



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

22 May 2020

PROJECT NAME:	STIPEND PAYMENTS TO SECTOR 6B
PROJECT NUMBER:	95986
COUNTRY:	SOMALIA
AUDITOR:	BDO LLP
PERIOD SUBJECT TO AUDIT:	1 JULY 2015 TO 28 FEBRUARY 2019



UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

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Acronyms and abbreviations

DOA	Delegation of Authority
HRDDP	Human Rights Due Diligence Protocol
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
LTA	Long Term Agreement
OC	Operations Centre
PC	Project Centre
RO	Regional Office
SNA	Somalia National Army
TOR	Terms of reference
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USSD	Unstructured Supplementary Service Data
US\$	United States Dollars

Executive summary

The engagement context

From 4 to 28 February 2019, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through BDO LLP (“the audit firm”), conducted an audit of the project ‘Stipend payments to Sector 6 B’ (“the project”) (oneUNOPS project ID 95986), which is implemented and managed by UNOPS Somalia. The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to US\$ 14,387,555 during the period from 1 July 2015 to 28 February 2019.

Audit objectives

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable legislation.

The purpose of the audit was to provide reasonable assurance that:

- a) Client/donor contributions and project expenditure are properly accounted for;
- b) Project expenditure was incurred in accordance with the contribution agreement, and is supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the audit firm provided an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the project’s objectives.

Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IAASB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as partially satisfactory (some improvement needed), which means, “The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area”. The details of the audit results are presented in Tables 1 and 2.

Table 1: Summary results of the financial audit

Project title		Period	Project no.
Stipend payments to Sector 6 B		1 July 2015 to 28 February 2019	95986
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
14,387,555	Unmodified	Not applicable	Not applicable

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Partially satisfactory (some improvement needed)	
Procurement and supply chain	Partially satisfactory (some improvement needed)	
Human resources	Satisfactory	
General administration	Partially satisfactory (some improvement needed)	
Overall rating of internal control	Partially satisfactory (some improvement needed)	

Key issues and recommendations

The audit raised three issues. There are three recommendations, all of which are ranked medium priority, meaning "Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences)."

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.



No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US\$)
1	Finance	Inaccurate expenditure classification	Medium	-
2	Procurement	Lack of competitive procedures performed	Medium	-
3	General administration	Weaknesses in asset management	Medium	-
Total impact on expenditure				-
Total impact on assets				-

Management's comments

The Head of Office of UNOPS Somalia accepted all recommendations.

Signed:

Robert Waters
Partner
BDO LLP

22 May 2019

Operational overview

Security remains one of the biggest challenges that Somalia is facing, and the country expects that the Somalia National Army (SNA) will soon be capable of dealing with a host of lingering threats. The payment of stipend to soldiers not only reinforces the justice system in Somalia, but also mitigates the risk of youth joining violent extremist groups.

In line with Somalia's National Development Plan, the project aims to support the establishment of a unified, capable, accountable and rights-based Somali federal security institution in order to provide basic safety and security for its citizens.

The project originally aimed to pay stipends to a maximum of 4,000 SNA soldiers in AMISOM Sector 3/SNA 60 Division. The initial implementation period was for 25 months from 1 July 2015 to 31 July 2017. The award was first extended for eight months from 1 September 2017 to 30 April 2018 after the project incurred a fund balance of about US\$ 5 million. Some stipend runs were not completed due to a combination of factors, namely:

- a) Non-compliance by the SNA/Federal Government of Somalia (FGS) to the imposed requirement of the Donor (i.e., payment of salary to soldiers). Stipends cannot be retrospectively paid following non-compliance of SNA;
- b) Non-compliance by SNA to ensure that all soldiers receiving stipend have undergone verifiable UN Human Rights Due Diligence Protocol (HRDDP) training on a regular basis;
- c) Drought that happened in 2016 which heavily affected the region, and affected the conduct of the activities of the project;
- d) Severe flooding that happened affecting mobility in the northern parts of South West State in late 2017; and
- e) Continued threats from Al Shabaab not only against the SNA forces, but also against UN personnel in the field. Hence, a number of stipend runs (SRs) were either postponed or cancelled over the life cycle of the award.

In 2018, UN, AMISOM and FGS conducted a joint Operational Readiness Assessment (ORA) and visited all SNA Forces (SNAF) in the country to prepare for the planned withdrawal of AMISOM forces. This exercise took precedent over UNOPS activities and utilised most of the UNSOS flight capacity. As a result of this lack of aircraft capacity, a number of verification exercises during the first half of 2018, including training related to HRDDP, were either postponed or cancelled.

An extension was therefore agreed with the donor in April 2018 for the period from 1 May to 31 July 2018.

The audit team extends its appreciation to the management and staff members of UNOPS office in Somalia for their cooperation during the audit.



Detailed assessment

1.	Title:	Inaccurate expenditure classification	
Functional area:	Finance		
Comparison criteria:	There should be a clear audit trail linking the transactions reported in the financial statement to the accounting ledger in oneUNOPS and to the supporting documentation.		
Priority:	Medium		
Cause:	Guidance	Inadequate guidance or supervision at the RO/OC/PC level	
Responsible manager:	Finance manager		
Due date:	Ongoing		
Financial impact:	-		
Facts / observation:	We noted that some transactions were recorded under an incorrect account. For example, stipend payments, amounting to US\$ 8,672,599 were recorded under the 'grants to institutions' account. The 'UNOPS ICA Fees' account included both UNOPS recruited programme staff and staff seconded by a service provider CTG, for a total amount of US\$ 1,425,708, which should have been recorded under the account 'Consultants'. Moreover, the general ledger does not contain the names of staff, making it difficult to reconcile the information in the ledger to the underlying accounting records.		
Impact:	Lack of clear audit trail between the financial statement, the accounting system and supporting documentation.		
Recommendation:	The project office should ensure that all transactions have an accurate description so they can be linked to the supporting documentation and ensure a clear audit trail.		
Management comments and action plan:	<p>We have realized that accurate account codes and description have been lacking in some instances. We have been working with our system support team in CPH to find solutions and expect to see fewer of these issues arising.</p> <p>In the future, project team will ensure that the transaction lists and certified reports are aligned.</p> <p>Moving forward, we will make every effort in entering more detailed and accurate account information for all transactions and ensure all accounts are closed in a timely manner. This will allow for a quicker and more accurate audit trail.</p>		



2.	Title:	Lack of competitive procedures performed	
Functional area:	Procurement and supply chain		
Comparison criteria:	In accordance with regulation 2.5.2.1 of the UNOPS procurement manual, for a contract, including amendments thereof, awarded to the same vendor for the same project or purpose in the last 12 months, the cumulative amount must be considered when determining the level of DOA required for clearance.		
Priority:	Medium		
Cause:	Guidance	Inadequate guidance or supervision at the RO/OC/PC level	
Responsible manager:	Procurement officer		
Due date:	Ongoing		
Financial impact:	-		
Facts / observation:	<p>UNOPS engaged the services of Amal Bank for a total value of US\$ 46,500, for the development of USSD (Unstructured Supplementary Service Data) banking, a system which enables transactions to be carried out using a code received on a mobile phone, with no requirement for an internet connection.</p> <p>Previously, UNOPS had signed a long-term agreement (LTA) with Amal Bank for mobile banking services, which included Amal Bank representatives physically verifying the recipients of stipends, transferring stipends to them via mobile banking and submitting the payment reports to UNOPS.</p> <p>The new USSD service involved the development and customization of new software, and is therefore a separate service to the one already provided by the bank. However, no separate competitive process was undertaken.</p>		
Impact:	UNOPS may not have received value for money for the service provided by the supplier, and the supplier may not have been appropriately or best qualified to perform the task.		
Recommendation:	Management should ensure all new services, including those offered by suppliers who already have an LTA with UNOPS, undergo a proper procurement process, in line with the UNOPS procurement manual.		
Management comments and action plan:	UNOPS will continue to review ongoing LTAs regularly to ensure that the scope is relevant to the usage. If new services are not covered within the scope of the LTA we will follow the applicable procurement procedures as per UNOPS rules and regulations.		



3.	Title:	Weaknesses in asset management																																					
Functional area:	General administration																																						
Comparison criteria:	<p>The information recorded in the fixed assets register should be complete and accurate.</p> <p>UNOPS financial regulations and rules state that all fixed assets for which the cost exceeds US\$ 2,500 should be capitalised and depreciated.</p>																																						
Priority:	Medium																																						
Cause:	Guidance	Inadequate guidance or supervision at the RO/OC/PC level																																					
Responsible manager:	Fixed asset focal point																																						
Due date:	Ongoing																																						
Financial impact:	-																																						
Facts / observation:	<p>We noted that the following information was omitted from the fixed assets register:</p> <ul style="list-style-type: none"> i. Asset tag numbers ii. Depreciation charge <p>Additionally, the following assets, which had a cost of over US\$ 2,500 each and met the capitalization criteria, were not capitalized at the time of acquisition and instead were expensed:</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Voucher ID</th> <th>PO ID</th> <th>Account description</th> <th>Cost (US\$)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>01250618</td> <td>0000532631</td> <td>Prefab structure / other building</td> <td>133,638</td> </tr> <tr> <td>2015</td> <td>01295682</td> <td>0000564004</td> <td>Machinery and Equipment</td> <td>14,600</td> </tr> <tr> <td>2016</td> <td>100026061</td> <td>105800</td> <td>Acquisition of Communication Equip</td> <td>3,190</td> </tr> <tr> <td>2016</td> <td>100025897</td> <td>105800</td> <td>Acquis of Computer Hardware</td> <td>10,047</td> </tr> <tr> <td>2016</td> <td>100025899</td> <td>105800</td> <td>Acquis of Computer Hardware</td> <td>37,797</td> </tr> <tr> <td colspan="4">Total</td> <td>199,272</td> </tr> </tbody> </table> <p>As a result, these assets were not depreciated and their details were not recorded in the assets register.</p>				Year	Voucher ID	PO ID	Account description	Cost (US\$)	2015	01250618	0000532631	Prefab structure / other building	133,638	2015	01295682	0000564004	Machinery and Equipment	14,600	2016	100026061	105800	Acquisition of Communication Equip	3,190	2016	100025897	105800	Acquis of Computer Hardware	10,047	2016	100025899	105800	Acquis of Computer Hardware	37,797	Total				199,272
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	<p>Prior to the end of the audit period to 28 February 2019, all assets were transferred to a new project funded by the same donor, UKFCO. The donor asked UNOPS to expense the remaining NBV of all assets to the audited project and transfer them to the new project.</p> <p>As the assets in the table above would have been expensed before the end of the reporting period anyway, this observation has no financial impact on total project expenditure or the assets balance. However, in future, management should ensure that it follows the correct asset management procedures and that all assets which meet the capitalization criteria are capitalized and depreciated.</p>
Impact:	<p>Incomplete asset register information could lead to increased risk of asset loss or misuse.</p> <p>Non-compliance with UNOPS policies on asset capitalization.</p>
Recommendation:	<p>Management should ensure that the fixed assets register contains all the required information for proper control over project assets, such as unique asset tag numbers and the depreciation charge.</p> <p>All assets which meet the capitalisation criteria should be capitalised in line with UNOPS financial rules and regulations.</p>
Management comments and action plan:	<p>We realize the weaknesses and need for asset focal points to regularly check all assets to ensure they are tagged and identified and full details are entered into the UNOPS online Asset Register system. UNOPS will take every step necessary to ensure all assets are tagged and included in a more detailed fixed asset register and update it accordingly online.</p>

Annex I - Definitions

Standard audit ratings for overall performance of internal control system

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

- (a) satisfactory (effective),
- (b) partially satisfactory (some improvement needed),
- (c) partially satisfactory (major improvement needed), and
- (c) unsatisfactory (ineffective).

The elements of the rating system take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are, as follows:

Standard rating	Definition
Satisfactory (effective)	The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (some improvement needed)	The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (major improvement needed)	The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
Unsatisfactory (ineffective)	The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity.

Categories for priorities of audit recommendations

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of **priorities** are used:

Categories	Definition
High	Prompt action is considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
Low	Action is considered desirable and should result in enhanced control or better value for money.

Possible causes

The following categories of **possible causes** are used:

- **Guidelines:** absence of written procedures to guide staff in performing their functions;
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate RO/OC/PC policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors;
 - Lack of or inadequate guidance or supervision at the RO/OC/PC level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skill, staff) to carry out an activity or function;
 - Lack of or insufficient resources (financial, human, or technical resources)
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions;
- **Intentional:** intentional overriding of internal controls;
- **Other:** Factors beyond the control of UNOPS