



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNCTAD arrangements for procuring and developing the “Millennium” system for the ASYCUDA Programme

Overall results relating to the procurement and development of the next generation ASYCUDA system were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

**13 August 2012
Assignment No. AE2011/340/01**

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AUDIT REPORT

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I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Conference on Trade and Development (UNCTAD) arrangements for procuring and developing the “Millennium” system for the Automated System for Customs Data (ASYCUDA) Programme. This was a follow-up to an OIOS audit of the programme in 2007 (OIOS audit assignment number AE2007/341/01), specifically on recommendation 2, asking UNCTAD to discontinue relations with a vendor in view of the irregularities in the procurement process and find an alternative solution to the use of a middleware. Although UNCTAD had taken steps to implement the recommendation, further action was needed to fully implement it. The initial target date for its implementation was 1 December 2010, which was extended to 31 December 2012.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3. The objective of the ASYCUDA Programme is the modernization of customs, using information technology to speed up and simplify the clearance process for goods. ASYCUDA is a computerized customs management system covering the clearance process from the arrival of goods up to their warehousing and ultimate release after payment of duties and taxes. Voluntary contributions for the implementation of ASYCUDA projects represent a large proportion of UNCTAD’s technical cooperation funds and ASYCUDA is implemented in over 80 countries. For most projects, beneficiary governments finance the implementation of ASYCUDA in their own customs environment. Donors contribute mainly to the funding of the support mechanism and regional centres.

4. The timeline for the ASYCUDA Millennium research, development and implementation spreads over six and a half years, from 2008 to 2014. The ASYCUDA staff expended significant effort in 2009 and 2010 to produce the Summary of Proposed Technology (SPT). In November 2010, the Information and Communications Technology (ICT) Committee of UNCTAD asked for a market survey to identify potential vendors for 15 software requirements. The United Nations Office at Geneva Purchase and Transportation Section (UNOG PTS) conducted the market survey in 2011 for the three software requirements that could not be procured through existing United Nations vendors. For the year 2012, the timeline for the ASYCUDA Millennium included the completion of business case, fundraising, procurement and software design.

5. Comments provided by UNCTAD are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNCTAD’s governance, risk management and control processes in providing reasonable assurance regarding the **effective procurement and development of the next generation ASYCUDA system**.

7. OIOS identified a need for the audit due to the complex and critical programme activity relating to the design and implementation of a new generation of ASYCUDA system and because a critical recommendation in a prior OIOS audit, as discussed in paragraph 1, had not been implemented within the target date provided by UNCTAD.

8. The key controls tested for the audit were: (a) project management; (b) accountability, ethics and assurance; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Project management** – controls that provide reasonable assurance that there is sufficient project management capacity to achieve the ASYCUDA Programme mandates for procuring and developing the “Millennium” system, including: (i) sufficient financial and human resources; and (ii) appropriate project management tools and systems.

(b) **Accountability, ethics and assurance** – controls that provide reasonable assurance that UNCTAD ASYCUDA staff and management have adequate knowledge of the United Nations ethical guidelines and measures to safeguard the organization’s resources, and are held accountable for any misconduct that could damage the reputation of UNCTAD, including through procurement activities.

(c) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the implementation of ASYCUDA Millennium, especially as they relate to procurement and project accounting functions; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from September 2011 to January 2012. The audit covered the period from 1 January 2011 to 30 November 2011.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. UNCTAD’s governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective procurement and development of the next generation ASYCUDA system**. OIOS made four recommendations to address the issues identified in the audit. UNCTAD had taken steps to discontinue relations with a vendor in view of the irregularities in the procurement process, as recommended in a previous OIOS audit (AE2007/341/01). In addition, UNCTAD introduced several new control processes, including enterprise risk management, ASYCUDA strategic plan, Project Officer’s manual, project timeline for the implementation of the Millennium system and market survey for Millennium. However, all three key controls tested were assessed as partially satisfactory and required improvements. As regards project management, there was a delay of more than six months in obtaining approval of the Millennium business case from UNCTAD ICT Committee, adversely affecting the timeline of the ASYCUDA Millennium project. *UNCTAD stated that the ASYCUDA Programme Management Board had endorsed the Millennium business case, which would then be submitted in September 2012 to the ICT Committee for*

approval. The lack of coordination between UNCTAD and UNOG PTS resulted in another six-month delay, further extending the project timeline. While UNCTAD complied with the requirement to provide integrity and ethics training to the ASYCUDA central team in Geneva, the ASYCUDA field-based staff did not receive mandatory ethics training, as it is conducted by the Staff Development and Learning Section of UNOG only in person in Geneva. *UNCTAD stated that it has already initiated contacts with UNOG to explore the possibility of providing the mandatory ethics training to its field-based staff.* As far as the regulatory framework is concerned, UNCTAD did not establish reliable accumulation and measurement of cost to ensure that ASYCUDA could report on the development of intangible assets under International Public Sector Accounting Standard (IPSAS) 31 - Intangible Assets. Reliable estimates for total cost of ownership of externally acquired software products for ASYCUDA Millennium were not prepared.

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective arrangements for procuring and developing the next generation ASYCUDA system	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Accountability, ethics and assurance	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management

ASYCUDA Millennium business case has not been approved

14. In December 2010, the UNCTAD ICT Committee requested ASYCUDA staff to initiate the preparation of the Millennium business case. The production of the business case was delayed and did not materialize by the fourth quarter of 2011, as was initially planned. Without the business case approval, UNCTAD cannot formally establish the Millennium development project. OIOS raised the concern that any work undertaken without the approval of the business case was not in full compliance with the due process for ICT project development and posed the risk of unnecessary work being done.

(1) UNCTAD should expedite completion and approval of the business case for the development of the ASYCUDA Millennium system.

UNCTAD accepted recommendation 1 and stated that the ASYCUDA Programme Management Board had endorsed the ASYCUDA Millennium business case, which would then be submitted in September 2012 to the ICT Committee for approval. Recommendation 1 remains open pending UNCTAD ICT Committee's approval of the ASYCUDA Millennium business case.

Lack of coordination between UNCTAD and UNOG PTS negatively affected the ASYCUDA Millennium project timeline

15. UNOG PTS conducts procurement activities for UNCTAD, such as market survey, tender and acquisition of software products. Although the work of UNOG PTS was incorporated in the ASYCUDA Millennium project timeline, it was not discussed and agreed with UNOG PTS and there was no mechanism for regular follow-up to minimize delays arising from procurement-related activities. Delays of approximately six months had arisen already at the market survey stage because there was no regular communication between UNCTAD and UNOG PTS to detect and discuss the impact of delays. Without such communication, UNCTAD remains exposed to the risk of not attaining future milestones due to longer than expected procurement actions.

(2) UNCTAD should coordinate with the Procurement and Contracts Unit of the Purchase and Transportation Section of the United Nations Office at Geneva (UNOG PTS) to establish mutually acceptable due dates on the Millennium milestones, taking into account the impact of the timeliness of the UNOG PTS procurement actions on the Millennium timeline.

UNCTAD accepted recommendation 2 and stated that it would liaise with UNOG to discuss the establishment of mutually acceptable due dates. Recommendation 2 remains open pending receipt of the revised Millennium project timeline.

B. Accountability, ethics and assurance

ASYCUDA field-based staff did not receive mandatory ethics training

16. ASYCUDA Geneva-based staff completed the United Nations mandatory training “Ethics and Integrity in Our Daily Work” and “Integrity Awareness Initiative”; however, ASYCUDA Professional staff in the field did not receive the ethics training, as it is conducted by the Staff Development and Learning Section of UNOG only in person in Geneva. Field-based Professional staff are involved in the distribution of ASYCUDA system, including requisitioning tasks. Without this training, ASYCUDA field-based staff may not be able to recognize potential breaches of ethical conduct. UNCTAD human resources explained that Professional staff in the field were not able to complete ethics training because it was not feasible to bring those staff members to Geneva for classroom training. The ethics training is mandatory and it is the responsibility of UNCTAD to ensure that the training is completed by its staff.

(3) UNCTAD, in coordination with the Staff Development and Learning Section of the United Nations Office at Geneva, should put in place arrangements for mandatory ethics training of the ASYCUDA field-based staff.

UNCTAD accepted recommendation 3 and stated that it had initiated contacts with the UNOG Staff Development and Learning Section to explore the possibility of providing mandatory ethics training to its field-based staff. Recommendation 3 remains open pending receipt of documentation showing the arrangements made for the mandatory ethics training of the field-based ASYCUDA staff.

C. Regulatory framework

Reporting of the cost of developing ASYCUDA Millennium as an intangible asset under International Public Sector Accounting Standard (IPSAS) 31

17. Without implementing reliable measurement of cost, UNCTAD will not be able to recognize the Millennium system as an asset at that time when the United Nations starts to implement the International Public Sector Accounting Standard (IPSAS), in 2013. The lifecycle of the Millennium system is expected to outlast the implementation of IPSAS by at least five years. If, by the time of the final implementation of IPSAS, the costs of the Millennium system and any other intangible assets are not accounted for, UNCTAD would not satisfy the recognition criteria for the United Nations financial statements, and accordingly the overall value of the United Nations internally developed assets would be understated. UNCTAD has not implemented any cost accumulation for the Millennium project, which started at the beginning of 2008. The cost of the prior four versions of ASYCUDA software is also unknown.

18. To prepare for the implementation of IPSAS, OIOS suggests that UNCTAD maintain records of and account for the cost of development of the ASYCUDA Millennium System. *UNCTAD indicated that it would be taking steps toward this end.*

Total cost of ownership of software products for ASYCUDA Millennium was unknown

19. The United Nations project management methodology requires that the Total Cost of Ownership (TCO) be estimated as a sum of the predicted acquisition cost and the cost of maintenance up to and including the fifth year from the date of project initiation. In the case of ASYCUDA, the acquisition cost should reflect the procurement of software tools for the use by UNCTAD programmers and all resources required for the internal development of ASYCUDA Millennium. The TCO for the required software tools also includes lifecycle costs of training, programming labour, maintenance, support and disposition. In the past, the ASYCUDA Programme did not prepare TCO for the development of prior versions of ASYCUDA as it was not a requirement. For the next version of ASYCUDA, i.e., Millennium, UNCTAD is required to prepare TCO using the five-year formula, including life cycle costs of software products. Without lifecycle costs, TCO of the required software products may be understated.

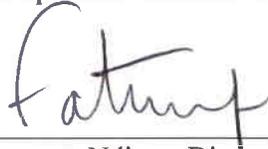
(4) UNCTAD should develop an estimate for the Total Cost of Ownership for each of the externally acquired software products required for the development of ASYCUDA Millennium.

UNCTAD accepted recommendation 4 with the understanding that the TCO will be an all-inclusive budget for developing the Millennium and not based on a TCO blueprint. UNCTAD expressed its view that a TCO is not necessarily applicable to the development of the ASYCUDA Millennium since the organization will neither procure nor use the information system for itself. UNCTAD understands that section 9.27 of the UN Procurement Manual applies to cases such as, for example, Umoja ERP that will be procured by the United Nations Secretariat for its own use including software, hardware, training support and maintenance, etc. For Millennium, UNCTAD will simply obtain necessary software products and components to develop an information system that subsequently will be utilized by non-UN end-users, i.e. Member States. Procurement for ASYCUDA Millennium will be limited to several developer licenses, at most, with overall insignificant cost to the programme. UNCTAD agrees that an accurate estimate of the development costs, including the development of a realistic budget, is necessary. The ASYCUDA Millennium Business Case should include a quantitative assessment of the TCO for the overall system based on TCOs for the significant individual components, as well as a qualitative assessment of the benefits to user

countries from a trade facilitation perspective. Upon approval of the business case, the estimated TCO for externally acquired components will be finalized. Recommendation 4 remains open pending the establishment of estimated TCO for all externally acquired software products required for the development of ASYCUDA Millennium.

IV. ACKNOWLEDGEMENT

20. OIOS wishes to express its appreciation to the Management and staff of UNCTAD for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of UNCTAD arrangements for procuring and developing the “Millennium” system for the ASYCUDA Programme

Recom. no.	Recommendation	Critical/ Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNCTAD should expedite completion and approval of the business case for the development of the ASYCUDA Millennium system.	Important	O	Submission to OIOS of a copy of the ASYCUDA Millennium business case approved by the UNCTAD ICT Committee	31 December 2012
2	UNCTAD should coordinate with the Procurement and Contracts Unit of Purchase and Transportation Section, the United Nations Office at Geneva (UNOG PTS) to establish mutually acceptable due dates on the Millennium milestones, taking into account the impact of timeliness of the UNOG PTS procurement actions on the Millennium timeline.	Important	O	Submission to OIOS of the revised Millennium project timeline	31 March 2013
3	UNCTAD, in coordination with the Staff Development and Learning Section of the United Nations Office at Geneva, should put in place arrangements for mandatory ethics training of the ASYCUDA field-based staff.	Important	O	Submission to OIOS of documentation showing arrangements made for the mandatory ethics training of the field-based ASYCUDA staff	30 June 2013
4	UNCTAD should develop an estimate for the Total Cost of Ownership for each of the externally acquired software products required for the development of ASYCUDA Millennium.	Important	O	Submission to OIOS of documentation showing the establishment of estimated TCO for all externally acquired software products required for the development of ASYCUDA Millennium	31 December 2012

¹ Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNCTAD in response to recommendations