



## INTERNAL AUDIT DIVISION

### REPORT 2017/050

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Audit of major construction and alteration projects in the Economic Commission for Africa

The governance structure and oversight mechanisms of the Africa Hall renovation project needed to be enhanced to improve effectiveness before commencement of construction

15 June 2017  
Assignment No. AN2017/710/02

# **Audit of major construction and alteration projects in the Economic Commission for Africa**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of major construction and alteration projects in the Economic Commission for Africa (ECA). The audit covered the period from 1 April 2015 to 31 March 2017 and focused on the Africa Hall renovation project and related activities.

The project management team was duly constituted. However, the project's governance structure and oversight mechanisms needed to be enhanced to improve effectiveness before commencement of construction activities.

OIOS made five recommendations to ECA and OCSS. To address issues identified in the audit, ECA needed to:

- Expedite the appointment of members to the Advisory Board;
- Formulate a strategy for soliciting voluntary contributions from private entities and obtain related clearance from the Office of Legal Affairs;
- Finalize the updated business case for the Visitors Centre and report on it in the context of the Secretary-General's next progress report on the renovation of conference facilities; and
- Request the General Assembly to take note of the cost implications of the change in the relocation strategy of tenants of Africa Hall.

OCSS needed to:

- Incorporate an approach for addressing fraud and corruption risks in the risk management framework of the Africa Hall renovation project.

ECA and OCSS accepted the recommendations and have initiated action to implement them.

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# Audit of major construction and alteration projects in the Economic Commission for Africa

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of major construction and alteration projects in the Economic Commission for Africa (ECA).

2. Africa Hall is the permanent headquarters of ECA. It was built in 1961 and comprises a ground floor, a mezzanine level and a conference hall. The ground floor and the mezzanine level are currently occupied by various service providers to ECA including travel agents, banks and kiosks. In its resolution 70/248, the General Assembly approved the overall project scope, schedule and estimated cost of \$56.9 million for the renovation of Africa Hall and the Visitors Centre. The breakdown of the cost is shown in Table 1. The main objectives of the renovation project are to: (i) address the inadequacies related to building safety and functionality and to transform the Africa Hall into a rejuvenated facility that complies with the highest international standards for conference facilities; (ii) preserve and restore the historical and cultural values embedded in its architecture; and (iii) include a Visitors Centre to make Africa Hall one of the leading tourist destinations in Addis Ababa and to highlight its significant role in modern African history.

3. The Africa Hall renovation project comprises five stages, of which stage 1 (preparation) and stage 2 (design) have been completed. Stage 3 (pre-construction) is currently underway with preparation of tender documents by the lead consultant. This will be followed by stage 4 (construction) and the project will be concluded at stage 5 (project close-out).

**Table 1: Project costs schedule – 2016-2021 (in millions of United States dollars)**

Costs/Schedule	Stage Year	3 2016	3 & 4 2017	3 & 4 2018	4 2019	4 2020	5 2021	Total
Construction fees		1,747	3,165	13,539	15,394	15,834	2,311	51,990
Project management		418	883	883	883	883	356	4,306
Physical security			38	150	150	150	113	601
	<b>Total</b>	<b>2,165</b>	<b>4,086</b>	<b>14,572</b>	<b>16,427</b>	<b>16,867</b>	<b>2,780</b>	<b>56,897</b>

4. The Executive Secretary of ECA is designated as the Project Owner and the Director of Administration as the Project Executive. The Office of Central Support Services (OCSS) in the Department of Management is responsible for providing oversight and support to the project. The dedicated project management and support team is made up of nine staff members headed by a Project Manager at the P-5 level.

5. Comments provided by ECA and OCSS are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of major construction and alteration projects in ECA.

7. This audit was included in the 2017 risk-based work plan of OIOS at the request of the General Assembly under various resolutions and due to the risks of delays, wastage and cost overruns inherent in major construction and alteration projects.

8. OIOS conducted this audit in April 2017. The audit covered the period from 1 April 2015 to 31 March 2017 and focused on the Africa Hall renovation project and related activities. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in project governance and oversight, project management and project implementation.

9. The audit methodology included: (a) interviews of key personnel, (b) reviews of relevant documentation, (c) analytical reviews of data, and (d) sample testing of invoices and change orders.

### **III. OVERALL CONCLUSION**

10. The project management team of the Africa Hall renovation project was duly constituted. However, its governance structure and oversight mechanisms needed to be enhanced to improve effectiveness before commencement of construction activities.

### **IV. AUDIT RESULTS**

#### **A. Project governance and oversight mechanisms**

The project governance and oversight mechanisms needed to be enhanced to improve effectiveness

11. The guidelines for the management of construction projects in the United Nations Secretariat, relevant General Assembly resolutions and additional guidance provided by the Assistant Secretary-General, OCSS (ASG/OCSS) specify construction project governance structure and oversight mechanisms. Accordingly, ECA established a Stakeholders Committee, which assists the Executive Secretary in his role as Project Owner responsible for high-level decision-making.

12. Additionally, roles and responsibilities over the management of the project were defined in an Administration and Coordination Agreement between ECA and OCSS, signed on 17 February 2017. In accordance with the Agreement: (a) the Director of Administration, in his capacity as Project Executive, is responsible for the overall management and decision-making process related to the planning, design and construction of the project; (b) the Executive Secretary, as Project Owner, liaises with host country authorities; and (c) OCSS provides oversight, independent risk management, guidance and support in all aspects of project implementation. However, more needs to be done to formalize the governance structure before the start of the construction phase as follows:

a) ECA should expedite the appointment of members to the Advisory Board

13. General Assembly resolution 70/248 encouraged the Secretary-General to establish an Advisory Board, with responsibility to advise the Project Owner on issues such as budget and schedule performance, scope control, risk management and heritage preservation. Members of the Board should be independent and impartial, have the required expertise and reflect a wide geographical representation.

14. The draft terms of reference indicated that the Advisory Board would be made up of six United Nations member representatives supported by ex-officio members, including a senior representative from the host country, a senior representative from the African Union Commission, a representative from United Nations Education Scientific and Cultural Organization, an advisor from OCSS, and the ECA

Director of Administration and Chief of Staff. The Project Manager would serve as Secretary. The draft terms of reference, however, did not define the requisite expertise and steps needed to ensure that the Board is independent and impartial and that its representation complies with the requirements of resolution 70/248.

15. ECA issued ad-hoc invitations to selected ambassadors to the African Union to join the Advisory Board. At time of the audit, ECA management indicated that it had received four acceptances and was committed to completing the process before the end of June 2017. A review of one of the letters of invitation to designate an ex-officio member of the Board noted that there was no requirement for the nominee to have background and expertise in managing or overseeing a project such as the Africa Hall renovation. Nominating persons without the required expertise could diminish the effectiveness of the Board in carrying out its functions.

**(1) ECA should expedite the appointment of members to the Advisory Board for the Africa Hall renovation project and ensure that the members have the requisite expertise to provide impartial and independent advice.**

*ECA accepted recommendation 1 and stated that requests for expressions of interest had been sent to Member States representatives in Addis Ababa and nominations were expected by mid-June 2017. Recommendation 1 remains open pending notification that members of the independent Advisory Board, with the requisite expertise, have been appointed.*

b) ECA needed to finalize amendments to its current lease agreement with the host country

16. In accordance with the Administration and Coordination Agreement, ECA is responsible for initiating amendments to its existing lease agreement for premises, to acquire the usage rights of a new piece of land for a visitors car park.

17. ECA initiated consultations with the host government for use of an adjacent piece of land for a proposed visitors parking lot. The Government through local authorities agreed, in principle, to facilitate the transfer of the land as part of their in-kind contribution to the project. However, ECA and the host government had not yet formalized the agreement in a legal instrument. ECA management indicated that all necessary paperwork for this initiative will be concluded before commencement of construction scheduled for April 2018. Therefore, OIOS did not make a recommendation on this matter at this time.

c) ECA should formulate a strategy for mobilizing voluntary contributions

18. General Assembly resolution 70/248 requested the Secretary-General to seek voluntary contributions for the Africa Hall renovation project and report thereon to the General Assembly in future reports. Memoranda requesting voluntary contributions were sent to African Member States of the United Nations, the host country and the Chairperson of the African Union. Written solicitations to the rest of the United Nations Member States were also made. ECA management indicated that bilateral meetings to follow up on these communications were ongoing. At the time of the audit, one country had contributed \$52,000, and two other countries had shown interest in contributing. The third phase of funding mobilization is planned to be made to private entities to be associated with the refurbishment of the iconic building housing the Africa Hall.

19. ECA, however, had not yet developed a formal strategy for soliciting voluntary contributions or sought advice from the Office of Legal Affairs (OLA) on how to manage relationships with private donors contributing to the project. For instance, a note already issued to Member States for raising voluntary donations, which is expected to be used by ECA for its fundraising activities with private

entities, had not been previously approved by OLA because of concerns regarding the possible use of the United Nations name and emblem for commercial purposes.

**(2) ECA should formulate a strategy for soliciting voluntary contributions from private sector entities and obtain clearance from OLA for its implementation.**

*ECA accepted recommendation 2 and stated that it would verify with United Nations Headquarters in New York on how to comply with existing regulations and rules while engaging with the private sector. Recommendation 2 remains open pending receipt of a formal strategy by ECA for soliciting voluntary contributions from the private sector after necessary consultations.*

d) OCSS should expedite the hiring of an independent risk management firm and incorporate an approach for addressing fraud and corruption in the risk management framework

20. In accordance with the Administration and Coordination Agreement signed between OCSS and ECA, OCSS would provide oversight, independent risk management, guidance and support in all aspects of implementation of the Africa Hall renovation project.

21. OCSS decided to engage an independent risk management firm to support the execution of the risk management function, with the objective of identifying and assessing project uncertainties and defining optimum risk responses that assure the successful delivery of project-specific objectives within a controlled framework. The firm is expected to deliver a risk management strategy, a risk register, biannual progress reports and an end of project report. At the time of the audit, procurement activities for contracting the risk management firm were at an advanced stage and OCSS estimated that the firm would be on board by July 2017. OIOS is, therefore, not making a recommendation in this regard.

22. OIOS reviewed the terms of reference for the independent risk management firm and found them to be comprehensive. However, in OIOS' view additional emphasis should be placed on addressing fraud and corruption risks as project execution progresses. These should include procedures to identify and prevent fraudulent claims from contractors and/or suppliers. For example, in an effort to prevent fraud and corruption, the capital master plan employed an integrity monitor to help screen contractors and suppliers.

**(3) OCSS should, in consultation with ECA, incorporate an approach for addressing fraud and corruption risks in the risk management framework of the Africa Hall renovation project.**

*OCSS accepted recommendation 3 and stated procurement of the services of a specialist risk management consultant was at an advance stage. Once on board, the consultant would include fraud and corruption risks in the risk management framework. Recommendation 3 remains open pending receipt of the Africa Hall renovation project's risk management framework that incorporates an approach for addressing fraud and corruption risks.*

e) ECA has been granted appropriate delegation of procurement authority

23. In response to OIOS' recent recommendation in Report No. 2016/086 on the audit of management of construction activities in ECA, ASG/OCSS, on 10 March 2017, increased the delegation of procurement authority to the Director of Administration for contract change orders and resulting contract amendments solely for the Africa Hall renovation project to \$500,000. The delegation further stated that the cumulative value of such change orders per contract shall not exceed 20 per cent of the original amount, or the most recently ASG/OCSS approved contract amount up to an overall cap of

\$4,000,000 in total. OIOS concluded that appropriate delegation of procurement authority had been granted to ECA for the renovation of Africa Hall.

f) There is a need for ECA to update the business case for the Visitors Centre

24. General Assembly resolution 70/248 requested ECA to present an updated business case for the Visitors Centre based on clearly formulated objectives, total cost projections to establish the Centre, estimated annual operational costs and revenue generation, direct and indirect benefits to the Organization and the public, and a plan for realizing such benefits.

25. ECA management explained that since the last Secretary-General's report on construction activities to the General Assembly issued in August 2016 (A/71/370), a security risk assessment had been conducted but the business case had not yet been updated. The delay was due to conflicting priorities of the Division of Public Information and Media Relations, which was substantively involved with the creation of the Visitors Centre. It is important that the required analysis is made so that the General Assembly could approve it without impacting the construction schedule.

**(4) ECA should finalize the updated business case for the Visitors Centre as requested by the General Assembly and report on it in the context of the Secretary-General's next progress report on the renovation of conference facilities, including Africa Hall.**

*ECA accepted recommendation 4 and stated that the revised business case would be submitted within the next progress report of the Secretary-General. Recommendation 4 remains open pending receipt of the Secretary-General's next progress report that includes the updated business case for the Visitors Centre.*

## **B. Project management**

### The project management team was constituted

26. Despite initial delays in recruitment, all dedicated project management and project support positions approved by the General Assembly in resolution 70/248 have been filled.

27. ECA mitigated potential skills gaps identified in a previous OIOS report (2016/086) by setting aside additional resources for specialist consultancy services amounting to \$258,500 over the life of the project from within the approved maximum overall cost of the project.

28. Additionally, a Project Coordinator at the P-4 level to be based at OCSS and shared with the proposed seismic mitigation retrofit and life-cycle replacement project at the Economic and Social Commission for Asia and the Pacific was approved. Recruitment activities for this post are being expedited and the Project Coordinator is expected to be on board by August 2017. Meanwhile the coordination functions are being adequately covered by the Overseas Property Management Unit in OCSS. OIOS concluded that the core project management team had been fully constituted.

### The draft project-specific manual needed to be finalized

29. General Assembly resolution 69/262 requested the Secretary-General to ensure robust internal project control mechanisms in the context of the scope, cost, schedule and quality of the Africa Hall renovation project. In a note to the Executive Secretary dated 17 February 2016, the ASG/OCSS advised



that consideration be given, prior to the start of construction, to develop processes for reviewing contract amendments and construction change orders so that these do not present a risk to the project schedule.

30. ECA prepared a draft detailed project-specific manual that includes procedures for contract amendments, change orders, use of contingency, and quality management and control strategy. However the manual was sent to OCSS for review without adequate quality assurance within ECA, which was delaying the review process. OIOS review of the manual indicated that it needed to be edited by someone different from the preparer to facilitate proper communication and implementation of the guidance. ECA stated that the draft manual would be reviewed by additional stakeholders within ECA, including members of the Stakeholders Committee before submission to OCSS for clearance. Therefore, OIOS did not make a recommendation on this issue.

#### ECA prepared guidelines for the use of contingency funds and incorporated them into the project manual

31. General Assembly resolution 70/248 emphasized that contingency provisions approved for construction projects serve to provide necessary safeguards against unforeseen cost overruns during project implementation and underlined that the estimation of project contingencies should be based on the identification of risks associated with the different phases of the project.

32. A change management framework was drafted and it includes principles upon which changes to the construction activities will be based. In principle, changes will be limited and linked to unforeseen cost overruns. Changes will refer to such factors as unforeseen field conditions, changes in owner requirements and design errors and oversights excluding scope changes. The manual also advises that value engineering opportunities shall be sought, considering the use of the contingency as the “last resort”. (Value engineering refers to identification of alternative project designs or materials that could result in cost savings as construction progresses. This concept was applied effectively when implementing the capital master plan.)

33. Out of a final approved budget of \$56,896,400, an amount of \$8,598,440, which represents approximately 15 per cent of the approved budget, was set aside as contingency funds for stages 3 to 5 of the project. At the time of the audit an amount of \$150,470 had already been committed for contingencies involving three design change orders. The change orders were reviewed by the Local Committee on Contracts and approved accordingly. OIOS concluded that adequate processes had been put in place to ensure that the contingency funds are used as intended.

### **C. Project implementation**

#### The expansion of the project as a result of changes in owner requirements should be reported to the General Assembly

34. In resolution 70/248, the General Assembly encouraged the Secretary-General to update Member States, through OCSS, on the progress of construction projects. As part of the standard operating procedures, the project manager is responsible for preparing monthly/quarterly progress reports, including both financial and scheduling progress.

35. During the preparation of the project implementation plan for early works, ECA concluded that moving its tenants on the ground floor and mezzanine level would no longer be temporary as the space will be turned into a permanent exhibition centre. This change in strategy necessitated additional renovations to relocate the tenants that had not been anticipated, increasing the costs from \$2.05 million to approximately \$4 million based on estimates made by the lead consultant. This change triggered

discussions in the Stakeholders Committee, with ASG/OCSS advising that approval be obtained from the General Assembly as this represents a scope change that was not originally reported. ECA management explained that the variation could be classified as changes in owner requirements (but not scope change) and therefore could be funded from contingency. In addition, to mitigate the impact on future costs, ECA will intensify value engineering to achieve future cost savings.

36. At the time of audit, this difference in opinion had not been resolved but given the General Assembly resolution regarding the use of contingency funds, there may be a need to request the General Assembly to take note of the change in the relocation strategy on account of the cost implications involved.

**(5) ECA should request the General Assembly to take note of the cost implications of the change in the relocation strategy of tenants of Africa Hall as part of the renovation project.**

*ECA accepted recommendation 5 and stated that discussions were ongoing on how to present the case to the General Assembly. Recommendation 5 remains open pending confirmation that ECA has presented the cost implications of the change in the relocation strategy to the General Assembly.*

The updated project schedule was on course

37. Current project activities are centred on stage 3, pre-construction, and involve project design and contracting strategy. The main activities are early works, main works, art works, Hi-tech conference engineering and the Visitors Centre. To ensure implementation of the project in a controlled environment, all activities involve detailed documentation, tendering and award of contracts. Early works have been divided into seven distinct packages.

38. At the time of audit, final designs for early works were complete and tender documentation was submitted to ECA by the lead consultant in February 2017. Solicitation documents were finalized and the request for proposal was issued on 10 March 2017. A mandatory bidder conference was held on 4 April 2017 and the bid closing date was 2 May 2017. Designs for the other activities were at various stages of completion. Despite initial delays in the production of tender documents, the project closeout still remains as of the end of 2021 as originally planned. ECA management explained that the strategy of splitting the works into packages will ensure overlapping of activities and avoid delays as none of the activities will fall on the critical path of the other, except for early works.

39. As of April 2017, a total of \$2,910,890 had been committed of which \$1,959,230 had already been disbursed. An additional \$994,400 is forecasted to be spent by the end of 2017. OIOS reviewed an invoice of \$975,630 paid to the lead consultant and concluded that it was in accordance with the contractual arrangements and was duly approved by the Project Engineer and the Project Manager. OIOS concluded that barring unforeseen uncertainties, the project schedule was on course.

## V. ACKNOWLEDGEMENT

40. OIOS wishes to express its appreciation to the management and staff of ECA and DM for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of major construction and alteration projects in the Economic Commission for Africa

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	ECA should expedite the appointment of members to the Advisory Board for the Africa Hall renovation project and ensure that the members have the requisite expertise to provide impartial and independent advice.	Important	O	Notification that members of the independent Advisory Board, with the requisite expertise, have been appointed.	31 August 2017
2	ECA should formulate a strategy for soliciting voluntary contributions from private sector entities and obtain clearance from OLA for its implementation.	Important	O	Receipt of a formal strategy by ECA for soliciting voluntary contributions from the private sector after necessary consultations.	31 December 2017
3	OCSS should, in consultation with ECA, incorporate an approach for addressing fraud and corruption risks in the risk management framework of the Africa Hall renovation project.	Important	O	Receipt of the Africa Hall renovation project's risk management framework that incorporates an approach for addressing fraud and corruption risks.	31 December 2017
4	ECA should finalize the updated business case for the Visitors Centre as requested by the General Assembly and report on it in the context of the Secretary-General's next progress report on the renovation of conference facilities, including Africa Hall.	Important	O	Receipt of the Secretary-General's next progress report to the General Assembly that includes the updated business case for the Visitors Centre.	31 August 2017
5	ECA should request the General Assembly to take note of the cost implications of the change in the relocation strategy of tenants of Africa Hall as part of the renovation project.	Important	O	Confirmation that ECA has presented cost implications of the change in the relocation strategy of tenants of Africa Hall to the General Assembly.	31 August 2017

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by ECA in response to recommendations.

# **APPENDIX I**

## **Management Response**

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## INTEROFFICE MEMORANDUM

To: Ms. Muriette Lawrence-Hume, Chief  
New York Audit Service  
Internal Audit Division, OIOS

Date: 12 June 2017  
Ref: SPOQD/17/06/0124 *DH*

From: Ingrid Cyimana, Director  
Strategic Planning and Operational Quality  
Divisions (SPOQD)

**Subject: Draft Report on the audit of major construction projects in the Economic Commission for Africa (Assignment No. AN2017/710/02)**

In reference to interoffice memorandum (Ref: IAD: 17 – 00224) dated 31 May 2017 on the above subject, we are pleased to enclose ECA's management response where we have accepted all important recommendations.

We have noted an error in paragraph 12 on page 2, please note designation of head of ECA is "Executive Secretary" rather than "Executive Director".

Thank you.

Cc: Mr. Stephen J. Cutts, Assistant Secretary General, OCSS  
Mr. Jack Howard, chief, Overseas Properties Management Unit, OCSS  
Mr. Zachary Ikiara, Chief, Oversight and Coordination Support Unit, DM  
Ms. Yanrui Huang, Audit Focal Point, OCSS  
Mr. Tilchand Acharya, Chief, Field Audit Section, IAD-OIOS  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division,  
Mr. Carlos Haddad, Director, Division of Administration, ECA  
Ms. Eskedar Nega, Chief of Evaluation Section, ECA

## Management Response

## Audit of major construction and alteration projects in the Economic Commission for Africa

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ECA should expedite the appointment of members to the Advisory Board for the Africa Hall renovation project and ensure that the members have the requisite expertise to provide impartial and independent advice.	Important				
2	ECA should formulate a strategy for soliciting voluntary contributions from private sector entities and obtain clearance from OLA for its implementation.	Important				
3	OCSS should, in consultation with ECA, incorporate an approach for addressing fraud and corruption risks in the risk management framework of the Africa Hall renovation project.	Important	Yes	Jack Howard, Chief, Overseas Properties Management Unit	31 December 2017	OPMU is in the process of procuring the services of a specialist risk management consultant (currently in an advanced stage). Once on board, the consultant will include fraud and corruption risks in the risk management framework, and management will present to OIOS for closure of this recommendation.
4	ECA should finalize the updated business case for the Visitors Centre as requested by the General Assembly and report on it in the context of the Secretary-General's next progress report on the renovation of conference facilities, including Africa Hall.	Important				
5	ECA should request the General Assembly to take note of the cost	Important				

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of major construction and alteration projects in the Economic Commission for Africa

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	implications of the change in the relocation strategy of tenants of Africa Hall as part of the renovation project.					