IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Port Moresby

PG201801

7 - 11 May 2018

Issued by the Office of the Inspector General

Report on the Audit of IOM Port Moresby
Executive Summary
Audit File No. PG201801

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Port Moresby, Papua New Guinea (the "Country Office") from 7 to 11 May 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 March 2016 to February 2018. The Country Office recorded the following expenses based on IOM financial records:

- March to December 2016 – USD 4,462,803 representing .33 per cent and 1.86 per cent of IOM Total and Asia and Pacific Region, respectively.
- 2017 – USD 6,437,818 representing .40 per cent and 2.3 per cent of IOM Total and Asia and Pacific Region, respectively.
- January to February 2018 – USD 515,254 representing .20 per cent and 1.16 per cent of IOM Total and Asia and Pacific Region, respectively.

The last internal audit of the Country Office was February 2015.

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 Country 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. Risk assessment monitoring
2. Funding and budget constraints
3. Attendance management
4. Annual leave balances
5. Terminal emoluments
6. Goods and services tax
7. Vendor balances
8. Fleet management
9. Asset management
10. Purchase orders
11. Office space agreement
12. Information technology
13. Submission of donor reports

Key recommendations: Total = 28; High Priority = 13; Medium Priority = 14; Low Priority = 1

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:

Two (2) recommendations for Management and Administration; three (3) recommendations for Personnel; three (3) recommendations for Procurement; one (1) recommendation each for Contracting, Information Technology and Programme and Operations. These recommendations aim to ensure that the assets of IOM are properly safeguarded and that IOM operations are effective and efficient.

- Establish a system for monitoring and re-evaluating the risks and its related treatment plans with a view to ensure that adequate and timely actions are introduced to maintain these risks within pre-set tolerable limits.
- Pursue the submission of pending project proposals and increase efforts in obtaining funding.
- Comply fully with IOM guidelines on attendance management.
- Leave balances should be reflected accurately and timely in the system to enable proper planning and monitoring.

- Establish procedures for the processing, follow up and payment of terminal emoluments within a reasonable time frame.
- Assess the operational requirements of the Country Office for vehicles and closely monitor fleet management.
- Reconcile results of physical inventory of assets against the recorded balances in the system and adjust accordingly.
- Continue the review and analysis of the old outstanding purchase orders and strengthen the controls in place associated with the receipt of goods or services.
- Sign an agreement with National Disaster Centre defining the terms of references such as roles and responsibilities of each party, particularly the liability for repair, and damages, etc.
- The Country Office should consider hiring a full time information technology support staff to address information technology lapses.
- Prioritize the preparation and finalization of all pending donor reports.

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

- Fully comply with the intended timeframe for the submission of goods and services tax claims.
- Prioritize the clearing of old outstanding down payments to ensure that expenses are charged to the related projects.

There were 14 Medium Priority recommendations consisting of: 3 recommendations for Management and Administration, 5 recommendations for Personnel, 2 recommendations each for Finance and Accounting, Procurement and Logistics, 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.

Low priority recommendations (not included in this Executive Summary) have been discussed directly with management and actions have been initiated to address them.

Management comments and action plans
All 28 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 Country Office

The main office is located in Port Moresby, Papua New Guinea. As of February 2018, the Country Office has 44 personnel categorized into: 3 officials, 34 staff, and 7 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- March to December 2016 - USD 4,462,803 representing .33 per cent and 1.86 per cent of IOM Total and Asia and Pacific Region, respectively.
- 2017 - USD 6,437,818 representing .40 per cent and 2.3 per cent of IOM Total and Asia and Pacific Region, respectively.
- January to February 2018 – USD 515,254 representing .20 per cent and 1.16 per cent of IOM Total and Asia and Pacific Region, respectively.

The Country Office has a total portfolio of twenty 26 projects and total budget of USD 14,428,447. The top 2 projects by type:

- 8 projects for Community Stabilization amounting to USD 4,441,899 or 31 per cent of the budget.
- 2 projects on Return and Reintegration Assistance for Migrants and Governments amounting to USD 3,459,870 or 24 per cent of the budget.

The last audit was in February 2015 wherein the overall rating was “Largely Ineffective”.

Implementation status of previous OIG audit recommendations: Audit Report No. PNG201501 IOM Port Moresby; Total recommendations: 19; All 19 recommendations had been accepted and implemented.

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 Country 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

High Priority Recommendations

1. Risk assessment monitoring
   The review and monitoring of the risk treatment plan have not been conducted on the risk registers developed.

   High Priority Recommendations
   - Establish a system for monitoring and re-evaluating the risks and its related treatment plans with a view to ensure that adequate and timely actions are introduced to maintain these risks within pre-set tolerable limits.

2. Funding and budget constraints
   Continuity of funding is a concern since the majority of the projects are ending in 2018 and proposals for projects in the pipeline are still pending submission. Further, the Country Office share on security costs had not been fully budgeted and not yet been fully paid at the time of audit.

   High Priority Recommendation:
   - Pursue the submission of pending project proposals and increase efforts in obtaining funding.

3. Attendance management
   The controls on attendance management for example in submission of approved timesheets for staff outside Port Moresby, were found to be inadequate and ineffective.

   High Priority Recommendation:
   - Comply fully with IOM guidelines on attendance management.

4. Annual Leave balances
   The report on annual leave balances was found to be unreliable. There was a significant number of staffs with forfeited annual leave and most staff did not file their 2016 and 2017 annual leave in the system.

High Priority Recommendation:

- Leave balances should be reflected accurately and timely in the system to enable proper planning and monitoring.

5. Terminal Emoluments

Payment of terminal emoluments takes three to six months from the date of separation due to non-submission of timesheets, inaccurate annual leave balances in the system, among others.

High Priority Recommendation:

- Establish procedures for the processing, follow up and payment of terminal emoluments within a reasonable time frame.

6. Goods and service tax

Due the Country Office's tax-exempt status, the goods and service tax payments to vendors are claimed for tax reimbursement from the tax authorities. However, goods and service tax claims were not regularly submitted and there were significant amounts of goods and service tax claims which were long outstanding.

High Priority Recommendation:

- Fully comply with the intended timeframe for the submission of goods and service tax claims.

7. Vendor balances

There are significant outstanding down payments dated as far back as 2017. A review of selected down payments disclosed that goods/services have already been received but are still reflected in vendor account balances.

High Priority Recommendation:

- Prioritize the clearing of old outstanding down payments to ensure that expenses are charged to the related projects.

8. Fleet management

The number of existing vehicles seem to be excessive considering the structure of the office. The established controls over fleet management such as GPS tracker for each vehicle, use of vehicle logbook, and use of fuel card for fueling activity, among others, were not fully complied with.

High Priority Recommendation:

- Assess the operational requirements of the Country Office for vehicles and closely monitor fleet management.

9. Asset management

Control weaknesses were noted in the asset management in place such as among others, inaccuracy of recording and reporting, existence of damaged assets not yet disposed of, asset location not properly tracked.

High Priority Recommendation:

- Reconcile results of physical inventory of assets against the recorded balances in the system and adjust accordingly.

10. Purchase orders

There were a number of outstanding purchase orders with expected delivery date of February 2017 to February 2018. Some purchase orders were related to two projects that have already ended in 2017 and purchase orders which were awaiting goods receipt.

High Priority Recommendation:

- Continue the review and analysis of the old outstanding purchase orders and strengthen the controls in place associated with the receipt of goods or services.

11. Office space agreement

The Country Office does not have a formalized agreement with the National Disaster Centre for the co-location of its various regional field offices in National Disaster Centre's premises.

High Priority Recommendation:

- Sign an agreement with National Disaster Centre defining the terms of references such as roles and responsibilities of each party, particularly the liability for repair, damages, etc.

12. Information Technology

There were noted internal control lapses in information technology due to the lack of dedicated information technology support staff.

High Priority Recommendation:

- The Country Office should consider hiring a full time information technology support staff to address information technology lapses.

13. Submission of donor reports

There were delays in the submission of financial and narrative reports to donors.

High Priority Recommendation:

- Prioritize the preparation and finalization of all pending donor reports.

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 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.