IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Country Office Nairobi

KE201801

3 - 19 December 2018

Issued by the Office of the Inspector General

Report on the Audit of IOM Country Office Nairobi
Executive Summary
Audit File No. KE201801

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Nairobi, Kenya (the "Country Office") from 3 to 19 December 2018. The internal audit aimed to assess adherence to financial and administrative procedures in conformity with IOM's regulations and rules 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 January 2017 to November 2018. The Country Office recorded the following expenses based on IOM financial records:

- 2017 – USD 33,622,019 representing 2.1 per cent and 14.51 per cent of IOM Total and East and Horn of Africa Region, respectively.
- January to November 2018 – USD 21,283,129 representing 1.3 per cent and 9.15 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 Country Office as **partially effective** which means that "*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 and those that are correctly designed are operating effectively*".

This rating was mainly due to weaknesses noted in the following areas:
1. Security controls
2. Payroll processing
3. Revenue management
4. Accounting of financial transactions
5. Staff vendor account balances
6. Staff travel on duty
7. Procurement process
8. Management of pharmaceuticals
9. Procurement staff capacity
10. Project portfolio

Key recommendations: Total = 26; Very High Priority = 1; High Priority = 10; Medium Priority = 13; Low Priority =2

Very High Priority Recommendation

Prompt action is required within 1 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 is one Very High Priority recommendation in Information Technology[1].

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. One (1) recommendation each for Management and Administration, Personnel and Programme and Operations, and 3 recommendations on Procurement and Logistics. 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 physical security inside the cash office.
   o Ensure that processing of payroll is adequately controlled, verified and approved.
   o Establish the relevant supervisory controls over the procurement processes to strengthen oversight mechanism, ensure transparency and achieve value-for-money.

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

- o Review processes in the receipt, recording, custody, release, transfer, retirement of expired drugs and the related authorization and monitoring processes to improve internal control system in the administration of pharmaceuticals.
- o Enhance the effectiveness of the Procurement and Logistics Unit through capacity building and increased managerial supervision.
- o Pursue a substantive and productive resource mobilization to diversify the project portfolio and minimize reliance on the self-payer programmes.

2. Four (4) recommendations on Finance and Accounting is directed towards the enhancement of the reliability and integrity of the country office's financial and operational information.

- o Conduct comprehensive review of the Medical Health Assessment Centre processes to identify and address internal control weaknesses.
- o Review end to end accounting processes and realign them with IOM guidelines on financial resource management.
- o Strengthen the monitoring and follow-up of staff vendor accounts balances to ensure that all outstanding payables or receivables are settled.
- o Assess the relevance of the travel, ensure that the purpose of the travel relates to the roles and responsibilities assigned to the staff.

There remain 13 Medium priority recommendations consisting of: 4 recommendations each in Management and Administration and Procurement and Logistics, 1 recommendation each in Personnel and Programme and Operations, and 3 recommendations in Finance and Accounting, 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.

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

Management comments and action plans

Out of the 26 recommendations 14 were already implemented and closed as of September 2020, including 6 very high and high priority recommendations presented. Management is in the process of completing the remaining recommendations. 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 Nairobi, Kenya. As of November 2018, the Country Office has 248 personnel categorized into: 20 officials, 200 staff, 28 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2017 – USD 33,622,019 representing 2.1 per cent and 14.51 per cent of IOM Total and East and Horn of Africa Region, respectively.
- January to November 2018 – USD 21,283,129 representing 1.3 per cent and 9.15 per cent of IOM Total and East and Horn of Africa Region, respectively.

The Country Office has a total portfolio of 77 projects and a total budget of USD 63,735,985. The top 2 projects by type:

- 16 Projects for Reintegration amounting to USD 23,220,731 or 36.43 per cent of the budget.
- 15 Projects on Medical Health Assessment amounting to 22,093,375 or 34.66 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 Country Office as **partially effective** which means that *"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, and those that are correctly designed are operating effectively."*

IV. Key Findings and Very High and High Priority Recommendations

I. **High Priority Recommendations**

1. Security controls
   Despite the presence of appropriate safeguards to secure cash holdings in the office, some elements of the physical security installation need to be strengthened.

   High Priority Recommendation:
   o   Strengthen physical security inside the cash office.

2. Payroll processing

   There were significant internal control weaknesses in the processing of payroll which impact on the validity, accuracy and completeness of the country office and regional office payroll.

   High Priority Recommendation:
   o   Ensure that processing of payroll is adequately controlled, verified and approved.

3. Revenue management

   There were noted gaps in the management procedures and controls over revenue generated from the Health Assessment Programmes.

   High Priority Recommendation:
   o   Conduct comprehensive review of the Medical Health Assessment Centre processes to identify and address internal control weaknesses.

4. Accounting of financial transactions
   There were noted weaknesses in internal controls and procedures for processing financial transactions and inaccuracies in recording and accounting treatment.

   High Priority Recommendation:
   o   Review end to end accounting processes and realign them with IOM guidelines on financial resource management.

5. Staff vendor account balances

   A review of staff vendor accounts disclosed long overdue balances.

High Priority Recommendation:
- o Strengthen monitoring and follow-up of staff vendor accounts balances to ensure that all outstanding payables or receivables are settled.

6. Staff travel on duty

It was observed that staff consistently travelled on duty in groups or entourage to attend seminar or meetings with donor representatives and government officials, instead of representation by one or a few officials. Some of the travels were either not aligned or consistent with the roles of staff involved or were not properly planned.

High Priority Recommendation:
- o Assess the relevance of the travel, ensure that the purpose of the travel relates to the roles and responsibilities assigned to the staff.

7. Procurement process

Exceptions noted in the procurement transactions undermine the integrity of the procurement process and prevent the country office from obtaining value-for-money.

High Priority Recommendation:
- o Establish the relevant supervisory controls over the procurement processes to strengthen oversight mechanism, ensure transparency and achieve value- for-money.

8. Management of pharmaceuticals

There were significant internal control weaknesses over the management of pharmaceuticals and laboratory kits used by Migration Health Assessment Centre. It was also observed that the pharmaceutical assistant performs multiple tasks that may be conflicted.

High Priority Recommendation:
- o Review processes in the receipt, recording, custody, release, transfer, retirement of expired drugs and the related authorization and monitoring processes to improve internal control system in the administration of pharmaceuticals.

9. Procurement staff capacity

The technical expertise and competency of the key procurement personnel did not commensurate with the scope and complexity of the office procurement needs. There was also no formal planning to enhance the transparency and predictability of the procurement process.

High Priority Recommendation:
- o Enhance the effectiveness of the Procurement and Logistics Unit through capacity building and increased managerial supervision.

10. Project portfolio

There are questions on the country office's sustainability due to sharp reduction in funding sources. Despite having undertaken the right-sizing exercise to realign the country office's

structure and the available resources, there was an urgent need to source for additional funding if the country office's structure remains the same.

High Priority Recommendation:
- o Pursue a substantive and productive resource mobilization to diversify the project portfolio and minimize reliance on the self-payer programmes.

Management agreed with the recommendations. Of the 10 key findings and very high and high priority recommendations presented, 4 remain open and are in the process of implementation, related to payroll processing, revenue management, accounting of financial transactions, and staff vendor account balances.

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.