

COUNCIL
114th session
Agenda item 4(b)

C 114/4(b)/1
13 May 2015
Original: ENGLISH

RESOURCE MANAGEMENT

(b) Accounts and audit: accounts for the financial period 2014 and transfers within the 2014 budget

Note by the Secretary-General

SUMMARY

Executive summary: This document presents the report of the External Auditor on the Financial Statements of the International Maritime Organization for the financial period ended 31 December 2014

Strategic direction: 4

High-level action: 4.0.1

Planned output: 4.0.1.1

Action to be taken: Paragraph 3

Related document: C 114/4(b)

Introduction

1 The document presents the long-form report of the External Auditor on the Financial Statements for the financial period ended 31 December 2014 together with the Management responses to the Audit recommendations attached in the annex.

2 The Secretary-General has accepted the External Auditor's recommendations, which he considers as contributing to strengthening internal controls and further ensuring the integrity of the Organization's financial information and accounts, and he will, therefore, ensure that appropriate action is taken to implement those recommendations.

Action requested of the Council

3 The Council is invited to:

- .1 note the information contained in the annex, namely, the External Auditor's long-form report for the financial period ended 31 December 2014; and
- .2 examine, in accordance with financial regulation 12.10, the said audit report and forward it to the twenty-ninth session of the Assembly with such comments as it may deem advisable.

ANNEX

**REPORT OF THE EXTERNAL AUDITOR ON THE ORGANIZATION'S FINANCIAL
STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014**

**The Chairman
114th Session of the Council
International Maritime Organization
4 Albert Embankment
LONDON SE1 7SR**

**Report of the External Auditor on the Financial Statements of the International
Maritime Organization for the year ended 31 December 2014**

Introduction

1 In pursuance of Article XII of the Financial Regulations of the International Maritime Organization (IMO) and Appendix I annexed to the Regulations, we have carried out between 23 February and 30 March 2015, an audit of the Organization covering the period 1 January to 31 December 2014. Matters arising out of the audit were discussed with Management and the comments and responses received have been taken into account in issuing this Report.

Scope of audit

2 The scope of the audit included a review of the financial statements of IMO to determine whether they have been prepared in accordance with the Financial Regulations and Rules of IMO and the International Public Sector Accounting Standards (IPSAS). Our audit also focussed on cash management, budgetary controls, human resource management, expendable and non-expendable property, corporate governance including Internal Oversight arrangements, the management of Technical Cooperation programmes and Information and Communication Technology systems. We also followed up on implementation of previous audit reports.

Audit objectives

3 The main objectives of the audit were to enable us form an opinion as to whether: the expenses recorded in the year had been incurred for the purposes for which they were approved by the Assembly; revenue and expenses, assets and liabilities were properly classified and were in accordance with the purposes and policies approved by the Assembly and; the Financial Statements presents fairly the financial position as at 31 December 2014.

Auditing standards

4 The audit was carried out in accordance with the International Standards on Auditing. The Standards require that we plan and conduct the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

Audit methodology

5 The audit methodology was designed to ensure the delivery of effective and efficient audit and involved the following:

- gaining an understanding of the Organization, including the regulatory and governance framework within which the IMO operates;
- identifying key risk areas which may have an impact on the control environment;
- determining key controls put in place by management to mitigate those risks; and
- applying appropriate audit procedures, including substantive and analytical procedures to obtain sufficient appropriate audit evidence.

Reporting

6 During the audit, we raised and discussed matters arising out of examinations conducted with key officials responsible for the governance of the account or activity area concerned. These, in the appropriate cases, were followed up with the issue of formal Audit Observations to which responses were provided. The observations and responses received formed the basis for discussions with the Management at the exit conference. Matters brought to the notice of Management and discussed at the exit conference together with relevant issues arising out of the audit were used in issuing formal management letter to the Secretariat for comments. This report contains some of the issues reflected in the management letter which, in our opinion, should be brought to the attention of the Council.

FINANCIAL ANALYSIS

7 The Financial Statements for 2014 were presented in accordance with the Financial Regulations and Financial Rules of the Organization and the format required under IPSAS. The results of analysis of the Financial Statements of IMO for the year ended 31 December 2014 are presented below:

Budget performance

a. Budgeted receipts

8 The actual receipts for the year amounted to £43,079,545, falling marginally by £444,055 or 1.02% against the approved budget of £43,523,600. Whilst the three major sources of income of the Organization (assessed contributions, support cost and trading income) recorded adverse variances, other regular budget income increased by £51,804 to £201,804. The total actual receipts of £43,079,545 for 2014 also showed a decrease of £757,772 or 1.73% compared with £43,837,317 received in 2013. The table below provides a summary of approved budget against actual collections for 2014 and comparison between the current and the previous year:

Table 1: Budgeted receipts and actual performance

Receipts	Approved Budget	Actual Collection	Variance	Actual Collection
	2014	2014	2014	2013
	£	£	£	£
Assessed contributions	30,116,000	29,852,543	(263,457)	30,361,645
Support costs income	1,420,000	1,302,367	(117,633)	1,342,894
Trading income	11,837,600	11,722,831	(114,769)	11,875,566
Regular budget other income	150,000	201,804	51,804	257,212
Total receipts	43,523,600	43,079,545	(444,055)	43,837,317

b. Budgeted payments

9 For the 2014 financial year, IMO budgeted for £45,080,111 as payments to be made for approved programmes and activities against a total budgetary receipts of £43,523,600, indicating a net expected over expenditure of £1,556,511. During the period under review however, actual payments came to £39,586,429, compared with actual receipts of £43,079,545, resulting in an overall "savings" of £3,493,116. Table 2 shows the summary of budgeted payments, actual performance and net results.

Table 2: Budgeted payments and actual performance

Payments	Approved Budget	Actual Payments	Variance	Actual Payments
	2014	2014	2014	2013
	£	£	£	£
Regular budget strategic results	31,714,110	28,791,046	2,923,064	29,012,528
Trading	5,824,238	5,519,375	304,863	5,667,883
Headquarters capital	1,185,359	719,068	466,291	1,013,380
Termination/separation	859,500	850,164	9,336	962,150
Training and development	136,000	110,621	25,379	95,241
Technical Cooperation	5,360,904	3,596,155	1,764,749	4,654,863
Total payments	45,080,111	39,586,429	5,493,682	41,406,045
Net	(1,556,511)	3,493,116	5,049,627	2,431,272

Status of Budget Utilization

10 Our analysis of budget utilization for 2014 disclosed that out of the total approved budget of £45,080,111, a total amount of £5,493,682 or 12.19% was not utilized. This shows an increase over the previous year where the total unutilized budget amounted to £4,004,955 representing 8.8% of the approved budget of £45,411,000 as detailed in table 3 below:

Table 3: Status of budget utilization for 2014

Fund	2014			2013		
	Final	Actual	Unutilized (Per cent)	Final	Actual	Unutilized (Per cent)
	£	£	£	£	£	£
Regular	31,714,110	28,791,046	2,923,064 (9)	31,697,800	29,012,528	2,685,272 (8)
Trading	5,824,238	5,519,375	304,863 (5)	6,197,500	5,667,883	529,617 (9)
Headquarters	1,185,359	719,068	466,291 (39)	1,431,600	1,013,380	418,220 (29)
Termination	859,500	850,164	9,336 (1)	980,000	962,150	17,850 (2)
Training & Development	136,000	110,621	25,379 (19)	142,600	95,241	47,359 (33)
Technical Cooperation	5,360,904	3,596,155	1,764,749 (33)	4,961,500	4,654,863	306,637 (6)
Total	45,080,111	39,586,429	5,493,682	45,411,000	41,406,045	4,004,955

11 The underutilized budget was caused by a number of factors. These include: delays in the filling of a number of vacant posts; savings achieved by the Secretary-General's (SG) review and reform initiative within the Secretariat; deferment of the SAP Business Intelligence programme; postponement of planned Integrated Technical Cooperation Programme (ITCP) activities arising from unforeseen problems and difficulties in the recipient countries and regions due to the Ebola outbreak in these places.

Financial performance**Revenue**

12 Total revenue received by IMO during the year under review amounted to £47,804,829 compared with £47,075,237 received in the previous year, an increase of £729,592 or 1.55%. Whilst Assessed Contributions and Other Revenue showed decreases, revenue received from Donor contributions and Commercial activities increased during the period under review. The details are shown in table 4 below:

Table 4: Revenue on accrual basis

Revenue	2014 £	% Increase/ (Decrease)	2013 £
Assessed contributions	30,116,000	(0.18)	30,170,000
Donor contributions	4,753,099	10.20	4,313,117
Commercial activities	12,638,241	3.67	12,191,317
Other revenue	297,489	(25.78)	400,803
Total revenue	47,804,829	1.55	47,075,237

Expenditure

13 Total expenditure incurred by IMO in 2014 amounted to £45,012,703, compared with £47,606,734 for the previous year, a decrease of £2,594,031 or 5.45%. With the exception of depreciation and other expenses, all other expenditure items declined when compared with those of the previous year.

14 Staff and other personnel cost amounting to £30,848,168 constituted 68.53% of the total expenditure, the single largest item of expenditure, followed by supplies, consumable and other running costs of £5,392,457 which accounted for 11.98% of total expenditure. The details have been shown in table 5 below:

Table 5: Expenditure on accrual basis

Expenditure	2014 £	% Increase/ (Decrease)	2013 £
Staff and other personnel costs	30,848,168	(0.91)	31,132,173
Travel	1,856,941	(9.39)	2,049,288
Supplies, consumables and other running costs	5,392,457	(13.05)	6,201,629
Costs related to trading activities	1,720,206	(6.31)	1,836,130
Outsourced services	1,068,958	(0.80)	1,077,535
Training and development	2,995,501	(5.67)	3,175,548
Currency exchange (gains)/losses	(883,230)	(247.59)	598,453
Depreciation, amortization and impairment	1,033,126	65.10	625,761
Return of unspent funds	48,644	-	-
Other expenses	931,932	2.39	910,217
Total expenditure	45,012,703	(5.45)	47,606,734

Operational results

15 During the year under review, IMO recorded a surplus of £2,792,126 from its operations compared with a deficit of £531,497 which occurred in 2013. This was primarily due to currency exchange gains of £883,230 made during the year and other factors as identified in this report. The surplus was accordingly transferred to the Fund Balances and Reserves of the Organization, increasing this from £12,984,892 in 2013 to £15,777,018 as at the end of 2014.

Financial position

16 A summary of total assets and liabilities of the Organization as at 31 December, 2014 and comments on these are provided below:

Table 6: Total assets and liabilities

ASSETS	2014		2013
		%	
	£	Increase/ (Decrease)	£
Current assets			
Cash and cash equivalents	52,730,302	11.39	47,338,313
Contributions receivable	797,283	(32.48)	1,180,750
Inventories	879,562	16.26	756,517
Advances to sub-contractors	115,792	(23.12)	150,616
Other receivables			
Relating to exchange transactions	1,818,853	11.59	1,629,871
Relating to non-exchange transactions	-		-
Total current assets	56,341,792	10.35	51,056,067
Non-current assets			
Property, plant and equipment	686,271	(33.51)	1,032,177
Intangible assets	309,287	34.54	229,892
Total non-current assets	995,558	(21.12)	1,262,069
TOTAL ASSETS	57,337,350	9.59	52,318,136
LIABILITIES			
Current liabilities			
Payables and accruals			
Relating to exchange transactions	2,909,672	(43.17)	2,032,316
Relating to non-exchange transactions	3,673,276	(0.24)	3,664,403
Provisions and warranties			
Relating to exchange transactions	69,100	0.95	69,765
Employee benefits	206,318	5.22	217,683
Finance lease liabilities	53,647	(7.65)	49,834
Total current liabilities	6,912,013	(14.55)	6,034,001
Non-current liabilities			
Employee benefits	34,613,137	(4.22)	33,210,414
Finance lease liabilities	35,182	60.39	88,829
Total non-current liabilities	34,648,319	(4.05)	33,299,243
TOTAL LIABILITIES	(41,560,332)	(5.66)	(39,333,244)
NET ASSETS	15,777,018	21.50	12,984,892

17 As at 31 December 2014, total assets of IMO stood at £57,337,350 compared with £52,318,136 at the end of the previous year, an increase of £5,019,214 or 9.59%. Cash and cash equivalent amounting to £52,730,302 constituted 92.0% of the total assets.

18 Total liabilities stood at £41,560,332 at the end of the year, compared with £39,333,244 for the previous year, showing an increase of £2,227,088 or 5.4%. Long-term employee benefit of £34,613,137 accounted for 83.3% of the total liabilities, whilst Payables and Accruals in respect of exchange and non-exchange transactions of £6,582,948 accounted for 15.8% of the liabilities. At a current ratio of 8:1, our analysis showed that the Organization will be able to meet its short-term obligations as and when they fall due.

MANAGEMENT ISSUES

ASHI funding strategy

19 In pursuance of Regulation 6.2 of the Staff Regulations, the Organization has established a group health insurance scheme, the After Service Health Insurance (ASHI), for staff and their dependents at subsidized premiums to be paid to a third party insurer. Under a cost sharing formula approved in 2002 by Council, a contribution ratio of two thirds by the Organization and one third by staff members was agreed towards the payment of staff medical insurance for active and retired staff.

20 Our review of actuarial valuation of ASHI liabilities revealed that the Organization uses the long-term corporate bond rate prevailing in the international markets and other factors such as increases in life expectancy and medical costs to determine the discount rate to be applied in determining the Organization's liabilities. We noted, in this respect, that investments of surplus funds in the Termination Benefits Fund (TBF) are made in short-term deposits of less than one year duration although the Organization is allowed, under Financial Regulation 9.2, to make investments for periods longer than one year of cash not needed, as determined by projected cash flow of the Organization.

21 A trend analysis of the Organization's ASHI liabilities, covering a four year period 2011 to 2014, revealed that in 2011, the liabilities amounted to £24,254,786 and increased in 2012 to £25,687,867, a margin of £1,433, 081 or 5.0 percent. In 2013 however, there was a significant increase, from £25,687,867 recorded in 2012 to £28,868,716, a difference of £3,180,849 or 12.38 percent over 2012. In 2014, the liabilities increased to £30,633,564, a margin of £1,764,848 or 5.91 percent over the previous year.

22 The trend analysis indicated that the "pay as you go" financing model being operated for ASHI could expose the Organization to the risks of escalated costs, arising from increases not only in the liability itself but also its servicing expenses, and may consequently begin to consume a greater proportion of the annual budget of the Organization.

23 We observed, in connection with the above, that the Assembly at its twenty-eighth session (A.28/19(c)), approved a new methodology for the measurement of funding gaps in the IPSAS post-employment liabilities, based on the consolidation of the post-employment liabilities of all IMO staff under the TBF, and the transfer of liabilities and corresponding assets in the Trading Fund to the TBF, as well as a levy of seven per cent on the cost (base salary) of all future project personnel. The levy on the project personnel is to ensure that there is adequate funding for both the current and long-term costs of providing insurance to staff working on IMO projects so as to build up funds for the corresponding post-employment liabilities under the TBF.

24 Since IMO does not invest in assets which match the movement in the underlying liability and the likely increase in the cost of servicing such liability in future financial periods, this could affect the availability of funds for the delivery of the mandate of the Organization

25 Our review disclosed that some United Nations agencies have developed medium-term funding plans with the aim of fully funding their employee benefit liabilities instead of the "pay as you go" model. In our view, this funded approach to end-of-service benefit liability will create an asset base which matches the movement of the liability, reducing the Organization's exposure to increases in the liability.

26 Faced with the current global economic challenges, and the pressure on the Secretariat to introduce effective cost saving measures in the administration of the Organization, we recommended that Management should continue to explore feasible funding options which could create an assets base for funding the ASHI liability.

27 Management explained that the SG has, on several occasions, presented to the Council various ways and means of establishing a stable strategy for the purposes of ASHI funding and that Management will continue to explore various feasible options and alternatives to fund the Organization's post-employment liabilities, so as to mitigate any associated risks and establish a sustainable and firm funding base for the future.

Review of special contingency account

28 We observed that the Assembly, at its twenty-eighth session, approved the establishment of a Special Contingency Account (SCA) in the General Fund with an initial amount of £2 million to be provided by savings generated from the 2012-2013 biennium budget.

29 The SCA is to provide a cushion for any shortfall in budgetary allocation for staff emoluments arising out of revised salary structure and other conditions of service approved by the International Civil Service Commission (ICSC) for the United Nations family system. The SCA is also intended to ensure that increases in staff costs do not affect availability of funds towards the execution of the programmes and activities of the Organization.

30 Our review disclosed that other than the amount used in creating the SCA within the General Fund, no provision has been made to cover, among other things, additional sources of funding, thresholds for investment of the moneys in the Account and replenishment mechanisms where moneys in the Account are used for other purposes.

31 In our opinion, sustainability issues could arise in the future if innovative measures are not initiated to manage the SCA within the General Fund.

32 Management explained that the Account is intended to provide a short-term buffer against unexpected salary increases arising from decisions of the ICSC and the United Nations General Assembly on staff emoluments and, in particular, to cover those increases that might otherwise have a consequent and immediate impact on assessment levels and therefore not intended as a fund to be built up over time to support a long-term liability, as might be the case for the funding of the Organization's ASHI.

Statement on internal control

33 According to Appendix II of the Financial Regulations of the Organization, the Internal Oversight Services, (IOS) was established to incorporate the functions of internal audit, evaluation and investigation under a single mechanism for the purpose of assisting the SG in

the implementation of Financial Regulation 10.1. The administration of ethics in the Organization has been added to the functions of IOS which is currently called Internal Oversight and Ethics Office (IOEO). The scope of work of IOEO, as stated by paragraph 11 of Appendix II of the Financial Regulations, encompasses all activities undertaken by the Organization for which the SG has responsibility.

34 Financial Regulation 10.1 requires, among other things, the SG to maintain an internal financial control to ensure the economic use of the resources of the Organization. The objectives of the internal audit section of IOEO, as established under Appendix II, are to ensure that management has established clear policies and procedures and that there is an adequate and effective system of internal controls for providing assurance with respect to:

- a. integrity of financial information; compliance with established regulations, rules, policies and procedures in all operations; and the safeguarding of the assets of the Organization;
- b. the economic, efficient and effective use of resources in operations and identifying opportunities for improvements; and
- c. effectiveness of programme management for achieving stated objectives consistent with policies, plans and budgets.

35 We noted that a Statement of Internal Control is not required under IPSAS to be presented as part of the Financial Statements of the Organization. In practice however, IMO has, in the SG's Statement on the Financial Statements, been making reference to an established framework of internal controls, including internal oversight, designed to maximize the effective and efficient use of its resources and safeguard its assets in addition to the risk management framework. This practice, in our view, is not adequate to reflect the requirements of a Statement of Internal Control, an emerging corporate governance principle, which has been integrated into the financial statements of some organizations, including those in the United Nations family system.

36 A Statement on Internal Control is a means by which an organization communicates its approach to, and responsibility for, risk management, internal control and corporate governance. It also serves as the vehicle for highlighting weaknesses which exist in the internal control system within the organization and outlines, among others:

- a. management's scope of responsibilities;
- b. the purpose of the system of internal control and how it addresses the risks of failure and whether it was working all year;
- c. the organization's capacity to handle risks and how the entity learns from best practices;
- d. the risk and control framework, with a description of the key elements in the risk management strategy, such as how risks are identified, evaluated and controlled; and
- e. a review of the control effectiveness that would include a confirmation by the Head who has overall responsibility for reviewing the effectiveness of the system of internal control, taking into account the work carried out by internal audit, external audit, and the entity's managers, confirming that a plan is in place to address any weaknesses identified and to ensure continuous improvements.

37 We are of the view that the non-inclusion of a statement on internal control in the Financial Statements as adopted by other members in the United Nations family system may not provide adequate assurance to stakeholders on the effectiveness of internal control which is informed by the work of the IOEO as well as the work of the SG who has the ultimate responsibility for the maintenance of the internal control framework.

38 We recommended that the Organization should start working towards the adoption of this best practice, already in place in other United Nations organizations, and move towards the issuance of a Statement on Internal Control as part of its financial reporting requirements to provide assurance to all stakeholders that the IMO is appropriately managing and controlling the resources that have been entrusted to it.

39 Management agreed and indicated that a Statement on Internal Control has been made a part of the Divisional Business Plan for 2014-2015 and that work has begun and briefings provided to the Senior Management Committee during 2014 and this has led to the agreement in principle to introduce such a statement after 2015.

E-recruitment to enhance efficiency

40 Staff Regulations 4.2 and 4.3 require that appointment, transfer or promotion of staff shall be based on the necessity for securing the highest standards of efficiency, competence and integrity and from as wide a geographical basis as possible without distinction to race, sex and religion.

41 The Staff Regulations, in our view, place an obligation on the Organization to establish a transparent recruitment process with clear, comprehensive and documented procedures to be followed by its administrative officials. These should be supported with guidelines within which recruitment action should be initiated and completed to allow recruited persons to enter the Organization at the appropriate period of time to perform their duties.

42 We noted that under the existing arrangement, appointments and recruitment in IMO are initiated by a declaration of vacancy and job description by the Human Resource Section (HRS) and that these are published for a period. Applications received are sorted and captured in a database after which a short listing is carried out by HRS together with the relevant supervisor. Successful applicants are interviewed and recommendation memos are prepared by the supervisor for approval by the Appointment and Promotion Board for posts up to P3, whilst P4 position and above are approved by the SG before formal appointment letters are issued by HRS.

43 Our audit disclosed that no specific lead times have been established to guide the recruitment processes of the Organization. We also noted that sorting and capturing of information on applicants into the HR database and shortlisting are mainly done manually which could be tedious and time consuming.

44 Our review of data on the recruitment of 30 new appointees for 2013/14 disclosed that it took an average of 160 days for external recruitment and 116 days for internal recruitment to be initiated and completed (from date of vacancy announcement to date of offer of appointment). The analysis also showed that the time taken to recruit external staff ranged between 31 to 273 days.

45 In our view, the absence of recruitment lead times does not ensure efficiency of the process. Additionally, delays in recruitment or appointment into vacant positions could invariably affect adversely, planned programme delivery timetables of the Organization.

46 We recommended that Management should establish a framework for the specification of lead times for the filling of vacant positions in the Organization and develop an e-recruitment system to enhance the efficiency and effectiveness of the current recruitment processes.

47 Management agreed with the recommendation and indicated that the introduction of a recruitment software, subject to appropriate analysis of costs and benefits, will be considered including the establishment of a lead time for the recruitment process. Management added that the JIU-recommended lead time for the United Nations system of 120 days from the issuance of a vacancy notice to the time an offer is made could be facilitated if the process is suitably automated and that this will be pursued.

Strengthening staff performance appraisal system

48 IMO has established a staff performance appraisal system which was last reviewed in 2007. The system requires staff and supervisors to establish goals at the beginning of the period, and provides mid-term review and year end assessment of performance.

49 Beyond periodic appraisals, an effective staff performance management system also highlights achievements, strengths and success of staff for appropriate reward whilst identifying training and staff development needs. The existing system lacks not only these features but objectivity and does not ensure fairness which could impact negatively on staff morale and performance.

50 We noted that the HRS, has in recognition of these shortcomings, carried out an assessment of the current system which identified among others, the following weaknesses for remedial action:

- the system is neither connected with other human resources elements such as rewards or sanctions, nor is it linked with a staff development system;
- the "goal-setting" process, on which the current performance management mechanism is based, is not suitable for functions that are not specifically project-based;
- competencies are not standardized across the Organization and different yardsticks are applied to staff members;
- the appraisal forms are considered too cumbersome and long; and
- the current rating system is arbitrary and tends to suffer from leniency or strictness of supervisors with no supporting evidence on why a particular rating is given.

51 In connection with above, HRS we noted, has since 2013, submitted proposals to the Senior Management Committee (SMC) for consideration. But at the end of our audit in March 2015, the proposals had not been approved. The proposals among others include:

- the use of a simplified appraisal form linking performance outcomes to staff development and training, reassignments;
- introduction of a matrix of competencies relevant for the most common occupational groups;

- adequate substantiation of the rationale for the ratings; and
- automation of the staff performance appraisal process.

52 In order to strengthen the staff appraisal system to boost staff morale to effectively deliver the Organization's objectives, we recommended that IMO should consider the proposals made by HRS on the reformation of the existing staff performance appraisal and provide a policy guideline for the implementation of the revised appraisal system.

53 Management agreed with the recommendation and explained that a number of proposals has been referred to the SMC for consideration and that while some of the proposals have been implemented, others are yet to be introduced, awaiting the outcome of ongoing work by the United Nations on a new appraisal system which could be advantageous for IMO.

Review of enterprise risk management

54 We noted that Council, at its 112th session, decided that the Risk Management Framework (RMF) of the Organization which was applicable to the Organization's Strategic Plan and High-level Action Plan should be applied only to the Secretariat's Business Plan (C 112/D). However, our audit of the period under review indicated that the Enterprise Risk Management (ERM) process initiated under the RMF has not been completed, and as a result the IOEO did not in 2014 carry out, as part of its core role of internal audit, assessment of risk management practices in the Organization.

55 In our view, ERM is a systematic management process that provides reasonable assurance regarding the achievement of an entity's objectives and provides the framework for identification of risks and the means for managing such risks. For successful ERM implementation, best practice requires its integration into core activities of the organization, with clearly defined roles and responsibilities for all players, including independent oversight and evaluation roles. We therefore called action to be expedited on these matters.

56 Management explained that with the introduction of the Divisional Business Plans for the current biennium, the risk management process has now been more closely integrated with the planning process and that the database to capture the risk information has been developed to ensure a consistent approach to risk management throughout the Secretariat. It added that the Executive Office of the SG (EOSG) will carry out a status review on the risk management exercise in the 2014-2015 biennium by the end of April 2015, and will provide the SG and SMC with an update on how the Secretariat is managing its risks, after which IOEO will review the effectiveness of the risk management processes.

Integration of standalone systems in evaluating needs assessment

57 IMO being specialized agency of the United Nations for the maritime sector has a global mandate to ensure "safety, environmentally sound, efficient and sustainable shipping through cooperation". For this reason, and as mandated by the Convention that created the Organization, IMO has established an ITCP, with the sole purpose of assisting developing countries to build up their human and institutional capacities for uniform and effective compliance with the Organization's regulatory framework.

58 By fostering capacity-building in the maritime sector, the ITCP helps developing countries to carry out needs assessments to identify programme and activity proposals for inclusion in the ITCP, ensure that regional and country needs are properly integrated and issues of ownership are reviewed and reflected in the design of the programme.

59 Our review of the formulation process of ITCP activities showed that this involves the consideration and integration of certain core elements to ensure comprehensiveness, collaboration and consensus building in the design and successful implementation of the activities. The core elements include regional needs, the thematic priorities of the Organization, country maritime profiles, donor interests and feedback or lessons learnt from previous technical cooperation activities and projects.

60 We observed that, the Organization has internally developed a Global Integrated Shipping Information system (GISIS) module, which enables countries (authorized users only) to input their country maritime profile data directly and provide storage for data as well as a vehicle for retrieval and analysis of stored data. We also observed the Organization has an E-Roster with Missions/Activities module which maintains a database of previous TC activities on country and regional basis and also has interface/integration capabilities with the GISIS. However, these electronic decision support tools (GISIS and E-Roster) have not been integrated and are operating as standalone systems.

61 We are of the our view that significant benefits can be achieved by integrating the E-Roster and the Country Maritime Profile applications to aid the Organization to maximize efficiency in determination of the real technical assistance needs, taking into consideration information on previous mission activities carried out in those countries. Such integration can facilitate automated analysis of ITCP across countries and avoid duplication of effort and resources (standalone systems), through constant status review, monitoring and automated exchange of information.

62 We recommended that Management should expedite action to integrate the E-Roster with the GISIS to develop a common search engine, which can facilitate interoperability and access by the different users to analyse and determine needs assessment of countries during the formulation of ITCP activities.

63 Management agreed with the recommendation and indicated that the issue will be discussed with stakeholders involved in technical cooperation activities to elicit their professional views and recommendations on the matter.

Review of E-Roster

64 We noted that apart from the Mission/Activities module of the E-Roster, which we have commented upon, another module: the Personal History Form (PHF) module has also been developed by the Organization to expedite the selection process for recruiting consultants and to maintain a pool of consultants based on pre-defined eligibility requirements of the Organization. To this end, the PHF module maintains a database of consultants including their respective curriculum vitae (CVs) in a format which has been integrated into the system.

65 The PHF module allows external consultants to register, create their own profiles, login to their accounts and or update their personal information on the public site. We further noted that the Mission/Activities module of the E-Roster provides facilities for the identification and selection of the best candidates for particular mission or activity and permits authorized IMO staff to create, edit, approve the records and manage the activities or missions of the Organization.

66 Our evaluation of the administration of the E-Roster revealed that one of its main objectives is to facilitate and ensure timely selection and recruitment of best qualified candidates for appointment as consultants, through easy search and filtering of the pool of candidates in the Roster. This objective, in our view, can best be achieved if the Roster adequately captures pertinent information about the candidates to enable the Implementation Officers (IOs) and the Divisional Heads evaluate the profiles of the candidates before placing them on the E-Roster.

67 In connection with the above, our review disclosed that the E-Roster does not have an automatic verification functionality to enable the IOs to evaluate the CVs of candidates and make their recommendations for review and approval by the appropriate Divisional Heads. The process is therefore left to the discretion of the IOs as there are no procedures in the TC Procedural Manual on how evaluation should be done and approved.

68 We also observed that the Organization's E-Roster Policy and User Manual has, since 2010, been in draft even though some aspects of the Manual have been embodied in administrative instructions. In our view, the manual will be enhanced by the inclusion of guidelines and criteria for populating and maintaining the database of consultants and the specification of the roles and responsibilities of IOs in the administration of the database. The specification of the roles of the IOs should include when and how the academic and professional credentials of candidates should be checked or subjected to pre-qualification screenings.

69 In our view, the absence of clear guidance in the TC Procedural Manual to be followed by IOs allows for discretion in the evaluation of candidates which could defeat the greater objective of securing many qualified candidates for use by IMO.

70 We recommended that finalization and approval of the Organization's E-Roster Management Policy and User Manual should be expedited to provide for the comprehensive capture of all suitable and qualified persons who have provided their profiles to the Organization.

71 Management agreed with the recommendation and indicated that the issue will be discussed with stakeholders involved in technical cooperation to elicit their personal professional views and recommendations.

Management of recruitment of TC consultants

72 We noted that the Technical Co-operation Advisory Panel (TCAP) of the Organization, which approves recommendations of Implementing Officers (IOs) for recruitment of TC consultants, has been expressing concerns over the preference by some IOs for consultants above seventy years of age against younger consultants with the same expertise.

73 Our audit also disclosed that against the stated policy of the Organization to use registered and interested graduates of the World Maritime University (WMU) and the International Maritime Law Institute (IMLI), as assistant consultants to participate in missions/assignments, under lead consultants, none of the 46 graduates registered with IMO was involved in consultancies awarded by the Organization. The opportunity for ensuring succession planning may be therefore be lost by the non-consideration of WMU and IMLI graduates in the award of consultancies.

74 We also observed that the Organization has established a practice of appointing "local" consultants with the relevant qualifications and experience in regions where activities are being held. However, this practice is not consistently followed. We therefore noted instances where consultants outside the home country/region had been used where local or nearby consultants with the required expertise were available, resulting in added travel costs to the Organization.

75 Our review also revealed that some of the IOs have introduced a good practice in the selection of consultants by providing, in addition to the candidate recommended by the IOs, other qualified consultants in terms of eligibility criteria for consideration by the TCAP. This in our view, should be established as a requirement in the TC Procedural Manual to provide uniform guidance in the preparation and submission of requests for the appointment of TC consultants to the Panel for approval.

76 We recommended and Management agreed to initiate measures to deal with the issues identified in the administration and management of TC activities in the Organization in respect of the recruitment of TC consultants.

Fraud and presumptive fraud

77 The Organization reported that there were no cases of fraud or presumptive fraud during the year 2014.

Follow-up on recommendations from previous audit report

78 We followed up on action taken on recommendations in previous audit reports, the results of which are attached to this report.

Acknowledgement

79. We record our deep appreciation of the cooperation extended by the officers and staff members of the IMO who furnished records promptly and made themselves available freely to explain/clarify matters to the External Audit team whenever required.



RICHARD Q. QUARTEY
AUDITOR-GENERAL of GHANA
EXTERNAL AUDITOR

Accra, Ghana
8 May 2015

STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS AS AT 31 DECEMBER 2014

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>Personal financial disclosure form not developed</p> <p>We noted that the SG intended to introduce the required procedures by 1 January 2014. However, our audit disclosed that as at 31 December 2013, the development of the relevant procedures had not been completed to allow the provisions of Staff Rule 101.2(r) to take effect from 1 January 2014 as intended.</p> <p>We recommended that action should be expedited to ensure the introduction of the due forms towards compliance with Staff Rule 101.2(r) and ethical behavioural requirements of the Organization.</p>	C 112/4(b)1	2013	√			
<p>Utilization of SAP Project System</p> <p>At the time of our audit in March 2014, the required action had not fully been taken although some progress had been made towards the resolution of the problem identified by the IOEO.</p> <p>Our audit disclosed that the SAP PS has simulation functionality which provides records on changes made to programmes and projects of the Organization, but this has not been activated. Revisions to the programmes and activities are therefore done outside the SAP system and used later to update the original programmes and activities.</p>	C 112/4(b)1	2013		√		<p>We will follow up in the next audit after a detailed plan has been develop for the introduction of new SAP functionalities, review these requirements, and the scope of the SAP Project Systems and BI project outcomes.</p>

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>The system has not also been configured to enable an Implementation Officer charged with the responsibility for programme implementation, monitoring and reporting within the ITCP to introduce actual performance indicators (key statistical figures) in the system which will enable TCD to generate, among other things, reports on the number of activities carried out, the number of people trained and the number of consultants recruited (planned and actual).</p> <p>We stressed that high priority should be given to the activation of the SAP PS functionality towards ensuring effectiveness and efficiency in the management of the resources of the Organization.</p>						
<p>Information Systems Security Policy</p> <p>We reviewed the IS Security Policy in terms of the International Security Organization (ISO) 27000 Series of Guidelines and noted that the Policy could be enhanced by the following which are missing in the existing policy and could raise IT risks in the Organization:</p> <ul style="list-style-type: none"> • definition of general and specific roles and responsibilities for information security management; • review and revision cycles for update; and • explanation of security principles, applicable standards, guidelines for security education, training and awareness requirements, and consequences of information security policy violations among others. 	C 112/4(b)1	2013	√			

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>We recommended that the IS policy of the Organization should be benchmarked against ISO 27000 security practices which cover among others:</p> <ul style="list-style-type: none"> • Terms and definitions • Personnel security • Communications and operations management • Compliance – review of security policy and technical compliance 						
<p>IMO Helpdesk</p> <p>During the period covered by the audit, we reviewed 1,498 requests by users which had been lodged with the Helpdesk and noted that out of this number there were 238 requests which were not resolved within the established timelines of the Organization.</p> <p>A further analysis of the 238 cases of delays revealed that Priority 1 cases totalled 69 in number and these, by the established timelines, of the Organization should have been resolved within four hours but took a minimum of 4 days and a maximum of 115 days to be resolved. Priority 2 requests which were 149 in number and should have been resolved within eight hours took a minimum of 4 days and a maximum of 186 days. Priority 3 requests were 20 in number and should have been resolved within two weeks, but out of this number, four requests took a minimum of 33 days and a maximum of 70 days to be resolved.</p>	C 112/4(b)1	2013		√		<p>Management action will be kept under review.</p> <p>We will continue to monitor this situation.</p>

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>Our audit also disclosed that a format for recording helpdesk activities has been established by the Organization but the information required under this format is not always recorded.</p>						
<p>Assessment of the Maritime Knowledge Centre</p> <p>Our review disclosed that since 1991 MKC has been using a software, CDS/ISIS, which is outdated, for library management. The CDS/ISIS does not allow automated recording of book loans and returns, receiving and recording periodicals (series management) as well as provision of information resource in a virtual arena for knowledge sharing.</p> <p>We further noted that the CDS/ISIS software has been installed and operated on a desktop computer and is accessible to only one MKC staff member at a time. This software also lacks sufficient capacity to provide efficient processing for meeting the changing needs and challenges of contemporary library systems, such as managing a wide variety of licensed electronic resources and collaborating, cooperating, and sharing resources with different libraries in the UN family System. The Organization has not been able, through its ICT operations, to provide support for continuing problems faced by users of the software.</p> <p>We are of the view that in place of the outdated CDS/ISIS currently in use, the Organization should consider the procurement of a third generation Integrated Library System (ILS) which is more efficient and cost effective in the management of information resources.</p>	C 112/4(b)1	2013		√		<p><i>Management indicated that procurement of an Integrated Library System (ILS) is underway, with a Request for Proposal for installation of an ILS sent to potential vendors during April 2015.</i></p> <p>We will follow up on the status of the procurement and installation of the ILS.</p>

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>We also recommended that the MKC should develop a formal strategy within the context of the SG Review and Reforms framework which will enable the Organization undertake the task of managing information in a purposeful, comprehensive and coordinated manner using modern information technology like ILS.</p>						
<p>Management of Cash and Investment</p> <p>Our review indicated that the Investment Policy of the Organization does not provide for an optimum level of cash and investments that should be held by the Organization. Further, reporting on activities for which the cash and investment balances are expected to be used; why funds have not been utilized; and whether the funds will be used for intended purposes, are not reported to Council.</p> <p>We recommended that management should (a) include in the report to Council, a clear analysis and explanations on the reasons for the level of cash and investments held; and (b) review the Treasury Policy to reflect the immediate needs and level of investment that should be held to underpin the delivery of IMO activities.</p>	C 112/4(b)1	2013	√			
<p>Working Capital Fund management</p> <p>Our review of the Working Capital Fund (WCF) disclosed that a financial ceiling at which replenishment should be made has not been established for the Fund. Since the terms of reference of the Fund have been widened by Resolution A.1039 (27) to accommodate unpredictable expenditure such as currency losses in the regular budget, we further noted that there has been a continuing reduction in the WCF balance.</p>	C 112/4(b)1	2013	√			

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>We recommended that the SG should propose a ceiling for the WCF for consideration by the Council and approval by the Assembly to provide further guidance on the replenishment of the Fund.</p>						
<p>Long-term human resource strategy</p> <p>Our analysis of staff and other personnel costs for the period 2010 to 2013 indicated that these ranged between 63% and 69% of total expenditure. We noted that to manage and control staff costs, the SG has initiated an appraisal of work methods and job descriptions to improve efficiency and effectiveness as part of his Review and Reforms programme. The results have so far led to the abolition of certain posts, freezing of vacant posts, deferment of recruitments and appointments and the reclassification of certain posts.</p> <p>In this regard, a holistic approach involving external experts would need to be adopted to rationalize the human resource base and requirements of the Organization to address the perennial high staff and personnel costs.</p> <p>Considering that reliance on an in-house expertise to carry out a comprehensive functional review of all posts could lose the benefit of objectivity, we recommended that the exercise should be undertaken with inputs from an external consultant after approval by the Council.</p>	<p>C 112/4(b)1</p>	<p>2013</p>		<p>√</p>		<p>We will progressively monitor the phase implementation of the organizational review and reform, and restructuring and rationalization exercise.</p>

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>Lump-sum option of home leave travel</p> <p>For the period under review, we selected a sample of 13 out of 57 cases of Lump-sum payment under the multi-carrier arrangement for analysis and noted that cost savings of £22,713 would have been achieved on the 13 cases if the carrier-specific air fare purchasing arrangement has been made in place of the multi-carrier arrangement.</p> <p>We further observed that various concerns have since 2004 been raised by the Joint Inspection Unit (JIU) and Internal Oversight Services (now IOEO) over the need to achieve economy, efficiency and effectiveness in the management of travel costs but these have not yet been factored into the SG's Reforms and cost saving initiatives.</p> <p>We recommended that early action should be taken towards cost savings in travel management in the Organization by reviewing the existing policy on Lump-sum payments under Home Leave travel to ensure the adoption of the carrier-specific arrangements which involves the payment of 75% of the least restrictive economy class fare by the least costly scheduled air carrier to replace the current multi-carrier arrangement.</p>	C 112/4(b)1	2013		√		We will continue monitor the inclusion of UN and JIU amendments to the Travel Manual.
<p>Djibouti Regional Training Centre</p> <p>Our audit disclosed that as at 31 December 2013, a total amount of US\$16,907,514 had been lodged into the Djibouti Code of Conduct (DCoC) Trust Fund, managed by IMO, out of which US\$3,062,232.62 had been spent on the DRTC. We further observed that, although IMO provided all the necessary funds and met all the deadlines, the project as at March 2014 had fallen behind</p>	C 112/4(b)1	2013	√			

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>schedule by 18 months, due to reported technical and administrative challenges.</p> <p>We also noted that in October 2011, an informal meeting was held at IMO headquarters in London between IMO and EU delegation to discuss the building and financing issues. The meeting, among other things, identified some factors which could jeopardize the completion and use of the facility and this included consistent negative feedback for Djibouti as a venue for IMO regional training.</p> <p>We recommended that in formulating MOUs in future, all potential risks affecting delivery should be identified and risk-mitigation clauses or alternative measures embedded in MoUs or Agreements with third parties to address the risks and their consequences. This, in our view, will help ensure that avoidable costs or losses are eliminated or reduced to the minimum.</p>						
<p>Managing ITCP Impact Assessment Exercise</p> <p>We reviewed the evaluations policies and procedures of the Organization and noted that whilst Section 6.6 of the Technical Cooperation Programme Procedures Manual (TCPPM) of IMO stipulates that evaluation in IMO may be carried out by staff of the IOEO or by independent consultants and that staff of TCD should not get involved as evaluators but are to provide technical information as needed, Section 6.6.2 of the same manual allows TCD to manage internally the engagement of consultants to carry out the IAE every four years.</p>	C 112/4(b)1	2013	√			

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>In our view, as the TCD is responsible for the planning and execution of Technical Cooperation Programmes and Activities, the IAE required to be carried out by consultants should be managed independently of TCD to ensure a balance in the performance of the evaluation function in the Organization.</p> <p>We recommended that the IOEO which is functionally responsible for the performance of the evaluation function in the Organization should manage the IAE process including the engagement of consultants where necessary.</p>						
<p>Progress of TC programmes</p> <p>Our review showed that whilst the completion rate for the programmes and activities during 2013 was 79%, the expenses of US\$23,703,818 from the allotment of US\$30,981,430 represented 88% of funds spent. We further noted that 19 activities or 7% could not be completed as per their planned dates of completion in 2013 and were rolled over to 2014.</p> <p>We recommended that in planning for future programmes, the Organization should make the implications of rescheduling planned activities known to the beneficiary/host countries and seek to obtain firm commitments and assurances before finalizing activity execution plans.</p>	C 112/4(b)1	2013	√			

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>Revenue collections at the cafeteria</p> <p>We noted that the mode of payment by customers of the Cafeteria is by cash and that the cash collections are recorded on a till and accounted for on a weekly basis before they are banked. We recommended that the Organization should explore the possibility of automating cash collection at the Cafeteria and introducing smart cards for its customers for this purpose.</p>	C 110/4(b)1	2012	√			
<p>Unfunded ASHI plan</p> <p>We noted that the ASHI plan is unfunded meaning that the Organization's obligations to present and former employees are paid out of current income rather than from a separate fund to which it has contributed over time. We recommended that the Organization should establish mechanisms to fully fund the liabilities under the ASHI plan as early as practicable.</p>	C 110/4(b)1			√		Management action will be kept in view.
<p>SAP HR functionality</p> <p>Our review disclosed that the HRS lacks the capability to directly use the HR Query Manager to generate customized report on employee details for management, causing HRS to export data from the SAP HR module for analysis by using Microsoft Excel to manipulate and generate employee information required by management as well as other users.</p>	C 110/4(b)1	2012		√		Work is in progress. Implementation of the BI project deliverables should be accelerated and time scale established for monitoring purposes.

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>We recommended that:</p> <p>(a) staff of HRS should be given additional training on the HR Query Manager with particular emphasis on HR business processes to attain user satisfaction; and</p> <p>(b) the SAP Unit and HRS should strengthen collaboration to ensure the identification of existing and emerging need of HRS to facilitate the operational effectiveness and efficiency of the HRS.</p>						
<p>Reform agenda without timelines</p> <p>We noted that provision for timelines which are necessary for the monitoring of progress towards planned objectives has not been made by the Organization.</p> <p>We recommended that management should consider the need to attach timelines to the planned review and reform deliverables necessary to facilitate determination of the efficiency, effectiveness, relevance, impact and sustainability of the Review and Reform process of the Secretary-General.</p>	C 110/4(b)1	2012		√		Management action will be kept in view.
<p>Absence of succession planning</p> <p>We noted that succession plans to promote the capability of the Organization to rely on its human resource base to fill strategic vacancies are yet to be formally established and implemented.</p> <p>Considering the high age profile of the staff members in the professional and higher grades, we recommended the fast tracking of the establishment of succession planning in the corporate management practices of the Organization to ensure knowledge transfer and maintenance of institutional memory in the Organization.</p>	C 110/4(b)1	2012		√		Management action will be kept in view.

Summary findings and recommendations	Report Reference	Financial period first made	Fully implemented	Under implementation	Not implemented	Auditor's comment
<p>Review of High-level Action Plan target completion year</p> <p>We noted that the target completion date for 120 (38%) out of 314 planned outputs under the HLAP has been described as "continuous" while 3 (1%) of the outputs have no time limits assigned to them. In the circumstances, it will be difficult for an impartial assessment to be undertaken into the delivery of planned outputs against resources consumed and target completion dates.</p> <p>We recommended that to facilitate performance measurement, the Organization should provide specific target year for completion of all planned outputs.</p>	C 110/4(b)1	2012	√			Management action will be kept in view.
<p>Linking costs to divisional performance</p> <p>Our review of budget performance by the divisions disclosed that there was a lack of result-based framework that effectively establishes clear linkage between outputs achieved in relation to divisional business plans and resources allocated. The Internal Oversight Services (IOS) or the Policy and Planning Unit (PPU) within the Secretariat have also not been resourced adequately to carry out independent impact assessment of the deliverables emerging from the divisional business plans.</p> <p>We recommended that IMO should promote the early establishment of divisional results-based framework to achieve a clear linkage between results and budgetary resources allocated to the divisions.</p>	C 110/4(b)1	2012	√			Management action will be kept in view.