United Nations

Report of the Board of Auditors

for the year ended 31 December 2007

Volume V
Capital master plan

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Note

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Report of the Board of Auditors on the capital master plan for the year ended 31 December 2007

Summary

The Board of Auditors has audited the financial transactions and reviewed the management of the capital master plan for the period from 1 January to 31 December 2007. The Board also audited statement IX of the financial statements of the United Nations as it relates to the capital master plan for the biennium 2006-2007.

Implementation of previous recommendations

The Board examined the measures taken by the Office of the Capital Master Plan to implement the 11 recommendations made in its report for the year to 31 December 2006. The Office had implemented five recommendations, while four were in the process of being implemented and two, including the recommendation concerning the establishment of an advisory board, had not been implemented, as shown in the annex to the present report.

Schedule and budget for the project

The proposal by the Secretary-General, approved by the General Assembly in its resolution 62/87, to adopt an accelerated strategy for the work instead of the previous, phased approach required that studies be conducted and design documents adapted. The quest for savings to reduce the provisional cost overrun of $190 million vis-à-vis the budget approved by the General Assembly exacerbated this need. At the time the Board examined the progress in the implementation of the capital master plan, the design documents were not advanced enough for a well informed opinion to be made by the Board on the schedule and the global cost estimate for the project. As a result, the Board at this stage is not able to provide assurance regarding possible cost overruns of the budget approved by the General Assembly or any delay vis-à-vis the initial schedule of the project.

Financial overview

The assessed contributions for the capital master plan for the 12-month period ended 31 December 2007 amounted to $352.8 million, compared to $108.7 million for 2006. For the same period, total expenditure amounted to $46.4 million, of which $26.8 million and $19.6 million were in respect of disbursements and commitments, respectively. This expenditure increased by 27 per cent from 2006.

The most noteworthy change since 2006 is the strong surge in deferred charges, which increased from $2.8 million to $124.1 million. This increase is due to the pre-encumbrance made for the lease of the swing spaces ($89.2 million) and for contractual services, notably those pertaining to the construction manager and the programme manager (a total of $34.8 million).

The increase in the cash balance and deferred charges contributed to the surge in total assets, which amounted to $730.1 million as at 31 December 2007, compared to $202.3 million as at 31 December 2006. The liabilities increased less in absolute terms than the assets (from $39.3 million in 2006 to $198.3 million in 2007), which caused the reserves and fund balances, amounting to $532.5 million, to rise threefold from the previous financial year.

Internal control and oversight

The Board found that the Office of the Capital Master Plan had monitoring tools, but did not have a summary scoreboard that could be used to permanently monitor essential elements of progress made on the project. The Board also noted that the expenditures recorded in the accounting system of the Secretariat and the expense forecasts prepared by the Office of the Capital Master Plan were presented in different ways. Reconciling these two sources of information proved difficult, which affects the ability to manage the budget of the operation.

[16 June 2008]

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Letter of transmittal

30 June 2008

I have the honour to transmit to you the report of the Board of Auditors on the capital master plan for the year ended 31 December 2007.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors

The President of the General Assembly
New York

A. Introduction

1. Mandate, scope and methodology

1. The capital master plan, which was established in 2001 pursuant to General Assembly resolution 55/238, encompasses all expenditure relating to the major refurbishment of the United Nations Headquarters complex in New York. It was initially funded through an appropriation from the United Nations regular budget. The General Assembly, in section II, paragraph 24, of its resolution 57/292, established a special account for the capital master plan. Subsequently, appropriations were made to the special account from assessments on Member States. The financial position of the capital master plan is reported as part of statement IX, United Nations capital assets and construction in progress, of the financial statements of the United Nations (see A/63/5 (Vol. I)). Any unexpended balances of appropriations are carried forward into the succeeding bienniums until the project is completed.

2. The Board of Auditors has audited the financial transactions of the capital master plan and reviewed its programme management for the period from 1 January to 31 December 2007. The audit was conducted in accordance with resolution 57/292, in which the General Assembly requested the Board to initiate oversight activities with respect to the development and implementation of the capital master plan and to report annually thereon to the General Assembly. The Board conducted its examination in accordance with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing.

3. The audit does not give rise to a separate opinion on the accounts of the capital master plan since they are consolidated in the financial statements of the United Nations. The Board has formulated an overall opinion on those statements in its report contained in document A/63/5 (Vol. I).

4. The audit was based on the following broad audit objectives, mentioned by the Board in paragraph 2 of its first report on the capital master plan (A/58/321):

(a) To examine the capital master plan financial statements, including an evaluation of project accounting, payment and reporting systems;

(b) To ascertain compliance with United Nations regulations and rules on procurement and contracting;

(c) To determine adherence to the terms of the contracts, such as deliverables, time and significant provisions;

(d) To review the controls, including internal audit, and processes established to properly manage the project.

5. The audit took into consideration paragraphs 15 and 16 of General Assembly resolution 62/87, in which the Assembly requested that the Office of Internal Oversight Services conduct a comprehensive review of the activities, and ensure effective audit coverage, of the capital master plan. The Board coordinated with the audit team from the Office of Internal Oversight Services and took note of its audit plan.

6. The Board examined the general progress made on the capital master plan since its previous report,[1] as well as how the risks associated with the project were determined and managed.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

8. Paragraph 11 below contains a summary of the main recommendations of the Board. The recommendations made by the Board are presented in detail in paragraphs 25, 28, 31, 38, 40, 49, 55, 58 and 66.

2. Previous recommendations

9. In accordance with General Assembly resolution 48/216 B, the Board reviewed the measures taken by the Administration to implement the 11 recommendations it had made in its report for the year ended 31 December 2006.[1] The Board found that five recommendations had been fully implemented and four had only been implemented in part. Two recommendations had not been implemented, those concerning the creation of an advisory board and the separation of current and investment expenditure. Those two recommendations are reiterated in the present report.

Ageing of previous recommendations

10. As requested by the Advisory Committee on Administrative and Budgetary Questions (A/60/387, para. 12), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented. The ageing of those recommendations is shown in the annex to the present report.

3. Main recommendations

11. The Board recommends that the Administration:

(a) Include in the sixth annual progress report of the Secretary-General on the implementation of the capital master plan an update on the schedule and a new global cost estimate for the project (paras. 25 and 31 below);

(b) Detail the economic assumptions on which cost estimates are based, and monitor the changes in those assumptions and the impact of those changes on the project (para. 38);

(c) Develop a summary scoreboard to describe the situation of the operation at any given time (para. 49);

(d) Create the advisory board (para. 55).

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[1] *Official Records of the General Assembly, Sixty-second Session, Supplement No. 5* (A/62/5 (Vol. V)).

B. Background

12. In view of the outdated condition of a 60-year-old building and its non-compliance with new technical and safety regulations, as well as environmental standards, the General Assembly in 2001, in its resolution 57/292, decided to implement a plan to restore the historic premises of the United Nations Headquarters in New York. This six-year plan, the cost of which was estimated at the time at $964 million ($902 million for the renovation of unoccupied buildings and $62 million for the lease of swing space), rested on the assumption that construction work would begin on 1 January 2003. This plan was abandoned, however, owing to the failure to obtain enabling legislation for the planned UNDC-5 swing space building.

13. In December 2005, the Organization decided to carry out work on the Secretariat Building in four stages, in accordance with an approach entitled "Strategy IV" (or "Phased Strategy IV"), which would limit the amount of space to be leased in New York to relocate staff. On this basis, in December 2006, the General Assembly, in its resolution 61/251, approved a project that set out new options and new deadlines, for a cost estimated at $1.88 billion. The Board of Auditors conducted the audit of this new project in March 2007 and reported thereon to the General Assembly in its previous report (A/62/5 (Vol. V)). The report highlighted two main risks: the risk of a delay of approximately one year on the proposed schedule and that of a cost overrun estimated at $150 million. It also recommended a strengthening of the management of the operation and a strengthening of monitoring procedures.

14. In July 2007, an executive director was appointed and the pre-construction contract was signed with the construction manager. With regard to the delays and risks posed by Strategy IV, in particular inconveniences that would affect staff in a building during the restoration, the Executive Director proposed an "accelerated" strategy to the Secretary-General, who submitted it to the General Assembly. This strategy was based on the lease of an additional 35,000 m^2 of space that would allow the work to be completed in a single phase, thus allowing for a completion date of 2013, rather than 2015. However, the new overall estimated cost of the operation ($2.07 billion) remained almost $200 million greater than the budget approved in December 2006 by the General Assembly in its resolution 61/251. This was due to increases in the projected renovation and relocation costs. A proposal was made by the Secretary-General that a cost-saving plan be formulated in order to meet the budget. The General Assembly adopted the new strategy on 10 December 2007 in its resolution 62/87.

15. In paragraphs 31 and 32 of its resolution 62/87, the General Assembly approved the changes in the schedule for the renovation of the Secretariat Building, the Conference Building and the General Assembly Building as proposed by the Secretary-General in his fifth progress report on the implementation of the capital master plan (A/62/364, para. 33), and requested the Secretary-General to ensure by all means that the project costs were brought back within the limits of the approved budget (resolution 62/87, para. 38).

16. The Office of the Capital Master Plan started to adapt the design documents to the accelerated strategy. At the time the Board examined these changes, less progress had been observed on the revised design documents than had been made at

the same stage the previous year on those for the implementation of Strategy IV. Moreover, the cost-saving measures (“value engineering” programme) required additional, somewhat detailed studies. Most had been completed at the time of the Board’s audit, but as the results had not been incorporated in the design documents, the Board was unable to assess properly the costs and schedules of the project.

17. The progress of the operation also depends on decisions to be made by the Administration, especially those that affect the relocation of staff as well as those regarding the guaranteed maximum prices for the construction work.

18. Lastly, the particularly uncertain economic environment could have consequences for construction prices in New York. Calls for bids scheduled for 2008 will give a preliminary indication on the matter.

C. Detailed findings and recommendations

1. Project management

(a) Schedule

19. In the accelerated strategy, the Secretary-General proposed a major reduction in the duration of the operation (see A/62/364, paras. 26 and following). Thanks to the increase in relocation space, in particular as a result of the lease of the building on Madison Avenue and a physical extension of the temporary conference building, the expected duration of the work has been reduced from six years to three years. In addition, it will be possible to carry out work on the Secretariat Building without the presence of United Nations staff. As a result, the critical path of the operation is no longer the completion of the Secretariat Building, but rather that of the General Assembly Building. The operation could thus be completed by the end of 2013, while the phased approach would have resulted in the operation being completed by the end of 2015.

20. At the time of the audit, the Office of the Capital Master Plan had been updating the above-mentioned schedule since the General Assembly approved it in December 2007. First of all, the lease on the property on Madison Avenue, required to relocate the staff of the Secretariat Building, was signed in January 2008. A revised schedule dated late in March 2008 was presented to the Board in April 2008. This schedule confirmed the dates contained in the fifth annual progress report of the Secretary-General on the implementation of the capital master plan (A/62/364), in particular for the two most important tasks: the completion of the Secretariat Building, planned for February 2012, and that of the General Assembly Building, planned for August 2013. These two tasks are also the most complex. In the case of the Secretariat Building, they require the vacation of the building and the relocation of its staff to the leased buildings, as well as the relocation of the Secretary-General and his Executive Office to the temporary conference building. Upon completion of this temporary building, work can commence on the renovation of the Conference Building and, once this has been completed, work can begin on the General Assembly Building.

21. The Board examined this schedule. It found that although some progress had been made, the steps involved in the Organization’s decision-making processes had not been sufficiently accounted for in the schedule. The new strategy considerably reduces the duration of the work. However, the duration of the studies and of the

decision-making procedures could negate the benefit to be derived from the new strategy. The phases of the project are subject to significant risks and a realistic assessment of their duration is essential to the reliability of the overall schedule.

22. According to the revised schedule submitted to the Board in April 2008, contractual decisions on the Secretariat Building, the Conference Building and infrastructure, which account for a major part of the global cost of the work, are to be made by the end of the first quarter of 2009: this will demand intensive work on the part of the United Nations services, coordinated by the Executive Director. It is essential, therefore, that the various services make their respective contributions within short periods and that the decision-making process is transparent and rapid. The Executive Director confirmed that this had been the case for the relocation of staff, which was to begin in the weeks following the audit by the Board.

23. Apart from these general considerations, the Board is of the view that it was too early at the time of the audit to assess in global terms the pertinence of the schedule. Only a little more than four months had passed since the approval of the accelerated strategy. Decisions on the relocation of staff; the impact of the first construction sites on activities in the vicinity, where the Conference Building will continue to function and 1,000 people will continue to work; methods for approving the first guaranteed maximum prices; and coherence between the price of successive contracts and the global budget will be important tests for the success of the new strategy. At the current rate of progress of the studies being conducted, a more realistic picture should be available in October 2008.

24. The Board observed that some assumptions appeared to be optimistic, such as that relating to the date of the transfer of the Secretary-General and his Executive Office to the temporary conference building (May 2009). The ability to meet this deadline will depend on the completion of the work on electrical and mechanical installations which is planned to start only in the fall of 2008.

25. **The Board recommends that the Secretary-General, in his sixth annual progress report on the implementation of the capital master plan present an update on the schedule of the project, with his evaluation thereof. It reiterates its recommendation that this schedule set out in sufficient detail the steps involved in the Organization's decision-making processes and allocate realistic time frames for those steps.**

(b) Cost estimate

26. In his fifth annual report on the capital master plan (A/62/364), the Secretary-General indicated that the difference between the cost estimate for the accelerated strategy and the approved budget was $190.1 million, as reflected in table 1 below. He also indicated that the Office of the Capital Master Plan would pursue all options for generating savings using a "value engineering" programme aimed at optimizing cost/functionality ratios without substantially altering the functionalities of the building. According to the Office of the Capital Master Plan, this programme would reduce the cost of the work by $106 million, from $965 million.

Table 1

Comparison between the approved budget and the most recent cost estimate for the accelerated strategy[a]

(In thousands of United States dollars)

Expense item	*Strategy IV (phased)* *Approved budget*	*Strategy IV (accelerated)* *Most recent estimate (September 2007)*	*Difference*
Construction	935 300	964 625	29 325
Contingencies	199 900	199 859	(41)
Professional fees, management costs	231 000	234 508	3 508
Forward pricing escalation	296 000	277 960	(18 040)
Subtotal, renovation	**1 662 200**	**1 676 952**	**14 752**
Office swing space	129 100	254 534	125 434
Library swing space	19 300	16 636	(2 664)
Conference swing space	66 100	118 688	52 588
Subtotal, swing space estimate	**214 500**	**389 858**	**175 358**
Total	**1 876 700**	**2 066 810**	**190 110**

[a] According to the fifth annual progress report of the Secretary-General on the implementation of the capital master plan (A/62/364 and Corr.1).

27. The Board conducted a review of the value engineering programme. According to the Office of the Capital Master Plan, the fees related to this value engineering programme equalled up to one quarter of the savings expected. However, the Board could not track the value of these fees in the cost estimate, nor could it obtain from the Office of the Capital Master Plan the total amount of all fees for studies relating to the project.

28. **The Board recommends that the Administration specify in the cost estimate the cost of the fees relating to the value engineering programme, as well as the total cost of all the studies relating to the project.**

29. As useful as it is, the value engineering programme has two limitations. The first is that it tackled only part of the cost overrun on the approved budget. The second is that the approach taken, which consists of reducing the difference between the cost of the new strategy and the approved budget, was biased, as the elements used to calculate the two figures are obsolete because they rest mainly on construction documents relating to the previous strategy.

30. In order to verify whether or not the approved budget can be met within the framework of the accelerated strategy, the cost estimate must be done anew. The Office of the Capital Master Plan is of the view that it must have 60 per cent of the design documents in order to provide a new, reliable cost estimate for the project. Yet, as was mentioned earlier, insufficient progress on the design documents for the project had been made for the Office of the Capital Master Plan to be able to

provide the Board with a new cost estimate. As a result, it was difficult for the Board to assess the reliability and fairness of the cost estimate for the project and hence the ability of the Secretariat to manage operations within the limits of the budget approved by the General Assembly.

31. **The Board recommends that the Secretary-General include in his sixth annual progress report on the implementation of the capital master plan a new cost estimate for the entire project.**

32. In spite of the absence of an updated cost estimate for the project, a number of expense items are already rather well-known. This is the case in particular of expenses associated with the relocation of various services, which has been calculated at $390 million (21 per cent of the budget). The new accelerated strategy entailed an increase of 13 per cent in swing space, which raised the relocation costs. However, the Administration estimated that it could compensate for this cost increase by relocating the functions of the library on the site, by better managing installation expenses and by phasing the return of the staff to the renovated Headquarters Building, without waiting for the renovation to be completed. The leases and works contracts (contracts for the construction of leased offices and those relating to the temporary conference building) signed or in the process of being signed allowed the Office of the Capital Master Plan to propose a reliable estimate of relocation costs. It should, however, be noted that that estimate assumes that the Administration will conduct the move in compliance with new office planning guidelines recently proposed by the Secretary-General, and that the remaining contracts and leases will be signed in similar economic conditions to those currently prevailing.

33. The "professional fees, management costs" budget item, valued at $234.5 million, is comparable to the figure provided in the previous strategy, i.e. $231.0 million (see table 1). The change in strategy nevertheless requires additional studies, both in order to allow the United Nations to benefit from authorized simplifications of the project and to procure the cost savings required in order to remain within budget.

34. One budget item that is very important, but is also largely independent of the activities of project teams, is price escalation. Expenses are calculated in current dollar terms, based on cumulative costs over the period of the operation, which will run until 2013. These expenses were assessed using known figures for the evolution of construction costs amounting to 7.5 per cent in 2007, 4.5 per cent in 2008 and 3.5 per cent per annum in subsequent years. Price escalation for construction costs was estimated at $278.0 million, less than the $296.0 million of the approved budget. The difference of $18.0 million between these two figures can be explained by the acceleration of the project resulting from its implementation in a single phase.

35. Price escalation is very sensitive to the actual duration of the operation, in particular to the duration of tasks on the critical path. The Board's simulation of the impact of a six-month delay in the vacation of the property showed that total price escalation would result in an increase of approximately $15 million for work on the Secretariat Building, the Conference Building and the General Assembly Building, an increase of $6 million in fees and one of $18 million in lease costs, amounting to a total increase of approximately $40 million.

36. The change in the cost of work in New York will have an impact on the total cost and hazards associated with the work, as well as on price escalation. A test conducted by the project management to assess sensitivity to changes in cost showed that a difference of 1 per cent in the annual change in the cost of work in New York from 2009 would translate into a total difference of $15 million in price escalation over the entire duration of the project.

37. The Board noted that the Office of the Capital Master Plan was aware of the significance of the impact of economic variables on the cost of the project. However, the resources to monitor those variables and their impact are limited. In addition, the Secretary-General's reports on the implementation of the capital master plan present neither the economic assumptions made for the cost estimate nor an analysis of the sensitivity of the various components of the cost of the project to the economic variables.

38. **The Board recommends that the Office of the Capital Master Plan detail the economic assumptions used to arrive at the cost estimate for the project and monitor the evolution of those economic assumptions and their consequences for the project.**

39. The economic climate could offer opportunities for the work to be completed at a lower cost than expected, which would allow for the purchase of better or longer-lasting equipment and materials that would reduce the future maintenance costs of the renovated building, prolong its lifespan or improve its functionalities.

40. **The Board recommends that the Office of the Capital Master Plan include optional clauses in the contracts in order, if the economic conditions so allow, to optimize the functionalities of the building or to prolong its life.**

(c) Internal control and oversight

41. Internal control is exercised in a number of ways. Apart from monitoring methods it shares with the Secretariat, the Office of the Capital Master Plan has put in place a code of procedures that provides for several levels of auditing and validation to ensure the monitoring of expenditure and the regularity of service. An internal memorandum dated June 2007 thus set out the successive stages for the processing of contracts and payments, spread among six different actors (three agents from the Office of the Capital Master Plan, one from the Procurement Service, one from the Executive Office of the Department of Management and one from the programme manager).

42. The Board examined the administrative management procedures for agreements entered into by the Office of the Capital Master Plan. The agreement signed between the United Nations and construction manager Skanska USA Building Inc. ("Preconstruction Services Agreement") on 27 July 2007 was reviewed. This agreement was found to be compliant with applicable regulatory provisions.

43. The Board audited three contracts signed respectively with Syska Hennessy, HLW International LLP and Gardiner & Theobald. For the last of these contracts, worth $8.86 million, the Board audited 29 expense items that had been the object of obligations or disbursements from January 2007 to February 2008 amounting to $3.64 million. The Board also audited 17 expense items in the contract between the United Nations and HLW International LLP, worth $22.5 million, that had been the

object of obligations or disbursements from January 2007 to February 2008 amounting to $2.46 million.

44. These verifications did not detect any breaches either of the provisions of the Procurement Manual or of the Financial Regulations and Rules of the United Nations.

45. Generally, the Board found that the collaboration between the Procurement Service and the Office of the Capital Master Plan is adequate, with two members of the Procurement Service working at the premises of the Office of the Capital Master Plan. The two services cooperate to optimize procedures required for preparing the signing of future contracts.

46. In terms of the monitoring of management, the Office of the Capital Master Plan currently has a planning tool based on a multi-year expense forecast. The amounts, which are in compliance with the budget, are broken down according to the nomenclature shown in table 1 above.

47. Nevertheless, the Office of the Capital Master Plan and all bodies that monitor the implementation of the project lack a summary scoreboard including indicators that would be regularly audited and allow a closer monitoring of the operation, taking a schedule of due dates into account. Such closer monitoring is especially important in the start-up phase of the operation.

48. It would be appropriate to include on this scoreboard the results of the monitoring of economic conditions recommended above (see para. 38).

49. **The Board recommends that the Office of the Capital Master Plan develop a summary scoreboard to describe the situation of the operation at any given time.**

50. In terms of auditing, in addition to the mission entrusted to the Board of Auditors, the General Assembly, in paragraph 16 of its resolution 62/87, requested the Office of Internal Oversight Services to ensure effective audit coverage of the capital master plan and to submit to the Assembly all of its reports related to the implementation of the plan.

51. In order to avoid duplication of the issues covered in the audit, the Board coordinated with the Office of Internal Oversight Services. The Board met with the head of a team entirely dedicated to the audit of the capital master plan. It examined the audit programme for March to December 2008. This programme consists of nine audits that cover all aspects of the operation. The Board also took note of the preliminary risk assessment of the capital master plan made by the Office of Internal Oversight Services and used as a basis for its audit programme.

52. The establishment of an advisory board, composed of five financial experts with an advisory role vis-à-vis the Secretariat, was requested by the General Assembly in 2003 in its resolution 57/292. In reality, no follow-up was given to this proposal. In its resolution 62/87, the General Assembly regretted the delay in the appointment of the advisory board and urged the Secretary-General to expedite the setting up of the board, reflecting a wide geographical representation.

53. In its most recent report, the Board of Auditors recommended that the advisory board expand its jurisdiction to include architecture.

54. **The Board reiterates its recommendation that the Administration establish the advisory board, with responsibility for, among other things, monitoring the architectural quality of the capital master plan project and assessing the information supplied by the scoreboard.**

2. Financial aspects

(a) Accounting framework

55. In its previous report (A/62/5 (vol. V), para. 29), the Board recommended that capitalized costs and operating costs be recorded separately. This recommendation, the intention of which was to improve the quality of financial information relating to a project that has a great impact on the Organization's assets, anticipates the implementation of the International Public Sector Accounting Standards (IPSAS). The aim of this recommendation was not to alter the way financial statements are presented before the implementation of new accounting rules, but rather to prepare for the impact of IPSAS on the capital master plan fund with regard to assets and, in particular, construction work in progress.

56. Thanks to the ancillary accounting contained in the Nova system, the Office of the Capital Master Plan can distinguish capitalized costs from operating costs. Even so, this distinction is not reproduced in documents submitted to the General Assembly, even for information purposes. There is a need for the Accounts Division and the Office of the Capital Master Plan to coordinate their actions, in order to improve financial information relating to the project.

57. **The Board reiterates its recommendation that the Office of the Capital Master Plan keep capitalized costs separate from operating costs relating to the project.**

(b) Expenditure

58. As at 31 December 2007, cumulative expenditure committed or incurred for the capital master plan since the beginning of the project stood at $115.5 million. For 2007 alone, expenses amounted to $46.4 million, of which $26.8 million in disbursements and $19.6 million in obligations. Expenditure for that year was 27 per cent higher than in 2006, evidence of progress made on the project.

59. Table 2 below provides detailed information on the expenditure of the capital master plan for the year ending 31 December 2007 and includes a comparison with 2006.

Table 2
Expenditure of the capital master plan

	Expenditure (thousands of US dollars)		*Share of the total (percentage)*	
Object of expenditure	*2006*	*2007*	*2006*	*2007*
Staff and other staff costs	2 096	3 236	5.7	7.0
Travel	11	25	0.0	0.0
Contractual services	33 861	30 279	92.7	65.3

Object of expenditure	Expenditure (thousands of US dollars) 2006	2007	Share of the total (percentage) 2006	2007
Operating expenses	545	9 912	1.5	21.4
Acquisitions	13	2 942	0.0	6.3
Total	**36 526**	**46 394**	**100.0**	**100.0**

60. As in previous years, contractual services, which include the remuneration of the construction manager, constituted the largest share of expenditure.

61. The increase in staff costs was due to an increase in the number of staff. As at 31 December 2006, the Office of the Capital Master Plan had 11 people employed for the 19 posts established. The eight vacant posts were filled during 2007, which is evidence of advancement in the operation.

62. Operating expenses rose significantly, as they included the lease of the swing space that until now had been deferred pending approval by the General Assembly of the overall funding of the project.

63. The increasing take-off of the operation is reflected in the significant increase in unliquidated obligations. As at 31 December 2007, those obligations stood at $173.2 million, compared with $33.1 million as at 31 December 2006. This more than fivefold increase is due primarily to the commitments entered into for the lease of swing space ($89.2 million) and for contractual services, in particular those of the programme manager and construction manager (a total of $34.8 million). The breakdown of unliquidated obligations is given in table 3 below.

Table 3
Unliquidated obligations of the capital master plan[a]
(Thousands of United States dollars)

Object of expenditure	As at 31 December 2006 Current period	As at 31 December 2006 Future periods	As at 31 December 2007 Current period	As at 31 December 2007 Future periods
Staff and other staff costs	16	—	15	—
Travel	4	—	2	—
Contractual services	28 808	2 767	36 205	34 817
Operating expenses	11	—	9 279	89 237
Acquisitions	—	—	2 913	—
Total	**28 838**	**2 767**	**48 414**	**124 054**

[a] Excluding those from prior periods.

64. The analysis of expenditure highlighted the fact that entries in the accounting system of the Secretariat and expense forecasts prepared by the Office of the Capital Master Plan were presented in different ways. Reconciling these two sources of

information proved difficult, which affects the ability to manage the budget of the operation.

65. **The Board recommends that the Office of the Capital Master Plan, together with the Accounts Division, put in place a mechanism that directly links actual expenses and forecast expenses in order to make the management of the budget of the operation reliable.**

(c) Funding

66. In paragraph 47 of its resolution 62/87, the General Assembly reaffirmed the method chosen to fund the capital master plan, which gave Member States the choice of paying contributions in one instalment or in several instalments over several years, all instalments being calculated on the basis of the scale of assessments applicable to the regular budget for 2007, as stipulated in paragraphs 14 to 20 of its resolution 61/251. The Assembly also decided that no amendments would be made to the schedule for the payment of those contributions.

67. Contributions due for 2007 stood at $352.8 million, up from $108.7 million for 2006. As at 31 December 2007, $226.9 million in contributions due for 2007 had been collected, or 64.3 per cent of monies due. Twelve countries[2] chose to pay their share of the budget of the capital master plan in one instalment, while 180 countries chose to pay in equal instalments over five years. Seven Member States[3] that had originally chosen to pay over five years in fact paid their contribution in one instalment before 31 December 2007. Thus, contributions received in advance stood at $4.2 million at year end.

68. Total contributions receivable as at 31 December 2007 stood at $127.5 million, 98.8 per cent of which pertains to contributions assessed for 2007.

69. The capital master plan enjoyed a healthy cash flow. Given the slow growth of expenses vis-à-vis the initial budget, the capital master plan fund held a large amount of cash, allowing it to cover close to double the value of unliquidated obligations. Accordingly, the working capital reserve of $45 million established pursuant to General Assembly resolution 61/251, which was almost funded in full as at 31 December 2007, had not been drawn from thus far.

70. In resolution 61/251 also, the General Assembly had approved the subscription of a letter of credit after a call for bids. It was not necessary to issue the letter, as the Office of the Capital Master Plan had given an assurance that the programme has sufficient finance to cover the costs of construction.

71. However, in his fifth annual progress report on the implementation of the capital master plan, the Secretary-General requested that the approval to establish a letter of credit provided in resolution 61/251 be maintained (A/62/364, para. 40).

(d) Write-off of losses of cash, receivables and property

72. In accordance with financial regulation 6.4, the Administration informed the Board that no cash, receivables or property relating to the capital master plan had been written off in the year ended 31 December 2007.

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[2] Albania, Antigua and Barbuda, Botswana, Brunei Darussalam, Israel, Kazakhstan, Madagascar, Mozambique, Nigeria, Oman, Ukraine and Uruguay.

[3] Iceland, Iraq, Kyrgyzstan, Kuwait, Nicaragua, Slovakia and Uganda.

(e) Ex gratia payments

73. In accordance with financial regulation 5.11, the Administration informed the Board that no ex gratia payments had been made from the capital master plan fund during the year ended 31 December 2007.

(f) Cases of fraud and presumptive fraud

74. The Administration informed the Board that there had been no cases of fraud or presumptive fraud during the year ended 31 December 2007.

D. Acknowledgement

75. The Board of Auditors would like to thank the staff of the Office of the Capital Master Plan, the Office of Programme Planning, Budget and Accounts and the Office of Central Support Services for their cooperation and assistance.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Reynaldo A. **Villar**
Chairman, Commission on Audit
Republic of the Philippines

30 June 2008

Annex

Status of implementation of recommendations for the year ended 31 December 2006[a]

No.	*Summary of recommendation*	*Paragraph reference*	*Financial period first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*	*Total*
1.	Separation of operating costs and capitalized costs	29	2006			×		
2.	Creation of an advisory board	34	2004			×		
3.	Improvements to schedules	45	2006		×			
4.	Optimization of use of swing space	47	2006		×			
5.	Taking account of the impact of delays on costs	50	2006		×			
6.	Implementation of postponed technical studies	56	2006	×				
7.	Compliance with safety rules of the host country	58	2006	×				
8.	Ability to dismantle the temporary conference building	60	2006	×				
9.	Decisions on staff movements	62	2006		×			
10.	Recruitment of the Executive Director	64	2006	×				
11.	Completion of recruitment of the capital master plan team	67	2006	×				
	Total			**5**	**4**	**2**	**—**	**11**
	Percentage			**46**	**36**	**18**	**—**	**100**

[a] See *Official Records of the General Assembly, Sixty-second Session, Supplement No. 5* (A/62/5 (Vol. V)).

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