



INTERNAL AUDIT DIVISION

AUDIT REPORT

The Automated SYstem for CUsoms DAta (ASYCUDA) Programme of the United Nations Conference on Trade and Development (UNCTAD)

Mismanagement and weak internal controls do not provide reasonable assurance that programme objectives were achieved in full compliance with applicable regulations and rules

**5 December 2008
Assignment No. AE2007/341/1**

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO Mr. Supachai Panitchpakdi, Secretary-General
A United Nations Conference on Trade and Development

DATE: 5 December 2008

REFERENCE: IAD: 08- 02029

FROM Dagfinn Knutsen, Director
DE Internal Audit Division, OIOS



SUBJECT **Assignment No. AE2007/341/1 - Audit of the Automated SYstem for CUsoms DAta**
OBJET **(ASYCUDA) Programme of the United Nations Conference on Trade and Development (UNCTAD)**

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Your response indicated that you did not accept recommendations 9, 12 and 14. In OIOS' opinion however, these recommendations seek to address significant risk areas. We are therefore reiterating them and requesting that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1, 2, 3, 4, 5 and 7) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Lakshmi Puri, Acting Deputy Secretary-General, UNCTAD
Mr. Oluseye Oduyemi, Director, Division of Management, UNCTAD
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Ms. Christina Post, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Anders Hjerstrand, Chief, Geneva Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the ASYCUDA Programme of the United Nations Conference on Trade and Development

OIOS conducted an audit of the Automated SYstem for CUstoms DAta (ASYCUDA) Programme of the United Nations Conference on Trade and Development (UNCTAD). The ASYCUDA Programme aims to modernize customs procedures using information technology to speed up and simplify the clearance for goods. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over programme supervision and monitoring and evaluate compliance with applicable United Nations regulations and rules. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS concluded that there was mismanagement in the selection and management of the middleware used with the new ASYCUDAWorld software. A middleware necessary to run the new ASYCUDAWorld software was chosen without complying with United Nations rules and regulations, resulting in lack of competitiveness and transparency, undue advantage to one supplier and failure to safeguard the interest of the Organization in the absence of a proper background check and a written contract with the selected company. OIOS noted an appearance of collusion between a previous Programme Coordinator, who was also a previous Director of the Division for Services Infrastructure for Development and Trade Efficiency (SITE), and the managing director of the selected company.

To address the risks of fraud and to improve programme management, UNCTAD should:

- Initiate an inquiry of the conditions for the selection and use of the middleware;
- Establish internal controls to prevent non-compliance with UN rules and regulations, acceptance of pro bono services that give undue advantage to one vendor, and risk of lack of continuity and quality of the ASYCUDAWorld system.; and
- Establish accountability measures for the failure to exercise proper selection, establishment, management and oversight of the middleware and related services by the ASYCUDA Programme since 2001.

Supervisory and monitoring controls over the ASYCUDA Programme were insufficient to assure that the Programme meets its objectives in full compliance with United Nations regulations and rules. To improve governance, project management and administration, UNCTAD should:

- Appoint additional external members to the ASYCUDA Board, with special expertise in information technology and legal affairs, and include strategy

and decision making on technical developments in the Board's Terms of Reference;

- Strengthen supervision by the Division for Services Infrastructure for Development and Trade Efficiency (SITE) over the Programme;
- Ensure that SITE formalizes Programme procedures for initiating projects; standardize and document project monitoring procedures; and enhance performance measurement by establishing adequate performance indicators, systematic data collection, impact analysis, regular evaluation, and post-implementation reviews and conducting regular client satisfaction surveys;
- Strengthen administrative supervision over reclassification of posts and selection of staff; and
- Consider establishing a fund, similar to the Debt Management and Financial Analysis System (DMFAS) Trust Fund, in view of the difficulty in allocating costs for coordination and support activities.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Automated SYstem for CUstoms DAta (ASYCUDA) Programme of the United Nations Conference on Trade and Development (UNCTAD). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The ASYCUDA Programme is an UNCTAD Programme under the Trade Logistics Branch of the Division for Services Infrastructure for Development and Trade Efficiency (SITE). The main objective of the 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. An important objective of ASYCUDA projects is to implement the system as efficiently as possible with a full transfer of know-how to national customs administrations at the lowest possible cost for recipient countries and donors.

3. Voluntary contributions for the implementation of ASYCUDA projects represent about one third of UNCTAD's technical cooperation funds. ASYCUDA is UNCTAD's largest programme and is implemented in over 80 countries. Expenditure for the 2006 fiscal year amounted to \$8.7 million. Up to June 2007, expenditure amounted to \$7.9 million. 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. Posts in the ASYCUDA Programme are funded exclusively from extrabudgetary funds, with the exception of two general service posts. The programme team, headed by a Programme Coordinator, is composed of 14 project staff under the 200 series, three general service staff and field technical experts in Haiti, Jordan, Malaysia, Namibia, Tanzania, Venezuela, Cambodia, Afghanistan, Trinidad and Tobago, and Moldova. Most projects adhere to a standardized format comprising three phases of implementation, namely pre-installation, prototyping and full roll-out.

5. Comments made by UNCTAD are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to:

(a) Assess the level of authority delegated to the programme and its monitoring by UNCTAD;

(b) Review the decision-making process with regard to projects and commitment of funds;

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- (c) Assess the effectiveness of internal control over projects; and
 - (d) Review compliance with the United Nations Regulations and Rules, especially relating to technical cooperation trust funds.

7. An additional review of procurement and contractual issues was added to the initial audit objectives, as a follow-up on the implementation of recommendations of an OIOS' investigation conducted in 2006.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit focused on a sample of recently terminated and ongoing projects, representing \$2 million or 23 per cent of the total amount expended by the Programme in 2006. The audit analyzed documentation on the structure, supervision and monitoring of the Programme, including minutes of various meetings (Board, staff, technical), project documents and reports, as well as available procedures and guidelines. Personnel files and financial data were reviewed. The audit also included interviews within the Programme, SITE and the UNCTAD Support services (Finance, Human Resources). Practices available in other UNCTAD Programmes or in the area of information technology (IT) were also reviewed.

9. Considering the audit's focus on monitoring and supervision controls, the effectiveness or performance of the Programme was not assessed. Nonetheless, the audit undertook a survey to assess the effectiveness of the monitoring of client satisfaction on a sample of all twelve recipient countries for projects with a budget of \$500,000 or more and undertaken since 2005, most of them being ASYCUDAWorld projects. The survey was sent to the twelve recipient countries of the Programme, from which seven responses were received.

10. OIOS also attempted to conduct a quick review and assessment of some of UNCTAD's suppliers for the ASYCUDAWorld version and had requested basic general and financial information from two companies. The incompleteness of the reply from one, and negative reply from the other, resulted in partial scope limitation.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Procurement and contract management of the middleware component of ASYCUDAWorld

Non-competitiveness in the selection of SOClass middleware from Strategy Object

11. The ASYCUDA Programme decided in 2001 to move to a radically new technological platform, ASYCUDAWorld. The solution selected allowed the

client countries to choose their operating environment and database system, but the middleware, which allowed such flexibility, would in turn be indispensable. The Programme selected a middleware (SOClass) as one IT component to be prescribed to countries for the implementation and use of the ASYCUDAWorld software. The SOClass middleware must be installed on the server from which ASYCUDAWorld application modules will be deployed. Recipient countries deciding to implement ASYCUDAWorld therefore must buy the SOClass middleware component.

12. The selection process for the middleware, which took place in 2001, was not transparent and documented. When Strategy Object offered its middleware free of charge, there was no evidence that other companies had been given the same opportunity. Further, when the SOClass middleware was selected, UNCTAD should have complied with the provisions of the United Nations Financial Rule 107.5 that were applicable at time of accepting the contribution, which required the approval of the Secretary-General or the Under-Secretary-General for Management.

Appearance of collusion in the selection of the middleware

13. A former ASYCUDA Programme consultant established in 1997 the company Strategy Object which provided free of charge the SOClass middleware used in the ASYCUDA Programme. Little information is known about the company, and the audit team's attempt to verify information about it, including OIOS Investigations Division's check with Dun and Bradstreet, failed to reveal any further background information. OIOS' request to be provided with basic information on Strategy Object, as required from all vendors in terms of the United Nations Procurement Manual, was left unanswered.

14. This former ASYCUDA Programme consultant had several previous contracts with UNCTAD to provide programmer's expertise to the ASYCUDA Programme from 1993 to 1998. The Programme consultant was still under contract with UNCTAD when he established his company Strategy Object. It is also noteworthy that in 2000, the same former Programme consultant, representing his own company, paid an unscheduled visit to the Programme to demonstrate the middleware and provided it on a free-trial basis. The previous Programme Coordinator, who was also the previous Director of SITE and retired in 2002, repeatedly used the services of this particular Programme consultant from 1993 to 1998. After he retired, the same Programme Coordinator became the Head of Webb Fontaine, a Swiss Company and distributor of the SOClass middleware provided by the Programme consultant.

15. There is, therefore, an appearance of collusion between the previous Programme Coordinator and the Programme consultant. Although an OIOS investigation conducted in 2006 could not substantiate the allegations of conflict of interest and mismanagement relating to the ASYCUDA World System, the present audit maintains that the selection of Strategy Object as the provider of the middleware was irregular and indicative of collusion to give undue advantage to Strategy Object. In OIOS' opinion, UNCTAD should stop the current relations

with Strategy Object and find an alternative solution to the use of SOClass middleware.

Failure to ensure that recipient countries receive fair conditions and prices

16. In OIOS' opinion, it would have been, and still is, essential to enquire about the price of the product registered licenses and the conditions to be provided to ASYCUDAWorld clients. The ASYCUDA Programme could not give OIOS the price of such licenses. The ASYCUDA Programme answered that it "was not in a position to perform a price review on any vendor", nor "to evaluate the ethics of the private sector involved" in modernization of customs administrations. Furthermore, the ASYCUDA Programme did not and still does not see its responsibility when prescribing the use of a middleware to client countries. It also did not and does not see a reason for securing the price and conditions for the provision of the SOClass middleware to these countries.

17. OIOS considers that the Programme has made its clients a 'captive market' of one company and exposed them to price speculation, as the prices charged to clients were neither recorded nor documented. This concern has later been confirmed by two out of six respondents to OIOS' client satisfaction survey. The Programme should have exercised stewardship in ensuring that recipient countries obtain fair conditions and that business ethics and integrity take place as practiced in 'Business to Government' relationships.

OIOS Investigation Division's recommendation to conduct supplier risk assessment and due diligence check was not implemented

18. The OIOS investigation conducted in 2006 on allegations of conflict of interest and mismanagement relating to the ASYCUDA World System recommended that: "1) UNCTAD consult with the Office of Legal Affairs to establish formal procedures of procurement and contractual issues relating to the ASYCUDA Programme; 2) UNCTAD undertake supplier risk assessment and due diligence checks in respect of Strategy Object; and 3) UNCTAD form a Project Management Board within the ASYCUDA Programme [...]." Recommendation 2 was not implemented.

19. The continued lack of assessment of the company that provided the selected middleware increases the risks faced by the ASYCUDA Programme because the business continuity and viability of the company have not been assessed. The possibility of decompiling the SOClass middleware – the solution suggested by the ASYCUDA Programme Coordinator in case the company fails – is not a convincing argument. Such an exercise would be cumbersome, could pose legal and technical problems, and is not sustainable as it would not address the ongoing needs of support and development of the middleware. It is also not a common practice in the United Nations.

Absence of a written contract

20. The arrangement between Strategy Object and the United Nations for the use of the SOClass middleware was not documented by a written contract. The

Programme has correspondence from Strategy Object granting UNCTAD the use of SOClass middleware for development and test purposes and highlights that this is considered common practice in the industry. From enquiries, OIOS understands that such practice is not a common UN practice. The middleware was selected not for internal use, but with an intention to reach out to client countries.

21. The absence of a written contract with Strategy Object means that the company is not liable for non-delivery of any goods or services, nor does it guarantee its continuity or performance. Strategy Object has not provided a warranty for the use of SOClass middleware although the delivery of ASYCUDA projects relies on the Strategy Object's middleware. Performance monitoring of the middleware was not exercised.

22. IT experts in the Programme do not have direct access to the support and maintenance hotline of Strategy Object for the SOClass middleware. The former Programme Coordinator, who distributes the SOClass middleware, has retained the relationship with the supplier. OIOS understands that such arrangement is not standard practice in other United Nations IT activities and does not appear to be the most adequate and efficient one.

23. The Control OBJECTIVES for Information & related Technology (COBIT), a framework for IT management, provides good practices to organize IT activities into a generally accepted process model and to define the management control objectives to be considered. Based on this methodology, OIOS has assessed the maturity model for managing third-party services provided by Strategy Object as non-existent in ASYCUDA (from a scale of a maturity level of (0) "non-existent" to (5) "optimized") based on the following criteria: "Responsibilities and accountabilities are not defined; There are no formal policies and procedures regarding contracting with third parties; Third parties are neither approved nor reviewed by management; There are no measurement activities and no reporting by third parties; and In the absence of a contractual obligation for reporting, senior management is not aware of the quality of the service delivered".

Conflict of interest

24. Webb Fontaine, a distributor of SOClass in the world has developed the TRADEWORLDMANAGER product which proves to be a direct competitor for the ASYCUDA software (selected in Armenia, where ASYCUDA also offered its software). The subsidiary of Webb Fontaine in the Philippines has also subcontracted parts of the implementation of an ASYCUDA project, without any UNCTAD involvement.

25. This situation has created a conflict of interest considering that Webb Fontaine distributed a critical component for ASYCUDA's software environment. There is also an immediate risk of taking over of the ASYCUDA product as Webb Fontaine may be using the contacts gained through distributing SOClass to ASYCUDA client governments.

26. OIOS requested basic information on Webb Fontaine to assess the capacity of the distribution network of SOClass. The company did not agree to provide the documentation on the grounds that it no longer offered the reseller service. However, to date the company's website only mentions the distribution agreements signed in 2002 and 2004 and does not disclose any such discontinuation of service.

Recommendations 1 to 4

The UNCTAD Administration should:

- (1) Obtain detailed information on the SOClass middleware distribution network, including past and current arrangements with Webb Fontaine, and on the prices and conditions extended to recipient countries for the provision of the SOClass middleware to ensure that they are fair and efficient;**
- (2) Discontinue its relations with the vendor Strategy Object in view of the irregularities in the procurement process and find an alternative solution to the use of SOClass middleware without delay, in full compliance with the United Nations regulations and rules. A market survey should be conducted as a matter of urgency with the involvement of the Procurement Service of the United Nations Office at Geneva on possible technical solutions with a view to identifying suitable alternatives offered by established vendors;**
- (3) Take measures to protect its intellectual property rights and prevent possible use of ASYCUDA's name by third parties; and**
- (4) Take necessary accountability measures to ensure proper selection, establishment, management and oversight of the software products and related services by the ASYCUDA Programme.**

27. *The UNCTAD Administration partially accepted recommendation 1 and stated that it will write a letter to customs authorities in countries currently using ASYCUDA World requesting information on the prices and conditions extended by the vendors/distributors of the SOClass middleware. The Administration also contacted the companies providing the middleware but was unable to obtain detailed information given that the commercial arrangements were between private companies and not subject to scrutiny by the United Nations. Recommendation 1 remains open pending receipt of copies of the letters sent to customs authorities and information relating to the prices and conditions extended to vendors using SOClass middleware.*

28. *The UNCTAD Administration partially accepted recommendation 2 stating that it will launch a new inter-agency single window system, codenamed*

ASW Millennium to replace the current ASYCUDA World. The system will be implemented in the course of 2010 and comply fully with United Nations rules. Recommendation 2 remains open pending the receipt of information relating to the implementation of an alternative solution to the use of SOClass middleware and the implementation of a market survey.

29. *The UNCTAD Administration accepted recommendation 3 and stated that it will request guidance and authorization from the Office of Legal Affairs to seek the international protection of the ASYCUDA name and logo on behalf of the United Nations. Recommendation 3 remains open pending receipt of a copy of the guidance provided by the Office of Legal Affairs and the action taken by UNCTAD to implement the recommendation.*

30. *The UNCTAD Administration accepted recommendation 4 and stated that UNCTAD will strengthen the strategy setting, decision making, monitoring and performance evaluation of the ASYCUDA Programme. Recommendation 4 remains open pending receipt of documentation regarding the measures taken to strengthen the strategy setting, decision making, monitoring and performance evaluation of the ASYCUDA Programme.*

B. Governance

ASYCUDA Board's Terms of Reference need to include strategic decision-making role

31. The ASYCUDA Board was established in February 2007 following an OIOS investigation conducted in 2006 that recommended a Project Management Board to ensure all decision-making and terms of reference (ToR) in respect of the ASYCUDA Programme are formalized, documented and contain assessment criteria. The ToR of the Board includes functions to:

- define a minimum set of core rules for the ASYCUDA project documents;
- review the proposed project documents and ensure their consistency;
- ensure homogeneous application of the rules for the personnel management (field experts, consultants);
- promote cooperation with other UNCTAD programmes such as Trainfortrade, DMFAS, Statistics, etc.;
- ensure the follow-up on the pending programme administrative and logistics issues (i.e. hardware inventory, telephone calls, office space, etc.);
- review the documentation requested by UNCTAD management (e.g. Mid-Term Review, Annual Report); and,
- document all selection processes and critical technical choices.

32. The above ToR does not mention the monitoring of ongoing projects or reporting on the performance of terminated projects. Follow-up is limited to "pending programme administrative and logistics issues", which could be duties of a more operational working group. Key issues such as the strategy and technical developments of the Programme are not listed under the Board's duties,

which would allow for better control and monitoring at the level of the Board. For example, the Programme strategy (also referred to as technical note) prepared by the Programme Coordinator has not been discussed (or is not translated in the minutes), nor approved by the Board. There is also no mention of discussions on or approval of projects or arbitration among various priorities.

33. Thus, the nature of the Board appears largely operational with a focus on financial, personnel, administrative and documentary issues, rather than strategy-setting, decision-making, monitoring and performance follow-up. There is therefore a potential for the Board to play a more strategic role in governance of the Programme.

34. The Board is composed of four ASYCUDA staff members and one member from outside of the Programme, namely the Head of the Trade Logistics Branch. As the Board exercises the main monitoring of UNCTAD over the Programme, additional members external to the Programme could provide valuable input, in particular if they would come with specific expertise on the information technology and/or legal areas.

Recommendations 5 and 6

The UNCTAD Administration should:

(5) Review and enhance the Terms of Reference of the ASYCUDA Board, including the Board's role on strategy and decision making on future developments; and

(6) Appoint in the ASYCUDA Board additional external members with expertise in information technology and legal issues.

35. *The UNCTAD Administration accepted recommendation 5 and stated that the Director of the Division of Technology and Logistics will prepare and submit new terms of reference to UNCTAD management for approval. Recommendation 5 remains open pending receipt of the new terms of reference of the ASYCUDA Board.*

36. *The UNCTAD Administration accepted recommendation 6 and stated that in addition to the Chief of the Trade Logistics Branch, the UNCTAD Legal Adviser, the Programme Manager of the Debt Management and Financial Analysis System (DMFAS) and the Chief of the Budget and Project Finance Section will be appointed to serve on the ASYCUDA Board. Recommendation 6 remains open pending receipt of the terms of reference containing the new composition of the Board and minutes of their first meeting.*

Lack of divisional supervision

37. The Programme has been running independently from the Division (SITE) and UNCTAD. The strategy-setting and decision-making functions have been largely delegated to the Programme Coordinator, under a 200-Series

contract, without regular and formal monitoring arrangements by his supervisor, the Head of the Trade Logistics Branch. His involvement has been limited to ad hoc monitoring and reporting, with one meeting with the Programme Coordinator every two months, exchange of information in other meetings, preparation for inter-governmental or regional grouping meetings and meetings with staff dealing with specific projects. Contact with the ASYCUDA programmers has been likewise limited and the Programme has been only minimally integrated into Branch activities, which was further reinforced by its physical distance from the rest of the Branch.

38. The performance appraisals of the ASYCUDA staff for the 2004-05 and 2005-06 periods also indicated limited supervision. Only 3 out of 14 project staff received comments on their performance appraisal (e-PAS) from the Head of Branch as the second reporting officer.

39. Technical cooperation staff appointed under the 200 Series of Staff Rules provides advisory services within the framework of a technical cooperation programme or activity. As such, 200 Series staff may not be used to carry out support and service functions or manage substantive programmes, given that these functions are under the responsibility of the Secretary-General, according to ST/SGB/177 "Policies for obtaining the services of individuals on behalf of the Organization", ST/AI/297 "Technical cooperation personnel and OPAS officers", ST/SGB/2002/2 "Staff Rules – Staff regulations of the United Nations" and Staff Rules 200.1 and 212.7, applicable to technical assistance project personnel". As a result, technical cooperation staff may not perform supervisory functions or have certifying/approving authority.

40. The guidance that OIOS expected to find with UNCTAD's divisional supervision over the Programme – i.e. guidance on UN practices, regulations and rules as well as further consistency and synergies when integrating the Programme's activities into the wider objectives of SITE – did not take place. Rather, the Programme is operating as a single entity with a priority to secure funds to the detriment of UN principles and practices. OIOS noted that this lack of supervision also contributed to deficiencies in the procurement process for selection of the Programme's middleware.

Recommendation 7

(7) The UNCTAD Administration should review the authority delegated to the ASYCUDA Programme with a view to strengthening divisional supervision and limiting the functions exercised directly in the Programme to technical advisory services in accordance with applicable United Nations Staff Regulations and Rules and requirements for 200 Series project staff.

41. *The UNCTAD Administration accepted recommendation 7 and stated that it will designate a staff member on a 100 series contract at a senior level to supervise the ASYCUDA Programme, who will function under the direct guidance of the Director of the Division on Technology and Logistics.*

Recommendation 7 remains open pending receipt of copies of the job description of the incumbent staff member supervising the ASYCUDA Programme and the new organigram.

Structure of the ASYCUDA Programme

42. The ASYCUDA Programme is headed by a Programme Coordinator, at the L6 level. It is organized in two main units: a project management and coordination unit with regional coordinators and a technical unit.

43. Project coordinators are in charge of specific regions, i.e.: the Middle East; Latin America and Caribbean; Asia and the Pacific; Anglophone Africa; Francophone Africa; and Europe. While the current organization along regional lines is straightforward, projects are not distributed evenly in number and size among the regions, thus the workload is not balanced. The basis for outposting one regional coordinator in Asia, while all the other regions are managed from Geneva, was also not clear to OIOS. The Programme agreed that the criteria for outposting and workload needed clarification.

C. Project management

Need to ensure funding before project initiation

44. UNCTAD does not have a formal programme or project manual for technical cooperation projects, the management of which is largely decentralized. The lifecycle of an ASYCUDA project starts with a feasibility study, which results in a project adapted to the financing capacity of the country. Formal decision-making takes place later when the project document is put together although the actual decision is made when ASYCUDA coordinators are sent to the field for the feasibility study. Also, the funding for travel for the feasibility study, before the funding agreement is signed with the country, was *ad hoc*, and taken from remaining funds of other projects or funded by the recipient country itself.

Recommendation 8

(8) The UNCTAD Administration should revise its procedures with regard to the initiation of ASYCUDA projects, including at the feasibility study stage, to ensure adequate decision making and appropriate funding for the project's initial phase.

45. *The UNCTAD Administration partially accepted recommendation 8 and stated that UNCTAD shall reconsider its funding arrangements and management procedures for the ASYCUDA Programme.* Recommendation 8 remains open pending receipt of documentation supporting the modified funding arrangements and management procedures for maintenance and support of the ASYCUDA Programme.

Review of project documents

46. The project documents reviewed by OIOS include very clear and comprehensive definitions of the project structure and respective responsibilities, input and output of the various stakeholders. They also include a detailed approach and work plan both for customs substantive and technical issues. However, many Regional coordinators have a more technical background and substantive input is provided mainly by the customs expert of the Programme without clear procedures to ensure his systematic review.

Recommendation 9

(9) The UNCTAD Administration should establish a formal review process for draft project documents pertaining to the ASYCUDA Programme to ensure systematic substantive input and validation.

47. *The UNCTAD Administration did not accept recommendation 9, stating that substantive input and validation is done by the ASYCUDA Board, and UNCTAD technical cooperation project documents are reviewed and cleared by the Legal Adviser, Chief of Budget and Project Finance Section, and Chief of Technical Cooperation Service.* OIOS was unable to confirm that a formal review process was in place to ensure systematic substantive input and validation either by the Board or by the customs expert of the Programme. Recommendation 9 remains open pending receipt a copy of the formal substantive review process evidencing systematic input and validation.

Project monitoring and performance reporting

48. Once the project document is approved within UNCTAD and signed with the recipient country, and the funds are received, ASYCUDA projects are implemented by field experts (customs and/or information technology experts) and monitored by the regional coordinators. Technical difficulties are referred to the technical experts in Geneva, and copied to the regional coordinators.

49. Project monitoring is mainly the responsibility of regional coordinators. Based on interviews with four of the six regional coordinators, OIOS ascertained that projects are monitored on a regular basis, mainly through e-mail or regular telephone and video conference contacts. Follow-up and monitoring is mainly documented through monthly reports, mission reports and phase reviews. Regular field visits also allow for direct information gathering and monitoring of the projects. Regional coordinators mentioned, however, that they do not consistently receive the information from the field.

50. Some monitoring is conducted by the Programme Coordinator who receives updates from staff. However, the monitoring activity that takes place is not reflected in a programme-wide methodology or in a defined approach followed by the regional coordinators. Furthermore, little control and monitoring of projects is done at the Branch or Division level. Regional coordinators formally update the Programme Coordinator on the activities and missions taking

place for each project under their responsibility through ASYCUDA Regional Implementation Executive Summary (ARIES).

51. Of a sample of six projects ongoing or recently terminated that were selected by OIOS for review, files for the project implemented in Asia were not available in Geneva. For the other projects, files contained all necessary information. However, the project files did not contain standard format or content. Progress reports may be too similar in nature from one phase to another, thus, casting doubt as to their value. On the contrary, mission reports referred only to specific activities. Phase reviews were also not consistently present, thus hindering problem identification and resolution.

52. Project documentation includes output indicators and generally observed impact of the Programme. Nonetheless, while OIOS expected to find extensive data and follow-up on the implementation and impact of ASYCUDA projects, the quality of indicators contributed to lack of adequate, systematic collection and consolidation of performance measurement indicators, thus impairing further analysis as to success factors, leverage of projects or objective assessment of the results and impact of ASYCUDA projects.

Recommendation 10

(10) The UNCTAD Administration should revise the format of ASYCUDA project documents to strengthen the design of performance measurement indicators during all stages of the project life cycle and to ensure systematic collection of data for reporting, monitoring, adequate lessons-learned and impact analysis of ASYCUDA projects.

53. *The UNCTAD Administration accepted recommendation 10.* Recommendation 10 remains open pending the revised project documents containing performance measurement indicators during all stages of the project life cycle.

Need for project evaluation and post implementation review

54. No external or internal evaluation had been conducted over the Programme or its projects. Post-implementation reviews were not conducted on a consistent basis by the ASYCUDA Programme. There was no established mechanism for systematically obtaining information on impact and after a period of time. As indicated by Programme staff, given the lack of funds to conduct reviews, unverified information on post implementation improvements to revenue, processes and procedures may be provided by the recipient countries, donors or obtained from the press.

55. OIOS noted that one post-implementation review acknowledged that training activities, installation of the ASYCUDA system, provision of timely and accurate statistical data were all fully achieved. It also confirmed the difficulty “to quantify the actual effect or influence the introduction and use of ASYCUDA

has had or might have had on increased revenue yield” and questioned the follow-up done on experts’ recommendations.

56. Follow-up on completed projects is predominantly of a technical nature, based on a recipient country’s request for an updated version of the ASYCUDA system or for modifications to the system. The substantive role of the ASYCUDA regional support centres is likewise minimal as they do not have a role in projects review and follow-up despite their beneficial location and potential capacity to review them.

57. Regional coordinators spend a significant portion of their time marketing the ASYCUDA Programme to prospects, utilizing networking and promotion of successful projects as a basis for their promotional activities. However, such marketing is neither analyzed, nor documented to provide a basis to assess strengths and weaknesses of the Programme compared to competitors.

Recommendations 11 and 12

The UNCTAD Administration should:

(11) Conduct evaluation and post-implementation reviews and establish baselines for ASYCUDA projects to enable meaningful evaluation of project impact; and

(12) Formalize the marketing activities undertaken by the regional coordinators to ensure they are documented and their results analyzed to secure management information on the competitiveness of the ASYCUDA Programme.

58. *The UNCTAD Administration accepted recommendation 11. Recommendation 11 remains open pending receipt of documentation showing the results of evaluation and post-implementation reviews and the baselines established for ASYCUDA projects.*

59. *The UNCTAD Administration did not accept recommendation 12, stating that the ASYCUDA regional coordinators do not carry out systematic "marketing activities", other than having a stand at international conferences. OIOS is of the view that the promotional activities undertaken are significant as confirmed by the regional coordinators. Recommendation 12 remains open pending formalization of the marketing activities undertaken by the regional coordinators and the documentation and analysis of the marketing activities.*

Need for client satisfaction surveys as quality and performance monitoring tool

60. OIOS undertook a sample satisfaction survey exercise to assess the effectiveness of the monitoring of client satisfaction with the Programme. The sample consisted of 12 recipient countries from 2005 to the present. Seven responses were received, while one respondent declined to comment in detail as the ASYCUDA system was yet to be implemented. The effective response rate was therefore 50 percent.

61. Four respondents indicated that they were fully satisfied with the system and two indicated that they were partially satisfied. Ease of implementation and adaptability were indicated by all respondents as the main advantages of the system. All six respondents indicated a positive experience with the implementation of the system with benefits in greater control, efficiency, unified and standardized system, computerization of data and processes, and availability of statistical information.

62. In terms of difficulties with the system, four respondents indicated implementation problems, mainly technical.

63. The cost of the hardware component of ASYCUDA projects is not known in the Programme, but respondents gave OIOS an indication that the most significant cost component of the project for five of the respondents was for hardware, with an average of 38 percent of total cost. Software and miscellaneous expenses (consultancy, training, connectivity, other telecommunications needs) accounted for approximately 23 percent to 39 percent on average of total cost.

64. Improvements necessary to the implementation of ASYCUDA were identified by all six respondents. Two of them identified the need to improve support provided to country project staff and dedicate more resources to increased technical and functional training. Respondents also indicated that training and technical maintenance were required for the sustainability of the ASYCUDA system. Automating of modules, licensing difficulties and use of open-source, free Relational Database Management System, application server and operating system were also indicated as possible areas for improvement. The SOClass middleware was indicated as partially satisfactory in terms of effectiveness by two of the respondents, and unsatisfactory in terms of cost.

Recommendation 13

(13) The UNCTAD Administration should develop and carry out regular client surveys of recipient countries as a quality and performance monitoring tool and to explore possible technical developments of the ASYCUDA Programme.

65. *The UNCTAD Administration accepted recommendation 13.* Recommendation 13 remains open pending receipt of documentation of regular client surveys of recipient countries.

Control over activities of Regional Support Centres needs strengthening

66. ASYCUDA has established several regional support centres in the field. The Fiji centre was the first established ASYCUDA support centre. It is funded by three recipient countries; its manager is provided on a rotational basis by each of the three donors; and the planning and budget are decided upon every year by the countries and the ASYCUDA Regional Coordinator for Asia. The

sustainability of the centre, under the current mechanism, and the commitment of countries is considered good practice for the other support centres of the ASYCUDA Programme.

67. The arrangement devolves much of the authority and control to recipient countries with little control exercised by UNCTAD to ensure compliance with UN regulations and rules. In 2004, the Board of Auditors reported on a case of fraud made possible by the lack of proper surveillance from the Regional Coordinator and absence of formal delegation to the concerned employee, while both UNCTAD and the United Nations Development Programme (UNDP) acted as if there had been such a delegation. The fraud was not reported to UNCTAD Headquarters, nor was there a follow-up investigation by the competent investigation unit. Thus, as already reported in 2004 by the Board of Auditors, this creates risks of weak internal control. OIOS shares this view as UNCTAD was not in a position to exercise adequate control over this project.

Recommendation 14

(14) The UNCTAD Administration should review its arrangement with ASYCUDA regional support centres with a view to strengthening its control over their activities.

68. *The UNCTAD Administration did not accept recommendation 14, stating that: UNCTAD administrative procedures for field technical cooperation projects apply equally to ASYCUDA regional centers; the case addressed in the 2004 Board of Auditors' report was fully investigated; UNCTAD utilizes UNDP country offices; and, that regional coordinators have no discretionary spending authority, no imprest accounts and no petty cash funds.* OIOS is of the view that internal controls should be strengthened in the context of UNDP country offices and ASYCUDA regional centers with UNCTAD taking a greater role in reinforcing its procedures and the coordinator's oversight role. Recommendation 14 remains open pending receipt of documentation relating to the actions taken to strengthen controls over regional support centre activities.

D. Administrative supervision

Restrictive language in post classification did not result in competitive staff selection

69. ASYCUDA staff members in Geneva are project personnel serving on short-term contracts, conditioned by the availability of extra-budgetary funding. In practice however the funding for posts, and staff, has been stable. Out of 12 staff members, only three have been recruited since 2000. Overall, geographical and gender balance was far from being achieved among ASYCUDA Geneva experts: half are French nationals and all, but one, are men.

70. The regional coordinators have the necessary skills and experience to exercise their functions, particularly as many have been with the Programme for a number of years and have acquired on-the-job experience working directly with ASYCUDA.

71. According to Administrative Instruction ST/AI/1998/9, posts can be reclassified, i.e. their grade revised, “when the duties and responsibilities of the post have changed substantially”. For 200-Series staff, up to the L-5 level, the reclassification is undertaken by the Human Resources Management Section (HRMS) of UNCTAD upon request from the Head of Branch. The procedure requires that advertisement of the vacancy and competitive selection take place.

72. The post of Programme Coordinator was reclassified in February 2004 from L-5 to L-6 level. While, according to Administrative Instruction ST/AI/285, the reclassification should have been approved by the United Nations Controller, UNCTAD could not provide such approval to OIOS.

73. Reclassification of posts is recurring in ASYCUDA. Of the 14 project personnel files reviewed, the posts of 9 project staff were reclassified, and in some cases repeatedly. Although it is a current practice to use reclassification as a means of promotion for project staff, OIOS ascertained that justification for some of the reclassification requests referred more to the experience and work history of the incumbent rather than significant changes of their duties. In some cases control exercised by the Human Resources Management Section over such requests was weak.

74. Job descriptions for ASYCUDA posts require prior ASYCUDA experience. Such specific reference is restrictive. The use of more generic language to define required experience and knowledge would allow candidates external to the ASYCUDA Programme with customs data software experience to apply for the post.

75. A review of ASYCUDA project staff files revealed that staff posts were reclassified without a corresponding issuance of a vacancy announcement. Since 2004, only one reclassification had been advertised and the candidate competitively selected. Three other reclassifications were undertaken since 2004 without a competitive process. Such process does not ensure that the best qualified candidate for the post has been selected as it is not in line with UN practices to avoid narrowing down of candidates to current or previous project staff.

76. UNCTAD HRMS explained that a lack of advertisement in the identified cases was due to the fact that the posts had funding for less than six months. As a result, OIOS noted that most of ASYCUDA’s reclassifications were not competitive. In OIOS’ opinion, although contracts are indeed issued for short-term periods subject to funding, the high certainty of their renewal justifies implementing the competitive process of reclassification.

Recommendations 15 to 17

The UNCTAD Administration should:

- (15) Ascertain that the reclassification of ASYCUDA posts occurs on an exceptional and well-documented basis**

when the responsibilities of the post have substantially changed;

(16) Ensure that requirements in ASYCUDA vacancies refer to more generic skills and experience and are not too restrictive of competition; and

(17) Implement the consistent use of a transparent and competitive process for the reclassification and selection of candidates for the ASYCUDA 200-Series posts, with greater focus on geographical and gender balance.

77. *The UNCTAD Administration accepted recommendation 15 and stated that HRMS is currently finalizing the revised procedures on reclassification of Project (200 series) posts and appointment of Project personnel in UNCTAD, which will ensure full compliance with the recommendation. Recommendation 15 remains open pending receipt of the revised procedures on reclassification of Project (200 series) posts and appointment of Project personnel in UNCTAD.*

78. *The UNCTAD Administration accepted recommendation 16 and stated that as part of the revision and streamlining of the procedures for classification and recruitment of 200 Series posts in UNCTAD, HRMS will encourage as much as possible the use of generic job profiles for the advertisement of all vacancies. Recommendation 16 remains open pending the receipt of and confirmation that the revised procedures on reclassification of Project (200 series) posts resulted in more generic skills and experience requirements.*

79. *The UNCTAD Administration accepted recommendation 17 and stated that efforts to improve transparency, competitiveness, and gender and geographical balance are being addressed by issuance/implementation of the revised procedures on reclassification of Project (200 series) posts and appointment of Project personnel. Recommendation 17 remains open pending the receipt of and confirmation that the revised procedures on reclassification of Project (200 series) posts resulted in a transparent and competitive process for the reclassification and selection of candidates of ASYCUDA 200-Series posts.*

Inventory database needs regular updating

80. The database for the inventory of assets for all UNCTAD technical cooperation projects is maintained centrally by the UNCTAD General Services Unit (GSU). OIOS found that the database is not updated in a timely manner. From a sample of projects with procurement action in 2007, the corresponding entries were not communicated to the General Service Unit for input in UNCTAD's inventory of non expendable equipment.

Recommendation 18

(18) The UNCTAD Administration should improve, and ASYCUDA Programme Coordinator should enforce, the procedures on timely and comprehensive reporting by

project officers to the General Services Unit in respect of all assets purchased for projects under their purview.

81. *The UNCTAD Administration accepted recommendation 18.* Recommendation 18 remains open pending receipt of documentation relating to the improvement and enforcement of the procedures on timely and comprehensive reporting by project officers to the General Services Unit in respect of all assets purchased for projects.

V. ACKNOWLEDGEMENT

82. We wish to express our appreciation to the Management and staff of UNCTAD for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

| Recom. no. | Recommendation | Risk category | Risk rating | C/O | Actions needed to close recommendation | Implementation date ² |
|------------|---|---------------|-------------|-----|---|----------------------------------|
| 1 | The UNCTAD Administration should obtain detailed information on the SOClass middleware distribution network, including past and current arrangements with Webb Fontaine, and on the prices and conditions extended to recipient countries for the provision of the SOClass middleware to ensure they are fair and efficient. | Operational | High | 0 | Copies of letters sent to customs authorities and information relating to the prices and conditions extended to vendors using SOClass middleware. | 31 March 2009 |
| 2 | The UNCTAD Administration should discontinue its relations with the vendor Strategy Object in view of the irregularities in the procurement process and find an alternative solution to the use of SOClass middleware without delay, in full compliance with the United Nations regulations and rules. A market survey should be conducted as a matter of urgency with the involvement of the Procurement Service of the United Nations Office at Geneva on possible technical solutions with a view to identifying suitable alternatives offered by established vendors. | Strategy | High | 0 | Implementation of an alternative solution to the use of SOClass middleware and the implementation of a market survey. | 2010 |
| 3 | The UNCTAD Administration should take measures to protect its intellectual property rights and prevent possible use of ASYCUDA's name by third parties. | Governance | High | 0 | Copy of the guidance provided by the Office of Legal Affairs and the action taken by UNCTAD to implement the recommendation. | 31 March 2009 |
| 4 | The UNCTAD Administration should take necessary accountability measures to ensure proper selection, establishment, management and oversight of the software products and related services by the ASYCUDA Programme. | Governance | High | 0 | Measures taken to strengthen the strategy setting, decision making, monitoring and performance evaluation of the ASYCUDA Programme. | 31 March 2009 |

| Recom. no. | Recommendation | Risk category | Risk rating | C/O | Actions needed to close recommendation | Implementation date ² |
|------------|--|---------------|-------------|-----|--|----------------------------------|
| 5 | The UNCTAD Administration should review and enhance the Terms of Reference of the ASYCUDA Board, including the Board's role on strategy and decision making on future developments. | Governance | High | O | New terms of reference of the ASYCUDA Board. | 31 March 2009 |
| 6 | The UNCTAD Administration should appoint in the ASYCUDA Board additional external members with expertise in information technology and legal issues. | Governance | Medium | O | Terms of reference containing the new composition of the Board and minutes of their first meeting. | 30 October 2008 |
| 7 | The UNCTAD Administration should review the authority delegated to the ASYCUDA Programme with a view to strengthening divisional supervision and limiting the functions exercised directly in the Programme to technical advisory services in accordance with applicable United Nations Staff Regulations and Rules and requirements for 200 Series project staff. | Governance | High | O | Copies of the job description of the incumbent supervising the ASYCUDA Programme and the new organigram. | 30 October 2008 |
| 8 | The UNCTAD Administration should revise its procedures with regard to the initiation of ASYCUDA projects, including at the feasibility study stage, to ensure adequate decision making and appropriate funding for the project's initial phase. | Operational | Medium | O | Documentation supporting the modified funding arrangements and management procedures for maintenance and support of the ASYCUDA Programme. | Not provided. |
| 9 | The UNCTAD Administration should establish a formal review process for draft project documents pertaining to the ASYCUDA Programme to ensure systematic substantive input and validation. | Operational | Medium | O | Documentation of the formal substantive review process evidencing systematic input and validation. | Not provided. |
| 10 | The UNCTAD Administration should revise the format of ASYCUDA project documents to strengthen the design of performance measurement indicators during all stages of the project life cycle and to ensure systematic collection of data for reporting, monitoring, adequate | Operational | Medium | O | Revised project documents containing performance measurement indicators during all stages of the project life cycle. | Not provided. |

| Recom. no. | Recommendation | Risk category | Risk rating | C/O ¹ | Actions needed to close recommendation | Implementation date ² |
|------------|--|-----------------|-------------|------------------|---|----------------------------------|
| | Lessons-learned and impact analysis of ASYCUDA projects.. | | | | | |
| 11 | The UNCTAD Administration should conduct evaluation and post-implementation reviews and establish baselines for ASYCUDA projects to enable meaningful evaluation of project impact. | Operational | Medium | 0 | Results of evaluation and post-implementation reviews and the baselines established for ASYCUDA projects. | Not provided. |
| 12 | The UNCTAD Administration should formalize the marketing activities undertaken by the regional coordinators to ensure they are documented and their results analyzed to secure management information on the competitiveness of the ASYCUDA Programme. | Operational | Low | 0 | Formalization of the marketing activities undertaken by the regional coordinators and documentation and analysis of the marketing activities. | Not provided. |
| 13 | The UNCTAD Administration should develop and carry out regular client surveys of recipient countries as a quality and performance monitoring tool and to explore possible technical developments of the ASYCUDA Programme. | Operational | Medium | 0 | Documentation of regular client surveys of recipient countries. | Not provided. |
| 14 | The UNCTAD Administration should review its arrangement with ASYCUDA regional support centres with a view to strengthening its control over their activities. | Operational | Medium | 0 | Documentation relating to the actions taken to strengthen controls over regional support centre activities. | Not provided. |
| 15 | The UNCTAD Administration should ascertain that the reclassification of ASYCUDA posts occurs on an exceptional and well-documented basis when the responsibilities of the post have substantially changed. | Human Resources | Medium | 0 | Revised procedures on reclassification of Project (200 series) posts and appointment of Project personnel in UNCTAD. | Not provided. |
| 16 | The UNCTAD Administration should ensure that requirements in ASYCUDA vacancies refer to more generic skills and experience and are not too restrictive of competition. | Human Resources | Medium | 0 | Confirmation that the revised procedures on reclassification of Project (200 series) posts resulted in more generic skills and experience requirements. | Not provided. |
| 17 | The UNCTAD Administration should | Human | Medium | 0 | Confirmation that the revised procedures | Not provided. |

| Recom. no. | Recommendation | Risk category | Risk rating | C/O ¹ | Actions needed to close recommendation | Implementation date ² |
|------------|--|---------------|-------------|------------------|---|----------------------------------|
| 18 | <p>implement the consistent use of a transparent and competitive process for the reclassification and selection of candidates for the ASYCUDA 200-Series posts, with greater focus on geographical and gender balance.</p> <p>The UNCTAD Administration should improve, and ASYCUDA Programme Coordinator should enforce, the procedures on timely and comprehensive reporting by project officers to the General Services Unit in respect of all assets purchased for projects under their purview.</p> | Resources | Low | O | <p>on reclassification of Project (200 series) posts resulting in a transparent and competitive process for the reclassification and selection of candidates for the ASYCUDA 200-Series posts.</p> <p>Documentation relating to the improvement and enforcement of the procedures on timely and comprehensive reporting by project officers to the General Services Unit in respect of all assets purchased for projects.</p> | Not provided. |

1. C = closed, O = open

2. Date provided by UNCTAD in response to recommendations.