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IOM International Organization for Migration

**EXECUTIVE SUMMARY**  
**INTERNAL AUDIT REPORT**  
**IOM Moscow**  
**RU201701**  
**18 - 22 December 2017**

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

**Report on the Audit of IOM Moscow**  
**Executive Summary**  
**Audit File No. RU201701**

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Moscow, Russia (the “Country Office”) from 18 to 22 December 2017. The internal audit was 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. Information Technology
- f. Contracting
- g. Programme and Operations

The audit covered the activities of the Country Office from 1 November 2015 to 31 October 2017. The office recorded the following expenses based on IOM financial records:

- November to December 2015 - USD 2.4 million representing 0.91% and 10.52 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia Region, respectively.
- 2016 - USD 5.8 million representing 0.36 % and 3.41 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia Region, respectively.
- January to October 2017 – USD 6.8 million representing 0.53 % and 5.33 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia 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 ensure 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 **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. Cash payments and administration
2. Cooperation agreement with the host country
3. Sustainability of Country Office operations
4. Disaster response
5. Contributions to National Social Security fund
6. Compliance with local laws
7. Travel advances to staff
8. Segregation of duties
9. Property insurance

**Key recommendations: Total = 29; Very High Priority = 1; High Priority = 10; Medium Priority = 11; Low Priority = 7**

### 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 is one (1) Very High Priority recommendation in Finance and Accounting as follows:

- Full compliance with IOM regulations and rules and control procedures over disbursements.

### 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:

- I. Four (4) recommendations for Management and Administration, one (1) recommendation for Personnel, one (1) for Procurement and Logistics and one (1) Contracting. These recommendations aim to ensure that the assets of IOM are properly safeguarded, its staff welfare is secured and IOM operations are efficient and effective.
  - Continuously execute high level meeting with the host country representatives in order to come up with the same Privileges and Immunities offered to other UN agencies.
  - Care should be exercised to ensure that all agreements with the government are properly worded to allow proper operation of activities as per IOM mandate.
  - Consult with Regional Office to reassess the portion of the Operational Support Income to be allocated for the purpose of bridge funding to sustain operations.

- Coordinate with IOM relevant units for the swift disposition of the damages and missing assets and conduct country wide risk assessment in order to have all risks identified, analyzed, evaluated with treatment plans and monitored.
  - Review the provisions of the National Social Security along with the existing Russian labour laws to ensure IOM's alignment and consistency.
  - The procurement function should be centralized and performed by the Procurement Unit to ensure objectivity and transparency of the process. The medical unit participation should be in technical evaluation.
  - All information on insurance policies should be carefully reviewed to ensure its accuracy and completeness.
- II. Three (3) recommendations on Finance and Accounting is directed towards the enhancement of the reliability and integrity of the Country Office's financial and operational information.
- Fully comply with IOM regulations and rules over cash administration and maximum cash balances.
  - Ensure compliance with local labour laws and take appropriate actions to address any implications of these non-compliances on budgets.
  - Full compliance with IOM regulations and rules on travel expenses and daily subsistence allowance.

Except in the area of Contracting and Information Technology, there remains another 11 Medium priority recommendations consisting of: One (1) recommendation in Management and Administration; Three (3) in Personnel; Four (4) in Finance and Accounting; Two (2) in Procurement and Logistics; and One (1) in 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) has been discussed directly with management and actions have been initiated to address them.

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

Management fully accepted 19 recommendations and partially accepted four (4) recommendations. However, management did not accept the three (3) recommendations and did not have any response from the remaining three (3) other 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 Office**

The Main Office is located in Moscow, Russia. As of 31 October 2017, the Office has 119 personnel categorized into: 6 officials, 78 staff and 35 non-staff. The office recorded the following expenses based on IOM financial records for the following periods:

- November to December 2015 - USD 2.4 million representing 0.91% and 10.52 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia Region, respectively.
- 2016 - USD 5.8 million representing 0.36 % and 3.41 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia Region, respectively.
- January to October 2017 – USD 6.8 million representing 0.53 % and 5.33 % of IOM Total and South-Eastern Europe, Eastern Europe, and Central Asia Region, respectively.

The Office has a total portfolio of 30 projects and total budget of USD 19.8 million from November 2015 to October 2017. The top two projects by type:

- 11 Projects for Migration Health Assess and Travel Assistance amounting to USD 7.5 million or 37.87 % of the budget.
- 1 Project on OPE Processing amounting to USD 7.2 million or 36.44 % 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 **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 Very High and High Priority Recommendations

#### I. Very High Priority Recommendations

##### 1. Cash payments

There was lacking supporting documentation and significant deficiencies in the process of cash payments.

Very High Priority Recommendation:

- Full compliance with IOM regulations and rules and control procedures over disbursements.

*Management agreed with the recommendations and is implementing them.*

#### II. High Priority Recommendations

##### 1. Cooperation agreement with the host country

- The Country Office has a Cooperation Agreement with the host country but the Privileges and Immunities are not aligned with the UN 1947 protocol.
- One of the largest programmes was not specifically mentioned in the Cooperation Agreement which brought a long-standing issue on the legality of programme operations.

High Priority Recommendation:

- The Country Office in coordination with the relevant units of IOM should continuously execute high level meeting with the host country representatives in order to come up with the same Privileges and Immunities offered to other UN agencies.
- Care should be exercised to ensure that all agreements with the government are properly worded to allow proper operation of activities as per IOM mandate.

*Management agreed with the recommendations and is implementing them.*

##### 2. Sustainability of Country Office operations

The operation of the Country Office is heavily dependent on particular projects. However, in November 2017, one of the projects decided to relocate its Centre in Moscow to Kiev which significantly affected the operations and necessitates

downsizing. The situation was further exacerbated by the lack of projects under development for potential donor funding.

High Priority Recommendation:

- The Country office is encouraged to consult with Regional office to reassess the portion of the Operational Support Income to be allocated for the purpose of bridge funding to sustain operations.

*Management agreed with the recommendations and is implementing them.*

### 3. Disaster response

In June 2017, there was a fire incident in the finance office which caused some destruction to the Country Office's assets such as burnt accounting documents and damaged cash due to chemical exposure. At the time of audit, it was observed that there were no concrete actions taken yet by the Country Office.

High Priority Recommendation:

- Coordinate with IOM relevant units for the swift disposition of the damages and missing assets.
- Conduct country wide risk assessment in order to have all risks identified, analyzed, evaluated with treatment plans and monitored.

Management agreed with the recommendations and is implementing them.

### 4. Contributions to National Social Security fund

Compulsory participation in National Social Security fund requires contribution to be shared by the organization and employees. However, only the IOM participation has been fully paid.

High Priority Recommendation:

- Review the provisions of the National Social Security along with the existing Russian labour laws to ensure IOM's alignment and consistency.

Management agreed with the recommendations and is implementing them.

### 5. Cash administration

There were significant deficiencies over cash administration. Further, the amount of cash balance maintained exceeds the maximum cash balance threshold set by IOM standards.

High Priority Recommendation:

- Fully comply with IOM regulations and rules over cash administration and maximum cash balances.

*Management agreed with the recommendations and is implementing them.*

6. Compliance with local laws

There were several issues associated with the professional staff pension fund and income tax which were noted to be not in compliance local laws.

High Priority Recommendation:

- Ensure compliance with local labour laws and take appropriate actions to address any implications of these issues on budgets

Management agreed with the recommendations and is implementing them.

7. Travel advances to staff

There were several deficiencies noted in the review of travel advances to staff, for example, lack of supporting documentation and overpayments of daily subsistence allowances.

High Priority Recommendation:

- Full compliance with IOM regulations and rules on travel expenses and daily subsistence allowance.

*Management agreed with the recommendations and is implementing them.*

8. Segregation of duties

The end to end process of the medical related procurement was assigned to the medical unit resulting to issues on segregation of duties.

High Priority Recommendation:

- The procurement function should be centralized and performed by the Procurement Unit to ensure objectivity and transparency of the process. The medical unit participation should be in technical evaluation.

*Management agreed with the recommendations and is implementing them.*

9. Property Insurance

There were noted discrepancies or inconsistencies in the descriptions reflected in the policies such as coverage period or other significant information that might cause difficulties in future insurance claims.

High Priority Recommendation:

- All information on insurance policies should be carefully reviewed to ensure its accuracy and completeness.

*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:

<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 portray 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.