EXECUTIVE SUMMARY
INTERNAL AUDIT REPORT
IOM Regional Accounting Support
PA201803
September 2018 - April 2019

Issued by the Office of the Inspector General
The IOM Office of the Inspector General (OIG) conducted an internal audit of Regional Accounting Support functions of Panama and Manila Financial Services from September 2018 to April 2019. 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 Regional Accounting Support activities in order to ensure that these are well understood and controlled by the Chief Accounting and respective Chief/Head of Regional Accounting Support functions within the Administrative Centres in Manila and Panama and staff involved in the processes. Selected samples from the following areas were reviewed:

a. Management and Administration
b. Personnel
c. Degree of integrity and completeness of IOM accounts
d. Compliance with IOM financial rules and IPSAS requirements
e. Regional Accounting Support functions, accountability, and compliance as per Terms of Reference

The audit covered the RAS operations from January 2017 to December 2018.

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 functions 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 functions 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

OIG assessed Regional Accounting Support 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.”
The rating was based on weaknesses noted in the following areas:
1. Financial management
2. Strategic plan
3. Organizational structure
4. Escalation mechanism
5. Project balance review process
6. Capitalization of leasehold improvements
7. Periodic checklist review
8. Regional accountant terms of reference

Positive Observations

Manila Financial Services implemented a 100 per cent home-based operations should the Business Continuity Plan is activated. Furthermore, if home-based is not feasible, Regional Accounting Support in Panama was identified for donor reporting back-up plan.

Key recommendations: Total = 17; Very High Priority = 1; High Priority = 7; Medium Priority = 8; Low Priority = 1

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 Regional Accounting Support processes.

Very High Priority Recommendation

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 is one (1) very high recommendation in Management and Administration, as follows:

- Empower and mobilize the resources involved in financial management, with focus on the oversight role of Resource Management Officers and Senior Regional Resource Management Officers.

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.

There are seven (7) priority recommendations consisting of: two (2) recommendations in Management and Administration, one (1) recommendation each in Degree of integrity and completeness of IOM accounts and in Regional Accounting Support functions, accountability and compliance as per terms of reference, and three (3) recommendations in Compliance with IOM financial rules and IPSAS requirements. These are as follows:
o Prioritize the finalization of the strategic plan for accounting and financial reporting function.
o Revisit the management structures and workload distributions between the two administrative centres.
o Review the existing checklist, follow-up, and escalation processes.
o Implement stricter oversight of project closure accounting to avoid delays in timely donor reporting.
o Further enhance compliance with IOM accounting policies and IPSAS requirements related to accounting for leasehold improvements.
o Consider automating some of the review process and establish standard operating procedures to align the reviews with the new Financial Management Rules and Procedures.
o Simplify and standardize the terms of reference and ensure staff are aware of their roles and responsibilities in guiding Country Offices on IPSAS compliance.

There are 8 Medium priority recommendations consisting of: 3 recommendations in Management and Administration, 2 recommendations in Personnel, and 3 recommendations in Degree of integrity and completeness of IOM accounts which need to be addressed by the units involved within one year to ensure that such weaknesses in controls will not moderately affect Regional Accounting Support’s ability to achieve its entity or process objectives.

The Low priority recommendation (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 17 recommendations were 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.
I. About the IOM Regional Accounting Support function

The audit of the Regional Accounting Support functions was done in Manila Financial Services, Manila, Philippines and in Panama Administrative Centre from September 2018 to April 2019.

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 Regional Accounting Support functions, in order to ensure that these are well understood and controlled by the Chief Accounting and respective Chief/Head of Regional Accounting Support within the Administrative Centres in Manila and Panama 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 assessed Regional Accounting Support 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.”

2. Positive Observations

Manila Financial Services implemented a 100 per cent home-based operations should the Business Continuity Plan is activated. Furthermore, if home-based is not feasible, Regional Accounting Support in Panama was identified for donor reporting back-up plan.
IV. Key Findings and Very High and High Priority Recommendations

I. Very High Priority Recommendations

1. Financial Management
   Based on the field audit results from recurring Internal Audit assignments, the level of knowledge of Resource Management Officers in financial management is in need of strengthening. In addition, the reporting by Senior Regional Resource Management Officers can be further enhanced.

   Very High Priority Recommendation:
   - Empower and mobilize the resources involved in financial management, with focus on the oversight role of Resource Management Officers and Senior Regional Resource Management Officers.

II. High Priority Recommendations

1. Strategic Plan
   The draft strategic plan for the accounting and financial reporting functions is yet to be finalized and formalized awaiting alignment with IOM overall business transformation and strategy.

   High Priority Recommendation:
   - Prioritize the finalization of the strategic plan for accounting and financial reporting function.

2. Organizational structure
   Regional Accounting Support in Panama has a different structure compared to Regional Accounting Support in Manila. There were inconsistencies in the positions and workload distributions between the two administrative centres.

   High Priority Recommendations:
   - Revisit the management structures and workload distributions between the two administrative centres.

3. Escalation mechanism
   The quarterly summary office performances by region provided to each of the different Regional Offices showed discrepancies in the information provided by Regional Accounting Support to the Regional Offices and Accounting Division. There is also no effective escalation mechanism in place to systematically address the concerns of the Country Offices and follow up on resolutions.

   High Priority Recommendation:
   - Review the existing checklist, follow-up, and escalation processes.

4. Project balance review process
   Final reports on project balances are endorsed but there were delays observed in closing some project accounts in the system.
High Priority Recommendation:
- Implement stricter oversight of project accounting closures to avoid delays in donor reporting.

5. Capitalization of leasehold improvements
Not all leasehold improvements by IOM offices are capitalized in compliance with IOM’s accounting policies and IPSAS requirements.

High Priority Recommendation:
- Enhance compliance with IOM accounting policies and IPSAS requirements related to leasehold improvements.

6. Periodic checklist review
The Regional Accounting Support periodic checklist review process is focused on period-end open items and account balances, and not on transaction level compliance of the Country Offices.

High Priority Recommendation:
- Consider automating some of the reviews process and update standard operating procedures to align the reviews with the new Financial Management Rules and Procedures.

7. Regional accountant terms of reference
The terms of reference of the Regional Accountant are extensive, however, some information needs to be updated. Further, the role in guiding Country Offices on IPSAS compliance was not properly perceived by all staff.

High Priority Recommendation:
- Simplify and standardize the terms of reference and ensure staff are aware of their roles and responsibilities in guiding Country Offices on IPSAS compliance.

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:

<table>
<thead>
<tr>
<th>Descriptor</th>
<th>Guide</th>
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<tbody>
<tr>
<td>Fully effective</td>
<td>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 always effective and reliable.</td>
</tr>
<tr>
<td>Substantially effective</td>
<td>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.</td>
</tr>
<tr>
<td>Partially effective</td>
<td>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.</td>
</tr>
<tr>
<td>Largely ineffective</td>
<td>Significant control gaps. Either controls do not treat root causes, or they do not operate at all effectively.</td>
</tr>
<tr>
<td>None or totally ineffective</td>
<td>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.</td>
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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:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
<th>Suggested action</th>
<th>Suggested timeframe</th>
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<tbody>
<tr>
<td>Very High</td>
<td>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.</td>
<td>Where control effectiveness is not as high as ‘fully effective’, take action to reduce residual risk to ‘high’ or below.</td>
<td>Should be addressed in the short term, normally within 1 month.</td>
</tr>
<tr>
<td>High</td>
<td>Issue represents a control weakness which could have major adverse effect on the ability to achieve entity or process objectives.</td>
<td>Plan to deal with in keeping with the annual plan.</td>
<td>Should be addressed in the medium term, normally within 3 months.</td>
</tr>
<tr>
<td>Medium</td>
<td>Issue represents a control weakness which could have moderate adverse effect on the ability to achieve entity or process objectives.</td>
<td>Plan in keeping with all other priorities.</td>
<td>Should be addressed normally within 1 year.</td>
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<tr>
<td>Low</td>
<td>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve entity or process objective.</td>
<td>Attend to when there is an opportunity to.</td>
<td>Discussed directly with management and actions to be initiated as part of management’s ongoing control.</td>
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