IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Manila

PH201801

25 January to 9 February 2018

Issued by the Office of the Inspector General

Report on the Audit of IOM Manila
Executive Summary
Audit File No. PH201801

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Manila, Philippines (the “Country Office”) from 25 January to 9 February 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 2016 to December 2017. The Country Office recorded the following expenses based on IOM financial records:

- 2016 to 2017 – USD 15,184,821 representing 0.47 per cent and 2.71 per cent of IOM Total and Asia and the Pacific 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. Risk management
2. Financial monitoring
3. Purchase orders
4. Contracts with implementing partners
5. Project planning
6. Memorandum of understanding
7. Human resources planning
8. Amendments to funding agreement
9. Sign-off of agreement
10. Donor relationship
11. Funding source

There was satisfactory performance noted in Information Technology.

Key recommendations: Total = 20; Very High Priority = 5; High Priority = 6; Medium Priority = 9

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 five (5) Very High Priority recommendations consisting of one (1) recommendation each for Management and Administration, Finance and Accounting, Procurement and Logistics, Contracting, and Programme and Operations. These are as follows:

- Identify an essential core structure to be maintained at a minimum in the event of funding reduction, as well as contingency measures to address all identified risks.
- Improve existing financial monitoring practices and implement a process whereby reviews and approvals are properly in place.
- Ensure all purchase orders are properly recorded and monitored.
- Fully comply with IOM guidelines on documentation, review and approval of contractual agreements with implementing partners.
- Communication protocols and project management should be in place.

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:

1. Two (2) recommendations for Management and Administration, one (1) recommendation for Contracting and two (2) recommendations for Programme and Operations. 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.

- Obtain notification from the host government through proper channels.
- Carefully plan human resource requirements considering existing resources and the additional requirements, prior to accepting new projects.
- Obtain prior donor approval to amend budgets to cover certain costs if not included in the funding agreement.
- Ensure timely signing of agreements to avoid legal complications.
- Maintain open and transparent communication with donors, as well as ensuring reporting is done in a timely manner.

2. One (1) recommendation on Finance and Accounting are directed towards the enhancement of the reliability and integrity of the Country Office's financial and operational information.

    - Mitigate some of the risk related to the lack of funding diversification and correct the use of IOM and donor logo on correspondences immediately.

Except in the area of Contracting and Information technology, there remain 9 Medium priority recommendations consisting of: 3 recommendations each in Personnel and Procurement and Logistics, and 3 recommendations one each in Management and Administration, Finance and Accounting, and 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.

There were no low priority recommendations noted.

Management comments and action plans

All twenty 20 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.

I. About the Country Office

The main office is located in Manila, Philippines. As of December 2017, the Country Office has 153 personnel categorized into: 11 officials, 120 staff, and 22 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2016 to 2017 – USD 15,184,821 representing 0.47 per cent and 2.71 per cent of IOM Total and Asia and the Pacific Region, respectively.

The Country Office has a total portfolio of forty-two projects and a total budget of USD 18,979,933. The top 2 projects by type:

- 8 Projects for Community Stabilization amounting to USD 12,445,626 or 66 per cent of the budget.
- 5 Projects for Migration Health Assessment and Travel Assistance amounting to USD 3,595,114 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".

2. Satisfactory performance was noted in Information Technology.

IV. Key Findings and Very High and High Priority Recommendations

Very High Priority Recommendations:

1. Risk management
   There was no documented risk management plan identifying the risk environment, and providing mitigating measures commensurate with weaknesses and external threats such as funding, the volatility of the political environment and donor implications.

   Very High Priority Recommendation:
   - Identify an essential core structure to be maintained at a minimum in the event of funding reduction, as well as contingency measures to address all identified risks.

2. Financial monitoring
   There were no controls over project spending and insufficient monitoring of budgets, revenue and spending. Appropriate actions are not taken when shortfalls are noted.

   Very High Recommendation:
   - Improve existing financial monitoring practices and implement a process whereby reviews and approvals are properly in place.

3. Purchase orders
   There were some manually prepared purchase orders, which were not recorded in the system. Furthermore, many purchase orders remained unpaid with either goods not received or being held at the suppliers' premises, incurring further warehousing costs.

   Very High Priority Recommendation:
   - Ensure all purchase orders are properly recorded and monitored.

4. Contracts with Implementing Partners
   Several contractual agreements entered into with implementing partners were documented using letter of invitation, which is the form used to cover third party transportation and travel costs.

   Very High Priority Recommendation:
   - Fully comply with IOM guidelines on documentation, review and approval of contractual agreements with implementing partners.

5. Project Planning
   There was no strategic and realistic operational planning in place. New agreements are entered into without consideration of project feasibility and capacity.

   Very High Recommendation:
   - Communication protocols and project management should be in place.

High Priority Recommendations:

1. Memorandum of understanding
   The memorandum of understanding signed between the host government and IOM lacks the written notification by the host government for this memorandum of understanding to fully enter into force.

   High Priority Recommendation:
   - Obtain notification from the host government through proper channels.

2. Human resources planning
   Existing resources are not aligned to strategic resource requirements. In addition, there are parallel organizational charts in place which are not consistent with IOM guidelines. Communication is not consistent across levels.

   High Priority Recommendation:
   - Carefully plan human resource requirements considering existing resources and the additional requirements, prior to accepting new projects.

3. Amendments to Funding agreement
   Projects have been allocated certain costs that fall outside of the agreed-upon budget.

   High Priority Recommendation:
   - Obtain prior donor approval to amend budgets to cover certain costs if not included in the funding agreement.

4. Sign-off of agreements
   Several lease agreements were signed retroactively, sometimes over three months after the date of occupancy.

   High Priority Recommendation:
   - Ensure timely signing of agreements to avoid legal complications.

5. Donor relationship
   Spending continued for projects although funding had not been received and outstanding receivable was several months overdue. Further, donor reporting is delayed.

   High Priority Recommendation:
   - Maintain open and transparent communication with donors, as well as ensuring reporting is done in a timely manner.

6. Funding source
   The Country Office is heavily reliant on one project. IOM visibility as a partner for the project and the use of the donor logo are questionable.

High Priority Recommendation:

- Mitigate some of the risk related to the lack of funding diversification and correct the use of IOM and donor logo on correspondences immediately.

Management agreed with the recommendations and 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.