increase the quality of conference rooms over and above the strategic heritage plan project. At the same time, they might indeed cover items currently included in the concept design and might therefore be removed from the project scope in future.

37. The Board noted that, as the strategic heritage plan project advanced, it would be increasingly challenging to alter the scope, particularly after construction contracts were awarded. Hence, this will be an ongoing coordination issue for the strategic heritage plan team.

Voluntary contributions from the private sector

38. The United Nations Office at Geneva informed the Board that conversations regarding contributions from the private sector were being held at the Director-General level. In order to move the matter beyond creating general awareness and interest in obtaining private sector support, concrete donation projects needed to be formulated. To that end, the existing compendium of potential donation projects that could be used to support substantive fundraising efforts was being developed. Once specific projects were developed and the project approved by the General Assembly, the next step of private sector engagement could be launched to mobilize resources from the private sector.

Valorization of United Nations land

39. As part of the effort to explore all possible alternative funding mechanisms to reduce the overall assessment for the strategic heritage plan on the Member States, the portfolio of land owned by the United Nations had been analysed and a number of plots of land identified as possible opportunities to generate income through various options. These included a plot presently leased to the Club International de Tennis and another to the Fondation de l'École Internationale de Genève, as well as three parcels of land outside the grounds of the Palais des Nations. The Secretary-General has commissioned detailed estimations to obtain fair market value for those plots in terms of a one-off sale, a long-term land lease with development rights or a combination of both.

Utilization of future rental income

40. The United Nations Office at Geneva currently generates about \$1.2 million in rental income annually from the rental of premises, which is recognized as miscellaneous income and returned to Member States at the financial close of each biennium. The Administration informed the Board that future rental income could be utilized to offset repayments of the loan or to feed a Palais des Nations maintenance fund to support the upkeep of the renovated facilities. The matter is under review within the Secretariat.

Reuse of existing furniture

41. In order to reduce the requirement of new furniture, existing office furniture is to be reused to the maximum extent possible. Accordingly, after analysis of the inventory of furniture, including office furniture, task chairs, guest chairs and filing cabinets, a target reuse rate of up to 50 per cent of furniture and up to 80 per cent of chairs was decided by the United Nations Office at Geneva.

42. The cost estimates indicate a provision for furniture of CHF 11.44 million (\$11.89 million). The United Nations Office at Geneva was requested to inform the Board whether the requirements of new furniture stated to have been included in the cost estimates had been arrived at after conducting a comparative analysis between the cost of purchasing new furniture and dismantling/storing/reinstalling existing furniture and whether any committee had been formed to conduct such a study. The Office informed the Board that the requirements for new furniture had been arrived at during the feasibility study and concept design development and were driven by the functional space requirements, as well as cost constraints. A detailed analysis as to which specific furniture could be reused in which space was under way. For the

existing buildings, the hybrid design approach for office space had been selected, and it was anticipated that most of the recently purchased furniture, ergonomic chairs and heritage furniture would be reused. Although no formal committee had been formed to conduct a comparative analysis, the strategic heritage plan team was working closely with the designers to arrive at the optimal solutions for both function and cost-effectiveness. Old furniture that was no longer required would be reused at other United Nations facilities, donated, auctioned or disposed of as appropriate in accordance with United Nations policies.

43. The Administration added that an asset management strategy was currently under consideration by the General Assembly in the context of the strategic capital review.

Provision of sinking fund for future maintenance costs of the building

44. One of the lessons learned from the capital master plan relating to life cycle asset management related to the need to establish an asset management strategy that was incorporated into the planned ongoing maintenance regime. Since the United Nations did not set aside a sinking fund to cover the costs of maintenance and upgrades and instead continued to have the budget for facilities management activities as just one element among many in the budget of the Department of Management, it never had adequate financial resources to meet the costs of preventing degradation in the building from year to year. Hence, it had suggested the creation of a ring-fenced sinking fund in order to organize maintenance funding. The Administration informed the Board that it was exploring this approach.

Increase in cost estimates

45. The initial estimate of the entire project prepared in 2011 was CHF 618 million, which was increased to CHF 837 million in 2014. The increase of CHF 219 million principally reflected additional construction activities to mitigate structural deficiencies primarily at the building E tower and building S, which had been identified subsequently. The project elements updated from the 2011 conceptual study included consultancy design fees, insurance cost, project quality control, consultancy management fees, contingency provisions and annual escalation.

46. The United Nations Office at Geneva was requested to apprise the Board as to whether it had ensured that all associated costs had been adequately included in the increase and that there was no likelihood of any further substantial increase in the project cost estimates.

47. The United Nations Office at Geneva stated that associated costs had been analysed as part of the design feasibility appraisal study and concept design. It had been established that, during the period from 2016 to 2023, a provision of CHF 52,998,300 (\$55,091,788), excluding contingencies and escalations, would be necessary for associated works. These included activities directly related to the project, including costs of office furniture, moving into and out of swing spaces, cleaning following moves, reconfiguration and associated equipment. It was added that the renovation of the conference room that was to be funded by Qatar had been excluded from the 2014 strategic heritage plan scope and budget but had now been put back into the budget, as it was not clear whether Qatar would pursue the project. When taken together, the additions and subtractions above actually slightly increased the overall cost to the strategic heritage plan. Future donations for

facilities included in the concept design will be removed from the scope and budget of the strategic heritage plan.

48. The Board observed that, although a donation policy for the strategic heritage plan had been drafted to deal with the budgeting and accounting of works to be done with the help of donations and voluntary contributions, there was still a need to establish a more refined policy as to how such inclusions and exclusions of projects funded by donations or voluntary contributions would be given effect in the budget and cost estimates of the strategic heritage plan. The Administration agreed with the Board that discretionary changes during the construction phase should not be entertained.

49. The Board acknowledges the efforts made by the Administration to obtain alternative sources of funding and the general assurance given by the strategic heritage plan team that associated costs included all activities directly related to the project, which are aligned with lessons learned from the capital master plan to the extent that they were applicable to the strategic heritage plan. However, the Board would underline the criticality of monitoring both alternative funding that could strengthen the availability of resources and scope creep that could potentially throw the budget out of gear.

50. The Administration stated that a proposed donation policy had been included in the most recent progress report of the Secretary-General (A/70/394 and Corr.1), which, if approved by the General Assembly, would be used as a framework to manage future donations that might help to offset strategic heritage plan project costs. Over time, potential donors would be guided towards donation projects that were not yet under construction to avoid delaying the overall works or creating confusion for the construction contractor. A maintenance fund had also been proposed as part of the donation policy.

7. Project governance

Governance framework

51. The key components of the proposed governance framework are the Director-General of the United Nations Office at Geneva, as project owner, the Director of Administration of the Office, the project director, an Advisory Board, a Steering Committee and an independent risk management firm.

52. A provisional Advisory Board has been assembled and a provisional Chair appointed to provide independent and impartial advice to the Director-General of the United Nations Office at Geneva for issues arising during the course of the project, focusing on ensuring that the project meets its approved objectives. A Steering Committee has also been established to provide oversight of the project and its implementation and to support the Director-General by providing advice and guidance on required decisions regarding project design, construction, budget and changes in scope of the project.

53. The Board observed that:

(a) The terms of reference for both the Advisory Board and the Steering Committee provided very preliminary information with respect to the roles and responsibilities of each of those governing bodies. The objective of the bodies is to act in an advisory capacity while providing overall oversight of the project. However,

their distinct mandates, roles and responsibilities are not clearly defined and need further refinement. At present, the terms of reference give a sense of an overlap between the jurisdiction, roles and responsibilities of the bodies. There is also a lack of clarity as to the roles of the two bodies in respect of scope changes, change orders and contingency spending;

(b) Legal support is being provided by the Office of Legal Affairs of the Secretariat in New York. The Administration informed the Board that it was seeking the provision of local specialized legal services in the context of the strategic heritage plan. This needs to be expedited so that the project does not become vulnerable to lapses that may arise from lack of knowledge of local requirements and in order to maintain the stringent timelines that the project has set for itself for procuring and contracting activities.

54. The Administration stated that the terms of reference of the Advisory Board and the Steering Committee had been drafted towards providing a complementary governance structure that could provide appropriate advice to the project owner. The Steering Committee included specific technical expertise, particularly from the Headquarters members.

55. The Board observes that, subject to a clear delineation of the role and responsibilities of the Advisory Board and the Steering Committee and ensuring the availability of technical guidance, the governance structure as established was sufficient to effectively manage the project. However, the test of its efficacy is how these structures actually operate, which would be known only in due course.

Internal controls

56. Internal project control mechanisms are essential to ensure timely project completion within budgeted costs. It also establishes a mechanism for the validation of changes that may be deemed necessary during the design and construction phases of the project prior to their submission to the Steering Committee.

57. There had already been delays in the completion of critical activities, such as completion of the design master plan (by 28 days), concept design completion (by 45 days), initiation of a detailed design for phase I of the new building (by 42 days) and initiation of a detailed design for phase I of the renovation (by 56 days). Similarly, an analysis of the deliverables of programme management reveals that there were delays in the completion of assigned tasks ranging from 8 to 30 days, with delivery dates being rescheduled. The possibility of future scope changes cannot be ruled out, since the implementation period of the project extends over a number of years, during which changes in requirements and priorities may occur. This underlines the imperative need for a robust mechanism of internal control in order to reduce the overall impact on the cost and schedule of the project.

58. The Board noted that the development of a project manual was currently in progress. The existence of an updated manual is an important element of internal control and is extremely significant for creating documentation with respect to such critical issues as justification, procedures and mechanisms adopted for changes with respect to the scope, cost and schedule of the project.

59. The Administration stated that efforts were being made to put into effect robust project control systems through the project manual, the project management information system, monthly reporting, completion of the recruitment process for the

project team, the terms of reference for the governance structure, active management of the design contract and refinement of the quality of the management plan.

8. Engagement with stakeholders

Flexible workplace

60. As part of the concept design, the strategic heritage plan team had analysed the physical implementation and feasibility of flexible workspace within the new and existing buildings. In April 2015, the Staff Council surveyed Geneva staff on their work patterns and office space experience. A total of 991 staff out of about 3,500 responded to the survey. The results showed a strong negative experience when applied to open office space and hot-desking with regard to being able to work closely with colleagues, communicate easily with colleagues and work without being unnecessarily interrupted. The Staff Council concluded that it is more likely to lead to increased stress, greater sick leave, more workplace tension and conflict and lower productivity. Distractions and lack of sound and visual privacy were cited as negatives for open space environments. Furthermore, the findings suggested that there was a need to personalize workspaces. The Staff Council believes that both individual and shared office space would prove to be the most cost-effective and productive solution for the work of the United Nations Office at Geneva in the medium to long term.

61. The Board also noted that the hybrid approach in the existing buildings was constrained by the need for air conditioning and forced ventilation when walls are removed and shared spaces become larger than four of the current offices in size. The addition of central air conditioning to the existing buildings was not contemplated in the original budget and cannot be afforded within the current concept design. Given that the existing buildings will therefore not be as open or flexible as the new building, it will not be easy to shift to more flexible workplace strategies in future.

62. The Administration stated that consideration of the feasibility of the flexible workplace strategy was currently ongoing and that the current strategic heritage plan space planning strategy provided “kit of parts” options to support the use of shared desks for those sections where it supported their functional requirements. The Administration added that the strategic heritage plan team would continue along the established path of extensive consultations with all stakeholders to provide optimal office space solutions within the given project constraints and within the framework of established objectives to increase space usage efficiency.

63. The Board observes that the successful implementation of a flexible workplace strategy will require significant change management initiatives and a visible commitment from senior management. To that end, the flexible workspace strategy and part of the change management initiative should be to collaborate with the staff and effect modifications in accordance with their suggestions to the extent possible and practical. Where such changes are not feasible, staff may be taken into confidence so that they become partners in the process of change.

Business continuity

64. One of the most significant objectives of the strategic heritage plan is to provide modern functioning conference facilities that address the current and future

requirements of the United Nations while providing a safe, healthy and functional environment for delegates and staff alike. The key objectives for the renovation of the conference facilities were basically twofold, namely, to guarantee and ensure the business and operational continuity of the Palais des Nations by maintaining the day-to-day business and to upgrade the existing information technology networks, broadcasting facilities and conference systems in compliance with industry standards.

65. Among the major clients of the United Nations Office at Geneva is the International Labour Organization (ILO), whose annual International Labour Conference is attended by some 5,000 delegates, and the World Health Organization (WHO), whose annual World Health Assembly is attended by some 3,000 delegates at the Palais des Nations. Both ILO and WHO are concerned about the availability of rooms during the renovation, as it will be difficult for them to find alternative solutions in Geneva. Should they need to hold these events outside Geneva, they will need two to three years' notice.

66. The Board noted that details regarding the availability of conference facilities had not yet been worked out. This needs to be done early either to ensure the availability of the requisite facilities at the premises of the United Nations Office at Geneva or to allow adequate time to the organizations to make alternative arrangements.

67. The Administration agreed that a business continuity strategy was important and would be developed in due course.

9. Procurement and contracting

Procurement strategy

68. The strategic heritage plan is in a phase where preparatory action for tender documentation for construction is about to start. During the course of the audit, the United Nations Office at Geneva was asked to apprise the Board as to how the Administration planned to deal with the issues relating to procurement to ensure best value for money.

69. The Administration informed the Board that it was currently assessing the most appropriate contracting and procurement strategy for the overall project, including the construction of the new building. To ensure that the construction contracts reflected current industry standards and allowed for transparent and open international competition, it proposed adapting the template of construction contracts of the International Federation of Consulting Engineers, which are widely recognized and used worldwide, with suitable modifications to conform to United Nations legal and procurement requirements. Change orders would be kept to the absolute minimum by ensuring high-quality, well-coordinated unambiguous design information and tender documents together with robust stakeholder input and expectations management. For the new building, the design will be completed before awarding the construction contract. While this may require additional time to complete the design work, it would afford more upfront controls over pricing compared with the approach adopted for the capital master plan. For the renovation, an evaluation is under way to determine whether to use a design-bid-build or a design-build approach. Either of the two approaches would reduce the number of change orders compared with the capital master plan.

70. The Administration also confirmed to the Board its adherence to regulation 5.12 of the Financial Regulations and Rules of the United Nations, which sets out the general principles to be given due consideration when exercising procurement functions, namely, (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the interest of the United Nations, as well as chapter 4 of the United Nations Procurement Manual relating to ethical standards and responsibilities in procurement. The Administration added that the provisions in the Procurement Manual relating to security instruments, including performance and payment bonds and financial protection in case of default, such as liquidated damages, would be incorporated into the contracts. As recommended by the Joint Inspection Unit, an additional good practice would be to include practice notes and flow charts describing project processes as annexes to the contract. Currently, all contractual documents are cleared by the Office of Legal Affairs.

71. The Board acknowledges the steps taken and the assurances provided by the Administration relating to its procurement strategy.

Review of ongoing contracts

72. The strategic heritage plan is currently in the planning stage, and construction and renovation works have yet to commence. The ongoing contracts are listed in table 2 below.

Table 2
Ongoing contracts in the strategic heritage plan

| <i>Contract number and effective date</i> | <i>Service contracted</i> |
|---|--|
| UNOG-25/2012 12 November 2012 | Programme management services |
| UNOG-24/2013 11 November 2013 | Independent risk management services |
| UNOG-62/2014 4 August 2014 | Civil and structural engineering services |
| UNOG-75/2014 3 February 2015 | Hazardous material — intrusive survey |
| UNOG-54/2014 15 October 2014 | Provision of lead design and design services |

73. The Board noted the following:

(a) There were delays ranging from 8 to 46 days in the deliverables in respect of the contract for the provision of programme management services. There was no provision for liquidated damages in the contract. The contractor attributed it to the new calendar agreed on with the strategic heritage plan team with extended dates of delivery. The Administration informed the Board that the invoice was withheld and the delay being looked into;

(b) A proposal had been submitted to the Headquarters Committee on Contracts for award of the consultancy contract for programme management services

to a joint venture between two consultancy firms. The Committee expressed concerns about awarding a contract to a joint venture enterprise that did not exist then and had not been registered as a United Nations vendor. The new enterprise had no performance history and the United Nations did not possess financial information, and hence there were risks if the joint venture underperformed or failed. The Committee accordingly recommended, inter alia, that the capital of the joint venture be established at a level equal to a minimum of 50 per cent of the phase I not-to-exceed amount (€698,981). The vendor did not agree, however, and the United Nations Office at Geneva sought approval to waive that requirement. The request of the Office was approved by the Assistant Secretary-General for Central Support Services on 10 October 2012 on the grounds that the risks were limited, since it was a consultancy contract and not one for construction, risk mitigation measures were in place and there was a need to initiate the work as soon as possible to meet the established timelines;

(c) There were delays in the deliverables ranging from 7 to 205 days in respect of the contract for the provision of civil and structural engineering services. There was no provision for liquidated damages in the contract. The contractor attributed the delay to the decision of the United Nations Office at Geneva to wait for the recommendations from the design firm as to the exact physical location where the tests needed to be conducted;

(d) There was a delay of more than four months in the submission of the final report by the consultant under the contract for a survey for hazardous material. Again, there was no provision for liquidated damages. The United Nations Office at Geneva explained that the submission of reports was extended owing to the need to undertake additional surveys and tests;

(e) There were delays ranging from 3 to 56 days in respect of the contract for the provision of lead design and design services. The contractor attributed the delays to the need to take into account more substantive information that was available later in the process. The United Nations Office at Geneva stated that the deliverables were live documents to be updated periodically until the completion of the project;

(f) The contract for the provision of lead design and design services also included a provision limiting the total aggregate liability of the consultant to the United Nations in connection with the project to CHF 20 million. Such a stipulation does not feature in the United Nations general conditions of contract. The Administration informed the Board that the vendor had requested for limitation of liability. It added that the limitation of liability was subject to extensive discussions between the United Nations Office at Geneva, the Office of Legal Affairs and the Office of Programme Planning, Budget and Accounts.

74. The Administration stated that the United Nations Procurement Manual did not require inclusion of a provision for liquidated damages in contracts as a mandatory requirement. It added that later completion of works in contracts for surveys had no effect on the overall timeline and that it would not have been possible to calculate losses from such delays. Regarding limitation of liability, the Administration stated that vendors might not often accept the United Nations general conditions of contract and that the Organization had to weigh the risk and liability and costs to decide whether it was acceptable.

75. The Board notes that rule 105.18 of the Financial Regulations and Rules of the United Nations stipulates, inter alia, that written procurement contracts shall, as appropriate, specify in detail the conditions to be fulfilled, including the United Nations general conditions of contract and implications for non-delivery. Paragraph 13.8.3 of the United Nations Procurement Manual lists a liquidated damages clause and performance security as elements that should, in most cases, be included in contracts. Paragraph 9.35 of the Procurement Manual states that a provision for liquidated damages may be included “to ensure proper performance by the vendor” and “to avoid lengthy disputes over the amount of actual damages once the aggrieved party can prove breach of contract”. As set out in paragraph 9.35.2 of the Manual, liquidated damages are generally a fixed percentage of the contract value per day or week or other time period that the work is not completed or the goods or services are not delivered, up to a reasonable maximum percentage of the contract value, which is normally no more than 10 per cent. The liquidated damages clause shall, to the extent possible, be supported by other clauses, such as performance security, to secure the economic interests of the United Nations.

76. These provisions read together provide a clear indication as to the need to include such provisions in contracts, in particular of high-value projects, to secure the interests of the United Nations in the event of breach of contractual obligations by vendors and to deter such breaches from occurring in the first place. The method of calculation of damages is related to the extent of delay attributable to the contractor and is not linked to its impact on the timelines of the project as a whole. Furthermore, given the value of the contracts involved, the United Nations should be able to leverage its strength to ensure that vendors accept the United Nations general conditions of contract, which are themselves based on internationally accepted good practices. Hence, while the inclusion of such provisions may not be mandatory, their non-inclusion should be an exception, particularly since delays, as have already occurred, may eventually result in both time and cost overruns, keeping in mind the aggressive timelines for the progress of the project. Only consultancy service contracts have been concluded so far; there is a higher risk involved when the actual construction and renovation contracts are taken up. The Board thus notes that there was significant divergence between the procurement strategy and the assurance given as to the adherence to the provisions of the Financial Regulations and Rules of the United Nations and the United Nations Procurement Manual and their application in practice that compromises the ability of the Organization to protect its interests in the event of default by the contractors.

77. The Administration stated that the strategic heritage plan team was working on the overall procurement strategy and that any exception to the Procurement Manual and to the Financial Regulations and Rules of the United Nations that might be necessary would be sought only when it was absolutely essential to achieve the project objectives.

10. Risk management

78. The strategic heritage plan, being a major construction/renovation project, involves a wide variety of risks. Risk assessment and mitigation thus becomes a priority area of concern for the project. A risk management firm has been engaged since 2013 to assess, analyse and propose measures for risk mitigation. The programme management firm and the risk management firm are continuously

engaged in the process of identifying and quantifying specific risks and ensure that appropriate measures are adopted to mitigate the impact of such risks.

79. The primary risks currently identified include: (a) management of foreign currency exposure, since two currencies are involved in the funding and execution of the project, namely Swiss francs and United States dollars; (b) maintenance strategy for the assets created; (c) the stringent timelines, which involve coordinated actions by various interrelated parties; (d) scope control, contingency spending and management of change orders; and (e) protection and preservation of artworks.

80. While acknowledging the risks mentioned, the Administration stated that it was too early to establish a definitive risk mitigation strategy, as such a strategy would depend on a number of factors unknown at the present time, such as the currency of appropriation and assessment that Member States would decide for the project. It stated that discretionary changes during the construction would not be entertained and that the preservation and protection of works of art would be duly integrated into the development of detailed design. The Administration added that specific risk mitigation plans were being developed for all the identified risks in the project risk register.

D. Recommendations

81. The Board notes that the strategic heritage plan is still at the approval stage. On the basis of its review of the activities so far, the Board recommends, in order to strengthen the implementation process going forward and to mitigate the risks, that the Administration:

(a) **Monitor the implementation of various activities to minimize time overruns and take proactive remedial measures to meet project timelines without any dilution of the quality and scope of the project deliverables;**

(b) **Expedite such activities as the development of project manuals, including change control, ensure the inclusion of security standards at the design stage itself and maintain a consultation process with all stakeholders to ensure a smooth transition;**

(c) **Formulate specific risk mitigation plans for each identified risk area so that there is no impediment during the course of implementation of the project that compromises stipulated cost or timelines;**

(d) **Refine and update the preliminary budget estimates on the basis of a standard schedule and proper analysis of rates with reference to standardized pricing books and established industry guidelines set by internationally recognized standard-setting bodies with enhancement for local conditions, as necessary;**

(e) **Establish a more refined policy as to how inclusions and exclusions of projects funded by donations or voluntary contributions shall be given effect in the budget and cost estimates of the strategic heritage plan, particularly as the project enters the construction phase, and initiate steps to see how maintenance requirements would be funded after completion of the project;**

(f) **Refine the terms of reference of the Advisory Board and the Steering Committee for clarity, with clear definition of their responsibilities and jurisdiction;**

(g) **Engage with both its own staff and clients to ensure that the project progresses without impediments and while causing minimum dislocation of essential services;**

(h) **Ensure adherence to the provisions of the Financial Regulations and Rules of the United Nations and the Procurement Manual to protect the interests of the Organization and minimize deviations therefrom. Where deviations are deemed necessary, there must be clear and transparent justification along with approval of the competent authorities.**

82. The Administration informed the Board that it concurred with the recommendations and had initiated activities recommended, as set out in its responses to the observations included in the main body of the report.

E. Acknowledgements

83. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Director-General of the United Nations Office at Geneva and by members of his office.

(Signed) **Mussa Juma Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

(Signed) **Shashi Kant Sharma**
Comptroller and Auditor General of India
Lead Auditor

(Signed) **Sir Amyas C. E. Morse**
Comptroller and Auditor General of the United Kingdom
of Great Britain and Northern Ireland
