



IOM International Organization for Migration

EXECUTIVE SUMMARY
INTERNAL AUDIT REPORT
IOM Sana'a
YE201701
16 - 23 MAY 2017

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Report on the Audit of IOM Sana'a
Executive Summary
Audit File No. YE201701

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Sana'a, Yemen (the "Country Office") from 16 to 23 May 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. Contracting
- f. Programme and Operations

The audit covered the activities of the Country Office from 1 January 2016 to 31 March 2017. The office recorded the following expenses based on IOM financial records:

- 2016 - USD 29,909,893.37 representing 1.9% and 9.3% of IOM Total and Middle East, and North Africa Region, respectively.
- January 2017 to March 2017 - USD 6,000,109.56 representing 1.6% and 7.2% of IOM Total and Middle East, and North Africa 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 that 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 **largely ineffective** which means that “significant control gaps exist. Either controls do not treat root causes or they do not operate at all effectively”.

This rating was mainly due to weaknesses noted in the following areas:

1. Risk Management
2. Funding Management and Administration
3. Governance
4. Organizational structure
5. Human resources management
6. Security standards
7. Unified Staff Regulations and Rules
8. Third party service provider
9. Undertaking for volunteers
10. Deductibility and recognition of expenses
11. Termination of service provider staff
12. Projectization of common costs
13. Cash management
14. Procurement and vendor management
15. Receiving of goods and warehouse management
16. Fixed assets
17. Donor reporting
18. Implementing partners

Key recommendations: Total = 39; Very High Priority = 2; High Priority = 25; Medium Priority = 11; Low Priority = 1

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 are two (2) Very High Priority recommendations consisting of one (1) recommendation each for Management and Administration and Finance and Accounting. These are as follows:

1. Draft and implement a contextualized risk management Plan for the Country Office.
2. Undertake a thorough and comprehensive analysis of the Country Office’s financial performance.

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. Six (6) recommendations for Management and Administration, three (3) recommendations for Personnel, Seven (7) for Procurement and Logistics, and three (3) recommendations for Programme and Operations. These recommendations aim to ensure that assets of IOM are

properly safeguarded, its staff welfare is secured, and IOM operations are efficient and effective.

1. Improve governance for a well-functioning management, supervision, monitoring and implementation of the programmes.
 2. Re-assess operating structure to evaluate optimal degree of decentralization necessary.
 3. Analyze the basis, rationale, endorsement, duration, and conditions of exceptional entitlements.
 4. Clarify and document the application of the Rest and Recuperation travel scheme, following IOM's regulations and rules.
 5. Ensure that all the expenses concerning travel and applicable entitlements are properly supported, duly authorized, and disbursed in accordance with IOM rules and procedures.
 6. Full compliance with the recommendations from the security risk management report.
 7. Establish and implement country-specific staff rules governing the local staff conditions of service.
 8. Assess the effectiveness of third-party providers providing personnel recruitment and administration services for the implementation of the projects.
 9. Formalize the conditions governing the participation of volunteers in the implementation of the projects.
 10. Ensure competitive pricing and transparency in the procurement process.
 11. Strengthen controls over procurement conducted at the sub-offices.
 12. Improve vendor management.
 13. Strictly comply with IOM rules on when to use One-time vendor accounts.
 14. Establish stronger controls over receipt of goods and consistently comply with good warehouse management procedures.
 15. Perform periodic physical count of fixed assets.
 16. Establish donor reporting register or tool to keep a timely track of donor reporting requirements.
 17. Improve control over the distribution of non-food items to beneficiaries through Implementing Partners.
 18. Develop procedures and tools to facilitate the tracking of non-food items throughout the different stages of the delivery-chain, and provide accurate information.
- II. Six (6) recommendations on Finance and Accounting are directed towards the enhancement of the reliability and integrity of the Country Office's financial and operational information.
1. Full compliance with IOM's guidelines on allowable expenses.
 2. Charge costs to specific projects following IOM's guidelines for field offices.
 3. Develop a procedure to accurately calculate the provision for future obligation with the service provider for staff whose service or contract might terminate.
 4. Office costs not identifiable to specific projects should be allocated to projects based on IOM accounting procedures.
 5. Reassess existing cash administration with the objective of keeping cash balances to a minimum.
 6. Rationalize the number of bank accounts considering the current workload and exposures.

Except in the areas of Management and Administration and Procurement and Logistics there remains another 11 Medium priority recommendations consisting of: Three (3) in Personnel; Six (6) in Finance and Accounting; One (1) in Contracting; 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 accepted all 39 recommendations and 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 Office

The Main Office is located in Sana'a, Yemen. As of 31 March 2017, the Office has 86 personnel categorized into: 12 officials, 69 staff and 5 non-staff. The office recorded the following expenses based on IOM financial records for the following periods:

- 2016 - USD 29,909,893.37 representing 1.9% and 9.3% of IOM Total and Middle East, and North Africa Region, respectively.
- January 2017 to March 2017 - USD 6,000,109.56 representing 1.6% and 7.2% of IOM Total and Middle East, and North Africa Region, respectively.

The Office has a total portfolio of 51 projects and total budget of USD 38,213,015. The Top two projects by type:

- 24 Projects for Internally Displaced Persons amounting to USD 27.3 million or 71.4% of the budget.
- 8 Projects on Migration Health Assistance for Crisis-Affected Populations amounting to USD 5.4 million or 14% 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 **largely ineffective** which means that “significant control gaps exist. Either controls do not treat root causes or they do not operate at all effectively”.

IV. Key Findings and Very High and High Priority Recommendations

I. Very High Priority Recommendations

1. Risk Management

There was no formal country office-specific risk assessment and risk management plan prepared to identify uncertainties and threats that may impact the Country Office’s operations.

Very High Priority Recommendation:

- Draft and implement a sound risk management plan for the Country Office.

Management agreed with the recommendations and is implementing them.

2. Funding requirements

There is no assurance that all costs or expenses of the Country Office are accurately budgeted and charged to the ongoing/prospective projects, some of which have resulted to financial deficits.

Very High Priority Recommendation:

- Undertake a thorough and comprehensive analysis of the Country Office’s financial performance.

Management agreed with the recommendations and is implementing them.

II. High Priority Recommendations

1. Governance

There were noted weaknesses in governance of the Country Office that might adversely impact the supervision of ongoing programmes, and compromise the smooth coordination with other agencies or with the local authorities.

High Priority Recommendations:

- Improve governance for a well-functioning management, supervision, monitoring, and implementation of the programmes.

Management agreed with the recommendations and is implementing them.

2. Organizational Structure

The Country Office recently moved to a more decentralized structure without conducting a formal risk assessment exercise prior to the establishment of this decentralized scheme.

High Priority Recommendation:

- Re-assess operating structure to evaluate optimal degree of decentralization necessary.

Management agreed with the recommendations and is implementing them.

3. Human Resources Management

- There were no formal documents to support the application of special entitlements granted to international staff nor was there a review of Travel Expense Claim payments made to them.
- There were also expenses that had been paid as part of the Rest and Recuperation scheme whose nature and eligibility needs to be clarified.
- There were Travel Expense Claims paid without the necessary supporting documents or detailed justification that do not comply with IOM rules and procedures.

High Priority Recommendations:

- Analyze the basis, rationale, endorsement, duration and conditions of exceptionally high staff advances.
- Clarify the concepts and type of expenses to be covered under the Rest and Recuperation travel scheme, following IOM's regulations and rules.
- Ensure that all the travel and expenses are properly supported, duly authorized and disbursed in accordance with IOM rules and procedures.

Management agreed with the recommendations and is implementing them.

4. Security Standards

The Country Office is partially compliant with the country-specific security requirements, the international Field Security Officer position has been vacant for a while.

High Priority Recommendation:

- Full compliance with the recommendations from the Security risk management report.

Management agreed with the recommendations and is implementing them.

5. Unified Staff Regulations and Rules

Country-specific staff rules have not been developed and the Unified Staff Regulations and Rules for all local staff in Yemen have not been implemented.

High Priority Recommendation:

- Establish and implement country-specific staff regulations and rules governing the local staff conditions of service.

Management agreed with the recommendations and is implementing them.

6. Third party service provider

The quality of services received from the third-party service provider for the provision of personnel and human resources administration had been proven to be insufficient and its administration challenging.

High Priority Recommendation:

- Assess the effectiveness of third-party service providers for personnel recruitment and administration for the implementation of the projects.

Management agreed with the recommendations and is implementing them.

7. Undertaking for volunteers

There is no concrete or specific instruction governing the undertaking for volunteers.

High Priority Recommendation:

- Formalize the conditions governing the participation of volunteers in the implementation of the projects.

Management agreed with the recommendations and is implementing them.

8. Deductibility and recognition of expenses

- There were expenses paid that were not compliant with donor's agreements or allowable under IOM's regulations and rules.
- There were also delays in the recognition of some expenses.

High Priority Recommendation:

- Full compliance with IOM guidelines on allowable expenses.
- Charge costs to specific projects following IOM's guidelines for field offices.

Management agreed with the recommendations and is implementing them.

9. Termination of Service Provider Staff

There is no formal procedure developed on how to compute the provision for the termination gratuity of staff belonging to service providers and the corresponding recording in the books of account.

High Priority Recommendation:

- Develop a procedure to accurately calculate the provision for future obligation with the third-party contractor for the service provider's staff whose service or contract might terminate.

Management agreed with the recommendations and is implementing them.

10. Projectization of common costs

Common costs are distributed on an ad hoc basis without clarity on how these costs were originally budgeted.

High Priority Recommendation:

- Office costs not identifiable to specific projects should be allocated to projects based on IOM accounting procedures.

Management agreed with the recommendations and is implementing them.

11. Cash management

- Total Cash Balance is higher than the recommended level. In addition, there were no formal approval sought for balances above the authorized limits.
- The Country Office maintains high bank balances resulting in a high-risk exposure in the current context of ongoing armed conflict and civil unrest.

High Priority Recommendation:

- Re-assess existing cash administration with the objective of keeping cash balances to a minimum.
- Rationalize the number of bank accounts considering the current workload and exposures.

Management agreed with the recommendations and is implementing them.

12. Procurement and Vendor Management

- There were several inconsistencies in the procurement process.
- Procurement in the sub-offices was not consistent with IOM's regulations and rules.
- Insufficient and inadequate maintenance of vendors' relevant information.
- Excessive use of the option of One-time vendor which means that the supplier is not identifiable.

High Priority Recommendation:

- Ensure the use of competitive pricing and transparency in the procurement process.
- Strengthen controls over procurement conducted at the sub-offices.
- Improve vendor management.
- Strictly comply with IOM rules on when to use One-time vendor accounts.

Management agreed with the recommendations and is implementing them.

13. Receiving of goods and warehouse management

- There were several gaps in the preparation of Goods Receipt Note attached to some transactions.
- There were several deficiencies in the management of the six warehouses located in three different locations.

High Priority Recommendation:

- Establish stronger controls over receipt of goods.
- Consistently comply with good warehouse management procedures.

Management agreed with the recommendations and is implementing them.

14. Fixed Assets

The list of fixed assets was outdated and there was no physical count conducted in the sub-offices.

High Priority Recommendation:

- Perform periodic physical count of fixed assets.

Management agreed with the recommendations and is implementing them.

15. Donor reporting

There is no systematic control to track donor reporting. Instead, compliance with the donor reporting schedule is done for each project separately, and not on a regular or periodic basis.

High Priority Recommendation:

- Establish donor reporting register or tool to keep a timely track of and comply with donor reporting requirements.

Management agreed with the recommendations and is implementing them.

16. Implementing partners

- There were noted deficiencies in the distribution of non-food items through implementing partners.
- There is no internal procedure or tracking mechanism to ensure non-food items were properly procured, delivered and distributed to beneficiaries.

High Priority Recommendation:

- Improve control over the distribution of non-food items to beneficiaries through Implementing Partners.
- Develop procedures and tools to facilitate the tracking of non-food items throughout the different stages of the delivery-chain, and provide accurate information.

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 portray 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.