



IOM International Organization for Migration

EXECUTIVE SUMMARY
INTERNAL AUDIT REPORT
Treasury in Headquarters
PH201702
25 - 31 October 2017

Issued by the Office of the Inspector General

Report on the Audit of Treasury in Headquarters
Executive Summary
Audit File No. PH201702

The IOM Office of the Inspector General conducted an internal audit of Treasury in Headquarters from 25 to 31 October 2017. 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 Treasury operations, in order to ensure that these are well understood and controlled by the responsible managers and units involved in the processes. Selected samples from the following areas were reviewed:

- a. Treasury
- b. Investment
- c. Banking

The audit covered the Treasury operations from October 2015 to September 2017.

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 the management of the units involved 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 the management of the units involved to determine whether the areas the internal audit covered and the extent of verification or other checking included are adequate for their respective 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

The Office of the Inspector General did not issue an opinion on the Treasury operations.

Since 2013, the overall visibility over bank balances and cash flows of Treasury unit had improved. Noted improvements were seen in cash pooling structures, reduction in bank accounts and implementation of Treasury management systems and reporting.

Further improvements are still required in the following areas:

- 1. Treasury portfolio management
- 2. Foreign exchange exposure measurement
- 3. Access to critical business applications
- 4. Treasury risk committee
- 5. Central Treasury policy
- 6. Delegation of authority matrix

7. Dual currency deposits
8. Banks' credit quality standards
9. Monitoring of bank charges

Key recommendations: Total = 17; Very High Priority = 3; High Priority = 6; Medium Priority = 8

Recommendations made during the internal audit fieldwork and in the report aim to equip the departmental managers and staff to review, evaluate, and improve their own internal control and risk management systems over the Treasury process.

Very High Priority Recommendations

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 two (2) very high recommendations in Investment and one (1) in Banking, as follows:

- Define bank credit exposure limits as well as other counterparty credit risk exposure limits. Aggregated counterparty credit exposures should be computed and properly monitored against allowable limits.
- Continue to test the new measurement tool adapted and include trend analysis of currency exposures as a protocol.
- Install more stringent authentication procedures following SWIFT security standards.

High Priority Recommendations

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 six (6) high priority recommendations, consisting of three (3) recommendations for Treasury, two (2) recommendations for Investment, and one (1) recommendation for Banking.

- Consider revisions on the terms of reference of the Treasury Risk Committee to enable them to fully exercise their oversight function; establish more detailed policies and procedures to support the Treasury Risk Committee oversight function.
- Update the Central Treasury policy to address more complex environment and establish more detailed supporting procedures and processes; study resource requirements needed to implement the revised processes and procedures.
- Central Treasury should specify the authority limits and Delegation of Authority for all its staff members, including systems access and limitations.
- The use of dual currency deposits should be restricted, awaiting the update of the Treasury foreign exchange risk management policy.
- The counterparty risk project should receive a high priority and aim to define standards for credit risk analysis and monitoring

- The Treasury unit should put in place procedures to ensure that IOM will not be overcharged by the banks.

The audit raised another eight (8) Medium priority recommendations consisting of five (5) recommendations in Treasury, one (1) recommendation in Investment, and two (2) recommendations in Banking, which need to be addressed by the units involved within one year to ensure that such weaknesses in controls will not moderately affect the Treasury's ability to achieve its entity or process objectives.

There were no Low priority recommendations noted.

Management comments and action plans

Of the seventeen (17) recommendations, thirteen (13) recommendations were accepted and four (4) recommendations were partially accepted. Management of the units involved 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
Internal Audit Division**

I. About the Treasury Unit

The audit of the Treasury unit was performed in Headquarters, Geneva. As of 31 October 2017, the number of personnel supporting the Treasury unit are, 4 officials, 1 General staff member (part-time 80 per cent), and 4 Manila based staff.

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 and risk management 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 Treasury unit, in order to ensure that these are well understood and controlled by the responsible managers and staff involved in the processes. Recommendations made during the internal audit fieldwork and in the report aim to equip the departmental managers and staff to review, evaluate and improve their own internal control and risk management systems.

III. Audit Conclusions

1. Overall Audit Rating

OIG did not issue an opinion on the Treasury unit. Since 2013, the overall visibility over bank balances and cash flows of Treasury unit had improved. Noted improvements were seen in cash pooling structures, reduction in bank accounts and implementation of Treasury management systems and reporting.

IV. Key Findings and Very High and High Priority Recommendations

Very High Priority Recommendations

1. Treasury Portfolio management

The Central Treasury liquid assets portfolio have grown significantly over the years. There were noted significant counterparty credit risk concentrations but no formal counterparty credit risk exposure limits are defined to guide portfolio managers.

Very High Priority Recommendation:

- Treasury should define bank credit exposure limits as well as other counterparty credit risk exposure limits. Aggregated counterparty credit exposures should be computed and properly monitored against allowable limits.

Management agreed with the recommendations and is implementing them.

2. Foreign exchange exposure measurement

IOM receives donor contributions in various currencies different from the project's currency which typically include expenditures in local currencies. This creates significant foreign exchange currency exposure.

It was noted that the 2016 project to improve the measurement of currency exposures through an analysis of the currency cash flows from donor contributions and projects, has not yet been completed and operational. However, a new measurement tool is in place and is being tested.

Very High Priority Recommendation:

- Continue to test the new measurement tool adapted and include trend analysis of currency exposures as a protocol.

Management agreed with the recommendations and is implementing them.

3. Access to critical business applications

A number of the Treasury applications are web and cloud based and can be accessed over the internet. Access to these applications could also be done beyond office hours or home-based. Such environment increases risks of unauthorized access to IOM's critical business applications.

Very High Priority Recommendation:

- Install more stringent authentication procedures following SWIFT security standards.

Management agreed with the recommendations and is implementing them.

High Priority Recommendations

1. Treasury Risk Committee

In 2013, the Treasury Risk Committee as established to perform oversight of the treasury operations, ensure that the treasury policy is adhered to and its annual plan properly implemented.

The language of the existing terms of reference of Treasury Risk Committee was too generally defined such that the Treasury Risk Committee is unable to fully exercise its expected oversight mandate. In addition, the Treasury Risk Committee had weak administrative practices and lacks systematic monitoring and reporting process in place.

High Priority Recommendation:

- Consider revisions on the terms of reference of the Treasury Risk Committee to enable them to fully exercise their oversight function.
- Establish more detailed policies and procedures to support the Treasury Risk Committee oversight function.

Management did not fully agree with the recommendations given differences in opinion on how Treasury Risk Committee should exercise its oversight functions. However, for those recommendations that were accepted, management is implementing them.

2. Central Treasury Policy

Treasury activities have significantly evolved since 2013, however the Central Treasury policy document is limited to basic principles and lacks specific objectives and results. In particular, the Foreign Exchange and Risk management strategy as well as the Counterparty Credit Risk management policies should be updated.

High Priority Recommendations:

- Update the Central Treasury policy to address more complex environment and establish more detailed supporting procedures and processes.
- Study resource requirements needed to implement the revised processes and procedures.

Management agreed with the recommendations and is implementing them.

3. Delegation of authority matrix

Central Treasury does not have a Delegation of Authority matrix. Furthermore, the current practice does not specifically define the authority limit level for buying the other currencies for the Country Offices, or any threshold of investment for each staff and final approver, among others.

High Priority Recommendation:

- Central Treasury should specify the authority limits and Delegation of Authority for all its staff members, including systems access and limitations.

Management agreed with the recommendations and is implementing them.

4. Dual currency deposits

As part of the Treasury Policy investment guidelines, Treasury can invest up to a certain per cent of the total surplus of Headquarter funds in dual currency deposits. Since the maturities are typically one month only, the outstanding amount is small at any time. However, dual currency deposits are complex and potentially high-risk products because they involve writing currency options. In addition, the management framework in the Treasury Policy for options do not address how to handle volatility products such as dual currency deposits.

High Priority Recommendation:

- The use of dual currency deposits should be restricted, awaiting the update of the Treasury foreign exchange risk management policy.

Management agreed with the recommendations and is implementing them.

5. Banks' credit quality standards

IOM has relationships with over 250 banks, but two thirds of those banks are in fact unrated by the rating agencies or have credit ratings below single-A. A formal credit analysis and monitoring standards for those banks are not yet defined.

High Priority Recommendation:

- The counterparty risk project should receive a high priority and aim to define standards for credit risk analysis and monitoring.

Management agreed with the recommendations and is implementing them.

6. Monitoring of bank charges

The Chief of Treasury and treasury staff confirm that the bank charges in Headquarters were not monitored and reconciled against the bank statement. There was also no analysis in place to review reasonableness of bank charges.

High Priority Recommendation:

- The Treasury unit should put in place procedures to ensure that IOM will not be overcharged by the banks.

Management partially 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 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.