



IOM International Organization for Migration

**EXECUTIVE SUMMARY**  
**INTERNAL AUDIT REPORT**  
**IOM Budapest**  
**HU201801**  
**13 - 21 December 2018**

**Issued by the Office of the Inspector General**

**Report on the Audit of IOM Budapest**  
**Executive Summary**  
**Audit File no. HU201801**

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Budapest, Hungary (the “Country Office”) from 13 to 21 December 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 2017 to November 2018. The Country Office recorded the following expenses based on IOM financial records:

- 2017 – USD 609,972 representing 0.038 per cent and 0.304 per cent of IOM Total and European Economic Area Region, respectively.
- As of November 2018 – USD 586,613 representing 0.035 per cent and 0.0349 per cent of IOM Total and European Economic Area 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 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. Strategic plan
2. Co-funding capacity
3. Expense claims
4. Staff and office costs
5. Advances to suppliers
6. Contracts and agreements
7. Backup and IT systems maintenance
8. Reintegration allowance
9. Donor reporting mechanism
10. Financial/budget monitoring

**Key recommendations: Total = 27; High Priority = 10; Medium Priority = 17**

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. One (1) recommendation each for Management and Administration and Information Technology, 2 recommendations in Contracting, and 3 recommendations in 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.
  - Develop a strategic plan aligned to the regional strategy.
  - Make lowest possible advance payment to suppliers but subject to certain conditions in cases of extraordinary situations.
  - Fully comply with IOM guidelines on concluding contracts and agreements and ensure that all active contracts are properly approved by Legal Department.
  - Fully comply with IOM standards and guidelines on backup storage and location.
  - Completely document reintegration allowance paid to beneficiaries.
  - Donor reporting mechanisms in place could still be enhanced for a more systematic reporting.
  - Establish an effective financial/budget monitoring tool and review procedures to ensure that there is no over or underspending.
2. Three (3) recommendations on Finance and Accounting are directed towards the enhancement of the reliability and integrity of the country office’s financial and operational information.

- Coordinate with the regional office preparation of financial forecast and update these periodically.
- Ensure expense claims are properly reviewed to avoid overpayments.
- Develop staff and office costs forecast and monitoring tool to support accurate allocation and reporting.

There are 17 Medium priority recommendations consisting of: 5 recommendations in Management and Administration, 2 recommendations each in Personnel, Procurement and Logistics, Contracting, and Programme and Operations, and 4 recommendations in Finance and Accounting, 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.

### **Management comments and action plans**

Out of the 27 recommendations 25 were implemented and closed as of October 2020. Management is in the process of completing the remaining 2 outstanding recommendations. 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 Budapest, Hungary. As of December 2018, the Country Office has 9 personnel categorized into: 8 staff and 1 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2017 – USD 609,972 representing 0.038 per cent and 0.304 per cent of IOM Total and European Economic Area Region, respectively.
- As of November 2018 – USD 586,613 representing 0.035 per cent and 0.0349 per cent of IOM Total and European Economic Area Region, respectively.

The Country Office has a total portfolio of 17 projects and total budget of USD 2,172,088. The top 2 projects by type:

- 3 Projects for Return and Reintegration Assistance amounting to USD 1,061,676 or 48.88 per cent of the budget.
- 6 Projects on Counter Trafficking amounting to USD 621,500 or 28.61 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 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**

1. Strategic plan

The county office does not have a multi-annual strategic plan, outlining its short, medium, and long-term programming goals and objectives.

High Priority Recommendation:

- Develop a strategic plan aligned to the regional strategy.

2. Co-funding capacity

The county office has not yet obtained a formal agreement or documentation for the earmarked contribution from its host government, thus, potentially jeopardizing its financial sustainability.

High Priority Recommendation:

- Coordinate with the regional office preparation of financial forecast and update these periodically.

3. Expense claims

There were instances of over payment of mileage for the use of a private car by a former staff member. His expense claims were also not properly reviewed.

High Priority Recommendation:

- Ensure expense claims are properly reviewed to avoid overpayments.

4. Staff and office costs

The Common Cost distribution tool for the monthly projectization for staff and office costs show percentages of allocations but are not supported by any current available budget figures.

High Priority Recommendation:

- Develop Staff and Office costs forecast and monitoring tool to support accurate allocation and reporting.

5. Advances to suppliers

There was an advance payment to a service provider at the time that the corresponding contract has not yet been signed.

High Priority Recommendation:

- Make lowest possible advance payment to suppliers but subject to certain conditions in cases of extraordinary situations.

6. Contracts and Agreements

Some contracts partners and service providers do not follow IOM standard terms and conditions and proper approved by Legal department.

High Priority Recommendation:

- Fully comply with IOM guidelines on concluding contracts and agreements and ensure that all active contracts are properly approved by Legal department.

7. Backup and IT systems maintenance

Backup tapes are stored in the office instead of another fireproof location. The IT service provider for the maintenance of the IT systems operates without coordination with the regional office.

High Priority Recommendation:

- Fully comply with IOM standards and guidelines on backup storage and location.

8. Reintegration allowance

Although assistance is coordinated and supervised by IOM Budapest, the country office is not ultimately confirming or post-verifying with the beneficiary if the allowance was received in full and records are not filed with the beneficiary acknowledgement of receipt.

High Priority Recommendation:

- Completely document reintegration allowance paid to beneficiaries.

9. Donor reporting mechanism

While there is a donor reporting mechanism in place, the collection of receivables is subject to donor approval of expenses upon presentation of progress reports.

High Priority Recommendation:

- Donor reporting mechanisms in place could still be enhanced for a more systematic reporting.

10. Financial/budget monitoring

The country office uses an ad hoc financial/budget monitoring tool and lacks procedures for a systematic budget monitoring/expenditure review.

High Priority Recommendation:

- Establish an effective financial/budget monitoring tool and review procedures to ensure that there is no over or underspending.

*Management agreed with the recommendations. Of the 10 key findings and high priority recommendations presented, only 2 remain open and are in the process of implementation, related to strategic plan, and contracts and agreements.*

## ANNEXES

### Definitions

The overall adequacy of the internal controls, governance and management processes, based on the number of audit findings and their risk levels:

<b>Descriptor</b>	<b>Guide</b>
<b>Fully effective</b>	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.
<b>Substantially effective</b>	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.
<b>Partially effective</b>	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.
<b>Largely ineffective</b>	Significant control gaps. Either controls do not treat root causes or they do not operate at all effectively.
<b>None or totally ineffective</b>	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
<b>Very High</b>	Issue represents a control weakness which could cause <b>critical</b> disruption of the process or <b>critical</b> 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.
<b>High</b>	Issue represents a control weakness which could have <b>major</b> 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.
<b>Medium</b>	Issue represents a control weakness which could have <b>moderate</b> 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.
<b>Low</b>	Issue represents a minor control weakness, with <b>minimal</b> 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.