



INTERNAL AUDIT DIVISION

REPORT 2013/133

Audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia

Overall results relating to the effective management of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

19 December 2013
Assignment No. AP2013/638/04

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-5
A. Regulatory framework	2-5
IV. ACKNOWLEDGEMENT	5
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia (UNSOA).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. The UNSOA Budget and Finance Section was responsible for the management of accounts receivable and payable in accordance with United Nations Financial Regulations and Rules, the Field Finance Procedure Guidelines and Staff Rules. Accounts receivable and payable in UNSOA included balances due either from or to: staff members and individual contractors; vendors; a troop-contributing country; and other United Nations entities. The Budget and Finance Section was headed by a Chief at the P-5 level, supported by 13 international staff and one individual contractor. As at 30 April 2013, UNSOA had accounts receivable totaling \$9.8 million and accounts payable totaling \$1.5 million.
4. Comments provided by UNSOA are incorporated in italics.

II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of UNSOA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of accounts receivable and payable in UNSOA**.
6. The audit was included in the 2013 OIOS risk-based work plan because of the financial and operational risks relating to the potential lack of reliable and accurate accounts receivable and payable opening balances for the adoption of International Public Sector Accounting Standards (IPSAS).
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the management of receivables and payables; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.
9. OIOS conducted the audit from April to September 2013. The audit covered the period from 1 July 2011 to 30 April 2013 and reviewed the: (a) accuracy of accounts receivable and payable balances; (b) monitoring of accounts receivable and payable through ageing, collection and reporting; and (c) implementation of financial year end closing instructions issued by the Department of Management.
10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through

interviews, analytical reviews, and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

11. The UNSOA governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of accounts receivable and payable in UNSOA**. OIOS made four recommendations to address the issues identified. UNSOA satisfactorily authorized and supported accounts receivable for travel advances, projects and vendors, and settled accounts payable in a timely manner. However, there was a need to: (a) regularly review outstanding balances for settlement or write-off; (b) obtain exemption certificates for value added tax and implement a process to ensure that it was reimbursed regularly and on a timely basis; and (c) strengthen staff check-out procedures.

12. The initial overall rating was based on the assessment of the key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of accounts receivable and payable in UNSOA	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Monitoring and recovery of outstanding accounts receivable and telephone charges needed improvement

13. The Field Finance Procedure Guidelines required prompt collection and settlement of accounts receivable balances through regular follow-up for recovery from entities and individuals. Further, the closing instructions issued by the Department of Management on 29 April 2013 required missions to undertake rigorous follow-up and cleansing of long outstanding accounts receivable balances in preparation for IPSAS. These instructions also required missions to seek approval from the Controller for write-off of accounts that were deemed irrecoverable.

14. As at 30 April 2013, UNSOA had accounts receivable totaling \$9.8 million, including: deposits and advances for leases and other contractual commitments; cost of rations and fuel advanced to a troop-contributing county; and advances to staff. A review of 66 accounts receivable transactions indicated that 53, totaling \$511,000, were adequately supported. The remaining 13, totaling \$39,000, were not adequately supported. This resulted as these accounts receivable were created and monitored by the United Nations Development Programme on behalf of the former United Nations Political Office in Somalia, and dated back to 1 January 2010 or earlier. UNSOA advised that it was planning to request these amounts to be written off. OIOS also noted that:

(a) UNSOA expensed in June 2013 accounts receivable of \$6.7 million related to advances made to a troop-contributing country against claims for reimbursement for logistical support for rations and fuel. The Department of Field Support concurred with the measures proposed by UNSOA to reimburse the troop-contributing country for services that UNSOA was made to provide, but could not do so until the relevant contracts were adjusted;

(b) UNSOA did not always recover travel advances within the stipulated timeframes. A review of 58 staff travel advances totaling \$352,000 indicated that 15 advances totaling \$177,000 were recovered more than three months after the completion of the travel, as the Budget and Finance Section did not consistently follow-up with staff to ensure that claims were submitted in a timely manner;

(c) UNSOA delayed the recovery of telephone charges from staff by about four months after the bills were received from the service provider. This resulted due to the lack of an automated telephone billing system to compute the cost of calls against the respective staff telephone lines; and

(d) Accounts receivable included \$1.6 million related to value added tax paid on the settlement of invoices to 131 vendors. The payment of value added tax was contrary to the Exchange of Letters dated 2 March 2010 between the Host Country and the United Nations, which exempted UNSOA from such taxes. UNSOA had not processed the necessary Kenya Revenue Authority value added tax exemption certificates for vendors.

15. OIOS also noted that UNSOA was reviewing and cleansing its accounts receivable in preparation for IPSAS and transition to Umoja.

(1) UNSOA should periodically review long outstanding accounts receivable to ensure prompt recovery of balances and initiate write-off procedures for those balances that are deemed irrecoverable.

UNSOA accepted recommendation 1 and stated that the new Umoja system would enable automated review of accounts receivable and action would be taken on outstanding balances. Based on the action taken by UNSOA, recommendation 1 has been closed.

(2) UNSOA should implement procedures to ensure that travel advances and telephone charges are monitored and settled in a timely manner.

UNSOA accepted recommendation 2 and stated that the implementation of Umoja had facilitated the monitoring of travel advances, with automatic recovery from payroll if not cleared within 14 days. UNSOA also stated that the new in-house electronic telephone billing system, scheduled for implementation by 31 December 2013, would lead to a significant reduction in the time taken to recover outstanding amounts. Recommendation 2 remains open pending receipt of evidence that the automated telephone billing system has been implemented and has reduced delays in settling telephone charges.

(3) UNSOA should submit outstanding value added tax claims to the Kenya Revenue Authority for reimbursement.

UNSOA accepted recommendation 3 and stated that all value added tax claims from 2012 and 2013 had been cleared, and it would apply for value added tax certificates prior to processing all payments. Recommendation 3 remains open pending receipt of evidence that UNSOA has been

reimbursed for outstanding value added tax claims.

Amounts withheld from personnel during check-out process were inadequate

16. The Field Finance Procedure Guidelines required missions to withhold a minimum of \$500 from separating personnel during the check-out process to settle outstanding charges. The UNSOA Payroll Unit was responsible for reviewing the sufficiency of withheld funds, and requesting for additional funds to be withheld whenever necessary.

17. A review of 40 of 125 records for staff that had checked out indicated that insufficient funds were withheld for nine of them. As a result, UNSOA had to recover outstanding receivables from these staff by offsetting against unused annual leave and unpaid claims. For two of the nine accounts, UNSOA continued to follow up on outstanding balances totaling \$2,000. This resulted as UNSOA did not adequately review accounts receivable from staff prior to departure to ensure that sufficient funds were withheld from staff to settle accounts receivable.

(4) UNSOA should review the adequacy of, and adjust, funds withheld from separating staff at the time of checking out to minimize the risk of loss due to irrecoverable charges.

UNSOA accepted recommendation 4 and stated that it would ensure that appropriate withholding was made against each separating staff member prior to check out. Recommendation 4 remains open pending OIOS verification that adequate funds are being withheld from separating staff members.

Accounts payable, unliquidated obligations and accrued liabilities for staff entitlements were adequately managed

18. The IPSAS Opening Balance Plan and closing instructions issued by the Department of Management required missions to: (a) cleanse accounts payable accounts; (b) review unliquidated obligations on a weekly basis prior to the end of the fiscal year ending 30 June 2013; and (c) calculate accrued liabilities for unused annual leave days for national staff, update attendance data for international staff and accrue liabilities for other staff benefits earned as of 30 June 2013.

19. UNSOA was effectively cleansing and settling accounts payable. As of 30 April 2013, UNSOA had \$1.5 million outstanding, comprising \$1.4 million due to vendors and \$80,000 to staff members and individual contractors. A review of 50 accounts payable totaling \$1.4 million indicated that balances were adequately supported.

20. As at 30 April 2013, UNSOA had unliquidated obligations totaling \$63.4 million in the Sun system and \$58.7 million in Mercury. The variance was due to amounts relating to miscellaneous obligating documents and travel authorizations in the Sun system that were not captured in Mercury. UNSOA had reviewed and reconciled these balances regularly, and had cleansed the data in both systems for Umoja implementation. A review of 28 items totaling \$18.6 million, out of the 403 in the Sun system, and unliquidated obligation reports for the four months to the end of April 2013, indicated that UNSOA reviewed and supported its unliquidated obligations in accordance with the Financial Regulations and Rules and the Field Finance Procedure Guidelines.

21. UNSOA calculated \$401,000 as its accrued liabilities for unused leave days for national staff based on the balances in the electronic Field Support Suite as at 30 June 2013. UNSOA also updated its attendance records for international staff members. A review of 85 of the 422 leave records for staff

indicated that leave balances and other entitlement records for the United Nations Political Office in Somalia were up-to-date.

22. OIOS concluded that the actions taken to manage accounts payable, unliquidated obligations and accrued leave in preparation for IPSAS opening balances were adequate.

IV. ACKNOWLEDGEMENT

23. OIOS wishes to express its appreciation to the Management and staff of UNSOA for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNSOA should periodically review long outstanding accounts receivable to ensure prompt recovery of balances and initiate write-off procedures for those balances that are deemed irrecoverable.	Important	C	Action taken.	Implemented
2	UNSOA should implement procedures to ensure that travel advances and telephone charges are monitored and settled in a timely manner.	Important	O	Receipt of evidence that the automated telephone billing system has been implemented and has reduced delays in settling telephone charges.	January 2014
3	UNSOA should submit outstanding value-added tax claims to the Kenya Revenue Authority for reimbursement.	Important	O	Receipt of evidence that UNSOA has been reimbursed for outstanding value-added tax claims.	March 2014
4	UNSOA should review the adequacy of, and adjust, funds withheld from separating staff at the time of checking out to minimize the risk of loss due to irrecoverable charges.	Important	O	Pending OIOS verification that adequate funds are being withheld from separating staff members.	December 2013

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNSOA in response to recommendations.

APPENDIX I

Management Response



United Nations Support Office for AMISOM (UNSOA)

Interoffice Memorandum

To: Ms. Eleanor T. Burns, Chief
Peacekeeping Audit Service
Internal Audit Division
OIOS Date: 9 December 2013

From: Amadu Kamara, Director  Ref: UNSOA/1213/M.0090

Subject: **Re: Draft Report on an audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia (Assignment No. AP2013/638/04)**

1. Further, to your memorandum of 25 November 2013, please find attached the UNSOA response to the subject audit exercise.

Best regards,

cc: Ms. Andrea Charles-Browne, Chief Resident Auditor, UNSOA
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS
Mr. Joel Cohen, Deputy Director, UNSOA
Mr. Pontus Molin, Chief Civilian Personnel Officer, UNSOA
Mr. Ebow Idun, Chief Civilian Personnel officer, UNSOA
Mr. Jason Mayordomo, CCITS, UNSOA

Management Response

Audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNSOA should periodically review long outstanding accounts receivable to ensure prompt recovery of balances and initiate write-off procedures for those balances that are deemed irrecoverable.	Important	Yes	Chief Budget and Finance Section	Implemented	Management agrees on the need for prompt recovery of balances and to initiate write-off of irrecoverable balances. Management seeks to advise the auditors that with the deployment of Umoja, in the case of outstanding receivables, full payment will not be allowed and a warning of overdue debit will be issued by the system. Payments will only be completed when all outstanding amounts have been offset. Management therefore requests that this recommendation be considered implemented with the deployment of Umoja on 1 November 2013.
2	UNSOA should implement procedures to ensure that travel advances and telephone charges are monitored and settled in a timely manner.	Important	Yes	Chief Budget and Finance Section	a) Implemented	a) With the implementation of Umoja, automatic recovery from payroll is effected if any outstanding travel advance is not cleared within 14 days. Management requests that this part of the recommendation be considered as implemented.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of accounts receivable and payable in the United Nations Support Office for the African Union Mission in Somalia

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
					b) January 2014	b) The in-house electronic telephone billing system is scheduled for implementation by the end of December 2013, which should lead to a significant reduction in the time taken to recover outstanding amounts.
3	UNSOA should submit outstanding value-added tax claims to the Kenya Revenue Authority for reimbursement.	Important	Yes	Chief Budget and Finance Section	March 2014	Management notes the recommendation, and seeks to advise the Auditors that UNSOA has cleared all pending KRA VAT refunds. UNSOA now applies for VAT certificates before payments are processed. The Auditors will be provided with confirmation of VAT reimbursement as received.
4	UNSOA should review the adequacy of, and adjust, funds withheld from staff checking out to minimize the risk of loss due to irrecoverable charges.	Important	Yes	Chief Budget and Finance Section	Implemented	Management notes that while separating staff are subject to a withholding of US \$500, with the implementation of Umoja, this does not apply to staff on reassignment. As indicated to the Auditors, Management will ensure that appropriate withholding is made against each separating staff member prior to check out.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ Please indicate feasibility and realistic timelines for implementation of the recommendation.