



SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS

FOR THE REPORTING YEAR ENDED 31 DECEMBER 2016

MARCH 2017

SECRETARY-GENERAL'S COMMENTS

The results of internal audit assurance and consulting services have been reported to me, and I have reviewed and approved all the reports issued in 2016. In each report, Management's comments on the findings and recommendations, and proposed follow-up action to be taken to implement the recommendations have been incorporated in the final version of the report and presented after each recommendation.

I welcome the recommendations and recognize the efforts made and actions already taken by Management to implement most of the recommendations, which I firmly believe will enhance and strengthen the existing policies, guidelines, controls and procedures in ensuring the effectiveness and efficiency of operations, economic use of resources, accuracy of payments, safeguarding of cash and other assets, and reliability of financial reports.

I appreciate the internal audit work carried out by the IOS, which assists me in fulfilling my oversight responsibilities, and the cooperation and assistance provided by the relevant organizational units in the auditing process.

A handwritten signature in black ink, appearing to read 'Kitack Lim', is written over a horizontal line.

(Signed) Kitack Lim
Secretary-General

SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS JANUARY TO DECEMBER 2016

I INTRODUCTION

1 In accordance with the Terms of Reference of Internal Oversight, as provided in Appendix II of IMO's Financial Regulations, the Internal Oversight Services (IOS) is responsible for undertaking internal audits, and for reporting, as appropriate, the results thereon to the Secretary-General. The core internal audit activities include the provision of assurance and advisory services to the Secretariat.

2 This summary covers the internal audit activities carried out and reports issued during the period from January to December 2016.

II INTERNAL AUDIT ACTIVITIES IN 2016

3 The annual plan and work programme for 2016, which was approved by the Secretary-General included eight internal audit engagements, consisting of: four special audit projects; two regular audit projects; one follow-up audit of prior years' recommendations; and, one audit project for World Maritime University (WMU). IOS is also tasked to carry out other regular assurance and advisory services.

4 Except for one special audit project, the internal audit activities planned for the year were fully completed and the reports for the seven internal audit engagements were issued during the same year, including one internal audit engagement for WMU. One of the special audit projects could not be carried out due to limited resources to carry out unforeseen investigation work.

A. Assurance services

5 Six engagements were carried out, completed and reported during 2016, including one follow-up audit on the status of implementation of 2015 and prior years' recommendations. The main five audits covered the following thrust areas: training and development fund; 2015 payroll; separation benefits and payments in 2015; risk management process; and temporary assistance. The summary of findings and recommendations for the five audits is provided in the succeeding section. The result of the follow-up of the status of implementation of previous years' recommendations is discussed in a separate section.

6 During the same year, IOS also provided assurance services by reviewing or certifying the accuracy of the following: Member State assessments for 2017; publications 2015 year-end inventory and write-off; write-off proposals of losses and receivables at year-end 2015; and the Council documents relating to budget, accounts, Member State arrears in contributions; and other financial reports submitted to the Secretary-General for approval.

B. Consulting services

7 IOS provided professional advisory services which are intended to add value by: improving operational efficiency; strengthening and enhancing controls and procedures, ensuring proper implementation of and compliance with regulations, rules and established policies; safeguarding the assets of the Organization; and promoting effective implementation of system modules and standards.

C. External services

8 The Board of Governors of WMU, at its 33rd session in May 2015 approved the Financial Regulations and Rules with effect as from 1 January 2015, including the amendment to Article XII-1 that the Internal Auditor of the IMO shall be the Internal Auditor of the University, which was endorsed by its Executive Board at its 13th session in March 2015. Accordingly, the engagement for 2016 covered the audit of property management with an on-site visit from 15 to 18 November 2016. The audit of procurement was agreed to be conducted in 2017.

9 A detailed audit plan and work programme was submitted to and considered by the President of WMU and Chairman of the Executive Board before the start of the audit in accordance with paragraph 12 of the Terms of Reference (ToR) of Internal Audit for WMU. The draft of the audit report, which discussed comprehensively the result of the audits was submitted to the President of WMU, and comments provided on the findings and recommendations were included in the final report after each recommendation. The final Report on the Audit of Property Management was submitted on 12 December 2016, to the Executive Board through its Chairman in accordance with paragraph 15 of the ToR of Internal Audit for WMU.

III INTERNAL AUDIT REPORTS ISSUED IN 2016

A. Audit of the Training and Development Fund

10 The main objectives of the audit were to: assess the effectiveness of the Organization's training programmes in realising the expected output towards the achievement of the objectives; evaluate the adequacy of and compliance with the policies, guidelines and procedures in the administration of the staff training activities carried out and financed under the Training and Development Fund; and verify whether funds were used for the purpose intended with due regard for efficiency and economy. The overall objective of the training and development programme is to equip staff with the knowledge, skills and capability in areas that are key to their roles, keep them abreast of new technologies and facilitate their personal and professional development.

11 The Training and Development Fund (TDF) was established with effect from 1 January 2002 by Assembly resolution A.906 (22) at an initial level of £200,000 by a transfer from the surplus of the then Printing Fund for organizational strengthening initiatives. Analysis of actual expenditure from 2002 to 2015 revealed a decreasing trend from £294,008 in 2002 to £55,060 in 2010 due to fund constraints resulting in a lower than expected cash surplus available for transfer from the General Fund. Following the introduction of a new staff performance and appraisal system, a more structured training programme and a more comprehensive training and development catalogue have been introduced starting in 2008. Since then the staff development training activities funded from the Training Development Fund have increased significantly with actual expenditure of £125,385 in 2015.

12 The audit found that generally the policies, controls and procedures were appropriate and adequate and were complied with in the administration of staff training activities carried out under the Training and Development Fund. A competency framework was in place to guide ongoing performance management and identify areas requiring development for each individual. Training courses were designed and implemented to meet staff training needs. The Organization had developed policies for components of staff training and development activities including a staff development programme manual, training catalogues, and guidelines for external studies and language courses. However, the audit has identified some areas for improvement to enhance the effectiveness of the Organization's staff training programmes and to strengthen the controls and procedures in the administration and assessment of the conduct of training activities.

13 Appropriate recommendations were made to address the deficiencies noted during the audit by: reviewing and considering for adoption the UN policy on staff training and development which sets out suitable criteria for assessing the training needs and for establishing a mandatory minimum target number of 2-3 days for continuing professional development per year for all staff members; developing mandatory courses on transparency and accountability, code of conduct and ethics, and prevention of fraud, and including eLearning courses in the staff development training catalogue; allocating sufficient duration for technical courses to cover the relevant material adequately; taking additional measures to address no-shows on the scheduled day of training; maintaining and using the signed attendance registers and post evaluation surveys and reports completed by the participants and evaluated by the trainer for data analysis with the results feedback into the delivery of future programmes.

B. Audit of 2015 Payroll

14 The audit covered payroll transactions during the period from January to December 2015 with a total payroll cost of £23,587,551 for both General Fund and Trading Fund, and approximately \$2,340,600 for staff members funded under other funds. The verification focused on the validity and accuracy of net base salary, post adjustment, allowances, and deductions, which were processed and calculated automatically by the SAP Human Resources and Payroll System (the "System") for 275 staff members during the same period, as well as some 23 staff members financed from other funds of the Organization (Regional Co-ordinators, project personnel and Junior Professional Officers).

15 Except for one case, the verification confirmed the legitimacy and the current grade and step of all staff members recorded and reported in the System as at 1 January and 31 December 2015, including the salary rate (dependency or single) for professional staff members. Generally, the System is accurately calculating the salaries, post adjustments, allowances and deductions, including retroactive adjustments during the same period. The error noted for one staff member in the processing of special post allowance resulted in a net overpayment of \$192 recoverable from the staff member.

16 The review has also identified that there is a need to strengthen controls and procedures in the processing and review of special post allowance to ensure accuracy of calculated amounts of allowance, and to enhance the Rental Subsidy Approval Form currently in place to ensure clarity, adequacy and relevance of information provided on the form, which is used as the basis for the authorization and approval of entitlement.

17 The audit resulted in four recommendations, requiring corrective or remedial measures and follow-up actions to recover the overpayment from one staff member and to improve and strengthen the internal administrative controls and procedures in the processing of special post allowance and rental subsidy, including the enhancement of the forms presently being used in the calculation of special post allowance and in the approval of rental subsidy.

C. Audit of Separation Benefits and Payments in 2015

18 The objective of the audit was to ascertain whether separation entitlements authorized, processed and paid were valid and accurate in accordance with regulations, rules and policies, and applicable rates. The review covered the separation benefits consisting of accrued annual leave, repatriation grant, and termination indemnity with a total cost of £681,864 authorized and paid to 26 staff members who left the Organization in 2015 and prior years.

19 Except for one case, the audit has confirmed that the separation entitlements authorized for payment to 25 staff members were valid, accurate and complete in accordance with relevant regulations and rules, policies, established practices and procedures, applicable rates and supporting documentation, and the amount paid were accurately calculated and processed by the System. One staff member was underpaid for accrued annual leave due to system error in calculating the amount payable based on the previous step of the grade. Immediate remedial action has since been taken to refund the underpayment of \$171.

20 The verification has also concluded that the existing internal controls over the verification of leave records for two years preceding the separation date, personnel files, and other supporting documents appropriate and adequate in ensuring the validity of entitlements and accuracy of amounts payable to staff members at the time of separation.

D. Audit of Risk Management Process

21 The main objective of the audit was to evaluate the effectiveness and efficiency in the risk management framework and process. The review assessed the following: the clarity, appropriateness, adequacy, robustness and maturity of the existing risk management framework and process, including policies, controls and procedures; the clarity of definition and allocation of roles and responsibilities involved in the whole risk management process; the quality and usefulness of risk management tools for systematic identification of risks; proper monitoring and timely response and/or escalation of critical risks to the appropriate levels; and the maturity level of the Organization's risk management process.

22 The risk management process includes risk identification, risk assessment, development of risk management options, selection and implementation of risk controls, monitoring and review. The audit concluded that the existing Organization's risk management framework and process are clear and sufficiently robust, and that the policies, controls and procedures are appropriate and adequate. The roles and responsibilities were clearly defined with the implementation of the risk management framework delegated to the Head, Executive Office of the Secretary-General and of Policy and Planning, assisted by focal points from each Division/Department.

23 The risk management exercise was generally implemented in accordance with the risk management framework and process. The Secretariat Business Plan identified those actions that, if not undertaken, delayed or performed below target, would critically and adversely affect the achievement of the respective Divisional/Department objective. Such potential risk events were identified and assessed further in the risk event tables. Updates on the status of the risk events were provided to the Senior Management Committee annually and results of the risk management exercise were presented and reported to the Council.

24 The risk management process is generally mature with regard to the focal points' understanding of the overall risk management process, controls and procedures, identification and assessment of risk categories and events, implementation and monitoring of risk management controls and provision of suitable tools, guidelines and training. The result of the survey from seven Divisions/Department risk focal points has confirmed the following: clear understanding of the meaning of risk tolerance or appetite; implementation of responses to critical risks; existence and operation of monitoring controls to detect risk responses that were not working; and routine risk assessment of significant new projects.

25 The audit resulted in five recommendations as follows: additional responsibility on the risk management could be updated on the job descriptions of the risk management focal points and incorporated in the annual performance management agreement; a risk management meeting or workshop could be conducted annually to ensure that risk identification and assessment by the focal points produces a rounded and in-depth analysis of each risk event; an instruction could be issued to all Division/Department Directors as part of the regular memo issued prior to the start of the risk management exercise informing each Division/Department to consider, identify and assess fraud risks during the regular risk management exercise; a self-assessment of the risk maturity level of the Organization could be conducted; and Senior Staff could be provided with new developments or updates on risk management, regularly or when necessary.

E. Audit of Temporary Assistance

26 The main objectives of the audit were to: assess the propriety of and compliance with the policies, guidelines and contractual terms and conditions governing the use and engagement of temporary assistance; evaluate the appropriateness and adequacy of existing controls and procedures in the use, management and administration of temporary assistance; and ascertain whether the use of temporary assistance is properly justified and the resources are used efficiently and controlled within the approved activities and budget of the programmes.

27 The audit confirmed that a policy guideline is in place since September 2012, which provides clear, appropriate and adequate controls and procedures in the administration of temporary employees, including the processing through the SAP system. The use and maintenance of a database known as "File Maker System" has facilitated the efficient administration of temporary employees by HRS.

28 The review however has identified some areas for enhancement, which resulted in seven recommendations requiring follow-up action to improve and strengthen the existing controls and procedures in promoting operational efficiencies and ensuring compliance with existing policies and guidelines. The main findings and the corresponding recommendations are discussed in the succeeding paragraphs.

29 A total of 152 temporary employees was engaged from 1 January 2012 to 30 June 2016. Although the guideline provides that the maximum duration on a single contract should not exceed 3 months with a subsequent new contracts exceeding 24 months to be granted only in exceptional circumstances, the review noted that some 23 or 15% of the 152 temporary employees were contracted continuously for over 24 months with 11 still contracted as at 30 June 2016. In order to ensure consistent application of policy guidelines and prevent possible risk of any damage or liability to the Organization, the review has recommended regular resource planning and use of fixed term contracts with a term limit of not more than three months for temporary employees hired through recruitment agencies.

30 Although the SAP system provides transparency and accountability in the whole process in the engagement of temporary employees, the audit has noted some deficiencies in the completion of the purchase requisitions, which need addressing by providing clear and substantive reasons for the request for temporary assistance and by completing the purchasing requisition adequately and consistently with all the required information. The review also recommended that signed contracts should be returned back to HRS before the commencement date of the engagement.

31 Performance assessment serves as a reference for consideration of providing future temporary contracts by the same or other Divisions and provides feedback to the temporary employees of their performance during the engagement period. The review recommended that a simplified formal procedure could be developed and implemented for providing performance feedback at the end of contract and/or renewal of contract.

32 The survey responses received from temporary employees provided some useful and valuable comments/suggestions in the contracting and management of temporary employees, which should be considered for action where appropriate in the areas of performance recognition, performance appraisal, training opportunities, timely payments, and contract and leave management. The audit further recommended the implementation of the outstanding recommendations as contained in the relevant JIU report.

IV STATUS OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (2015 AND PRIOR YEARS)

33 IOS has issued a total of 54 reports on the audit of various thrust areas and 10 reports on the follow-up audit of previous years' recommendations during the period from July 2001 to December 2015. The reports contained 602 recommendations requiring follow-up actions on internal controls and procedures, compliance with regulations, rules and established policies, safeguarding of cash and assets, and financial recording and reporting.

34 The position as at 30 November 2016 of the status of the 602 recommendations, disclosed that 592 (98%) were fully implemented and considered as closed, whilst the remaining ten (2%) recommendations are still in progress. The table below sets out a summary of the status of implementation of the 602 recommendations contained in the audit reports issued from July 2001 to December 2015.

Period	Reports	Recommendation	Implemented	In progress
Current year (2015)	6	64	59	5
Prior years (2013-2014)	48	538	533	5
Total	54	602	592	10
Percent		100%	98%	2%

35 Of the ten outstanding recommendations, nine recommendations resulting from the audits of: procurement of goods and services (4) in 2015; education grant (1) in 2014; and cafeteria's operations (2) and application of placement and promotion policies (2) in 2013, require actions from Administrative Division and the other one recommendation from the audit of travel requires action from all divisions.

36 The full implementation of the ten outstanding recommendations would result in the following: revision of procurement manual incorporating policies, controls and procedures that will improve efficiency of and strengthen the procurement process; reviewing the service contracts for voice, data and mobile requirements and awarding in line with the market trends; implementation of relevant JIU recommendations resulting from the review of procurement; automation of invoices for catering and other income; use of a web-based cafeteria customer survey with simplified questions; a revised performance appraisal system; issuance of a circular on recruitment to remind Divisions on the current practices as well as the role of Human Resources Services in the recruitment process; and changes in the current policies and procedures in the administration of education grant benefit to calculate advances based on the actual documentation submitted by staff members in support for their requests for education grant advance.

37 The efforts made by Management in implementing a large majority of the recommendations are recognized. The status of implementation of the outstanding recommendations will be verified in the next follow-up audit towards the end of 2017 together with the recommendations contained in the report issued in 2016.