



INTERNAL OVERSIGHT SERVICES
INTERNAL OVERSIGHT AND ETHICS OFFICE

SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS
FOR THE REPORTING YEAR ENDING 31 DECEMBER 2015

MARCH 2016

SUMMARY OF INTERNAL AUDIT ACTIVITIES AND REPORTS JANUARY TO DECEMBER 2015

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 2015.

INTERNAL AUDIT ACTIVITIES IN 2015

3 The annual plan and work programme for 2015 approved by the Secretary-General expected IOS to execute nine internal audit engagements, including two follow-up audits, and other regular assurance and advisory services. The internal audit activities planned for the year were fully completed and the reports for the seven main internal audit engagements were issued during the same year.

Assurance services

4 Nine engagements were carried out, completed and reported during 2015, including two follow-up audits on the status of implementation of 2014 and prior years' recommendations. The main seven audits covered the following thrust areas: overtime, night differential and compensatory time-off; procurement; management of information, communication and technology equipment; payroll 2014; travel; separation benefits and payments in 2014; and dependency benefits. The summary of findings and recommendations for the seven audits is provided in the succeeding section. The result of the follow-up of the status of implementation of 2014 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 2016; Member State earnings under the Contributions Incentive Scheme for 2014; publications 2014 year-end inventory and write-off; write-off proposals of losses and receivables at year-end 2014; 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 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.

External services

7 The Governing Board of the IMO Maritime Law Institute (IMLI), at its 29th session in April 2015 approved the Terms of Reference (ToR) of Internal Audit for IMLI and also the internal audit plan for IMLI for 2015. The engagement for 2015 covered the audit of personnel cost and the Enhanced Staff Allegiance Fund Scheme with an on-site audit from 15 to 19 June 2015. A detailed audit plan and work programme was submitted to and considered by the Chairman of IMLI's Financial and Human Resources Committee before the start of the audit in accordance with paragraph 12 of the ToR of Internal Audit for IMLI. The draft of the audit reports, which discussed comprehensively the result of the audits were submitted to the Director of the Institute, and comments provided on the findings and recommendations were included in the final report after each recommendation. The final Reports on the Audit of the Enhanced Staff Allegiance Fund Scheme (ESAFS) and the Audit of the Personnel Cost were submitted to the Financial and Human Resources Committee through its Chairman for approval at its next session on 14 April 2016, and for subsequent reporting to the Governing Board for endorsement at its next session in 2016.

INTERNAL AUDIT REPORTS ISSUED IN 2015

Audit of Overtime, Night Differential and Compensatory Time-off

8 The objectives of the audit were to assess whether regulations, rules, policies, controls and procedures governing the use and management of overtime and night differential are appropriate and adequate, and were complied with, and to verify the validity of the authorization and claims for overtime, and the accuracy of the calculation of the number of hours and amounts paid, as well as number of hours for compensatory time-off (CTO) in lieu of paid overtime. The audit covered overtime worked and paid or compensated by time off during the period from January 2013 to December 2014 with comparative cost analysis for the years 2010 to 2012.

9 Overtime hours worked and paid showed a decreasing trend and has reduced significantly by 70% and 65% respectively, from 2010 (10,795 hours and £244,963) to 2014 (3,247 hours and £86,635). This substantial reduction could be attributed to the measures introduced during the middle of 2012 to increase efficiencies and savings in overtime by applying more vigorously the existing policies and rules. This measure entails the granting of CTO in lieu of overtime payments when overtime work is agreed in advance and actually carried out, and that overtime payment should only be made when CTO cannot be taken. The relevant forms were also revised to facilitate the implementation of the strengthened procedure and efficiency measures, which now requires the Directors concerned to indicate whether CTO can be granted or not, including allocation in hours or percentage between CTO and paid overtime and the reason why CTO cannot be granted.

10 The present policies, controls and procedures were found to be appropriate and adequate in ensuring proper use and effective management of overtime. However, the substantive review of overtime requests and claims for the years 2013 and 2014 disclosed a number of instances of non-compliance with these policies, controls and procedures, and inaccuracies in the calculation of number of overtime hours worked during the period. These inconsistencies relate to and resulted in the following: overtime hours worked in excess of the maximum number of hours allowed in a week without written justification being indicated on the request form; overtime payment authorized in lieu of CTO without justification provided as to why payment will apply instead of CTO; daily overtime work periods of less than half an hour were considered for payment; and overpayment of overtime worked totalling 13 hours,

short payment of night differential totalling 27 hours, and over-credited or under-credited CTO totalling 12.75 hours.

11 Appropriate recommendations were made to address the deficiencies noted during the audit, in which Management agreed with all the recommendations and confirmed that actions had already been taken to implement some of the recommendations. Additional recommendations were also made to improve work efficiency in the processing of overtime claims submitted by staff members and to strengthen the controls in the approval of overtime hours claimed not within the authorized dates and maximum number and in the certification of the claim for the payment of night differential.

Audit of Procurement

12 The main objective of the audit was to assess the adequacy and effectiveness of policies, controls and procedures in ensuring value for money and economic use of resources in the procurement of goods and services for the period 1 January to 31 December 2014. The review covered a total of 495 purchase orders with a total value of £7,922,930, which were processed by the Office of General Services of the Administrative Division during the same period covered by the review through the SAP purchasing system, except for low-value credit card and petty cash transactions.

13 In general, the policies, controls and procedures in the procurement of goods and services, as provided in the existing Procurement Manual were appropriate and adequate in promoting efficiency and economy, accountability and transparency. However, the review has identified some measures to strengthen and improve the existing controls and procedures in the process of requisitioning, tendering, evaluating of bids, awarding and managing of contracts.

14 Appropriate recommendations were made to ensure compliance with and to enhance the existing controls and procedures by: assessing vendors on a regular basis according to the appropriate criteria before registration and to deactivate inactive vendor accounts; inviting to tender bidders that had been vetted and included in the register; obtaining the best final offers or quotations, and evaluating the financial aspects of bids by the procurement staff and not by the requisitioners; ordering goods based on the inventory level in storage; appointing alternate members to the Tender Opening Committee; requiring procurement staff to attend site visits during tendering and sending the records of discussions to all bidders; increasing the threshold for purchases under the current lowest level category; subjecting to market test contracts for voice, data and mobile services. Management agreed to most of the recommendations and confirmed that action has been or will be taken to assess and implement the recommendations.

Audit of the Management of Information, Communication and Technology Equipment

15 The audit was carried out to evaluate the propriety and adequacy of established policies, controls and procedures in ensuring effective management of information, communication and technology equipment (ICT) and to assess compliance thereto in the procurement planning, maintenance of inventory records, monitoring and control over the use and movement, review of obsolete items, conduct of annual physical check, and safeguarding, physical security and accounting of equipment.

16 Adequate policies and guidelines have been developed in the management of ICT, namely, the equipment replacement policy, equipment disposal procedure; procedure for issue and return of laptops; and policy on use of computers. However, the audit found that there is a need to properly monitor the movement of portable ICT equipment and update the inventory database to reflect the correct status, location and users of all portable ICT equipment at any point in time, including items which were reported or could not be located since the last regular physical inventory check. This deficiency was immediately addressed during the audit by investigating the inconsistencies in the records, and subsequently redesigning the database and updating the status of all portable ICT equipment recorded and reported in the inventory database.

17 The audit has identified that there is a need to enhance existing policies in the planning and need assessment process by conducting a post-implementation review of past purchases in ensuring that acquisitions are cost effective and respond to the actual requirements of the Organization. Remedial measures were also suggested to improve and strengthen controls and procedures, and enhance accountability and transparency in the management of all ICT equipment in ensuring that: the use and movement of all ICT equipment are properly monitored and accurately recorded in the database; disposal of obsolete equipment is made at an appropriate period with due consideration of the timing of acquisition; and roll-out plan for new ICT equipment is communicated to staff prior to implementation. These measures should be considered and addressed in an on-going review to update the ICT policies. Management agreed with all the recommendations made and confirmed that actions have already been taken to implement most of the recommendations.

Audit of Payroll 2014

18 The audit covered payroll transactions during the period from January to December 2014 with a total payroll cost of £22,959,872 for both General Fund and Trading Fund, and approximately \$3,078,725 for staff members funded under the donor 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 261 to 276 staff members during the same period, as well as some 25 staff members financed from other funds of the Organization (Regional Co-ordinators, project personnel and Associate Professional Officers).

19 Except for a few inaccuracies, 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 2014, 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. Inaccuracies were noted in the calculation and payment of salaries and the related post adjustment, dependency allowance and special post allowance. These inconsistencies resulted in either overpayment or short payment to at least 15 staff members amounting to some £4,140 and £2,757 respectively.

20 Appropriate recommendations were made to address the deficiencies noted during the audit, requiring corrective or remedial measures and follow-up actions to: refund the short payments to and recover the overpayments from staff members concerned; review and approve retroactively the dependency status report and entitlement for one staff member; properly and clearly document the change in the previously authorized dependency allowance and other entitlement; and strengthen and improve the controls and procedures in the review, authorization and manual processing of special post allowance to ensure that all factors affecting the amount of allowance are taken into consideration. Management has taken

immediate action to implement most of the recommendations by taking corrective and remedial measures to address the inconsistencies or deficiencies noted during the audit.

Audit of Travel

21 The objectives of the audit were to evaluate the appropriateness and adequacy of existing controls and procedures in the administration of travel in ensuring: efficiency and economy of operations; efficient use of resources; proper planning and authorization of travel activities; best value for money fares; accuracy of payments, recording and reporting; and greater accountability and transparency. The audit also verified whether travel activities were carried out in compliance with applicable regulations, rules, and established policies and procedures as set out in the Travel Manual, which was issued during the latter part of 2014. The audit covered travels by staff members on official mission, home leave, education grant, appointment and repatriation, during the period from 1 January to 31 December 2014 with a total travel cost of £2,039,679, irrespective of the funding.

22 Generally, the existing travel policies, controls and procedures, as prescribed in the Travel Manual are appropriate and adequate in assuring efficiency and economy in the administration of travels. All travels were properly authorized and actually undertaken within the approved dates of the event or mission, and travel arrangements, entitlements, and claims were made in accordance with regulations and rules, and policies and procedures. It was also confirmed that the current SAP travel system provides proper and adequate controls and validation rules in ensuring proper authorization, and accuracy of calculation, payment and recording in the accounts.

23 However, the audit has noted that there is a need to strengthen controls in ensuring compliance with the present policies and procedures by initiating travel arrangements no later than two weeks before travel date to take advantage of cheaper fares and to obtain security clearance before travel is undertaken, and in ensuring compliance by the travel agent with contract terms by conducting customer satisfaction surveys and reporting the results to the Organization. The review has also identified some opportunities to improve efficiency and economy by enhancing the existing controls and procedures, and to increase accountability and transparency in the travel planning and arrangements, submission of claim and supporting documents, completion and mission reporting, and obtaining the best value for money fares. Management agreed in principle with most of the recommendation and will assess the recommendations for appropriate follow-up action.

Audit of Separation Benefits and Payments in 2014

24 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 £652,260, which were authorized and paid to 21 staff members who left the Organization in 2014 and prior years.

25 The audit has confirmed that the separation entitlements authorized for payment to staff members were valid, accurate and complete in accordance with Staff Regulations and Rules, policies, established practices and procedures, applicable rates and sufficient supporting documentation. The amount payable for these entitlements were accurately calculated and processed by the System.

26 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 supporting documentary evidence are appropriate and adequate in ensuring the validity of the authorization of benefits and accuracy of the calculation and processing of the balance of accrued annual leave, and termination indemnity and repatriation grant entitlements payable at the time of separation.

Audit of Dependency Benefits in 2014

27 The main objectives of the audit were to assess the adequacy and appropriateness of established policies, internal controls and procedures in the administration, authorization, processing and payment for dependency benefits, and to confirm the validity and accuracy of dependency benefits authorized for payment to staff members in accordance with Staff Regulations and Rules, policies, established practices and procedures, applicable rates and supporting documentation. The audit covered dependency benefits totalling £237,001 authorized and paid to some 118 Professional and 48 General Service staff members during the period from 1 April 2014 to 31 March 2015.

28 In general, the existing policies, controls and procedures were adequate in assuring the validity and accuracy of payments for dependency benefits. Except for some adjustments in dependency benefits for nine staff members, which may result in either recovery or refund action, the verification has confirmed that entitlements to dependency benefits were authorized and paid in accordance with the applicable regulations, rules and policies. The System provides proper and adequate controls and validation rules in ensuring that dependency benefits are processed and paid based on prevailing rates, and that all related financial transactions are charged to appropriate budget lines and accounts. The audit recognized that the new system of submitting the report for dependency status documents via SharePoint facilitates the proper review and efficient processing of the claims for dependency benefits by Human Resources Services.

29 The review has further identified the need to strengthen and enhance controls and procedures in the administration of dependency benefits in order to ensure: accuracy of the established and reported gross income threshold; clarity of information relating to actual child allowance from external sources; and timeliness of the review by HRS of the report of dependency status forms submitted by staff members. Further enhancements on the report of dependency status form processed through SharePoint were also identified by providing a facility to enable staff members to provide additional comments and to edit the form after submission, and to provide validation rule and link between related information. Management agreed with most of the recommendations and confirmed that action has been taken to implement some recommendations.

STATUS OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (2014 AND PRIOR YEARS)

30 IOS has issued a total of 47 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 2014. The reports contained 538 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.

31 The position as at 30 November 2015 of the status of the 538 recommendations, disclosed that 530 (99%) were fully implemented and considered as closed, whilst the remaining eight (1%) recommendations are still in progress. The table below sets out a

summary of the status of implementation of the 538 recommendations contained in the audit reports issued from July 2001 to December 2014.

Period	Reports	Recommendation	Implemented	In progress
Current year (2014)	4	26	23	3
Prior years (2008-2013)	43	512	507	5
Total	43	538	530	8
Percent		100%	99%	1%

32 Of the remaining eight outstanding recommendations, the implementation of which is still in progress, seven recommendations resulting from the audits of: education grant (3) in 2014, cafeteria's operations (2) in 2013, and application of placement and promotion policies (2) in 2012, require actions from Administrative Division and the other one recommendation from the audit of TC SAP project system in 2008 requires action from Technical Cooperation Division.

33 The full implementation of the eight 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 Human Resources Services in the recruitment process; a database of training participants in the SAP system; and changes in the current policies and procedures in the administration of education grant benefit to clarify the documentations required to be submitted by staff members in support for their requests for education grant advance and claim, and the retention period for these documents.

34 The efforts made by Management in implementing a large majority of the recommendations are recognized. However, the importance of implementing fully the remaining eight recommendations should also be emphasized. The status of implementation of the outstanding eight recommendations will be verified in the next follow-up audit towards the end of 2016.

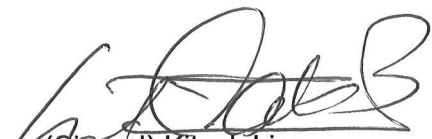
35 A special follow-up audit on the implementation of one of the recommendation relating to the proper use and accounting of personal calls made from an official mobile phone was carried out to ascertain whether the previous audit recommendation was complied with by identifying and marking personal calls on the itemized bill, and indicating the total cost to be refunded for personal calls. Since the audit found that the recommendation has not been fully implemented, additional procedure was carried by examining 25 of the 40 monthly telephone bills from January 2011 to April 2014, which resulted in the recovery of the cost of personal calls amounting to approximately \$6,500. The same recommendation was reiterated for compliance from May 2014, and additional recommendations to take further appropriate action on the facts established and analysis made and to use work mobile phone only for official business.

SECRETARY-GENERAL'S COMMENTS ON INTERNAL AUDIT REPORTS ISSUED IN 2015

36 The results of internal audit assurance and consulting services have been reported to the then Secretary-General who had reviewed and approved all the reports issued in 2015. 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.

37 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 polices, 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.

38 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) Kitack Lim
Secretary-General