



INTERNAL OVERSIGHT SERVICES
INTERNAL OVERSIGHT AND ETHICS OFFICE

SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS
FOR THE REPORTING YEAR ENDING 31 DECEMBER 2014

MARCH 2015

SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS JANUARY TO DECEMBER 2014

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) of the Internal Oversight and Ethics Office (IOEO) is responsible for undertaking internal audits, and for reporting, as appropriate, the results thereon to the Secretary-General. Internal audit is under the responsibility of the Head, IOEO who was appointed by and is reporting directly to the Secretary-General. The core internal audit activities include the provision of assurance and advisory services to the Secretariat.

2 This summary, which was cleared by the Director, Administrative Division and approved by the Secretary-General, covers the internal audit activities carried out and reports issued during the period from January to December 2014.

INTERNAL AUDIT ACTIVITIES IN 2014

3 The annual plan and work programme for 2014 approved by the Secretary-General expected IOS to execute seven internal audit engagements and other regular assurance and advisory services. The internal audit activities planned for the year were fully completed and the reports for the seven internal audit engagements (five assurance and two consulting engagements) were issued during the same year.

Assurance services

4 Five engagements were carried out, completed and reported during 2014, including a follow-up audit on the status of implementation of 2013 and prior years' recommendations. The main four audits covered the following thrust areas: payroll 2013; Djibouti Code Trust Fund; separation benefits and payments in 2013; and education grant. The summary of findings and recommendations for the four audits is provided in the succeeding section. The result of the follow-up of the status of implementation of 2013 and prior years' recommendations is discussed in a separate section.

5 During the same year, IOS also provided assurance services by reviewing or certifying the accuracy of the following: Member State assessments for 2015; Member State earnings under the Contributions Incentive Scheme for 2013; publications 2013 year-end inventory and write-off; write-off proposals of losses and receivables at year-end 2013; and the Council documents relating to budget, accounts, Member State arrears in contributions; and other financial reports submitted to the Secretary-General for approval.

Consulting services

6 Two advisory engagements were carried out, completed and reported during 2014 involving the monitoring of the status of implementation of an on-going project (SAP Business Intelligence) to provide a strategy for the future development of business user management information and analytical applications, and the review of the provision of internal audit services to the IMO International Maritime Law Institute (IMLI). The summary of findings, conclusions and recommendations resulting from these two advisory engagements, is provided in the succeeding section.

7 IOS also 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.

INTERNAL AUDIT REPORTS ISSUED IN 2014

Audit of Payroll 2013

8 The objectives of the audit were: to confirm the validity and accuracy of entitlements authorized for payment to staff members in accordance with regulations, rules, policies, established practices and procedures, applicable rates and supporting documentation; to ascertain the accuracy of the calculation of salaries and allowances, payroll deductions and other payroll costs processed or paid through the system; and to identify weaknesses of the current system, if any, as they affect the accuracy of the calculation and payment of salaries, allowances and deductions. The review covered payroll transactions during the period from January to December 2013 with a total payroll cost of £23,004,154 for the General Fund (£21,202,278) and the Trading Fund (£1,801,876), involving 262 to 270 staff members during the same period.

9 The verification confirmed the legitimacy and the current grade and step of all staff members, including the salary rate (dependency or single) for professional staff members. Generally, the SAP HR and Payroll system is accurately calculating the salaries, post adjustments, allowances and deductions, including retroactive adjustments during the same period.

10 However, the audit noted a few inaccuracies in the calculation and payment of salaries, post adjustment, special post allowance and rental subsidy due to oversight. Inconsistencies were also noted due to system calculation error in respect of hardship allowance when there was a change from a single to dependent salary rate, and in pension when the pensionable amount is being prorated into several amounts. These deficiencies resulted in either short payments or overpayments to six staff members totalling £5,484, which is approximately 0.02% of the overall expenditure amount.

11 Appropriate recommendations were made to address the deficiencies noted during the audit, requiring corrective or remedial measures and follow-up actions to: investigate and resolve the system configuration issues in respect of hardship allowance and pension; refund the short payments to and recover the overpayments from concerned staff members; improve the controls and procedures in the review of dependency status to ensure processing in a timely manner; and strengthen the controls and procedures in the manual calculation of a special post allowance with a language allowance element. Management has taken immediate action and remedial measures to address most of the deficiencies and correct the errors pointed out during the audit, with longer-term action being taken progressively.

Audit of Djibouti Code Trust Fund

12 The objectives of the audit were to ascertain that: funds were used for the purposes intended; activities were implemented in accordance with the approved plan and expected outputs were realized towards the achievement of the objectives; the trust fund was administered in compliance with regulations, rules, established policies and procedures, and the terms of reference of the fund; and financial transactions were accounted for and reported

accurately. The audit covered all activities and financial transactions of the Trust Fund for the period from September 2009 to June 2014.

13 The IMO Djibouti Code Trust Fund was established to provide a dedicated source of financial support for a technical cooperation and assistance activities programme for the participants to the Djibouti Code of Conduct (DCoC) concerning the repression of piracy and armed robbery, and establishment of a regional training centre in Djibouti as well as capacity building activities. The total contribution into the Trust Fund from more than 11 donors amounted to \$17,178,437 during the period from 1 September 2009 to 30 June 2014. A total amount of \$12,234,282 was used and spent in carrying out 62 planned activities of the programme, of which \$8,847,034 was spent for implementation of the DCoC under the four pillars (training, capacity building, information sharing, and review of national legislation), and the remaining \$3,387,248 was for the construction of the Djibouti Regional Training Centre (DRTC) building.

14 The total expenditure for the years 2010 to 2013 were within the planned figures but there were significant underspends ranging from 35% to 54% in major cost elements during the same period. These underspends were the net effect of savings in the delivery of some activities and delay in the implementation of a number of activities due to some factors dependent on the participating countries, unforeseen or uncontrollable events, over-estimation, and problems in the financial planning and execution attributed to lack of familiarity with the budgeting process and financial monitoring through the SAP system during the early years of the programme. The delay in the construction of the training centre was due to various technical and administrative problems, including contractual problems between third parties outside of IMO's control.

15 The planned outputs towards the achievement of the objectives of the programme were delivered, although there were delays in the implementation of some activities. The funds were used and spent within the budget and for the purposes intended in accordance with the terms of reference of the Trust Fund and in compliance with the Organization's applicable regulations and rules, and established policies and procedures. The review confirms the appropriateness and adequacy of existing administrative and financial controls and procedures over the authorization and approval for payment of expenditures. Except for some minor adjustments that need to be reviewed and effected, the financial transactions were accurately and completely recorded and reported in the accounts.

16 The audit has identified a number of lessons learnt that should be considered in future in the administration of a trust fund and management of projects funded from extra-budgetary resources, including the following: development of guidelines or checklists and provision of training and support to staff of a newly established programme office on the proper implementation of administrative and financial policies and procedures; consultation with programme managers for any agreements and decisions to be made that would affect programme staff costs; and preparation of financial reports that would include not only the actual expenditure but also the planned figures with explanations for variances. The review also reiterated the suggestion made by the External Auditor in their previous audit, that all potential risks affecting delivery should be identified and risk-mitigating clauses or alternative measures embedded in agreements with third parties.

17 Recommendations were also made to review the issues raised in the accounting of some financial transactions and the open items under assets and liabilities accounts, including the clearing of long outstanding items. Management welcomed and noted the lessons learnt and recommendations identified and contained in the report, and gave an assurance that actions will be taken to implement them.

Audit of Separation Benefits and Payments in 2013

18 The objective of the audit was to ascertain that 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 £544,487, which were authorized and paid to 23 staff members who left the Organization in 2013.

19 The audit has confirmed the validity and accuracy of authorizations and payments towards accrued annual leave, repatriation grant and termination indemnity, when applicable, to 21 separated staff members. The repatriation grant of one staff was overpaid due to manual error in calculation of the number of weeks of separation payments, and another staff member was overpaid the last monthly salary due to unrecorded leave days without pay during that month. The oversight resulted in a total overpayment of approximately £7,464, representing 1.4 % of the overall cost of separation benefits paid in 2013.

20 The two staff members were informed and requested by Management to refund the amount overpaid to them. Recommendations were made to continue the effort of contacting the two staff members concerned and to recover fully the amount of overpayment. It was confirmed later and after the audit that the two staff members have refunded in full the amounts overpaid to them.

Audit of Education Grant

21 The objective of the audit was to evaluate the appropriateness and adequacy of the existing system and administrative controls and procedures, and to ascertain the validity of authorization and accuracy of processing the payment for education grant entitlements or claims, advances, and recoveries or refunds, if any. The review covered education grant claims of £856,381 for the school year 2013/2014 and education grant advances of £957,192 for the school year 2014/2015 of 57 staff members with 78 dependants.

22 In general, the present policies, guidelines, administrative controls and procedures, and system configuration are adequate and operating as planned in ensuring the validity of authorizations and the accuracy of payments towards education grant entitlements. The processing of education grant entitlements automatically through the SAP HR and Payroll system has significantly improved work efficiency and accuracy of payments. Except for a few errors due to oversight in entering the correct data into the system, the substantive review has confirmed the validity of authorizations and the accuracy of the processing and system calculation of education grant entitlement and payments. The errors have been rectified during the audit and the three staff members concerned have been refunded the short payments due to them of \$473.

23 The balance of education grant advance as reported in the accounts has to be reconciled against the balance reported in the SAP HR and Payroll system. The audit has also identified some measures to enhance the current education grant forms for clarity and relevance, and to strengthen the controls and procedures to help ensure that the authorized entitlements are legitimate based on the proper supporting documentation and are paid correctly. Appropriate recommendations were made to address the issues noted during the audit and Management in their reply to the report confirmed that actions have already been initiated to implement some of the recommendations, with longer-term action being taken progressively.

Review of the Provision of Internal Audit to IMLI

24 The objective of the review was to determine the feasibility of IMO's IOS to provide internal audit services to IMLI and the cost and other implications to both the Organization and the Institute. The review was carried out following the decision made by the Governing Board of IMLI at its 27th session in March 2013, requesting IMO, in consultation with IMLI, to look into the External Auditor's recommendation on the establishment of internal oversight and consider how IMO's internal oversight function could be extended to IMLI.

25 The provision of internal audit services to IMLI by IOS is feasible and would only require amendment to the current terms of reference of IOS by defining the nature of assurances to be provided to parties outside the Organization. It would be more economical for IMO's IOS to provide the internal audit services to IMLI rather than having it provided by an outside auditing company. Furthermore, the internal audit services can also be provided by IOS more effectively and efficiently considering that the regulations, rules, policies, controls and procedures of the Institute are largely based on IMO's. The Secretary-General has decided that internal audit services would be provided by IOS without financial cost to IMLI.

26 The Terms of Reference (TOR) of internal audit were developed, as part of a discussion paper, and submitted during the latter part of 2013 to the Director, IMLI, who expressed his support in principle for the approach, consultation and line of reporting therein recommended. The TOR were reviewed by the Finance and Human Resources Committee of IMLI at its meeting in March 2014 which was of the view that IMLI was an organization under the auspices of IMO and therefore should not be subjected to an external audit but should be audited internally by IMO. In the light of this observation, the Committee decided to recommend to the Governing Board that IMLI's audit should be undertaken internally by IMO, preferably by IMO's IOS auditor, and in the event that this was not possible, then the Governing Board should require a reduction in the External Auditor's fee, and advise IMO's IOS auditor that a second audit per year was not necessary as the Committee believes there were adequate and effective controls.

27 At its 28th session in April 2014, the Governing Board, recognized as an unavoidable requirement the need to comply with the External Auditors' recommendation that considering the crucial role IOS plays in providing assurance on internal controls, it should visit the Institute at least once a year to undertake a review of the operations. At its meeting in October 2014, the Finance and Human Resources Committee examined and was invited to endorse the discussion paper and TOR of Internal Audit previously submitted by IMO's IOS for approval of the Governing Board at its next session in 2015.

Status of Implementation of SAP Business Intelligence Project

28 The objective of the monitoring of the on-going SAP Business Intelligence (BI) project was to verify and report on its progress and status of implementation since its commencement in October 2013 up to 31 October 2014. The SAP BI project was commissioned for the purpose of reviewing the current SAP system at IMO and to provide a BI strategy for the future development of user management information and analytical applications to address the current limitation in the extraction and use of data and information for analysis and decision-making, and to meet the evolving reporting requirements.

29 The BI Steering Group was satisfied with the BI strategy as a whole and its proposed implementation approach but did not agree with the implementation of the whole strategic roadmap proposed by the consultant due to its high cost. It was decided to implement partially some of the deliverables, i.e. a review of the "cost collector" and "Key Performance Indicator (KPI) catalogue". The review of "cost collector" resulted in a proposal that would bring a

number of high impact process changes with substantial implementation costs, compared to the benefits that will be derived from the implementation of the proposed changes. A decision was made at the Steering Group level not to progress with the proposal, as this is not the way forward for IMO. The work on the KPI catalogue was also suspended until the ongoing work on the review/revision of KPIs under the Organization's Strategic Plan has been completed.

30 The Steering Group decided to include BI implementation in the upcoming SAP outsourcing tendering and Request for Proposal. Although IOS supported this decision, the postponement of large portions of the BI Program until the start of the new contract of the successful bidder in 2015 would delay the realization of the benefits in resolving the limitations of the system in generating reports from the SAP system, which would promote a more efficient operation and provide useful and relevant information for decision-making.

31 Management acknowledged the delay in the realization of the BI project. However, it was felt that it was not practical and economical to start the implementation of the multi-year project while the Organization is undergoing a tendering process that has a direct impact on the BI project. The BI project is a key feature of the system improvement plan in the second-term outsourcing, and Management will take necessary action to expedite the progress of the project once the tender process is completed.

STATUS OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (2013 AND PRIOR YEARS)

32 IOS has issued a total of 43 reports on the audit of various thrust areas and nine reports on the follow-up audit of previous years' recommendations during the period from July 2001 to December 2013. The reports contained 512 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.

33 The position as at 30 November 2014 of the status of the 512 recommendations, disclosed that 505 (99%) were fully implemented and considered as closed, whilst the remaining seven (1%) recommendations are still in progress. The table below sets out a summary of the status of implementation of the 512 recommendations contained in the audit reports issued from July 2001 to December 2013.

Period	Audit Reports	Closed	Percent	In progress	Percent	Total
Current year (2013)	4	27	87	4	13	31
Prior years (2001-2012)	39	478	99	3	1	481
Total	43	505	99	7	1	512

34 Of the remaining seven outstanding recommendations, the implementation of which is still in progress, five and two recommendations require actions from the Administrative Division and Technical Cooperation Division, respectively. The seven recommendations relate to previous audits of cafeteria operations, application of placement and promotion policies, travel, the TC SAP project system, and management of Memorandums of Understanding, agreements and other arrangements.

35 The full implementation of the seven outstanding recommendations would result in the following: 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 the Human Resources Services in the recruitment process; a database of training participants

in the SAP system; and a harmonized set of processes to be followed by all Divisions when developing and/or renewing partnership agreements.

36 The efforts made by Management in implementing a large majority of the recommendations are recognized. However, the importance of implementing fully the remaining seven recommendations should also be emphasized. The full implementation of these seven recommendations will be verified in the next follow-up audit towards the end of 2015.

SECRETARY-GENERAL'S COMMENTS ON INTERNAL AUDIT REPORTS ISSUED IN 2014

37 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 2014. In each report, Management's comments on the findings and recommendations, and proposed follow-up action to take to implement the recommendations have been incorporated in the final version of the report and presented after each recommendation.

38 I welcomed the recommendations and recognized 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.

39 I appreciate the internal audit work carried out by the Head, IOEO and his staff, which assists me in fulfilling my oversight responsibilities, and to the Secretariat for the cooperation and assistance provided to the staff of IOS, which enabled them to perform their internal audit function.

(Signed) Koji Sekimizu
Secretary-General