

**SUMMARY OF
INTERNAL AUDIT ACTIVITIES AND REPORTS**

FOR THE REPORTING YEAR ENDED 31 DECEMBER 2017

MARCH 2018

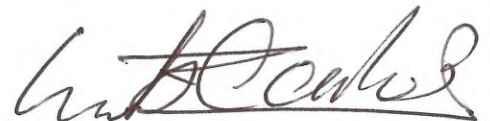
SECRETARY-GENERAL'S COMMENTS

This report summarizes the 2017 internal audit activities and reports issued by the Internal Oversight and Ethics Office.

At the International Maritime Organization, all the internal audit reports are approved by me and issued to the concerned managers in the Organization for their appropriate action. This signifies the importance that I attach to the internal audit activities in assuring and improving the governance, risk management and control processes of the Organization.

With the appointment of the new leadership in internal oversight functions in 2017, a number of initiatives were started to further strengthen the quality of the organizational management and oversight activities with my full endorsement and support. Whilst the present summary report is short, one may notice that the oversight focus has shifted from compliance to more value-adding assurance and insight.

I appreciate the internal audit work conducted by the Office, which reports to me and assist me in fulfilling my responsibility for oversight. I also appreciate the cooperation and assistance provided by the managers throughout the Organization in the internal audit activities.



Kitack Lim
Secretary-General

I. Introduction

1. In accordance with the Terms of Reference of the Internal Oversight, as provided in Appendix II of the Financial Regulations and Financial Rules of the International Maritime Organization (IMO, or the Organization), the Internal Oversight Services (IOS) of the Internal Oversight and Ethics Office (IOEO) is responsible for undertaking internal audits, and reporting the results to the Secretary-General.
2. The scope of work of IOS encompasses all activities undertaken by IMO for which the Secretary-General has responsibility. In addition, IOS was designated as Internal Auditors of the World Maritime University (WMU) and International Maritime Law Institute (IMLI). Hence, the work of IOS also covers all activities undertaken by WMU and IMLI.
3. This summary covers the 2017 internal audit activities and issued reports according to the 2017 approved work plan.

II. Internal Audit Activities in 2017

4. The 2017 annual work plan for internal audit which was duly approved by the Secretary-General included seven internal audit engagements consisting of four special audits and three regular annual audits.
5. Except for one special audit, the internal audit activities planned for 2017 were completed and six internal audit reports have been issued. One special audit related to WMU had to be postponed to 2018 due to the conflicting timing of the planned audit with the then on-going management action that could significantly affect the nature and quality of the audit review.

III. 2017 Internal Audit Reports issued

A. Audit of building management contract

6. The premises of the IMO headquarters are the property of the Host Government. According to the Lease Agreement with the Government of the United Kingdom, costs for major repairs on the premises are shared between the Organization (20 percent) and the Host Government (80 percent). The major repair costs are budgeted under the Headquarters Capital Fund, while the costs for routine upkeep of the building premises and contractual maintenance and services are mostly charged to the regular budget and partly to the Trading Fund. For 2016, IMO recorded approximately £4.2 million of building-related expenses that were broken down as follows: rent and insurance: £1.4 million (33 percent); building maintenance: £ 1.2 million (29 percent); utilities: £0.6 million (14 percent); cleaning services: £ 0.5 million (12 percent); and security services: £0.5 million (12 percent).
7. The audit assessed the appropriateness and adequacy of policies and guidelines, controls and procedures in providing reasonable assurance regarding the effective administration of building management contracts, and to assess validity, compliance and value-for-money of the existing contracts and payments. The audit findings led to 14 recommendations to further strengthen internal controls and procedures in facilities management.

8. Issues reported included: the lack of consolidation of facilities management policies and manuals; non-availability of a full asset list as noted by the Annual Review of Tenant Performing Obligations (AROTPO) by the UK Government Agent, resulting in inability to confirm maintenance to all assets based on either IMO requirements, manufacturer's recommendations or industry's best practice; inadequacies in contract extension process for security and cleaning services; lack of log for building maintenance requests; invoices not supported by sub-contractors' billing details that amounted to £0.4 million (41 percent) out of £0.9 million for contractor payments; and conflict of interest by the vendor providing fire risk assessment service as well as maintenance management and structural engineering service.

B. Review of publishing services

9. The Publishing Service plays an important and unique role in IMO not only in disseminating IMO publications and instruments, but also generating revenues as a commercial function under the Trading Fund. It provides funds for essential activities in IMO, in particular, for undertaking technical cooperation and assistance to the Member States. The Publishing Service generated revenue of around £11.3 million a year on average from 2011 to 2016, with a peak of £12.3 million in 2016 from the sale of printed and digital publications, including royalties and subscriptions.
10. The review was made to: a) assess performance of the Publishing Service in generating revenues and controlling the costs while managing the changing portfolio; b) assess adequacy of governance, management controls and operations in publishing service; and c) ascertain effective and efficient management of operation, efficient and economic use of resources, safeguarding of assets and inventory, and complete and accurate accounting of revenues and expenses. The final report contained five high-level audit recommendations to improve management of publishing services.
11. The audit noted that the annual average revenue growth of all the publishing services and products had slowed considerably to 2.3 percent in the last five years ending 2016, as compared to 6.6 percent in the previous five-year period. Meanwhile, revenue from digital publications, royalties, and subscriptions has seen a rapid increase of 14.2 percent annually on average from 2011 to 2016. The audit further noted in the analysis of 331 titles of physical publications that the top 20 titles, which account for 6 percent of all titles, contributed 89 percent of the revenue in the last three years.
12. Issues reported included: lack of strategy and operational plan for optimum portfolio of publications; insufficient use of electronic publications; needs to address high level of physical stock for the 94 percent of low revenue generating titles; and lack of visible policy on price setting and application of discount rates. The assessment also identified areas in governance, risk management and control systems where improvement can be made, e.g., creation of procedural manuals, a practical operational plan, and succession plan for the Publishing Service; allocation of appropriate resources; and implementation of thorough supplier risk management.

C. Audit of translation and interpretation services

13. The Conference Division of IMO delivers translation and documentation services to the governing body meetings along with other types of services. English, French, and Spanish are the three working languages of the Organization, and all the required documentation for the official governing body meetings are translated and made available in the three working languages. Arabic, Chinese and Russian are the non-working languages at IMO.

Only the final Assembly resolutions, final Council decisions, final reports of the Committees and IMO instruments are translated to and made available in the three non-working languages. All the translated official documents are publicly made available in electronic form through IMODOCS (the IMO's official electronic document library) at a secured internet site managed by the Conference Division. The Division has approximately 57,000 translated pages of documents a year. The Division was supported by 65 staff members at the time of the audit and incurred £7.3 million of expenses in 2016 for staff, documentation and meeting arrangements.

14. The audit assessed the adequacy and effectiveness of governance arrangement, risk management and control processes to achieve the Divisional Objectives of translation, interpretation and documentation services as defined in the Secretariat Business Plan. The audit reviewed: a) divisional governance, b) strategic management; c) UN coordination; d) service delivery and e) administrative matters. However, logistical services for the meetings were not included in the scope of the review. The report, containing 13 audit recommendations, concluded that the assessed governance, risk management and control processes were generally functioning well, but needed some improvement.
15. The audit included assessment of the replies and inputs obtained anonymously from 298 external and internal respondents to the stake-holders' survey that was directly administered by IOS. IOS noted that, in general, the survey respondents had favourable views about the linguistic and documentation services of the Division. They were generally satisfied with the quality and timeliness of the outputs delivered; while indicating that the working languages were appreciated better than the non-working languages. The various tools used for translation, production controls and archiving, which were IMODOCS, IMOTERM, and DCPMS, also received satisfactory ratings, but suggestions were made to improve the functionalities. The result of the survey also showed elements of sound governance, particularly soft ones, in the Division. The staff seemed to clearly understand their roles and responsibilities and appreciated having a good teamwork. The work environment respected cultural diversity. It was free of bias or prejudice on gender matters. Managers treated staff in a fair manner; and staff were generally happy working for the Conference Division.
16. Other issues mentioned in the report included: weakness in reporting line, reporting practice, human resource practice, and referencing services at the Documents, Language Technology and Reference Section; absence of a divisional IT strategy; large backlogs in certain documents; inconsistent job descriptions and absence of linkage between individual and divisional objectives; and absence of professional growth opportunities.

D. Annual audit of payroll, staff entitlements and benefits

17. The salaries of both Professional and General Service categories accounted for more than 75 percent of the total payroll expenditure in 2016. Another 15 percent accounted for pension contributions and the medical, national, accident and security insurances, and the remaining 10 percent accounted for other benefits and allowances, consisting of education grants, dependency allowances, home leave, language allowances, representation allowance and rental subsidy. In 2016, the related payroll and benefit expenditures amounted to £22.0 million for General Fund; £1.7 million for Trading Fund; and US\$2.5 million for Technical Cooperation and Donor Trust Funds.
18. The audit were undertaken to confirm the validity, accuracy and compliance of salary and benefit payments and to identify weakness in the current system and administrative controls for payroll and benefit processing. The report contained 21 audit recommendations to further strengthen internal controls in payroll and benefit processing.

19. The audit confirmed legitimacy, and the current grade and step, of all staff members recorded and reported in the SAP system as at 1 January and 31 December 2016, including the salary rate (dependency or single). In general, the system was accurately calculating the salaries, post adjustments, allowances and deductions, including retroactive adjustments; however, the audit noted some inconsistencies in authorization or manual calculation of entitlement; application or implementation of relevant staff rules for special post allowance; validation rules for rental subsidy; pay slip display of the system; and information recorded and reported in the HRS log that was used and maintained by the Human Resources Service of the Administration Division to record personnel actions for each and every staff member.

E. Annual audit of separation benefits

20. A total of 19 staff members separated from the Organization in 2016, consisting of 13 in the Professional and higher categories and six in the General Service category. Out of the 19 staff members, 17 were regular staff members at the IMO headquarters, while the remaining two were project staff members (the Regional Office in Kenya and REMPEC, Malta). The total amount of separation payments in 2016 amounted to £400,000, consisting of accrued annual leave (46 percent), repatriation grant (39 percent), termination indemnity (13 percent), repatriation travel (2 percent).

21. The audit were carried out to ascertain the authorization, validity, accuracy, completeness and compliance of the separation benefit calculation and payments. The report contained one audit recommendation for corrective action, calling for recovery of overpayment of unpaid leave from one separated staff. All other payments were verified valid and accurate.

F. Follow-up audit of 2016 and prior year audit recommendations

22. At the beginning of 2017, 37 audit recommendations were outstanding from 11 audit reports issued in 2016 or prior years. A follow up audit was conducted in December 2017 with additional steps in January 2018 to validate the implementation of the recommendations during 2017.

23. The result of the review showed that 16 recommendations (43 percent) were implemented in 2017; 21 (57 percent) were outstanding with 13 (35 percent) "in-progress" and 8 (22 percent) "not implemented" as at the end of 2017. The overall cumulative rate of implementation was 74 percent, with 61 audit recommendations implemented by the end of 2017 out of 82 recommendations issued in the 11 audits.

24. Among the eight "not implemented" recommendations, one recommendation in travel audit (October 2015) that pertains to obtaining of pre-trip security clearance is of high priority in the view of IOS and required immediate implementation. The other seven were determined "not implemented" mainly due either to submission of inadequate supporting documentation or lack of submission of adequate documentation by the management to prove implementation. The Audit urged relevant managers for further action on implementation.

IV. Other Internal Audit Activities

25. IOS continued to provide ad hoc advisory services to strengthen controls and procedures, improve operational efficiency, and facilitate implementation of audit recommendations. These advisory services were provided on ad hoc bases.
26. In 2017, IOS experienced a high rate of staff turnover. IOS reviewed its staffing structure and re-established staff positions. Vacancy notices were advertised in early 2018 to fill the open positions. Despite the vacancy rate of 50 percent at the professional and higher categories for the most part of 2017, IOS was able to complete the 2017 work plan audit activities except for the one internal audit that had been postponed to 2018. IOS was provided with sufficient budgetary resources to conduct its activities in 2017.
27. IOS started an initiative to improve the quality of annual internal audit activities in 2017 under the new leadership. The initiative is aimed to enhance compliance with the Institute of Internal Auditors' International Professional Practices Framework and covers multiple elements to improve the quality of risk-based and objective assurance, advice and insight.