

**Seventieth session**

Agenda item 131

**Financial reports and audited financial statements,  
and reports of the Board of Auditors****Report of the Board of Auditors on the Strategic Heritage  
Plan of the United Nations Office at Geneva****Report of the Advisory Committee on Administrative and  
Budgetary Questions****I. Introduction**

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Board of Auditors on the Strategic Heritage Plan of the United Nations Office at Geneva ([A/70/569](#)), the initial report of the Board on this matter, submitted pursuant to General Assembly resolution 68/247 A. The Advisory Committee also had before it an advance version of the related report of the Secretary-General on the implementation of the recommendations of the Board ([A/70/585](#)). Prior to its consideration of these reports, the Committee had considered the report of the Secretary-General on the strategic heritage plan of the United Nations Office at Geneva ([A/70/394](#) and Corr.1), and the Committee's comments and recommendations in that regard are contained in its report ([A/70/7/Add.8](#)).

2. During its consideration of the report of the Board of Auditors and the report of the Secretary-General on the implementation of the recommendations of the Board, the Advisory Committee met with the members of the Audit Operations Committee of the Board of Auditors and with the representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 8 December 2015.

3. The Board recalls its earlier communication regarding the first audit of the strategic heritage plan, in which it had indicated that the areas that would constitute the focus of the audit would include the rigor 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 ([A/70/569](#), para. 3).



## II. Specific issues within the main observations and recommendations of the Board of Auditors

### A. Activities planned and accomplished during 2015

4. In respect of the project activities scheduled for implementation in 2015, the Board notes only a partial achievement of project deliverables and delays in the planned implementation of activities (A/70/569, paras. 11-14). In particular, the Board notes gaps in the submissions of the concept design and the design master plan made by the contractor and a lack of clarity regarding the completion of the planned in-depth site assessments. The Board notes delays in the completion or initiation of the critical project activities as follows: (a) the completion of the design master plan was delayed by 28 days and the concept design by 45 days; and (b) the initiation of the detailed design for phase I of the new building was delayed by 42 days and for phase I of the renovation by 56 days (ibid., para. 57). Additionally, the preparatory activities for tender documents, originally planned for 2015, were rescheduled for May 2016 (ibid., paras. 11 and 12) (see also A/69/417 and Corr.1, paras. 104 and 117). In its report, the Board also points out the primary risks, currently identified for the project, which include the stringent timelines that involve coordinated actions by various interrelated parties (A/70/569, para. 79).

5. In his report, the Secretary-General indicates that in order to ensure the required quality of the concept design, the initiation of the detailed design for the new building and for the renovation of existing buildings was delayed. In order to mitigate the delay, the detailed design for the new building, which is on the critical path of the project's schedule, was fast-tracked and started on 28 September 2015. According to the Secretary-General, mitigation strategies to recover the schedule are being developed and appear to be achievable (A/70/585, para. 3).

6. Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that even though the original intent was to complete the full concept design before the commencement of the detailed design for the project, the start of the detailed design for the new building was actually authorized before the acceptance of the overall concept design. The Committee was further informed that the concept design was complete and acceptable for the new building when the authorization was issued. However, at that time, the acceptance of the concept design for the full scope of the project had to be withheld as the concept design was not complete for the renovation part of the project. The Committee was further informed that by identifying creative approaches to reduce the duration of some of the project activities, the Secretary-General believes that the weeks lost in the concept design stage can be recovered. Nevertheless, it was pointed out to the Committee that the overall project schedule was challenging, that future delays were possible and that quality would not be compromised in order to save time.

**7. In view of the stringent timeline defined for the project and possible cost escalations resulting from delays in the execution of the project activities, the Advisory Committee concurs with the recommendation of the Board of Auditors to monitor the implementation of project activities in order to minimize time overruns and to take proactive remedial measures to meet project timelines without any dilution of the quality and scope of the project deliverables.** The Committee has discussed the significance of adherence to the

defined schedule for the project in its report on the strategic heritage plan (A/70/7/Add.8, paras. 10 and 31).

## **B. Project cost estimates**

8. The Advisory Committee recalls that pursuant to General Assembly resolution 68/247 A (section V, para. 17), the revised overall cost for the strategic heritage plan project was estimated at CHF 836.5 million, which was indicated by the Secretary-General as a maximum overall cost for the project and was also adopted as a project objective (see A/70/7/Add.8, para. 38).

9. The Board's observations on the method used by the Administration for the project cost estimation are included in paragraphs 27 and 28 of its report (A/70/569). The Board notes that the cost estimates, based on a broad conceptual design, were provided by the design firm as part of the concept design submission and might change as the design progressed and more details concerning the project became available (*ibid.*, paras. 12 (c) and 26). The Board further notes that the cost for several project activities were based on historical and local market conditions and were not supported by a detailed rate analysis. In the Board's view, the cost estimates, including 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, which may be enhanced as necessary, taking into account location factor (*ibid.*, para. 30).

10. Upon enquiry, the Advisory Committee was informed by the Board that cost estimates for large projects, such as the strategic heritage plan, need to be calculated in an empirical and transparent manner, setting out the assumptions. In this respect, the Committee was further informed by the Board that the first step in the project cost estimation is to assess the quantum of work, on the basis of real data derived from site assessments and the location involved, followed by the application of costs per unit to each individual category of work. For obtaining information on such costs, reliance is often placed on pricing books and industry standards that are generally available in the public domain or from the websites of the standard-setting bodies.

11. The Advisory Committee was also informed by the Board that in the Administration's view, the pricing books are usually out of date, not project specific and do not address the full requirements of the United Nations and that, therefore, the Administration had instead appointed a professional cost consultant. The concept-stage cost plan was prepared using real data from the cost consultant's proprietary database supplemented by the cost consultant's professional judgement and opinion, which was subsequently verified by the project team. In the Board's view, basing cost estimates solely on the proprietary database and on professional judgement and opinion is neither transparent nor open to verification, and objectivity in preparing cost estimates is essential in order to enable the Administration to provide assurance to its stakeholders as to the financial soundness of such estimates.

12. In his report, the Secretary-General indicates that a comprehensive project cost estimate using actual pricing data from recent nearby projects was developed by a cost consultant and that this is the most appropriate methodology for estimating the

cost of a project of this size and complexity. The Secretary-General further indicates that the current cost estimate provides a solid basis to move forward with the detailed design and that this estimate will be refined and updated during the design development process (A/70/585, para. 9).

13. Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the cost estimate for the project was based on the best data available from multiple sources and essential local knowledge and that the standardized pricing books were used occasionally as references. In this connection, as an illustrative example, the Committee was provided with two different unit costs for concrete, based on two different pricing methods: one based on the standardized pricing reference (*Spon's Architects' and Builders' Price Book*); and the other on an actual cost estimate provided by the consultant for the strategic heritage plan project. The two pricing methods are set out in the table below.

#### Pricing methods for concrete

Basis of estimation	Description	Cost per cubic metre	
		Pound sterling	Swiss francs
<i>Spon's Architects' and Builders' Price Book 2014</i>	Reinforced in situ ready-mixed designated concrete	105	
	Adjustment for inflation, 2014 to 2015: increase by 5 per cent	111	
	Adjustment for price difference between United Kingdom of Great Britain and Northern Ireland and Switzerland: increase by 30 per cent	144	217
Consultant's calculation	Reinforced concrete		250

14. The representatives of the Secretary-General highlighted that the above-mentioned example demonstrated that the estimated cost of concrete based on pricing books (CHF217/m<sup>3</sup>) was lower by 13 per cent when compared with the actual estimated cost (250/m<sup>3</sup>) for the strategic heritage plan. The Advisory Committee was further informed that the method using *Spon's Architects' and Builders' Price Book*, which is based on publicly available documentation, was comparatively easier to apply; nevertheless, the actual cost estimation method was more accurate and reasonable for a project of this size and complexity. The representatives of the Secretary-General also indicated that for the given stage of the project design, the cost estimates were sound and that such estimates would continue to be refined and updated at each step of the design development process until the construction contracts are awarded and the actual costs become known.

**15. The Advisory Committee shares the Board's view that cost estimates for large capital projects should be transparent and open to verification, based on established industry guidelines set by internationally recognized standard-setting bodies and adjusted for local conditions, as necessary. The Committee trusts that any adjustments made to the project cost estimates, on the basis of industry guidelines, will be explained in the future progress reports of the Secretary-General.**

16. In view of the foregoing, the Advisory Committee concurs with the Board's recommendation to refine and update the preliminary budget estimates for the strategic heritage plan project (A/70/569, para. 81 (d)) and reiterates that the Committee's recommendation for the approval of CHF 836.5 million as the maximum overall cost for the strategic heritage plan project is subject to further review of annual budget performance and updated cost estimates in the context of the progress reports of the Secretary-General on the strategic heritage plan (A/70/7/Add.8, para. 54).

*Project contingency*

17. The Advisory Committee recalls its observations and recommendations on the estimation, management and reporting of the project contingency amount, as well as on the unused contingency amounts. In particular, the Committee recalls that the project contingency sums for each of the two phases of the project implementation — construction of the new building and renovation of the existing buildings, including the demolition of the building E tower — should be clearly indicated so that the estimated contingency sums and their use, if necessary, remain transparent throughout the life of the project. **The Advisory Committee reiterates that it expects the revised level of estimated project contingencies for each of the project phases, separated from the base project cost, to be presented for the consideration and decision of the General Assembly in the next progress report of the Secretary-General (A/70/7/Add.8, paras. 41-48).**

18. The Advisory Committee further recalls its view that a systematic approach to managing and reporting on the use of project contingency funds should be applied so that the unused project contingency amount from one phase of the project is not carried over to the next phase. **The Advisory Committee reiterates that unused contingency amounts should be determined and returned to Member States at the completion of each project phase and not at the completion of the project, as was proposed by the Secretary-General (A/70/7/Add.8, para. 51).**

*Voluntary contributions*

19. The Board discusses the actual contributions and the expressions of interest received in respect of the voluntary contributions for the strategic heritage plan project in paragraphs 35 to 38 of its report. In particular, it notes the progress made in relation to the voluntary contributions received for the renovation of Conference Rooms I, XIX and XVII. The Board indicates that, in the Administration's view in this regard, whereas the donations could cover part of the costs included in the concept design, the donations were mainly to be considered as a means to increase the quality of conference rooms beyond what was envisaged within the project scope.

20. The Board also notes, inter alia, an expression of interest from a private donor for a welcome centre, for which no firm commitments have yet been made. Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the scope and operational arrangements for the welcome centre had not yet been developed since the donor had originally envisaged that the centre would be located adjacent to the Palais des Nations; discussions have been initiated only recently to locate the welcome centre within the perimeter of the Palais des Nations compound in an effort to improve the visitor experience therein.

21. **The Advisory Committee recalls that the General Assembly, in its resolution 68/247 A, welcomed the donations by Member States for the renovation of the Palais des Nations and requested the Secretary-General to include all voluntary contributions in the total project budget. The Advisory Committee therefore recommends that voluntary contributions received in relation to the strategic heritage plan project should, to the extent possible, be used to defray the costs of the project. The Committee further recommends that, in order to ensure transparency, all donations should be documented and reported to the General Assembly as part of the annual progress reports of the Secretary-General.** The Advisory Committee has discussed in its report, the donation policy that provides a framework for the acceptance of voluntary contributions to the strategic heritage plan (see [A/70/7/Add.8](#), paras. 35 and 36).

### C. Project governance

22. The Board's observations on project governance are included in paragraphs 51 to 55 of its report. In respect of the Advisory Board and the Steering Committee, which are part of the project governance framework, the Board notes that their terms of reference reflect an overlap between their jurisdiction, roles and responsibilities. The Board also points out a lack of clarity in their roles with regard to scope changes, contingency spending and change orders ([A/70/569](#), para. 53). In this respect, the Board reflects the Administration's response that the terms of reference of the Advisory Board and of the Steering Committee are proposed to provide a complementary governance structure and appropriate advice to the project owner. The Advisory Committee discussed the governance framework for the strategic heritage plan project in its report ([A/70/7/Add.8](#), paras. 7-18). **The Advisory Committee reiterates its view that the respective roles and responsibilities of the Advisory Board and the Steering Committee in the overall project governance framework should be delineated in more precise and clear terms and presented in the next progress report of the Secretary-General ([A/70/7/Add.8](#), para. 15).**

23. In his report, the Secretary-General indicates that he intends to continue to further refine the terms of reference of both the Advisory Board and the Steering Committee over time as the project moves from preliminary design into tendering and construction ([A/70/585](#), para. 13). Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the later stages of the project would be different from the current stage and that changes in the terms of reference or membership of the two components of the project governance framework might be required in the later stages. **The Advisory Committee considers that subsequent to the approval by the General Assembly of the overall project governance framework, any change in the framework as a whole or in the roles and responsibilities of its components should be presented for the consideration of the General Assembly.**

### D. Procurement and contracting

24. The observations of the Board of Auditors on the procurement and contracting relating to the project are included in paragraphs 68 to 77 of its report. The Board recounts the steps taken and the assurances provided by the Administration in

relation to the procurement strategy concerning the project. In this connection, the Board notes, inter alia, that the Administration confirmed its commitment to adhering to 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 Board also notes assurances provided by the Administration to incorporate in the contracts provisions relating to security instruments, including performance and payment bonds and financial protection in case of default.

25. On the basis of its review of the ongoing contract, the Board notes, inter alia, instances of delays in the deliverables. In some of the specific instances of such delays, the Board also notes the absence of the provision for liquidated damages in the related contracts and highlights paragraph 9.35 of the Procurement Manual, which 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”. In the Board’s view, it is necessary, in the context of high-value projects, to deter breaches of contract from occurring and to secure the interests of the Organization, should such breaches occur. In this regard, the Board also reflects the Administration’s view that the inclusion of a provision for liquidated damages in contracts is not stipulated as a mandatory requirement in the Procurement Manual (A/70/569, paras. 73-75).

26. Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the provision for liquidated damages was not included in the contracts for civil and structural engineering services or for an intrusive survey for hazardous material. However, other safeguards for delays, such as withholding of payment, parent guarantees and performance security, were included in those contracts. The Committee was further informed that the Secretary-General intends to include the liquidated damages clause in the construction contracts related to the project. **The Advisory Committee concurs with the Board’s recommendation to ensure adherence to the provisions of the Financial Regulations and Rules of the United Nations and of the Procurement Manual in order to protect the interests of the Organization.**

27. In its review of the ongoing contracts, the Board also observes that the Assistant Secretary-General, Office of Central Support Services, waived the requirement recommended by the Headquarters Committee on Contracts in connection with the award of the consultancy contract for programme management services to a joint venture between two consultancy firms. The Board notes that the Headquarters Committee on Contracts expressed concerns about awarding a contract to a joint venture enterprise that did not then exist and was not registered as a United Nations vendor and recommended, inter alia, to establish the capital of the joint venture at a level equal to a minimum of 50 per cent of the phase I not-to-exceed amount (A/70/569, para. 73 (b)). Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the requirement to establish the above-mentioned level of capital for the joint venture was not considered viable from a commercial point of view. The Committee was further informed that the contract, awarded for consultancy services and considered to be

low risk, also included the requirement of a performance bond and that the requirement related to the capital for the joint venture had therefore been waived.

**28. The Advisory Committee reiterates the need for strict compliance with United Nations regulations and rules, procurement policies and administrative procedures. The Committee also emphasizes the importance of continuous assurance from the Board of Auditors as to the soundness of the governance framework, internal controls and management practices of the project to provide reasonable confidence to the Member States that the resources appropriated are used in the furtherance of the project objectives and in the best interests of the Organization.**

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