

Annex to document A/43/INF/6

Translation of letter

From: SWISS FEDERAL AUDIT OFFICE

TO: Director General
World Intellectual Property Organization (WIPO)
34 Chemin des Colombettes
12111 Geneva 20

Date September 3, 2007

Your reference

Our reference 1.7073.944.00330.03
nede/dapi

**Interim Audit of the New Administrative Building and Additional Storage
Construction Project of the World Intellectual Property Organization
Follow-up to the 2006 Audit**

Dear Director General,

Following the latest discussions with your colleagues, I have pleasure in communicating herewith two copies of the Interim Audit Report for the above-mentioned project, dated June 27, 2007.

Yours faithfully,

K. Grüter
Director

Swiss Federal Audit Office
(Auditor)

Enclosures: Two copies of the report

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**WORLD INTELLECTUAL PROPERTY
ORGANIZATION
GENEVA**

**INTERIM AUDIT
OF THE NEW ADMINISTRATIVE
BUILDING AND ADDITIONAL
STORAGE CONSTRUCTION
PROJECT
FOLLOW-UP TO THE 2006 AUDIT**

**Report by the External Auditor
to the General Assembly**

*Reg. No. 1.7073.944.00330.02
nede/reda*

June 27, 2007

GENERAL

Mandate

1. At the thirty-ninth series of meetings, held in Geneva from September 22 to October 1, 2003, the General Assembly of the World Intellectual Property Organization (WIPO) and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions renewed the Swiss Government's mandate as Auditor of the accounts of WIPO and the Unions administered by WIPO, and of the accounts for the technical assistance projects carried out by the Organization up to and including 2007 (paragraph 196 of document A/39/15).
2. The Government of the Swiss Confederation mandated me, as Director of the Federal Audit Office, to audit the accounts of WIPO and the Unions mentioned above. I entrusted a qualified colleague from the Federal Audit Office with the task of carrying out, at the headquarters of the International Bureau in Geneva, an interim audit of the new administrative building and additional storage construction project. This audit was conducted from April 17 to May 14, 2007.
3. My terms of reference are specified in Article 6.2 of the WIPO Financial Regulations and defined by the Terms of Reference Governing Audit annexed to those Regulations.

Subject of the audit

4. My previous report¹ mainly concerned the request by WIPO for an examination of the construction project costs taking into account the revision of the project and the changes to the construction costs and constraints. The second part of that report provided a brief assessment of the action taken on the recommendations made in my previous reports. It therefore enabled me to note the drawing-up of a specific charter for the construction project² and the establishment of an external project pilot function combined with efficient internal organization. On that occasion, the contract award procedures were not only precisely defined, but also observed.
5. This report concerns the follow-up to the recommendations made in the previous report and provides an assessment of the situation concerning the:
 - project documentation,
 - internal and external organization of the project,
 - updating of the revised project dated September 2005,
 - overall cost control,
 - analysis of the general construction estimate by the Pilot and
 - current new construction financial envelope

¹ See report No. 1.6085.944.00330.06

² Charter No. 2 dated June 19, 2006

Information and documents

6. I wish to express thanks for the obliging manner in which information and documents were supplied by all the WIPO staff approached by us. In the course of the auditing work, my colleagues had regular discussions with Ms. Boutillon, Director-Advisor and Secretary of the Construction Committee, Mr. Favatier, Director of the Finance Department, and his colleague, Mr. Vitry, Mr. Favero, Consultant and Coordinator of the Internal Project Monitoring Team, Buildings Division, and Mr. Fehr and Mr. Alaterre, Director General of the Project and Associate Director respectively, both from the company Burckhardt & Partner SA, project Pilot.

AUDIT AND FINDINGS

General

7. The audit of this report is based not only on various discussions with WIPO staff and the Project Pilot, but also on the documentation prepared by the Secretariat of the Construction Committee, submitted at the beginning of the audit.

Documentation

8. The documentation submitted³ illustrates the reporting lines between:
 - the Construction Committee and the Program and Budget Committee,
 - the Construction Committee and the Audit Committee,
 - the Project Pilot and the Construction Committee, and
 - the Project Pilot and the Audit Committee.

The Internal Project Monitoring Team, the Pilot and the Construction Committee prepare their own meeting reports. These reports comply fully with Section 44 of Charter No. 4 of March 8, 2007.

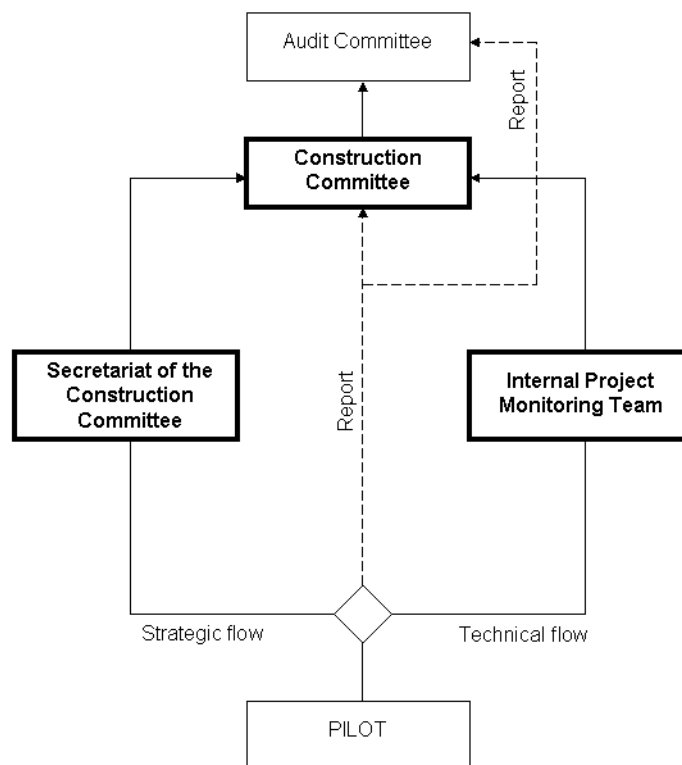
9. The documents submitted by the Secretariat of the Construction Committee, in particular the different regular meeting reports and meeting protocols, illustrate the functioning of the organization according to the different entities involved, as defined in the fourth version of the Charter (see diagram below). The Program and Budget Committee appears as the representative of the Member States of WIPO, whereas the Audit Committee supervises the project. A Selection Board has been entrusted with the task of preselecting and selecting the Pilot, the general contractor and the financial institution to fund the project. The Construction Committee has the task not only of approving the Charter and examining the contracts and their terms, but also of monitoring the overall implementation of the project and evaluating its risks. It really acts as the representative of WIPO as the client. Its financial competences are limited to those validated by the Member States as part of the financial envelope for the project. Finally, operational management of the project is provided by the Pilot, with the monitoring being done by the Internal Project Monitoring Team, that is, by representatives of the Buildings Division, the Procurement and Contracts Division, the Office of the Controller, the Office of the Legal Counsel and the Finance Department.

³ See Annex No. 1, points 2, 4 and 6

10. The documentation submitted also permits the monitoring of the tasks which have been carried out by the WIPO Secretariat in the context of planning the new construction since November 2006. It is therefore possible to note the:

- signing of the contract with the project Pilot in November 2006,
- production of risk registers by the Pilot and by the Secretariat of the Construction Committee,
- application for a modification of the building permit filed in October 2006,
- preparation of the request for proposals for the general contractor with the *Institut pour le droit suisse et international de la construction* (Swiss and International Construction Law Institute), Fribourg, and with the project Pilot,
- call for expressions of interest for the general contractor, the selection procedure and the launching of the request for proposals at the beginning of April 2007 (a delay of four weeks should be noted compared to the initial program; it is envisaged that this delay will be made up by not changing the date for the return of proposals),
- updating of the Charter,
- progress made with regard to the security measures to be introduced in the project,
- report analyzing the Pilot's construction estimate,
- invitation extended to the Pilot to participate in the Audit Committee session held in March 2007,
- the call for expressions of interest for a loan for the new construction which was launched on May 7, 2007. The replies should reach WIPO by July 2, 2007. With regard to the return of the proposals concerning the selection of the general contractor, this was recorded as July 23, 2007,
- start of construction work is planned for the beginning of February 2008, in accordance with the schedule established in the Charter.

Organization chart showing internal/external project operation



11. The organization chart showing the project operation distinguishes the Pilot's "technical" relations with the Internal Project Monitoring Team from its more "strategic" relations with the Construction Committee or its Secretariat. The essential role of the Construction Committee Secretariat in this process should be pointed out here; it is the Construction Committee Secretariat that coordinates a large number of activities linked to the project among the numerous entities involved, namely the Construction Committee, the Audit Committee and the Program and Budget Committee internally and the External Auditor and the Pilot externally. It largely anticipates the essential steps to be taken and has a dynamic role in the entire process.
12. The second recommendation made in my previous report was to "ensure that a substitute is available for the person representing the Buildings Division in the Internal Project Monitoring Team". Although this recommendation is listed in the WIPO Risk Register, it was still being studied at the time of this audit. It is planned that a response to this recommendation will be provided before the start of construction work. I recommend that this response is implemented as quickly as possible, including for other functions within the WIPO bodies for which there is a risk.

Recommendation No 1: Ensure that a substitute is available for the key functions linked to the Internal Project Monitoring Team, the Construction Committee Secretariat and the Construction Committee.

Risk management

13. The risk registers produced by the Project Pilot and by the Construction Committee highlight the importance of making rapid decisions with regard to both the project organization and terms of reference and its deadlines and costs.
14. The competences relating in particular to the setting of the deadlines, quality standards, the approval of deviations from the agreed plans and above all concerning the limits of expenditure, have been granted to the Construction Committee, insofar as expenditures remain within the "overall limits agreed by the Member States"⁴. Consequently, "if the change has financial implications beyond the pre-authorized margin of flexibility under the approved budget, the Construction Committee will in due course report the matter to the Member States via the Program and Budget Committee and the Audit Committee"⁵. The same procedure applies to implications for the approved technical specifications "beyond what the Pilot would consider as an acceptable change in the case concerned"⁶.
15. Section 51 of Charter No. 4 stipulates that "the Program and Budget Committee will review all aspects of the project having a budgetary implication". Annex III of the same Charter also specifies in Section 2, paragraph (v), that the Audit Committee shall have the task of "overseeing the new construction project".
16. The Pilot considers that a limit of 5,000 Swiss francs for an order without a request for proposals "is too low and does not allow for real efficiency"⁷. Moreover, "the current structure of responsibility within WIPO does not permit Client decisions to be made"⁸.

⁴ See Section 91, paragraph (c) of Charter No. 4 of March 8, 2007

⁵ See Section 103, paragraph (b) of Charter No. 4 of March 8, 2007

⁶ See Section 103, paragraph (c) of Charter No. 4 of March 8, 2007

⁷ See report by Project Director dated February 8, 2007

⁸ See report by Project Director dated April 19, 2007

17. It might be useful to put in place a "framework undertaking" procedure for the Pilot or the coordinator of the Internal Project Monitoring Team to ensure the day-to-day management of the project. This problem of decision making concerns not only the day-to-day management of the project, but also decisions having implications for the project's financial envelope. The distribution of competences does not currently assign any financial responsibility to the Pilot or to the Internal Project Monitoring Team for that matter. Furthermore, given that the Program and Budget Committee only meets once or twice a year and the Audit Committee around four times, there is a major risk of a bottleneck with respect to the need to take quick decisions. There is the possibility that the waiting period of 40 days starting from receipt of the relevant communication, provided for in the draft contract with the general contractor⁹ to allow WIPO to give its approval for technical and financial decisions, may not always be observed. The project Pilot's fear that it will be obliged to take decisions quickly in the interest of moving the project forward, even if those decisions are beyond its remit and insofar as they are of a financial nature, should not be underestimated.
18. Aware of the problems relating to the management of changes, the Secretariat of the Construction Committee has included this point in the latest version of the Charter, but without resolving it: "Details together with a 'Change Management Flow Diagram' will be included in a future revised version of this Charter¹⁰".
19. The Secretariat of the Construction Committee holds the view that a number of requests for changes can be dealt with in the normal framework of a contract. They could therefore be the subject of an amendment without resorting to a new request for proposals. This possibility exists only insofar as the amendment does not exceed the contractual amount by more than 20 per cent¹¹. All other cases have not been solved for the time being and it seems clear that it will not always be possible to anticipate requests so as to provide sufficient time to deal with them internally as suggested by the Secretariat of the Construction Committee.
20. I stated in a previous report¹² that "I do not believe that the Audit Committee should be entrusted with overseeing the construction project, since it would render the role of the WIPO Construction Committee redundant. Moreover, I am of the opinion that an oversight body should not undertake implementation tasks". In this case, the distribution of financial competences between the Construction Committee and the Audit Committee according to limits of expenditure compromises the good progress of the project.
21. The margin of flexibility mentioned in Charter No. 4 refers to the degree of accuracy of the estimate and the margin of +/- 10%, in accordance with SIA Standard 102¹³. According to this Charter¹⁴, this margin of flexibility falls within the remit of the Construction Committee. However, the financial envelope approved by the Member States currently comprises only around one million Swiss francs in reserve (see the relevant Chapter below), three million Swiss francs having been used to cover part of the increase in prices already mentioned in my previous report¹⁵. This amount only represents just under one per cent of the total investment and would not be sufficient to cover amounts in excess of 10 per cent above the estimate. It might therefore be wise to increase to five per cent the reserve for miscellaneous and unforeseen in the estimate based on the Pilot's definition (see the relevant Chapter below). This has actually been suggested by the Pilot in its estimate analysis. This solution would have the advantage of bypassing the lengthy decision-making process. The Construction Committee which meets every month would therefore have the resources to make necessary decisions quickly, while keeping the Audit Committee and the Program and Budget Committee informed by means of regular progress reports.

⁹ See Article 7.4 of the draft contract with the general contractor

¹⁰ See Sections 102 and 103 of Charter No. 4

¹¹ See Article 3, paragraph (b) of the mandate of the Contracts Review Committee

¹² See Report No. 1.6110.944.00333.06, paragraph 26

¹³ SIA, Swiss Society of Engineers and Architects

¹⁴ See Section 103, paragraph (b) of Charter No. 4 of March 8, 2007

¹⁵ See Report No.1.6085.944.00330.06, paragraph 31

22. The production of a summary table showing the distribution of competences during the different phases of the construction project would also bring greater clarity to the project. I also fully support the putting in place of a decision-making schedule for the Construction Committee as suggested by the Pilot.

Recommendation No. 2: Produce a summary table showing the distribution of competences for the construction project, taking into account replacements as well as a decision-making schedule for the Construction Committee.

Updating of revised project

Sustainable development measures

23. Back in October 2005, the Construction Committee approved studies on the use of water from the lake as a cooling system for the building. The decision was taken then to introduce these measures as an alternative in the request for proposals for a general contractor. These measures should reduce costs by around 750,000 Swiss francs.
24. At the beginning of 2007, the architect requested again that other measures relating to sustainable development be introduced in the project, in particular, natural ventilation of the facades with external blinds. However, this alternative has not been retained, subject to the facades of the offices in the atriums being fitted with opening windows. The extra costs have been estimated at around 250,000 Swiss francs. This modification will be covered by separate terms of reference which will be sent to the contractors preselected as part of the request for proposals procedure at a later date.

Modification of facades

25. The architect has also suggested that the facades of the building should be reworked and is proposing to add a plinth. This architectural option should not have any cost implications.

Geotechnical studies

26. On the Pilot's advice, the Construction Committee has agreed to undertake preventive studies concerning the risk of the geological plate on the northern part of the plot sliding. These measures had already been included in the request for proposals; it is simply a question of modifying the quantities, if necessary, and therefore the price.

Computer center

27. An area measuring 250m² has been set aside in the basement of the new building for the installation of a future IT area. This will constitute the "master" for WIPO, with the other secondary centers being linked to it. A budget of one million Swiss francs was provided for in the approved financial envelope. It includes the electrical installations (excluding the active elements), the heating, ventilation, air conditioning and sanitation installations and also the internal fittings.

Security

28. An overall concept concerning the security of all WIPO buildings is currently being studied¹⁶. It includes the entire perimeter security of the WIPO buildings, including the new construction. The corresponding amount should be included in the estimate for the security elements for the new construction. In my previous report, I estimated these measures at 1.5 million Swiss francs.
29. The joint meeting held by the WIPO Construction Committee and the Security Coordination Committee clarified the security needs for the new construction. All the glazed areas of the new construction will have to be laminated. This measure involves modifying all the window frames of the facades initially planned. Furthermore, the glazed areas of the facades on the ground floor and first two floors of the building will not only have to be laminated, but also secured. The final choice, which will be covered by separate terms of reference, will again have to be approved by the security section.
30. Based on this information, my previous estimate of 4.5 million Swiss francs for adapting the external facades and the atrium facades on every floor should therefore be reduced insofar as the laminated glazed areas already formed part of the bid specification.
31. Three or four offices at the north-west corner of the building should be removed in order to construct a protective wall inside the building up to the bases of the window on the second floor. These workplaces will be recovered from the corners of the atriums and from the gardens. This last alternative has the advantage of providing the number of compensatory units at minimum cost.

Extension of the entrance hall and conversion of the basements of the existing building

32. Insofar as the conference room was removed and with it the extension of the hall in the main building, the reduced project estimate of July 7, 2004 proposed to reintroduce, as an optional extra, the extension of this hall in order to provide more space during the organization of events. This operation has repercussions mainly on the facades, since it is necessary to move the glazed areas of the north entrance to align them with the first floor facade. It also affects the heating and ventilation installations, floor coverings, false ceilings, lighting appliances and external fittings. In 2004, they were estimated at 1.6 million Swiss francs.
33. The conversion of the first and second basement of the main building concerns changes to the existing delivery platform area. A brief estimate of this work was made by an agent, who estimated it at around 300,000 Swiss francs, excluding the internal fittings.
34. The various work has been included in options A and B in the request for proposals for a general contractor, although it is not directly linked to the new construction. Consequently, this work does not form part of the financial envelope for the approved project. A decision concerning the performance of this work will have to be taken as soon as it has been estimated within the framework of the request for proposals for a general contractor.

¹⁶ See document entitled *Strengthening Security Project*, Andrew Turk, September 2006

35. Without taking into account security, the updating of the project shows that costs have currently been underestimated by around 500,000 Swiss francs. As already pointed out, a final decision concerning the commitment to this work will have to be taken as soon as the precise costs are known. The coordinator of the Internal Project Monitoring Team has explained that the amenities for which there has been a call for tender refer to current WIPO standards. Changes to these standards, for which there is a need which was not noticed before the contract was signed with the general contractor, would obviously lead to the production of amendments by the general contractor, which would not necessarily be in WIPO's interest. I encourage WIPO to identify quickly and accurately all its needs, to integrate them into the general contractor bid and, where possible, to avoid any change in its needs during the execution phase.

Recommendation No. 3: Identify accurately all WIPO's needs in relation to the new construction before the fixed-price contract with the general contractor is signed.

Analysis of the Pilot's general construction estimate

36. The first recommendation made in my previous report requested WIPO to ensure that the project Pilot checks that the revised general estimate corresponds to the precise description and bill of quantities for each construction item. WIPO, that is, in that case, the project Pilot, replied to my request with the production of a document entitled "Analysis of the Construction Estimate of September 22, 2005, and the Budget of November 9, 2006".
37. The Pilot is of the opinion that the estimate of September 22, 2005, is "realistic but not on the security side". Certain items totaling 5.8 million Swiss francs (waterproofing of roof, false ceilings, false floors and painting) should be considered as a "lower limit". An amount of 900,000 Swiss francs for anti-smoke curtains could prove insufficient.
38. The project costs audit conducted by my colleague in November 2006 indicated in its synthesis that "on the basis of the cost per SIA cubic meter, the new WIPO construction compares more with relatively economical objects¹⁷". "The reduced project estimate will enable the construction of the administrative building and the additional storage with the Pilot checking the bills of quantities and description ". Except with regard to the heading relating to the facades (see the relevant Chapter below), the project Pilot echoes my conclusions, it being understood that the new construction falls into the category of more economical objects.

Facades

39. According to the Pilot, the price of the facades is a weak point in the estimate, given that it will not be possible to modify them to reduce costs. The Pilot suggests an additional charge of two million Swiss francs for this code alone.
40. I also indicated in my previous report that "note should be taken of the figures for the codes covering, in particular, facades, which could seem lower than for the other objects used for comparison¹⁸". A second analysis, this time not on the basis of the proportion of each CFC¹⁹ in relation to the total bid, but on a comparison of costs per SIA cubic meter or square meter per CFC, "confirmed the viability of the figures in the WIPO estimate".

¹⁷ See Report No. 1.6085.944.00330.06, paragraph 27, and Annexes 4, 5 and 7

¹⁸ See Report No. 1.6085.944.00330.06, paragraph 21

¹⁹ Construction Cost Codes

41. However, it is true that an additional charge of around 200 Swiss francs per square meter of facade according to its complexity seems perfectly logical compared to the 1,100 Swiss francs indicated in the estimate.

Indexation

42. Generally, calculations of index construction costs in Switzerland are based on the Zurich index. This index is used nationally as a reference. However, according to the Pilot, it must be weighted based on "local market conditions, i.e. a very buoyant economic climate in Geneva with greater cost increases than elsewhere", as shown in the table below:

	Indexation using Zurich index (External Auditor)	Indexation using Geneva index (Project Pilot)
2003-2006:	+ 5.3%	+ 7.9%
2007:	+ 1.0%	+ 1.0%
	+ 6.3%	+ 8.9%

43. The estimated cost increase based on these two indices ranges from 7 to 11.1 million Swiss francs. Taking into account potential early indexation which might be applied by the General Contractor up to the end of its fixed-price contract, the Pilot has added the sum of 2.7 million Swiss francs to the cost increase already calculated, giving a total of 13.8 million Swiss francs.

Reserve for miscellaneous and unforeseen

44. According to the Pilot, a budgetary reserve of around one million Swiss francs, as now shown in the estimate, is insufficient for a project of this type. "Usually, where an estimate or budget is produced based on a margin of +/-10%, it is necessary to create a budgetary reserve of five per cent or seven million Swiss francs". By reserve for miscellaneous and unforeseen, the Pilot means "unforeseen construction or market expenses, technical modifications or additions necessary during the execution phase but not foreseeable at the project stage" and also "inaccuracies or omissions in the terms of reference leading to additional work". "Changes to the system, materials or equipment" should not, however, be taken into account in this reserve.
45. I stated in my previous report²⁰ that the accuracy of the general estimate was improved given that it had been revised based on the bids submitted in response to the request for proposals for a general contractor. A margin of flexibility of five per cent would therefore be more appropriate. I also pointed out²¹ that my colleague had not taken into account a reserve, except for that already considered in the estimate of around one million Swiss francs, with this parameter being specific to each object and client.

²⁰ See report No. 1.6085.944.00330.06, paragraph 14

²¹ See report No. 1.6085.944.00330.06, paragraph 13

46. Strict adherence to the Pilot's definition concerning the use of a reserve, it being understood that it could not under any circumstances be used to cover needs which did not form part of the financial envelope approved by the Member States or the contract signed with the General Contractor, could permit the inclusion of a reserve for miscellaneous and unforeseen in the financial envelope for the project, as conceived by the Pilot. The financial remit of the Construction Committee would therefore be strengthened in that it would be able to manage all decision making more effectively and quickly. It is clear that the request for the reserve will have to be duly documented and that it is to be used only to cover exceptional and unforeseeable expenditure. The Construction Committee will keep the Audit Committee informed on a regular basis of the use of the reserve.

Recommendation No. 4: To include a reserve for miscellaneous and unforeseen in the financial envelope for the project in order not to compromise decision making which is essential to the progress of the project. This reserve is to be used only to meet possible unforeseen construction or market expenses, technical modifications or additions necessary during the execution phase, which were unforeseeable during the project stage and inaccuracies or omissions in the terms of reference leading to additional work.

Financial envelope for the new construction (see Annex 2)

Costs linked to the initial project²²

47. I already mentioned in my report dated July 6, 2005, that services linked to the first project amounted to 10,584,141 Swiss francs, according to an estimate by the Buildings Division, and had to be regarded as "lost" with respect to the reduced project. This amount can be broken down into 8,941,000 Swiss francs relating to fees and 1,643,141 Swiss francs to miscellaneous expenses (authorizations, taxes, samples, reproductions, models).
48. The fees paid for the initial project until work stopped at the end of 2003 were 15.4 million Swiss francs. A further 2.4 million Swiss francs were then invested to study the new project, known as the "reduced project", and an estimated 6.7 million Swiss francs are still to be paid in fees until the end of the reduced project work, amounting to a total of 9.1 million Swiss francs. Assuming an estimated amount of about 16 million Swiss francs to be paid in fees for the "reduced project" alone, from which the 9.1 million Swiss francs invested would be deducted, would give 6.9 million Swiss francs, which is equivalent to the fees recovered from the "initial project" for the "reduced project". This method therefore produces an estimate of 8.9 million Swiss francs in fees specific to the "initial project". This calculation is purely theoretical and is not based on accounting documents.

Consultant salaries

49. I also indicated in my previous report dated November 9, 2006²³, that, on June 30, 2006, WIPO had paid a total of 1,693,788 Swiss francs in salaries for the construction project since 2001.
50. Taking into account two restatements relating to amounts which should not have been included in the statement of expenses for the new construction, the corrected total for salaries paid up to June 30, 2006, is 1,845,594 Swiss francs instead of 1,897,368 Swiss francs as indicated in my previous report.

²² See report No. 1.5229.944.00330.04, paragraph 48

²³ See report No. 1.6085.944.00330.06, paragraph 38

51. On December 31, 2006, the date on which expenditure is consolidated between the Internal Project Monitoring Team and the Finance Department, the total salaries paid amounted to 1,932,250 Swiss francs. Taking into account the application of international accounting standards, salaries relating to persons employed only on this project at WIPO amounted to 833,002 Swiss francs. These salaries will amount to an estimated 1.44 million Swiss francs up to the end of the project (end 2010).

Financing

52. Mentioned during my previous audit, the financing project was based on a mortgage loan at an assumed rate of 2.7 per cent during the 26-month consolidation (construction phase) period, with the final interest rate being fixed after this period. The option which was the subject of the call for expressions of interest was based on an operating loan, a solution which does not require the provision of a guarantee, which could have conflicted with WIPO's immunity from legal proceedings. This solution no longer requires a consolidation period; the funds are withdrawn according to need and in this case, the interest rate to be considered is around 4.5 per cent, which amounts to around 6.5 million Swiss francs instead of the 3.3 million Swiss francs previously calculated for the consolidation period alone.

Financial envelope for the new construction

53. In order to provide the Construction Committee with the resources to ensure efficient management of the project, it would be wise to increase the reserve for miscellaneous and unforeseen by around seven million Swiss francs. The use of the Geneva index, rather than the Zurich index, when calculating the increase in prices in the reduced project estimate, increases the financial envelope by 4.1 million Swiss francs. The General Contractor could still, according to the project Pilot, add to its prices an increase in costs during the works, in which case it would be necessary to add a further 2.7 million francs. The updated financial envelope based on these new estimates amounts to more than 13.8 million Swiss francs, of which seven million Swiss francs go to increase the reserve, with the balance remaining to be considered the margin of flexibility linked to the return of bids by preselected firms. The new estimated financial envelope for the project is **145.5 million Swiss francs** instead of the **129.8 million Swiss francs** indicated for the record in Annex 2 of this report.

Updating of estimated financial envelope for the new construction

54. The following amounts should be added to the 145.5 million Swiss francs above: an estimated eight million Swiss francs for the additional security measures, 5.5 million Swiss francs for the project financing, 2.45 million Swiss francs for the project Pilot's fees and 1.45 million Swiss francs for salaries, giving a total of **163.9 million Swiss francs**, corresponding to the estimated financial envelope to be approved by the Member States. The project financing and the Pilot's fees have been included in the Organization's regular budget.
55. This estimate will obviously have to be consolidated based on the bids from the general contractor and the financing company which will be selected in November 2007. The detailed prices of the security concept will also be known.

Overall financial envelope for the new construction

56. Finally, the estimated overall financial envelope for the project, taking into account the land purchase cost of 13.5 million Swiss francs and competition costs of 1.7 million Swiss francs, amounts to **179.1 million Swiss francs**. The amount lost relating to the initial project is 10.6 million Swiss francs.

IPSAS 17²⁴, paragraphs 26 and 28

57. Given WIPO's imminent application of the International Public Sector Accounting Standards (IPSAS), the following points relating to entering items of property, plant and equipment into the accounts should be taken into consideration:
- Paragraph 26 stipulates that "the cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are professional fees such as those for architects and engineers".
 - Paragraph 28 states that "administration and other general overhead costs are not a component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognized as an expense".
58. The application of these standards requires not only that all costs linked to the planning and execution of the project are shown, but also that the land purchase cost, competition and administrative costs and the salaries of all persons employed internally solely for this project are shown. The agents' fees and those of the project Pilot must also be considered. In contrast, costs linked to the initial project no longer form part of the asset.

Expenditure

59. Taking into account the land purchase cost, competition costs, lost expenses linked to the initial project, payments of 11.8 million Swiss francs for the project, 860,000 Swiss francs for internal staff fees and project Pilot fees, total payments made stand at 38.5 million Swiss francs at the date of this audit.

Overall cost control

Financial obligations/payments

60. An Annex to the Construction Committee's report provides an update of the situation concerning orders placed in relation to contracts or amendments that have been signed, as well as invoices relating thereto. A meeting is held once a month between the Coordinator of the Internal Project Monitoring Team and the Finance Department to monitor and check the accuracy of data and to evaluate each financial entry as it appears in the Annex to the Construction Committee's minutes.

²⁴ International Public Sector Accounting Standards

61. The status of financial obligations as shown in the Construction Committee's report dated November 6, 2006, shows payments under one code of just under 40,000 Swiss francs, yet the obligation is only 10,000 Swiss francs. The amount of the obligation corresponds to the payment of an advance agreed upon in the contract with the agent concerned. It would have been better if this financial obligation had been changed before making other payments. The contract also provides for an hourly rate of 350 Swiss francs. However, it does not mention any maximum amount for the services to be performed which, according to my colleagues, would have been prudent.

Monitoring and reporting

62. As already pointed out, the Annex to the Construction Committee's report, which is monitored monthly, provides an update of the status of financial obligations and payments. This Annex is not sufficient in the context of financial management of the project, since it does not permit a method of cost control whereby obligations and payments are related to the general estimate for each element of the project. It is not possible at present to know the real overall financial envelope for the project. This system of monitoring should be put in place quickly in coordination with the Internal Project Monitoring Team, the Pilot and the Finance Department. Regular consolidation should be carried out not only between the client's accounts (Internal Project Monitoring Team) and the Finance Department, but also with the Pilot, in accordance with Sections 15 and 16 of its Terms of Reference. Section 17 of Charter No. 4 of March 8, 2007, also stipulates that "the Secretariat will maintain separate accounting of the overall cost of the project ... with the necessary description of the basis for each instance of expenditure".
63. The above monitoring will serve as the basis for cost reporting to the different Committees (i.e. cost outline with a comparison between the general estimate, budget and cost forecasts until the end of the project).

Recommendation No 5: To put in place project accounting by the Pilot in accordance with Sections 15 and 16 of its Terms of Reference. Cost control with consolidation should be put in place between the Pilot and the Internal Project Monitoring Team.

CONCLUSIONS

64. In my last report I mentioned that WIPO was now in a favorable position to launch the new construction project. I now note that the project has entered the request for proposals phase for a general contractor and a project financing company. Project planning is therefore following its projected course, with a view to the execution phase starting at the beginning of 2008. The documentation submitted by WIPO illustrates the functioning of the organization and permits monitoring of tasks. The evaluation of the project risks has highlighted, in particular, the importance of taking decisions quickly, something which could be lacking at present due to the scattering of financial competences between the Construction Committee and Member States. It might therefore be wise to increase the reserve for miscellaneous and unforeseen so that the Construction Committee has the necessary resources to respond to project needs quickly, while respecting the specific conditions mentioned in this report.

65. I have also studied the Pilot's analysis, produced in response to the request I made in my previous report. Given that its conclusions are similar to mine, it could be considered that the codes in the general project estimate of September 2005 can be respected subject to an additional charge of two million Swiss francs for the facades. Local conditions should also be taken into account with regard to price increases, since unique conditions could have a more adverse effect on the project than I have foreseen. The estimated financial envelope for the project is currently **145.5 million Swiss francs**, compared to 129.8 million Swiss francs as estimated in 2006. This envelope already includes a reserve of 7.8 million Swiss francs for miscellaneous and unforeseen. The overall financial envelope has also been increased as a result of a different method of financing, but also in accordance with a new way of presenting costs in response to the imminent introduction of international accounting standards by WIPO. The overall financial envelope for the project is **179.1 million Swiss francs**, compared to the 157 million Swiss francs indicated in my previous report, which matches the accounts of the project's operational Management. These figures, which set the financial envelope framework for the project, will be confirmed with the return of bids by financial institutions in November 2007 and general contractors in July 2007.



K. Grüter

Director

Swiss Federal Audit Office
(External Auditor)

Annexes:

1. Documentation submitted
2. Financial envelope for project

Documentation submitted by WIPO:

April 17, 2007

1. Charter for the New Construction Project of WIPO, Version No. 4, March 8, 2007
2. Construction Committee reports:
 - No. 12, October 16, 2006
 - No. 13, November 6, 2006
 - No. 14, November 30, 2006
 - No. 15, December 15, 2006
 - No. 1, January 18, 2007
 - No. 2, February 8, 2007
 - No. 3, March 6, 2007
3. Documents produced for the third session of the Selection Board for the new construction project, dated March 20 and 21, 2007:
 - list of participants
 - agenda
 - annotated list of documents
 - preselection of firms for the mandate of general contractor: general considerations, list of companies, evaluation by WIPO's Internal Project Monitoring Team, evaluation by Pilot, Selection Board decision.
4. Periodic report on the new construction submitted to the fourth session of the Audit Committee, held from March 26 to 29, 2007, by the Construction Committee.
5. Monthly reports by the Pilot submitted to the fourth session of the Audit Committee, held from March 26 to 29, 2007 (December 2006, January and February 2007).
6. Program and Budget Committee, informal session, December 11 to 13, 2006
WO/PBC/IM/3/06/5: Report on the progress of the new construction project.
7. Joint report by the Construction Committee and the Security Coordination Committee, January 26, 2007.

April 18, 2007

8. Documentation relating to the request for proposals for a general contractor, April 5, 2007.

April 23, 2007

9. Analysis of the construction estimate of September 22, 2005 and the budget of November 9, 2006 by the Pilot.

May 9, 2007

10. Call for expressions of interest in the provision of a loan for the construction.
11. *Strengthening Security Project*, report on security produced in September 2006.
12. Project Director, meeting protocols, December 2006, January, February, March, April 2007.

New construction project			External Auditor Follow-up to 2005 audit	Project Pilot	External Auditor Follow-up to 2006 audit	Payments at
	Approved financial envelope new construction 5.10.2005	Reduced project estimate 22.09.2005	Financial envelope estimate new construction 09.11.2006	Analysis of reduced project estimate 18.04.2007	Financial envelope estimate new construction 10.05.2007	31.12.2006
Construction costs CFC 1 to 5	97,267,309	97,554,466	97,554,466	97,554,466	97,554,466	1,228,988
Additions to budget for facades				2,000,000	2,000,000	
Total 1	97,267,309	97,554,466	97,554,466	99,554,466	99,554,466	1,228,988
Client costs (CFC 1, 2, 3, 4, 5 & 9)	24,274,305	24,274,305	24,274,305	24,274,305	24,274,305	10,577,609
Reserve for miscellaneous & unforeseen	3,955,860	3,955,860	955,860	7,886,260	7,886,260	
Total 2	28,230,165	28,230,165	25,230,165	32,160,565	32,160,565	10,577,609
Total 1 + 2	125,437,976	125,784,631	122,784,631	131,715,031	131,715,031	11,806,597
Increase in prices:						
2003 – 2006			6,000,000	9,858,000	9,858,000	
2006 – 2007			1,000,000	1,247,800	1,247,800	
2008 – 2009 (anticipated indexation)				2,717,800	2,717,800	
Total 3			7,000,000	13,823,600	13,823,600	
TOTAL 1 + 2 + 3 (rnd)			129,800,000	145,540,000	145,540,000	11,806,597
Additional security measures			8,000,000		8,000,000	
TOTAL 1 + 2 + 3 + security (rounded)			137,800,000		153,540,000	11,806,597
Program budget 2006–2010						
Interim interest during construction, 26 months 113,580,000 at 2.7% (ref. WIPO Finance Dept)	3,131,000		3,300,000			
Operating loan: 113,580,000 at 4.5% (26 months) (ref. WIPO Finance Dept)					6,500,000	
Project Pilot	1,500,000		2,450,000		2,450,000	60,000
WIPO admin. costs (consultant salaries)					1,440,000	833,002
Total 4			5,750,000		10,390,000	893,002
TOTAL 1 + 2 + 3 + 4 + security (rounded)			143,550,000		163,930,000	12,699,599
Steiner plot purchase (1998)	13,554,123		13,554,123		13,554,123	13,554,123
TOTAL 1 + 2 + 3 + 4 + security + plot (round)			157,050,000		177,484,123	26,253,722
Competition costs (1999–2002)					1,693,788	1,693,788
TOTAL (rounded)					179,177,911	27,947,510
Lost expenses linked to initial project (2004)					10,584,140	10,584,140
TOTAL (rounded)					188,760,000	38,531,650

Fin. envelope	Overall fin. envl.	Updated fin. envl	Financing 1	Financing 2	Program & Budget
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