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REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

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Introduction

The External Auditor, the Comptroller and Auditor General of India, presented his report for the financial year 2013 to Member States in document S/14/CRP/11 at the Fourteenth Session of the Standing Committee on Programmes and Finance, held in June 2014.

The Administration accepts the recommendations made in the report and has provided assurances that action will be taken to address them subject to the availability of resources. The present report summarizes the External Auditor's recommendations, IOM's response and the remedial action(s) taken and/or proposed. In addition, the annex provides information on the progress made in implementing recommendations from previous years.

Recommendations and responses/actions taken

1. Financial matters

Recommendation No. 1: IOM may carry out a review of PRISM transactions in relation to unrealized foreign exchange differences to ensure its compliance with the IOM Financial Regulations.

Response: Agreed.

Action(s) taken: The review process for the set-up of all monetary general ledger accounts in PRISM should be completed by year end as it requires coordination with a number of other units, including the Information Management Competence Centre (formerly the PRISM Competence Centre).

Recommendation No. 2: IOM may review the transactions made through the contingency reserve.

Response: Agreed.

Action(s) taken: The policy review, carried out in conjunction with IOM's IPSAS consultant, on the use of this general ledger code is well under way and will be discussed with the 2014 external audit team.

2. Asset management

Recommendation No. 3: The Country Offices in Jakarta and Bangkok may strengthen their internal control over their asset management process by ensuring correct accounting of all the assets and by providing sufficient descriptive information for each asset.

Response: Agreed.

Action(s) taken: Both Country Offices have reported progress in the implementation of this recommendation, as follows.

Jakarta Country Office – The Office has strengthened internal controls through ensuring proper segregation of duties, and asset retirement is carried out by its internal control unit. The Country Office has improved its coordination with its sub-offices to maintain proper asset records in the system for improved tracking of sub-office assets.

Bangkok Country Office – The full implementation of this recommendation is steadily progressing. To achieve an error-free asset database for new assets, a quality review mechanism has been put in place to prevent erroneous data from being recorded. This mechanism ensures that assets are accounted for in the correct way and that the descriptive information for each asset is sufficient and complete.

Recommendation No. 4: IOM may consider complete documentation of the process of annual physical verification of assets in the Country Office in Moscow.

Response: Agreed.

Action(s) taken: Completed. IOM Moscow is also in the process of tagging all its assets using PRISM Asset Barcoding System stickers. This exercise is planned to be finalized during the 2014 year-end physical verification exercise.

3. Treasury management

Recommendation No. 5: IOM may consider creating a bank overlay account structure in combination with an automated cost-effective tool for ascertaining end-of-day cash balances.

Response: Agreed.

Action(s) taken: Following approval by the Director General of an Operational Support Income budget allocation, the Treasury Division has embarked on a request for proposals (RFP) to create a bank overlay account structure in Europe and has concluded the consultation phase with offices in the region. The RFP was issued in September 2014 to six banks that had been shortlisted. After a technical exercise to determine IOM's specific needs, approval has been given to acquire a treasury management system, for which the scope definition has been completed. Contract negotiations will soon commence and an implementation plan put in place.

Recommendation No. 6: The Treasury Division may establish a structured way of estimating and monitoring cash flows in close coordination with the PRISM and Accounting Division.

Response: Agreed.

Action(s) taken: The analysis of available information to improve visibility and predictability of cash flows is ongoing. There will always be limitations as IOM does not work in a commercial environment with regard to donors, whose contributions can be unpredictable in terms of their precise timing (e.g. if the contribution agreement stipulates that the donor must first accept the final narrative and final reports). Further delays arise when donors exercise their right under the agreement to conduct a project audit.

Recommendation No. 7: IOM may consider moving towards a “straight-through processing” of financial transactions.

Response: Agreed, for those offices with sufficient segregation of duties to minimize the risk of fraud.

Action(s) taken: This is already in place for eight Country Offices, with further roll-outs to be programmed and potentially accelerated once the structure in Recommendation No. 5 above is in place for those offices with sufficient segregation of duties to minimize the risk of fraud. A key part of the RFP for banking in Europe includes straight-through processing implementation in up to 38 offices.

Recommendation No. 8: IOM may consider taking steps to bring down the number of bank accounts operated to a manageable level, duly selecting competent global/regional banking partners, and may frame formal guidelines defining specific criteria to be met by local banks.

Response: Agreed.

Action(s) taken: A significant reduction in bank accounts can be achieved only through RFP processes to create regional bank relationships with a small number of banks to replace the large number of bank relationships and accounts across IOM. The Treasury Division will work on developing guidelines defining specific criteria to be met by local banks.

Recommendation No. 9: IOM needs to strengthen its management relating to currency exchange risks.

Response: Agreed.

Action(s) taken: The Treasury Division and related divisions and units will continue to analyse how improvements can be made to available data and reports to monitor foreign exchange positions, in particular liabilities. The Treasury Division is working to produce a paper analysing the risks and proposing risk mitigation and hedging strategies.

4. Project management

Recommendation No. 10: The role and functions of the Regional Offices with regard to the monitoring and evaluation of projects may be reviewed and clearly defined.

Response: Agreed.

Action(s) taken: Efforts are under way at various levels within IOM to strengthen the capacity of IOM to monitor its project portfolio. The budget-strengthening measures adopted at the 2013 regular session of the Council will increase IOM’s internal resources devoted to this work by enhancing the capacity of key core units with a mandate to work on monitoring and evaluation, such as the Office of the Inspector General (OIG). Furthermore, OIG is taking active steps to clarify and enhance IOM’s procedures in this area. Specifically, OIG is in the process of revising IN/31: Monitoring, to clarify and outline in more detail the roles of the respective units in monitoring projects. The Regional Office role is specifically described and included in the revised instruction, which is currently being coordinated with management prior to finalization.

Recommendation No. 11: IOM needs to review its strategy to make the projects more attractive to the donors and build donor confidence.

Response: Agreed.

Action(s) taken: Continued dialogue on IOM's strategy with Member States, who provide the bulk of IOM's funding, should help to further increase the relevance of IOM's project proposals and bring greater visibility to them for potential funding. The efforts currently under way by Member States and other actors to include migration in the United Nations post-2015 development agenda will also help to bring more attention and relevance to the field of migration. IOM is also working to have bilateral meetings with key donors and Member States at the senior level to acquaint them with IOM's work and enter into dialogue about which activities and strategic areas are of interest to them. We are also working with major donor States to develop contract and project formats and templates which would ease the project development process and expedite donor decision-making.

5. Procurement in Field Offices

Recommendation No. 12: The two Country Offices in Ankara and Bangkok may ensure adherence to procurement guidelines to ensure best value for money for IOM.

Response: Agreed.

Action(s) taken: Both Country Offices have reported full compliance with the IOM Procurement Manual, with the following further actions being taken.

Ankara Country Office – An additional resource has been assigned through the recruitment of a Procurement and Logistics Assistant and one staff member has been assigned as Administrative Assistant in the Istanbul office to follow up on procurement, logistics and asset management issues.

Bangkok Country Office has fully implemented the recommendation and is now 100 per cent compliant with the bids analysis process when dealing with purchases exceeding USD 1,500. With regard to the acceptance of IOM's terms and conditions after the issuance of purchase orders, it is now mandatory for vendors to sign the acceptance in either English or Thai. The creation of Thai versions of IOM's purchase order terms and conditions has made it easier for local vendors to comply with IOM's requirements.

6. Hiring of consultants

Recommendation No. 13: IOM may consider implementing a transparent and competitive process for hiring of consultants. Long-term contracts may be reviewed and, where necessary, proper justification and documentation should be available, including the approval of the competent authority.

Response: Agreed that the existing policy on the engagement of consultants needs to be more strictly adhered to.

Action(s) taken: There is a continued decrease in consultancy contracts issued by IOM Ankara. Where needed, consultants are hired in coordination with the Regional Office and

Headquarters and due attention is paid to coordinating and obtaining exceptional approval if a consultancy contract is extended beyond six months.

7. Cases of fraud, presumptive fraud and write-offs

Recommendation No. 14: IOM may focus on strengthening the internal controls to avoid the recurrence of such fraud cases and finalize its anti-fraud manual.

Response: Agreed.

Action(s) taken: A revised audit manual and a fraud control manual, in which internal controls reinforcement is covered, are close to completion. OIG has increased its anti-fraud training in the Field Offices.

Annex

Status of previous recommendations of the External Auditor

Recommendation	Status of implementation
<p>IOM may consider seeking Council approval of the Internal Audit Charter and the submission of an annual report containing the results of the internal audit to the Council.</p>	<p>This recommendation is still under discussion within the Audit and Oversight Advisory Committee (AOAC), which is considering a different approach. The existing Internal Audit Charter will be revised in 2014 to take into consideration the new AOAC terms of reference and the Institute of Internal Auditors quality assurance requirements.</p> <p>With regard to the submission of an annual report, the Office of the Inspector General (OIG) presented its first report to the autumn session of the SCPF in 2013 on all OIG functions and will do so every year.</p>
<p>Evaluation and investigation staff strength may be enhanced and a suitable training policy may be formulated in addition to the allocation of specific funds for training and professional development purposes in the annual budget.</p>	<p>Over a two-year period (2014–2015), OIG staff resources will be strengthened from 9 to 16 staff members. This increase is being spread over three functions within OIG, namely internal audit, investigation and evaluation. Recruitment of new staff is under way and will be completed in early 2015.</p>
<p>IOM may strengthen OIG by deploying more staff, in line with the benchmark recommended by the Joint Inspection Unit of the United Nations.</p>	<p>As discussed in a separate recommendation, internal audit staff will also be increased. Recruitment of new staff is under way and will be completed in early 2015.</p>
<p>I recommend that IOM should work towards meeting all the requirements of issuing an invoice in the case of completed projects to further minimize the balance of uninvoiced receivables.</p>	<p>Ongoing. As acknowledged by the External Auditor, in some instances IOM needs to await donor approval of final reports before it can submit invoices for the residual balances.</p>
<p>I recommend that IOM should have a treasury management policy outlining a treasury management framework, objectives, governance guidelines and policy limits.</p> <p>I also recommend that IOM may take the necessary steps to further reduce its number of bank accounts.</p> <p>Furthermore, a comprehensive technological solution for a dedicated treasury management system needs to be put in place for all treasury-related processes, including foreign exchange risk management.</p>	<p>Completed – a treasury management policy is now in place.</p> <p>Ongoing. As noted in IOM's response to Recommendation No. 8 in the present report, significant reductions in the number of bank accounts cannot be achieved in the short term; the cash management structure must first be overhauled.</p> <p>For progress made in implementing a dedicated treasury management system, see IOM's response to Recommendation No. 5 in the present report.</p>

Recommendation	Status of implementation
<p>I recommend that IOM may put in place a more effective asset management system and strengthen the internal controls in respect of physical verification, custody, disposal and accounting of assets at IOM offices.</p>	<p>PRISM training (via WebEx) was provided to Country Offices in the early part of 2014.</p> <p>One step in improving the asset management system was through the introduction and implementation of the PRISM Asset Barcoding System. This system uses a specific asset number that is automatically created in PRISM as a unique barcode number. This barcode number can be printed directly from the PRISM system in the form of an asset tag label using an appropriate printer or through the Global Procurement and Supply Unit (GPSU) (formerly the Field Procurement Unit), which can print labels on behalf of IOM offices. Inventories of physical assets are supported by the interface between an assets file and a PC-based database application and handheld scanner.</p> <p>In addition to the efforts made in terms of asset tracking, IOM has made a budget allocation for 2014 for a position in Manila Financial Services. Consequently, tasks formerly under the responsibility of GPSU related to asset-count verification and tracking will be transferred to Manila Financial Services. Responsibility for asset management policies will transfer to the Accounting Division. A revised assets management policy has been drafted and is in its first round of coordination.</p>
<p>I recommend that IOM may continuously monitor old projects and ensure that project accounts are adjusted at the earliest after the closure dates.</p> <p>The focus of the Organization is on developing high-quality proposals and the position of the Monitoring and Evaluation Officer in the Regional Office may be strengthened for effective monitoring of project implementation.</p>	<p>IOM continues to monitor old projects to ensure that these are closed as soon as possible. As acknowledged previously by the External Auditor, delays are sometimes beyond IOM's control, in spite of follow-up with donors.</p> <p>Not all Regional Offices have a Monitoring and Evaluation Officer as it is a position funded by projects implemented in the region. OIG is currently in the process of revising the instructions relating to both monitoring and evaluation. A review of the structure is also ongoing, which will cover the core functions to be funded by the administrative and Operational Support Income budgets in the Regional Offices.</p>
<p>I recommend that IOM may ensure that the recoupment materializes within one year of advance being given.</p>	<p>The Department of Operations and Emergencies sends a request for recoupment six months after Emergency Preparedness Account loans are approved.</p>
<p>I recommend that action taken and improvements initiated based on my earlier recommendation on procurements in Field Offices may be continued.</p>	<p>A monitoring tool for use by GPSU has been created for all purchases above USD 75,000; this tool is working well.</p> <p>In terms of capacity-building, in February 2014 a procurement video was produced and is available on the IOM intranet portal for all IOM offices worldwide and web conference sessions are ongoing to further strengthen training in this area.</p>

Recommendation	Status of implementation
I recommend that IOM may focus on further strengthening the internal controls to avoid the recurrence of such fraud cases.	Examples of fraud that may be replicated elsewhere are included in the training materials on fraud awareness and prevention provided to Chiefs of Mission, Project Managers and resources management and procurement staff. OIG has increased its anti-fraud training in the Field Offices. In addition, a tracking tool is being implemented. As noted in the present report, a revised audit manual and a fraud control manual, in which internal controls reinforcement is covered, are close to completion.