

**CAPACITY BUILDING FOR ECONOMIC DEVELOPMENT
IN MOGADISHU, SOMALIA – HRF OPERATIONS**

**FUND ACCOUNTABILITY STATEMENT FOR THE FIVE MONTH
PERIOD ENDING 30TH JUNE 2016**

**HUMAN RELIEF FOUNDATION
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**CAPACITY BUILDING FOR ECONOMIC DEVELOPMENT IN MOGADISHU, SOMALIA
FUND ACCOUNTABILITY STATEMENT
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GLOSSARY

HRF	-	Human Relief Foundation
CBED	-	Capacity Building for Economic Development
TOR	-	Terms of Reference
BRA	-	Benadir Regional Administration

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ORGANIZATION INFORMATION

1. Registered Office and Principal Place of Business

HRF, Urban Heritage Centre, Mogadishu, Somalia

Tel No: +252616330483

Email: f.omar@hrf.co.uk

2. Key Officials:

Chief Technical Advisor - Andrew Adam Bradford

Programme Officer - Falastin Omar

3. Auditors

Agoro and Associates

Certified Public Accountants (K)

P.O. Box 43819 – 00100

NAIROBI, KENYA

Cell: 0733794885, 0704021957

Email: agoroandassociates@yahoo.com

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INTRODUCTION

1.1 BACKGROUND INFORMATION

Since March of 2015 HRF has been providing support to UN-Habitat in capacity Building for Economic Development in Somalia as per their TOR outlined in the Agreement of Cooperation between UN-Habitat and HRF

The overall objective of this support has been to build the capacity of the local government institutions and economic interests groups in Mogadishu and to strengthen economic development that generates employment opportunities for all. Specific areas focused on engaging the youth in participatory planning processes for the construction of the One Stop Youth Centre. With the aim of developing a youth led process; youth were put at the helm of the decision- making processes. The local government survey on youth participation and the youth research survey laid the foundation for determining the capacity of youth organizations, their representation and efficacy with the local authority as well as delineating their level of participation and community engagement.

With this information in hand, HRF was able to support in introducing the one stop youth model piloted at the One Stop Youth Centre to the local administration encouraging their leadership and partnership. Fostering a partnership with the with the local authorities was essential to not only get government to buy-in but also for ensuring sustainability of the centre. Engaging local youth organizations in the management of the centre, while also building the partnership between the local authorities and the youth, is an essential aspect of effectively implementing the model in Mogadishu.

Other areas of support provided by HRF include that of conflict sensitivity mapping in order to ensure community participation in districts where market rehabilitation activities were ensuing as well as capacity building measure for strengthening the capacity of BRA market department. Developing a strategy for market activation to support the rehabilitated markets was a key component of support in this thematic area.

Output – The objectives outlined above have been met by HRF and work has been carried out in a timely manner and to a satisfactory standard.

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1.2 **AUDIT OBJECTIVES**

The objective of the audit is to enable the auditor to express a professional opinion on the financial position of CBED project - HRF Operations as at 30th June 2016.

The objectives of the audit are to:

- i. Carry out the audit in accordance with the International Standards on Auditing including such tests of control and transactions considered necessary under the circumstance.
- ii. Verify that goods and services financed have been procured in accordance with the HRF procurement procedures, as agreed with the Donor.
- iii. Ensure that all necessary supporting documents, records and accounts have been kept in respect of all project ventures, and that there is a clear linkage between the books of account and the fund accountability statement.
- iv. Ensure that the fund accountability statement gives a true and fair view of the financial position of the project as at 30th June 2016.
- v. Ensure adequacy and effectiveness of the accounting and internal control system to monitor expenditures and other financial transactions.
- vi. Report any weakness in the course of the audit to the management and other interested stakeholders.
- vii. Deliver a written opinion based on the scope and detail of the audit as per the auditors' professional competence.

1.3 **AUDIT SCOPE**

1.3.1 **Fund Accountability Statement.**

Our Audit Report covers receipts and expenditure incurred during the period 1st February 2016 to 30th June 2016.

1.3.2 **Compliance with the donor agreement.**

The audit report covers the project's compliance with the donor agreement.
A copy has been provided by the management.

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1.4 **AUDIT APPROACH AND METHODOLOGY**

We carried out our audit in accordance with the International Standards on Auditing (ISA's) and Terms of Reference (TOR), with the primary objective of issuing an independent audit opinion on the fund accountability statement of CBED -HRF Operations.

Our audit included but was not limited to the following:

- i. Reviewed the accounting records and held discussion with the management to determine the financial status of the project.
- ii. Reviewed the overall structure and designs of the organization to ensure fitness with the objectives and evaluated whether emerging issues were addressed on a timely basis.
- iii. Checked whether procurements were done in accordance with the guidelines issued by the respective donor requirements and accordance with the procurement procedures of HRF.
- iv. Checked whether payments were properly authorized and are adequately supported by original third party documents and records, and whether the respective goods and services are properly accounted for.
- v. Checked whether each of the disbursements made to the stakeholders have been properly accounted for in accordance with the provision of the respective funding contracts and the policies and procedures of HRF.
- vi. Checked whether all project expenditures have been made wholly and necessary for the realization of HRF objectives with due attention to ceremony and efficiency.
- vii. Checked whether all supporting documents have been retained in line with good accounting practice and in accordance with HRF procedure.
- viii. Interviewed the country director and collaborated their response with system notes, reports and other information output.
- ix. Considered the presentation, timeliness, frequency and reliability of the financial reports generated by HRF.
- x. Reviewed whether progress reports prepared by HRF to UN-Habitat reflected factual details of the projects and checked whether they were issued on a timely basis in accordance with the agreements and HRF regulations.

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Statement of Management Responsibilities on the Fund Accountability Statement

The donor regulations requires HRF to prepare fund accountability statement for a specified period that give a true and fair view of the state of affairs of the project as at the end of that period and of its operating results. The regulations also requires HRF to keep proper accounting records, which disclose, with reasonable accuracy, the financial position of the organization and safeguard its assets.

The management is responsible for the preparation and fair presentation of the fund accountability statement in accordance with Generally Acceptance Accounting Principles. This responsibility include designing, implementing and maintaining internal controls relevant to the to the preparation and fair presentation of the fund accountability statement that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable under the circumstances.

The management accepts responsibility for the fund accountability statement which has been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by other legal and regulatory requirements. The management is of the opinion that the fund accountability statement gives a true and fair view of the state of the financial affairs of the project and of its operating results. The management further accepts responsibility for the maintenance of accounting records, which may be relied upon in the preparation of fund accountability statement, as well adequate system of internal financial control.

Nothing has come to the attention of the management to indicate that the organization will not be able to continue operating for al least the next twelve months from the date of this statement.

This statement was approved by the management on.....2017 and signed on its behalf by:

Chief Technical Advisor.....Date.....2017

Programme Officer.....Date.....2017

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Report of the Independent Auditors to the Stakeholders of CBED - HRF Operations

We have audited the accompanying fund accountability statement of CBED -HRF Operations set out on page 8 to 11 which comprises of fund accountability statement as at 30th June 2016, and a summary of significant accounting policies and explanatory notes.

CBED-HRF Operations Management’s Responsibility on the Fund Accountability Statement

The Management of HRF is responsible for the preparation and fair presentation of this fund accountability statement in accordance with the requirements of the donor and the requirements of other legal and regulatory requirements. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation of fund accountability statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriation accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an independent opinion on the fund accountability statements based on our audit. We conducted our audit in accordance with International Standards of Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fund accountability statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the fund accountability statement, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the preparation and fair presentation of the fund accountability statement in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the organizations system of internal control. An audit also includes evaluating the appropriateness policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the fund accountability statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the accompanying fund accountability statement give a true and fair view of the state of financial affairs of the organization as at 30th June 2016 and of its results from operations and cash flow for the period then ended in accordance with the fund agreement and with International Financial Reporting Standards.

*The engagement partner responsible for the audit resulting in this independent auditor’s report is
CPA Paul Timothy Okumu Agoro-P/No 1746*

**AGORO AND ASSOCIATES
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Fund Accountability Statement

	Notes	2016 US \$
<u>Receipts</u>		
Deficit from 1 st report	7	<u>(18,522)</u>
		<u>(18,522)</u>
 <u>Expenses</u>		
International Project Officer		22,000
International Youth Advisor		54,000
National Youth Advisor		10,500
Somalia travel (air fares Nairobi-Mogadishu-Nairobi)		3,314
Security costs Mogadishu, incl. vehicle rent		3,100
Accommodation Mogadishu		1,302
Insurance Mogadishu		5,223
Tools, Furniture and equipment for training		403
Urban Planning Sinay Market		450
Visibility		<u>4,250</u>
Total Expenses		<u>104,542</u>
 Fund Deficit		 <u>(123,064)</u>
 Cash & Cash Equivalents		 -

Chief Technical Advisor.....Date.....2017

Programme Officer.....Date.....2017

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Notes to the Fund Accountability Statement

1. Accounting Basis

The principal accounting policies adopted in the preparation of the fund accountability statement are set out below.

a) Basis of preparation

The fund accountability statement has been prepared in compliance with Generally Accepted Accounting Standards and is presented in the functional currency USD rounded to the nearest dollar; it is prepared on a cash basis.

The preparation of fund accountability statement in conformity with GAAPs requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying organization's accounting policies.

b) Property, Plant and Equipment

Property, plant and equipment are fully donor funded and are purchased for designated projects. Expenditure on property, plant and equipment is expensed when purchased.

c) Revenue Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the organization and revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

Grant income

UN-HABITAT sends funds directly to HRF headquarter in United Kingdom. CBED-HRF Operations in Somalia receives periodic advances from its head office on projected activities. Revenue is thus recognized when actual transfers are received from the bank of UK.

Transfers

Transfers from the head office are recognized when the transfer has been confirmed.

d) Employee entitlements

Employees are not allowed to carry forward the annual leave from one year to the next. The monetary liability for employee's accrued annual leave at the end of twelve months period has not been charged to the fund accountability statement.

e) Taxation

CBED - HRF Operations is registered with the Benadir Regional Administration Mogadishu- Municipality as a non – profit International Organization and its income is exempted from tax under Mogadishu Operations Tax Act.

f) Cash and Cash equivalents.

Cash and Cash equivalents represents projects' cash and bank balances.

g) Foreign currency transaction.

Transactions during the period are converted into US dollar in accordance with the exchange rate at which the corresponding transfer of funds is received by UN-Habitat.

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Notes to the Fund Accountability Statement (Continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i. Critical judgments in applying the organization's accounting policies in the process of applying the foundations accounting policies, management has made, judgments in determining:-

- The foreign exchange rates in the system

3. OPERATIONAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Operational risk

Operational risks is the risk of direct loss arising from a wide variety of causes associated with the organization's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the organisations operations.

The organization's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the organization's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risks is assigned to management. This responsibility is supported by the development of overall organizations standards for the management of operational risks in the following areas:-

- Requirements of appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements
- Documentation of control and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risk indentified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Developments of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risks mitigation, including insurance where this is effective.

4. INCORPORATION

The organization is registered as a non-profit International NGO under the laws of the state of Somalia.

5. EMPLOYEES

The average number of fulltime employees during the period was 3.

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Notes to the Fund Accountability Statement (Continued)

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The organization's principal financial instruments comprise cash and cash equivalents. These instruments arise directly from its operations.

The organization's activities expose it to a variety of financial risk: Market risk (including foreign exchange risk and price risk), liquidity risk and operational risk. The management review and agree policies for managing these risks.

The management has overall responsibility for the establishment and oversight of the organization's risk management framework.

Market risk

Market risk is risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates. The objective of market risk management is to manage and control market risks exposure within acceptable levels, while ensuring the attainment of the organization's objectives.

i. Foreign exchange risks

Foreign exchange risk arises from future investments transactions and reorganized assets and liabilities. HRF used the specific exchange rate fixed by the Donor which corresponds to the rate on which funds were received from the EC.

ii. Price risk

Price risk arises from the fluctuations in the prices of the commodities purchase whose prices are determined by the market forces and other factors that are not within the control of HRF.

Liquidity risks

Liquidity risk is the risk that HRF will encounter difficulties in meeting its obligations from its financial liabilities. HRF's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, Under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. HRF Somalia operations highly rely on support from UN-Habitat.

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7. Receipts and Expenses Analysis

<u>Receipts</u>	Previous Period	Current Period	Total
UN-HABITAT	111,697	-	111,697
<u>Expenses</u>			

B.L

Codes Budget Lines

1.1	International Project Officer	43,000	22,000	65,000
1.2	National Project Officer	17,500	-	17,500
1.3	International Youth Advisor	28,000	54,000	82,000
1.4	National Youth Advisor	-	10,500	10,500
2.1	Somalia travel (air fares Nairobi-Mogadishu-Nairobi)	1,705	3,314	5,019
2.2	Security costs Mogadishu, incl. vehicle rent	6,700	3,100	9,800
2.3	Accommodation Mogadishu	3,074	1,302	4,376
2.4	Insurance Mogadishu	839	5,223	6,062
3.1	Business training for local administration	6,000	-	6,000
3.12	Tools, Furniture and equipment for training	-	403	403
3.4	Capacity Building Market Management	11,460	-	11,460
3.5	Urban Planning Sinay Market	4,984	450	5,434
3.8	Multi-stakeholder planning events	4,778	-	4,778
4.1	Monitoring and evaluation	2,040	-	2,040
4.2	Workshop materials	139	-	139
4.3	Visibility	-	4,250	4,250
	Total Expenses	130,219	104,542	234,761
	Surplus / (deficit)	(18,522)	(104,542)	(123,064)