

Office of the Auditor General



Galmudug State of Somalia Annual Audit Report for the Financial Year 2018

Presented to Parliament on July 18th 2020

Transmittal Letter

18th July 2020

Speaker of State Parliament
Galmudug State of Somalia
Dhuusamareeb, Somalia

Honourable Speaker of Parliament,

In accordance with Section 32(3) of the PFM Act 2017 and Sections 30, 32 and 33 of the Audit Act 2018 of Galmudug State of Somalia (GSS), I have the pleasure to submit to you the 2018 Annual Audit Report of the Office of the Auditor General (OAG) for tabling in the State Parliament.

The main issues in this report are as a result of the annual audit of the state's public accounts and balances, as well as procedures applied to test the legal implementation of the 2018 state budget.

The primary function of the OAG is to deliver independent highly quality public sector audit that promotes greater economy, efficiency and effectiveness in the use of public resources and provide reliable report to the parliament on the use of public funds by budget spenders as stated in Section 6(2) and Section 7(1) of the Audit Act 2018.

The focus of our work is to provide reasonable assurance that public funds are planned, administered, used and reported properly. We also work closely with Parliament to expand our capacity in delivering high quality information. With this in mind, it is worth mentioning that this report is the second one issued by the OAG.

Attached to this letter are:

- The OAG Annual Report for 2018.
- The 2018 Financial Statements of GSS and accompanying Audit Opinion (Annex 1).
- The Audit Management Letter for 2018 including the detailed findings and recommendations for improvement and formal responses from Ministry of Finance (Annex 2).

The audit of financial year 2018 was completed with the support of a private sector audit firm as was the case with the 2016 and 2017 audits. These arrangements have enabled my staff to gain experience and build their capacity. As a result, we plan to conduct the 2019 audit without the support of a private sector audit firm.

In my Annual Report, where weaknesses have been identified, I have given constructive recommendations for improvement. For these recommendations to improve the work of the state they need to be implemented. Thus, the contribution of Parliament and the Government in increasing accountability in public administration and in addressing audit recommendations is of critical importance.

Finally, I would like to thank Parliament for the constant support provided to OAG and sound cooperation of the Parliamentary Committees in fulfilling our mission. Thank you also to the staff and senior management of Government bodies who have worked with our auditors in fulfilling our audit objectives as well as Baker Tilly, the private audit firm that helped us complete the audit process.

I hope that this report will serve as a useful tool to understand the current state of management of public finances.

Yours sincerely

Hashi Osman Mohamed



Auditor General

CC;

1. President GSS

2. Minister for Finance GSS

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1. Executive Summary

1.1 About the OAG

The 2018 Annual Audit Report comprises the results from the audit of the Annual Financial Statements of 2018 and the main findings from the audits of all public accounts funded by the budget of Galmudug State of Somalia for 2018.

Section 78(b) of the Galmudug Constitution states that the OAG is an independent institution the main function of which is to be the external Auditor for the State. Section 32(3 and 4) of the PFM Act 2017 states that the Auditor General (AG) shall review the Final Account of the Consolidated Budget produced by the Minister (of Finance) and forward an audit report along with the Final Account to Parliament no later than four months after receipt of the unaudited Final Account from the Minister. It also states that the AG shall publish the audit report in the Official Gazette and make it available to Parliament and the public within one month of the completion of said audit report. Additionally, section 30(6) of the Audit Act 2018 requires the AG to include in his report:

- his opinion on the truth and fairness of the consolidated and separate public accounts;
- significant findings and recommendations;
- deficiencies identified in the internal control system;
- details of essential records that have not been maintained; and
- any money that has been expended without due regard to economy or efficiency.

OAG audits are undertaken in accordance with International Standards of Supreme Audit Institutions (ISSAIs) for regularity audit (audit of the annual financial statements and audit of compliance with relevant laws and regulations).

1.2 Audit Opinion

We audited the GSS Financial Statements for the year ended 31st of December 2018, which includes the Consolidated Funds Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual Amounts as well as Notes to the Financial Statements and we have issued a **qualified audit opinion**. The financial statements were deemed to be mostly in conformity with the provisions of the PFM Act 2018 and International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting. The full Audit Opinion is included (with the Financial Statements) in Annex 1 – page number 4

It is possible that the 2018 Financial Statements, as presented, do not fairly represent the financial activities of government in one, important, area; payments totalling **\$1,155,147, representing 54%, of total payments made during 2018** reported in the Consolidated Fund Statement of Receipts and Payments **lack**

adequate evidence to support these transactions. Without such evidence it is impossible to say whether these payments have been correctly disclosed. The inadequately supported payments for this year are significantly higher than last year of (FY 2017) when only \$ 377,909 (7%) were inadequately supported.

1.3 Main Findings

A summary of the major findings identified during the audit is presented below. These issues are also reported, in greater detail, in the Final Management Letter, at Annex 2.

Collection of Revenue

The Government has not made good progress when it comes to improvement of revenue collection. GSS revenue collection in 2018 has declined by (\$460,916) or 19% compared to 2017. Although political instability is a major factor in this reduced collection, there are others. For example:

- Revenue collection is still processed through a manual based system where human error is likely, fraud is not well controlled and there is a higher risk that calculations/accounting are inaccurately performed and recorded.
- The revenue reconciliation sheet used did not indicate preparer, reviewer and approver to demonstrate segregation of duties in revenue collection process and timely preparation, review and approvals of reconciliations. Without such a reconciliation any error (deliberate or otherwise) is unlikely to be detected and corrected. This is a key weakness that needs to be addressed as a matter of urgency.
- Although section 2 of the Revenue Act allows the state to collect revenue for Payroll Tax, Turnover Tax on business, Personal Income Tax, Urban Property Tax, Business Licenses, Market Security and Cleansing Fee, Fuel Tax, Electricity Generation Tax, Vehicle Registration Fee, Road User Tax, Extraction and Harvesting License tax; no money is yet being collected from these sources.
- GSS has five operational airports but local passenger fees were only collected and accounted for from two of these. Total revenue collected from these two airports during 2018 was \$27,345. It is therefore likely that a significant amount of revenue could be collected from the other three.

Excessive cash payments

There was an excessive use of large cash payments totalling **\$575,875**. These payments were made for regular food provision, security allowances, local government, and travel while the other payments were used for remuneration of politicians. Cash payments, especially for large amounts, can expose the officers to fraudulent activities and there is a very high risk of misappropriation of these funds. Large cash payments should only be used as a last resort.

Procurement

Instances of non-compliance in the procurement process were identified during the audit. Payments of \$50,000 for regular food provision for security lacked documented evidence of waiver to a competitive procurement procedure. Without such a competitive procedure, as required by law, it is possible that state resources were wasted.

Asset Management

Although GSS has an Asset Management System in which the states asset data should be recorded and maintained, assets are not yet being registered into the system. The ability of any organisation to record and monitor assets held is key to maintaining proper control over these assets. Without these basic controls it is possible that state assets are being misappropriated.

Weakness in ICT Policies

GSS lacks formalised ICT policies, procedures and processes manuals that provide guidance on system changes, user access, business continuity/disaster recovery planning (BCP/DRP) and controls to prevent unauthorised access.

Lack of Implementation of Audit Recommendations

Over recent years, the OAG has made many recommendations to the State in order to address matters identified during audits. If implemented, these recommendations can be used as an important tool to support and improve effective governance and financial management. The level of implementation of these recommendations is also an important indicator of whether management is improving existing processes and controls.

From the 2017 Audit Report, out of the total of 12 recommendations made, only two have been implemented. Ten have not yet been addressed. These included recommendations to improve important financial controls such as bank reconciliations, segregation of duties in collecting revenue, complying with procurement guidelines, avoiding excessive cash payments and managing assets were not acted upon and have been raised again in this report. GSS, represented by the Ministry of Finance and Economic Development (MoFED), should ensure that **all** recommendations contained in this report are addressed as a matter of urgency.

1.4 Overall Conclusion

Its apparent that, in general, while there is a comprehensive system of financial management laws and regulations in place, these are often not being followed. There is no system for monitoring compliance and, critically, no system for investigating possible breaches and issuing sanctions. In particular, key areas of reform are reducing cash payments, conducting procurement in accordance with appropriate laws and

regulations and managing state assets better. In addition, if the State does not get better at collecting (and banking and accounting for) state revenue it is difficult to see how GSS can develop.

2. Introduction

The OAG is the Supreme Audit Institution (SAI) in GSS and the External Auditors of the state's accounts to ascertain whether state funds have been utilised in accordance with the requirements set down in the PFM Act 2017 and associated regulations.

2.1 Our Responsibilities

Section 28(1) of the Audit Act 2018 outlines the responsibility of the OAG to audit the accounts of all public bodies of GSS. Section 7(1) of the Audit Act 2018 states that the AG shall act independently in the exercise and performance of his functions, duties and powers. The independence of the AG is a fundamental characteristic of a well-functioning SAI that operates in accordance with International Standards of Supreme Audit Institutions (ISSAIs).

In line with the provisions of section 32(3) of the PFM Act 2017 and Section 30(4) of the Audit Act 2018, the AG should submit the Annual Audit report to Parliament within four months after the receipt of the Financial Statements from the Minister for Finance. The Speaker of the parliament shall then table all audit reports in the State Assembly within five working days after receipt as per Section 33(1) of the Audit Act 2018.

The responsibility of the Minister of Finance is to prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four months after the end of the financial year as mentioned Section 32(1). The unaudited Final Account of the Consolidated Budget shall be in accordance with the content and classifications of the budget. To help guarantee independence, the Auditor General has no role in the preparation of these financial statements nor in authorising or controlling any of the underlying transactions.

Prior to the audit, OAG staff did not yet have the requisite experience to conduct a full financial statement audit on their own. This necessitated the hiring of an external private audit firm, Baker Tilly (BT), to perform the audit work with, and on behalf of, the OAG in line with sections 20-23 of the Audit Act 2018.

During the audit, BT also helped to build the capacity of OAG staff. The OAG staff were given on-the-job-training and spearheaded the audit work, acting as a link between BT and the Ministry of Finance. OAG staff took on significantly more responsibilities than during previous audits. From the 2019 audit onwards it is planned that OAG staff will be in a position to complete the audit without the need for private sector audit support.

2.2 GSS OAG Challenges

Challenges facing the OAG include and are not limited to the following:

- Inadequate staff numbers.
- Lack of budget to support office operations.
- Little experience of existing staff.
- Low staff morale due to low and sometimes lack of salaries for key staff like the Deputy AG.
- Lack of transport to ease movement of staff.
- Expectation gap in terms of OAG mandate awareness; to address this gap the OAG will conduct a public campaign to the all GSS Institutions and share the OAG mandate.

2.3 Our Audit Methodology

We conduct our audits in accordance with ISSAIs. We are independent of GSS in accordance with the provisions of ISSAI 30 together with the ethical requirements that are relevant to our audit of the GSS Financial Statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. All our staff sign off the GSS OAG code of conduct annually to confirm compliance.

2.4. Keys Audit terms

Audit Opinion

This is the auditor's judgement on the financial statements prepared by management. An audit opinion is a professional view offered by a qualified accountant at the close of an audit of financial records. The opinion describes the processes used during auditing, the standards used by the auditor, and other relevant information as well as the final conclusion.

Types of Audit Opinions

Unqualified opinion — an unqualified opinion has no significant reservations concerning the financial statements. This is also known as a clean opinion meaning that the financial statements appear to be presented fairly.

Qualified opinion — this means that the auditor has taken exception to certain current-period accounting applications or is unable to establish the potential outcome of a material uncertainty. Apart from these defined issues, the financial statements appear to be presented fairly. Also commonly known as the “except for” opinion.

Disclaimer opinion — this is an audit opinion whereby the auditor is unable to state his/her view as to whether the financial statements are free from material misstatements or not due to a significant limitation of scope. Typically, this means there is insufficient evidence to support the information presented in the financial statements.

Adverse opinion — this is a type of audit opinion which states that the financial statements do not fairly present the financial position of the organisation.

Consolidated Financial Statements

These are the financial statements of the various ministries departments and agencies of the state that are presented as one combined statement for a given financial period.

Material

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

3. Major Findings of the Audit

3.1 Qualified Audit Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph below, the financial statements presents fairly, in all material respects, the financial position of the Galmudug State of Somalia as at 31 December 2018 and its financial performance for the period then ended in accordance with the PFM Act 2017 and International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting.

Basis for Qualified Opinion

Our audit identified Payments totalling **\$1,155,147 (representing 54% of total payments during 2018)** reported in the Consolidated Fund Statement of Receipts and Payments which lacked adequate evidence of the occurrence of transactions and are therefore material in the context of this audit.

Although the opinion issued last year was the same (qualified), the amount of inadequately supported payments for this year is significantly worse than 2017 when only 7% were inadequately supported.

3.2 Collection of Revenue:

We tested the revenue receipts recorded in the Financial Statements and noted the following weaknesses:

- The revenue collection system is a manual-based system and lacks automation.
- The revenue reconciliation sheet did not indicate preparer, reviewer and approver to demonstrate segregation of duties in revenue collection process and timely preparations, review and approvals of revenue reconciliations.
- We identified differences between revenue receipts, amounts recorded on the cash book and amount banked. From our sample tested, we found that the amounts banked agreed to the amounts

reflected on the cash books, however, the revenue recorded on the receipts was at times higher or lower.

- The Revenue Act provides for 11 sources of revenue from which GSS can collect taxes, however, only four sources have been explored, i.e. Turnover Tax, Business and Professional Licenses, Local Passenger Fees and Tax on Goods in Transit. We noted that no revenue has been collected from the following seven sources: Personal Income Tax; Urban Property Tax; Business Licenses, Market Security and Cleansing Fee; Fuel Tax; Electricity Generation Tax and Vehicle Registration Fee.
- The financial statements reflect \$27,345 for Local Passenger Fees. We noted that GSS has five operational Airports out of which local passenger fees were only collected from two of these airports (Guriceel Airport and Ugasnuur Airport). Further, collection from even these two airports was only for a period of four months starting from September 2018.

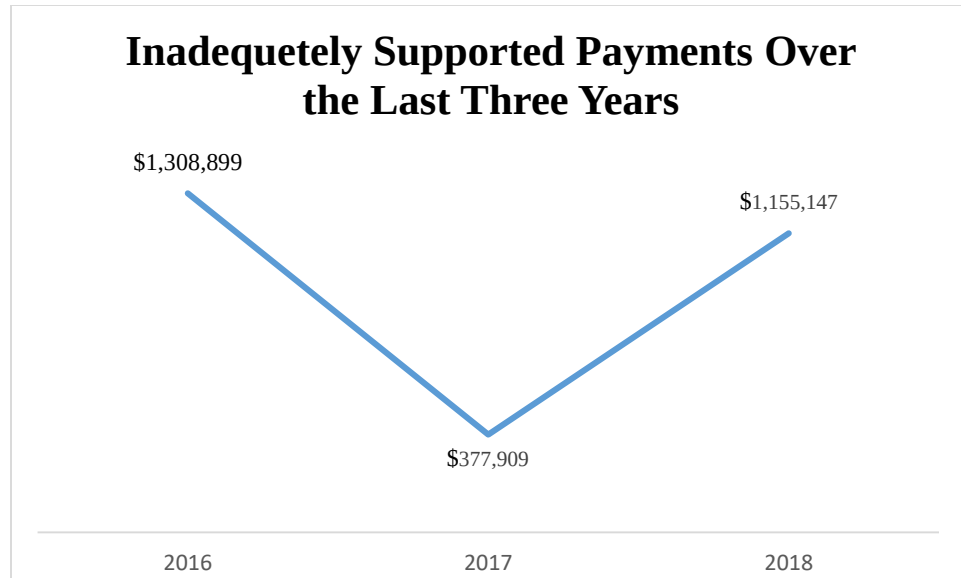
Weakness in revenue collections procedures will lead to a loss of state funds, inadequate accounting for taxes collected as well as inaccurate financial reporting. It is recommended that:

- **GSS should institute full automation at the revenue collection points.**
- **The revenue collection systems should be fully reconciled to the accounting systems.**
- **GSS should explore modalities to expand revenue collection sources and ensure revenue collection occurs throughout the year.**
- **All entries into the books at the various stages of the revenue and accounting cycles should be based on unique references derived from the appropriate documentation used at the various stages. Tax collectors should use the system generated reference number and include it in the specific batch of receipts amounting to the total amount banked for the day. In addition, the pre-numbered receipt books for collecting revenues should be issued following a sequence to improve accountability.**

3.3 Expenditure

There were payments amounted **\$1,155,147** representing **54%** of total payments reported in the Consolidated Fund Statement of Receipts and Payments which lacked adequate supporting documents. In addition, payments totalling **\$575,875** were paid in cash.

The following chart shows the trends of an inadequately supported payments over the last three years.



The above chart shows that payments totalling \$377,909, representing 7% of the total were unsupported in the 2017 financial statements. In 2018, inadequately supported payments increased to 54%, significantly worse than the previous year.

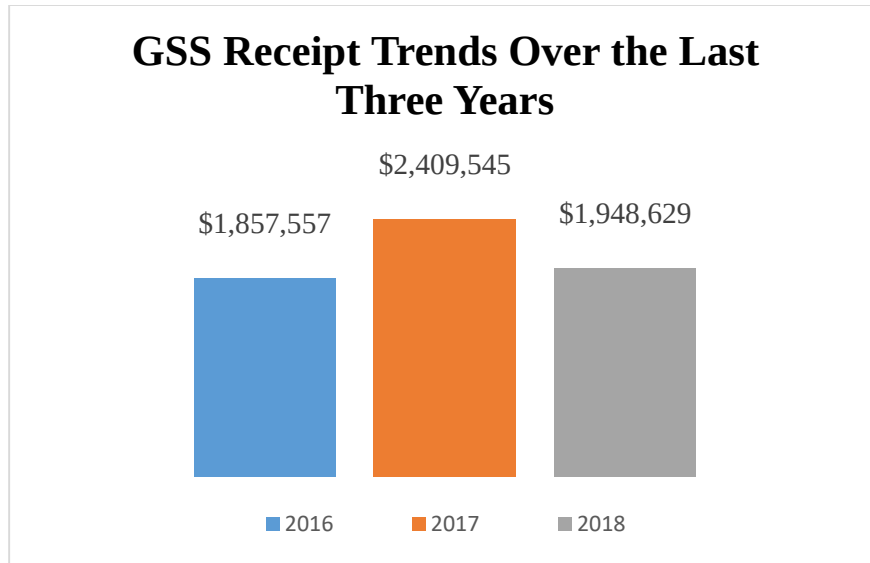
There is a need to strengthen controls to ensure adequate accounting records are prepared and maintained to support all costs incurred. GSS should also reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits.

3.4 Analysis of State budget

The figures disclosed in the financial statements reflect the actual receipts and payments and the respective budget appropriations as approved by Parliament. GSS budget estimates were not realistic for the year under review. Only 27% of the budgeted revenue was actually received. The consolidated fiscal indicators of the GSS budget for 2018 are the following:

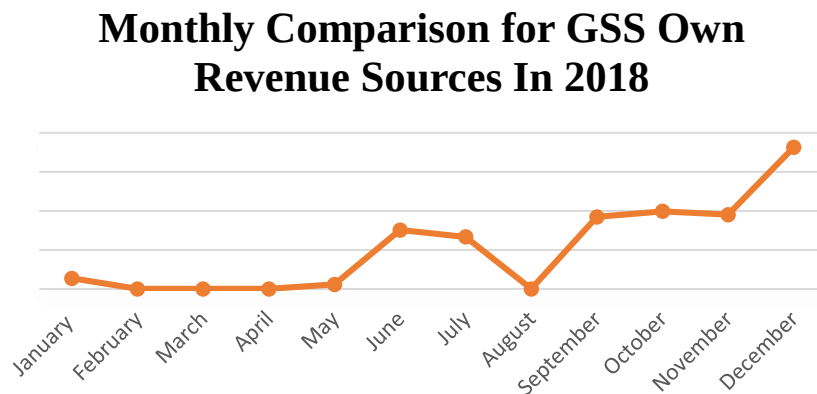
Overall revenues of 2018 budget were collected at \$1,948,629 out of \$7,666,237(25%) a difference of \$5,717,608. Compared to 2017, receipts have declined by (\$460,916) or 19%. This was primarily as a result of the difficult political situations in GSS over the recent years.

The following chart shows state receipts over the last three years.



Tracking the state's own revenue performance allows to steer the state in the right direction. In particular, monitoring and improving key sections of GSS local revenue, would help to ensure the state remains financially viable and capable of meeting its operating objectives. Without better collection of revenue, GSS may not be able to provide essential services to citizens.

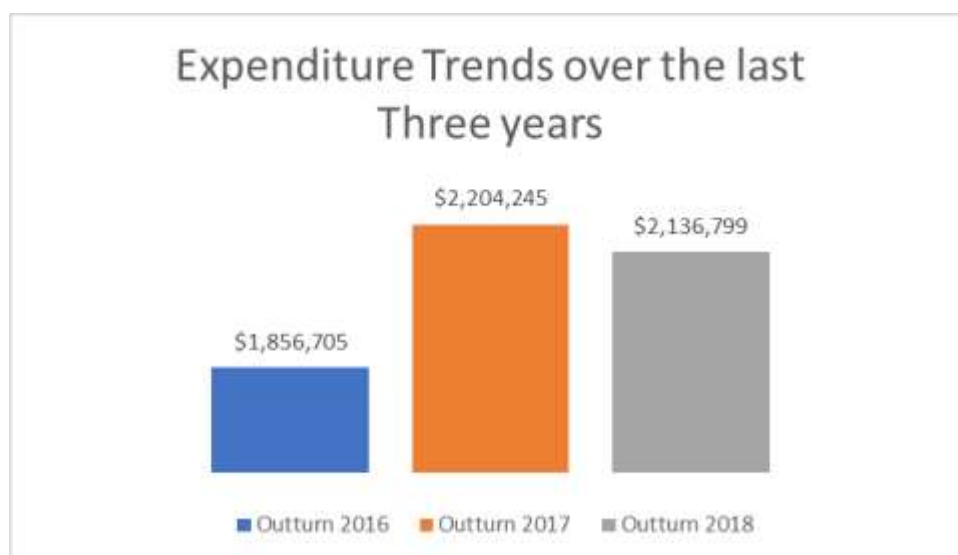
The chart below shows monthly revenue collections made by GSS during 2018.



It is apparent that state revenue collection was low in the first months of 2018 due to the political conflict within the state but increased stability later in the year meant increased revenue collection. This should continue to increase during 2019 providing this political stability can be maintained.

Overall budget expenditures incurred in 2018 were \$2,136,799 out of \$7,666,237 planned, or 28%, a difference of \$5,529,438. Expenditures for this year were smaller by \$67,446 or 3.1% compared to those incurred in 2017. The key factors that have contributed to the decrease of the expenditure are there is no previous salary owed by the government that they have paid in this year.

The chart below illustrates the overall expenditure over the last three years:



Total GSS revenue and expenditure should be balanced, otherwise budget deficits or surpluses occur. In 2018, the budget deficit amounted to \$188,170. This implies that GSS revenue is insufficient to meet the expenditures on normal functioning of state and provision of the various services to citizens.

A sustained budget deficit has the following possible implications:

- GSS will not be able to meet its regular day to day operations.
- GSS will fail to provide social services such as education, health and security.
- It gives a warning signal to the government to either curtail its expenditure or increase its revenue.
- There will no capital development projects such as building roads and schools in the state.

GSS should ensure that when preparing annual budgets, the annual estimated appropriation amounts should be informed by both past trends and envisaged receipts in the form of revenue on a realistic basis. The State should also increase its revenue base to help ensure budget estimates can be funded by locally generated revenue. GSS could also consider engaging a funds mobilisation unit consultant to draw up proposals for projects to be funded and lobby International aid agencies in an effort to help achieve the Grants part of the budget estimates.

3.5 Procurement

We noted instances where evidence of compliance with the competitive procurement procedures was not available. For example, a procurement of \$50,000 for regular food provision lacked documented evidence to support a waiver of normal competitive procurement procedures.

In order to ensure value for money is achieved when awarding contracts, GSS should ensure that a competitive process is applied when procuring goods and services and retain supporting documents to demonstrate those procedures and the procurement decisions made. This is not purely a matter of non-compliance with laws and regulations. Failure to achieve maximum value for money results in wastage of scarce state resources.

3.6 Asset Management

The asset register does not include some state-owned assets such as land, buildings and motor vehicles. In addition, there was no evidence that a physical verification of the assets had been conducted.

All assets should be tagged and regular physical verification exercises (to and from the asset register v physical assets and vice versa) should be performed. To provide an adequate audit trail, this exercise should be formally documented. It is necessary to update the asset register to ensure all the state-owned assets are properly included.

3.7 Weakness in ICT Policies and Standards

After reviewing the ICT systems, the following weaknesses were identified:

- GSS lacks formalised ICT policies, procedures and processes manuals that provide guidelines on; user access control, change management controls, IT hardware, business continuity, remote access, etc.
- There is no formal defined, approved and tested Business Continuity/ Disaster Recovery Plan and procedures.
- The Ministry does not have a formalised operational level agreement between IT and the Bisan support team for issue resolution timelines (User support). We noted that issue resolution was taking more than one business day to be resolved by the Bisan support team and the IT admin mostly had to make a follow-up.
- Lack of formal user creation procedures. We noted gaps in the user creation process as there are no formal instructions showing relevant request approvals from the respective line managers. Verbal approvals are obtained but no standardised procedures are being followed.
- There is lack of a formal procedure of notifying the IT Director to disable user accounts for employees who either resigned or had been terminated.
- There is no second-level authorisation required for any corrections or amendments done by the IT administrator.
- Lack of proper antivirus software installed on the computers. We noted that all workstations did not have proper antivirus software installed and they were either running free downloadable

versions or the inbuilt windows antivirus which exposes the entity to a risk of prolonged downtime of IT infrastructure in case of viruses on workstations.

GSS should consider developing a comprehensive IT policy document that is in line with the Ministry daily operations and IT guidelines. Change requests should be instituted using a formal and approved change request form as well as develop a record of management reviews and approval on the revised policy should be maintained. The IT personnel should take proactive steps to reinforce the compliance of all stakeholders.

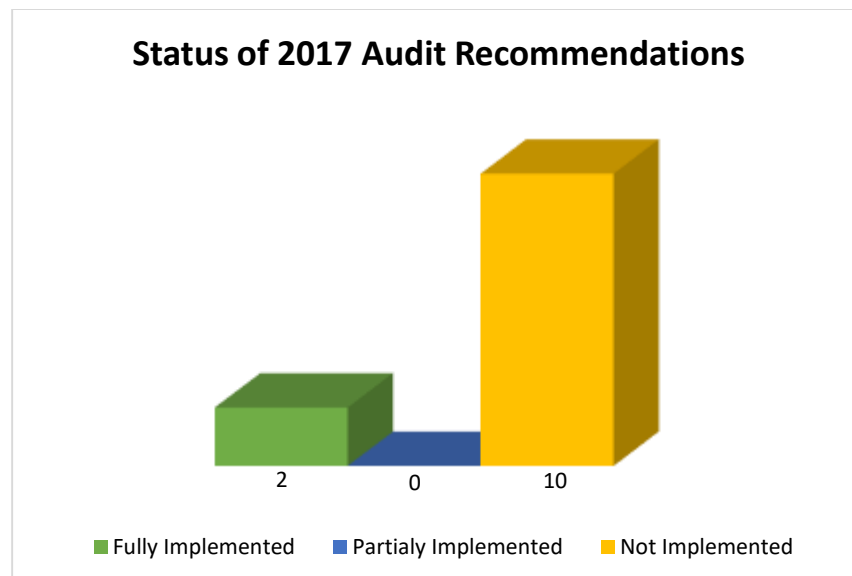
A formalised user access provisioning process should be implemented, followed, and approved along with the access requirements of users as completed in the user access request form when assigning access rights to users in the Bisan system.

User access requests should always be obtained from the HR director on registration of any new employees and user access should only be granted once approval has been obtained.

A formalised user termination process should be implemented and followed in order to revoke access rights. The System Administrator's activities be controlled, monitored and evidenced by a suitably qualified person, who can challenge the justifications provided by the System Administrator for its usage.

3.8 Failure to implement prior year audit recommendations

The majority of audit recommendations made in the audit of the 2017 financial statements have not been implemented. The following chart shows the implementation status of OAG recommendations.



The OAG has made repeated recommendations to the Government to address the various issues identified during audits. These recommendations are a key tool to support effective governance and financial management and the implementation of audit recommendations are one of the indicators on whether the management is improving existing processes and controls. However, generally these recommendations have not been implemented.

GSS and specifically the Ministry of Finance (MoFED) should develop an action plan for the implementation of OAG audit recommendations with timelines and responsible officers. Progress against this plan should be monitored and reports sent to the Minister and Auditor General on a six-monthly basis.

Annex 1 – Galmudug State of Somalia (GSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2018

**GALMUDUG STATE OF SOMALIA (GSS)
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2018**

FINAL REPORT

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i) STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE

The Public Financial Management Decree of Galmudug State of Somalia requires Ministry of Finance (The Ministry) to prepare Consolidated Fund Statement of Receipts and Payments for each financial year that recognises all cash receipts and payments and cash balances controlled by the State. The State is required to maintain proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Ministry accepts responsibility for the preparation and presentation of these Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting under the Cash Basis of Accounting 2017 and in the manner required by the Public Financial Management Act, 2017 of Galmudug State of Somalia. The Ministry also accepts responsibility for:

- i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Financial Statements;
- ii) Selecting and applying appropriate accounting policies; and
- iii) Making accounting estimates and judgments that are reasonable in the circumstances.

Having assessed the State's ability to continue as a going concern, the Ministry is not aware of any material uncertainties related to events or conditions that may cast doubt upon the State's ability to continue as going concern.

The Ministry acknowledges that the independent audit of the Financial Statements does not relieve them of their responsibilities.

Approved by the State of Galmudug (GSS) on 16 03 2020.

Minister for Finance and Economic Development <i>IPS</i>	
Name: <i>Omar Hassan</i>	
Signature: <i>[Signature]</i>	

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ii) REPORT OF THE INDEPENDENT AUDITOR

Opinion

We have audited the financial statements of the Galmudug State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Government Financial Statistic (GFS) Statement of Operation for the year ended 31 December 2018 and Notes to the Financial Statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report the financial statements presents fairly, in all material respects, the financial position of the Galmudug State of Somalia as at 31 December 2018 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2017 and the International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting, 2017.

Basis for Qualified Opinion

Our audit identified payments totalling USD 1,155,147 representing 54% of total payments reported in the Financial Statements which lacked adequate evidence of the occurrence of transactions and are therefore material in the context of this audit. These payments were partially supported, with either internally generated documentation or inadequate documentation from suppliers.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Galmudug State of Somalia in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Financial Statements in Somalia, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Ministry is responsible for the other information. Other information comprises the information included in the Annual Report but does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information: we are required to report that fact. We have nothing to report in this regard.

ADVISORY . ASSURANCE . TAX

Baker Tilly Merali's

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Key Audit Matters

Key audit matters are those matters that, in our opinion and our professional judgment, were of most significance in our audit of the Financial Statements of the period. These matters were addressed in the context of our Audit of the Financial Statements as a whole, in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Modified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

a) Collection and recording of receipts

The controls and procedures applied by Galmudug State of Somalia for receipts are not sufficient to prevent tax leakages and misstatement of the financial statements. This is because:

- The collection system for taxes is not automated.
- Taxes collected are utilised before remittance to revenue collection officers and recording into the accounting system.
- The State has not implemented a system of separation of functions for tax administration. The officer who receives the taxes collected by tax collection agents, also is responsible for banking the funds and recording of these amounts in the Financial Management Information System.
- Tax collected is not reconciled to amounts banked and the accounting system.
- Recording of all receipts are currently recorded in the accounting system known FMIS instead of first being recorded in the revenue collection system known as Revenue Management System (RMS).
- Unrecorded tax collections; Road User Tax in the period January and May 2018, and Airport Local Passenger receipts in period January – August 2018.
- The financial statements show that for the entire financial year no taxes were collected for Personal Income Tax; Urban Property Tax; Business Licenses, Market Security and Cleansing Fee; Fuel Tax; Electricity Generation Tax and Vehicle Registration Fee.

In order to address these risks, we performed the following audit procedures:

- Conducted interviews with the relevant management responsible for recording revenue to understand the procedures applied for revenue collection.
- We performed substantive tests to verify that the procedures are operational.
- We sought external confirmations for revenue from the Federal Government of Somalia (FGS) and donors and compared the confirmations received with the financial statements.
- We traced receipts recorded on the ledgers to the bank statements and receipt books to verify accuracy of receipt recorded on the financial statements.
- We reviewed the bank statements for indicators of undisclosed receipts in order to verify the completeness of receipts.
- We tested on a sample basis receipts declared on the financial statements against supporting documentation and performed substantive tests, analytical review procedures and cut off tests.
- We made inquiries from management on the variances identified for receipts and reported in the management letter where explanations were inadequate.

Responsibilities of the Management and those charged with governance for the Financial Statements

The Ministry is responsible for the preparation and fair presentation of these Financial Statements in accordance with the Public Financial Management Act 2017 and the International Public-Sector Accounting Standard (IPSAS) - Financial Reporting under the Cash Basis of Accounting and for such internal control as the Ministry deems necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Ministry is responsible for assessing the State's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Ministry intends to liquidate the State, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's responsibilities for the Audit of the Financial Statements.

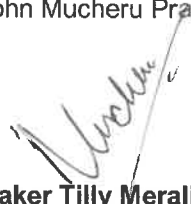
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members.
- Conclude on the appropriateness of the Ministries' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the State to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA John Mucheru Practising Certificate number 1854.


Baker Tilly Merali's
Certified Public Accountants
P.O. Box 67486 – 00200, Nairobi

Date: 18 Mar.....2020

iii) CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF GALMUDUG STATE OF SOMALIA



Adobe Acrobat
Document



CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF THE GALMUDUG STATE OF SOMALIA (GSS)

For the Period Ended 31 December 2018

*Prepared in accordance with the International
Public Sector Accounting Standard (IPSAS) -
Financial Reporting Under the Cash Basis of
Accounting*

Prepared by the Ministry of Finance
Galmudug State of Somalia (GSS)

Statement of Certification - 2018 Financial Statements

The 2018 financial statements, together with the accompanying notes, have been prepared in accordance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting.

In the opinion of the Ministry of Finance and Economic Development, the financial statements of the Galmudug State of Somalia (GSS) as submitted for Audit in accordance with Section 30 of the Public Finance Management Act 2018 passed by the parliament, are materially accurate and provide a true and fair view of the GSS's financial position for the year ended 31 December 2018.

For and on behalf of the Galmudug State of Somalia

The image shows a handwritten signature in blue ink to the left of a circular official stamp. The stamp is blue and contains the text 'DOWLAD GOWLEEDKA GALMUDUG' at the top, 'WAKILNIMO MAAMUUDKA AKA BAKIYAD' in the middle, and 'MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT' at the bottom. In the center of the stamp is a coat of arms featuring a shield with a star and crescent, and a banner below it with the text 'WAKILNIMO MAAMUUDKA AKA BAKIYAD'.

29/04/2019

Minister for Finance & Economic Development

Date:

Galmudug State of Somalia

Consolidated Fund Statement of Receipts and Payments

Treasury Single Accounts

For the Period Ended 31 December 2018

		2018	2017
		Controlled By TSA USD	Controlled By TSA USD
	Note		
Receipts / Inflows			
Taxes			
Taxes on goods and services	2	630,166	
Taxes on international trade and transactions	3		339,929
Taxes		630,166	339,929
Grants			
From international organizations	4	355,964	357,824
From other general government units	5	962,500	1,711,792
Grants		1,318,464	2,069,616
Receipts / Inflows		1,948,629	2,409,545
Payments / Outflows			
Compensation of Employees			
Wages and Salaries	6	1,610,508	1,809,293
Compensation of Employees		1,610,508	1,809,293
Use of Goods and Services			
Travel & Conferences	7	15,420	7,020
Operating Expenses	8	130,620	189,475
Rent	9	12,800	3,098
Other Operating Expenses	10	42,445	500
Conflict Resolution Expenses	11	33,010	
Use of Goods and Services		234,295	200,093
Grants			
Grants To Other General Government Units	12	247,257	31,559
Grants		247,257	31,559
Social Benefits			
Employer social benefits	13		29,200
Social Benefits			29,200
Other Expenses			
Miscellaneous other expense	14	13,939	134,100
Other Expenses		13,939	134,100
Nonfinancial assets			
Fixed Assets	15	30,800	
Nonfinancial assets		30,800	
Payments / Outflows		2,136,799	2,204,245
Increase Decrease in Cash		(188,170)	205,300
Cash at Beginning of Year		208,366	3,066
Cash at End of Year	1.4	20,197	208,366

Consolidated Fund Statement of comparison of Budget and Actual Amounts

Appropriation Budget on Cash Basis

Notes	2018				2017
	Original	Final	Controlled	Difference	Controlled
	Estimate	Estimate	By	Between	
	Appropriation	Appropriation	TSA	Final Budget & Actual	
A	B	C	C-B	By TSA	
	USD	USD	USD	USD	USD
16	3,535,982	3,535,982	630,166	(2,905,816)	339,929
	3,535,982	3,535,982	630,166	(2,905,816)	339,929
	350,000	350,000		(350,000)	
17	1,830,255	1,830,255	355,964	(1,474,291)	357,824
	1,950,000	1,950,000	962,500	(987,500)	1,711,792
	4,130,255	4,130,255	1,318,464	(2,811,791)	2,069,616
	7,666,237	7,666,237	1,948,629	(5,717,608)	2,409,545
	7,666,237	7,666,237	1,948,629	(5,717,608)	2,409,545
18	6,042,154	6,042,154	1,610,508	(4,431,646)	1,809,293
	6,042,154	6,042,154	1,610,508	(4,431,646)	1,809,293

Galmudug State of Somalia

Consolidated Fund Statement of comparison of Budget and Actual Amounts

For the Period Ended 31 December 2018

Appropriation Budget on Cash Basis

(Classification of Payments By Economic Class)

	Notes	2018				2017
		Original Estimate Appropriation A USD	Final Estimate Appropriation B USD	Controlled By TSA C USD	Difference	Controlled By TSA C-B USD
					Between	
					Final Budget	
					& Actual	
Use of Goods and Services						
Travel & Conferences		114,350	114,350	15,420	(98,930)	7,020
Operating Expenses		307,450	307,450	130,620	(176,830)	189,475
Rent		125,700	125,700	12,800	(112,900)	3,098
Other Operating Expenses		120,970	120,970	42,445	(78,525)	500
Conflict Resolution Expenses		114,000	114,000	33,010	(80,990)	
RCRF Non Salary Recurrent Cost		55,200	55,200		(55,200)	
Contingency		300,000	300,000		(300,000)	
Use of Goods and Services	19	1,137,670	1,137,670	234,295	(903,375)	200,093
Grants						
Grants To Other General Government Units		252,000	252,000	247,257	(4,743)	31,559
Grants	20	252,000	252,000	247,257	(4,743)	31,559
Social Benefits						
Employer social benefits						29,200
Social Benefits						29,200
Other Expenses						
Transfers not elsewhere classified		115,370	115,370	13,939	(101,431)	134,100
Other Expenses	21	115,370	115,370	13,939	(101,431)	134,100
Nonfinancial assets						
Fixed Assets		119,043	119,043	30,800	(88,243)	
Nonfinancial assets	22	119,043	119,043	30,800	(88,243)	
Payments / Outflows		7,666,237	7,666,237	2,136,799	(5,529,438)	2,204,245

Galmudug State of Somalia

GFS Statement of Operation

Treasury Single Accounts

For the Period Ended 31 December 2018

	2018 USD	2017 USD
Transactions Affecting Net Worth		
Revenue	1,948,629	5,608,997
Taxes	627,016	339,929
Taxes on payroll and workforce	-	-
Taxes on goods and services	630,166	-
Taxes on international trade and transactions	-	339,929
Grants	1,318,464	5,269,068
From international organizations	355,964	3,557,276
From other general government units	962,500	1,711,792
Expense	2,105,999	5,403,697
Compensation of Employees	1,610,508	1,809,293
Wages and Salaries	1,610,508	1,809,293
Use of Goods and Services	234,295	3,399,545
Travel & Conferences	15,420	2,394,006
Operating Expenses	130,620	403,410
Rent	12,800	3,098
Other Operating Expenses	42,445	599,031
Conflict Resolution Expenses	33,010	-
Grants	247,257	31,559
Grants To Other General Government Units	247,257	31,559
Social Benefits	-	29,200
Employer social benefits	-	29,200
Other Expenses	13,939	134,100
Miscellaneous other expense	13,939	134,100
Gross Operating Balance	(157,370)	205,300
Transactions In Non Financial Assets		
Change In Net Worth. Transactions (Assets)	30,800	-
Nonfinancial assets	30,800	-
Fixed Assets	30,800	-
Transactions in Financial Assets & Liabilities		
Change In Net Worth. Transactions (Assets)	(188,170)	205,300
Financial assets	(188,170)	205,300
Domestic	(188,170)	205,300
Liabilities	-	-
Liabilities	-	-
Overall Statistical Discrepancy	-	-

Note 1 Summary of Significant Accounting Policies

1.1 Basis of Preparation

The Galmudug State of Somalia (GSS) consolidated financial statements have been prepared in accordance with the *Public Financial Management Act 2018* and the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting under the Cash Basis of Accounting 2017*. The notes to the financial statements form an integral part to understanding the statements and must be read in conjunction with the statements. The accounting policies have been applied consistently throughout the period.

1.2 Reporting Entity

The Financial statements are for the Galmudug State of Somalia (GSS). This is the Governments second year of operation and covers the period 1 January – 31 December 2018. The financial statements encompass the reporting entities as specified in the *GSS Appropriation Act No. 1 of 2018* and are comprised of:

- 1 Ministry of Interior & Local Government
- 2 Ministry of Justice & Judiciary
- 3 Ministry of Finance & Economic Development
- 4 Ministry of Internal Security
- 5 Ministry of Planning & International Cooperation
- 6 Ministry of Endowment & Religious Affairs
- 7 Ministry of Fisheries & Marine Resources
- 8 Ministry of Public Works & Rebuilding
- 9 Ministry of Commerce & Industry
- 10 Ministry of Information & Culture
- 11 Ministry of Aviation & Transport
- 12 Ministry of Education
- 13 Ministry of Post & Communication
- 14 Ministry of Livestock & Agriculture
- 15 Ministry of Environment & Forestry

- 16 Ministry of Health
- 17 Ministry of Women & Family Affairs
- 18 Ministry of Labour
- 19 Ministry of Youth & Sport
- 20 Ministry of Water & Electricity
- 21 Ministry of Constitution & Reconciliation
- 22 Ministry of Ports & Maritime Transport
- 23 Ministry of Diaspora & Investment
- 24 Ministry of the Disabled and Humanitarian Affairs
- 25 Presidency
- 26 Office of the Speaker and Parliament
- 27 Civil Service Commission
- 28 Office of the Audit General
- 29 Office of the Chief Minister

All ministries were created by **Presidential Decree** entitled *A Decree Establishing Ministries of Galmudug State of Somalia and Defining Roles and Functions of Ministries* dated on 28th December 2015 and a separate decree creating the Ministry of Finance entitled *A Decree for the Purposes of Establishing the Ministry of Finance of the Galmudug State and Other Related Matters* dated on 28th December 2015.

A separate decree on establishing the Civil Service Commission (CSC) and its purpose entitled *A Decree for establishing the Civil Service Commission of the Galmudug State of Somalia* dated 28th December, 2015 established the office of the Civil Service Commission and changed to an act on 24th June 2018. Companion acts also established the Civil Service and the Civil Service Salary structure. The inauguration of the GSS constitution automatically established the Galmudug Parliament. Their respective statements form part of the consolidated Financial statements as these entities were included as part of the *GSS Appropriation Act No.1 of 2018*.

The consolidated financial statements include all entities controlled during the year. None of the entities own another entity or a separate business unit.

1.3 Early Adoption of International Public Sector Account Standard (IPSAS) – Financial Reporting Under a Cash Basis of Accounting 2017.

IPSAS 2017 is going to be effective 1st Jan 2019. MoF decided to make early adaption of IPAS financial reporting under cash basis of accounting 2017 by applying the accounting period effective from January 2018. However, earlier adoption is encouraged by the standard.

This brings changes only faces of the financial statement where by Third part payments have been removed from the face of the Statement of Receipts and Payments and Comparison of Budget and Actual Amounts. 3rd part payments are disclosed as voluntary disclosure in this financial statement (See note 24) and there have been no changes in accounting policies and other reporting procedure.

1.4 Treasury Single Account (TSA) & Project Account

A project account was opened under a written authorization of the Minister of Finance, as a sub-account of the TSA. As a condition to the World Bank funded Recurrent Cost and Reform Financing program (RCRF II) grant, the project account was solely opened for the operations of the RCRF II project and in such a manner as to avoid the grant funds commingling with other GSS operations. As at the end of the 2018 financial year.

The balances below includes outstanding checks and Central bank balance that has no financial transactions since 2016 and still we have same amount. The total outstanding checks in the Galmudug state treasury single account is **6,211** that will be deducted from bank balance of **6351** to reconcile with ledjer banlance of **\$140**.

There is also RCRFII project account outstanding checks of **\$31421** that will be deducted from bank balance of **49500** to reconcile with ledger balance which we have mentioned in the table below . The balance of both accounts was as follows.

	2018 USD	2017 USD
Treasury Single Account	2,118	174,605
WB-RCRFII Project Account	18,079	33,761
Total	20,197	208,366

1.5 Cash & Cash Equivalents

Cash and Cash Equivalents means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognized at its nominal amount.

Cash included in the statement of cash receipts and payment comprises the following amount:

	2018 USD	2017 USD
Cash on Hand and Balances with banks	20,197	208,366
Total	20,197	208,366

Cash on Hand of \$2,118 is held in the treasury single account from GSS internally generated revenue and FGS while \$18,079 is held World Bank to the RCRFII project at end of 31 December 2018.

1.6 Reporting Currency

The reporting currency is the United States Dollar (USD)

1.7 Borrowings

In 2017 GSS the closing balance from the 2015 interest free loans totalling \$1,086,433 from the local businesses. These borrowings are held off-balance sheet in a separate manual ledger. The funds were utilized in establishing the GSS administration. Due to the budget constraints it was agreed that GSS repays the obligations in instalments dependent on the availability of funds. The table below provides a movement schedule of the obligation.

Total closing Balance FY2017	1,086,433
FY2018 Repayment	<u>13,855</u>
Remaining Balance at the End 31 Dec-2018	<u>1,072,578</u>

1.8 Undrawn External Assistance

In the 2017 financial year GSS became eligible to participate in the ongoing Recurrent Cost and Reform Financing (RCRF II) project. The project runs for a period of five years, however due to additional financing (AF) the period has been extended (up to 30 June 2022) and is reviewable on an annual basis. The RCRF II project is a multi-partner fund administered by the International Development Association (IDA), with funding channelled through the Federal Government of Somalia (FGS). The objective of the project is to support the recipient to provide a credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, eligible Federal Member states and Interim and Emerging Administration. 2018 2017 USD USD Cash on Hand and Balances with banks 20,197 208,366 Total 20,197 208,366 Notes to Consolidated Financial Statements – GSS 2018 Page | 10 As specified in a binding agreement Number TFOA0534 dated 29 June 2015 between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the Galmudug State by virtue of a sub-agreement with FGS has a running project with IDA which will last to 20 June 2020 (now extended to 30 June 2022 due to an additional financing agreement). Undrawn External assistance in respect to the RCRF II project is contingent upon GSS meeting the threshold conditional requirements of the project. GSS has met the requirements and the project has an effective date of 1 July 2016. The RCRF II budget outlined in the Project Appraisal Document (PAD) does not identify the budgeted breakdown for GSS in particular. The grant amount is subject to annual review and approval by the IDA. For the fiscal year ending 31st December 2018, GSS had received funds from the RCRFII Project totalling \$269,111 against a budget of 1,679,632. The variance resulted from a number of Civil Servants not being recruited and not being able to access the non-salary recurrent cost component.

1.9 Reporting Amounts

The reporting amounts are in full value of USD, with rounding to the nearest dollar.

1.10 Original and Final Approved Budget and Comparison of Actual and Budget Amount

The approved budget is developed on the same accounting basis (Cash basis) and same classification basis as the financial statements. It encompasses the same entities as the consolidated financial statement.

The original budget was approved by the council of Ministers and signed by the President on the 24 June 2018. There was no supplementary budget during the period.

Movements across the budget line items in the final estimate appropriation are attributed to budget reallocations within the budget entities.

1.11 Authorization Date

The financial statements were authorized for issue on **29/04/2019** by Mr Said Siyad Shirwa-Minister for Finance & Economic Development.



Note 2 Taxes on goods and service

In 2018 Galmudug State of Somalia imposed road user tax in place of taxes previously known as tax on goods on transit. In FY2018, road user tax, turnover tax, local passenger fees and very small amount from business & professional licenses are those only taxes collected under these classes. This tax is correctly classified a road user's tax as it is levied on gross vehicle weight, not on the quantity or value of goods being transported. The main road/highway connecting Galmudug to the port of Bosasso was the main source of these taxes. The amount of tax charged and collected depends on the registered gross weight of the vehicles using the road, not on the quantity or value of the goods. A uniform rate of tax is applied.

Turnover tax and local passenger fees were started during last quarter in 2018 and collected small amount from the business owners. Following is a detailed breakdown of road raised and their respective source of entry.

	2018	2017
	USD	USD
Turnover Tax	31,840	-
Business & Professional Licenses	1,799	-
Local Passenger Fees	27,345	-
Road User Tax	569,181	-
Tax on goods on transit		31,752
	630,166	31,752

Note 3 Taxes on International Trade (Transit of Goods across State Borders)

In 2017 Galmudug State of Somalia imposed a Tax on goods in transit in place of taxes previously known as customs duties. In FY2017, Tax on goods in transit are the only taxes collected under this class. This tax is correctly classified a road user's tax as it is levied on gross vehicle weight, not on the quantity or value of goods being transported. The main road/highway connecting Galmudug to the port of Bosasso was the main source of these taxes. The amount of tax charged and collected depends on the registered gross weight of the vehicles using the road, not on the quantity or value of the goods. A uniform rate of tax is applied. Following is a detailed breakdown of road taxes raised and their respective source of entry.

	2018	2017
	USD	USD
Tax on goods on Transit	-	331,752
Customs duties- Imported Goods	-	8,177
		339,929

Note 4 Grants from International Organizations

Treasury Single Account

During the 2018 financial year, grants totalling \$355,964 was received. A grant totalling \$269,111 was received from the RCRF II project, funded by the Somalia Multi-Partner Fund (SMPF) and administered by the World Bank. While an additional grant from PREMIS totalling \$86,853 was

received to fund office furniture, benefited by two agencies, MOF & CSC. And other remaining balances allocated to revenue Communication campaigns held by two districts Galkaio and Dhusamareeb, on 26 December 2017 and September 2018 respectively.

	2018 USD	2017 USD
RCRF II Project	269,111	352,544
Premis Project	<u>86,853</u>	<u>5,280</u>
	<u>355,964</u>	<u>357,824</u>

Note 5 Grants from Other Government Units

In 2018 the Federal Government of Somalia agreed to provide funding for the Galmudug Security Forces and associated running costs. Grants totalling \$962,500 were received from the Federal Government of Somalia during the period. It was allocated to budget support, security forces food provision and politician remuneration, support to GSS parliament, conflict resolutions. This fund received from FGS included surge support funds provided by EU and intended to developments, such as Road constructions and government buildings and followed by small amount of allocated by office running cost.

	2018 USD	2017 USD
Federal Government of Somalia	962,500	1,711,792
	<u>962,500</u>	<u>1,711,792</u>

Note 6 Wages and Salaries

Wages and salaries are a combination of all salaries, allowances and in-kind payments to staff. The staff include both the civil servants and political positions. A comprehensive summary breakdown of wages and salaries is provided below.

	2018	2017
	USD	USD
Permanent employees/Regular staff	277,416	318,783
Contract employees		
Wage workers	4,800	1,400
Security Forces (Police, Intel Forces and Prison)	778,581	999,043
Salaries to Ministers and Statutory Appointments		
Remuneration to Politicians	192,000	149,000
Transportation allowance	8,270	200
Other allowances	200,000	44,145
Regular Food Provision	149,441	248,750
Daily Mmailsls		35,290
Salaries to Ministers and Statutory Appointments		12,682
Total	1,610,508	1,809,293

GSS paid Permanent employees/Regular staff \$277,416 funded by the RCRF II project requirement criteria and being granted formal access from FY2016. Security forces were paid \$778,581 which a bit lower than 2017 costs. \$192,000 were given as salaries to the GSS parliaments. Other allowances of \$200,000 were given to the securities for operations they conducted to secure the peace in far land near Alshabab. Amount totalling \$149,441 was paid as Regular food provision which are in-kind payments to the Military forces of Galmudug and comprises food and other related food supplies. Transportation and allowances was used MoF for errands related daily operation of collecting revenue and communicating to the communities, whereas the wage workers are money paid to the information collectors for registering business in Dusemareb District and funded by premis..

The following is a breakdown of wages and salaries for each reporting entity:

	Permanent Employees/ Regular Staff	Wage Workers	Remuneratio Security Forces to Politicians	Transportatio allowance	Other Allowances	Regular Food Provision
Ministry of Interior & Local Government						
Ministry of Justice & Judiciary						
Ministry of Finance & Economic Development	199,665	4,800		8,270	200,000	149,441
Ministry of Internal Security			778,581			
Ministry of Planning & International Cooperation						
Ministry of Endowment & Religious Affairs						
Ministry of Fisheries & Marine Resources						
Ministry of Public Works & Rebuilding						
Ministry of Commerce & Industry						
Ministry of Information & Culture						
Ministry of Aviation & Transport						
Ministry of Education						
Ministry of Post & Communication						
Ministry of Lifestock & Agriculture						
Ministry of Environment & Forestry						
Ministry of Health						
Ministry of Women & Family Affairs						
Ministry of Labor						
Ministry of Youth & Sport						
Ministry of Water & Electricity						
Ministry of Constitution & Reconciliation						
Ministry of Ports & Maritime Transport						
Ministry of Diaspora & Investment						
Ministry of the Disabled and Humanitarian affairs						
Presidency	11,700					
Office of the Speaker and Parliament			192,000			
Civil Service Commission	39,297					
office of the Auditor General	11,892					
Office of the Chief Minister Galmudug	14,862					
	277,416	4,800	778,581	192,000	8,270	200,000
						149,441

Note 7 Travel and Conferences

Travel and conferences amounting to \$15,420 which comprises internal travel costs within the country, Local conferences within Galmudug state. The following provides a breakdown of the total Costs.

	2018 USD	2017 USD
Internal Travel	2,500	3,540
Local conferences	12,920	2,980
External Travel		500
Total	15,420	7,020

Note 8 Operating Expenses

Operating Costs are a combination of costs that are geared towards facilitating the running of the Ministry offices. Following is a detailed breakdown of the operating costs incurred by GSS.

	2018	2017
	USD	USD
Water	2,200	200
Electricity	8,360	300
Mobile Phone Expenses	22,500	-
Internet	2,500	300
Diesel	27,000	150
Stationary	3,075	260
Gasoline	-	59,930
Published fees	1,040	7,485
Meeting Supplies	1,700	400
Security Operational Allowances	41,600	70,000
Publications	3,890	-
Cleaning Supplies	-	400
Maintenance of equipment	-	50,050
Maintenance of Vehicles	5,880	-
Vehicle Hire/car rental	10,875	-
Total	130,620	189,475

Note 9 Rent

Rental expenses of \$3,098 for 2017 constitute Office Rents amounting to \$1,636 and other rentals of \$1,462. Comparatively, 2016 expenses constitute of Office Rents amounting to \$29,544 while other rental expenses occurred were \$3,340. See comparison below.

	2018	2017
Entity	USD	USD
Ministry of Interior and Local governmnet	2,900	300
Ministry of Finance and Economic Development	3,600	-
Ministry of Internal Security	3,300	236
Ministry of Public works and Rebuilding	-	300
Misintry of Aviation & Transport	-	800
Ministry of Constitution & Reconciliation	-	400
Office of the Presidency	-	1,062
Civil Service Commission	3,000	-
Total	12,800	3,098

Note 10 Other Operating Expenses

Amount of totalling \$42,445 has been incurred in 2018. The consist of Audit fees, television and newspaper advertisement for ministry of Finance and office administrative costs for the presidency. The cost break is captured bellow.

	2018
	USD
Audit Fees	29,446
Other Office Administrative Cost	11,499
Television and Newspaper Advertisements	1,500
Total	42,445

Note 11 Conflict Resolution Expenses

Efforts to resolve conflicts between Galmudug Communities had been conducted by the ministry of interior and the office of the presidency. A cost totalling **\$33,010** were expensed in the process of resolving conflicts. Below table shows the cost breakdown.

	2018	2017
	USD	USD
Conflict Resolution Expenses	33,010	-
Total	33,010	-

Note 12 Grants to Other General Government Units

The transfers made to lower levels of government during the reporting period totalled **\$247,257**. This transfer has benefited two districts, Adaado, , Dusemareb, Guricel and Galkaio. The transfers to districts were allocated to running costs and sanitation.

	2018	2017
	USD	USD
Transfers to Lower Level Government	247,257	31,559
Total	247,257	31,559

Note 13 Social Benefits

Social Benefits have not been budgeted in 2018 while in FY2017 Social benefits had been budgeted \$30,000 and were paid 29,200 amounts to treat staff of GSS both locally and outside the county. Medical treatment is usually provided to the security personnel who are injured during service. The budgeted estimate for the period was \$30,000 and actual was \$29,200 so it has been

met with 97 percent absorption rate. Nonetheless benefits of such medical treatment naturally depend on demand, availability of resource and the number of incidents during a year.

Note 14 Miscellaneous Other Expenses

Other Miscellaneous expenses totalling \$13,939 which consist of \$13,855 related to repayment of GSS obligations for previous debts and arrears owed by GSS at the time of state establishment and the rest is Bank charges.

	2018	2017
	USD	USD
Gss State Formation Obligation	13,855	134,100
Bank charges	84	
Total	13,939	134,100

Note 15 Non-Financial Assets

Treasury Single Account

GSS had Purchased Non-Financial Asset during in FY18 in relation to Office equipment, and Furniture and Fixtures. A comprehensive breakdown of GSS Non-Financial asset costs for 2018 is detailed below.

	2018	2017
	USD	USD
Furniture	20,835	-
Machinery and Equipment not elsewhere classified	1,845	-
Furniture & fixtures	8,120	-
Total	30,800	-

Note 16 Taxes

A total of \$ 3,535,982 in Revenue collections was estimated to be raised and received in FY2018, however an actual collection of \$630,166 was achieved. The shortfall was a result of political disagreements, lack of implementing some taxes estimated in the budget and the government not in control of key transit points for good in order to collect road user taxes. Following is a breakdown of taxes collected in FY2018. Turnover taxes was estimated at \$739,032 and collections were \$31,840. This deficit was caused by lack of registration of some cities which supposed to register for Political disagreements. Road used taxes were estimated \$2,796,950 and

achieved only \$569,181 due to the clan conflicts which caused to the number of trucks transiting roads to decline.

Tax Type	Final Estimate USD	Actual Collection USD	Difference between Final Estimate and Actual
Turnover tax	739,032	31,840	(707,192)
Local Passengers	-	27,345	27,345
Road Used Tax	2,796,950	569,181	(2,227,769)
Business And Professional Ilcenses	-	1,799	1,799
Total	3,535,982	630,166	(2,905,816)

Note 17 Grants

Total grants of \$1,318,464 were received against a budgeted sum of \$ 4,130,155. Grants from International organizations and other general government units were not received fully as per estimated in the budget. The following table presents a detailed breakdown of the grant variances.

Grant Type	Final Estimate USD	Actual Collection USD	Difference between Final Estimate and Actual
From Foriegn goverments	350,000	-	350,000
From International Organization	1,830,155	355,964	(1,474,191)
Federal Government of Somalia	1,950,000	962,500	(987,500)
Total	4,130,155	1,318,464	(2,461,691)

The variance of \$350,000 is a result of not receiving the estimated budget from foreign governments, the amount of \$1,474,191 and \$987,500 which is the variances from international organisation and federal government respectively resulted after not been received the estimated Budget. With respect to grants from International Organisations, resulted from RCRF II support not received as estimated because receiving RCRF II support depends on the number of civil servants recruited by GSS. Because GSS did not recruit civil servants at the pace they budgeted, grants from the RCRF II programme was significantly less than budgeted.

Note 18 Employee Compensation

A total of \$1,610,508 was spent on employee compensation against budget of \$6,042,154. Under spending of (\$4,431,646) was as a result of low revenue collected, thus not having the resources to pay budgeted employee compensation expenses and under recruitment of civil servants as discussed in the note above related to grants.

Note 19 Use of Good and Services

The ability to disburse in the Galmudug State of Somalia was limited to the revenue collections over a specified period of time. In the case of goods and services, GSS spent a total of \$234,295 which represents 19 percent of the final estimated budget. The variance is attributed to constraints in the actual available income.

Note 20 Grants to Other Governments

Grants to other governments units were \$247,257 during the reporting period. MOF and Four districts (Adaado, , Dusemareb, Guricel and Galkaio) entered into an informal agreement that the districts will deposit their locally-generated revenue from districts into the TSA and subsequently request payment of their operational costs through the established expenditure payment procedures of the Ministry of Finance.

Note 21 Employer Social Benefits

Medical treatment both within and outside the country is the prime social benefit that is currently provided to GSS staff. The GSS forces (police and NISA) are the major beneficiary of this benefit mainly due to the security risks to which they are exposed. The budgeted estimate for the period was \$30,000 and actual was \$29,200 so it has been met with 97 percent absorption rate. Nonetheless, benefits of such medical treatment naturally depend on demand, availability of resources and the number of incidents during a year.

Note 22 Miscellaneous Other Expenses

A total of \$115,370 was budgeted for Miscellaneous Other Expenses with actual expenditure of \$13,939 incurred. These expenses relate to the GSS obligation incurred during state formation process and bank charges.

Note 23 Non-Financial Assets

GSS purchased non-financial assets for different ministries costing \$30,800 during this reporting period as captured below.

	2018	2017
	USD	USD
Furniture	20,835	-
Machinery and Equipment not elsewhere classified	1,845	-
Furniture & fixtures	8,120	-
Total	30,800	-

Note 24 Payments by Third Parties

A budget entity may also benefit from goods and services purchased on its behalf as a result of cash payments made by third parties external to the GSS during the period. The payments made by the third parties do not constitute cash receipts or payments of the budget entity but do benefit the entity. Where GSS has been formally advised by the 3rd party that \$2,403,224 have been spent as third payments by PREMIS project and SSF, see below tables we captured separately: -

PREMIS 3rd Party Costs Description	Ministry of Finance	Civil Service Commission	Parliament	Office of the Audit General	Total
Technical Assistance	154,865	31,719	4,800	17,694	209,078
Training	385,001	78,856	4,248	34,640	502,745
ICT Support	106,846	-	-	-	106,846
Total	646,712	110,575	9,048	52,334	818,669

SSF 3rd Party Costs Description	Ministry of Interior & Local Government	Ministry of Internal Security	Ministry of Commerce and Industry	Ministry of Livestock and Agriculture	Ministry of Women and Family Affairs	Total
Furniture	20,390	-	-	-	-	20,390
Reconciliation and Peace Dividend	997,750	-	-	-	-	997,750
Economic Development	-	-	166,862	166,862	-	333,724
Building	-	110,690	-	-	-	110,690
Empowering Women	-	-	-	-	122,001	122,001
Total	1,018,140	110,690	166,862	166,862	122,001	1,584,555

Annex 2 – Final Management Letter. Independent Auditor’s Report on
The Audit of Galmudug State of Somalia (GSS) For the Year Ended 31
December 2018.



FINAL MANAGEMENT LETTER

MARCH 2020

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF

GALMUDUG STATE OF SOMALIA

FOR THE YEAR ENDED 31 DECEMBER 2018

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ABBREVIATIONS

Acronyms	Full Description
ASI	Adam Smith International
CBS	Central Bank of Somalia
CPO	Commitment and Payment Order
FMIS	Financial Management Information System
FMS	Federal Member State
GFS	Government Financial Statistics
GSS	Galmudug State of Somalia
IPSAS	International Public Sector Accounting Standards
MDA	Ministries, Departments and Agencies
MoFED	Ministry of Finance and Economic Development
PFM	Public Finance Management
PV	Payment Voucher
RCRF	Recurrent Cost & Reform Financing Facility
REG	Regulation
RMS	Revenue Management System
RV	Revenue Voucher
SSF	Somalia Stability Fund
TSA	Treasury Single Account
USD	United States Dollar

Mr. Omar Hassan
Permanent Secretary
Ministry of Finance and Economic Development,
Dhusamareeb,
Galmudug State of Somalia

Dear Sir,

MATTERS ARISING DURING THE AUDIT FOR THE YEAR ENDED 31 DECEMBER 2018

The Ministry of Finance and Economic Development is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by the Ministry are required to assess the expected benefits and related costs of the internal control structure, policies, and procedures. The objectives of an internal control structure are to provide the Ministry with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Ministry's authorization and recorded properly to permit the preparation of financial statements in accordance with the International Public Sector Accounting Standard (2017), Financial Reporting under the Cash Basis of Accounting and Section 30 of the of Public Finance Management (PFM) Act 2017.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

The report set out below is based on information availed to us and observations made during our audit of Galmudug State of Somalia (GSS). Our review of the GSS's systems of internal control is carried out to assist us in expressing an opinion on the current period's financial statements of the project taken as a whole. This work is not primarily directed towards the discovery of weaknesses, the detection of fraud or other irregularities (other than those which would influence us in forming an opinion) and should not, therefore be relied upon to show that no other weaknesses or areas that require attention exist. The matters raised in this letter are those that have come to our attention during the audit and that we believe need to be brought to your attention. They are not a comprehensive record of all matters arising, and as such we cannot be held responsible for reporting all risks in your operations and internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as this report has not been prepared for and is not intended for any other purpose.

We are, therefore, pleased to provide this report and its recommendations on internal controls, accounting procedures and other matters, which came to our attention during our audit.

We take this opportunity to express our thanks to you and your staff for the co-operation, which we received during the course of our audit. We shall be grateful if you will let us have your comments on observations and recommendations raised in this management letter together with details of any consequential changes that are to be implemented or introduced.


CPA John Mucheru
Partner
Baker Tilly Merali's
Practising Certificate No. 1854

Date 18 Nov 2020

First Floor, New Rehema House
Rhapta Road, Westlands
P. O. Box 67486 – 00200
Nairobi, Kenya

1. INTRODUCTION

We have completed the audit of GSS for the year ended 31 December 2018. We have set out issues identified during the course of our normal audit work and have not attempted to indicate all possible improvements which a special review might develop.

1.1 Ranking

We have assigned priority ratings to the audit findings as follows:

Priority 1 - Urgent remedial action is required.

Key internal controls are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in internal control or in a series of internal controls which involves a substantial risk of either material error, or irregularity or fraud with regard to the expenditure and revenue stated in the Financial Report of the State. There is a substantial risk of failure to achieve the control objectives for the State which concerns the reliability of financial reporting, effectiveness, and efficiency of operations and compliance with applicable laws and regulations. Such risks could lead to an adverse impact on the financial report of the State. Remedial action should be taken urgently.

Priority 2 - Prompt specific action is required.

There is a weakness or deficiency in an internal control or in a series of internal controls which, although not fundamental, relates to shortcomings which expose specific internal control areas (e.g. cash and bank management or budgetary and expenditure control) to a less immediate level of risk of either error or irregularity or fraud. Such a risk could impact on the effectiveness of the internal controls and on the internal control objectives and should be of concern to the Entity's management. Prompt specific action should be taken.

Priority 3 - Specific remedial action is desirable.

There is a weakness or deficiency in internal control which individually has no major impact but where the State would benefit from improved internal controls and/or where the State would have the opportunity to achieve greater effectiveness and/or efficiency. There is a possibility of undesirable effects at the process level, which, combined with other weaknesses, could give cause for concern.

2. MANAGEMENT LETTER

1.1 SUMMARY OF FINDINGS

Ref	Summary of findings	Priority	Amount in USD
1.	Improvement in tax administration	1	-
2.	Improvements to procedures for bank reconciliations	1	-
3.	Undisclosed Bank Balances	1	88
4.	Inadequately supported payments	1	1,155,147
5.	Excessive use of cash payments	1	575,875
6.	Weakness in the procurement process	1	-
7.	Weakness in asset management	1	-
8.	Lack of formalized organization IT policies and standards	1	
9.	Gaps in User management access controls	1	
10.	Excessive editor rights granted to ICT Administrator	1	
11.	Weakness in ICT Logical Access controls	1	
12.	Over ambitious annual budget estimates	2	
13.	Weakness in personnel management	2	-
14.	Other control weaknesses	2	-
15.	Failure to implement prior year audit recommendations	2	-
Total			1,731,110

1.2 DETAILED AUDIT FINDINGS AND RECOMMENDATIONS

Finding n°: 1	Title: Improvement in tax administration
Criteria: Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all revenue collected is promptly banked entirely and expenses are paid directly from the bank using cheques or other banking instruments. The Revenue Process outline sections of GSS Financial Management and Expenditure/Revenue Procedures Manual states “Collection of revenue as per the State Revenue Act, 2017 is done either by government-employed tax collectors or authorized collection agents on behalf of the government, or the taxpayer can pay directly into the TSA bank account or the cashier’s window at the Ministry of Finance. Tax collection by collectors or agents is always supported by the collector/agent issuing a numerically controlled, authorized revenue receipt. Tax collectors should deposit the money to the bank. Revenue is recorded into the FMIS utilizing the proper revenue codes” Description of the finding: We noted that in practice, the officers at the revenue department of the Ministry of Finance follow the following procedure when collecting and recording of revenue; • Tax collection agents collect receipt books from the Revenue Office within the MoFED premises in the morning and return them in the evening together with cash collected. Most tax collection is made through the Electronic Verification Code (EVC) which is a mobile money funds transfer system, therefore, these amounts are held in the collection officers’ sim card. The tax collected in cash is handed over on a daily basis to the revenue department for subsequent banking • The collection officer in the revenue department reconciles cash received to amounts recorded in the receipt books. • Daily cash collection is banked by the same officer who reconciled the receipt books the following working day. The cash is banked in the Treasury Single account held at Salaam Somali Bank. • The collection officer uses the Bank deposit slips instead of the receipt books to record the different types of taxes in the RMS. • From the RMS a receipt Voucher is generated which the finance team uses to record transaction in the FMIS system. a) We noted the following weaknesses in relation to tax collection and recording: i) Tax collection is not automated. Taxes collected are supported by a physical receipt issued to tax payers. As a result, the tax collection system is not linked to the Revenue Management System. ii) Reference numbers allocated when recording tax collected was being derived from the bank deposit slip numbers instead of reference numbers derived from the batch of receipts generated when taxes are recorded. iii) The tax reconciliation sheet did not indicate preparer, reviewer, and approver to demonstrate segregation of duties in the tax collection process and timely preparations, review, and approvals of tax reconciliations. iv) We identified variance between tax receipted, amounts recorded on the cash book and amounts banked. From our sample, we found that the amounts banked agreed to the amounts reflected on the cash books but disagreed with tax receipted as detailed in Annex 1. v) We noted numerous instances where the receipts did not indicate the name of the collection officer and also did not indicate the name of the officer who approved the receipt for posting. b) Taxes are first recorded in the FMIS module of BISAN (accounting system) based on the amounts banked as derived from the bank statement and then the Data is posted into the RMS Bisan module (tax collection system). The current procedure is thus to record first in the accounting system then	

into the tax collection system. The expected procedure is that tax collected is first posed into RMS, banked then posted to FMIS. c) The Revenue Act provides for 11 sources of revenue from which GSS can collect taxes, however, only 4 sources have been explored, i.e. Turnover tax, business and professional licenses, local passenger fees and tax on goods in transit. We noted that the financial statements showed that no taxes was collected from the following 7 sources: Personal Income Tax; Urban Property Tax; Business Licenses, Market Security and Cleansing Fee; Fuel Tax; Electricity Generation Tax and Vehicle Registration Fee. d) The financial statements reflected USD 1,799 as Business and Professional Licenses. GSS did not provide supporting documentation for this revenue and therefore its accuracy could not be verified. e) The financial statements reflect Road User Tax of USD 569,181 which primarily relates to period from June 2018 onwards. The accounting records indicate only USD 17,402 was collected from January to May 2018 resulting in an average of USD 3,480 per month. This means that the tax collected for 7 months from June 2018 onwards was USD 551,779 resulting in an average of USD 78,825 per month. It is unclear why the tax collection was significantly low in the first 5 months of the year. f) The financial statements reflect USD 27,345 as Local Passenger Fees. We noted that GSS has five operational Airports out of which local passenger fees were only collected from two airports (Curiceel Airport and Ugasnuur Airport). Further, collection from the two airports was only for a period of four months starting from September to December 2018.	Implication a) Weakness in tax collections procedures could lead to loss of funds, inadequate accounting for taxes collected as well as inaccurate financial reporting. b) The tax recording cycle does not follow the revenue cycle which increases the risk of leakages in revenue collected and difficulty in tax reconciliations. c) There is an opportunity lost for maximization of tax collection due to failure to collect revenue from all available sources throughout the financial year d) The lack of supporting documents for tax reduces the ability for verification of the accuracy of revenue amounts and assessment of the effectiveness of control procedures applied on the transactions. Priority rating: Priority 1 – Urgent remedial action is required. Recommendations: a) GSS should institute full automation at the tax collection points. b) The tax collection systems should be fully integrated with the accounting systems. Tax collected should first be recorded on the RMS and the accounting ledgers updated automatically. c) GSS should explore modalities to expand tax collection sources and ensure tax collection occurs throughout the year d) All entries into the books at the various stages of the revenue and accounting cycles should be based on unique references derived from the appropriate documentation used at the various stages. Tax collectors should use the system generated reference number and include it in the specific batch of receipts amounting to the total amount banked for the day. In addition, the serialized receipt vouchers for collecting revenues, these receipt books should be issued following a sequence to improve accountability. e) The tax collected should be promptly banked intact and regular reconciliation performed f) An officer not involved in revenue collection should perform reconciliations of revenues collected with the amounts banked on a regular basis such as daily or weekly. These reconciliations should be reviewed by senior officers and such reviews demonstrated by signing in the reconciliation statement. Agreed/Disagreed: Agreed
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Comments from GSS:

We agree with your findings, there is deliberate attempt to mainstream revenue management systems that is already on-going this includes automating revenue collection at the collection points by decentralizing RMS, enhance control of manual receipts and monthly revenue reconciliation between bank accounts, FMIS and RMS. There is on-going awareness campaign to implement more revenue streams in 2020.

Responsible person and Date:

Permanent Secretary and Revenue Director; Medium term

Finding n°: 2	Title: Improvements to procedures for bank reconciliations
Criteria: According to the PFM Act and precisely Regulation 5_Cash and Banking agreements, 3.1.1 it states “The Treasury Single Account and any other bank accounts of the [FMS] are to be reconciled preferably daily or at a minimum weekly within 2 days after end of the week by the Treasury Department, Ministry of Finance using the financial management information system (FMIS). ‘3.1.2. Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer and lastly’ “3.1.3. Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format.” Article 8.1. of the Operation of Bank Accounts Procedures Manual, states: “In December each year, the Cash Management Unit will conduct a review of the bank register and all government bank accounts The review will cover the following key issues....” Section (e) states: “Yearly confirmation request of banks to confirm name and account numbers of all bank accounts registered in the name of the [FMS]” Description of finding a) Bank reconciliations were performed on a monthly basis instead of on weekly basis. b) Based on our review on the bank reconciliations, we noted the following observations: i) The bank reconciliations provided for audit did not indicate the date of preparation and approval. ii) Treasury department under the Ministry of Finance had not obtained the yearly confirmation request of the banks to confirm that the name and account numbers of all bank accounts registered are in the name of the Ministry of Finance by the time of our audit in July 2019. We confirmed all the bank accounts in the financial statements were in the name of the State under the Ministry of Finance.	
Implication: Noncompliance with the PFM Act provisions. Lack of timelines for the bank reconciliations are to be prepared increases the risk of delayed detection of anomalies in bank transactions.	
Priority rating: Priority 1 – Urgent remedial action is required.	
Recommendation: We recommend that: a) GSS complies with the required guidelines by ensuring bank reconciliations are performed at least weekly. b) The date for preparing and reviewing the bank reconciliation statements should be well defined in the Fiduciary guidelines. This includes stating the date and designations of reviewers and approvers. c) The Treasury Department at MoFED GSS should prepare and send bank confirmation letters to the Banks at year-end requesting the banks to confirm the balances held.	
Agreed/Disagreed: Agreed	
a) We will ensure that all bank reconciliations are carried out, printed off on a weekly basis and filed. b) Para 3.1.2 of Regulation 5 stipulates that the Bank Reconciliation is to be prepared within 2 days after the end of the week. GSS will ensure that this is adhered to and that the date of review and designation of approver is included on the bank reconciliation.	

- c) We had requested bank confirmation from all banks, and received confirmation on those we had access control while maybe there are so many others accounts registered in the name of Galmudug State Not Ministry of Finance. Fortunately, in first quarter of 2019 we won to close all accounts registered in the name of Galmudug State those were not opened the authorization of Minister of Finance. We had requested bank confirmation from the CBS on numerous occasions with nothing provided by the CBS, noting that the CBS responded to the Auditors request for confirmation. We will endeavor to discuss this further with CBS to ensure that they provide the bank confirmation to GSS as required for audit

Responsible person and date:

Cash Management Unit/Treasury Director. Immediate

Finding n°: 3	Title: Undisclosed Bank Balances
Criteria: Article 8.1. of the Operation of Bank Accounts Procedures Manual, states: “In December each year, the Cash Management Unit will conduct a review of the bank register and all government bank accounts. The review will cover the following key issues....” Section (e) states: “Yearly confirmation request of banks to confirm name and account numbers of all bank accounts registered in the name of the [FMS]” Description of finding As part of our audit procedures, we sought independent bank confirmation from all the Commercial Banks within the state to ensure no Government Ministry or Agency was operating a separate bank account that MoFED was not aware of. We received a bank confirmation from the Central Bank of Somalia indicating amounts of USD 1,978 was held in the ACCNo. 1099 and USD 88 held in the ACCNo. 780 (an account opened for GSS before the expansion as a FMS and had USD 88 as an opening balance). The amount of USD 88 held with CBS in the ACCNo. 780 was not included in the State’s Financial Statements.	
Financial Impact: USD 88	
Implication: There was noncompliance with applicable guidelines.	
Priority rating: Priority 1 – Urgent remedial action is required.	
Recommendation: We recommend that GSS should include confirmations of bank accounts details as part of year-end procedures in compliance with the procedure’s manuals. In addition, as a practice, the State through MoFED should regularly seek confirmations with all commercial banks within State on whether and of the other Ministries or State agents are operating any bank accounts they may not be aware of. In addition, the State should consider transferring the amount held at the Central Bank of Somalia to the Treasury Single Account.	
Agreed/Disagreed: Agreed	
Comments from GSS: In accordance with Para 8 of Instruction I, a review of the bank register will be carried out as part of GSS’s 2019 FY year-end processes. A review of the CBS bank accounts will be carried out to determine if any of these accounts should be closed. Noting that GSS were not able to obtain confirmation of bank accounts from CBS despite several requests. GSS will discuss this further with CBS to ensure they provide the information required when requested by GSS.	
Responsible person and date: Cash Management Unit / Treasury Director. Immediate	

Finding n°: 4 Title: Inadequately supported payments

Criteria:

According to the GSS Financial management procedures, Certification for payment Clause states "Certification for Payment occurs after receipt of goods or services. A competent person (this would usually be the person originally identifying the requirement for Commitment Authorization) must first verify that the service has been performed or goods delivered in accordance with the Purchase Order. This person must complete the Receiving Report section of the Purchase Order".

Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all payments are supported by adequate documents such as invoice, receipts, agreements, tickets, boarding pass, delivery notes, etc.

Description of the finding:

We noted payments which were either lacking supporting documents or were inadequately supported as detailed in Annex 2 and summarized below:

Inadequacy	Reference: Annex No.	Amount
Unsupported payments	Annex 2 C	37,470
Inadequately supported Payments	Annex 2 A, 2 B, 2 D, 2 E and 2 F	1,117,677
Total		1,155,147

Part of the unsupported payments relates to the Salary paid to PS, Ministry of Finance. During the financial year ended 31 December 2018, GSS paid salaries totaling USD 6,000 to the acting PS, Ministry of Finance. The employee resigned in October 2016 and the resignation acceptance letter dated November 2016 was provided. We were informed that the employee worked in an acting capacity until May 2018. However, there was no evidence to show that he worked for GSS in the year 2018 and the terms for his reinstatement in acting capacity were not provided for our review.

Financial Impact: USD 1,155,147

Implications:

Inadequate evidence of the occurrence of transactions reduces the reliability of the financial statements since value assigned to transactions, correct classification of payments and control procedures applied on transactions cannot be adequately verified.

Priority rating:

Priority 1 – Urgent remedial action is required.

Recommendations:

- The amount of USD 6,000 should be reversed from GSS payments and refunded to the RCRFII project. There is a need to strengthen controls to ensure only costs which are incurred are recorded in the financial reports.
- We recommend that adequate accounting records are prepared and maintained to support all costs incurred.
- GSS should formulate a schedule of documentation expected to be obtained for various categories of transactions.

d) In relation to allowances paid to security officers, a master roll list should also be maintained and together with the payment list be used to verify the security officers before payment is done. The state can exploit options such as introducing an electronic registration system. e) The Ministry of Finance should make the payments directly to the respective security officer's bank accounts or use money transfer services. f) The payments for food supplies should be supported with purchase documents such as purchase orders, invoices, receipts, delivery notes and goods received notes. Evidence on subsequent distribution of the supplies such as inventory distribution lists should also be maintained as well. g) Guidelines on payment of allowances to staff should be documented and presented for approval. Further, all transport, accommodation and professional allowances paid should be adequately supported with third party support documents such as invoices, receipts, and accountability reports.
Agreed/Disagreed: See GSS comments
Comments from GSS: a) Disagreed: To avoid the PS position remaining vacant, the Minister requested the PS to work as acting until the positions is filled permanently. There is written communication to that effect. He has continuously supported MOFED during that period. b) Agreed. A document management workshop was carried out in June 2019 to provide training to MoFED staff on filing supporting documents. A review of the files was carried out and as part of the year end process, these files will be reviewed in readiness for audit. c) Agreed: As part of the workshop, a list of supporting documents required to be maintained on file was established. Treasury department will be reviewing all document files to ensure completeness. Schedule of documentation expected to be obtained for various categories of transactions is outline in Public Procurement Manual and regulation # 8.
Responsible person and date: Treasury Department. Medium term
Auditor's additional comments: We will retain the finding in relation to salary paid to paid to the outgoing PS Ministry of Finance given that the communication stated to in the response was not provided to us for review when requested and also because there was no evidence of the officer being actively working the Ministry.

Finding n°: 5	Title: Excessive use of cash payments
Criteria: An effective measure in achieving an accurate set of financial files is reducing the reliance on cash payments, wherever possible. This is because cash is associated with a higher degree of risk and error compared to other payment methods. These risks include fraudulent activities and the potential for individuals to misappropriate funds. Also, GSS Financial Management and Expenditure/Revenue Procedures Manual do state in Expenditure process detail section "Payment to suppliers for goods and services can be made by check or when it becomes feasible by funds transfer to the supplier's account". Description of the finding: We noted excessive use of cash payments wherein payments of large sum money which was channeled through a personal bank account. For example: • USD 189,000, which 9% of the total expenditure reported (see Annex 3 (a)) was paid as Remuneration to Politicians • The Ministry of Internal Security paid USD 386,875 which 18% of the total expenditure reported (see Annex 3 (b)) for Security Forces (Police, Intel Forces, and Prison) allowances in cash. These payments were also identified as inadequately supported in Finding no. 4.	
Implication: Significant cash payments reduce audit trail for transactions, increase the risk of loss of funds and misappropriation.	
Priority rating: Priority 1 – Urgent remedial action is required.	
Recommendations: GSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. The banking system and mobile cash transfer payments which are available in Somalia should be used to pay beneficiaries. Cash payment should be kept at a minimum or only used in exceptional circumstances.	
Agreed/Disagreed: Agreed	
Comments from GSS: GSS deposited security forces money in one person, because most of the security forces don't have bank accounts that is why we paid to one person and then he supplies to other beneficiaries and he submits to the MoFED signed list. We are planning to mitigate and create accounts each person/beneficiary.	
Responsible person and date: Permanent Secretary/ Treasury Department. Medium term	

Finding n°: 6	Title: Weakness in the procurement process
Criteria: Regulation #8: Regulation establishing the Public Procurement Policies and Procedures Manual of the PFM Act, 2017 provides the guidelines for procurement of goods and services as follows; a) Procurement methods: i. Sole and Single-Sourcing; this is to be undertaken in the following circumstances; • When there is an existing contract for goods, works or non-consultant services, awarded in accordance with procedures acceptable to GSS. • Standardization of equipment or spare parts in order to be compatible with existing equipment. • When the required equipment is proprietary and is obtainable only from one source. • In exceptional cases, such as in response to natural disasters. • When the value of the contract is one thousand United States Dollars (US \$1,000) or less. ii. Shopping method – purchases less than USD 10,000; require a minimum of three quotes and price analysis done. iii. A competitive procurement process involving public tendering will be undertaken for purchases above USD 10,000. b) Further, according to paragraph 3.1.1 of Regulation 8, “The [FMS] shall prepare periodic procurement plans for acquiring goods, works, consultant, and non-consultant services, a (“Procurement Plan”). The Procurement Plan is a key program planning and implementation document prepared by the [FMS]. The primary function of the Procurement Plan is to serve as a managing tool by which the [FMS] oversees the procurement activities”. c) According to Attachment 8 of Regulation 8, Conflict of Interest of Panel Members - The designation process for the panel must also ensure that the panel members do not currently, nor have engaged in during the past one year, work for any of the competing entities. In addition, the panel members must not have a financial interest that could hinder their objective participation in the bid evaluation panel. Description of the finding: We noted the following weaknesses: a) Instances where evidence of compliance with the competitive procurement procedures were not adhered to as shown in Annex 4A. b) The procurement department at MOFED GSS does not prepare an annual procurement plan. c) The procurement policy lacks guidelines on composition and number of members that should form the procurement committee. d) Original signed Statements of confidentiality and impartiality are missing in the procurement files; photocopies were being used. e) Instances where the funds allocation forms and user department requests were missing in the procurement file. f) Instances where the Bid Evaluation Reports were not adequately signed by the Bid Evaluation Panel (BEP), the minutes availed for review were photocopies and not the originals. g) Lack of periodical pre-qualification of suppliers by the Ministry of Finance procurement department. h) Military and security forces procurements valued above USD 2,500 and USD 10,000 threshold were not subjected to competitive procurement, see Annex 4 B.	
Implication: Lack of application of competitive procurement procedures poses the risk of GSS not benefitting from the best value for money.	

Priority rating:

Priority 1 – Urgent remedial action is required.

Recommendations:

The management should ensure that:

- a) Competitive procurement procedures are adhered to as per the PFM Act Regulations and guidelines.
- b) The MOFED Procurement Department prepares annual procurement plans and regularly pre-qualify its suppliers.
- c) MOFED Procurement Department takes measures to strengthen controls by ensuring adherence, segregation of duties and robust reviews of transactions and supporting documentation prior to payments.
- d) Procurement process should include:
 - funds allocation forms and user department requests
 - original statements of confidentiality and impartiality declarations
 - inspection of items received against specifications
 - evidence of procurement decision made
- d) Proof of delivery should include:
 - proper documentation for distribution of items to intended beneficiaries
 - proper visibility for assets and constructions

Agreed/Disagreed: Agreed

Comments from GSS:

We agree with your findings, GSS will put measures in place to enhance compliance with public procurement manual and regulation # 8 on public procurement .Procurement work plan will be developed for FY 2020, instructions to define number of persons in the procurement committee will be issued in 2020 and all original document will be filed.

Responsible person and date: PS & Procurement Director

Procurement Director. Medium term

Finding n°: 7	Title: Weakness in asset management									
Criteria: Article 3.2 of the responsibility under regulation 9 (Capital Asset Policy) of the PFM Act 2017 states that “The Director General (or equivalent) may delegate duties for coordinating asset physical inventory counts, as well as ensuring capital asset acquisitions, transfers, and disposals are recorded in the centralized Capital Asset Register.” Further, Article 3.3 under regulation 9 (Capital Asset Policy) of the PFM Act 2017 states “The Ministry of Finance shall maintain a centralized Capital Asset Register for the whole of government, to be administered by the Director-General of the Ministry of Finance. Individual agencies, entities, and institutions may maintain an entity-specific Capital Asset Register for internal management purposes, however, the centrally controlled register operated by the Ministry of Finance is the official register of the government and all audits and reporting on capital assets will be made against the centrally-controlled register.” Description of the finding:										
- The Physical Asset Tag number and the Tag number in the Asset Register extracted from the Assets Management System (AMS) did not match rendering physical verification exercises difficult. Examples are illustrated in the table below: <table><tr><th>Asset tag number</th><th>Description as per AMS</th><th>Actual verified physical item</th></tr><tr><td>0016603GDS</td><td>Desktop Computer</td><td>Wood Cupboards</td></tr><tr><td>0014003GDS</td><td>Desktop Computer</td><td>Executive chair</td></tr></table> - The Asset Register on the AMS lacked assets values - Assets purchased in the year were not included in the annual procurement plan and the payment to the suppliers were not supported by the supplier’s delivery note. - There was no evidence that an annual physical verification of the State’s assets had been conducted. - The Asset Register did not disclose some of the state-owned assets such as land, buildings and motor vehicles.		Asset tag number	Description as per AMS	Actual verified physical item	0016603GDS	Desktop Computer	Wood Cupboards	0014003GDS	Desktop Computer	Executive chair
Asset tag number	Description as per AMS	Actual verified physical item								
0016603GDS	Desktop Computer	Wood Cupboards								
0014003GDS	Desktop Computer	Executive chair								
Implications: - There were inadequate controls over assets which increases risk of failure to track assets and reconcile assets register to financial statements. - The lack of a systematic way of tracking assets could lead to misappropriation of assets. - Non-compliance with the PFM Act provisions.										
Priority rating: Priority 1 – Urgent remedial action is required.										
Recommendations: a) Ensure that the costs of assets are recorded on the Financial Statements as per the fixed assets register in the year of acquisition. It is necessary to undertake a reconciliation of the fixed assets register with the Financial Statements. b) Ensure that the asset register is updated with all key information such as the value of the asset to ensure effective control and tracking of assets. This should be done a carrying out a full assets logging exercise. c) The State should ensure for the accuracy of information and data captured in the Asset Management System by ensuring the tag numbers and serial numbers on the assets are synchronized with those in the Asset Management System.										

d) The State should update the asset register to ensure all the State-owned assets are included in the assets register. e) The State should conduct an annual physical verification of assets and have the process and report well documented for reference purposes and to provide an audit trail of the exercise.
Agreed/Disagreed: Agreed
Comments from GSS: • Asset purchases are recorded in the FMIS when the assets are purchased. In 2019 a process was implemented whereby the Treasury department would review the asset transaction (in the FMIS) each month and provide the details to the Procurement Department for review and updating of the AMS. A review will be carried out at the end of the year to ensure the AMS details agree with the FMIS. (MEDIUM TERM) • A review of the AMS will be carried out before the end of the year to ensure the purchase provide of the assets are entered into the FMIS. IMMEDIATE • As part of the annual physical asset count, the assets will be reviewed against the data in the AMS with the AMS updated where necessary. MEDIUM TERM • The year-end physical stock take will be conducted to sight assets and verify the asset against the AMS details. MEDIUM TERM • Instruction I: physical asset counts and report on condition was issued early 2019 FY. MoFED will ensure that his Instruction is issued as part of the year-end process to physically sight the asset and report on its condition. MEDIUM TERM
Responsible person and date: Permanent Secretary. Treasury Director / Procurement Director. Some Immediate and some Medium term and indicated above.

Finding n°: 8	Title: Lack of formalized organization IT policies and standards
Criteria: Policies and procedures are an essential component of any organization and protecting GSS IT systems against unauthorized access are critical and thus adequate guidelines must be in place to ensure the Institution has adequate controls to restrict access to systems and data. Description of the finding: Our review of GSS IT environment revealed that the State does not have a comprehensive ICT policy and procedures which stipulates the following key components: • An IT policy that provides various guidelines on System change, User Access, Business Continuity/ Disaster Recovery Plans (BCP/DRP), etc. However, they do have a policy on usage of MiFi Modems (Internet). • Formalized procedures to log (track event) and escalate issues regarding system failure/gaps which if not tracked will remain unresolved for a long period of time. • Guidelines on how the State should conduct Business Continuity and Disaster Recovery plans. The In-house IT is not involved in the backup process which is currently handled by the Bisan technical team since the system is cloud-based. This makes it difficult to ascertain if indeed backups are done successfully on a daily basis. • Structured and formalized continuous IT training for both new and existing staff. • We also noted that the transfer of data from RMS to FMIS is not automated, data from RMS cannot be exported to FMIS.	
Implication • IT-related processes may not be followed due to the absence of defined comprehensive IT policy and procedures. • Lack of BCP and DRP could result in the organization being unable to continue with its operations in the event of a disaster and possible risk of data loss. • Lack of a formalized training program could lead to staff being inadequately prepared to perform their roles and responsibilities. • Failure to have RMS and FMIS linked exposes the data to intentional and unintentional manipulation without a trace and maybe go undetected.	
Priority Rating: Priority 1 – Urgent remedial action is required	
Recommendations: We recommend the state: • To consider developing a comprehensive IT policy that is in line with the Ministry's daily operations and IT guidelines. Further, they should regularly review the policies for consistency and relevance to changing events. • The IT policy should incorporate procedures for conducting BCP and DRP. • To ensure that a structured training guideline is developed to enable staff orientation on IT matters and any new features on the system. • The transfer of data from RMS to FMIS should be automated by an interphase that syncs the data posted into RMS directly to FMIS.	
Agreed/Disagreed: Agreed	

Comments from GSS:

ICT policy is been development and shall be ready by end of 2019

Responsible person and date:

ICT Director. Immediate

Finding n°: 9	Title: Gaps in user access management controls
Criteria: Article 5 of the User Control and Access Manual (Bisan 8.1 User Access Controls_v1.2_GSS Version 1.0 Dated: March 2016) provides a workflow on the process of admitting new users to the Bisan system. The guideline requires that formal approvals be obtained from the relevant heads of the department for the creation of new users in the Bisan system. Description of the finding: Our review of the implementation of the Bisan system revealed the following: a) Lack of a formal procedure for notifying the IT director to disable user accounts in a timely manner for staff who had left employment either through resignation or termination. b) Lack of periodic user access reviews of the activities performed by users to detect if there are any anomalies in access provisioned or other privilege or excessive access. c) Saved Passwords in browsers can be retrieved and read in Plain text. We noted that it's possible to users to save their passwords on the browser after logging in, this possesses a risk as the password can be retrieved in plain text. d) Proper antivirus software has not been installed on the entity's workstations, which exposes the entity to a risk of prolonged downtime in case the workstations are infected with viruses. We found that the State was currently using the free anti-virus available from the internet which is not very reliable as it may only offer limited protection. e) Lack of adequate segregation of access rights where we noted that the Revenue Officer was able to post and approve transactions in the Revenue Management System. Management explained that the officer was working alone in the Revenue Department following the resignation of the Revenue Director. We determine that the lack of supervision of the Revenue Officer's access to the RMS poses a risk.	
Implication: a) User IDs of terminated employees may still be active in the system and can be misused for processing of financial transactions and such transactions would not only be unauthorized but also lack accountability. b) Without periodic user access reviews, excessive access may remain with the users and anomalies in the operations of the system may not be identified early enough. This may have some greater repercussions on the operations such as manipulation of crucial data stored in the system. c) User accounts may be allocated excess rights by the system administrators, intentionally or unintentionally, in breach of the organization requirements. d) Using an out of date Antivirus leaves the organization data more exposed to cyber-attacks and prolonged downtime. e) The lack of adequate segregation of user access rights to the RMS could lead to unapproved revenue entries or modification of data in the system.	
Priority Rating: Priority 1 – Urgent remedial action is required.	
Recommendations: We recommend that: a) The identified user accounts belonging to terminated staff should be immediately disabled. In addition, a standardized procedure should be developed, documented and approved by the State to regulate this process revoking user access. Once an employee leaves the entity, the IT Director should be notified in a timely manner to ensure the user account is disabled. b) The State should ensure a periodic review of users in the systems is done against the list of leavers.	

c) Existing user accounts and access rights should be reviewed at least annually to detect dormant accounts and accounts with excessive privileges. d) The Anti-virus should be centrally managed and updated by the IT Director. e) In order to ensure there are adequate segregation and integrity of data in RMS in the absence of a supervisor, the Treasury Director should carry out regular monitoring checks in the RMS.
Agreed/Disagreed: Agree
Comments from GSS: a) Client maintenance form will be fully implemented to activate and deactivate users in the system, this is already in place and will be re-enforced. b) What user do in the system can be tracked any minute by checking the tracker tab of different vouchers in the system, monthly review of this will be done by ICT and Treasury Directors in 2020 c) There is clear segregation duty in all Bisan modules including RMS which define in the access right for different officers. This, however, will be reviewed.
Responsible person and date: ICT Director. Immediate

Finding n°: 10	Title: Excessive editor rights granted to IT Director
Criteria: One of the most important principles of good system security is the least privilege access. Abuse of privileged or super accounts is one of the most dangerous threats because it is relatively easy to execute and takes a long time to detect. The simplest and most common situation is when an insider uses legitimate permissions for malicious activities. Description of the finding: We noted that the ICT administrator had full access to all areas in the system and is able to make changes like correcting errors. However, his activities on the system are not regularly reviewed by any senior officer. We also noted there is no second-level authorization required for any corrections or amendments done by the IT.	
Implication: Lack of these adequate checks and balances, periodic reviews exposes the system to the risk of an ICT staff or a super user committing malicious activity and covering up their tracks. Without regular reviews of access accounts and audit logs, anomalies in the operations of the FMIS system cannot be identified in early enough and therefore they may have a greater impact on operations which may lead to either manipulation or availability of crucial data stored in the system. Without a periodic review of activities performed by users who have administrative roles in all the key modules may result in an unnoticed violation of access rights and manipulation of data stored in the system. Users' accounts may be allocated maker and checker rights by the system administrators, intentionally or unintentionally, in contravention of the organization requirements and these accounts may be used to carry out fraudulent transactions resulting in financial inaccuracy and loss of integrity.	
Priority rating: Priority 1 – Urgent remedial action is required.	
Recommendations: User and administrator activity must be through audit and event logging. Existing user accounts and access rights should be reviewed at least annually to detect dormant accounts and accounts with excessive privileges i.e. accounts with excessive privileges include: - An active account assigned to external consultant or employees that no longer work for the Institution. - An active account with access rights for which the user's role and responsibilities do not require access. - System administrative rights or permissions (including permissions to change the security settings of a system) should be granted to a user who is not an administrator. - There should be 2nd level approval step required by the system for any amendments or error corrections done by the Systems administrator.	
Agreed/Disagreed: Agreed	
Comments from GSS: While ICT director has superior rights in the system due to his role as system administrator ,it is not the role of ICT director to make data entering or approval in the system	
Responsible person and date: PS and ICT Director, Medium term	

Finding n°: 11	Title: Weakness in ICT Logical Access controls
Criteria: Unauthorized access can lead to devastating effects and without effective user access control entities can become victims of malicious activities such as, financial fraud, and attacks on systems through denial of service attacks which can be especially harmful to online systems. Description of the finding: We noted inadequacies as follows: - Lack of account lockout and counter threshold - the system does not lock out users after several incorrect login attempts. - Saved Passwords in browsers can be retrieved and read in Plain text. We noted that it's possible to save your password on the browser after logging in, this possesses a risk as the password can be retrieved in plain text.	
Implication: - Any unauthorized user who obtained the access permissions of a privileged system user would be able to cause considerable damage. Even where the identifier and password of an ordinary user are obtained, the concept whereby users are held accountable for their actions is bypassed. - An attacker can leverage this to disable protection to the machine and perform further attacks. - Failure to update the computer antiviruses exposes the ministry computers to data corruption and cyber-attacks. - Lack of a formalized training program for all staff could lead to staff being inadequately prepared to perform their roles and responsibilities and lead to staff learning by trial and error thus making mistakes and result in an over-reliance on their colleagues who have better understanding of the system. - In cases of key staff resignations from the organization, the daily system operations won't be affected.	
Priority rating: Priority 1 – Urgent remedial action is required.	
Recommendations: - The system should employ this security feature and allow a threshold to be set to specify how many invalid logins can occur before an account is locked out to counter Brute force attacks or attempts of hacking. - Monitor attempts to log in to the system should be carried out. - The Antivirus should be centrally managed by the IT manager and password protected. - The IT Director to ensure the Antivirus up to date.	
Agreed/Disagreed: Agree	
Comments from GSS: - System log out time can be adjusted in the system from system set up. The system has log out time right now although the time set might be long. - User will be advised by ICT director not to save their password for the system in their laptops.	
Responsible person and date: ICT Director, immediate	

Finding n°:12	Title: Over ambitious annual budget estimates					
Criteria:						
The PFM act states that “After the approval of the Annual Budget by Parliament, the Minister shall: Where the ministry, institution or agency is responsible for the collection of revenues, require them to prepare an annual revenue collection plan broken down by month;”						
Description of the finding:						
a) We noted that GSS budget estimates were not realistic for the year under review, only 27% of the budgeted taxes and grants was received and this has been the case over the previous two years 2017 and 2016 as illustrated in the table below:						
	Year	Receipts	Final Estimate Appropriation	Actual amounts realized	Variance	Percentage achieved
	2018	Taxes	3,535,982	630,166	2,905,816	18%
		Grants	4,130,255	1,406,464	2,723,791	34%
		Total	7,666,237	2,036,630	5,629,607	27%
	2017	Taxes	2,431,020	339,929	2,091,091	14%
		Grants	3,545,020	5,269,068	(1,724,048)	149%
		Total	5,976,040	5,608,997	367,043	94%
	2016	Taxes	1,646,156	1,051,807	594,349	64%
		Grants and other revenue	1,882,250	807,750	1,074,500	43%
		Total	3,528,406	1,859,557	1,668,849	53%
b) In addition, we noted that the state did not prepare monthly revenue plans as required under the PFM Act of 2018.						
Implications:						
a) Without correct budget records and realistic budget estimates, the state may not be able to utilize effectively the budget as a planning tool.						
b) Lack of periodic budget planning could lead to poor cash flows/revenue deficits that could halt critical operations of the state.						
Priority rating:						
Priority 2 - Prompt specific action is required.						
Recommendations:						
MOFED GSS should ensure;						
a) When preparing the annual budgets, the annual estimated appropriation amounts should be informed by both past trends and anticipated future collections.						
b) The State should increase its tax base. GSS could also consider engaging a funds mobilization unit consultant to draw up winning proposals for projects to be funded and lobby to International aid agencies in an effort to achieve the Grants part of the budget estimates.						
• Monthly revenue planning is implemented as required by the PFM Act so as to ensure the state does not run into budget deficits.						
Agreed/Disagreed: Agree						
Comments from GSS:						

Finding n°:12	Title: Over ambitious annual budget estimates
Credible revenue estimates are prepared but due to political pressure, these are increased in line with the expenditure budget. This will be addressed in 2020 by implementing more revenue streams and improved relation with FGS so as to present more reflective budget estimates to actual performance.	
Responsible person and date Minister for Finance & Economic Development, Medium term	

Finding n°: 13	Title: Weakness in personnel management															
Criteria Best Human Resources practice requires that the following information be maintained in the official personnel file for each employee: Application, Resume, Prescreening application notes, Employment interview report form, Education verification, Employment history verification, Other background verification, Emergency Contact Form, Request for non-medical leave of absence and approval/denial of leave and Employment offer letter as a bare minimum.																
Description We noted the following weaknesses: a) Our review of personnel files, however, revealed that for the Permanent Staff, Performance appraisals, induction training and leave details were missing. In addition, we noted instances where the personnel files lacked National Identity Cards (ID) or National Passport to identify the employee. b) We noted instances where employees did not give adequate notice upon resigning from their positions. The Human resource regulations require employees to give a month's notice when resigning. Examples of instances where no notice was provided are as follows:																
<table><tr><th>Employee ID No:</th><th>Resignation date:</th><th>Last working day as per resignation letter:</th></tr><tr><td>MOFED 0026</td><td>1/9/2018</td><td>1/9/2018</td></tr><tr><td>MOFED 0002</td><td>29/01/2018</td><td>29/01/2018</td></tr><tr><td>AG 0002</td><td>22/02/2018</td><td>22/02/2018</td></tr><tr><td>MOFED 0013</td><td>November 2018</td><td>No resignation letter provided</td></tr></table>		Employee ID No:	Resignation date:	Last working day as per resignation letter:	MOFED 0026	1/9/2018	1/9/2018	MOFED 0002	29/01/2018	29/01/2018	AG 0002	22/02/2018	22/02/2018	MOFED 0013	November 2018	No resignation letter provided
Employee ID No:	Resignation date:	Last working day as per resignation letter:														
MOFED 0026	1/9/2018	1/9/2018														
MOFED 0002	29/01/2018	29/01/2018														
AG 0002	22/02/2018	22/02/2018														
MOFED 0013	November 2018	No resignation letter provided														
Implications Incomplete personnel records may hinder proper reference of records, hence leading to a lack of evidence of vital information about employees. Failure to give adequate notice in adherence to the set resignation regulations may result in inefficiencies in operation as a result of improper handovers.																
Priority rating: Priority 2 - Prompt specific action is required.																
Recommendations: The requirements for notice period should be enforced in line the GSS CSC Human Resources guidelines. CSC should ensure that staff personnel files are updated. Each file should have a standard checklist indicating the minimum requirement of documents that should be in a personnel file. Regular file reviews should be performed to ensure that all documents are maintained.																
Agreed/Disagreed: Agreed																
Comments from GSS: Performance review for permanent staff will be carried out in 2020 and overall improvement in the management of personnel records will be under taken.																
Responsible person and date: Civil Service Commissioner: Medium term																

Finding n°: 14	Title: Other control weaknesses						
We noted other control weaknesses as follows:							
<table border="1"> <thead> <tr> <th data-bbox="203 338 812 394">Criteria</th><th data-bbox="816 338 1421 394">Description of the finding</th></tr> </thead> <tbody> <tr> <td data-bbox="203 401 812 1157"> According to GSS Financial Management and Expenditure/Revenue procedures manual Commitment Authorization section and especially Appendix A treasury forms instruction especially in Form 2: Commitment and Payment Order (CPO) Detailed Instructions states that: • This first section of the CPO form is to be completed by the spending Ministry • Ministry Requesting Officer should sign to confirm the Commitment is required to meet the needs of the Ministry. • Ministry Authorizing Officer (frequently the Ministry head) should sign after satisfied himself/herself that: • The proposal is in accordance with the policies of the GSS; and • The proposed expenditure will make efficient and effective use of the public money available from the IGA Consolidated Budget for programs implementing those policies. • The Appropriation Account in the GSS Consolidated Budget has been assigned, to which the amount is chargeable. </td><td data-bbox="816 401 1421 1157"> We noted instances where Commitment and Payment Orders (CPO) sections for prepared by and authorized by were not signed by the respective authorized staff. The CPOs also lacks a description of the expense to be paid. </td></tr> <tr> <td data-bbox="203 1163 812 1436"> Good accounting practice requires that once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This makes the payment invalidated and helps avoid duplication of payments, more so if the entity is running more than one project with different funding sources. </td><td data-bbox="816 1163 1421 1436"> We noted all the expenditure suppliers' supporting documentation such as invoices and receipt vouchers had not been stamped "PAID" or "POSTED" to invalidate the support documents once payments are made. </td></tr> </tbody> </table>	Criteria	Description of the finding	According to GSS Financial Management and Expenditure/Revenue procedures manual Commitment Authorization section and especially Appendix A treasury forms instruction especially in Form 2: Commitment and Payment Order (CPO) Detailed Instructions states that: • This first section of the CPO form is to be completed by the spending Ministry • Ministry Requesting Officer should sign to confirm the Commitment is required to meet the needs of the Ministry. • Ministry Authorizing Officer (frequently the Ministry head) should sign after satisfied himself/herself that: • The proposal is in accordance with the policies of the GSS; and • The proposed expenditure will make efficient and effective use of the public money available from the IGA Consolidated Budget for programs implementing those policies. • The Appropriation Account in the GSS Consolidated Budget has been assigned, to which the amount is chargeable.	We noted instances where Commitment and Payment Orders (CPO) sections for prepared by and authorized by were not signed by the respective authorized staff. The CPOs also lacks a description of the expense to be paid.	Good accounting practice requires that once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This makes the payment invalidated and helps avoid duplication of payments, more so if the entity is running more than one project with different funding sources.	We noted all the expenditure suppliers' supporting documentation such as invoices and receipt vouchers had not been stamped "PAID" or "POSTED" to invalidate the support documents once payments are made.	
Criteria	Description of the finding						
According to GSS Financial Management and Expenditure/Revenue procedures manual Commitment Authorization section and especially Appendix A treasury forms instruction especially in Form 2: Commitment and Payment Order (CPO) Detailed Instructions states that: • This first section of the CPO form is to be completed by the spending Ministry • Ministry Requesting Officer should sign to confirm the Commitment is required to meet the needs of the Ministry. • Ministry Authorizing Officer (frequently the Ministry head) should sign after satisfied himself/herself that: • The proposal is in accordance with the policies of the GSS; and • The proposed expenditure will make efficient and effective use of the public money available from the IGA Consolidated Budget for programs implementing those policies. • The Appropriation Account in the GSS Consolidated Budget has been assigned, to which the amount is chargeable.	We noted instances where Commitment and Payment Orders (CPO) sections for prepared by and authorized by were not signed by the respective authorized staff. The CPOs also lacks a description of the expense to be paid.						
Good accounting practice requires that once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This makes the payment invalidated and helps avoid duplication of payments, more so if the entity is running more than one project with different funding sources.	We noted all the expenditure suppliers' supporting documentation such as invoices and receipt vouchers had not been stamped "PAID" or "POSTED" to invalidate the support documents once payments are made.						
Implications: Control weaknesses reduce the effectiveness of controls which increases the risk of errors and irregularities occurring without detection.							
Priority rating: Priority 2 - Prompt specific action is required							
Recommendations: We recommend that the payment processing guidelines be adhered to before any amounts are paid out to the suppliers of goods and services.							

In relation to the third-party documents, once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This will invalidate the process for the payments helps avoid erroneous or deliberate duplication of transactions.
Agreed/Disagreed: Agreed
Comments from GSS: All CPO will be completed by spending Ministries, every section of CPO correctly filled, verified and approved. Stamping of PAID on supporting documents will be introduced in 2020.
Responsible person and date: Treasury Director/ Procurement Director: Immediate

3. FOLLOW UP OF PREVIOUS AUDIT FINDINGS

The audit for the year ended 31 December 2017 was carried out between July and August 2018, and the management letter resulting from the audit issued was finalized and issued to GSS MOFED in mid-February 2019. We note that there was limited time to implement the 2017 audit recommendations in relation to the 2018 operations. The status of audit recommendations in the financial ended December 2018 is as follows:

No.	Finding Title	Recommendation	Status	Comments from GSS	Conclusion
1.	Understated funds receipts	a) The variances should be investigated and adjustments made as necessary. b) GSS should obtain account statements on a regular basis from the FGS and perform reconciliations against GSS records. c) Evidence of funds deposited by FGS or other external parties into GSS bank accounts should be provided to GSS and retained as part of supporting documentation for revenue. d) The monthly and year-end financial reporting procedures at the GSS Ministry of Finance should include a full reconciliation of funds received against the sources of funds, amounts banked and supporting receipts.	Not implemented. Similar instances noted in the current year. Refer to finding No. 1	Commented under Finding no. 1	Finding not closed.
2.	Improvements to procedures for bank reconciliations	a) GSS considers revising the Fiduciary Procedures Manual to provide for monthly preparation of bank reconciliations rather than weekly b) That bank reconciliation statements be prepared, checked and approved as per the requirements of the PFM Act. Evidence of review and approval should be demonstrated on the face of the bank reconciliations. This includes stating the date and designations of reviewers and approvers. c) GSS should include confirmations of bank accounts details as part of year-end procedures in compliance with the procedure's manuals.	Not implemented. Similar instances noted in the current year. Refer to finding No. 2	Commented under Finding no. 2	Finding not closed.

No.	Finding Title	Recommendation	Status	Comments from GSS	Conclusion
3.	Weakness in remittance of receipts from FGS	The variance identified should be reconciled and corrections made as necessary. The financial statements should be drawn from the underlying accounting records. Receipts should be reconciled to funds actually received and all funds should be remitted through funds transfers and cash collected promptly banked intact.	Implemented.	Not Applicable.	Finding not closed.
4.	Weaknesses in revenue collection controls	Measures should be put in place to enhance the segregation of duties in the revenue collections. The gaps in revenue collection should be reviewed and controls strengthened by including the following procedures: a) Tax collectors should use the system generated reference number and include it in the specific batch of receipts amounting to the total amount banked for the day. In addition, the serialized receipt vouchers for collecting revenues, these receipt books should be issued following a sequence to improve accountability. b) The tax collected should be promptly banked intact c) An officer not involved in revenue collection should perform reconciliations of revenues collected with the amounts banked on a regular basis such as daily or weekly. These reconciliations should be reviewed by senior officers. d) Recording of revenues into FMIS should be referenced using the same references as appears on the serialized receipt books.	Not implemented. Similar instances noted in the current year. Refer to finding No. 1	The revenue collection process will be reviewed with a recent audit carried out by the Internal Audit Unit. Commented under finding no. 1	
5.	Inadequately supported payments	a) We recommend that the management ensures the financial management systems in place are adhered to so that proper accounting records are prepared and maintained to support all costs incurred in the implementation of the program. b) GSS should formulate a schedule of documentation expected to be obtained for various categories of transactions.	Not implemented. Similar instances noted in the current year. Refer to finding No. 4	Commented under finding no. 4	Finding not closed.

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No.	Finding Title	Recommendation	Status	Comments from GSS	Conclusion
		c) Original documents and other evidence supporting all transactions should be maintained for future review. d) We recommend that the suppliers should have the quantity and unit prices that can be checked for reasonableness.			
6.	Excessive use of Cash payments	GSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. The banking system and mobile cash transfer payments which are available in Somalia should be used to pay beneficiaries. Cash payment should be kept at a minimum or only used in exceptional circumstances.	Not implemented. Similar instances noted in the current year. Refer to finding No. 5	Commented under finding no. 5	Finding not closed.
7.	Weakness in the procurement process	In order to ensure value for money is achieved when awarding contracts, GSS should ensure that competitive process is applied when procuring goods and services and retain supporting documents to demonstrate those procedures and the procurement decisions made.	Not implemented. Similar instances noted in the current year. Refer to finding No. 6	Commented under finding no. 6	Finding not closed.
8.	Late Submission of the Annual Financial Statements for Audit	The Minister of Finance should put in place mechanisms to ensure the preparation of the financial statements is concluded within the timeframe of the applicable legislation.	Implemented.		Closed.
9.	Weakness in asset management	Ensure that the costs of assets are recorded on the Financial Statements as per the fixed assets register in the year of acquisition. It is necessary to undertake a reconciliation of the fixed assets register with the Financial Statements.	Not implemented.	Commented under finding no. 7	Finding not closed.

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No.	Finding Title	Recommendation	Status	Comments from GSS	Conclusion
		Ensure that the asset register is updated with all key information such as the value of the asset to ensure effective control and tracking of assets.	Similar instances noted in the current year. Refer to finding No. 7		
10.	Weakness in personnel management	GSS Civil Service Commission in conjunction with MoFED should endeavour to ensure that complete personnel records are kept for the permanent staff members and that these are updated regularly.	Not implemented. Similar instances noted in the current year. Refer to finding No. 13	Commented under finding no. 13	Finding not closed.
11.	Use of unapproved manuals, policies and procedures and regulations	The State through the Ministry of Finance should ensure compliance with the provisions of the PFM Act of 2017 to have all regulations and standard operating procedures approved.	Implemented.	Not required	Closed
12.	Other control weaknesses: (a) CPOs not authorized (b) CPOs lacking expense description (c) Support documents not invalidated "PAID" or "POSTED"	We recommend that the payment processing guidelines be adhered to before any amounts are paid out to the suppliers of goods and services.	Not implemented. Similar instances noted in the current year. Refer to finding No. 14	Commented under finding no. 14	Finding not closed.