



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

14 September 2021

PROJECT NAME:	UKFCO SOMALI NATIONAL ARMED FORCES STIPEND PAYMENTS PROJECT
PROJECT NUMBER:	21493-001
COUNTRY:	SOMALIA
AUDITOR:	BDO LLP
PERIOD SUBJECT TO AUDIT:	1 AUGUST 2018 TO 31 MARCH 2021

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Acronyms and abbreviations

HRDDP	Human Rights Due Diligence Protocol
HRS	Human Resources System
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
MoU	Memorandum of Understanding
MTPSP	Money Transfer and Payment Services Provider
OC	Operations Centre
PC	Project Centre
PTM	Payment Team Mentors
RO	Regional Office
SNA	Somali National Army
SNAF	Somali National Armed Forces
UKFCO	United Kingdom Foreign and Commonwealth Office
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

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 ‘UKFCO Somali National Armed Forces Stipend Payments Project’ (“the project”) (oneUNOPS project ID 21493-001), 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\$ 8,158,645 during the period from 1 August 2018 to 31 March 2021.

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.
UKFCO Somali National Armed Forces Stipend Payments Project		1 August 2018 to 31 March 2021	21493-001
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
8,158,645	Unmodified	-	Not applicable

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Partially satisfactory (some improvement needed)	
Finance	Partially satisfactory (some improvement needed)	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
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.	Project management	Lack of evidence for receipt of soldiers lists from the SNA	Medium	-
2.	Project management	Inadequate record keeping for project documentation	Medium	-
3.	Finance	Delay in obtaining refunds for unspent stipends	Medium	-
Total				-

Management's comments

The Head of Office of UNOPS Somalia accepted all recommendations.

Signed:



Robert Waters
Partner
BDO LLP

14 September 2021

Operational overview

In July 2014, the United Kingdom Foreign and Commonwealth Office (UKFCO) engaged UNOPS as the fiduciary management agency for its stipends payment to the members of Somali National Armed Forces (SNAF) that were based in AMISOM Sector 3/SNA 60 Division, South West State, Somalia. This was the first engagement which set up the Human Resources System (HRS) to biometrically register and verify soldiers that are qualified to receive stipends from UKFCO. The project - through the payment of stipends to the soldiers - was aimed at supporting 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.

In July 2015, a second award was signed with UKFCO to pay stipends to SNAF members until August 2017, which was later extended until July 2018. The signed Memorandum of Understanding (MoU) targeted a total of 3,500 soldiers in which 3,025 SNA soldiers were actually paid stipend at US\$ 100 per month over a period of two years.

A third award was signed with the donor in August 2018 which covered the stipend project until July 2020. This was the last award from UKFCO which targeted 3,100 soldiers to receive stipends at US\$ 100 per month. The overall budget agreed was US\$ 10,847,390.

It is important to note that during this period the project was under two separate administrations and suffered from the departure of key personnel. On 1 January 2019, UNOPS officially created a separate country office for Somalia. The project oversight was transferred from the Kenya Hub to a specific Country Office team with an in-country presence allowing to strengthen the oversight on programme, finance, HR, procurement and administration related activities.

The overall objective of the project is 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. Specific activities of the project include:

- a) Continuation of stipend payment for 3,100 SNA soldiers who are eligible for stipend payments;
- b) Verification of payment schedule;
- c) Biometric Registration of 3,100 SNA soldiers and maintenance of those records;
- d) Contracts management of the Money Transfer and Payment Service Provider; and
- e) Monitoring and recording the provision of Human Rights Due Diligence Protocol (HRDDP) training to the 3,100 members of the SNA.

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

Detailed assessment

1.	Title:	Lack of evidence for receipt of soldier lists from the SNA	
Functional area:		Project management	
Comparison criteria:		As per the Schematic for Electronic Payments flowchart included in the Project Initiation Document, the SNA forwards the list of soldiers eligible to receive stipend payments to UNOPS. UNOPS then performs the necessary processes and checks to make the payments. Article 3.1.f of the Memorandum of Understanding on Project Funding states that “the Implementing Partner will maintain an accurate record of expenditure and will retain all invoices, receipts and accounting records for up to three years”.	
Priority:		Medium	
Cause:		Human error	Unintentional mistakes committed by staff entrusted to perform assigned functions
Responsible manager:		Project manager	
Due date:		Ongoing	
Financial impact:		-	
Facts / observation:		<p>As per the Project Initiation Document, the stipend payment process is triggered by UNOPS receiving a list of eligible soldiers from the SNA sector commanders. To be eligible to receive stipend payments, the soldier’s biometric information, including their fingerprint and photograph, needs to be present in a biometric database maintained by UNOPS. After receiving the list of eligible soldiers from the SNA, UNOPS should perform checks including verification against the biometric database and physical verification during selected months before approving and making the stipend payments.</p> <p>However, UNOPS was unable to provide the lists as received from and approved by the SNA. We understand that the lists were shared by SNA with Payment Team Mentors (PTMs) on USBs, but no evidence of this was retained. All PTMs had left the project by the time of the audit, and the lists were not found in their emails or other project documentation.</p> <p>We obtained corroborative evidence to confirm that UNOPS performed the necessary additional checks and procedures to ensure that only qualifying soldiers received stipends and that the expenditure was eligible. This evidence included emails containing eligible soldier lists sent by the PTMs to the finance team for payment after the lists were checked against the biometric database, and reports from field verifications performed by UNOPS and members of the SNA to verify the biometric details of the soldiers.</p>	

	<p>Our audit procedures included checking the identification and bank details for a sample of soldiers on the payment list against the biometric database, and no irregularities were identified.</p> <p>Nevertheless, the absence of evidence to confirm that soldier lists came from and were approved by the SNA is a key control weakness.</p>
Impact:	<p>Lack of formal evidence of approval of soldier lists by the SNA.</p> <p>Non-compliance with the Memorandum of Understanding for document retention.</p>
Recommendation:	<p>The project team should ensure that information relating to the soldiers who are to be included in a stipend run is received from the SNA.</p> <p>This formal notification should be retained in a systematic manner that allows for easy retrieval and verification.</p>
Management reply and action plan:	<p>Communication between the beneficiaries, Payment Team Observers (UNOPS contracted staff), and PTM are being filed (since January 2021) electronically on GSuite for other Stipend projects (the last stipend payment for this project was made in June 2020) and being cross-checked by the PCO for complete- and correctness. This information is kept in the project Project Engagement Drive to ensure availability. The concern remains that the SNA does not make use of email on a regular basis. Communication between UNOPS and the SNA remains mostly telephonically or via social media platform (Whatsapp). Reconciliation after each payment is being done to ensure the correctness of all data relating to the payment.</p>

2.	Title:	Inadequate record keeping for project documentation
Functional area:	Project management	
Comparison criteria:	Article 3.1.f of the Memorandum of Understanding on Project Funding states that “the Implementing Partner will maintain an accurate record of expenditure and will retain all invoices, receipts and accounting records for up to three years”.	
Priority:	Medium	
Cause:	Guidelines	Lack of or inadequate Country Office policies or procedures
Responsible manager:	Project Manager	
Due date:	Ongoing	

Financial impact:	-
Facts / observation:	<p>The project team was unable to retrieve supporting documents related to a number of audit queries. The main reason for this was that the employees who had dealt with the issues were no longer working on the project at the time of the audit, and the remaining project personnel could not locate the information.</p> <p>Examples of instances where we were unable to obtain underlying documents from UNOPS are listed below:</p> <ol style="list-style-type: none"> 1. UKFCO approval for the project to stop payments to soldiers in the Gedo region following the re-sectoring of AMISOM areas; 2. Evidence of submission of five quarterly and one annual report to UKFCO; 3. UKFCO approval for payment to 167 replacement soldiers in 2018. <p>We had to obtain evidence in relation to the issues listed above through alternative audit procedures, such as confirmation with UKFCO, and ultimately we were satisfied with the evidence provided. Nonetheless, the absence of important documentation held by the project team itself reflects a failure in the record keeping for which it is responsible.</p>
Impact:	Non-compliance with the Memorandum of Understanding for document retention.
Recommendation:	UNOPS should ensure that there is an adequate system in place to retain all key information and documents, and that these can be easily retrieved despite any changes in project staff.
Management reply and action plan:	<p>Since January 2021, for the USDOS-funded Military Stipend project, which is a similar project, all communications between the beneficiaries (i.e., SNA Danab) and the project through the Payment Team Observers (PTOs- UNOPS contracted personnel) and the Payment Team Mentor (PTM) are now filed electronically in the system (Google Suite). These are saved in PDF format. The Project Coordination Officer (PCO) is regularly cross-checking the GDrive to ensure compliance hence promoting proper filing or recordkeeping.</p> <p>In addition, the project is already producing minutes of meetings or notes on all formal meetings with partners or the donor in relation to stipend payments. This is to ensure that important pronouncements or decisions that affect the implementation of the project are recorded for compliance and file retention purposes. Any communication from the donor that either approves/disapproves a stipend payment, or directs the project to respond to specific concern is already recorded and properly documented.</p> <p>Furthermore, all submissions of reports or updates to the donor as required in the signed MoU are already recorded/saved in the GDrive, apart from the email. These email communications are converted into PDF format and saved in the GDrive. This is to promote proper filing and recording on project compliance to the donor requirements. Besides, in the event of personnel turn-over, these files/documentation will provide an organizational memory for the project.</p>

3.	Title:	Delay in obtaining refunds for unspent stipends																	
Functional area:	Finance																		
Comparison criteria:	Article 3.1.f of the Memorandum of Understanding on Project Funding states that “the Implementing Partner will maintain an accurate record of expenditure and will retain all invoices, receipts and accounting records for up to three years”.																		
Priority:	Medium																		
Cause:	Guidelines	Lack of or inadequate RO/OC/PC policies or procedures																	
Responsible manager:	Finance manager																		
Due date:	Ongoing																		
Financial impact:	-																		
Facts / observation:	<p>UNOPS used the services of a Money Transfer and Payment Services Provider (MTPSP), Amal Bank, in order to make stipend payments to the SNA soldiers. As part of this arrangement, fund instalments were transferred by UNOPS to the MTPSP who made stipend payments to the approved SNA soldiers. UNOPS treated these instalment payments as expenditure at the point the funds were transferred to the MTPSP.</p> <p>In the instances listed in the table below, the total stipend payments made to the SNA soldiers were lower than the respective instalment transfers to the MTPSP. This was because UNOPS requested MTPSP to withhold payments for a specific region based on a request from the donor.</p> <table><tr><th>Stipend run number and period covered by run</th><th>Amount transferred to MTPSP US\$</th><th>Amount paid by MTPSP to soldiers US\$</th><th>Difference US\$</th></tr><tr><td>SR 2.6 for January 2019</td><td>300,520</td><td>220,190</td><td>80,330</td></tr><tr><td>SR 2.8 for March 2019</td><td>291,720</td><td>220,341</td><td>71,379</td></tr><tr><td colspan="3">Total</td><td>151,709</td></tr></table> <p>The amount was refunded by MTPSP to UNOPS only on 18 March 2021, two years after the payments to the MTPSP were made. The expenditure was only reversed in the accounting system at the time of the refund.</p>			Stipend run number and period covered by run	Amount transferred to MTPSP US\$	Amount paid by MTPSP to soldiers US\$	Difference US\$	SR 2.6 for January 2019	300,520	220,190	80,330	SR 2.8 for March 2019	291,720	220,341	71,379	Total			151,709
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Impact:	<p>The stipend expenditure amount reported by the project during the implementation period, ending 31 July 2020, was greater than the actual costs that had been incurred. Furthermore, as the funds were transferred to the MTPSP in January and March 2019 but were not transferred back to UNOPS until March 2021, US\$ 151,709 of the project funds remained idle with the MTPSP for two years. This overstatement corresponds to approximately 1.8% of the total expenditure reporting in the implementation period.</p> <p>However, the financial statements subject to audit cover the period to 31 March 2021, and include a reversal of the associated expenditure. There is therefore no financial impact of this finding as at the reporting date.</p>
Recommendation:	<p>We recommend that amounts transferred to the MTPSP are recorded as advances initially until they are paid to the soldiers. They should be recognised as expenditure only once the final report of payment to the soldiers is received from the MTPSP.</p> <p>Where payments to the MTPSP are made in excess of the amount transferred to the soldiers, either a timely refund should be obtained or the amount should be offset against the next payment to be released to the service provider.</p> <p>We also recommended that a reconciliation between the instalment transferred and the final payment made is prepared after each stipend run to reduce the risk of unspent funds remaining with the MTPSP.</p>
Management reply and action plan:	<p>The stipend expenditure amount reported by the project during the implementation period ending 31 July was in our opinion in accordance with the delivery principle and recognized as accrued expenses in the period in which the military officers performed their duty on the field. In this specific case, the instruction to temporarily hold the payment to the soldiers after the transfer was sent to the MTPSP was due to other external considerations shared by the donor that needed to be verified by UNOPS.</p> <p>This was a temporary measure and was not supposed to impact the validity of the expense based on IPSAS accrual accounting standards, until sufficient information was available to allow the project to reverse the accrued expenses.</p> <p>As the project closure was approaching and since no additional information was available, a reconciliation was performed by the project team and the excess amount of US\$153,159 was returned to the project to reverse the initial expense.</p> <p>In addition, and as a risk mitigation process, a bank guarantee from Amal of US\$710,000 is available to secure funds and could be encashed at any time by UNOPS in case of any breach of contract.</p> <p>The recommendation is well noted, and the project will request a more timely refund of funds paid to the MTPSP in future transactions and avoid idled balances for such a long period.</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.