

**UNITED NATIONS**  
**Office of Internal Oversight Services**  
**UNHCR Audit Service**

Assignment AR2005/112/003  
Audit Report R05/R027

30 December 2005

**AUDIT OF UNHCR OPERATIONS IN SOMALIA**

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**AUDIT OF UNHCR OPERATIONS IN SOMALIA (AR2005/112/03)**

**EXECUTIVE SUMMARY**

In August 2005, OIOS conducted an audit of UNHCR Operations in Somalia. The audit covered activities with a total expenditure of US\$ 5.6 million in 2003 and 2004. A Summary of Preliminary Findings and Recommendations was shared with the Representative in August 2005, on which comments were received by September 2005. *The Representative has accepted the recommendations made and is in the process of implementing them.*

Overall Assessment

OIOS assessed the UNHCR Operation in Somalia as average, it was adequately run but although the majority of key controls were being applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the three partners reviewed, no reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements, except for Danish Refugee Council (DRC).
- At Norwegian People's Aid (NPA), an international NGO, OIOS assessed that the accounting records established for the UNHCR sub-projects were inadequate, with incomplete and inaccurate amounts reported to UNHCR. The expenditure was neither always authorized, nor properly supported at all times. The final financial report was prepared on the basis of undocumented calculations and cost allocations. OIOS found that the expenditure reported to UNHCR was overstated by some US\$ 31,000. *In light of the various shortcomings, the Representation had discontinued its partnership with NPA since 2004.*
- At the Ministry of Resettlement, Rehabilitation and Reconstruction (MRR&R), the Governmental partner, OIOS identified a number of internal controls weaknesses and found evidence of numerous forgeries on the documentation supporting the expenditure, with often a double submission of carbon copies of previous invoices. OIOS found that at least some US\$ 12,000 was supported by forged documents, and that expenditure totalling some US\$ 12,000 was not supported, not budgeted for, and not authorized by the Representation. *The Representative is requesting MRR&R to refund the unsupported amount totalling some US\$ 24,000.*
- OIOS assessed that project financial monitoring was not always effectively performed, as evidenced by the deficiencies noted at implementing partners, the lack of quarterly SPMRs and their verification against implementing partners' accounting records. Sub-project duration and budget were also extended without issuing a Supplementary Sub-agreement. The financial monitoring of Quick Impact Projects (QIPs) needed to be strengthened. Final financial reports summarizing expenditure under QIPs were not submitted by implementing partners.

### Supply Management

- AssetTrak had not been updated for years, and no systematic and comprehensive physical verification had been carried out, except for a recent but incomplete physical count made at the Representation. For those assets recorded, the net book values were overstated given that no depreciation was calculated. *The Representation has now started the physical counts and taken corrective action at all levels, including the correct calculation of net book values of assets.*
- Procurement undertaken by implementing partners needed improvement. Competitive bidding was not always observed and appropriate supporting documents were generally lacking. *The Representation has formally requested implementing partners to comply with the requirements of competition and to adequately document their procurement transactions. Training on UNHCR procurement procedures has also been provided to key implementing partners.*

### Security and Safety

UNHCR Somalia was rated as MOSS compliant. Staff members had successfully completed the mandatory Security Training.

### Administration

- In the areas of administration and finance, the UNHCR Office in Somalia generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, some improvement and strengthening of internal controls was required.
- The Representation made profits and losses over the operations of the United Nations Common Air Services, to which UNHCR was a member along with three other U.N. Agencies. A net profit of some US\$ 21,000 was generated in 2004 but not reflected in the FMIS system, due to the lack of guidance from Headquarters for the accounting of such profits. *The Representation explained that it would consult further with DFSM on the issue of accounting for losses/surpluses of the UNCAS operation.*
- Entries in the FMIS accounting system were not always supported by adequate documentation. Many entries were made on the basis of e-mail communications with field offices, and the supporting documents were only submitted much later, with no evidence of verification of those documents. *The Representation indicated that appropriate corrective measures have been taken.*
- Travel was often undertaken with no prior travel authorisation by the Representation. Information about such travels was only received upon submission of the travel claims to the Branch Office. *The Representation has initiated appropriate measures and indicated that, in future, no travel claims would be settled unless a prior travel authorization is issued.*
- During 2001 and 2002, UNHCR staff in Hargeisa were provided free accommodation in UNHCR guesthouses without a corresponding reduction of SOLAR. OIOS estimated that the SOLAR overpayments, in 2002 alone, amounted to some US\$ 120,000. Since the beginning of 2003, staff are no longer accommodated in UNHCR guesthouses.

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## I. INTRODUCTION

1. From 2 to 19 August 2005, OIOS conducted an audit of UNHCR Operations in Somalia. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Somalia (based in Nairobi, Kenya) and its Sub-Office in Hargeisa and of three of its implementing partners.
2. OIOS' previous audit of UNHCR in Somalia was conducted in October 2000. The review focused on the 1998 and 1999 activities covering expenditure of US\$1.4 million. The main issues raised by the audit pertained to the lack of appropriate legal instruments for Quick Impact Projects, and the inadequacy of financial reporting, monitoring and evaluation of Quick Impact Projects. *OIOS found that these issues had still not been adequately addressed.*
3. Somalia remained without a functioning, recognised central government since the fall of the government of Siyad Barre in January 1991. Despite the establishment of functional authorities in the northwestern and northeastern part of the country, the central and southern zones remain affected by inter and intra clan conflict. The main thrust of the UNHCR programme in Somalia was to promote the voluntary repatriation of Somali refugees to Northern Somalia, to assist their reintegration, and to facilitate the voluntary repatriation and reintegration of refugees wishing to return to southern Somalia, while providing international protection and assistance to urban refugees and asylum-seekers.
4. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 24 August 2005. A Summary of Preliminary Findings and Recommendations was shared with the Representative in August 2005. The comments, which were received in September 2005, are reflected in the final report. *The Representative has accepted the audit recommendations made and is in the process of implementing them.*

## II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations;
  - Safeguarding of assets; and
  - Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

## III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2003 and 2004 programme activities under projects 03 & 04/AB/SOM/RP/370 with expenditure of US\$ 5.6 million. Our review concentrated on the activities implemented by Norwegian People's Aid (NPA) - expenditure of US\$ 327,000; Danish Refugee Council (DRC) - expenditure of US\$ 485,000; and Ministry of Resettlement,

Rehabilitation and Reconstruction (MRR&R) - expenditure of US\$ 427,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 0.9 million.

7. The audit reviewed the administration of the Representation at Nairobi and at Hargeisa with administrative budgets totalling US\$ 1.1 million for the years 2003 and 2004 and assets with an acquisition value of US\$ 1.1 million and a current value of US\$ 193,000. The figures, however, were unreliable given that the AssetTrak system was not up-to-date. The number of staff working for the UNHCR Operation in Somalia was 41. This included staff on regular posts, United Nations Volunteers, and staff on mission.

8. The audit also followed up on findings and recommendations made in the 2000 OIOS audit regarding the implementation and monitoring of Quick Impact Projects.

9. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

#### **IV. AUDIT FINDINGS AND RECOMMENDATIONS**

##### **A. Review of Implementing Partners**

10. For the three partners reviewed, only for DRC could reasonable assurance be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. For NPA and MRR&R, OIOS assessed that the accounting and internal control systems established for the UNHCR sub-projects were inadequate, with expenditure inflated at NPA, and a number of forged supporting documents found at MRR&R.

11. The audit certificates covering the 2003 sub-projects were available for NPA and MRR&R with unqualified audit opinions expressed. However, given the various shortcomings and weaknesses noted at both partners, OIOS questioned the extent and quality of the work carried out by the external audit firms. For DRC, the audit certificate was still not available at the time of the review.

##### **(a) NPA**

12. The transaction reports and ledgers generated by NPA's automated accounting system did not reconcile to the final SPMR submitted to UNHCR. OIOS noted that the SPMRs had actually been prepared on the basis of undocumented calculations and cost allocations. This practice was less than reliable, as it gave no audit trail, and was unacceptable from an experienced international NGO. Consequently, OIOS found that the expenditure reported in the 2003 SPMR had been overstated by some US\$ 31,000, which resulted from various calculation and compilation errors.

13. In addition, OIOS found that the basis for the calculation of overhead costs (the entire 2003 expenditure) was inappropriate, as NPA did not directly implement UNHCR Sub-Projects, but rather operated as an umbrella agency for various local NGOs. Given that some US\$ 235,000 (out of expenditure totalling some US\$ 327,000) was transferred from NPA to local NGOs for the implementation of the UNHCR sub-projects, OIOS pointed out that this amount should be subtracted from the calculation of overhead costs. According to the

UNHCR manual, Chapter 5, section 5.1, when an international NGO acts as an umbrella agency covering the activities of several smaller local NGOs, the value of the activities performed by the local NGOs should be subtracted from the calculation of the overhead costs. On this basis, OIOS calculated the allowable overhead costs to be some US\$ 4,564 instead of the reported amount of US\$ 14,081, an excess of some US\$ 9,500. OIOS recommended that the Representation recover from NPA a total of some US\$ 40,000 representing the overstatement of expenditure and disallowed overhead costs.

14. *The Representation indicated that NPA has been requested to reimburse the overcharge. However, NPA has in turn requested that the amount be offset against their 2002 claim of some US\$ 45,000 representing the last 2002 instalment as per the Sub-Agreement, which had not been transferred to them.* OIOS advised the Representation to find out whether the alleged instalment was actually paid or not, and verify whether the reported 2002 expenditure was bona fide UNHCR expenditure, and included the claimed amount, in accordance with budgetary provisions. If the Representation clearly establishes that the amount was owed to NPA, then it should consider offsetting the recovery (US\$ 40,238) against NPA's claim (US\$ 44,738).

**Recommendation:**

- The UNHCR Representation in Somalia should obtain evidence and establish whether NPA's claim that UNHCR owes it US\$ 44,738 is valid, in which case it should consider offsetting the overstatement of expenditure totalling US\$ 40,238. If evidence cannot be obtained, the full amount should be recovered accordingly (Rec. 01).

15. NPA did not adhere to the clauses of the Sub-Agreement to submit interim SPMRs. The first interim report, which was due in July 2003 for the period ending June 2003, was only submitted in March 2004, well after the end of the sub-project (31 December 2003). OIOS found that most of the reported 2003 expenditure was actually incurred/paid for in May and August 2004, well after the submission of the final SPMR in April 2004 SPMR. OIOS noted that neither of the two and only SPMRs submitted to UNHCR reflected actual payments, and that most of the expenditure could not be traced to NPA's books of accounts. According to NPA, the expenditure was actually reported on a "provisional" basis in the SPMR, and that actual payments were made later. Indeed, OIOS traced the last UNHCR instalment of US\$ 66,624 made on 29 April 2004 to NPA's bank statements, and noted that the amount was only spent in September 2004, five months after the end of the sub-project.

16. OIOS noted that the expenditure was neither always authorized, nor properly supported at all times. In many instances the only documentation supporting the expenditure consisted of financial reports from the local NGOs, excel tables, pictures, etc., which were attached to payment vouchers. There was no evidence of authorisation/approval of the expenditure on the payment vouchers, which in many cases were only signed by the staff requesting the payment, and/or sometimes the accountant. OIOS understands that, in light of the various shortcomings already noted in 2004, the Representation has discontinued the partnership with NPA.

(b) MRR&R

17. While MRR&R accounting system was assessed as satisfactory, OIOS identified a number of weaknesses in the internal controls and found evidence of numerous forgeries on the documentation supporting the expenditure. Many of the invoices attached to the payment vouchers were double submissions of the carbon copy of previous invoices, with clear signs of erased invoice numbers and/or invoice dates. For example invoice numbers 2477 and 2478 amounting to US\$ 2,051 and US\$ 2,184 respectively were first used under PV no. B72/2003 dated 4 November 2003 and charged to UNHCR carbon copies of the same invoices were again used to charge UNHCR under the same budget line under PV no. B113/2003 dated 30 November 2003. There had been a clear attempt to conceal this using whiteout correction fluid to change invoice numbers from 2477 to read '247' and from 2478 to read '78' (erase last and first digits of the original invoice numbers). The month was also manually changed to read month '11' from month '08' on both invoices.

18. There were several such examples, with MRR&R using whiteout correction fluid to conceal forgeries, which resulted in an overcharge of at least some US\$ 12,000. OIOS could not exclude the possibility that many more of such forgeries had taken place, and would remain undetected. In addition, a significant number of payments were not properly supported. For example the payments of staff allowances totalling some US\$ 14,000 was not evidenced, and expenditure totalling some US\$ 12,000 charged to the SPMR had neither been budgeted for, nor authorized by the Representation. OIOS recommended that the Representation recover from MRR&R a total of some US\$ 24,000, and obtain adequate documentation supporting expenditure totalling some US\$ 14,000.

19. *The Representation indicated that a letter has been drafted requesting MRR&R to reimburse a total of some US\$ 24,000 and that the letter would be transmitted officially upon receipt of the final Audit Report. The Representation also indicated that MRR&R has been requested to provide adequate documentation supporting the payments, or refund some US\$ 14,000 if the documentation cannot be produced.*

**Recommendation:**

- The UNHCR Representation in Somalia should request MRRR to reimburse some US\$ 24,000 representing overstated and unsupported expenditure under sub-project 03 & 04/AB/SOM/RP/370 (a\$. Further, MRR&R should provide adequate documentation supporting payments totalling US\$ 14,000. If the documentation cannot be produced, this amount should also be recovered (Rec. 02).

(c) DRC

20. OIOS assessed that the accounting system and internal controls at DRC were generally satisfactory, though improvement was required in the area of banking procedures, report preparation, and procurement. *DRC indicated during the audit that appropriate corrective measures would be taken to address the issues identified. The Representation also wrote a letter to DRC requesting improvement in those areas. DRC informed the Representation, during subsequent meetings that the requested improvement has now been implemented.*



## B. Other Programme Issues

21. OIOS assessed that proper project financial monitoring visits had not been carried out in 2003 and 2004, as evidenced by the lack of project financial monitoring reports, and the serious deficiencies noted with NPA during the audit (lack of interim SPMRs as required in the sub-agreement, lack of final SPMR, inability to reconcile the SPMRs to NPA's books of accounts, lack of proper supporting documents, etc.). *The Representation gave no comments on these shortcomings.*

22. In addition, OIOS noted that the Representation extended the ending date of sub-projects and/or revised sub-project budgets without issuing a Supplementary Sub-agreement. According to UNHCR Manual, Chapter 4 a Supplementary Agreement is required in situation where for instance the implementation (or the liquidation) period of the sub-project is to be extended, or the total financial requirements of the sub-project budget(s) increase or decrease. *The Representation has issued a Memorandum requesting that the relevant rules for extending the sub-project duration and/or increasing/decreasing of the sub-project budget be adhered to in future.*

### **Recommendation:**

- The UNHCR Representation in Somalia should strengthen its project financial monitoring, and ensure that weaknesses/shortcomings at implementing partners are identified on a timely basis, and appropriate corrective actions taken accordingly (Rec. 03).

### Quick impact projects (QIPs)

23. QIPs were implemented through Memorandum of Agreement (MOA) signed with partners and/or contractors, with funds released by instalments and recorded under direct implementation by UNHCR. The selections of the projects were made jointly with the counter-part governmental agency, the line Ministries, and the communities, based on need assessments carried out by line Ministries. OIOS noted that, although the MOAs specifically required that the NGOs/contractors submit final financial reports upon completion of project activities, no such reports were actually produced. In many instances only the receipts/invoices were attached to the project documents, which in OIOS' view, could not allow proper financial monitoring/verification. This issue had already been raised in OIOS' 2000 Audit Report, and we regret to note that this shortcoming remains to be corrected. While the reporting requirement should not be as strict as normally required from implementing partners under sub-project agreement, OIOS felt that final reports the NGOs/Contractors implementing the QIPs should produce summarized expenditure supported by proper documentation. *The Representation indicated that a letter would be written to the concerned partners requesting compliance with the MOA, and that the issue has already been discussed with its Sub-Office in Hargeisa.*

24. OIOS found during its site visits of QIPs implemented that some project activities had not always been completed within the agreed period, or needed strengthened monitoring of the work done. For example, the construction of an operational theatre was completed only after about ten months following the due completion date. The delay was mainly due to the fact that the QIP was co-funded by the host country (at some 50 percent) but the payment had not materialized. Also, serious construction defects were noted on the construction of a

perimeter wall (950 meters long), resulting from poor workmanship that should have been detected, had the Bill Of Quantities (BOQ) been adequately reviewed.

25. *The Representation indicated that, in future, it would only engage in project activities that depend on the successful completion of the inputs of other partners, if it is clear that these complementary inputs would be provided in a reliable and timely manner to ensure the successful completion of the project within a reasonable timeframe. The Representation further indicated that adequate technical review of BOQs and supervision of the work done would be strengthened to minimize construction related defects.*

#### Emergency Assistance to Tsunami victims in Somalia

26. An estimated 650 Km of Somalia coastline was affected following the December 26 Tsunami, which mainly hit South East Asia. The effects in Somalia included the loss of lives, destruction of shelters, houses, water sources and loss of productive assets in particular fishing boats and equipment. UNHCR provided its assistance in two phases: under phase one, which was the emergency phase running from January through March 2005, emergency shelters and NFIs were provided to affected households along with the implementation of eight QIPs projects. OIOS estimated that the implementation rate of the first phase (over 70 percent) was satisfactory.

27. Under the second phase, the focus was on the longer-term goals of rehabilitation and development, which was a continuation of the emergency phase under the same project whose end-date was extended to December 2005. OIOS noted, however, that at the time of the review, only two Tsunami-related QIPs were under implementation. Overall, the expenditure from January through June 2005 was some US\$ 288,000, which represents only a 26 percent implementation rate, which in OIOS' view was low given that by end June 2005 half the calendar year 2005 had already elapsed.

28. *The Representation explained that the low implementation rate was due to delays by UN Habitat in coming up with a framework prior to a full resumption of the rehabilitation phase. In addition the ship used by WFP to carry NFIs was hijacked in June 2005, and had still not been released at the time of the review – this has further slowed down the implementation. The Representation subsequently informed that UN Habitat has meanwhile undertaken the necessary works that held up implementation of UNHCR's Tsunami-related rehabilitation projects, and that WFP managed to successfully transport the NFIs, which have now been distributed. The Representation indicated that the project activities have been completed and that the project is closed.*

### C. Supply Management

#### (a) Procurement

29. The procurement procedures by implementing partners required some improvement. At MRR&R, several payments were made for transport contracts, with no evidence of any competitive bidding, while at DRC there was a general lack of proper supporting documents relating to procurement. In many instances there were no purchase orders, no requisitions, no evidence of competitive bidding or of the receipt of materials purchased. For example water pumps were procured locally for a total of some US\$ 20,000, with only handwritten acceptance notes to support the expenditure. *The Representation indicated that a letter was*

*sent to the partners requesting them to adequately document their procurement transactions and to ensure compliance with the requirements of competition. The Representation subsequently indicated that training on UNHCR procurement procedures has been provided to key implementing partners.*

(b) Asset management

30. The AssetTrak system had not been updated for years. Hence, the Representation did not have sufficient control over its assets. A physical inventory was carried out in July 2005, but this was far from complete, as it did not include assets in the custody of implementing partners and Field Offices. The situation was similar at the Sub-Office in Hargeisa (Somalia), where the AssetTrak system had not been updated since 2000, and no systematic and comprehensive physical verification had been carried out since the same year. Moreover, for those assets previously recorded in the AssetTrak system, OIOS found that the net book value of the assets was overstated, as no depreciation was calculated although the items had been procured several years back. Given that AssetTrak normally automatically calculates depreciation values, this meant that the system was either not properly set up, or that the staff member was not adequately trained to operate the system. *The Representation has now undertaken a comprehensive physical inventory of its assets, and has provided evidence of this. The Representation subsequently explained that corrective actions have been taken at all levels, including physical inventory taking, and the correct calculation of net book values.*

31. In 2003 and 2004, no Local Asset Management Board (LAMB) had been established at the Representation in Kenya or at the Sub-Office in Hargeisa. While at the Representation in Nairobi cases requiring submission to a LAMB had been referred to the LAMB established by the Branch Office in Kenya, cases at the Sub-Office in Hargeisa had not always been given proper attention. Consequently there was a number of assets grounded/no longer usable (including vehicles, generators, outdated telecom equipment etc.) some dating back to as far as 1995, with no actions taken. These assets had been using parking space in the already crowded Sub-office compound, and needed to be submitted to a LAMB for disposal. OIOS noted one instance where a UNHCR vehicle was involved in an accident. In spite of a police report declaring the other party guilty of reckless driving, there was no evidence of any action taken by UNHCR against the third party. The vehicle had not been repaired for over 10 months and the required standard forms GS-45 and GS-46 had not been prepared. *In May 2005 a LAMB was established at the Branch Office incorporating other Somalia offices including the Sub-office. The Representation subsequently stated that a LAMB meeting was convened in December 2005, and that it is planned that by January 2006 all corrective action concerning old assets would have been taken in relation to Sub-Office Hargeisa.*

**Recommendation:**

- The UNHCR Representation in Somalia should ensure that the physical inventory now undertaken is fully completed, and that the AssetTrak system is updated accordingly; proper follow up should also be initiated on all cases of assets loss, damage, or grounded/no longer usable, with submission of the required forms GS-45/GS-46 to the LAMB (Rec. 04).

#### D. Security and Safety

32. According to a mission report from the Senior Regional Field Safety Advisor, who conducted an assessment of the Minimum Operating Security Standards (MOSS) in 2004, the SO Hargeisa was 90 per cent compliant with MOSS, but remained not compliant in certain areas, which were subsequently satisfactorily addressed according to subsequent assessments by UNDSS Somalia. OIOS was however concerned with the presence of wet fuel stains and dripping diesel drums in the vehicle parking areas, which was also the fuelling area. Apart from newly arrived staff, all staff had successfully completed the required Online Security Training, with certificates kept in personnel files.

33. *The asset focal point agreed that due to the flammable nature of fuel and the close proximity of motor vehicles (most of which also contain fuel) there was need to undertake security measures. The Representation indicated that actions were being taken to avoid any danger posed to assets and human life by flammable commodities like fuel.*

#### E. Administration

34. In the areas of administration and finance, the UNHCR Representation in Somalia generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. There was, however, a need for improvement in certain areas.

##### United Nations Common Air Services (UNCAS)

35. UNHCR is a member of the United Nations Common Air Services, jointly operated by four UN agencies, namely WFP, UNDP, UNICEF and UNHCR. The entity operates on the basis of sharing gains and losses arising out of travel occupancy for each flight and was formed in an attempt to bring down travel costs which would sometimes amount to up to US\$ 800,000 per annum when UNHCR operated its own plane between Djibouti and Hargeisa.

36. According to the Representation, significant cost reductions were achieved as a result of this arrangement. In addition to the savings made, UNCAS also allows UNHCR to operate under security conditions in which other commercial carriers such as Ethiopian Airways would not operate, thereby ensuring continuity in its operations. This includes travels within Somalia and to Nairobi as well as medical evacuations.

37. However, OIOS assessed that there was a need to address various accounting issues, mainly in the area of profit and losses arising from the UNCAS operation. These profits/losses were calculated on a monthly basis, and shared amongst the members through a reduction or increase of the monthly travel invoices. The accounting treatment of the profits/losses had been a concern at the Representation, with no guidance received from Headquarters, and this resulted in an inconsistent treatment of the profits and losses. For example, for cases where a loss was incurred, the total amount (utilization cost + share of loss) was posted to account code 242 "Travel". But the situation was more complicated when no payment (or a lesser amount) was due as a result of net profit (surplus) with posting being more difficult, the recording of the surplus, could not be done against the ABOD under the new MRSP.

38. While much of the surplus was eventually offset against expenditure account code 242 (Travel) by December 2004, there was still a surplus of some US\$ 30,000 available according to UNCAS' records, but this was not reflected in UNHCR's FMIS system. The surplus was eventually used up (offset) against the travel invoice for January 2005. However, although no payment should have been made in view of the surplus available, the Representation made a payment of US\$ 25,242, which resulted in a yet another share of surplus of US\$ 21,650 not reflected in the accounting records. The Representation explained that the payment was made in order to comply with donor requirements under the Comprehensive Plan of Action, which required the submission of supporting documents showing evidence of payment of travel costs.

39. OIOS noted a number of other unclear accounting entries pertaining to profits and losses, with yearly surplus balances carried forward from year to year since at least 2002, without proper guidance on how to report on them. The decision of accounting treatment for these rather unusual transactions was left to an Administrative Clerk alone, who had used various accounting treatments that did not always leave proper audit trails on the payment vouchers. In OIOS' view, the calculation of losses and surpluses (made by UNCAS on a monthly basis and submitted to board members) should have been made and reported only at year-ends, and as far as UNHCR is concerned, should have been dealt with centrally (at HQs). This would ensure that the ABOD is not affected at field level, especially given that no cash was actually distributed to UNCAS members. OIOS recommended that the Representation consult with DFSM and with other UNCAS members on the possibility for UNCAS to prepare annual financial reports, with UNHCR's annual share of loss/surplus dealt with at Headquarters level.

40. *The Representation explained that it would consult further with DFSM on the issue of accounting for losses/surpluses of the UNCAS operation, but pointed out that, during a recent Board meeting, other members of UNCAS felt that the accounting issues raised were specific to UNHCR, and thus required a tailor-made solution suited to the financial working of the agency, given that no other agency had problem with the current practice.*

**Recommendation:**

- The UNHCR Division of Financial and Supply Management should provide guidance to the Representation in Somalia on the proper accounting treatment of monthly losses/surpluses generated from the UNCAS operation (Rec. 05).

**Inadequately supported accounting entries**

41. Entries in the FMIS system were not always based on actual supporting documentation. OIOS noted several instances where accounting entries had been made on the basis of e-mail communications with field offices, with the actual financial summaries submitted much later. For example, in August 2004 cash payments totalling US\$ 28,190 were made at Field Office Bossaso, and a payment voucher was raised accordingly on the basis of e-mail communication, with no supporting document available. This was also the case in October 2004 under payment voucher 17/P/2000 for US\$ 9,888. In addition, for supporting documents subsequently submitted, there was no evidence that they were subsequently crosschecked with the relevant e-mailed financial data. OIOS noted that some of the

documentation provided by certain field offices was incomplete, lacking for example invoices, purchase orders, contracts, etc.

42. *The Representation explained that problems with accounts and supporting documentation mainly occur with its Field Office Bossaso and that the responsible Field Assistant has been alerted to these serious shortcomings on many occasions. The Representation further pointed out that corrective measures have been taken, including the consolidation of its presence in the Puntland State with all financial field transactions now undertaken from there.*

43. OIOS acknowledged the fact that the lack of administrative staff, notably the post of an Administrative Officer, had led to a gap in administrative functions at the supervisory level to effectively deal with administrative/financial issues, and that this had often led the Representative to assist in the role of Administrative Officer. However, with the appointment of a new Administrative & Finance Officer to provide services to BO Somalia as well as the Office of the Coordinator and the Regional Service Hub, OIOS felt that this should improve the situation. *The Representation pointed out that the new Administrative Officer, currently providing some support services to BO Somalia, is assigned to the Regional Support Hum, and that he would not be able to cope with the substantial level of support required for offices in the field; hence the need for a full time Administrative Officer remained.*

#### Travel

44. OIOS noted internal controls weaknesses in this area. There were a number of instances where travels had been undertaken with no prior travel authorisations. Except for the Sub-Office in Hargeisa, which had its own ABOD, the Representation was responsible for authorizing all travels in the field, but OIOS found that the Representation was only informed of the travel after these had already taken place. Information about such travels was received only once travel claims were received at the Branch Office. *The Representation explained that in a number of previous occasions, staff had been instructed that no official travels were to be undertaken, unless prior authorization was obtained, and that a letter has been written to remind them of these instructions. The Representation further indicated that, in future, no travel claims would be settled if no prior travel authorization was issued.*

#### SOLAR

45. At Sub-Office Hargeisa, OIOS found that the rules over SOLAR entitlements had not been adhered to since SOLAR was introduced in January 2001. Staff had been accommodated in UNHCR guesthouses free of rent and utility costs, while at the same time being paid the full SOLAR rates. According to IOM/FOM 91/2000 dated 28 February 2000 and IOM/FOM 12/2004 dated 23 January 2004, when accommodation is provided by the organisation free of charge, the applicable rate of deduction (50 percent unless the housing is sub-standard, in which case the deduction is 25 percent) should be made from the SOLAR. OIOS found it unusual that UNHCR Administrative and Finance Officers consistently disregarded these instructions. OIOS calculated that, in 2002 alone, the non-compliance with the rules resulted in SOLAR overpayments of some US\$ 120,000. Beginning in 2003, however, staff members are no longer accommodated in UNHCR guesthouses.

46. Given that three years has elapsed since then, OIOS did not request retroactive recovery, but reminded that, in accordance with paragraph 9 of SAMI No. 2005/8 dated 17 August 2005, future non-compliance with implementation of SOLAR reductions will result in recovery of overpayment from the staff concerned, and that it may moreover result in managers be held accountable for the financial loss to the organization.

#### **V. ACKNOWLEDGEMENT**

47. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and its implementing partners in Somalia and Kenya.

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