



## INTERNAL AUDIT DIVISION

### REPORT 2017/132

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Audit of budget formulation and  
monitoring in the United Nations  
Support Office in Somalia

There was a need to minimize redeployment of  
funds and budget variances

12 December 2017

Assignment No. AP2017/638/01

# **Audit of budget formulation and monitoring in the United Nations Support Office in Somalia**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over budget formulation and monitoring in the United Nations Support Office in Somalia (UNSOS). The audit covered the period from July 2015 to September 2017 and included: (a) alignment with strategic objectives and priorities; (b) planning assumptions and determination of requirements; and (c) budget implementation and monitoring.

UNSOS budget formation and monitoring mechanisms ensured that: planning assumptions adequately reflected its mandate and strategic priorities; and there was adequate monitoring of expenditures and analysis of variances. However, UNSOS needed to implement procedures to minimize redeployment of funds and variances. UNSOS informed OIOS that it was aiming to reduce the number of redeployments for fiscal year 2017/18 and that it would ensure full documentation of necessary ad hoc redeployments to address any urgent change in operational conditions.

OIOS made no recommendation in the report because UNSOS is taking actions to implement the Board of Auditors' recommendation to formulate realistic, consistent and reliable budgets to minimize redeployment of funds and variances.

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# Audit of budget formulation and monitoring in the United Nations Support Office in Somalia

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of budget formulation and monitoring in the United Nations Support Office in Somalia (UNSOS).

2. General Assembly resolution 55/231 requires UNSOS to follow the results-based budgeting (RBB) approach for its budgets. The RBB framework requires UNSOS to develop expected accomplishment for each component of the budget and related indicators of achievement and output. The Mission's budget included resource requirements to provide various administrative and operational support to: 22,126 uniformed and 70 civilian personnel of the African Union Mission in Somalia (AMISOM); 262 civilian personnel of the United Nations Assistance Mission in Somalia (UNSOM); and targeted support package for up to 10,900 troops in the Somali National Army in accordance with United Nations Security Council resolution 2245 (2015). The annual budget cycle runs from 1 July to 30 June. The General Assembly approved \$513 million, \$574 million and \$582 million for UNSOS operations for fiscal years 2015/16, 2016/17 and 2017/18 respectively. Table 1 shows UNSOS financial performance for 2015/16 and 2016/17.

Table 1

### Financial performance (in \$'000)

|                     | 2015/16        |                    |                   | 2016/17        |                    |                   |
|---------------------|----------------|--------------------|-------------------|----------------|--------------------|-------------------|
|                     | <i>Budget</i>  | <i>Expenditure</i> | <i>Variance</i>   | <i>Budget</i>  | <i>Expenditure</i> | <i>Variance</i>   |
| Military and police | 117 140        | 140 768            | (23 628) (20.2%)  | 151 141        | 160 797            | (9 656) (6.4%)    |
| Civilian personnel  | 54 351         | 57 870             | (3 519) (6.5%)    | 58 535         | 64 989             | (6 455) (11.0%)   |
| Operational costs   | 341 937        | 313 703            | 28 234 8.3%       | 364 629        | 343 615            | 21 014 (5.8%)     |
| <b>Total</b>        | <b>513 428</b> | <b>512 341</b>     | <b>1 087 0.2%</b> | <b>574 305</b> | <b>569 401</b>     | <b>4 904 0.9%</b> |

3. The Finance and Budget Section, in collaboration with the UNSOS budget review committee comprising senior management, pillar heads and heads of self-accounting units, is responsible for formulating and monitoring UNSOS budgets based on inputs from various self-accounting units. The Section is headed by a Chief at the P-5 level and has 25 authorized posts including 12 international and 13 national posts. The Section Chief reports to the Director, through the Deputy Director of UNSOS.

4. Comments provided by UNSOS are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over budget formulation and monitoring in UNSOS.

6. This audit was included in the 2017 risk-based work plan of OIOS due to financial and operational risks resulting from effective allocation and utilization of resources for the provision of support by UNSOS to multiple clients for implementation of their respective mandates.

7. OIOS conducted this audit from March to September 2017. The audit covered the period from July 2015 to September 2017. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the formulation and monitoring of UNSOS budgets, which included: (a) alignment with

strategic objectives and priorities; (b) planning assumptions and determination of requirements; and (c) budget implementation and monitoring.

8. The audit methodology included: (a) interviews with relevant personnel in UNSOS; (b) review and analysis of budget data and related reports; (c) observation of UNSOS deliberations and discussions with the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on its budget submission on 8 March 2017; and (d) testing of 7 out of 18 costing sheets for 2017/18.

9. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

### **III. AUDIT RESULTS**

#### **A. Alignment with strategic objectives and priorities**

UNSOS budget proposals were aligned with Security Council mandates, strategic objectives and priorities

10. The Department of Peacekeeping Operations budget preparation support guide (budget support guide) requires UNSOS budgets to reflect the strategic priorities identified jointly with the Under-Secretaries-General for Peacekeeping Operations and Field Support and the Controller.

11. The Mission budgets for 2015/16, 2016/17 and 2017/18 were duly aligned with Mission strategic priorities and Security Council resolutions and formed the basis for its resource requirements in budget proposals. UNSOS budgets were prepared based on the strategic priorities that were endorsed by the Under-Secretaries-General for Peacekeeping Operations and Field Support and the Controller.

12. The strategic objectives for UNSOS were aimed at creating and preserving an enabling environment for the peace and reconciliation process in Somalia. UNSOS priorities addressed the Mission's objectives and articulated the role of UNSOS as a strategic enabler in Somalia, providing a responsive, effective, efficient and responsible field support platform to its three main clients: (a) AMISOM; (b) UNSOM; and (c) 10,900 Somali National Army to achieve their respective mandates. UNSOS budgets provided for the construction and maintenance of office and accommodation facilities, procurement, contract management, administrative, budget and training support activities among others to these clients.

13. OIOS concluded that UNSOS budget proposals for fiscal years 2015/16, 2016/17 and 2017/18 adequately reflected its strategic priorities to support its clients in contributing to peace and reconciliation in Somalia.

#### **B. Planning assumptions and determination of requirements**

UNSOS planning assumptions were related to its mandate and priorities

14. The United Nations Controller's instructions to UNSOS on the budget performance report for 2015/16 and the DPKO/DFS strategic guidance on budget formulation for 2015/16, 2016/17 and 2017/18 require UNSOS to outline the main planning assumptions about the future operating environment as they relate to mandate implementation, mission priorities, use of resources and linkage to current operational requirements as well as mission support initiatives, regional mission cooperation, partnerships, country team coordination and integrated missions.

15. UNSOS budgets for 2015/16, 2016/17 and 2017/18 recognized and took into account the continuing volatile security situation in Somalia and challenges faced by AMISOM in forecasting with reasonable degree of certainty the operational strategy and resource requirements due to the ongoing active combat situation. The assumptions were specific, measurable, achievable, and relevant to the operational performance of UNSOS and were based on best available information and provided for a combination of service delivery modalities that included a light footprint of staff on the ground, commercial third-party vendors, and AMISOM troops providing services in-theatre.

16. A review of the assumptions indicated that:

(a) They were linked to UNSOS strategic priorities and mandate and took into account prior year experiences and operational requirements. Among the 18 planning assumptions for fiscal year 2017/18 which differed from those of 2015/16 and 2016/17 were: (i) the establishment of enabling units in several sectors to ease delivery along main supply routes; (ii) upgrade of existing facilities and construction of new accommodations for UNSOS, UNSOM and AMISOM staff in Somalia; and (iii) implementation of a 5-year capital master works at Mogadishu International Airport and at AMISOM main headquarters;

(b) Military contingents and police resource requirements were based on approved Security Council resolutions and that of civilian staff based on budget instructions from the Controller. The Controller's instructions on the administration of fund allotments for peacekeeping missions required UNSOS to not exceed the authorized strength of uniformed personnel and the number and level of approved civilian posts. Monthly incumbency reports on uniformed personnel and staffing compliment reports on civilian staff for the period from July 2016 to May 2017 showed that the encumbered strength of uniformed personnel and civilian posts were in line with the authorized strength and vacancy; and

(c) They included: (i) planning assumptions and mission support initiatives; (ii) regional mission cooperation; and (iii) partnerships, country team coordination and integrated missions as required. The assumptions also provided detailed description of the extent to which the mandate would be implemented by using a mix of service delivery modalities.

17. OIOS concluded that UNSOS planning assumptions reflected the strategic priorities and were used to formulate the future requirements of UNSOS.

#### Budget estimates were duly supported and based on best available information

18. The Controller's instructions on the 2015/16, 2016/17 and 2017/18 budget formulation require UNSOS to improve its budget presentation and accurately forecast its resource requirements by using prescribed budget costing sheets in the United Nations Standard Cost and Ratios Manual (SCRM) and relevant contracts and agreements. The Manual requires UNSOS to take into account inventory on hand and use applicable standard costs to determine projected holdings of inventory.

19. The costing sheets prepared by section chiefs for all cost centres for the 2015/16, 2016/17 and 2017/18 budget estimates: (a) were duly supported and prepared using applicable contracts or Department of Field Support standard costs and ratios; and (b) contained detailed resource requirements of each pillar/section as dictated by operational plans for the respective fiscal year.

20. The Acquisition Planning Unit adequately reviewed proposed asset acquisitions totaling \$20 million for 2017/18 to ensure that inventory on hand was considered. The acquisition plan included 90,832 units of equipment for new acquisitions and 10,414 units to replace obsolete items. The Finance and Budget

Section also reviewed submissions to ensure cost estimates were in line with standard costs and ratios and adequately engaged Mission senior management and section heads in the overall budget formulation process. UNSOS conducted several review meetings to ensure that estimates adequately captured the Mission's needs and were based on best available information.

21. OIOS review of 7 out of 18 costing sheets for 2017/18 showed that UNSOS budget estimates were calculated using the costs, prices and ratios in the SCRM and were duly supported and verifiable. UNSOS had not proposed any new construction projects in the 2017/18 budget but had 10 ongoing construction projects totaling \$30.9 million. As of 31 March 2017, 4 of the 10 construction projects valued at \$12.2 million had been completed and the remaining 6 projects costing \$18.7 million were at various stages of completion. The funds for the six projects had been committed in 2016/17.

22. OIOS concluded that UNSOS had adequate and effective controls to ensure that budget estimates were duly prepared, reviewed and reflected its resource requirements based on best available information.

### **C. Budget implementation and monitoring**

There were adequate controls over expenditure monitoring and variances were duly analysed

23. The Budget Manual requires UNSOS: (a) to regularly monitor expenditures for effective management of resources and analyse expenditure levels against appropriations and allotments; and (b) budget officers to generate special monthly reports showing the status of allotments, allotted obligations, disbursements and the unencumbered balances, for submission to the Peacekeeping Finance Division (PFD).

24. The Finance and Budget Section regularly prepared budget status and tracking reports and quarterly expenditure reports. The reports showed fund centre balances, expenditure against appropriation including details of commitments, pre-commitments, and unliquidated obligations and an analysis of variances for decision-making. The monthly reports were circulated to various heads of sections to monitor and track their respective budgets and were discussed at monthly budget review meetings, and adjustments were made when necessary to align with the Mission's priorities. Quarterly expenditure reports were regularly submitted to PFD.

25. OIOS concluded that UNSOS was effectively tracking budget performance and had implemented adequate mechanisms over expenditure monitoring and control.

Need to take more effective measures to minimize redeployment of funds and variances

26. The Controller delegated authority to the Director of UNSOS to redeploy funds between in-mission classes of expenditures (budget lines) provided that: (a) the authorized strength of military and police personnel (group I) is not exceeded; (b) the staffing table (number and level of posts ) for civilian personnel (group II) is respected; (c) funds allocated for operational costs (group III) are not exceeded without prior approval of the PFD Director; and (d) redeployment of funds from UNSOS cost centres to those of United Nations Headquarters must be approved by PFD. Also, UNSOS must obtain prior approval of PFD for redeployment of funds between budget groups I, II and III.

27. All the redeployments across groups amounting to \$27.6 million and \$16.3 million made by UNSOS during 2015/16 and 2016/17 respectively were duly approved in accordance with the Controller's instructions and delegated authority to the Director of UNSOS. The total value of redeployments in each of

the fiscal years 2015/16 and 2016/17 was equal to 5.4 per cent and 2.8 per cent of the budgets respectively. Table 2 shows a summary of UNSOS redeployments across groups.

Table 2  
**Summary of redeployments (in \$'000)**

|   | 2015/16        |                     |                             | 2016/17        |                     |                             |
|---|----------------|---------------------|-----------------------------|----------------|---------------------|-----------------------------|
|   | <i>Budget</i>  | <i>Redeployment</i> | <i>Revised Distribution</i> | <i>Budget</i>  | <i>Redeployment</i> | <i>Revised distribution</i> |
| Group I - Military and police             | 117 140        | 23 658              | 140 798                     | 151 141        | 9 670               | 160 811                     |
| Group II - Civilian personnel             | 54 351         | 3 938               | 58 289                      | 58 535         | 6 623               | 65 158                      |
| Group III - Operational costs             | 341 937        | (27 596)            | 314 341                     | 364 629        | (16 293)            | 348 336                     |
| <b>Total</b>                              | <b>513 428</b> | <b>--</b>           | <b>513 428</b>              | <b>574 305</b> | <b>--</b>           | <b>574 305</b>              |
| <b>Percentage of deployment to budget</b> |                |                     | <b>5.4%</b>                 |                |                     | <b>2.8%</b>                 |

28. The redeployments to the military and police personnel group was largely due to the volatile security and active war combat situation in which AMISOM is engaged in Somalia. AMISOM and troop-contributing countries (TCCs) faced serious challenges in forecasting resource requirements with any degree of certainty and accuracy as security and war situation keeps changing by the day. Due to the deterioration in security, UNSOS could only deliver rations by air and had to give more responsibility to the contractor, thereby increasing the transportation and warehousing costs and the TCCs had to deploy additional major equipment. The redeployed funds to Group I in 2016/17 covered the additional cost of transportation and warehousing of rations following an amendment to the rations contract and revision of memoranda of understanding between TCCs and AMISOM for the inclusion of additional major equipment. Similarly, in 2015/16, the redeployment was to cover costs of the amended rations contract which expanded the scope to give more responsibility to the contractor for delivering rations to battalion headquarters and sector hubs.

29. Also, there was: a lack of integration and uncertainty over the operations and activities of individual TCC contingents and AMISOM headquarters because of the need for secrecy in active combat situations; absence of command and control of AMISOM headquarters over TCC contingents; rapid turnover of troops; and evolving changes in political and economic climate in Somalia. These make it difficult for management to make accurate and realistic budget line forecasts leading to increased redeployments and variances.

30. However, UNSOS could have minimized the redeployments to Group II with better budget formulation and implementation. For example, the approved 2016/17 budget provided for a vacancy rate of 25 per cent and a delayed deployment of 50 per cent for 112 new posts, thereby authorizing funds for only three months. To meet its operational requirement, UNSOS accelerated the recruitment of approved posts and by July 2016 had filled 33 posts thereby increasing international staff salaries, staff assessment and common staff costs as compared to appropriated funds. This was approved by the Controller.

31. UNSOS explained that redeployments: (a) were necessary to cover variances between budget estimates and appropriations and circumstances that were not foreseeable at the time of budget formulation; (b) were fully justified and used in exceptional instances in accordance with authority delegated to the Director of UNSOS; and (c) were a necessary tool used in responding to operational imperatives in the dynamic environment of a field operation.

32. OIOS noted that the Board of Auditors (BOA) in their report for the financial period ended 30 June 2016 (A/71/5 (Vol. II)) and ACABQ had expressed concern over the continuing level and frequency of redeployments among and between expenditure groups and classes across peacekeeping operations. In this



regard, the Board of Auditors recommended that UNSOS develop improved principles and methodologies to assist the mission in formulating realistic, consistent and reliable budgets.

33. In response to the BOA and ACABQ concerns, UNSOS was implementing improved principles and methodologies to assist it in formulating realistic, consistent and reliable budgets to suit its unique situation and set-up. As part of the process, the senior management of UNSOS had increased interaction with AMISOM headquarters through weekly meetings and integrated planning with AMISOM, and had requested the TCCs to deploy troops for at least one year as opposed to the current six months.

34. In 2015/16 and 2016/17, the Mission reported significant variances in the following line items:

Table 3

**Variance between budget and expenditure in select line items (in \$'000)**

|  | 2015/16 |             |          |       | 2016/17 |             |          |        |
|--|---------|-------------|----------|-------|---------|-------------|----------|--------|
|  | Budget  | Expenditure | Variance |       | Budget  | Expenditure | Variance |        |
| Military contingents                   | 113 957 | 138 430     | (24 473) | (21%) | 146 450 | 156 205     | (9 755)  | (7%)   |
| International staff                    | 47 269  | 49 208      | (1 939)  | (4%)  | 51 356  | 56 469      | (5 113)  | (10%)  |
| Ground transportation                  | 45 485  | 37 467      | 8 018    | 18%   | 54 242  | 38 570      | 15 672   | 29%    |
| Facilities and infrastructure          | 92 617  | 88 394      | 4 223    | 5%    | 98 528  | 105 624     | (7 096)  | (7%)   |
| Air transportation                     | 61 917  | 73 181      | (11 264) | (18%) | 72 355  | 78 083      | (5 727)  | (8%)   |
| Naval transportation                   | 1 194   | 1 374       | (180)    | (15%) | 311     | 1 185       | (874)    | (281%) |
| Communications                         | 29 279  | 17 209      | 12 070   | 41%   | 29 162  | 20 710      | 8 452    | 29%    |
| Information technology                 | 13 762  | 17 582      | (3 820)  | (28%) | 8 605   | 14 258      | (5 653)  | (66%)  |
| Medical                                | 19 502  | 10989       | 8 513    | 44%   | 20 242  | 14 254      | 5 988    | 30%    |
| Other supplies, services and equipment | 73 793  | 56 972      | 16 821   | 23%   | 76 078  | 64 500      | 11 578   | 15%    |

35. The above occurred because UNSOS could not accurately forecast the resource requirements of AMISOM at the time of budget formulation due to the unpredictable security situation in Somalia as explained above and changes in the Mission's priorities after the budget was approved.

36. Based on the actions UNSOS was taking to implement the BOA recommendation to formulate realistic, consistent and reliable budgets to minimize redeployment of funds and variances, OIOS is not making a recommendation at this time. *UNSOS stated that it was taking necessary steps to implement the BOA recommendation to formulate realistic, consistent and reliable budget to minimize redeployment of funds and variances. UNSOS added that it was aiming to reduce the number of redeployments for fiscal year 2017/18 and that it would ensure full documentation of necessary ad hoc redeployments to address any urgent change in operational conditions.*

#### IV. ACKNOWLEDGEMENT

37. OIOS wishes to express its appreciation to the management and staff of UNSOS for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
 Director, Internal Audit Division  
 Office of Internal Oversight Services

# **APPENDIX I**

## **Management Response**



### Interoffice Memorandum

To: Mr. Arnold Valdez, Officer-in-Charge  
Peacekeeping Audit Service  
Internal Audit Division,  
OIOS

Ref: UNSOS/1217/M.045

From: Amadu Kamara, Director

Date: 06 December 2017

Subject: UNSOS Response –Draft report on an audit of budget formulation and monitoring in UNSOS (Assignment No. AP2017/638/01)

1. Further to your memorandum of 05 December 2017 Reference IAD: 17-638-27, please be advised that UNSOS is taking necessary steps to implement the BOA recommendations to formulate realistic, consistent and reliable budget to minimize redeployment of funds and variances.
2. Furthermore, for fiscal year 2017-18, the mission is aiming to reduce the number of redeployments to once in two months. However, any urgent change in operational conditions may still require us to undertake ad-hoc redeployments and full documentation will be maintained for record.
3. We thank you for your continued support to the work of UNSOS.

Best regards. *AK*

cc: Mr. Amadu Kamara, Director, UNSOS  
Mr. Harjit Dhindsa, Deputy Director, UNSOS  
Mr. Vijay Kapoor, Chief, Budget and Finance Section, UNSOS  
Mr. Dalapo Kuteyi, Senior Administrative Officer, UNSOS  
Ms. Rosalie Piezas, Chief, Risk Management and Audit Response, UNSOS  
Ms. Aminata Adam-Samura, Finance and Budget Officer, UNSOS