International Organization for Migration (IOM)

The UN Migration Agency

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Kampala

UG201901

15 - 26 July 2019

Issued by the Office of the Inspector General

Report on the Audit of IOM Kampala
Executive Summary
Audit File No. UG201901

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Kampala, Uganda (the "Country Office") from 15 to 26 July 2019. The internal audit aimed to assess adherence to financial and administrative procedures in conformity with IOM's rules and regulations and the implementation of and compliance with its internal control system.

Specifically, the audit assessed the risk exposure and risk management of the Country Office's activities, in order to ensure these are well understood and controlled by the local management and staff. Selected samples from the following areas were reviewed:

    a.   Management and Administration
    b.   Personnel
    c.   Finance and Accounting
    d.   Procurement and Logistics
    e.   Contracting
    f.   Information and Technology
    g.   Programme and Operations

The audit covered the activities of the Country Office from 1 January 2018 to 30 June 2019. The Country Office recorded the following expenses based on IOM financial records:

- 2018 – USD 17,122,507 representing 0.96 per cent and 6.56 per cent of IOM Total and East and Horn of Africa Region, respectively.
- January to June 2019 – USD 9,581,100 representing 0.89 per cent and 6.61 per cent of IOM Total and East and Horn of Africa Region, respectively.

Because of the concept of selective testing of data and inherent limitation of the internal audit work, there is no guarantee that all matters of significance to IOM will be discovered by the internal audit. It is the responsibility of local management of the Country Office to establish and implement internal control systems to assure the achievement of IOM's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with relevant laws, regulations, and policies. It is also the responsibility of local management to determine whether the areas the internal audit covered, and the extent of verification or other checking included are adequate for local management's purposes. Had additional procedures been performed, other matters might have come to internal audit attention that would have been reported.

The internal audit was conducted in accordance with the Charter of the Office of the Inspector General and in general conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Overall audit rating

OIG assessed the Office as **largely ineffective**, which means that *"significant control gaps exist. Either controls do not treat root causes, or they do not operate at all effectively"*.

This rating was mainly due to weaknesses noted in the following areas:
1. General control environment
2. Work environment
3. Segregation of duties
4. Bank signatories
5. Support and oversight of the field activities
6. Organizational structure
7. Delegation of authority
8. Standard operating procedures
9. Payroll process
10. Outstanding Value added taxes
11. Implementing partners' financial records
12. Disbursement process
13. Cash held in the office
14. Petty cash administration
15. Capacity assessment of Implementing partners
16. Standard agreement with Implementing partners
17. Letters of invitations
18. Project closure

Key recommendations: Total = 35; Very High Priority = 5; High Priority = 14; Medium Priority = 15; Low Priority = 1

Very High Priority Recommendation

Prompt action is required within one month to ensure that processes will not be critically disrupted, and IOM will not be **critically** adversely affected in its ability to achieve its strategic and operational objectives.

There are 5 Very High Priority recommendations consisting of: 3 recommendations in Management and Administration, and 2 recommendations in Finance and Accounting[1]. These are as follows:
- o Strictly comply with IOM's internal control framework.
- o Take action to address unhealthy work environment issues.
- o Conduct a comprehensive review of processes and roles assigned to staff and re-assign responsibilities to address the conflicting roles.
- o Fully comply with IOM policies on the use of dual signatories to authorize payments and ensuring proper segregation of duties.

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[1] One very high recommendation under Finance and Accounting was not presented in the executive summary, according to the provisions of IB/78 Rev. 1 "Disclosure of IOM Internal Audit Reports".

High Priority Recommendation

For the high priority recommendations, prompt action is required within three months to ensure that IOM will not be adversely affected in its ability to achieve its strategic and operational objectives.

The High Priority recommendations are presented below:

1. Four (4) recommendations for Management and Administration, 2 recommendations in Programme and Operations, 1 recommendation each in Personnel, Procurement and Logistics, and Contracting. These recommendations aim to ensure that the assets of IOM are properly safeguarded, staff welfare is secured and that IOM operations are effective and efficient.

   o Strengthen monitoring and oversight over field activities.
   o Revisit the existing organizational structure and ensure all gaps are addressed.
   o Develop a comprehensive delegation of authority matrix that defines the administrative, financial, operational, and programmatic responsibilities and authorities of delegated functions.
   o Develop policies and procedures for performing tasks that are specific to the country office's operating context.
   o Strengthen the payroll process and procedures.
   o Capacity assessments of Implementing partners should be strictly conducted during the selection process prior to the awarding of the qualifying bid.
   o Partnership with external parties that has financial implications should strictly comply with IOM standard agreements.
   o Diligence should be exercised in the preparation of letters of invitation for future meeting, conferences, and workshops to ensure completeness, validity, and accuracy of participants' details.
   o Improve internal coordination and communication between programme and finance units in relation to the finalization of donor reports and timely project closure.

2. Five (5) recommendations on Finance and Accounting are directed towards the enhancement of the reliability and integrity of the country office's financial and operational information.

   o The country office should work with vendors and develop feasible procedures of receiving copies of notification of invoice/value added tax declaration made to the revenue authority.
   o Amend the agreements and strengthen review over the implementing partners' financial reports and supporting documents to be performed by responsible finance staff.
   o Ensure all disbursement requests are duly recorded, verified, and supported in line with applicable IOM regulations before they are submitted to the bank signatories for payment.
   o All fees and other receivables, including those from self-payers and sponsors, must be collected via direct deposit by the payer into a nominated IOM bank account.
   o Maintain the petty cash fund balance within the IOM limit and heighten security over the handling of cash funds in the country office.

Except in the area of Information Technology, there remains another 15 Medium priority recommendations consisting of: 5 recommendations in Finance and Accounting, 3 recommendations each in Management and Administration, and Personnel, 2 recommendations in Programme and Operations, and 1 recommendation each in Procurement and Logistics and Contracting, which need to be addressed by the Country Office within one year to ensure that such weaknesses in controls will not moderately affect the Country Office's ability to achieve its entity or process objectives.

One Low priority recommendation (not included in this Executive Summary) had been discussed directly with management and actions have been initiated to address them.

Management comments and action plans

Except for 1 very high priority and 2 high priority recommendations where the country office has expressed reservations, all 32 recommendations were accepted. Management is in the process of implementation. Comments and/or additional information provided have been incorporated in the report, where appropriate.

This report is intended solely for information and should not be used for any other purpose.

International Organization for Migration
Office of the Inspector General

I.   About the Country Office

The main office is located in Kampala, Uganda. As of June 2019, the Country Office has 168 personnel categorized into: 13 officials, 133 staff and 22 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2018 - USD 17,122,507 representing 0.96 per cent and 6.56 per cent of IOM Total and East and Horn of Africa Region, respectively.
- January to June 2019 - USD 9,581,100 representing 0.89 per cent and 6.61 per cent of IOM Total and East and Horn of Africa Region, respectively.

The Country Office has a total portfolio of 55 projects and total budget of USD 32 million. The top 2 projects by type:

- 17 Projects for Resettlement Assistance amounting to USD 14.5 million or 45 per cent of the budget.
- 12 Projects on Migration Health Assessment and travel assistance amounting to USD 6.2 million or 19 per cent of the budget.

II.   Scope of the Audit

1.   Objective of the Audit

The internal audit was conducted in accordance with the Charter of the Office of the Inspector General and in general conformance with the *International Standards for the Professional Practice of Internal Auditing.* The focus of the audit was adherence to financial and administrative procedures in conformity with IOM's rules and regulations and the implementation of and compliance with its internal control system.

2.   Scope and Methodology

In compliance with Internal Audit standards, attention was paid to the assessment of risk exposure and the risk management of the Country Office activities in order to ensure that these are well understood and controlled by the local management and staff. Recommendations made during the internal audit fieldwork and in the report aim to equip the local management and staff to review, evaluate and improve their own internal control and risk management systems.

III. Audit Conclusions

1.   Overall Audit Rating
OIG assessed the Office as **largely ineffective** which means that "significant control gaps exist. Either controls do not treat root causes, or they do not operate at all effectively".

IV.   Key Findings and Very High and High Priority Recommendations

I.   Very High Priority Recommendations:

1. General control environment
   The general control environment within the country office was found to be weak and unable to safeguard its assets and further its objectives.

   Very High Priority Recommendation:
   o   Strictly comply with IOM's internal control framework.

2. Work environment
   There was a general sentiment of unhealthy working environment characterized by harassment and inappropriate conduct.

   Very High Priority Recommendations:
   o   Take action to address unhealthy work environment issues.

3. Segregation of duties
   There were several instances noted wherein the same person responsible for initiating a transaction is involved in the review or approval of the same transaction.

   Very High Priority Recommendation:
   o   Conduct a comprehensive review of processes and roles assigned to staff and re-assign responsibilities to address the conflicting roles.

4. Bank Signatories
   First level bank signatories can authorize payments with just one signature which is non-compliant with IOM policies.

   Very High Priority Recommendation:
   o   Fully comply with IOM policies on the use of dual signatories to authorize payments and ensuring proper segregation of duties.

II.   High Priority Recommendations:

1. Field activities
   The country office is unable to provide effective oversight and support to its field activities. There were prolonged delays in payments for field activity costs and no consistent policies and procedures in place.

   High Priority Recommendation:
   o   Strengthen monitoring and oversight over field activities.

2. Organizational structure
   The organizational structure in place does not respond to the requirements of the country office and its field activities.

High Priority Recommendation:
- o Revisit the existing organizational structure and ensure all gaps are addressed.

3. Delegation of Authority

The country office does not have a delegation of authority matrix that delineates and establishes levels of authority, designates personnel to review and approve transactions/actions, in order to ensure the necessary control measures are in place.

High Priority Recommendation:
- o Develop a comprehensive Delegation of Authority matrix that defines the administrative, financial, operational, and programmatic responsibilities and authorities of delegated functions.

4. Standard Operating Procedures

The country office does not have documented policies and procedures for processes which are unique and specific to its activities which are not covered by corporate policies, regulations, and rules.

High Priority Recommendation:
- o Develop policies and procedures for performing tasks that are specific to the country office's operating context.

5. Payroll process

There were several deficiencies noted in the processing of payroll such as missing and untimely authorization of payroll files and errors in calculations.

High Priority Recommendation:
- o Strengthen the payroll process and procedures.

6. Outstanding value added taxes

The significant amount of outstanding value added tax, the length of time to receive the reimbursements and the effort required to establish whether vendors have declared the invoices and paid the related value added tax, raise concerns over the collectability of value added tax from the government.

High Priority Recommendation:
- o The country office should work with vendors and develop feasible procedures of receiving copies of notification of invoice/value added tax declaration made to the revenue authority.

7. Implementing partners' financial records

There were no specific provisions in the agreement with implementing partners for them to submit supporting documents of expenditures for verification by IOM.

High Priority Recommendation:

- o Amend the agreements and strengthen review over the implementing partners' financial reports and supporting documents to be performed by responsible finance staff.

8. Disbursement process
The controls over the disbursement process are generally weak due to the lack of proper delegation of authority matrix, missing or insufficient supporting documents, among others.

   High Priority Recommendation:
   - o Ensure all disbursement requests are duly recorded, verified, and supported in line with applicable IOM regulations before they are submitted to the bank signatories for payment.

9. Cash held in the office
The country office is receiving a significant amount of cash in its office from its self-payer activities.

   High Priority Recommendation:
   - o All fees and other receivables, including those from self-payers and sponsors, must be collected via direct deposit by the payer into a nominated IOM bank account.

10. Petty cash administration
The amount of petty cash fund has exceeded the USD 1,000 limit due to payments from self-payer activities. As such, travel advances and settlement of staff travel expense claims have been noted to be disbursed from the petty cash fund. Further, there were security concerns over the handling of petty cash.

    High Priority Recommendation:
    - o Maintain the petty cash fund balance within the IOM limit and heighten security over the handling of cash funds in the country office.

11. Capacity assessment of implementing partners
There were no capacity assessments of prospective Implementing partners although the country office has capacity assessment tools are in place.

    High Priority Recommendation:
    - o Capacity assessments of Implementing partners should be strictly conducted during the selection process prior to the awarding of the qualifying bid.

12. Standard agreement with implementing partners
A particular agreement entered into by the country office did not follow IOM's Implementing Partners standard contractual procedures, thereby missing significant contractual commitments, as well as binding obligation of each party.

    High Priority Recommendation:
    - o Partnership with external parties that has financial implications should strictly comply with IOM standard agreements.

13. Letters of Invitation

   Preparation and control over letters of Invitation outlining the names of participants, allowances (including incidentals), accommodation, meals to be provided by IOM and the dates of the meeting did not comply with IOM standards.

   High Priority Recommendation:
   - o Diligence should be exercised in the preparation of letters of invitation for future meeting, conferences, and workshops to ensure completeness, validity, and accuracy of participants' details.

   Management agreed with the recommendations and is implementing them.

14. Project closure

   The process of finalization and closure of a particular project resulted to errors in recording and omitted expenses.

   High Priority Recommendation:
   - o Improve internal coordination and communication between programme and finance units in relation to the finalization of donor reports and timely project closure.

   Management expressed reservations with the recommendation.

ANNEXES

Definitions

The overall adequacy of the internal controls, governance, and management processes, based on the number of audit findings and their risk levels:

Descriptor	Guide
Fully effective	Nothing more to be done except review and monitor the existing controls. Controls are well designed for the risk, address the root causes and Management believes that they are effective and reliable at all times.
Substantially effective	Most controls are designed correctly and are in place and effective. Some more work to be done to improve operating effectiveness or Management has doubts about operational effectiveness and reliability.
Partially effective	While the design of controls may be largely correct in that they treat most of the root causes of the risk, they are not currently very effective. Or, some of the controls do not seem correctly designed in that they do not treat root causes, those that are correctly designed are operating effectively.
Largely ineffective	Significant control gaps. Either controls do not treat root causes or they do not operate at all effectively.
None or totally ineffective	Virtually no credible controls. Management has no confidence that any degree of control is being achieved due to poor control design and/or very limited operational effectiveness.

Audit Recommendations – Priorities

The following internal audit rating based on **IOM Risk Management** framework has been slightly changed to crystalize the prioritization of internal audit findings according to their relative significance and impact to the process:

Rating	Definition	Suggested action	Suggested timeframe
Very High	Issue represents a control weakness which could cause *critical* disruption of the process or *critical* adverse effect on the ability to achieve entity or process objectives.	Where control effectiveness is not as high as 'fully effective', take action to reduce residual risk to 'high' or below.	Should be addressed in the short term, normally within 1 month.
High	Issue represents a control weakness which could have *major* adverse effect on the ability to achieve entity or process objectives.	Plan to deal with in keeping with the annual plan.	Should be addressed in the medium term, normally within 3 months.
Medium	Issue represents a control weakness which could have *moderate* adverse effect on the ability to achieve entity or process objectives.	Plan in keeping with all other priorities.	Should be addressed normally within 1 year.
Low	Issue represents a minor control weakness, with *minimal* but reportable impact on the ability to achieve entity or process objective.	Attend to when there is an opportunity to.	Discussed directly with management and actions to be initiated as part of management's ongoing control.