



*Report on Auditors Training of the Supreme Audit Institutions of
the Federal Auditor General of Somalia and the National Audit
Chamber of South Sudan (2-8 May 2016)*



Training participants

Addis Ababa, Ethiopia

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ACRONYMS AND ABBREVIATIONS

AFROSAI-E	African Organization of Supreme Audit Institution English Speaking Countries
AG	Auditor General
COSO	Committee of Sponsoring Organizations of the Tread way Commission
FDRE	Federal Democratic Republic of Ethiopia
FGE	Federal Government of Ethiopia
FS	Financial Statement
HESPI	Horn Economic and Social Policy Institute
IGAD	Inter-Governmental Authority on Development
INTOSAI	International Organization of Supreme Audit Institution
ISSAIs	International Standards of Supreme Audit Institutions
MDA	Ministries, Departments and Agencies
NAC	National Audit Chamber of South Sudan
OAG	Office of the Auditor General of Federal Government of Somalia
OFAG	Office of the Federal Auditor General of Ethiopia
PFM	Public Financial Management
RAM	Regularity Audit Manual
SAI	Supreme Audit Institution

Executive summary

Institutional capacity building with the goal of improving financial sector effectiveness, and enhancing financial governance and integrity in post conflict countries has been The Horn Economic and Social Policy Institute's core programs component since establishment. It conducted empirical studies that verify the need for ensuring fiscal discipline, bringing resource allocation in line with policy priorities, creating an enabling environment for public financial managers for better public finance management and financial transparency to enhance the post-conflict transitions and adequately resource the public development priorities. Other reports like by the Transparency International also verify that post-conflict countries like South Sudan and Somalia where HESPI is targeting are among the bottom 10 in terms of realizing effective public budget management.

HESPI has been providing technical supports to the various financial integrity institutions like the Ministries of Finance, Planning and Economic development, Public Accounts Committees of the legislatures, Supreme Audit Institutions, Central Banks, and anti-corruption agencies to improve the status quo in the IGAD region with particular focus in Somalia and South Sudan. Its efforts started bearing fruit in these insecure and precarious governance systems that the countries are now starting to develop realistic national annual budget plans, trying to standardize the budget execution processes and putting in place the required legal frameworks and operational procedures; with yet more work remaining to be done.

Hence, this training was conducted as a follow up support to meet the continuous technical support need coming in from the country governments to consolidate and enhance the capacities of the Supreme Audit Institutions (SAIs). The training was conducted from 2-8 May 2016, in Addis Ababa, Ethiopia by HESPI for the senior and middle live Auditors of Somalia and South Sudan. The training need specified three areas of technical support: Financial Audit, Fraud Audit and Internal Control System.

The overall objective of the training is to enhance the human resource capacity of the Supreme Audit institutions in the two countries to improve the Audit function delivered to public institutions for better accountability and sound financial management; and ultimately contribute to the move towards sustainable development and poverty reduction. The post-mortem evaluation of the training indicated that it has enlightened the understanding and technical abilities of the participants from the SAIs to fulfill their mandates in ensuring transparency and accountability in the realm of PFM. Following are summaries of the core elements of the training addressed under each sub heading towards meeting the intended objective.

Financial Audit

In order to be able to express an opinion on the truth and fairness of the financial position and financial results of the public institutions as shown by the annual financial statements, the auditors are required to be familiar with and have standard tools in the areas of audit planning, field work and reporting. This component of the training therefore took stoke of the available standard tools that help to run rigorous audit process that incorporates at least the planning, fieldwork and reporting techniques. It also helped the trainee auditors to familiarize themselves with the standard audit processes. The auditors noted the available and lacking tools in their respective SAIs,

understood the key contents of the tools, shared experience (mainly from Ethiopia's track record) and realized the standardized financial audit processes from planning to report. They are familiarized and refreshed on audit guidelines on the planning, fieldwork, evaluation and reporting procedures to be followed in carrying out audits of government entities falling within the scope of the OAG's/NAC's responsibilities.

Various challenges associated to poor capacity and the prevailing poor financial governance in the two countries which hinder the efforts of the SAIs such as compromising attempts of the independence level of the audit institutions/political interference, poor internal audit systems of the government entities, has been discussed and experiences were shared. More specifically, this session covered issues like the basic principles and practices of financial and regularity audit; the various types of Audits in the Public sector Financial / regularity, Performance, Fraud/Forensic, Environmental, IT audit (what they are and how they are done); exhaustively compared and contrasted the private and public sector audit (from profit, laws/regulations, reporting needs/mechanisms etc.; Audit communication, Audit documentation/evidencing and assertions (related to income statement and balance sheet); Elements of good working paper and finally Audit process flows or mandatory steps with focus on the public sectors (Pre-engagement, Strategic Planning, Detailed Planning, Fieldwork, Reporting, Quality Control). The trainees were provided with training handout documents of all these sub components.

Fraud Audit

This component of the training focused on sources, detection and reporting mechanism of fraud which is rampant in the two post-conflict countries. It goes without saying that the public financial service has a broad client base and significant levels of expenditure, making the prevention and management of fraud an important issue for sound public sector governance. Effective fraud control requires the commitment and involvement of all government agencies, employees, clienteles and external service providers.

Studies have indicated that the intermittently changing legal and financial governance environment of the post conflict countries in which the public sector operates has increased the opportunity for fraudulent activity in the two target countries. It is also learnt that the availability and extensive use of information and communication technologies has provided opportunities for fraud. Therefore, building strong institutions which can manage scarce resources efficiently and transparently is a central challenge of development and is a key to controlling fraud especially in newly emerging states. This necessitated the inclusion of this topic in the training curricula.

The SAIs plays a critical role, as they help promote sound financial management and thus accountable and transparent government. They are well situated to contribute to this as they are widely viewed as the independent watchdogs of the public interest and are primarily focused on ensuring accountability on PFM.

To that effect, to adequately deliver on what is expected of them, the auditors/SAIs should be acquainted with the fraud audit techniques, which this training is tried to address and equipped them with relevant methodologies that will help them professionally and legally tackle any fraudulent activities that attempt to misuse, misappropriate or divert the resources of the citizenry. Not only post fraudulent incidence investigations, but also the trainees were exposed to internal control systems useful for reducing the occurrence of fraud error. The participants were exposed

to the meanings/definitions and attributes of fraud, sources of fraud, basic concepts of corruption and red flag/whistle blowing, internal control systems that create fertile grounds for fraud, fraud detection, investigation and reporting techniques, administrative and legal steps to prevent fraud, and how to secure legal protection while disclosing fraudulent activities based on other countries experiences.

Internal Control System (ICS)

ICS was the third component of this training. It is an act of creating favorable ground for better PFM before losses, misappropriations or frauds occur. ICS covers the plans, management's attitude, methods, procedures, and other measures designed to work together as a system that provide reasonable assurance in achieving an entity's objectives. That is, it crosses solely financial management borders in the public sectors. Even though it is very daunting to put a control system for all activities, it is necessary to develop and institute in every government organization's operations guiding principles of how to operate and serve the public.

An effective ICS serves two purposes; on one hand it guides the staff members of the public sectors how to operate in the organization and on the other hand it serves as a deterrent to misappropriation of public funds. Once the ICS is set by the person, organization or government, it is possible to check whether the system is properly working or not and make any required modifications or revisions.

The participants trained on the basic and fundamental concepts on the appropriateness of the ICS (the right control in the right place and commensurate to the risk involved), whether the system is properly functioning or not (complied by all employees involved in the process) and it must be cost effective (the cost of implementing the control should not exceed the benefits derived). The auditors were exposed to the need for ICS in association with risk, requirement of internal auditing function and other parties interest and to help trainees carryout their audit effectively and efficiently by understanding: the importance of ICS, its general concepts and components, the evaluation mechanisms of its components, its use by auditors, its key limitations, techniques for testing it as part of the audit process. And finally, mechanisms on how to play an important role in the development of effective ICS and risk management by disseminating the good practices identified in their audit work.

The training encompassed class room training on each respective topic, experience sharing by facilitators and by participants', exercises in groups and plenary reporting and facilitators' reflections. In the end, the participants were formally evaluated on the new lessons they have learnt and the strategies they are devising to implement the lessons. They confirmed and rated high the utility of the lessons they gained, their level of satisfaction on the overall organization of the training: its content, relevance, timeliness, delivery and logistics arrangement. The evaluation result is summarized in Annex II of this report.

1. Introduction

Sustainable development and poverty reduction or reconstruction and economic recovery of post-conflict nations cannot be achieved without good financial governance, which is greatly furthered by the valuable work of public sector audit institutions that promote sound financial management and public accountability. The SAIs exist to ensure transparency, accountability and probity in the PFM by auditing the management of public resources and reporting to the legislature. They also play a vital role in facilitating the transparency of government operations as their independence puts them in a unique position to legitimately and credibly evaluate the efficiency and effectiveness of public resources utilization for intended national agenda and peoples' priorities.

HESPI has been supporting the IGAD member countries, especially Somalia and South Sudan towards ensuring better PFM through a continued capacity strengthening approach. Its previous institutional support efforts addressed the human resources capacity of the National Audit Chamber (NAC) of South Sudan and that of the Office of the Auditor General (OAG) of Somalia. HESPI also organized hands on training for staff members from those two countries in collaboration with the Office of the Federal Auditor General of Ethiopia (OFAG) for a period of three weeks (August 25, 2014 up to September 10, 2014).

The role of the SAIs is to provide an independent assurance that governmental activities are carried out and accounted in consistent with the national parliament/legislature's intentions. Their roles emanate from the functions of the Parliament and they are required to provide the Parliament with independently derived audit information of the executive arm of the government on the levels of accountability and transparency. To deliver on these mandates and roles, the SAI should be equipped with the audit techniques and methodologies.

This training therefore focused on *Internal Control Systems, Fraud Audit and Financial Audit* as a follow up support to enhance the capacity of audit offices of Somalia and South Sudan. The training was delivered at Eliana Hotel, Addis Ababa, Ethiopia from May 2, 2016 up to May 8, 2016. This report summarizes the processes and outputs of the training.

2. Objectives of the Training

The overall objective of this training is to enhance the human resource capacity of the office of the Federal Auditor General of Somalia and National Audit Chamber of South Sudan in terms of audit planning, preparing and carrying out financial and fraud audits based upon the internal control system set by the government. It is aimed to enhance the ability of the SAIs to fulfill their transparency and accountability responsibilities in the use of public funds which mostly promulgated in enabling proclamations of respective audit offices

The technical support will ultimately improve the operations of the government and have a positive impact on strengthening accountability and sound financial management, and promote sustainable development and poverty reduction.

The specific objectives of the training, on each topic, include the following

- Expose to and refresh the auditors on standardized and effective financial audit in precarious post-conflict situations with financial governance deficits
- Familiarize the trainee auditors on the need, establishment and application of effective internal control systems of public entities
- Expose the trainees to fraud audit; its detection and reporting procedures especially where there are no well-consolidated legal and operational frameworks of PFM.
- Provide the trainees with adoptable standard public audit tools and reference materials useful to capacitate effective audit work force

3. The content and tasks of the training

As many PFM functions, audit is not one time learning and since the profession is evolving from time to time, the auditors should keep on learning new things and keep abreast of new developments. This is more important in dynamic financial governance environments due to internal conflicts and staff turnover. There is also continued change in the audit concepts, approaches and practices, especially in fragile environments with less capacity. May be some auditors are practicing, read about or/ and raise any issues related to the audit profession; and one can reap many things through discussions and experience sharing. However auditors, as a requirement of the profession, should attend periodic professional development that will ultimately assist them to deliver what is expected of them. They are also required to institutionalize the practice and new skills they gain for effective succession planning in the very dynamic systems like in Somalia and South Sudan.

Cognizant of these facts, HESPI organized the training based on the target countries request and expose, refresh and familiarize the auditors to up-to-date and standardized aspects of financial audit, internal control systems and fraud audit in a public sector setting.

Under each of the three subcomponents of the training, several issues have been addressed. The training documents (papers prepared by the trainers and power point presentations) are compiled and given to the participants for future reference and sharing with their subordinates and leaders in their respective SAIs.

3.1. Internal control system (ICS)

Under the ICS, this training covered areas like the plans, management's attitude, methods, procedures, and other measures designed to work together as a system that provide reasonable assurance in achieving an entity's objectives. During the planning and execution stages of this training, it was understood that even though it is very daunting to put a control system for all activities, it is necessary to develop and institute in every government organization's operations a guiding principle of how to operate and serve the public.

The ICS serves two purposes, on one hand it guides the staff how to operate in a given organization and on the other hand it serves as a deterrent to misappropriation of public funds. Once the ICS is set by the person, organization or government, it is possible to check whether the system is properly working or not. Issues like the basic and fundamental concepts on the appropriateness of the ICS (the right control in the right place and commensurate to the risk involved), whether the system is properly functioning or not (complied by all employees involved in the process) and its cost effectiveness (the cost of implementing the control should not exceed the benefits derived) were addressed in the training.

More specifically, under this sub heading, the following issues were addressed in depth:

- i. The introduction to ICS and why an auditor needs to obtain an understanding of it in the process of conducting public audit,
- ii. Definitions (what it is and what it is not) and the objective of establishing it was discussed. The participants also noted the required investment to establish ICS.
- iii. This was followed by listing and describing/characterizing the three types of ICS namely Preventive, Detective and Corrective
- iv. Once the participants were familiarized with the meaning and purpose of ICS, components of Internal Control (COSO Framework) were discussed at adequate depth. The control environment, the entity's risk assessment process, the information system relevant to financial reporting, control activities, Monitoring of controls-Soft Control were some of the issues addressed.
- v. In concluding the introductory session, the limitations of ICS were discussed thoroughly to help mitigate the limitations and show the degree of reliance we make on it.
- vi. The use of internal control systems by auditors was the section which required more debate and discussion as this is the actual implementation part of it. The trainees were informed that when using the ICS, they are required to assess risks of material misstatement and make documentation of the ICS which includes, Narrative notes, Questionnaires, Flowcharts and Checklists
- vii. As discussed above the ICS requires evaluation and follow up once it is initiated. Therefore, the trainees were updated on the evaluation of the ICS by way of better understanding the tests of control-both design and operation of internal controls and methods for obtaining controls audit evidence, revision of risk assessment, communication of deficiencies in internal control and the impacts of deficiencies on the auditor's reliance on internal control
- viii. The trainees were also educated on internal controls in a computerized environment – the IT Risks, Application Controls and General IT Controls
- ix. They were trained at better depth on the issue of tests of control in practical life – taking up areas like the sales system, the purchases system, the inventory system, the bank and cash system, the payroll system and the revenue and capital expenditure

In sum, under this sub heading the trainees were assisted in better understating of the theoretical and practical aspects of the importance of ICS, the general concepts of it and its components. They were also introduced to the limitations of the ICS and techniques for testing it as part of the audit process and risk management by disseminating the good practices identified in

their audit work. It is believed that after the training, the auditors will champion for establishment and/or strengthening of better internal control systems in their respective audit institutions.

3.2. Fraud Audit

The training need assessment indicated that fraudulent financial activities are one of the key financial management anomalies which should be tackled in the target countries. The fast changing and dynamic financial governance environment in the aftermath of prolonged conflicts are believed to have contributed to the rampant growth of fraud. Therefore, this topic was included in the training curricula to expose the participants to the basic concepts and fraud audit techniques.

The following key major areas were covered under this sub heading:

- Assessment or overview of fraud track records and its impact on public budget as well as the elements and attributes of fraud with particular emphasis on post conflict situation where there are loose ends on financial legal laws, internal control systems and overall effective operational frameworks
- The responsibilities of stakeholders, government agencies and the SAIs in particular in fighting fraud and its consequences
- As the financial activities encompasses the automation of public function, the trainees were introduced to the interconnectivity between the fraud audit and ICT
- On more technical issues, trainees were educated on techniques of fraud detection, fraud investigation, and safe but legal fraud reporting mechanisms and managing the outcomes of it.

3.3. Financial Audit

The principal objective of any audit is to enable the auditor to express an opinion on the truth and fairness of the financial position and financial results as shown by the annual financial statements of an organization. Before expressing any opinion any auditor should go through rigorous audit processes that incorporate at least the planning, fieldwork and reporting techniques.

Therefore, this portion of the training aimed to enlighten the auditors, or strengthen what they have, with the guidelines on the planning, fieldwork, evaluation and reporting procedures to be followed in carrying out audits of government entities falling within the scope of the OAG's/NAC's responsibilities.

The topics and issues covered under the financial audit sub heading are:

- Introduction to the overall audit process and audit considerations along all the stages of the audit task namely pre-engagement, strategic planning, detailed planning, audit field work, reporting and quality control.
- On the pre-engagement stage, the trainees were introduced to ethical requirements of the public auditors, efficient assignment of resources, team agreement and issuance of engagement letter.

- The participants is also trained at length in the **strategic planning stage** of the financial audit process taking issues like Planning Materiality, Follow-up prior years, Preliminary analytical review and Review of Internal Audit, Fraud Checklist, Internal Control Checklist, IT Control Checklist, Sustainability of Service, using the work of another auditor and using the work of an expert and Risk of material misstatement on Financial Statement level.
- The third key issue the trainer addressed in a raw was the **detailed planning stage** which covered area of Audit Assertions, System Description and Reliance on key control, Test of controls, Audit programs, Review of worksheet and sampling
- At the fourth session of the training, the trainees were made to better understand the audit **field work** taking issues like Evidence tracking sheet, Lead schedule per component, Disclosure checklist, Substantive audit procedure, Substantive analytical procedure, Management representation, Subsequent event, Final analytical review, Audit query and developing Audit summary memorandum
- The fifth issue they were trained on was **Audit Reporting** which covered producing the management letter and the audit report, which incorporates the auditor’s opinion.
- And finally, the auditors were trained on aspects of **quality control** of the audit process and the audit output.

4. Processes and methodology of the Training

4.1. Preparatory work

- Training need request was made by the two country Supreme Audit institutions. The request was made part of the Annual Work Plan of HESPI;
- HESPI discussed and agreed with the two audit institutions about the training including the topics that will be covered during the training session;
- Similarly, an audit consultant (and two more trainers) was selected based on their merits of training experience, educational background and experience in the field to ensure the training is effectively managed and the participants took full advantage of it. The consultant was a qualified Senior Auditor with a minimum of at least 10 years in senior audit management and training experience. He committed 18 working days for arranging the training and producing a final report. In addition, the two resource persons (facilitators) were also engaged in the preparation and delivering of training on Internal Control Systems and Fraud Audit.
- Based on their commitment, identification with the SAIs, educational level and previous experience in the audit or related field, the trainees were selected and by the target governments and approved by HESPI after thorough evaluation of their appropriateness
- HESPI has arranged the logistics, prepared program, and covered the transportation, accommodation and daily subsistence allowances of the audit staff from both audit offices. The program annexed with this report for reference;

- HESPI's Program Manager and the Consultant were facilitating the training delivery; and
- Finally, this report is produced to show the whole picture of the training events.

4.2. The Training Methodology

As this was training organized for senior audit officials, methodology of an adult education with intensive two-way communication were followed. Some of the methodologies employed include:

- Assessment of participants level of existing knowledge on the various topics and country level practices through brainstorming and discussions
- Power point presentation using user-friendly language and format
- Plenary discussions, question and answer sessions
- Experience sharing between auditors from South Sudan and Somalia
- Group exercise and presentations using training materials

5. The Training sessions – Setting the scene

The training had the opening session, the class room delivery sessions, breakout sessions plenary sessions, reflection of the facilitator on a given exercise, conclusions and wrap up on each topic of the presentation. But first, participants disclosed their expectations from the training and there were opening speeches made.

5.1. Opening speeches

The training program was officially opened by the HESPI Programs Manager and a remark supplemented by HESPI associate Mr Abdihakim Saeed. The opening speech and remark made by two gentlemen are transcribed below. Latter, the training program was closed by Dr. Ali I. Abdi, Managing Director of HESPI and Ambassador Peter Robleh, HESPI Board Chairman.

The HESPI programs Manager, warmly welcomed the participants to Ethiopian and to this particular training. He provided little background on HESPI and its areas of engagement. He also explained about HESPI's capacity building work and why Somalia and South Sudan were selected for interventions on capacity building of financial integrity institutions which necessitated their coming to this training. He then highlighted on the contents and approaches on this training. He said that to enhance the capacity of the auditors and to revamp the operation of audit offices and to play its own role in this respect, HESPI organized this training on the following major topics: Financial Audit, Fraud Audit and Internal Control System. He went by saying, I hope these topics have an immense meaning to you and all of you actively participate on the training through group discussions and sharing your own countries experience in this respect. He finally requested the participants to maximally benefit from the training through unreserved questions and answers, sharing their country experiences etc. and to actively participate in all days

and hours of the training. And then he declared that the training program is officially open and invited Mr. Abdihakim for his remarks.

Abdihakim on his part welcomed the trainees. He said that, as already mentioned, HESPI is an institution which volunteered itself to assist both countries in the process of strengthening the financial integrity of respective countries. You are the ones who come forefront to support your country in building a strong institution accountable to the parliament. If you produce viable audit reports that will help the parliament to question the executive and ultimately put a pressure to take a proper action, you are one way or the other contributes the betterment of your country and the welfare of your citizens. In doing so, we believe that the auditors should be equipped with the techniques of the auditing; the theory should be supplemented by practical experience. Audit is an evolving profession and I hope that you can reap many things from the facilitators and take to your countries for implementation. The training is not one way learning and teaching process but it should be an interactive one and it really requires your unreserved participation until the end of the training.

He concluded his remarks that I wish all of you nice deliberations, participatory training and pleasant stay in the city of Addis Ababa. Thank you for your attention!

5.2. Participants' expectations

As a step taken to set the scene, the expectations of the participants were listed through brain storming and summarized as follows:

- ❖ To know about the five steps of financial audit and gain more knowledge on regularity audit;
- ❖ Will be familiar with sampling techniques;
- ❖ Understand mechanism and approaches to detect, analyze and report of fraud;
- ❖ Understand and gain better insight on the concept and elements of internal control system; and
- ❖ Be able to factor and institute useful and effective measures to manage public funds in my country.

5.3. Introduction and harmonization

The classroom session started with participants' introduction to ensure good connectivity between the auditors of the two countries to lay the ground for formal and informal experience sharing. The thorough introduction enabled to play active role in the learning process and share experience in this training program. These auditors will also continue their communications and experience sharing through e-mail and other means even after the training session.

6. Conclusion and Summary of key issues discussed

6.1. Conclusion

Auditing is a professional exercise that will enhance the accountability and transparency of economic and financial operations. Once a national budget is proclaimed by a Parliament/ legislature, the audit report is one tool whereby the parliament can hear how the budget is utilized. The Supreme Audit Institution should possess competent audit staff to serve the nation and fulfill the need of the public at large. This training is one of the activities to revamp the capacities of the audit offices. It is helpful for auditors in planning an audit assignment to explain the principal techniques to be used in carrying out such assignment; and to state the manner in which the results of the audit are to be reported both internally to higher management and externally to auditee organizations and to statutory authorities. Based upon the internal control system set by the government any auditor can determine the sample size he/she is going to examine. In addition, audit can also assist to deter the fraud that is committed by the auditees as a preventive or detective tool.

More cost-effective and efficient audit work and the better focused audit reports and recommendations will enhance the ability of the legislature to hold public agencies to account and assess the best use of resources and follow up of mandates. Development partners also benefit from the improved efficiency and effectiveness of the governments' operations resulting from the improved accountability systems and proper use of development assistance. Citizens have the right to be informed of how the taxes they pay are expended, and this is possible through well established and functioning Supreme Audit Office.

The training is believed to be one of the meaningful steps towards building the capacity of audit institutions in an effort of overseeing and ensuring that the public money serves citizens while limiting corruption, fraud, misconduct and inefficiencies that reduce confidence in public services and that fiscal discipline is maintained in the target countries. It also created opportunities for cross-learning of audit practices in the region as it brought together the experiences of South Sudan, Somalia and Ethiopia. The trainees will disseminate the new skills and knowledge in the topical areas among their subordinates and share it with the management of audit offices.

6.2. Summary of some frequently discussed issues

a) Financial Audit

- In financial audit, the auditors should go through the whole cycle of the process - Pre-engagement, Strategic Planning, Detail Planning, Execution (field work), Audit Reporting and Quality Control. Moreover, the capacity of the audit institution should be strengthened considering all the five stages.
- Auditors should be bold enough, ethically well positioned and have the right protection to surface signals of actual and potential risk of the organization under audit.

- Auditors should have a mindset of not only reporting on the current risk areas but also recommend on future strengthening of the internal control systems for a transformational change.
- Audit queries that are objectively set and no clarification obtained for it should be incorporated in the audit report and management letter.
- The auditors should push for changes or administrative measures that should be taken by the responsible government entity.
- Before mobilizing the auditors for the intended audit exercise, the auditees should be categorized according to their risk level based upon the budget allotted to the public entities, complexity of the nature of work, number of branch offices (if any), knowledge about the risk susceptible to fraud and prone to error by virtue of its nature and prior audit reports.
- The audit institutions have to push the government to lay a ground for the closure of the book of accounts of the auditees.

b) Fraud Audit

- Paying, collecting, and contracting are the key areas to watch out when dealing with fraud audit in the two target countries.
- Fraud can be perpetrated by individuals and by companies as taxpayers, contractors, or as beneficiaries of public payments.
- Effective fraud control requires the commitment and involvement of all government agencies, employees, clients, and external service providers. Leaders of government organizations have a responsibility to embed effective standards for countering fraud and corruption in their organizations.
- Lack of commitment of the leaders to tackle fraud and corruption problems was the key problem reflected from the two countries. Since the audit offices are working towards the enhancement of the financial integrity of their respective countries, it is agreed that as auditors, we have to exert our efforts to assist in mitigating fraud and corruption. In the case of the parliament posing a corruption case to audit offices, this training gave enlightenment to auditors on how to tackle the case and provide valuable reports to the parliament

c) Internal control system

- Internal control is not only essential to maintaining the accounting and financial records of an organization, it is essential to managing the entity as a whole.
- The auditors appreciate the utility of establishing effective internal control system for making their job easy, save tax payers money and improve PFM.
- Reinforcement of Internal Control System requires investment which the auditors might push for in various occasions.
- Familiarized with the COSO definition as a process effected by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations.
- There was a general consensus that even though it is a responsibility of the management to institute a proper internal control system, we as auditors have the

duty to assess its functionality so that to determine the risk of the organization under audit.

- If the internal control system of a given government entity is poorly designed, it is the duty of the auditor to test its effectiveness.

7. Wrap-up and Closing session

The training was closed on May 8, 2016 by the HESPI management.

The HESPI's Managing Director Dr Ali Issa Abdi and Chairperson of the Board Ambassador Peter Robleh have heard reflections from the participants and expressed their views on the overall objective and outcome of the training.

Dr. Ali mentioned that HESPI is always committed to assist the financial integrity and accountability of your respective countries. HESPI is working together with the eight member countries of IGAD with special emphasis with post conflict countries like Somalia and South Sudan. He mentioned about the Transparency International ranking of the target countries and why HESPI is focusing on Somalia and South Sudan.

Dr. Ali said "You may raise an issue of 'why only Somalia and South Sudan?'" He explained to the participants saying that the focus of HESPI is on eight IGAD member countries. These member countries grouped into two: Ethiopia, Kenya, Uganda and Sudan are progressing and the rest of the countries are fragile or coming out of conflict. The financial integrity of these fragile countries is not yet developed and Somalia and South Sudan, according to a report from some sources, are the least transparent countries. Therefore, that is why we focus on these countries and the audit offices are not alone to bring transparency and financial integrity but the leadership commitment is also very important. This training is the second or the third to talk about financial integrity. We keep upon drilling on this issue until we get what we want to obtain. He highlighted that the audit offices have to deliver at least annual reports to the parliament and hope this training will assist you in this respect. The main point is not only the training but also the experiences you have exchanged during the training are important. We would like to thank you all, said Dr. Ali.

The participants briefly evaluated the training saying that the topics that covered during the training are very important and relevant to deliver what is expected of them and it was practically oriented to their day to day duties. The participants tried to match what they covered against their expectations; they confirmed that expectations were met. They added that critical subjects were delivered in an understandable manner. One participant from Somalia, on behalf of the team, has said that the topics that covered during the training are very important and relevant to deliver what is expected of them. Even though we have attended similar training in the past time we haven't seen such practical approach in line with our duties. We really thank HESPI for organizing such training and also thank the trainers that deliver the subject matter in understandable manner. The south Sudan team indicated that when countries emerge out of war many agencies are not interested and come forefront to assist them. But HESPI is the one which happens to assist us and such training

is really important to adjust ourselves. Tone at the top is important to improve the performance of the audit offices. We think HESPI can help the Chamber in other field of the audit like performance auditing and many other areas for further improvement. They showed their commitment to deliver what is expected of them by implementing the refreshment they have obtained from the training.

The training was officially closed by Ambassador Peter Robeleh and he reiterated the commitment of HESPI in enhancing the capacity of both countries office of the auditor general for the benefit of the development of transparency and accountability in the Federal Republic of Somalia and South Sudan. HESPI is working with IGAD countries on regional integration and collaboration and this training program is part of the HESPI's commitment to assist such effort. He requested the trainees to replicate the resources they have obtained to their colleagues. Thanked them for being with HESPI and congratulated them on their accomplishment!

Annexes

Annex I

Details of the presentations and discussions in the classroom

a) Financial Audit

Under this topic the whole cycle of the financial audit is covered including the Pre-engagement, Strategic Planning, Detail Planning, Execution (field work), Reporting and Quality Control Questionnaire are covered

The Pre-engagement stage focuses on the founding principles for the audit engagement. At this juncture, one has to see whether he has necessary resources to carry out the audit, professionally fit staff and adheres to code of ethics requirements. In addition, the audit team that will be deployed should agree on every aspect of the audit process including the one who signs the audit report.

The Strategic Planning stage, one has to determine the materiality level at the initial stage for the organization under audit and he has to explore the background information so that it is possible to fill working papers and lastly to determine the risk at financial statements level. Since the audit itself focuses on the risk based approach, any one has to determine the risk at financial statement level so that the next audit procedures will base on the determined risk level (whether the risk is high, medium or low).

Then, at Detail Planning stage one has to test the internal control set and implemented by the auditees and has to prepare audit program to do the substantive audit procedures. Here the samples that should be taken for further test and system should also be described to determine how audit component are operating. Once the samples are selected the audit team should do further audit tests and conclude whether the financial statements are prepared fairly or not. At every stage of the audit process any audit queries are prepared and submitted to the responsible person to respond on it. If either the agreement is reached or sufficient and reliable information is provided the audit queries should be left out otherwise the queries will be converted to an audit report (in the form of management letter and in provision of audit opinion on the financial statements).

Audit conclusion and reporting and Quality control issues were addressed and every session of the presentations was followed by questions and answers session. In addition, the participants were sharing their experiences how they are addressing relevant audit procedures in their respective offices. Exercises at stage of the presentation were given to the participants by splitting them into two groups (one syndicate room for each group was arranged) and each group discussed on the exercises and present their reflection on it. At the end of the whole session a suggested solution was given to the participants.

For deploying auditors and resources for a given audit the case of OFAG was came into scene and the participants were concerned how to deal with this issue. First of all the organizations should be categorized according to their risk level based upon the budget allotted to the public entities, complexity of the nature of work, number of branch offices (if any), knowledge about the risk susceptible to fraud and error by virtue of its nature and prior audit reports. The auditees should be categorized based upon the consideration of

those factors and the resources should be allocated according to the risk level of those audit entities.

A practical experience of the facilitator was raised at each point of the presentation and the whole working paper of the regularity audit working papers are distributed to each participant for future reference and implementation. The main concern raised by participants from the South Sudan is that the auditees don't close their financial statements so that they will report on a closed financial statement. Still they are doing the audit even though the auditees don't close the financial statements. This trend of doing something rather than nothing is an acceptable way of assisting the organization under audit in the process of improving the internal control system. All the participants and the facilitator agreed that it is the responsibility of the government to lay a ground for the closure of the book of accounts and we are there to assist in this respect.

It is reached on a Conesus that the participants has obtained a basic understanding of the five steps of financial audit (pre-engagement, planning, fieldwork, reporting and quality control) and seen the basic knowledge of sampling techniques.

b) Fraud Audit

The facilitator, Mr Alemayehu Teklu, has started the session by introducing himself and brief introduction of the Fraud Audit and energizing the participants between the session.

There are three basic modes of government activity in which fraud can occur -paying, collecting, and contracting. Governments bestow a variety of benefits, subsidies, and payments to individuals and organizations. Not all recipients are entitled to what they receive. Governments collect revenues from individuals and organizations, in the form of taxes and duties, or as payment for services. There are those who do not pay what is due. Governments themselves are consumers of goods and services. There are those providers of goods and services who charge the government for goods not delivered or for services not rendered, or who knowingly provide defective or substandard products or poor services. Beyond this, governments control billions of dollars of capital resources, some of which are vulnerable to conversion for private use by unauthorized persons.

Fraud can be perpetrated by individuals and by companies as taxpayers, contractors, or as beneficiaries of public payments. The changing environment in which the public sector operates has increased the opportunity for fraudulent activity. The availability, and extensive use, of information and communication technologies has provided opportunities for fraud.

Effective fraud control requires the commitment and involvement of all government agencies, employees, clients, and external service providers. Leaders of government organizations have a responsibility to embed effective standards for countering fraud and corruption in their organizations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

Cognizant of the above facts, HESPI organized training on Fraud Audit so that the auditors of both countries will get awareness on this topic and get an understanding on how to approach the case the time when required to do so. Fraud Audit training is categorized under five main topics, which are introduction to fraud audit, fraud awareness, fraud detection, fraud investigation, reporting the results of fraud investigation and outcomes of fraud investigations.

The main topics covered under this theme are as follows:

- ✓ *What is Fraud all about?*
- ✓ *Awareness Needed To Detect Fraud*
- ✓ *Fraud, Auditing, and the Computer*
- ✓ *Elements of Fraud*
- ✓ *Attributes of Fraud*
- ✓ *Responsibility of Government Agencies to Implement Controls and Detect Fraud*
- ✓ *Auditor's Responsibilities*
- ✓ *Fraud Detection*
- ✓ *Risk Assessment Procedures*
- ✓ *Methods of Fraud Detection*
- ✓ *Communication*
- ✓ *Documentation*
- ✓ *Fraud Investigation*
- ✓ *Reporting the Results of Fraud Investigations*
- ✓ *Outcomes of Fraud Investigations*

A presentation on each topic is delivered for two days, discussions and experience sharing of each country was dwelled after the presentation of each topic. One introductory and two more exercises were entertained between the sessions, each group have discussed and put their suggested solution on flip charts and presented to the whole participants. This has created an interactive session and a forum what they have felt on each case.

After the presentation and in the middle of the presentation of Fraud Audit, comments and questions were posed by the participants from both countries and relevant ideas were entertained.

The common problem that has aired from both countries is lack of commitment of the leaders to tackle fraud and corruption problems. That is in most developing countries there is lack of commitments of the leaders is absent and the staff also looks the leader and follow the suite. Since the audit offices are working towards the enhancement of the financial integrity of their respective countries, it is agreed that we as auditors, we have to exert our efforts to assist in mitigating fraud and corruption. If the parliament will pose a corruption case to audit offices, this training give enlightenment to tackle the case and will provide valuable reports to the parliament.

c) Internal Control System

This session started with posing the question “What is internal control system all about?”, “Have you came across the fraud?”, “What do you think the reason why fraud happens?”. Some of the participants have tried to reflect what do they feel on each question and after this brainstorming session, Mr Solomon keep on briefing on the subject matter and the topics that are outlined on internal control system.

Internal control is not only essential to maintaining the accounting and financial records of an organization, it is essential to managing the entity. Everyone from the external auditors to management to the board of directors to the stockholders of large public companies to government, have an interest in internal controls. In many parts of the world, regulators have emphasized the importance of internal control by requiring management to make annual public statements about the effectiveness of internal controls.

Reinforcing internal controls is generally seen as one of the most important steps in avoiding negative surprises. Even a company that is considered “in control” will face risks. Effective internal controls will ensure that risks are identified at an early stage. Company risk management procedures will identify ways to deal with these risks, to the extent possible. This training is designed to help trainees carry out their audit effectively and efficiently by understanding:

- the importance of internal control
- the general concepts in internal control and its components
- the evaluation of internal control components
- the use of internal control systems by auditors
- limitations of internal control
- techniques for testing internal control as part of the audit process
- play an important role in the development of effective internal control and risk management by disseminating the good practices identified in their audit work.

The main topics covered under this title are:

- ✓ *Why an auditor needs to obtain an understanding of internal control*
- ✓ *Internal Control Defined*
- ✓ *Objectives of Internal Control*
- ✓ *Types of internal control*
- ✓ *Components of Internal Control (COSO Framework)*
- ✓ *Soft Control*
- ✓ *Limitations of Internal Control*
- ✓ *Assess risks of material misstatement*
- ✓ *Documenting Internal Control Systems*
- ✓ *Tests of control*
- ✓ *Revision of risk assessment, audit strategy and audit plan*
- ✓ *Communication of deficiencies in internal control*
- ✓ *Internal controls in a computerized environment*
- ✓ *Tests of control in practice (The sales system, the purchases system, the inventory system, the bank and cash system, the payroll system)*

Internal control is defined by COSO as a process effected by the entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations. Even though it is a responsibility of the management to institute a proper internal control system, we as auditors has the duty to assess its functionality so that to determine the risk of the organization under audit. If the internal control is poorly designed, it is advisable to test it. In other words, if the controls are not adequately designed, perform sufficient substantive audit procedures. But if the internal control is designed properly, the auditor tests its effectiveness. After the presentation and in the middle of the presentations of Internal Control System, comments and questions were posed by the participants from both countries and relevant ideas were entertained.

Annex II

Evaluation of the Training Program

The trainees were poised to conduct evaluation of the training. The aim of the evaluation was to assess the level of satisfaction of the trainees with the training. Also, it was believed that the information or feedback from the trainees is important for HESPI in order to capture the trainees' perspectives on relevance of the training, its quality, timeliness and usefulness, etc and also to identify the weaknesses and opportunities for future improvement.

In addition, the evaluation would also assist all stakeholders to track the progress towards achievement of the intended objectives of the training and especially HESPI's capacity building program.

Assessments of the training were done on all aspects including content, theory-practical combination, delivery (subject mastery of the trainers and skills to convey), timing, and logistics.

1. Participants independent opinions on the quality of the training

According to the independent assessment of the trainees on the last day, the training was rated as follows for its quality levels:

Criteria	Excellent	Very good	average	poor	Very poor
Relevance of the various topics	X				
Quality of the presentations		X			
Quality of the auditing practical sessions with the sector offices	X				
Quality of reading and auditing materials provided	X				
The time allotted for presentation and discussion		X			
The logistics, accommodation, and travel arrangements	X				
The venue and refreshments		X			

2. Participants' Satisfaction level assessment results

Criteria	Highly satisfied	Satisfied	Don't know	Unsatisfied	Highly unsatisfied
Relevance of the training	X				
Quality of the training	X				
Timeliness in delivering	X				
Usefulness of the training	X				
Overall appreciation of the training	X				

Annex III

The Training Program

Date	Time	Subject	Facilitator	Co-Facilitator
Day One 02/05/16 Monday	8:00 – 8:10	Registration	HESPI	Mr. Paulos
	8:10 – 8:20	Official opening	HESPI	
	8:20 – 9:00	Introducing each other and window of my life and Introductory remark	Participants and Mr. Paulos	HESPI
	9:00 – 10:00	FINANCIAL AUDIT Session 1 – Introduction The audit process and other audit considerations Session 1 – Pre Engagement -Ethical Requirements - Assignment of resources - Team agreement, Engagement Letter - Exercise and Discussion	Mr. Paulos	
	10:00-10:30	Tea Break		
	10:30 -12:00	Session 2 – Strategic Planning - Planning Materiality - Follow-up prior years - Preliminary analytical review and Review of Internal Audit - Fraud Checklist - Internal Control Checklist - IT Control Checklist - Sustainability of Service(Going Concern) - Exercise and Discussion	Mr. Paulos	
	12:00 - 2:00	Lunch Break		
	2:00 - 3:30	Session 2 – Strategic Planning - Using the work of another auditor and using the work of an expert	Mr. Paulos	

Date	Time	Subject	Facilitator	Co-Facilitator
		- Risk of material misstatement on Financial Statement level		
	3:30-4:00	Tea Break		
	4:00- 5:30	Session 3 – Detailed Planning - Audit Assertions, System Description and Reliance on key control	Mr. Paulos	
Day Two 03/05/16 Tuesday	8:00-10:00	Session 3 – Detail Planning - Test of controls, Audit programs - Review worksheet	Mr. Paulos	
	10:00-10:30	Tea Break		
	10:30-12:00	Session 3 – Detail Planning - Sampling - Exercise and Discussion	Mr. Paulos	
	12:00-2:00	Lunch Break		
	2:00-3:30	Session 4 – Audit Fieldwork - Evidence tracking sheet - Lead schedule per component - Disclosure checklist - Substantive audit procedure - Substantive analytical procedure - Management representation - Subsequent event, Final analytical review, Audit query - Audit summary memorandum - Exercise and Discussion	Mr. Paulos	
	3:30-4:00	Tea Break		
	4:00- 5:30	Session 5 – Reporting - Management Letter - Audit Report (Auditor’s opinion) Section 6: Quality Control -Exercise and Discussion	Mr. Paulos	
			FRAUD AUDIT	
	8:00-10:00	Overview of Fraud	Alemayehu	Mr. Paulos

Date	Time	Subject	Facilitator	Co-Facilitator
Day Three 04/05/16 Wednesday	10:00-10:30	Tea Break		
	10:30-12:00	Fraud, auditing and the computer	. Alemayehu	Mr. Paulos
	12:00-2:00	Lunch Break		
	2:00-3:30	Elements of fraud and its attributes	Alemayehu	Mr. Paulos
	3:30-4:00	Tea Break		
	4:00- 5:30	-Responsibilities of the government agencies and the auditor -Exercise and Discussion	Mr. Alemayehu	Mr. Paulos
Day Four 05/05/16 Thursday	8:00-10:00	Fraud detection	Alemayehu	Mr. Paulos
	10:00-10:30	Tea Break		
	10:30-12:00	Fraud investigation	Alemayehu	Mr. Paulos
	12:00-2:00	Lunch Break		
	2:00-3:30	Reporting the results of fraud investigations	Mr. Alemayehu	Mr. Paulos
	3:30-4:00	Tea Break		
Day Five 06/05/16 Friday	8:00-10:00	1.Internal control systems <ul style="list-style-type: none"> • Introduction • Why an auditor needs to obtain an understanding of internal control • Internal Control Defined • Objectives of Internal Control • Types of internal control <ul style="list-style-type: none"> - Preventive - Detective - Corrective 	Mr. Solomon	Mr. Paulos
	10:00-10:30	Tea Break		
	10:30-12:30	Internal Control System (Continued)	Mr. Solomon	Mr. Paulos
	12:30-2:00	Lunch Break	Mr. Solomon	Mr. Paulos
		Friday afternoon Off		
Day Six 07/05/16	8:00-10:00	Components of Internal Control (COSO Framework) <ul style="list-style-type: none"> • The control environment • The entity's risk assessment process • The information system relevant to financial reporting 	Mr. Solomon	Mr. Paulos

Date	Time	Subject	Facilitator	Co-Facilitator
Saturday		<ul style="list-style-type: none"> Control activities Monitoring of controls Soft Control Limitations of Internal Control 		
	10:00-10:30	Tea Break		
	10:30-12:00	Components of Internal Control (COSO Framework)-Continued	Mr. Solomon	Mr. Paulos
	12:00-2:00	Lunch Break		
	2:00-3:30	2.The use of internal control systems by auditors <ul style="list-style-type: none"> Assess risks of material misstatement Documenting Internal Control Systems Narrative notes, Questionnaires, Flowcharts and Checklists Exercise and discussion	Mr. Solomon	Mr. Paulos
	3:30-4:00	Tea Break		
Day Seven 08/05/16 Sunday	4:00- 5:30	3.The evaluation of internal control components <ul style="list-style-type: none"> Confirming understanding Tests of control- Both design and operation of internal controls Methods for Obtaining Controls Audit Evidence Revision of risk assessment, audit strategy and audit plan Communication of deficiencies in internal control 	Mr. Solomon	Mr. Paulos
	8:00-10:00	4.Internal controls in a computerized environment <ul style="list-style-type: none"> IT Risks Application Controls General IT Controls 	Mr. Solomon	Mr. Paulos
	10:00-10:30	Tea Break		
	10:30-12:30	1. Tests of control in practice <ul style="list-style-type: none"> The sales system The purchases system The inventory system The bank and cash system The payroll system Revenue and capital expenditure -Exorcise and Discussion	Mr Solomon HESPI	Mr. Paulos

Date	Time	Subject	Facilitator	Co-Facilitator
		Wrap up		
	12:30-2:00	Lunch Break		
	3:30-4:00	Sunday afternoon Off		

Annex IV. Profile of Trainees

	Name	Position	Country	Education level	Contact
1	Abdale Mohamed Ahmed	Senior Auditor	Somalia	BSC – Computer Science	
2	Mohammed Abdi Abdullahi	Senior Auditor	Somalia	Bachelor of Public Administration	
3	Faiza Abdulle Farah	Auditor	Somalia	-BA in Law -BA in Business Administration	
4	Mohammed Yusuf Sheikh	Senior Auditor	Somalia	Bachelor of accounting and management	
5	Paulo Olir Gai	Senior Auditor	South Sudan	Bsc. Banking & Export	
6	Ephariam Wolyan Wami	Senior Auditor	South Sudan	Bsc. in Commerce	
7	Francis Arop Machar	Senior Auditor	South Sudan	Diploma	
8	Gabriel Rasas Disi	Auditor	South Sudan	Bsc. Statistic & Demography	