



INTERNAL AUDIT DIVISION

REPORT 2021/022

Audit of the seismic mitigation retrofit and life-cycle replacements project in the Economic and Social Commission for Asia and the Pacific

Delayed procurement of the general contractor and higher professional services costs than budgeted necessitated close monitoring of the project schedule and costs

14 June 2021

Assignment No. AN2021-740-01

Audit of the seismic mitigation retrofit and life-cycle replacements project in the Economic and Social Commission for Asia and the Pacific

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the seismic mitigation retrofit and life-cycle replacements project in the Economic and Social Commission for Asia and the Pacific (ESCAP). The objective of the audit was to determine whether ESCAP internal controls over the seismic mitigation retrofit and life-cycle replacements project were implemented effectively to ensure timely completion of the project within the scope and budget approved by the General Assembly. The audit covered the period from March 2019 to February 2021 and included: (a) procurement and contract management; (b) project governance and oversight, including working collaboratively with key stakeholders to plan for and manage change; and (c) other project management activities such as project cost management.

The acquisition of the general contractor for main construction works has so far been unsuccessful, which has caused significant delays to the start of construction. Effective mitigation of the delays is dependent on the outcome of the ongoing repeat solicitation exercise and the success of the revised accelerated construction methodology. The project also remained at high risk of exceeding its approved budget, with professional services and staff costs trending higher than the budget. ESCAP effectively managed active contracts and payments to vendors to ensure they were valid and compliant with the financial regulations and rules. Governance and oversight mechanisms also functioned as designed.

OIOS made four recommendations. To address issues identified in the audit, ESCAP needed to:

- Amend its contract with the lead consulting firm of the seismic mitigation retrofit and life-cycle replacements project to remove construction administration services once the new contract to deliver those services has been awarded;
- Develop a resource mobilization strategy for the seismic mitigation retrofit and life-cycle replacements project that scales up its efforts to raise voluntary contributions and improves the likelihood of better outcomes than in prior years;
- Enhance risk mitigation strategies, with support from the Department of Management Strategy and Compliance, for the seismic mitigation retrofit and life-cycle replacements project to address potential budget overruns arising from risks such as exchange rate differences and delayed procurement and related uncertainty regarding construction and staff costs; and
- Revise the staff costs for the seismic mitigation retrofit and life-cycle replacements project to reflect the most up-to-date standard costs and staffing requirements necessary to complete the project

ESCAP accepted the recommendations and has initiated action to implement them.

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Audit of the seismic mitigation retrofit and life-cycle replacements project in the Economic and Social Commission for Asia and the Pacific

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the seismic mitigation retrofit and life-cycle replacements project (SMP) in the Economic and Social Commission for Asia and the Pacific (ESCAP).
2. The SMP was approved by the General Assembly in December 2016 through its resolution 71/272. The overarching objective of the project is to ensure the health and safety of staff, delegates and visitors at the Commission's premises in Bangkok through: (a) retrofitting the ESCAP secretariat and service buildings to mitigate against seismic risks; (b) updating building life-safety systems to meet current standards; and (c) replacing systems that have reached the end of their useful lives. The project is also expected to result in improved accessibility, as well as energy and space efficiency.
3. The General Assembly approved a project budget of \$40 million, including an escalation provision of \$3.9 million and a contingency reserve of \$3.0 million. The General Assembly appropriated a total of \$15.8 million to the project for the period 2017 to 2020, of which only \$8.5 million had been spent since the start of the main construction works that was delayed from 2020 to 2021. The cumulative expenditure as of January 2021 included: (a) \$2.6 million on construction of the main swing space; (b) \$2.7 million on professional services, including \$1.7 million paid to the lead consulting firm (LCF); and (c) \$3.2 million on project management costs.
4. Activities conducted during the period March 2019 to January 2021 were primarily the construction of the main swing space, which was completed; and procurement activities for general construction works, construction administration services, furniture systems, moving services and hazardous materials removal. ESCAP also undertook several business readiness and change management activities to prepare stakeholders for the construction phase.
5. The Executive Secretary of ESCAP is the project owner with overall accountability for the project. The project owner designated the ESCAP Director of Administration as the project executive to oversee all strategic and operational issues related to the project. ESCAP also established a Stakeholders' Committee to support project governance, and a Change Control Board to review and approve change requests. During 2019, ESCAP amended the Stakeholders Committee's terms of reference to give a more active role to the United Nations agencies, funds and programmes based within the Commission's premises in Bangkok.
6. The SMP project has a dedicated project team led by a Project Manager at the P-5 level. The dedicated project management team has 10 approved posts, including the project manager, of which three were vacant as of December 2020. Recruitment for the vacant positions was temporarily postponed owing to the delayed start of construction. The Global Asset Management Policy Service (GAMPS) in the Department of Management Strategy, Policy and Compliance (DMSPC) provides additional support, including risk management support. A Project Coordinator post at the P-4 level was established at Headquarters to provide risk management and other support on a cost-sharing basis to construction projects at ESCAP and the Economic Commission for Africa (ECA). Starting in January 2021, ESCAP will no longer contribute to this post but will continue to receive support from GAMPS using resources from other funding sources.
7. Comments provided by ESCAP are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to determine whether ESCAP internal controls over the seismic mitigation retrofit and life-cycle replacements project were implemented effectively to ensure timely completion of the project within the scope and budget approved by the General Assembly.

9. This audit was included in the 2021 risk-based work plan of OIOS due to the General Assembly's request for OIOS to provide oversight of the project and include information on its key findings in its annual report to the General Assembly (A/RES/71/272).

10. OIOS conducted this audit in February and March 2021. The audit covered the period from March 2019 to February 2021. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the SMP project, which included: (a) procurement and contract management; (b) project governance and oversight, including working collaboratively with key stakeholders to plan for and manage change; and (c) other project management activities such as project cost management.

11. The audit methodology included: (a) interviews with key personnel, (b) review of relevant documentation, (c) analytical review of data, and (d) sample testing of selected transactions. OIOS did not review bid evaluation documents relating to ongoing solicitations for the general construction, construction administration, furniture systems and moving services contracts. These will be reviewed once the contracts are awarded after the report issuance date and any issues arising may be included in the OIOS annual report to the General Assembly.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Procurement and contract management

ESCAP was taking action to mitigate delays to key procurement activities

13. When the SMP was approved by the General Assembly in 2016, the goal was to complete all significant procurement activities by the end of 2019. However, as discussed below, as of March 2021 procurement was still in progress for the general contractor, the construction administration contract, the contract for furniture systems as well as two other smaller contracts for moving and hazardous materials services.

(a) Main contract for construction works

14. The process for procuring the services of a general contractor has not been successful so far. ESCAP initially issued a request for proposal (RFP) in June 2019 with a view to awarding the contract by February 2020, to allow construction to be completed and closed out by the end of 2023 using a five-phase construction methodology. The issuance of the first RFP had itself been delayed by at least four months due to delays in delivery of design documents, which was then partially attributed to: (a) the LCF's working remotely from Spain and the attendant time-zone differential between Spain and Thailand that made timely turnaround of deliverables more challenging; and (b) changes to the scope of the design to incorporate non-structural components that were previously outside the scope of the project.

15. The first RFP was cancelled in November 2019 after it received only one qualified bid whose commercial proposal was not viable. This was despite the public availability of budgetary information on the project, including General Assembly resolutions and reports of the Secretary-General. The LCF conducted a line-by-line comparison of the pre-tender estimate and the bidder's financial proposal, and recommended that negotiating the proposal could not be justified on a market basis since it overstated various aspects such as unit prices and human resource requirements. ESCAP also held a debrief with the bidder on the day the RFP was cancelled to better understand the rationale for the high cost, which the bidder attributed in part to the cost of imported materials and equipment, restrictive certification requirements, the long construction period and the possibility of paying staff at a higher wage-rate because of the requirement to do most of the work overnight.

16. Subsequently, ESCAP engaged a consulting firm for \$171,000 to conduct additional market research, reassess the costs on the bill of quantities and provide RFP support for a re-bid. Prior to, and during the first RFP, these services had been provided by the LCF. In addition, ESCAP issued a new request for expression of interest (RFEOI) in April 2020 with more details than the two RFEOIs that had been issued in the lead-up to the first RFP. The 2020 RFEOI was also used to pre-qualify vendors in accordance with article 5.6 of the revised procurement manual, which was not done with the first two issued in March 2018 and March 2019, respectively. Article 5.6 of the revised procurement manual recommends pre-qualification of bidders where requirements are complex and the costs of preparing detailed bids is high, such as in construction projects. The third RFEOI was therefore more effective in determining the true market interest in the project and contributed to the distribution of more focused RFP documents.

17. ESCAP issued the new RFP in August 2020 using a "multi-stage RFP with dialogue" approach. A key difference between the multi-stage RFP and the standard RFP process is that bidders are required to submit interim proposals, and the United Nations engages in dialogue with bidders before and after the submission of interim proposals. An interim evaluation is conducted, and only the bidders who pass the interim evaluation are permitted to submit final proposals, which are then evaluated like a traditional RFP. ESCAP decided to adopt the multi-stage RFP approach to increase the likelihood of success with the second RFP based on lessons learned from the Strategic Heritage Plan project in Geneva, which had successfully used the multi-stage RFP process for its own procurement. Since this approach was not yet included in the procurement manual, ESCAP obtained a waiver from the Assistant Secretary-General, Office of Supply Chain Management (OSCM) before implementation. The multi-stage RFP process has since been standardized in the procurement manual, and future construction projects could adopt it with the approval of the Assistant Secretary-General, OSCM.

18. The second RFP suffered some delays, which resulted in the target date for completion of bid evaluations being revised from February to April 2021 as the RFP evaluation teams needed to obtain clarifications from bidders. ESCAP expects to award the contract in the second quarter of 2021 so that construction can commence by July. While the new RFP may result in ESCAP being effective in securing the services of a qualified contractor at the right cost, the outcome remains uncertain at this time since the bids are still undergoing evaluations. Preliminary feedback from ESCAP indicated several competitive bids were received and had more reasonable commercial proposals than the first RFP. OIOS was not able to review any evaluation reports as evaluations were still in progress at the time of the audit.

19. An independent probity monitor was engaged to provide assurance on the fairness of the multi-stage RFP process and conclude on its compliance with relevant regulations, rules, and best practices. The probity monitor reported directly to the Assistant Secretary-General, OSCM so that they could be independent from the project and procurement teams directly supporting the project. ESCAP, with the approval of the Procurement Division, selected a former chairperson of the Headquarters Committee on Contracts to act as the probity monitor. In a statement dated January 2021, the probity monitor concluded that the procurement had been open and fair, with no partiality shown towards any vendor.

(b) Furniture systems

20. The RFP for furniture systems was issued in November 2019 with a planned contract award date of August 2020, but this has since been delayed by 11 months to July 2021. ESCAP collaborated with ECA to issue one RFP for both their needs, but bidders had the option to submit bids either for both or only one of the locations. The estimated contract value for ESCAP included approximately \$1.3 million in furniture requirements to be funded from the SMP budget.

21. The delays in completing the procurement were attributed in part to the high level of interest in the RFP, with 48 proposals having been received from 12 bidders, which resulted in more time being taken to complete the bid evaluations. ESCAP also stated that part 2 of the technical evaluation, which was an on-site mockup of furniture from all shortlisted bidders, was delayed by 4-5 months due to the impact of COVID-19 on the local and international supply chains. ESCAP had planned to use the furniture systems contract to pilot the future workspace solution in the swing space but may not be able to do so due to the delays. Instead, the furniture required to pilot the new flexible working arrangements may be acquired separately through a request for quotations.

(c) Construction administration services

22. Construction administration services were originally included in the LCF contract as Phase 5 services, with a disclaimer that the United Nations was not committing to dealing with the contractor on an exclusive basis. After determining that the LCF was not the best fit to provide the services, ESCAP re-tendered for the services.

23. The RFP was issued in September 2020, with the contract expected to be awarded by February 2021. This has now been delayed to June 2021. Sixteen vendors, all based in Thailand, were invited to bid after they passed the pre-qualification exercise out of the 27 who had responded to the RFEOI.

24. Since ESCAP has taken considerable action to improve the likelihood of success of the reissued RFP for main construction works and other solicitation exercises were underway, OIOS is not making a recommendation on the timeliness of procurement activities at this time.

The swing space contract was adequately managed but ESCAP needed to amend the LCF contract to remove provisions related to construction administration services

25. The main contract that was active during the period under audit was for the construction of the main swing space, which was signed in 2019 with an initial total fixed fee of 67.8 million Thai Baht (\$2.1 million) and was managed by the Facilities Management Unit. Construction of the swing space was completed by December 2020 at a cost of \$2.5m, one year behind the original contractual schedule. However, this had no material impact on the project as the swing space is not needed until the start of main construction. Time extensions and variation orders were appropriately approved by the project executive. Total cost variations, which amounted to \$270,000, or approximately 13 per cent of the original contract value, were necessitated by changes to design addressing site conditions differing from drawings. The rest of the increased contract cost was attributable to exchange rate fluctuations. OIOS reviewed progress billings for the construction of the main swing space and concluded that they were valid and processed in accordance with contractual obligations.

26. OIOS review of payments made to the swing space contractor indicated that all invoiced amounts were fully disbursed since the vendor was required to obtain ESCAP's approval before billing and therefore, could only bill what ESCAP agreed to up-front. This was usually less than the total value of completed works. A payment retention was therefore not required until the final billings. ESCAP withheld the final

payment of 6.1 million Thai Baht (\$201,908), billed on 29 December 2020 and representing approximately 8 per cent of the contract value, until 3 March 2021 after all the final inspections had been completed. ESCAP further indicated that this approach helped the contractor to get paid on a timely basis and eliminated cashflow-related delays to the construction.

27. The contract with the LCF was less active during the audit period, with payments in 2019 totaling \$414,000, as ESCAP relied on a different service provider for support during the second RFP. Based on a review of supporting documentation, all payments to the LCF were valid. With support from the Office of Legal Affairs (OLA) and the Procurement Division, ESCAP engaged the LCF on its plans to reduce the scope of services under the LCF contract for phases 5 and 6. As a result, ESCAP agreed to reduce the value of the performance bond required under the contract from its original requirement of €235,000 (\$275,000) to €140,000 (\$164,000) in recognition of the reduced scope of future services from the LCF.

28. While a contract amendment was processed to adjust the performance bond, there was no explicit reference to the cancellation of phases 5 and 6 construction administration services from the contract. The contractor could not conduct the phase 5 and 6 services without a “notice to proceed” from ESCAP, which is unlikely to be issued unless ESCAP is unsuccessful with its solicitation for construction administration services. ESCAP, however, indicated that they would keep the LCF as the architect of record throughout the project duration.

(1) ESCAP should amend its contract with the lead consulting firm of the seismic mitigation retrofit and life-cycle replacements project to remove construction administration services once the new contract to deliver those services has been awarded.

ESCAP accepted recommendation 1 and stated that it would continue to work with OLA to negotiate any necessary amendments to the contract with the LCF after a new contract for construction administration services is awarded and, in doing so, ensure that the interests of the Organization are protected, and design liability risks are mitigated. Recommendation 1 remains open pending an amendment to the contract with the LCF to remove construction administration services.

B. Project management

ESCAP needed to either mobilize additional resources to fund the project or develop specific cost-cutting measures to keep project costs within budget

29. According to the approved project proposal, the project budget was distributed as indicated in Table 1. While swing space costs were revised down from the 2016 budget of \$6.5 million to \$4.3 million due to the elimination of off-site swing space, the construction budget remained unchanged since the savings of \$2.2 million were re-directed to previously unknown fire and life safety mitigation works. In addition, escalation was reduced from \$4.8 million to \$3.9 million after the baseline was changed to January 2018 to account for the revised construction start date. The difference was reclassified to the professional services budget, which increased from \$2.3 million to \$3.2 million.

Table 1: Available project budget (in thousands of United States dollars)

	<i>Total approved project budget</i>	<i>Actual Expenditure 2017 to Jan 2021</i>	<i>Available budget for 2021 to 2023</i>
Programme budget section 33			
Construction costs	24,816	2,590	22,226
Professional services	3,240	2,683	557
Escalation	3,889	-	3,889
Contingency	3,002	-	3,002
Subtotal	34,947	5,273	29,674
Programme budget section 19			
Project management	5,072	3,226	1,846
Grand Total	40,019	8,499	31,520

30. Current estimates show that the project costs will likely exceed the approved budget, and the escalation and contingency provisions could be inadequate to cover the projected deficit. This fact was highlighted in the latest report of the Secretary-General to the General Assembly (A/75/235), for which the results of the Monte Carlo analysis project showed that there was only a 20 per cent likelihood that the project will be completed within the approved budget, as illustrated in Table 2. While the simulation has seen some improvement in the likelihood of the project being completed within the approved budget, it has consistently been projected that the budget was more likely to be exceeded. These projections are consistent with the estimated costs to completion based on a combination of estimated contract values for ongoing procurement, projected professional services costs and projected staff costs. The project remains under pressure from the unfavorable impact on costs of the strengthening local currency, as well as the higher cost sensitivity of some project elements such as the exterior façade and glazing.

Table 2: Progression of estimated project costs to completion based on the Monte Carlo simulation

<i>Date of report</i>	<i>Probability of completing project within budget</i>	<i>Estimate at 80 per cent confidence level</i>
18 July 2018	12 per cent	\$42.5 million
13 June 2019	15 per cent	\$41.6 million
7 August 2020	20 per cent	\$41.3 million

31. Despite these risks, the cost plan submitted to the General Assembly in 2020 still reflected that the project would be completed on budget. However, the risks were disclosed, including procurement risks related to the likelihood of key contracts being procured at a higher cost than planned, and the potential losses arising from foreign exchange fluctuations.

32. There was no immediate impact on the project as sufficient funds have been budgeted for and appropriated for needs in 2021. However, there may not be enough funding to complete the project unless concrete steps are taken to either increase the resources available for the project or institute significant cost-cutting measures, without compromising on the project's core objectives of mitigating against seismic risks, replacing systems that have reached the end of their life-cycle, making the buildings more accessible and improving space and energy efficiency.

(a) Construction costs

33. Construction of the main swing space was completed in December 2020, although the space was not yet fitted out with furniture. Ongoing procurement was estimated to cost more than the total available budget pending final contract awards. Escalation and contingency provisions would not be sufficient to

cover the resulting shortfall. ESCAP indicated that they would work with the general contractor to identify additional savings through value engineering solutions to ensure that costs remained within approved constraints. As of the audit report date, it was not yet clear how successful the solicitation for the general contractor had been, and what its financial cost would be.

34. The original construction cost estimates were inaccurate, as evidenced by consistently higher values in the bills of quantities since then. Early signs that the project would be more costly did not result in material adjustments to the cost plan, as ESCAP believed that value engineering solutions would result in sufficient cost savings. ESCAP has indicated that previous efforts at mobilizing voluntary and other contributions to increase the disposable resources for the project have not been successful, therefore it remains critical to contain project costs.

(b) Foreign exchange differences

35. While some of the excess costs highlighted above could be funded from the available escalation provision of \$3.9 million, those attributed to foreign exchange losses, estimated at \$1.5 million in the latest independent risk consultant's biannual progress report, would not qualify. The unfavorable foreign exchange fluctuations arose from the continued strengthening of the Thai Baht, from an average rate of USD 1: 35 Baht in 2016 to an average of USD 1: 31 Baht in 2020, which would make the construction costs more expensive in the reporting currency, particularly if the main construction contract is denominated in the local currency. The trend towards a stronger Thai Baht did not abate during the economic disruptions caused by the COVID-19 pandemic; therefore, the foreign currency risk remained elevated. The 2016 project charter had identified the risk of foreign exchange losses but rated its potential impact as low due to the expectation that key contracts would be denominated in United States dollars. However, only Thailand-based companies submitted bids for the main construction contract, which means the contract is likely to be denominated in the local currency and therefore subject to exchange rate fluctuations. Local companies could however be better placed to incorporate local knowledge and inputs that could result in the project being completed at a lower cost, partially mitigating the risk of foreign exchange losses.

(c) Professional services

36. As shown in Table 1, the cumulative actual costs of professional services amounted to \$2.7 million as of January 2021, spent mostly on the LCF, which had been engaged in October 2017 at a contract value of \$2.5 million. The LCF contract was itself already about \$632,000 above the original budget, due to the winning bid being higher than originally budgeted for, even though it was the lowest cost qualifying bid. Actual costs to date already exceed the originally budgeted amount of professional services by \$200,000. Nevertheless, an additional \$2.55 million was expected to be spent on construction administration costs and hazardous material services.

(d) Staff costs

37. The initial approved budget for staffing costs amounted to \$4.9 million for the entire duration of the project, of which \$3.2 million had been spent for the period 2017 to 2020, leaving \$1.7 million available for future spending, i.e., from 2021 to 2023. In 2020, the overall budget for project management costs was increased to \$5.1 million, with the increase being funded from the contingency. However, the staffing budget could be understated by approximately \$600,000 due to misalignment with requirements owing to the revised construction timeline, and the use of incorrect standard costs for approved posts.

38. ESCAP used a combination of updated standard costs per approved post (mostly for the 2021 cost plan, to determine the appropriation for the year) and the 2016 standard costs (for future expenditure in 2022 and 2023) to determine the budget for the remaining project duration. For example, the current

standard cost for the Project Manager is \$236,000 per annum but it was reflected in the cost plan for 2021 as \$226,400, and in the cost plans for 2022 and 2023 as \$174,000 per annum leading to an understatement of approximately \$133,000. In addition, some posts that ESCAP has determined may be required for longer periods than originally planned, such as the Project Engineer and Logistics Coordination Officer, were still budgeted for the original length in the latest cost plan submitted to the General Assembly. The Project Engineer, Procurement Officer and Logistics Coordination Officer were deemed essential for longer periods than originally planned, partly because of delayed procurement, thus adding to the overall project management costs. Construction was originally expected to be substantially completed by the end of 2022, with only project close-out being done in 2023, but it is now expected to extend into 2023. The increases were partially offset by changes to funding arrangements for the New York-based Project Coordinator, and delayed recruitments of approved positions wherever possible.

39. Overall, there may not be enough funding to complete the project unless steps are taken to increase the resources available for the project or institute significant cost-cutting measures, which may themselves result in lower quality.

- (2) ESCAP should develop a resource mobilization strategy for the seismic mitigation retrofit and life-cycle replacements project that scales up its efforts to raise voluntary contributions and improves the likelihood of better outcomes than in prior years.**

ESCAP accepted recommendation 2 and stated that it would develop a strategy indicating planned efforts to raise voluntary contributions. Recommendation 2 remains open pending receipt of a strategy to scale up resource mobilization efforts.

- (3) ESCAP should, with support from DMSPC, enhance risk mitigation strategies for the seismic mitigation retrofit and life-cycle replacements project to address potential budget overruns arising from risks such as exchange rate differences and delayed procurement and related uncertainty regarding construction and staff costs.**

ESCAP accepted recommendation 3 and stated that it would include detailed mitigation strategies in the project risk register to address potential budget overruns. Recommendation 3 remains open pending receipt of the updated project risk register incorporating risk mitigation strategies to address potential budget overruns.

- (4) ESCAP should revise the staff costs for the seismic mitigation retrofit and life-cycle replacements project to reflect the most up-to-date standard costs and staffing requirements necessary to complete the project.**

ESCAP accepted recommendation 4 and stated it would consult the Controller's Office to assess how the cost plan can be revised to reflect actual and up-to-date staff costs where applicable and to reflect the projected staffing requirements. Recommendation 4 remains open pending receipt of a realigned cost plan that reflects the most up-to-date standard costs and includes all the resource requirements necessary to complete the project.

Business readiness and change management

40. In the early stages of the project, ESCAP prepared an integrated change management and communications strategy as part of the project-specific manual. The strategy was designed to minimize disruption to operations during construction and help stakeholders adapt to the new way of working throughout all the phases of the project, including moving to and from the swing space and adjusting to a flexible workspace.

41. The move plan for ESCAP incorporates flexible working arrangements while maintaining a maximum 30 per cent occupancy in the swing space for all ESCAP business units. Tenants will be moved within the Secretariat building to areas vacated by ESCAP business units, and occupancy limits will not be applied to them. Successful implementation of flexible and alternate working arrangements during the COVID-19 pandemic was considered in developing the move plan, with the revised plan expected to mitigate against the need for additional swing space that had been necessitated by a more compressed construction schedule. Move, logistics and property readiness surveys, as well as town hall meetings were conducted with affected groups. The SMP team is using the results to schedule the moves and provide guidance on working arrangements for the duration of the SMP construction phase.

42. In the post-COVID-19 era, some entities may want to implement flexible or alternate working arrangements on a more permanent basis. This could have positive effects in improving the efficient usage of space but could lead to reduced rental income for ESCAP in the long run.

C. Project governance and oversight

Governance and oversight arrangements worked as designed

43. Project governance and oversight functioned as designed. Nevertheless, significant risk events materialized during the audit period, such as the failure of the first RFP for the general contractor, and project expenditure continuing to track higher than the budget. While the governance and oversight bodies have supported ESCAP to develop strategies to minimize the impact of some of the risks that have materialized (e.g., reissuance of the general contractor RFP with a revised procurement approach), the budget scenarios remain unfavorable as ESCAP has neither been able to raise any material extrabudgetary resources nor develop a clear strategy to contain costs. Value engineering has remained ESCAP's preferred method for managing costs, but at this stage, it is not yet specific enough pending finalization of procurement actions.

44. The SMP Stakeholders Committee met quarterly throughout 2020 to provide oversight and guidance to the SMP project owner in line with Secretariat guidelines for "large and complex projects." The Committee was expanded in October 2019 to include a broader set of stakeholders, including increased representation of United Nations agencies, funds and programmes that are tenants of ESCAP. During its meetings, the project team provided updates and/or sought advice and support on various issues such as ongoing procurement, future workspace solutions, business readiness and change management, occupational health and safety issues, swing space construction and risk management.

45. Governing bodies were informed of key developments, including changes in project risks, in a timely manner through reports of the Secretary-General, and project expenditure was maintained within the amounts appropriated by the General Assembly.

46. ESCAP SMP project team also met frequently with GAMPS to review progress, risks and lessons learned from other projects. Additional support was obtained from headquarters Finance Division, Procurement Division and OLA as needed for issues arising during the project. For example, the Procurement Division was consulted on complex issues related to key solicitations. Although ESCAP was no longer sharing the cost of the Headquarters-based Project Coordinator who was providing risk management services in 2021, OIOS observed that GAMPS did not diminish its support to ESCAP. There was clear evidence of learning "experiences and knowledge acquired from other capital projects," especially as it related to the use of multi-stage procurement with dialogue for the general contractor re-bid process that was successfully implemented by the Strategic Heritage Plan project in Geneva. Already this

approach seems to be bearing fruit as detailed in the procurement section of this report. OIOS concluded that governance and oversight arrangements were working as designed.

IV. ACKNOWLEDGEMENT

47. OIOS wishes to express its appreciation to the management and staff of ESCAP 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 the seismic mitigation retrofit and life-cycle replacements project in the
Economic and Social Commission for Asia and the Pacific**

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1.	ESCAP should amend its contract with the lead consulting firm of the seismic mitigation retrofit and life-cycle replacements project to remove construction administration services once the new contract to deliver those services has been awarded.	Important	O	An amendment to the contract with the LCF to remove construction administration services.	31 December 2022
2.	ESCAP should develop a resource mobilization strategy for the seismic mitigation retrofit and life-cycle replacements project that scales up its efforts to raise voluntary contributions and improves the likelihood of better outcomes than in prior years.	Important	O	Receipt of a strategy to scale up resource mobilization efforts.	30 June 2022
3.	ESCAP should, with support from DMSPC, enhance risk mitigation strategies for the seismic mitigation retrofit and life-cycle replacements project to address potential budget overruns arising from risks such as exchange rate differences and delayed procurement and related uncertainty regarding construction and staff costs.	Important	O	Receipt of the updated project risk register incorporating risk mitigation strategies to address potential budget overruns.	30 June 2022
4.	ESCAP should revise the staff costs for the seismic mitigation retrofit and life-cycle replacements project to reflect the most up-to-date standard costs and staffing requirements necessary to complete the project.	Important	O	Receipt of a realigned cost plan that reflects the most up-to-date standard costs and includes all the resource requirements necessary to complete the project.	31 December 2022

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

³ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁴ Date provided by ESCAP in response to recommendations.

APPENDIX I

Management Response

Management Response

**Audit of the seismic mitigation retrofit and life-cycle replacements project in the
Economic and Social Commission for Asia and the Pacific**

	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1.	ESCAP should amend its contract with the lead consulting firm of the seismic mitigation retrofit and life-cycle replacements project to remove construction administration services once the new contract to deliver those services has been awarded.	Important	Yes	Director of Administration	31 December 2022	ESCAP accepts this recommendation and will continue to work with the Office of Legal Affairs to negotiate any necessary amendments of this contract after a new contract for construction administration services is awarded. In doing so, ESCAP will ensure the interests of the Organization is protected and design liability risks are mitigated.
2.	ESCAP should develop a resource mobilization strategy for the seismic mitigation retrofit and life-cycle replacements project that scales up its efforts to raise voluntary contributions and improves the likelihood of better outcomes than in prior years.	Important	Yes	Director of Administration	30 June 2022	ESCAP accepts this recommendation and will develop a strategy indicating planned efforts to raise voluntary contributions.
3.	ESCAP should, with support from DMSPC, enhance risk mitigation strategies for the seismic mitigation retrofit and life-cycle replacements project to address potential budget overruns arising from risks such as exchange rate differences and delayed procurement and related uncertainty regarding construction and staff costs.	Important	Yes	Senior Programme Management Officer	30 June 2022	ESCAP accepts this recommendation and will include detailed mitigation strategies in the project risk register to address potential budget overruns.

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Management Response

Audit of the seismic mitigation retrofit and life-cycle replacements project in the Economic and Social Commission for Asia and the Pacific

	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4.	ESCAP should revise the staff costs for the seismic mitigation retrofit and life-cycle replacements project to reflect the most up-to-date standard costs and staffing requirements necessary to complete the project.	Important	Yes	Senior Programme Management Officer	31 December 2022	ESCAP accepts this recommendation and will consult the Controller's Office to assess how the cost plan can be revised to reflect actual and up-to-date staff costs where applicable and to reflect the projected staffing requirements.