IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Skopje

MK201701

12 - 16 JUNE 2017

Issued by the Office of the Inspector General

Report on the Audit of IOM Skopje
Executive Summary
Audit File No. MK201701

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Skopje, Macedonia (the "Country Office") from 12 to 16 June 2017. The internal audit was 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 1 May 2016 to 30 April 2017. The office recorded the following expenses based on IOM financial records:

- May to December 2016 - USD 9,000,000 representing less than 1% and 8% of IOM Total and South-Eastern Europe, Eastern Europe and Central Asia Region, respectively.
- January to April 2017 - USD 1,000,000 representing less than 1% and 2% of IOM Total and South-Eastern Europe, Eastern Europe and Central Asia 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 ensure 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 **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. Organizational structure
2. Guidelines on delegation of authority
3. Procurement
4. Administration of consultancy contracts
5. Handling of construction related financial documentation
6. Project monitoring
7. Coordination of refueling activity
8. Monitoring of hotel accommodation costs

Key recommendations: Total = 22; High Priority = 8; Medium Priority = 12; Low Priority =2

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:

There are eight (8) recommendations for Management and Administration, Procurement and Logistics, Contracting, and Programme and Operations. These recommendations aim to ensure that the assets of IOM are properly safeguarded and that efficient and effective operation is in place.

These are as follows:
- Revisit the current organizational structure to suit growing operations
- Revise internally established guidelines on delegation of authority
- Timely and full compliance with IOM rules on procurement and recording of transactions
- Consistent compliance with IOM guidelines for selection and employment of consultants
- Proper administration of financial documentations related to construction contracts
- Closer project monitoring and coordination
- Designation of off hours refueling in-charge and full compliance with Standard Operating Procedures
- Cross checking of actual rooming list with the hotel invoice

Except in the area of Contracting, there remains another 12 Medium priority recommendations consisting of: One (1) recommendation in Management and Administration; Two (2) in Personnel; Four (4) in Finance and Accounting; One (1) in Procurement and Logistics; Two (2) in Information Technology; and Two (2) in Programme and Operations, 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) has been discussed directly with management and actions have been initiated to address them.

Management comments and action plans

All 22 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 Office

The Main Office is located in Skopje, Macedonia. As of 30 April 2017, the Office has 58 personnel categorized into: 28 staff and 30 non-staff. The office recorded the following expenses based on IOM financial records for the following periods:

- May to December 2016 - USD 9,000,000 representing less than 1% and 8% of IOM Total and South-Eastern Europe, Eastern Europe and Central Asia Region, respectively.
- January to April 2017 - USD 1,000,000 representing less than 1% and 2% of IOM Total and South-Eastern Europe, Eastern Europe and Central Asia Region, respectively.

The Office has a total portfolio of 32 projects and total budget of USD 6.7 million from May 2016 to April 2017. The top two projects by type:

- 13 Projects for Technical Cooperation amounting to USD 5.5 million or 82% of budget.
- 4 Projects on Return Assistance to Migrants and Government amounting to USD 332,212 million or 5% of 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 **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 High Priority Recommendations

1. Organizational structure
   The Country Office adopted a flat organizational structure when its operations were relatively small. However, this structure is now challenged due to its significant growth in operations.

   High Priority Recommendations:
   - o Revisit the current organizational structure to suit the Country Office's growing operations.

   Management agreed with the recommendations and is implementing them.

2. Guidelines on delegation of authority
   The Internally Established Guidelines on the delegation of authority is not updated and requires clarification. In addition, there were noted non-compliance issues.

   High Priority Recommendations:
   - o Update internally established guideline on delegation of authority.
   - o Comply strictly with IOM rules on obtaining approvals from head office and sub-regional coordinator.

   Management agreed with the recommendations and is implementing them.

3. Procurement
   There were noted deficiencies in the Purchase Order creation which impacts the completeness of commitment recorded to projects, reliability of financial information and accuracy of recorded expenses.

   High Priority Recommendations:
   - o Timely and full compliance with IOM rules on procurement and recording of transactions.

   Management agreed with the recommendations and is implementing them.

4. Administration of consultancy contracts
   At the time of audit, it was observed that there were more active consultants than IOM staff. As such, the IOM "Guidelines for the Selection and Employment of Consultants" was not complied with.

   High Priority Recommendations:

    o   Consistent compliance with IOM guidelines for selection and employment of consultants.

Management agreed with the recommendations and is implementing them.

5. Handling of construction related financial documentation
Financial documentations related to construction activities were not properly handled. There was no tracking in place to ensure the completeness and validity of these documentations. There were also Certificates of Provisional/Final Acceptance which were noted missing.

High Priority Recommendations:
    o   Proper administration of financial documentations related to construction contracts.

Management agreed with the recommendations and is implementing them.

6. Project monitoring
There were projects with low burn rates, which may result in loss of credibility in completing project deliverables on time, financial loss or ineligible expenses.

High Priority Recommendations:
    o   Close project monitoring and coordination.

Management agreed with the recommendations and is implementing them.

7. Coordination of refueling activity
Refueling activity did not fully comply with the Standard Operating Procedures. Also, there were lapses in the documentation to ensure that the activity is made only for official purposes.

High Priority Recommendations:
    o   Designation of off-hours refueling in-charge
    o   Full compliance with the Standard Operating Procedures

Management agreed with the recommendations and is implementing them.

8. Monitoring of hotel accommodation costs
There were noted lapses in ensuring the validity of payments made for hotel accommodations for border guards.

High Priority Recommendations:
    o   Cross check actual rooming list with the hotel invoice

Management agreed with the recommendations and is implementing them.

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 portray 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.