

Office of the Auditor General



Galmudug State of Somalia Annual Audit Report for the Financial Year 2019

Presented to Parliament on 5th October
2021

Transmittal letter



5th October 2021

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 my report on the accounts of Galmudug State of Somalia for the financial year ended 31st December 2019 for tabling in the State Parliament.

Yours Faithfully,



Hashi Osman Mohamed
Auditor General Office
Galmudug State of Somalia.

Table of Contents

1. Acronyms	3
2. Statement of the Auditor General	4
3. Executive Summary	5
3.1 The Role of OAG	5
3.2 Opinion of The Auditor General.....	5
3.3 Summary of Audit Findings	6
3.4 Conclusion	9
4. Introduction	10
4.1 Our Mandate and Independence.....	10
4.2 Progress So Far	10
4.3 Challenges	10
4.4 Appreciation	11
5. Detailed Findings – FY 2019 Audit	12
5.1 Cash and Bank	12
Accounts opened and maintained outside of the TSA.....	12
5.2 Revenue	12
5.3 Fraud	14
5.4 Payments.....	14
5.5 Procurement	15
5.6 Non-current assets	15
5.7 Recruitment	16
5.8 Budget	16
5.9 Internal Audit.....	16
6.0 Follow Up of FY 2018 Audit Recommendations.....	16
Annex 1 – Galmudug State of Somalia (GSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2019 and the accompanying auditor’s report.....	18
Annex 2 – Final Management Letter. Independent Auditor’s Report on The Audit of Galmudug State of Somalia (GSS) For the Year Ended 31 December 2019.....	19

1. Acronyms

Acronym	Full Description
CPO	Commitment Payment Order
CSC	Civil Service Commission
DG	Director General
FMIS	Financial Management Information System
FY	Financial Year
GSS	Galmudug State of Somalia
ID	Identity
ICT	Information and Communications Technology
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
MOF	Ministry of Finance
NGO	Non-governmental Organisation
OAG	Office of the Auditor General
PFM	Public Financial Management
PREMIS	Public Resource Management in Somalia
RMS	Revenue Management System
SAI	Supreme Audit Institution
TSA	Treasury Single Account
TD	Treasury Director
UNDP	United Nations Development Program
USD	United States Dollar

2. Statement of the Auditor General

We have over the years conducted financial and compliance audits on GSS public accounts. We have identified areas that need improvement and have taken great care to make practical recommendations based on our audit findings. Recommendations are a critical part of our audit reports. Their implementation is important to drive positive improvements in the cost-effective delivery of programmes and services for the people of Galmudug State of Somalia.

Identifying issues and providing recommendations is only the first step. The real work begins when those responsible, take action to put our recommendations into practice. It is for this reason that a key part of our work is to follow up on recommendations made in past audit, in order to assess the progress made on our previously recommended actions.

The OAG remains firmly committed to making positive contributions in overcoming the obstacles to prudent financial management and control. We will continue to make ourselves available and provide proactive insights into the root causes of weak internal control environments.

The engagements will include timely feedback on, and inputs into the adequacy of the assurance provided by all stakeholders.

We would also want to acknowledge development partners, especially the PREMIS team, who have continued to show interest in the solidification of the operational competence within the Somali FMS' OAGs.

My sincere thanks and appreciation go to all GSS -OAG staff for the continued devotion to their duties and responsibilities against all odds.

3. Executive Summary

This executive summary provides an overview of the main findings contained in this report.

3.1 The Role of OAG

Being the Supreme Audit Institution (SAI) of Galmudug State of Somalia (GSS), our constitutional mandate is to ensure that public funds are utilised lawfully and effectively towards service delivery. That is to say, we are the independent guardian institution of Galmudug State's public purse and economic security as mentioned in article 67 of Galmudug Constitution and section 7 of Audit Act 2018.

We audit and report on the stewardship provided by the Government over monies received, whether from taxpayers, donors or others, and related expenditure from these funds in a professional, ethical and transparent manner. Also, we substantiate to a reasonable level of assurance that public monies are used by the Government, in the manner proposed by Parliament, through independent professional audits. We assess how and whether these funds are being clearly and accurately reported by the Government and how they are used in terms of economy, efficiency and effectiveness. We publish the audit report in the Official Gazette and make it available to Parliament in the first instance, and to the citizenry of Galmudug State and other stakeholders within one month of the completion of audit report as required by section 32(3 and 4) of the PFM Act 2017.

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.

3.2 Opinion of The Auditor General

I have audited the consolidated financial statements of Galmudug State of Somalia for the year ended 31 December 2019. These Financial Statements comprise the Statement of Receipts and Payments, Statement of Comparison of Budget and Actual Amounts, and notes to the financial statements including a summary of significant accounting policies and other explanatory information. This year, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements. The full opinion can be found at Annex 1 page 1

The main reasons for the disclaimer of opinion are:

- (a) Payments of USD 928,610 (29% of total payments) lacked any supporting documents at all. In addition, payments totalling USD 730,145 (23% of total payments) were inadequately supported.

Without such supporting evidence it is not possible to confirm that these payments have been disclosed correctly in the financial statements.

- (b) Further payments of USD 445,911 (14% of total payments) were supported with documentary evidence. However, these were misclassified in the financial statements. These misclassified payments include; an amount totalling USD 428,000 stolen by the former Treasury Director and politicians. These payments have been incorrectly disclosed as non-financial asset expense (residential buildings) in note 14 to the financial statements.
- (c) My audit identified 25 bank accounts opened and operated outside of the Treasury Single Account (TSA). I was unable to obtain evidence of the balances as at 31st December 2019 or the transactions that took place through FY 2019. Neither the end of year balances of these accounts or the transactions through the year are currently disclosed in the draft financial statements.

3.3 Summary of Audit Findings

Cash and bank

A Bank Account Procedure Manual is in place. However, it is not followed and there is a risk that state ministries have opened bank accounts without the prior written authorization from the Ministry of Finance and operated these accounts outside of the TSA. All bank accounts outside of the TSA should be maintained under the TSA to reduce the risk of fraud and help ensure that the state maintains satisfactory cash flow. Although donors sometimes insist on separate project bank accounts, it is critical for financial reporting and control purposes that the balance on these accounts, and any transactions through them, are included in the FMIS. The bank register also needs to be fully completed so that it includes all bank accounts of the state. It is possible to change bank account details, such as authorised signatures. However, the state should ensure that if signatories are changed, the appropriate form is completed, sent to the Minister for approval and that the bank register and the FMIS are updated accordingly.

Revenue

Although the revenue performance of the state has improved, there are still issues in relation to documenting and reconciling revenue transactions. To further enhance revenue management, effective segregation of duties in the Revenue Department should be implemented when it comes to recording the revenue transactions in RMS and FMIS, banking cash received and reconciling the amount collected. Currently, GSS receives funds from many donors and some of them are not disclosed in the financial statements. Many NGOs operate in GSS but are not registered with the Ministry of Planning; only one NGO paid registration fees during FY 2019.

Payments

When making payments, no matter how small or large they are, it is important to follow the appropriate process as set down in the relevant laws and regulations. During the audit we identified that an amount of USD120,000 was stolen by the former Treasury Director. In addition, other payments made, apparently to politicians, cannot be supported and it is likely this money has also been stolen. It is critical that GSS try to recover these monies, fully disclose these incidents in a clear and transparent way in the FY 2019 financial statements, and improve control systems so that similar incidents cannot reoccur in the future. There continues to be an over reliance on cash payments despite regulations stating that bank transfers should be used. This represents a significantly higher risk of fraud than similar payments made electronically. The State should impose upper limits for the use of cash payments and the payment should be made through supplier's bank accounts. When making payments, it is very important to retain evidence i.e. supporting documents such as: invoices, bank transfer advices, delivery notes, and contracts. Unfortunately, many of the state payments continue to be made without such (or any) supporting documentation. GSS should retain supporting documents for all financial transactions and no payments should be made without proper review of evidence to support the amount and nature of the underlying transaction.

Procurement

Over recent audits there has been no significant improvement in the state procurement process. Specifically:

- procurement guidelines are not followed;
- there is no annual procurement plan;
- original documents are not retained; and
- there is no procurement committee.

GSS should follow the procurement guidelines in order to avoid non-compliance with the PFM Act 2017 and reduce the significant risks of fraud and theft while ensuring maximum value for money is achieved with limited state resources.

Assets

It's extremely important to maintain the assets of the state and follow the asset policy and procedures. However, most state assets are not recorded on the asset management system; and, as a result of this incomplete record, it is not possible to conduct a regular physical verification exercise. Without such basic controls around management of state assets, there is a critical risk that state assets are misused or misappropriated.

Recruitment

During our review we identified one recruitment committee where some recommendations were made by a senior OAG officer and his signature provided. Unfortunately, this officer did not participate in this recruitment process and it would seem that his signature has been forged. A full investigation should be conducted and corrective action taken.

Budget

The budget is the backbone for all state activities. The budget preparation cycle should consist of two phases; the first is the preparation of budget framework and the second is the preparation of the detailed annual budget. For FY 2019, MOF did not prepare a budget framework paper. We recommend that GSS should prepare all budget documents and adhere to the budget procedures as per the PFM Act 2017 in the future.

Internal audit

Although internal audit reports are produced and submitted to senior management, there is no process to follow up whether recommendations have been implemented or not. Management should regularly follow up internal audit reports to ensure recommendations are implemented as intended.

Follow up of Prior year Audit Recommendations

During the audit we followed up all audit recommendations made in previous years. A summary of the current status of these recommendations is shown in the table below:

Status	Number of Recommendations
Implemented	1
Partly Implemented	1
Not Implemented	11
TOTAL	13

As in previous years, progress in implementing audit recommendations has been minimal. It is important that this improves going forward. To this end, MOF should implement a formal mechanism for taking appropriate corrective actions.

3.4 Conclusion

Controls in place at GSS have not improved considerably over recent years. The major areas of concern remain bank accounts operated outside of the TSA, misuse of funds, large cash payments and an incomplete asset register. In many of these areas the state has a clear and detailed legal framework; however, often these legal requirements are simply not followed. There is a need to regularly monitor compliance with these basic control procedures with consequences for repeated breaches. Since the non-disclosed bank accounts are not included in the financial statements (with the FY 2019 receipt and payment transactions through the accounts), full disclosure is not made about the amounts misused, payments are misclassified, and grants from UNDP are not fully disclosed, there remains significant doubts over the disclosures made in the draft financial statements. It is necessary that OAG issued a disclaimer audit opinion.

4. Introduction

Citizens' confidence in public institutions can be restored through the use of scarce resources in ways that maximise value-for-money and delivering of quality results. To effectively fulfil this role, citizens also need reliable evidence on which policy instruments and programmes work, and which do not. The OAG as a public sector external auditor, performs an important function in supporting the roles of those charged with governance in public sector organisations and other stakeholders in respect of oversight, insight and foresight.

4.1 Our Mandate and Independence

Section 28(1) of the Audit Act 2018 outlines the responsibility of the OAG to audit the accounts of all public bodies of GSS. 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 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 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). Section 67 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. In addition, Section 7(1) of the 2018 Audit Act of Galmudug State of Somalia deals exclusively with the independence of the Auditor-General in the discharge of his responsibilities.

4.2 Progress So Far

Prior to this audit, OAG staff did not yet have the requisite experience to conduct a full financial statement without support. Baker Tilly, a private sector audit firm, had taken the lead and conducted the financial year audit over the last three years. OAG staff gradually took on more responsibilities during these audits and gained experience and knowledge in the audit field. It is with pride that GSS-OAG conducted and completed 2019 audit without the need for private sector audit support.

4.3 Challenges

The strategic plan of OAG has as one of its major objectives under professional competency, the requirement for trained and highly qualified audit staff. To meet this requirement, appropriate resources should be provided to meet the operational and training needs in specialised audit areas. The outbreak of COVID-19 has had a negative impact on all activities across the country. It has created a situation engulfed with a mix of several consequences such as; the lockdowns, social-distancing, closure of borders, disruptive changes to private businesses and fear which have affected households and economic activities. The COVID-19 pandemic has not only negatively impacted businesses, but has also considerably impeded the work of the OAG. In this 2020 financial year, a considerable number of our planned audit workshops and activities were delayed.

We believe that identifying issues and providing recommendations is only the first step. The real work begins when those responsible, take action to put our recommendations into practice. It is for this reason that a key part of our work is to follow up on recommendations made in past audits, in order to assess the progress made on our previously recommended actions. It is then for the Parliament, and other stakeholders, to help ensure that government is taking sufficient action to address audit issues identified.

4.4 Appreciation

The OAG takes this opportunity to acknowledge the dedication of our employees who, through their contributions, have enabled the OAG to continue maintaining its professionalism.

Finally, a note of gratitude goes to the Parliament, Ministry of Finance and Civil Service Commission, who in one way or the other have contributed to the work of the OAG. It is with considerable pride that we present the Auditor-General's Annual Report 2019.

5. Detailed Findings – FY 2019 Audit

Further detail on all findings can be found at Annex 2 of this report.

5.1 Cash and Bank Accounts opened and maintained outside of the TSA.

During fiscal year of 2019, various ministries opened bank accounts (25 accounts identified) without the prior written authorization from the Ministry of Finance and operated these accounts outside of the TSA.

While we identified that these accounts existed, we were unable to obtain evidence of the balances as at 31st December 2019 or the transactions that took place through Financial Year (FY) 2019. Neither the end of year balances or the transactions through the year are currently disclosed in the draft financial statements. Cash held in non-TSA bank accounts may be misappropriated, stolen or misused for personal purposes.

Management of the state should ensure that all bank accounts which are currently outside of the TSA are closed in a timely manner if they consider them not necessary. If these accounts are required (e.g., as a condition from donors) they should be maintained under the TSA, and subject to normal state controls.

Unauthorized changes of bank account signatories

We noted that bank account signatories were changed without filling the change of signatory form. The FMIS and the bank register were also not updated with changes made.

If the state needs any changes to signatories of GSS bank accounts, the change of signatory form must be completed and forwarded to the Minister for finance for approval. The FMIS and bank register should also be updated accordingly.

Incomplete bank register

In December each year, the Cash Management Unit of Ministry of Finance should conduct a review of the bank register and all government bank accounts to confirm bank names and account numbers of all bank accounts registered in the name of the GSS as indicated in 8.1 of instruction I of the Bank Account Procedure Manual. However, this annual review was not carried out.

The bank register should be fully updated and should record all bank accounts of the state.

5.2 Revenue

During the review of revenue receipts, we noted the following weakness:

- We noted some variances between amounts recorded on the receipts issued to tax payers, amounts recorded in the cash book, and the amounts banked. Also, GSS does not reconcile the revenue as recorded in the receipts, cash book and amounts banked as well as between the Revenue Management System (RMS) and Financial Management Information System (FMIS). As a result, the variances, such as those identified during the audit, go unidentified and uncorrected. ***All state revenue should be fully reconciled on a regular basis. Any variances between amounts in***

receipt books, cashbooks and recorded in the bank should be fully investigated and corrective action taken.

- For two regular revenue streams, no collections were recorded for some months of the year. No Turnover Tax was collected for the months of April, November and December 2019. No Passenger Fees were recorded between August and December 2019. It is possible that these were still being collected but monies were not deposited into the TSA or recorded in Bison. ***GSS should collect all available sources of revenue throughout the year.***
- We identified that the reference numbers of physical receipts are different from the reference number of the receipts generated from the RMS. As a result, it is difficult to match the two receipts. ***GSS should properly use the RMS receipts for revenue collection to track the reference numbers more easily.***
- Of the 11 revenue sources outlined in the Revenue Act 2018, only 3 were utilized during the financial year of 2019. The other 8 sources of revenue are not currently being collected. These include payroll tax, personnel tax, electricity generation tax and vehicle registration fees. ***GSS should utilize all available sources of revenue to expand their tax base and help ensure services can be delivered to citizens.***
- Revenue of USD 12,690 banked could not be traced to supporting receipts. ***The original receipts and supporting documents must be retained and filed in hard copy for the purpose of audit and management control.***
- We noted that tax receipts have spaces to be signed by officer preparing and a space for officer verifying the receipts; in some instances, we noted that the preparer and the verifier are the same officer. ***There should be proper segregation of duties in the revenue collections.***
- UNDP confirmed the amounts of money provided to GSS during FY 2019. However, the confirmation shows that UNDP provided a grant of USD 30,000 which has not been disclosed in the financial statements. ***In future, all grant receipts should be records in the FMIS and fully disclosed in the annual financial statements.***
- NGOs operating in GSS should be registered with the Ministry of Planning. However, only one NGO registered and paid the registration fees for FY 2019. ***All NGOs operating in GSS should register and obtain certification of NGOs registration issued by Ministry of Planning. All monies received should be banked in the TSA and recorded in the FMIS/financial statements.***

5.3 Fraud

A sum of USD 550,000 that was misappropriated during FY 2019. This total is made up two, separate, incidents.

Fraud by the former Treasury Director

USD 120,000 was stolen by the former Treasury Director. The amount was transferred from the TSA in Salaam bank to an individual account without any approval as shown by records examined at the Treasury Department. This was reported by management to the security officers and as reported, the Treasury Director (at the time) deserted his duties and fled the country. Management, despite reporting the fraud and informing the OAG during the opening meeting and throughout the audit, chose to report the misappropriated amounts as a non-financial asset expense (residential buildings) in the financial statements. This is a clear misrepresentation of the facts; the amounts should be disclosed as stolen so as to not to mislead the users of the financial statements. It was established that the fraud was executed through forgery of signatures, complete override of existing controls and the lack of management involvement in the approval of cheques. There is also currently no provision for different thresholds that should be approved by different levels of authorities. i.e. larger amounts should be approved by the DG.

Fraud by Politicians

USD 308,000 has been reported as non-financial asset expenses in the draft financial statements. It was established that the amounts were recorded through a journal in the FMIS and in the description, it was indicated that the amounts were paid to politicians as salaries and allowances. No evidence was provided to support the expense as either a non-financial asset or a payment to politicians. It is likely that a fraudulent transaction(s) has taken place. A further USD 122,000 was reported as payments to politicians in the draft financial statements. Through review of the bank statements, it was established that the amounts were distributed to four individuals. No evidence was availed to support that the amounts were actually paid to politicians as salaries or allowances. It also appears that the fraud was perpetuated through a change of the bank signatories by the Minister of Finance without following due process.

GSS should recover the money into the TSA and key duties and responsibilities associated with the payment process should be segregated among different staff and departments. This should include limiting the responsibilities of treasury staff for authorizing, processing and recording payments.

5.4 Payments

During our review of payments made, we noted the issues shown below:

- During our examination of payments made, we noted that payments totalling USD 1,472,624, (46% of total expenditure) were paid in cash as transfers to the local government, remuneration to politicians, security forces and regular food provision for security. ***Management of the State should impose upper limits for the use of cash payment and then pay directly into supplier/staff bank accounts wherever possible.***

- We noted payments totalled USD 730,145 (23% of total expenditure) were inadequately supported. In addition, payments of USD 928,610 (29%) lacked any supporting documents at all. ***GSS should adhere to the financial controls in place in order that proper financial records are prepared and maintained to support all the payments incurred. No payments should be actioned without full supporting documents being provided.***
- We noted that expenses amounting to USD 445,911 (14% of total expenditure) were misclassified and recorded in incorrect accounts. ***We recommend that GSS should properly record and classify payments to the appropriate accounts in future.***
- From our testing of a sample of payments made, we noted that the Treasury Department are completing the fund allocation process, without the involvement of the Budget Department, as well as actioning the actual payments. ***GSS should ensure that a fund allocation form is processed correctly by the Budget Department before any payments are actioned.***

5.5 Procurement

Under the review of procurement, we noted the following weakness;

- Instances where the Procurement Manual is not applied. These instances included procurements for regular food provision and office equipment for the External Assistance Fiduciary Section (EAFS). ***We recommend that GSS ensure that all goods, works, consultant and non-consultant services be procured using the procurement methods stipulated in the Procurement Manual.***
- We identified that GSS had not prepared an annual procurement plan. ***GSS should prepare an Annual Procurement Plan for all goods, works, consultant and non-consultant services needed to implement the required projects.***
- During the review, we noted that procurement documents that the state provided for audit were not original versions; all were photocopies. ***GSS should file and retain all original procurement documents and supporting documents for management control and audit purposes.***

5.6 Non-current assets

We found the following deficiencies in the management of state assets:

- The asset management system only includes computers provided by the PREMIS project. The system did not have records of any other assets owned by the state. ***We recommend that all state assets are recorded in the asset Management system as per the PFM Act 2017.***
- Physical inventory count is not performed across all entities at minimum, annually. ***We recommend that GSS should perform a physical verification of all assets held, across all entities, at minimum, on an annual basis.***
- Assets are not tagged. ***All GSS assets should be appropriately tagged and given a unique identifying number.***

- During discussions with MOF management, it was reported that some civil servants who have since moved jobs are yet to return their state laptops. Given that the asset register is not complete it is not possible to quantify this loss. ***We recommend that all state entities should ensure that employees who leave the job for any reason or are transferred to another position should return all state assets.***

5.7 Recruitment

In our review of CSC files, we identified the following issues:

- During our audit we noted that about 345 teachers, funded by international NGOs, were not competitively recruited under procedures as set down in the section 22 of the CSC Act 2017. ***We recommend that employees in donor funded positions should be recruited through the standard CSC recruitment process.***
- We identified one instance where a fake signature was used to record the results of an interview panel. This instance related to an OAG recruitment and the signature forged was that of a senior OAG officer. ***The CSC should investigate this incident and all participants in interview panels should be invited to provide original signatures.***

5.8 Budget

It is important that the preparation of the annual budget follows an orderly process with participation by all those who are affected. During our review, we noted that MOF did not prepare a budget framework paper for the FY 2019 budget. ***We recommend that GSS should prepare all budget documents and adhere to the budget procedures as per the PFM Act 2017 in the future.***

We noted instances where some line ministries did not submit expenditure estimates and project proposals to the Budget Department at MOF. ***All line ministries should submit their expenditure plan and proposals to the Budget Department within the agreed timelines.***

5.9 Internal Audit

Internal audit reports are produced and submitted to senior management. However, there is no process to follow up whether recommendations have been implemented or not. ***Management should regularly follow up internal audit reports to ensure recommendations are implemented as intended.***

We noted that internal audit did not consider the fraud case which happened in FY 2019. ***We recommend that GSS Internal auditors should review any fraud cases that take place. Any report should then make immediate recommendations to correct any underlying weaknesses in the internal control system.***

6.0 Follow Up of FY 2018 Audit Recommendations

During the audit, we followed up all audit recommendations made in previous years and noted that out of 13 recommendations provided by OAG only one recommendation was implemented. ***A formal system***

should be put in place to ensure that there is a proper plan to ensure that these recommendations are implemented as planned and that progress is monitored by Senior Management at MOF.

Annex 1 – Galmudug State of Somalia (GSS) Audited
Consolidated Financial Statements for the Period Ended 31 December
2019 and the accompanying auditor's report

REF/GSS/AG/271/2021

Audit of Galmudug State of Somalia Performed by The Auditor General

Final Audit Report

Farhan Ali Mohamud
Ministry of Finance,
Galmudug State of Somalia,
Dhusamareb-Somalia.

Date: February, 11th 2021.

Dear Sir,

Disclaimer of Opinion

I have audited the consolidated financial statements of Galmudug State of Somalia for the year ended 31 December-2019. These Financial Statements comprise the Statement of Receipts and Payments, Statement of Comparison of Budget and Actual Amounts, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Basis for Disclaimer of Opinion

- (a) Payments of USD 928,610 (29% of total payments) lacked any supporting documents at all. In addition, payments totaling USD 730,145 (23% of total payments) were inadequately supported. Without such supporting evidence it is not possible to confirm that these payments have been disclosed correctly in the financial statements.
- (b) Further payments of USD 445,911 (14% of total payments) were supported with documentary evidence. However, these were misclassified in the financial statements. These misclassified payments include; an amount totaling USD 428,000 stolen by the former Treasury Director and politicians These

payments have been incorrectly disclosed in the financial statements as non-financial asset expense (residential buildings) in note 14 to the financial statements.

- (c) My audit identified that 25 bank accounts opened and operated outside of the Treasury Single Account (TSA). I was unable to obtain evidence of the balances as at 31st December 2019 or the transactions that took place through FY 2019. Neither the end of year balances of these accounts or the transactions through the year are currently disclosed in the draft financial statements.

I consider the impact of the above items to be material and pervasive to the overall Financial Statements.

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my Annual Report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in at section 7(1 and 5) of the Audit Act 2018, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I draw the attention to Note 14 in the financial statements, which describes non-financial assets especially residential buildings. Misappropriated amounts as a non-financial asset expense (residential buildings) in the draft financial statements. My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

(a) Weakness in Revenue Collection Controls

The revenue controls that the GSS employed are not sufficient to detect revenue leakage and misappropriation of the financial statement because of;

- Instances where monthly collections for turnover and passenger fees were not collected.
- Different receipt numbers between manual receipts and system registration.
- Lack of utilization of all potential sources of GSS revenue.
- Revenue of USD 12,690 banked could not be traced to supporting receipts.
- Under registration of NGOs.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (IPSAS)-Financial Reporting Under the Cash Basis of Accounting and legislation, and for such internal control as management determines is 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, management is responsible for assessing the Entity'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 management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible of overseeing the entity's financial reporting process.

For Ministry of Finance	
Name:	Farahana Mohamoud
Title:	Minister
Date:	24/02/2021
Signature:	

Auditor's Responsibility for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards for Supreme Audit Institutions, 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 the AFROSAI-E Financial Audit Manual, which is consistent with the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit. I 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 my 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 controls.

- 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 management.
- Conclude on the appropriateness of management's 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 Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity 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.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Office of the Auditor General	
Name:	Hasbi Osman Mohamed
Title:	Auditor General
Date:	25/02/2021
Signature:	





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

For the Year Ended 31 December 2019

*Prepared in accordance with the International
Public Sector Accounting Standard (IPSAS) -
Financial Reporting Under the Cash Basis of
Accounting (2017)*

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

Statement of Certification - 2019 Financial Statements

The 2019 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 (2017).

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 are materially accurate and provide a true and fair view of the GSS's financial position for the year ended 31 December 2019.

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 following text: 'JAMHUURIYADDA FEDERAALKA SOMALIYA' at the top, 'DOWLAD GOSOLEEDKA GALMUDUG' in the middle, 'WASARADDA MAALIYADDA' below that, and 'MINISTRY OF FINANCE GALMUDUG STATE FEDERAL REPUBLIC OF SOMALIA' at the bottom. In the center of the stamp is a small emblem featuring a shield with a cross and a star.

26/04/2020

Minister for Finance & Economic Development

Date:

Galmudug State of Somalia
Consolidated Fund Statement of Receipts and Payments
Treasury Single Accounts
For the Year Ended 31 December 2019

		2019	2018
		Controlled By TSA USD	Controlled By TSA USD
	Notes		
Receipts / Inflows			
Taxes			
Taxes on goods and services	2	1,225,473	630,166
Taxes		1,225,473	630,166
Grants			
From international organizations	3	1,240,605	355,964
From other general government units	4	868,370	962,500
Grants		2,108,975	1,318,464
Other Revenue			
Property income			
Sale of goods and services	5	12,190	-
Other Revenue		12,190	-
Receipts / Inflows		3,346,638	1,948,629
Payments / Outflows			
Compensation of Employees			
Wages and Salaries	6	2,496,425	1,610,508
Compensation of Employees		2,496,425	1,610,508
Use of Goods and Services			
Travel & Conferences	7	29,340	15,420
Operating Expenses	8	57,520	130,620
Rent	9	37,665	12,800
Other Operating Expenses	10	42,093	42,445
Conflict Resolution Expenses	11	5,000	33,010
Use of Goods and Services		171,618	234,295
Grants			
Grants To Other General Government Units	12	49,385	247,257
Grants		49,385	247,257
Other Expenses			
Transfers not elsewhere classified	13	-	13,939
Other Expenses		-	13,939
Nonfinancial assets			
Fixed Assets	14	499,763	30,800
Nonfinancial assets		499,763	30,800
Payments / Outflows		3,217,191	2,136,799
Increase Decrease in Cash		129,447	(188,170)
Cash at Beginning of Year		20,197	208,366
Cash at End of Year	1.4	149,644	20,197

Galmudug State of Somalia

Consolidated Fund Statement of comparison of Budget and Actual Amounts For the Year Ended 31 December 2019 Appropriation Budget on Cash Basis (Classification of Payments By Economic Class)

		2019				2018
		Original Estimate Appropriation A USD	Final Estimate Appropriation B USD	Controlled By TSA C USD	Difference Between Final Budget & Actual C-B USD	Controlled By TSA USD
Notes						
Receipts / Inflows						
Taxes						
	Taxes on goods and services	1,922,775	1,922,775	1,225,473	(697,302)	630,166
	Taxes on international trade and transactions	118,000	118,000		(118,000)	
15	Taxes	2,040,775	2,040,775	1,225,473	(815,302)	630,166
Grants						
	From international organizations	2,338,402	2,338,402	1,240,605	(1,099,853)	355,964
	From other general government units	3,305,170	3,305,170	868,370	(2,436,800)	962,500
16	Grants	5,643,572	5,643,572	2,108,975	(3,536,653)	1,318,464
Other Revenue						
	Property income					
	Sale of goods and services	-	-	12,190	12,190	-
17	Other Revenue	-	-	12,190	12,190	-
	Receipts / Inflows	7,684,347	7,684,347	3,346,638	(4,339,765)	1,948,629
Payments / Outflows						
Compensation of Employees						
	Wages and Salaries	5,172,824	5,172,824	2,496,425	(2,676,399)	1,610,508
18	Compensation of Employees	5,172,824	5,172,824	2,496,425	(2,676,399)	1,610,508

Galmudug State of Somalia

Consolidated Fund Statement of comparison of Budget and Actual Amounts

For the Year Ended 31 December 2019

Appropriation Budget on Cash Basis

(Classification of Payments By Economic Class)

		2019			2018	
		Original Estimate Appropriation A USD	Final Estimate Appropriation B USD	Controlled By TSA C USD	Difference Between Final Budget & Actual C-B USD	Controlled By TSA USD
Notes						
	Other Operating Expenses	383,026	383,026	42,093	(340,934)	42,445
	Conflict Resolution Expenses	31,000	31,000	5,000	(26,000)	33,010
	RCRF Non Salary Recurrent Cost	70,000	70,000	-	(70,000)	-
	Contingency	232,931	232,931	-	(232,931)	-
	Use of Goods and Services	1,106,421	1,106,421	171,618	(934,803)	234,295
	Grants					
	Grants To Other General Government Units	263,000	263,000	49,385	(213,615)	247,257
	Grants	263,000	263,000	49,385	(213,615)	247,257
	Social Benefits					
	Employer social benefits	10,000	10,000	-	(10,000)	-
	Social Benefits	10,000	10,000	-	(10,000)	-
	Other Expenses					
	Transfers not elsewhere classified	-	-	-	-	13,939
	Other Expenses	-	-	-	-	13,939
	Nonfinancial assets					
	Fixed Assets	1,132,102	1,132,102	499,763	(632,339)	30,800
	Nonfinancial assets	1,132,102	1,132,102	499,763	(632,339)	30,800
	Payments / Outflows	7,684,347	7,684,347	3,217,191	(4,467,156)	2,136,799

Galmudug State of Somalia**GFS Statement of Operation****Treasury Single Accounts****For the Year Ended 31 December 2019**

	2019	2018
	USD	USD
Transactions Affecting Net Worth		
Revenue	3,346,638	1,948,629
Taxes	1,225,473	630,166
Taxes on goods and services	1,225,473	630,166
Grants	2,108,975	1,318,464
From international organizations	1,240,605	355,964
From other general government units	868,370	962,500
Other Revenue	12,190	-
Sale of goods and services	12,190	-
Expense	2,717,428	2,105,999
Compensation of Employees	2,496,425	1,610,508
Wages and Salaries	2,496,425	1,610,508
Use of Goods and Services	171,618	234,295
Travel & Conferences	29,340	15,420
Operating Expenses	57,520	130,620
Rent	37,665	12,800
Other Operating Expenses	42,093	42,445
Conflict Resolution Expenses	5,000	33,010
Grants	49,385	247,257
Grants To Other General Government Units	49,385	247,257
Other Expenses	-	13,939
Transfers not elsewhere classified	-	13,939
Gross Operating Balance	629,210	(157,370)
Transactions in Non Financial Assets		
Change In Net Worth. Transactions (Assets)	499,763	30,800
Nonfinancial assets	499,763	30,800
Fixed Assets	499,763	30,800
Transactions in Financial Assets & Liabilities		
Change In Net Worth. Transactions (Assets)	129,447	(188,170)
Financial assets	129,447	(188,170)
Domestic	129,447	(188,170)
Liabilities	-	-
Liabilities	-	-
Net Worth Equity	-	-
Net Worth Equity	-	-
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) and covers the period 1 January – 31 December 2019. The financial statements encompass the reporting entities as specified in the *GSS Appropriation Act No. 1 of 2019* 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 Auditor 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 2019*.

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 Balances of Bank accounts

Currently, there are four bank accounts controlled by MoF. Treasury Single Account (TSA), Ministry of Education (MoE) Account, Central Bank of Somalia and the RCRFII Project Account. MoE and RCRFII Project Accounts were opened under a written authorization of the Minister of Finance & Economic Development, as a sub-account of the TSA. The project account was established 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. Central bank balance that has no financial transactions since 2016 and has a balance of \$1,978. The table below shows the account balances as at the 31 December 2019.

	2019	2018
	USD	USD
Treasury Single Account	3,797	2,118
WB-RCRFII Project Account	136,704	18,079
Ministry of Education Account	9,143	-
Total	149,644	20,197

1.4 Cash & Cash Equivalents

Cash and Cash Equivalents means notes and coins 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:

	2019	2018
	USD	USD
Cash on Hand and Balances with banks	149,644	20,197
Total	149,644	20,197

1.5 Borrowings

In 2015, there was a borrowing from local businesses which is interest free loans totalling \$1,493,137. These borrowings are held off-balance sheet. 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. No payments had been paid during this financial year due to the lack of availability of funds.

	2019	2018
	USD	USD
Opening Balance	1,072,578	1,086,433
Repayments	-	- 13,855
Closing Balance	1,072,578	1,072,578

1.6 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. 2019 and 2018 Cash on Hand and bank balance is \$136,704 and \$18,079 USD respectively. 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 the 20th 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 2019, GSS had received funds from the RCRFII Project totalling \$1,054,481 against a budget of 1,786,901. The variance resulted from a number of Civil Servants not being recruited as original planned and not being able to access the non-salary recurrent cost component of the RCRFII project funds

1.7 Reporting Amounts

The reporting amounts are in USD\$, with rounding to the nearest dollar.

1.8 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 22nd December 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 as permitted under the Appropriation Act 2019.

1.9 Authorization Date

The financial statements were authorized for issue on **31st March 2020** by Mr Said Siyad Shirwa- Minister for Finance & Economic Development.

Note 2 Taxes on Goods and Services

In 2016 Galmudug State of Somalia imposed road user tax in place of taxes previously known as tax on goods on transit. In FY2019, road user tax, turnover tax, local passenger fees and International NGOs registration are the taxes collected. The road user's tax that has the highest amount 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. Road user tax occupies the largest portion of the collections of this FY2019. After agreement of GSS and Ahlu Sunna Wal Jama (SWJ), MoFED started collecting taxes territories under control ASWJ specially road user

tax that they used to collect their own. This has resulted collection the largest amount under road user tax ever. Turnover tax is applied to registered businesses. And is currently collected from businesses in Dhusamareb and Guri'el, other businesses in other districts have not been registered yet due to some political and other conflicts issue.

Most airports in GSS are currently controlled by private companies and up to now there are no agreements between GSS and the private companies which has resulted in the low collection of Local Passenger Fees. However, the current new president is focused on increasing this income, and has taken over the airports that used to be controlled by the ASWJ. These airports are now under the control of the Ministry of Finance & Economic Development which will result in an increase in the collection of passengers fees commencing next year.

In overall performance for taxes during FY2019 has increased 50% compared to the FY2018 collection, particularly road user tax. Following is a detailed breakdown of taxes on goods and service revenue collections

	2019	2018
	USD	USD
Turnover Tax	32,645	31,840
Local Passenger Fees	23,328	27,345
Road User Tax	1,169,000	569,181
International NGOs registration	500	-
Business & Professional Licenses	-	1,799
Total	1,225,473	630,165

Note 3 Grants from International Organizations

During the year, GSS received grants from International Organizations under three different projects: PREMIS project, RCR II project and Teachers' support project under the Ministry of Education. The PREMIS project funded some of GSS day to day operation such internet, office rents and purchase of office equipment. The funds are deposited into the Government's Treasury Single Account and paid out in accordance with the GSS procurement policies. 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 and eligible Federal Member states. During this year GSS had budgeted to receive USD1,786,901 and managed to actualize USD1,054,481. The variance is being not able to recruit some expected staffs and not accessing other RCRFII funds.

Teachers support projects is currently funded by four International Non-Government Organisations (INGO) where each provide funding as incentives for the teachers in GSS.

The table below summarizes the grants received.

	2019	2018
	USD	USD
RCRF II	1,054,481	269,111
PREMIS SUPPORT	68,566	86,853
NRC Support	9,450	-
Save The Children	54,000	-
Care international	32,313	-
CISP SUPPORT	21,796	-
Total	1,240,605	355,964

Note 4 Grants from Other Government Units

Currently GSS does not generate enough income to fund its entire operations. The FGS provides budget support and funds other projects. There is also EU funding received under Surge Support through FGS that is intended to assist with funding developments, such as Road constructions and government buildings with some funds allocated for general operations. In 2019 GSS had estimated to receive \$3,305,170 from FGS with only \$868,370 received. This was due to the strained relationship between FGS and GSS resulting in FGS not releasing the funds as estimated.

	2019	2018
	USD	USD
Federal Government of Somalia	868,370	962,500
Total	868,370	962,500

Note 5 Other Revenues Received

Apart from taxes and grants, there are other revenues received by the GSS, the Ministry of Education had started collecting revenues from service provides to public such registration of private schools, printing certificates and individual identification fees. These collections

commenced in the fourth quarter of this year and were not originally estimated to be collected during the 2019 financial year, .

	2019	2018
	USD	USD
Individual Identification Fee	1,480	-
Civil Servant Identification Fee	300	-
Primary education certificate fees	9,470	-
School Service Fees	940	-
Total	12,190	-

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.

	2019	2018
	USD	USD
Permanent employees/Regular staff	825,937	277,416
Contract employees	3,000	-
Wage workers	104,750	4,800
Security Forces (Police, Intel Forces and Prison)	1,073,885	778,581
Salaries to Ministers and Statutory Appointments	10,283	-
Remuneration to Politicians	407,000	192,000
Accommodation Allowance	2,550	
Transportation allowance	540	8,270
Other Allowances	-	200,000
Regular Food Provision	68,480	149,441
Total	2,496,425	1,610,508

Permanent employees received an amount of \$825,937 funded by the RCRF II project. Security forces were paid \$1,073,885 which 38% higher than 2018 costs. \$407,000 was paid out as salaries to the GSS parliaments, a 112% increase to the previous year. \$104,750 was paid under wage workers which relates to teachers incentives funded by RCRFII projects introduced in the 2019 financial year. \$68,480 was paid as regular food provisions which are in-kind payments to the Military forces of Galmudug and comprises food and other related food supplies, a decrease of 54% to the prior year which was as a result of allowances being paid to military forces instead of in-kind payments for food supplies

Note 7 Travel and Conferences

Conferences and travel expense relate to GSS officials attending conferences and meetings. with \$29,340 relating to travel and conferences costs both internal travel costs within the country, external travel outside of GSS and Local conferences within the State of Galmudug. The following provides a breakdown of the total Costs.

	2019	2018
	USD	USD
Internal Travel	15,665	2,500
External Travel	10,397	-
Local conferences	3,278	12,920
	29,340	15,420

Note 8 Operating Expenses

Operating expenses are a combination of costs that are geared towards facilitating the running of the Ministry offices. During FY2019, there were no costs for Mobile Phone expense due to GSS not having the funds to pay these costs. Therefore, government prioritized expenses such as security forces which are important to the government. Following is a detailed breakdown of the operating costs incurred by GSS.

	2019	2018
	USD	USD
Water	720	2,200
Electricity	5,053	8,360
Mobile Phone Expenses	-	22,500
Internet	10,180	2,500
Diesel	11,730	27,000
Stationary	892	3,075
Published fees	-	1,040
Meeting Supplies	250	1,700
Security Operational Allowances	21,775	41,600
Publications	1,601	3,890
Cleaning Supplies	120	-
Maintenance of Vehicles	-	5,880
Vehicle Hire/car rental	4,500	10,875
Cleaning Services	700	-
	57,520	130,620

Note 9 Rent

Rents is vital for government operations. GSS incurred Rental expenses of \$37,665 for 2019 that constitute \$28,800 for office rents and other rentals of \$8,865 compared to \$12,800 for the 2018FY an increase of 194%. Unpaid rent from the prior year resulted in the increase in office rents expenses for this current year.

	USD	USD
Ministry of Finance	15,285	3,600
Ministry of Water & Electricity	2,700	-
Civil Service Comision	9,000	3,000
Office of the Audit general	9,000	-
Ministry of Education	1,680	-
Ministry of Interior and Local Government	-	2,900
Ministry of Internal Security	-	3,300
Total	37,665	12,800

Note 10 Other Operating Expenses

Operating expenses totalling \$42,093 was incurred in 2019 which is on a par with the previous year. They consist of Consultation fees, television and newspaper advertisement and other office admiration costs for Ministry of Finance & Economic Development, Ministry of Water & Electricity, Ministry of Education and the Presidency. The cost breakdown is captured below:

	2019	2018
	USD	USD
Consultation Fees	28,609	-
Other Office Administrative Cost	10,408	11,499
Television and Newspaper Advertisements	2,975	1,500
Marketing & Promotion	100	-
Audit Fees	-	29,446
	42,093	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 total of \$5,000 was paid out during the process of resolving conflicts. Below table shows the cost breakdown.

	2019	2018
	USD	USD
Conflict Resolution Expenses	5,000	33,010
	5,000	33,010

Note 12 Grants to Other General Government Units

The transfers made to lower levels of government during the reporting period totalled \$49,385. This transfer has benefited two districts Dusemareb and Guricel This is because some districts

were not collected the expected amounts therefore GSS did not have fund to paid them. The transfers to districts were allocated to running costs and other development costs.

	2019	2018
	USD	USD
Transfers to Lower Level Government	49,385	247,257
	49,385	247,257

Note 13 Transfers not elsewhere classified

During the FY2019 GSS did not incur any costs relating to repayments of the State Formation borrowing due to the lack of available funds.

	2019	2018
	USD	USD
GSS State Formation Obligations	-	13,855
Bank Charges	-	84
	-	15,957

Note 14 Non-Financial Assets

Treasury Single Account

GSS had Purchased Non-Financial Assets during the FY19 in relation to Office equipment, and Furniture and Fixtures and cars which were funded by the RCRII project for project staff and FGS had released funds for non-residential buildings. A comprehensive breakdown of GSS Non-Financial asset costs for 2019 is detailed below.

	2019	2018
	USD	USD
Non-residential Buildings	428,000	-
Cars	38,950	-
Information, Computer & Telecomm(ICT) Equipment	6,361	-
Machinery and Equipment not elsewhere classified	18,514	1,845
Furniture & fixtures	7,538	28,955
Computer software	400	-
	499,763	30,800

Note 15 Taxes

GSS had estimated that \$2,040,775 of collections under Tax collections with \$1,225,473 (60%) collected compared to last year where only 18% of the estimated revenue was collected. The biggest revenue earner was Road User Tax that is 95% of all tax collection during this FY2019. Turnover tax was not collected as planned due businesses not being registered in some districts as a result of political issues. Most of the airports were administered by private companies and this

resulted in under collection of local passenger fees. There have been no agreements since this year between Khat merchants and MoFED and this also brought about no applied Khat tariffs set earlier this year.

Tax Type	Final Approved USD	Actual Collection USD	Variance USD
Turnover Tax	179,844	32,645	(147,199)
Local Passenger Fees	100,000	23,328	(76,672)
Road User Tax	1,642,931	1,169,000	(473,931)
International NGOs registration	-	500	500
Customs duties - KHAT	118,000	-	(118,000)
Total	2,040,775	1,225,473	(815,302)

Note 16 Grants

GSS receives grants from the Federal Government of Somalia (FGS) and International organizations. FGS was estimated to release \$3,305,170 with only \$868,370 (26%). This was as a result from political disagreements between GSS and FGS.

International NGOs provided funds to GSS in support of costs relating to government operation. RCRF II project is a multi-donor project administered by the World Bank through FGS providing funds for payment of salary to civil servant staff recruited by the Civil Service Commission. \$1,786,901 was estimated to be received during this financial year with \$1,054,481 received which was 59% of the annual estimate. The variance came from recruitment and other reforms not being implemented as originally planned. PREMIS funded important running costs like office rents, office equipment and internet costs, and also funded some projects such as revenue enhancements campaign, establishment of revenue huts. \$68,566 was received which is only 17% against the annual estimate of \$393,71. This was as a result of some projects not being implemented as planned due to conflicts and some political tensions experienced during the year.

Organizations like Norwegian Refugee Council, Save the Children International, Care International and Comitato Internazionale Per Lo Sviluppo Dei Popoli (JISP) provide teachers incentives support to some school teacher's in Galmudug.

Donor Name	Final Approved USD	Actual Collection USD	Variance USD
Federal Government of Somalia	3,305,170	868,370	(2,436,800)
RCRF II Project	1,786,901	1,054,481	(732,421)
PREMIS SUPPORT	393,721	68,566	(325,155)
NRC Support	10,800	9,450	(1,350)
Save The Children	54,000	54,000	-
Care international	45,500	32,313	(13,187)
CISP SUPPORT	47,480	21,796	(25,684)
Total	5,643,572	2,108,975	(3,534,597)

Note 17 Other revenue

Other revenue collected by the Ministry of Education was not estimated to be collected during this year. However these new revenue streams were collected during the last quarter of the FY2019.

Revenue Heads	Final Estimate USD	Actual Collection USD	Variance USD
Individual Identification Fee	-	1,480	1,480
Civil Servant Identification Fee	-	300	300
Primary education certificate fees	-	9,440	9,440
SCHOOL SERVICE FEES	-	940	940
Total	-	12,160	12,160

Note 18 Employee Compensation

Employee compensation paid during the year was \$2,496,425 against a budget of \$5,172,824. This was as a result of funds not available from revenues not being collected as expected and recruitment of staff not being carried out as originally planned.

Employee Compensation	Final Approved USD	Actual payments USD	Variance USD
Permanent employees/Regular staff	1,501,377	825,937	(675,440)
Contract employees	24,000	3,000	(21,000)
Wage workers	597,880	104,750	(493,130)
Security Forces (Police, Intel Forces and Prison)	1,095,186	1,073,885	(21,301)
Salaries to Ministers and Statutory Appointments	516,678	10,283	(506,395)
Remuneration to Politicians	1,225,200	407,000	(818,200)
Accommodation Allowance	6,250	2,550	(3,700)
Transportation allowance	11,400	540	(10,860)
Other allowances	34,490	-	(34,490)
Security Operational Allowances	20,000	-	(20,000)
Regular Food Provision	140,363	68,480	(71,883)
Total	5,172,824	2,496,425	(2,676,399)

Note 19 Use of Good and Services

The ability to spend in the Galmudug State of Somalia was limited by the revenue collections over the year. GSS spent a total of \$171,618 which represents 59% of the final estimated Use of Goods and Services budget. The variance is attributed to constraints availability of funds.

Use of Good and Services	Final Approved USD	Actual Payments USD	Variance USD
Internal Travel	23,000	15,665	(7,335)
Cleaning Services	1,000	700	(300)
Cleaning Supplies	124	120	(4)
Conflict Resolution Expenses	31,000	5,000	(26,000)
Consultation Fees	43,200	28,609	(14,591)
Diesel	18,000	11,730	(6,270)
Electricity	10,640	5,053	(5,587)
External Travel	23,600	10,397	(13,203)
Internet	12,970	10,180	(2,790)
Local conferences	3,300	3,278	(22)
Marketing & Promotion	100	100	-
Meeting Supplies	1,000	250	(750)
Office Rent	38,400	28,800	(9,600)
Other Rent	8,880	8,865	(15)
Other Office Administrative Cost	33,000	10,408	(22,592)
Publications	1,850	1,601	(249)
Security Operational Allowances	27,001	21,775	(5,226)
Stationary	902	892	(11)
Television and Newspaper Advertisement	3,000	2,975	(25)
Vehicle Hire/car rental	7,350	4,500	(2,850)
Water	1,240	720	(521)
Total	289,557	171,618	(117,939)

Note 20 Grants to Other General Government Units

Grants to other governments units were \$49,385 during the year against a budget of \$263,000. MoFED 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 & Economic Development.

Note 21 Employer Social Benefits

Social benefits are provided to government employees and soldiers as cash or in-kind. In the course of this financial year of 2019 GSS had not paid any social benefits.

Note 22 Transfers not Elsewhere Classified

During the year GSS had neither budgeted nor incurred any costs in relation to GSS obligations and bank charges.

Note 23 Non-Financial Assets

GSS had Purchased Non-Financial Asset during in FY19 in relation to Office equipment, and Furniture and Fixtures, cars funded by RCRII project for project staff and FGS had released funds for. For non-residential buildings of the presidency office.

	Final Approved USD	Actual Payments USD	Variance USD
Non-residential Buildings	585,000	428,000	(157,000)
Cars	40,000	38,950	(1,050)
Information, Computer & Telecomm(ICT) Equipmer	14,385	6,361	(8,024)
Machinery and Equipment not elsewhere classified	46,998	18,514	(28,484)
Furniture & fixtures	15,319	7,538	(7,781)
Computer software	400	400	-
	702,102	499,763	(202,339)

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. GSS has been formally advised by the 3rd party that \$4,671,537 has been spent by PREMIS project and Somalia Stability Fund with the breakdown as follows:

PREMIS 3rd Party Costs	Ministry of Finance and Economic Development	Civil Service Commission	Office of the Audit General	Total
Technical Assistant	232,666	47,103	9,485	289,255
Training	131,521	79,946	7,587	219,054
ICT Support	93,969			93,969
Total	458,156	127,049	17,072	602,277

SSF 3rd Party Costs	Ministry of Interior	Ministry of Livestock	Ministry of Commer	Ministry of Women	Ministry of Transport	Total
Reconciliation and Peace Dividend	1,948,025					1,948,025
Economic Development and Livelihood		425,758	939,847			1,365,605
Empowering Women				483,518		483,518
Non Building (Airport & Road Construction)					272,112	272,112
	1,948,025	425,758	939,847	483,518	272,112	4,069,260

Annex 2 – Final Management Letter. Independent Auditor's
Report on The Audit of Galmudug State of Somalia (GSS) For the Year
Ended 31 December 2019.



Final Management Letter

Audit of Galmudug State of Somalia

For Year Ended 31st December 2019

CONTENTS

1. INTRODUCTION	4
1.1 Background	4
1.2 Scope	4
1.3 Objectives	4
1.4 Audit Approach	5
1.5 Appreciation	5
2. CASH AND BANK	6
3. REVENUE	11
4. PAYMENTS	17
5. PROCUREMENT	22
6. NON-CURRENT ASSETS	25
7, RECRUITMENT	28
8. BUDGET	30
9. INTERNAL AUDIT	33
10. FRAUD PREVENTION MECHANISMS AND POLICIES	36
11. FOLLOW UP OF FY 2018 AUDIT RECOMMENDATIONS	37

Abbreviations

Acronym	Full Description
CPO	Commitment Payment Order
CSC	Civil Service Commission
DG	Director General
FMIS	Financial Management Information System
FY	Financial Year
GSS	Galmudug State of Somalia
ID	Identity
ICT	Information Computer Technology
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
MOF	Ministry of Finance
NGO	Non-governmental Organisation
OAG	Office of the Auditor General
PFM	Public Financial Management
PREMIS	Public Resource Management in Somalia
RMS	Revenue Management System
TSA	Treasury Single Account
TD	Treasury Director
UNDP	United Nations Development Program
USD	United States Dollar

1. INTRODUCTION

1.1 Background

Since the adoption of a Provisional Federal Constitution in 2012, Somalia has embarked on a process of federal state formation. So far, six federal member states have been formed, including Galmudug State of Somalia (GSS) which is based in Dhuusamareeb.

GSS receives funds from internally generated revenue and also receives grants from the Federal Government of Somalia and donors. This totalled USD 3,346,638 in 2019. The major expenditure costs for GSS are security force costs, permanent staff salaries and regular food provision for security forces.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Ministry of Finance (MOF) to allow for the preparation of the financial statements in accordance with International Public Sector Accounting Standard (2017), Financial Reporting under the Cash Basis of Accounting and Section 30 of the Public Financial Management (PFM) Act 2017.

Under Section 32(1) of the PFM Act 2017, the MOF is required to prepare financial statements and submit them to the Auditor General for audit no later than four months after the end of the period to which they relate. Within four months from this date the Auditor General should audit these financial statements and submit an audit report to Parliament as stated in Section 32(3) of the PFM Act 2017. The 2019 draft financial statements were submitted to the OAG on 26th April 2020.

1.2 Scope

The audit covered the financial statements of GSS for the period from 1st January 2019 to 31st December 2019.

1.3 Objectives

The overall objective of the audit was to ascertain whether the financial statements of Galmudug State of Somalia are free from material misstatement, whether due to fraud or error, and have been prepared in accordance with IPSAS – Financial Reporting under the Cash Basis of Accounting.

The other objectives were to ascertain whether:

- accounting records have been faithfully and properly maintained;
- rules, procedures and internal controls are sufficient to secure effective control of the assessment, collection and proper allocation of revenues;
- all money expended and charged to an appropriation account has been applied to the purpose or purposes for which Parliament intended and with due regard to ensuring effective internal control; and

- internal controls, rules and procedures established and applied are sufficient to safeguard the assets of Galmudug State of Somalia.

1.4 Audit Approach

This audit was conducted in accordance with the Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions (ISSAIs 100-999). These standards require that we comply with ethical requirements and plan and also perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. During this engagement we:

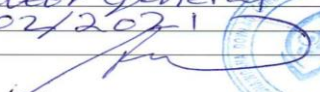
- held discussions with key members of GSS staff;
- reviewed key documents;
- tested key controls;
- performed testing of financial transactions on a sample basis; and
- evaluated the overall presentation of the financial statements.

Detailed audit findings are presented in the following sections of the report. These findings have been prioritised as high, medium or low according to the criteria shown in the table below.

Risk Rating	Description
High	• matters which may pose a significant business or financial risk to GSS; and/or • matters that have resulted or could potentially result in a modified audit opinion if not addressed as a matter of urgency by GSS.
Medium	• matters of a systemic nature that pose a moderate business or financial risk to GSS if not addressed within the current financial year; and/or • matters that may escalate to high risk if not addressed promptly.
Low	• matters that are isolated, non-systemic or procedural in nature; and/or • matters that reflect relatively minor administrative shortcomings and require action

1.5 Appreciation

We would like to take this opportunity to thank all staff at GSS, particularly within MOF, for their assistance and cooperation during this audit assignment.

Office of the Auditor General	
Name:	Hasbi Osman Mohamed
Title:	Auditor General
Date:	25/02/2021
Signature:	

4



2. Cash and Bank

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
Bank accounts opened and maintained outside of the TSA					
2.1	Section 29(2) of the PFM Act 2017 states that no GSS bank account shall be opened without the prior written authorization of the Minister. However, during 2019 various ministries opened bank accounts (25 accounts identified) without the prior written authorization from the Ministry of Finance and operated these accounts outside of the TSA. See Appendix 1. While we identified that these accounts existed, we were unable to obtain evidence of the balances as at 31st December 2019 or the transactions that took place through FY 2019. Neither the end of year balances or the transactions through the year are currently disclosed in the draft financial statements.	Cash held in non-TSA bank accounts may be misappropriated, stolen or misused for personal purposes. Financial transactions through these accounts are not subject to normal control procedures and may be incorrectly excluded from the annual financial statements.	High	Management of the state should ensure that all bank accounts which are currently outside of the TSA are closed in a timely manner if they consider them not necessary. If these accounts are required (e.g. as a condition from donors) they should be maintained under the TSA, and subject to normal state controls. All of these cash balances, and all receipts and payments through these accounts, should be correctly, and fully, disclosed in the annual financial statements.	Agree: Donor funds operated off budget and line ministries that are operating bank accounts opened without the permission of the Minister of Finance continues to be a challenge. However, in bid to address this challenge MOF has carried out an extensive mobilization awareness campaign to educate all MDAs, donors and other partners on the importance of the use of the TSA and explaining the procedures of opening and operating bank accounts in accordance with section 29 of the PFM Act and regulation #5. This year alone (2020) the Minister for Finance has ordered for the closure of up to 40 bank accounts that were operated unprocedural. Responsible Officer: Treasury Director

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					Implementation Date: Medium
Unauthorised changes bank account signatories					
2.2	Section 5.3 of Instruction I on changes to bank account signatories requires the change of signatory form to be filled and forwarded to the Minister (of Finance) for approval when changes are made to the GSS bank accounts signatories. It also requires the FMIS and bank register to be updated accordingly. During the audit, we noted that bank account signatories were changed without filling the change of signatory form. The FMIS and the bank register were also not updated with changes made.	Non-compliance with the PFM act and associated Regulations. Bank signatories could be changed for purposes of misusing public funds.	High	If the state needs any changes to signatories of GSS bank accounts, the change of signatory form must be completed and forwarded to the Minister for approval. The FMIS and bank register should also be updated accordingly.	Disagree Where changes to bank accounts were required, the change of signatory form has always been filled. Attached find sample of the latest changes to the bank signatory request. Responsible Officer: Treasury Director Implementation Date: Immediate Auditor Comment: In our review of payment on USD 122,000 was reported as payments to politicians in the draft financial statements. The amounts were distributed to four individuals without using the system as shown in Appendix 4.

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					It appears that the fraud was perpetuated through a change of the bank signatories by the management without following due process.
Incomplete bank register					
2.3	The Bank Account Procedure Manual states that the bank register should be managed by the Cash Management team to record all details of GSS bank accounts. During our review, GSS could not provide a fully updated bank register including all state bank accounts. In December each year, the Cash Management Unit should conduct a review of the bank register and all government bank accounts to confirm bank names and account numbers of all bank accounts registered in the name of the GSS as indicated 8.1 of instruction I of the Bank Account Procedure Manual. However, this annual review was not carried out.	An incomplete bank register will not capture all the bank accounts operated outside of the TSA. As a result, the annual financial statements may be misstated.	High	The bank register should be fully updated and should record all bank accounts of the state. In December each year, the Cash Management Unit should conduct a review of the bank register and all government bank accounts to confirm bank names and account numbers of all bank accounts registered in the name of GSS. This should include a formal request to all banks to provide details of all GSS bank accounts in operation.	Disagree Bank register is maintained and updated by the cash management unit of treasury department. The bank register is updated every December as part of year end procedures. Attached please find sample bank register. Responsible Officer: Cash Management Officer Implementation Date: Immediate Auditor Comment: Bank register did not capture all the bank accounts reported in appendix 1. While we identified that these accounts existed, we were unable to obtain evidence of the balances as at 31st December 2019 or the

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					transactions that took place through FY 2019. Neither the end of year balances or the transactions through the year are currently disclosed in the draft financial statements.
Bank reconciliations are done monthly instead of weekly					
2.4	Article 3.1 of regulation 5 of the PFM Act requires that the TSA and any other bank accounts of the GSS are to be reconciled preferably daily or at a minimum weekly within 2 days after end of the week by the Treasury Department Our review of bank reconciliations noted they are actually only done monthly. We also noted Instances where the designated senior officers did not sign the reconciliation as prepared and reviewed.	Errors are not identified early and corrective action is not taken at the earliest possible time.	Medium	All bank accounts of GSS are to be reconciled preferably daily or at a minimum weekly within 2 days after end of the week by the Treasury Department using the financial Management information system (FMIS). Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer.	Agree: Where regulation #5 states bank reconciliation for all bank accounts should be done daily or weekly at minimum, the external auditors in the management letter of 2018 have recommended daily or weekly bank reconciliation is cumbersome and will not add value, they have recommended bank reconciliation to be done

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
				Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format.	monthly stead .MOF complied with out requirement. Please refer to external auditors' recommendation of the 2018 ML. Responsible Officer: Treasury Officer, Accounting and Reporting Implementation Date: <i>Auditor Comment:</i> It is for MoF to decide on the timing of bank reconciliations. If it is the intention of MoF to only perform monthly reconciliations the PFM regulations should be amended to reflect this.

3. Revenue

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
Weakness in revenue controls					
3.1	From a sample of transactions tested, we noted some variances between amounts recorded on the receipts issued to tax payers, amounts recorded in the cash book, and the amounts banked. See Appendix 2 for details. GSS does not reconcile the revenue as recorded in the receipts, cash book and amounts banked as well as between the RMS and FMIS systems. As a result, the variances, such as those identified during the audit, go unidentified and uncorrected.	Inconsistencies over revenue collections could lead to misappropriation of tax payer money and inaccurate financial reporting. Non-reconciliation of revenue could lead to significant errors, going undetected and uncorrected.	High	All state revenue should be fully reconciled on a regular basis. Any variances between amounts in receipt books, cashbooks and recorded in the bank should be fully investigated and corrective action taken.	Agreed: GSS MOF has since developed monthly revenue reconciliation template to track difference of revenue recording in the FMIS, RMS and bank account. See attached template. Responsible Officer: Revenue Officer Implementation Date: Immediate
Instances where monthly collections for turnover and passenger fees were not collected.					
3.2	For two regular revenue streams no collections were recorded for some months of the year. No Turnover Tax was collected for the months of April, November and December 2019.	There is an opportunity GSS lost to maximize the state tax collections due to lack of utilization of collection for revenue from all available sources throughout the financial year.	High	GSS should ensure to collect all available sources of revenue throughout the year	Agreed: 2019 has been very tough year for GSS and there has been reduction in revenue collection due to political instability. November and December were very unstable period political wise in GSS thus revenue collection was nearly impossible. This has since

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
	No Passenger Fees were recorded between August and December 2019. It is possible that these receipts were still being collected but were not deposited into the TSA or recorded on Bisan.	The financial statements may be misstated.			been restored after the promulgation of the GSS new administration. Collection of turnover tax and passenger fees has been re-instated. Responsible Officer: Head of Inland revenue Implementation Date: Medium
<i>Different receipt numbers between manual receipts and system registration</i>					
3.3	Reference numbers of physical receipts are different from the reference number of the receipts generated from the Revenue Management System (RMS). As a result, it is difficult to match the two receipts.	It is difficult to track the physical receipts to the RMS receipts.	Medium	GSS should properly be use the RMS receipts for revenue collection to track the reference numbers more easily. The RMS receipt numbers should be added to any manual receipts issued.	Agreed The manual receipt number and RMS are usually different and synchronized, the reason is manual receipt was intended to be used as interim measures until RMS is decentralized to all revenue collection centres. Plans are in place to fully implement system generate receipts in the medium and long term Responsible Officer: Head of Inland revenue

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					Implementation Date: Immediate
Lack of utilization of all potential sources of GSS revenue					
3.4	Of the 11 revenue sources outlined in the Revenue Act 2018, only 3 were utilized in the financial year of 2019. The other 8 sources of revenue are not currently being collected. These include payroll tax based on the payroll on the business, personnel tax, electricity generation tax and vehicle registration fees.	There is an opportunity lost for maximization of tax collection due to failure to collect revenue from all available sources throughout the financial year	High	GSS should utilize all available sources of revenue to expand their tax base.	Agreed 2019 has been very tough year for GSS and there has been reduction in revenue collection due to political instability. Nov and December were very unstable period political wise in GSS thus revenue collection was nearly impossible. Responsible Officer: Head of Inland Revenue Implementation Date: Medium term
Missing receipts					
3.5	Revenue of USD 12,690 banked could not be traced to supporting receipts. See Appendix 3 for detailed breakdown.	It is difficult to check the accuracy and classification of this revenue as presented in the financial statements.	Low	The original receipts and supporting documents must be retained and filed in hard copy for the purpose of audit and management control.	Agreed These was as a resulted of different receipt from different source of revenue combined into our receipt voucher. Plans have been put in place to clearly segregate receipts from different sources and trace every receipt to the original record at source.

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					Responsible Officer: Head of Inland Revenue Implementation Date: Medium term
Lack of segregation of duties					
3.6	Proper financial controls over revenue collections are important to ensure strong financial management practices. Segregation of duties should be in place at key points in the process. These include initiation and authorization of collections, reviewing and verifying receipts, banking cash collections, recording transactions into RMS and FMIS, reconciliations, and maintaining custody of receipt books. These strong controls mitigate the risk of revenue loss to the state through theft or error. However, we noted that tax receipts have spaces to be signed by officer preparing and a space for officer verifying the receipts; in some instances, we noted that the preparer and the verifier are the same officer.	Inadequate segregation of duties in revenue over recording transactions into RMS and FMIS, and reconciliations increases that errors, whether due to fraud or error, go undetected.	High	There should be proper segregation of duties in the revenue collections, this could be achieved by: - tax collectors using serialized receipt vouchers for collecting revenues; - deposit the money in the bank; - submit the copies of the receipt and the bank deposit slip to the Revenue Department; - one of Revenue Department officers should prepare daily reconciliations for the receipts issued and the money deposited to the bank as well as reconciliation for RMS and FMIS; - another officer in Revenue Department should review, - the General Director or Revenue Director should	Agreed: Tax receipt has space for both preparer and reviewer which is signed by different people. However, oversight on single stance might have occurred where receipt was signed by the same person in both spaces. This will be addressed fully as immediate action. Responsible Officer: Implementation Date:

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
				approve the reconciliation after checking it.	
Grant (UNDP) received but not disclosed in the draft financial statements					
3.7	UNDP confirmed the amounts of money provided to GSS during FY 2019. However, the confirmation shows that UNDP provided a grant of USD 30,000 which has not been disclosed in the draft financial statements.	Lack of presentation over donor funds in the financial statements could lead to the understatement of receipts and corresponding expenditure.	High	The UNDP grants received by GSS should be recorded in the FMIS. The financial statements should be amended to include full disclosure of all donor funds received and corresponding expenditure.	Agreed However, UNDP has not provided on budget support in 2019. The support was provided off budget (third party contribution) that is why it was not declared in the face of the financial statement. Responsible Officer: TD Head of Inland Revenue Implementation Date: Immediate
Under registration of NGOs					
3.8	As per Section 21(45) of the Revenue Act 2018, NGOs operating in GSS should be registered with the Ministry of Planning. However, only one NGO registered and paid the registration fees for FY 2019. The number of NGOs actually operating in GSS is far higher than this.	Non-compliance with the Revenue Act. GSS is missing out on significant amounts of potential revenue.	High	All NGOs operating in GSS should register and obtain certification of NGOs registration issued by Ministry of Planning. All monies received should be banked in the TSA and recorded in the FMIS/financial statements.	Agreed: The ministry of planning is leading efforts to ensure all NGOs operating within Galmudug are duly registered with authority and pay registration fees. Responsible Officer:

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					Revenue Officer in charge of NGO coordination Implementation Date: Immediate

4. Payments

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
Misappropriation of state funds					
4.1	GSS management are responsible for detection and prevention of fraud, misappropriation and other irregularities involving state funds. During our review of payments made, we noted a sum of USD 550,000 that was misappropriated during FY 2019. This total is made up two, separate, incidents. <u>Fraud by the former Treasury Director</u> Amounts of USD 120,000 were stolen by the former Treasury Director. The amount was transferred from the TSA in Salaam bank to an individual account without any approval as shown by records examined at the Treasury Department. This was reported by management to the security officers and as reported, the Treasury Director (at the time) deserted his duties and fled the country. Management, despite reporting the fraud and informing the OAG during the opening meeting and throughout the audit, chose to report the misappropriated amounts as a non-financial asset expense (residential buildings) in the draft financial statements. This is a clear	Valuable state resources are wasted and stolen through fraudulent schemes. The financial statements are misstated	High	-GSS should recover the money into the TSA. - To prevent the risk of fraud and other improper payments, key duties and responsibilities associated with the payment process should be divided or segregated among different staff and departments. This should include limiting the responsibilities of treasury staff for authorizing, processing and recording payments. -GSS should fully disclose these frauds in the financial statements so that users fully understand the scale and nature of the incidents. This should involve both a reclassification of the amounts concerned and a full narrative disclosure of the circumstances surrounding these frauds.	Agreed MOF GSS has put necessary control measures to prevent, detect and fraud and any other form fund misappropriation. However, presence of control systems does not translate to non-occurrence of fraud at all times. In that unfortunate incident in 2019 MOF took necessary steps to deal with case as below; Reported the theft case to the police and suspect was put in police custody Liaised with bank and immediately effected change of bank signatories Strengthened cheque clearance procedures Summary dismissal to the officer who was involved Informed the office of the OAG

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
	misrepresentation of the facts; the amounts should be reported as stolen so as to not to mislead the users of the financial statements. It was established that the fraud was executed through forgery of signatures, complete override of existing controls and the lack of management involvement in the approval of cheques. There is also currently no provision for different thresholds that should be approved by different levels of authorities. i.e. larger amounts should be approved by the DG. <u>Fraud by politicians</u> USD 308,000 have been reported as non-financial asset expenses in the draft financial statements. It was established that the amounts were recorded through a journal in the Bisan system and in the description, it was indicated that the amounts were paid to politicians as salaries and allowances. No evidence was provided to support the expense as either a non-financial asset or a payment to politicians. It is likely that a fraudulent transaction(s) has taken place. A further USD 122,000 was reported as payments to politicians in the draft				Responsible officer: DG /TD Implementation Date: Medium Auditor Comment: While it is true that MOF openly reported the matters to the OAG, steps should be taken to recover the money involved. The financial statements have not been amended.

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
	financial statements. Through review of the bank statements, it was established that the amounts were distributed to four individuals as shown in Appendix 4. No evidence was availed to support that the amounts were actually paid to politicians as salaries or allowances. It also appears that the fraud was perpetuated through a change of the bank signatories by the Minister of Finance without following due process.				
Excessive use of cash payments					
4.2	A critical measure in achieving an accurate set of financial records is reducing the dependence on use of cash payments. Cash payments are associated to a much higher degree of risk and error compared to other types of payments. These risks include fraudulent activities and the potential for individuals to misappropriate funds. 5.2 of Regulation 4 of the PFM Act states it is the policy of the GSS that all payments are to be made electronically into the bank account of the vendor. This applies to payments for all goods and services, including salaries and allowances, and stipends. During our examination of payments made, we noted that USD 1,472,624,	The reliance on cash payments increases the risk that state funds are misappropriated, stolen or misused for personal purposes.	High	Management of the State should impose upper limits for the use of cash payment and the pay directly into supplier/staff bank accounts wherever possible.	Agreed MOF will strive to continuously improve the quality of supporting documents to all payments Responsible Officer: Treasury Director, Procurement Director Implementation Date: Medium

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
	(46% of the total expenditure reported) were paid in cash as transfers to the local government, remuneration to politicians, security forces and regular food provision for security. Full details are provided in Appendix 5.				
Inadequately/unsupported payments					
4.3	A critical measure in achieving an accurate set of financial records is to ensure that all payments are adequately supported and all supporting documents such as bank transfer letter, invoices, boarding pass, contracts and delivery notes are attached. We noted payments totalled USD 730,145 (23% of total expenditure) were inadequately supported as shown at Appendix 6. In addition, payments of USD 928,610 (29%) lacked any supporting documents at all, as detailed in Appendix 7.	It is difficult to verify the accuracy and classification of payments as disclosed in the financial statements. It is also difficult to verify that paid for goods and services have actually been received and that all payment controls have been properly implemented.	High	GSS should adhere to the financial controls in place in order that proper financial records are prepared and maintained to support all the payments incurred. No payments should be actioned without full supporting documents being provided.	Agreed MOF will strive to continuously improve the quality of supporting documents to all payments Responsible Officer: Treasury Director Procurement Director Implementation Date: Medium term
Misclassification of payments					
4.4	A critical financial control is to ensure that all payments are recorded accurately and classified correctly. During our audit, we noted that expenses amounting to USD 445,911 (14% of total expenditure) were misclassified and recorded in incorrect accounts as detailed in Appendix 8.	Misclassification of payment accounts can lead to inaccurate financial reporting.	High	We recommend that GSS should properly record and classify the payments to the appropriate accounts and should also correct the draft financial statements so that these transactions are disclosed correctly.	Disagree GSS COA is complied with GFSM2014, Cost are classified into the right account. Error review that was agreed out Dec 2019 indicated reduction of errors in transaction recording by

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
					above 70% and identified only 7 items of mis-recording. Responsible Officer: Treasury Director and EAFs Head Implementation Date: 28/12/2020 Auditor Comment: The amounts reported in Appendix 8 are incorrectly classified in the financial statements.
Lack of segregation of duties in payment process					
4.5	Adequate segregation of duties over the payment process should be place. This would include, for example, initiation and authorization of payment, recording payment transactions, reviewing and verifying payments. These proper controls can minimize the risk of loss of fund to the state through theft or error. The first stage of the budget execution process begins with the release of appropriations (fund allocation process). The funds allocation should be issued by the Budget Department. From our testing of a sample of payments made, we noted that the Treasury Department are completing the fund allocation process, without the involvement of	Weaknesses in segregation of duties can result erroneous or fraudulent payments as well as payments made for goods or services that were not actually received.	High	GSS should ensure that a fund allocation form is processed correctly by the Budget Department before any payments are actioned.	Agreed: This has since been corrected and fund allocation is now strictly done by budget department Responsible Officer: Budget Director Implementation Date: Immediate

Ref	Finding	Risk	Priority	Recommendation	Management Response & Proposed Action
	the Budget Department, as well as actioning the actual payments.				

5. Procurement

Ref	Findings	Risk	Priority	Recommendation	Management Response & Proposed Action
<i>Non-compliance with competitive procurement guidelines</i>					
5.1	3.5.1 of Regulation 8 of the PFM Act states that no procurement shall proceed unless it has been procured in accordance with the agreed provisions as detailed in	Non-compliance with procurement regulations.	High	We recommend that GSS ensure that all goods, works, consultant and non-consultant services be procured using the procurement methods	Agreed: Instance where requirement as per the procurement manual will

Ref	Findings	Risk	Priority	Recommendation	Management Response & Proposed Action
	the Procurement Procedures Manual, and where applicable, the approved Procurement Plans. Under the review of procurement, we noted instances where the Procurement Manual is not applied. These instances included procurements for regular food provision and office equipment for the External Assistance Fiduciary Section (EAFS). see Appendix 9.	It can also lead to fraud and theft and poor value for money in state procurements.		stipulated in the Procurement Manual.	be corrected and addressed as immediate action plan. Responsible Officer: Procurement Director Implementation Date: Immediate
Lack of annual procurement plan					
5.2	As per 3.1.1 of Regulation 8 of the PFM Act, GSS shall prepare periodic procurement plans for acquiring goods, works, consultant, and non-consultant services. However, during the audit, we identified that GSS had not prepared an annual procurement plan.	Lack of a procurement plan makes it more difficult to plan various procurements over time. Inadequate procurement planning might mean that required goods and services are not procured on a timely basis or to the required specification.	Medium	GSS should prepare an Annual Procurement Plan for all goods, works, consultant and non-consultant services needed to implement the required projects. This plan should link directly to the annual budget setting process.	Agreed: Procurement plan will be prepared and implemented in 2020 FY Responsible Officer: Procurement Director Implementation Date: Medium
Lack of procurement committee					
5.3	2.1.1 of the Regulation 8 of PFM Act states that a Procurement Committee shall be formed within the GSS and shall review the procurement procedures, documents, bid evaluations, award recommendations, and contracts to ensure that the procurement process is carried	Non-compliance with regulations. Inadequate scrutiny and control over state procurements.	High	GSS should establish a Procurement Committee to review the procurement procedures, documents, bid evaluations, award recommendations.	Agreed: Procurement committee will be appointed for all major procurement and operationalize FY 2020 Responsible Officer: Minister

Ref	Findings	Risk	Priority	Recommendation	Management Response & Proposed Action
	out in accordance with the agreed procedures. During the audit, we noted that GSS have not formed such a committee.				Implementation Date: Medium
Lack of original procurement documents					
5.4	As part of the procurement records, GSS shall retain all documentation with respect to each contract which should include, but not limited to, the signed original of the contract, the analysis of the respective proposals, recommendations for award, the record of [FMS] approvals, and the record of any bidder challenge or dispute as stated in 2.2.1 of the Regulation 8 of the PFM Act. However, during the review we noted that procurement documents that the state provided for audit were not original versions; all were photocopies.	Lack of original procurement documents make it more difficult to check the authenticity of the documents and the procurement process undertaken.	Medium	GSS should file and retain all original procurement documents and supporting documents for management control and audit purposes.	Agreed: What was provided were not photocopies but soft copies (signed electronically) or scanned documents. GSS procurement department will file all physical documents going forward. Responsible Officer: Procurement Director Implementation Date: Immediate

6. Non-current Assets

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
Assets are not recorded in the asset management system					
6.1	As per 1.4 of Regulation 9 of the PFM Act, all assets must be recorded in the centralized Capital Asset Register. During our review of assets, we found that the asset management system only includes computers provided by the PREMIS project. The system did not have records of any other assets owned by the state.	Deficiencies in the GSS asset register make it impossible to physically verify all assets held and increase the risk of misuse or theft.	High	We recommend that all state assets are recorded in the asset Management system as per PFM Act.	Agreed: MOF office furniture and equipment are recorded in the asset management system. Responsible Officer: Procurement Director and Treasury Director Implementation Date: immediate <i>Auditor Comment:</i> Many state assets are not currently recorded on the asset management system.
Improvement of the asset management system					
6.2	3.3 of Regulation 9 of the PFM Act states that 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. 5.3.1 of regulation 9 of the PFM Act states that in order to maintain accurate asset records, a physical inventory count will be performed across all entities at	--Lack of physical asset count could mean that assets could be misused or misappropriated. --Lack of asset tags make it difficult to monitor, identify, track and control of the assets.	High	--In order to maintain accurate asset records, we recommend that GSS should perform a physical verification of all assets held, across all entities, at minimum, on an annual basis. --All GSS assets should be appropriately tagged and given a unique identifying number.	Agreed: Instruction L will be issued at the end of the year, however conducting actual asset counts and re-enforcement of asset targeting will be done in 2020 Responsible Officer: Implementation Date: Immediate

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
	minimum, annually. Also 4.2 of Regulation 9 of the PFM Act states that all capital assets entered into the Capital Asset Register must be appropriately tagged (affixed with a label of a permanent nature) and given a unique identifying number. however, during our audit, we noted that; --Physical asset counts are not performed. --Assets are not tagged.				
Reconciliations of physical inventory to accounting records not done.					
6.3	4.2 of regulation_6 of the PFM Act states that GSS should reconcile physical inventory to accounting records however in our review of assets, we noted that reconciliations of physical inventory to accounting records not done.	Lack of reconciliation for physical inventory to accounting records could lead the possibility of discrepancies in physical inventory and accounting records.	Medium	We recommend that regular reconciliations of physical inventory (updated asset register) to accounting records (Bisan) should be performed. They should be checked and approved by one of the authorized senior officers. Supporting documents for these reconciliations should be retained for management control and audit purposes, filed both in soft copy and hard copy format.	Agreed Instruction L will be issued at the end of the year, however conducting actual asset counts and re-enforcement of asset targeting will be done in 2020 Responsible Officer: TD,PD Implementation Date: medium
State laptops not returned by former employees					
6.4	According to Section 20.6 of the CSC Act, Facilities and	Misappropriation or theft of GSS assets.	Medium	We recommend that all state entities should ensure that employees who left	Agree: Although this question is

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
	equipment provided to civil servants for the purpose of performing their work remain the property of the administration, must be kept in good condition, and must be returned to the employing authority if the employee ceases employment for any reason or is transferred to another position. During discussions with MOF management, it was reported that some civil servants who have since moved jobs are yet to return their state laptops. Given that the asset register is not complete (see 7.1) it is not possible to quantify this loss.			the job for any reason or is transferred to another position should return all state assets.	the CSC should respond, as a Treasury Director I would say what is possible in my knowledge about the laptops. I want make it clear that most of the people those are yet to return are still Government staff but the person may have moved his institution to another, he will not allow to give up his laptop because he believes that he still part of the government so the only way we can is to know that person have a government computer. Responsible Officer: TD

7. Recruitment

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
Non-competitive recruitment of NGO funded teachers					
7.1	As Section 22 of CSC Act 2017 mentions, when government requests a donor to fund a specific position in the civil service establishment, and the donor agrees to the request, employees in donor funded positions will be subject to the terms and conditions of employment as set out in the CSC Act. During our audit we noted that about 345 teachers, funded by international NGOs, were not competitively recruited under procedures as set down in the CSC Act.	Non-compliance with CSC Act 2017. The best staff may not have been recruited for the jobs.	Medium	Employees in donor funded positions should be recruited through the standard CSC recruitment process.	The recruitment of 345 teachers funded by RCRF Program was fully made by the Ministry of Education and the only role of civil service commission office was a technical support and the supervision the recruitment exercise. Our position was advising them on the best way to recruit but the decision was up to the ministry of education. However, in order to ensure a free, fair, and credible recruitment process in the future, we recommend the CSC should take the lead of any recruitment conducted by the state otherwise the employer will take the consequence. Responsible Officer: Abdirizak Hersi Mohamud Implementation Date:

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
<i>Instance where a fake signature was used to record an interview panel</i>					
7.2	Article 4.1 of Regulation 1 of the CSC Act states that the Civil Service Commissioner or his/her delegated representative will appoint a recruitment committee to review the applications and make recommendations on appointment to the vacant position(s). Details of the members on the recruitment committee should be recorded and signed by each member to indicate their commitment to preserving confidentiality and impartiality in the recruitment and selection process. During the audit, we identified one instance where a fake signature was used to record the results of an interview panel. This instance related to an OAG recruitment and the signature forged was that of a senior OAG officer.	Non-compliance with the CSC Act. The best candidates are not appointed.	High	The CSC should investigate this incident. All participants in interview panels should be invited to provide original signatures. Final, signed, interview panel notes should be circulated by email to all participants at the conclusion of the process.	This will be a lesson learned and we hope not to be repeated. Responsible Officer: Abdirizak Hersi Mohamud Implementation Date:

8. Budget

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
Weaknesses in budget procedures					
8.1	It is important that the preparation of the annual budget follows an orderly process with participation by all those who are affected. In accordance with Section 11(3) of the PFM Act 2017, the budget preparation cycle shall consist of two phases, the first concentrating on the preparation of a budget framework paper and the budget circular, and the second concentrating on the preparation of the detailed annual budget that addresses the policies and priorities set out in the budget framework paper. During our review, we noted that MOF did not prepare a budget framework paper for the FY 2019 budget.	Incomplete budget processes could undermine the reliability and credibility of the annual budget.	Medium	We recommend that GSS should prepare all budget documents and adhere to the budget procedures as per the PFM Act 2017 in the future.	Agreed: While draft BFP was prepared in FY 2019, BFP was not part of the documents submitted to parliament. Plans have been put in place to ensure BFP is not only prepared but forms part of the documents submitted to parliament. Responsible Officer: BD Implementation Date: Immediate
Incomplete submission of expenditure estimates for some line ministries					
8.2	During our audit, we noted instances where some line ministries did not submit expenditure estimates and project proposals to the Budget Department at MOF.	Lack of submission of expenditure plans and project proposals from line ministries can reduce the overall accuracy and ownership of the annual budget setting process.	Medium	All line ministries should submit their expenditure plan and proposals to the Budget Department within the agreed timelines.	Agreed Revenue and expenditure plan submission from MDAs has not been fully operationalized since most of the MDAs are at a very early stage of establishment with no physical offices. Plans are in place to implement this in the medium term.

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
					Responsible Officer: DG Implementation Date:
No regular monitoring of revenue and expenditure against budget					
8.3	In our review, we identified that there is no regular monitoring for revenue, expenditure and funds of donor projects against budget.	Lack of regular monitoring of revenue and expenditure can mean that errors are not identified and corrected.	Medium	The GSS should monitor all revenue and expenditure against budget on a monthly basis. All budget holders should be sent a monthly budget report showing all codes under their area of responsibility. For any difference greater than, say 10%, Budget Department at MOF should formally follow up on these variances and suggest corrective action as required.	Disagree GSS FMIS provide real time data. Revenue and expenditure are monitored daily in fact the systems do not allow overspending. In addition, MOF produces monthly revenue report to the Minister and monthly un-audited budget segment report sent to FGS. Quarterly reports are prepared and published in the website state Responsible Officer: Treasury and Budget Director Implementation Date: Immediate (Is done) Auditor Comment: The budget monitoring process should be documented to provide an adequate audit trail.

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
No strategic and operational plan					
8.4	During the audit, we identified that strategic plans and operational plans are not set by the state.	Lack of written strategic and operational planning documents make it more difficult for the state to implement change and reach its objectives.	Medium	GSS should develop effective strategic and operational plans, linked to a credible budget, detailing state objectives over the next few years.	Disagree: State annual plan is in plan and spear headed by ministry of planning .MOF has various operational plan such as budget circular, budget calendar, instruction on budget execution and, banking arrangement Responsible Officer: Implementation Date:

9. Internal Audit

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
Reporting lines – internal audit function					
9.1	According to section 34 of the PFM Act 2017, the Ministers of line ministries and heads of institutions and agencies of government are ultimately responsible for all financial operations and transactions undertaken within their organization, including any sub-units they supervise or control. An internal auditor, reporting directly to him or her, whose tasks shall include to periodically review the organization of financial management within the organization or unit as well as to evaluate the adequacy of management checks and balances, and controls, in the financial management practices within the organization or unit. During our audit, we noted that internal audit reports in MOF were shared with Permanent Secretaries only and not directly with Ministers.	Ministers are not aware of key financial management and other control issues and, as a result, recommendations are not acted upon.	Medium	We recommend that the internal auditors of the MOF should report directly to the Minister of Finance (and any other relevant Minister) as per the PFM Act 2017.	Disagree, As per attached distribution list the Minister is always the first receipt of the report. Responsible Officer: Head of Internal Audit Implementation Date: Auditor Comment: The internal auditor department should only report directly to minister.
Lack of management follow up over internal audit reports					
9.2	Although internal audit reports are produced and submitted to senior management, there is no process to follow up whether	Recommendations are not implemented.	Medium	Management should regularly follow up internal audit reports to ensure recommendations are implemented as intended.	Agreed: There has been challenge with regards to follow up and implementation of issues raised in the internal

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
	recommendations have been implemented or not.				audit report. However, MOF has now put in place mechanism of following up internal and external audit recommendations. This will be implemented in 2021. See attached template Responsible Officer: Head of Internal Audit Implementation Date: January to December 2021
Internal audit coverage of fraud cases					
9.3	We noted that internal audit did not consider the fraud case which happened in FY 2019.	Key internal control weaknesses are not addressed in a timely manner.	Medium	We recommend that GSS Internal auditors should review any fraud cases take place. Any report should then make immediate recommendations to correct any underlying weaknesses in the internal control system.	Agreed: The internal audit unit has carried out internal audit during mentioned period and noted unusually excessive payment of large sum of money which we highlighted in our Dec 2019 report. However, the report has not specifically mentioned the word fraud. Further, MOF has undertaken several administrative corrective and punishment measures to deal with mentioned fraud case. For example, the case was reported to the police, officer involved was jailed and

Ref	Findings	Risk	Priority	Recommendation	Management Responses & Proposed Actions
					subsequently sacked from service. Other administrative measures undertaken were change of bank signatories and tightening of check clearance process from the bank. Responsible Officer: Head of Internal Audit Implementation Date: Immediately done

10. Fraud Prevention Mechanisms and Policies

Ref	Findings	Risk	Priority	Recommendation	Management Responses & proposed actions
<i>Lack of fraud prevention mechanisms and policies</i>					
10.1	There have been several cases of recent fraud within GSS. In accordance with best practice, strong fraud prevention mechanisms and controls at all ministries in the state are the best methods for preventing fraud and corruption. Currently, formal fraud policies and procedures are not in place and a formal risk assessment to properly identify and address significant fraud risks is not carried out.	Critical fraud risks are not identified, considered or adequately addressed.	High	GSS should develop and implement a fraud policy. This should include key controls around preventing, detecting and investigating allegations of fraud. In addition, a formal risk assessment process should be conducted so that critical fraud risks are considered, assessed and reduced.	Agreed There was at least one fraud case in 2019, although MOF took the necessary steps to deal with officer responsible, we agree proper anti-fraud policy in place. GSS MOF will initiate process to put in place relevant anti-fraud legislation in the immediate and medium term. Responsible Officer: Minister Implementation Date: Immediate/Medium

11. Follow Up of FY 2018 Audit Recommendations

During the audit we followed up all audit recommendations made in previous years. A summary of the current status of these recommendations is shown in the table below:

Status	Number of Recommendations
Implemented	1
Partly Implemented	1
Not Implemented	11
TOTAL	13

As in previous years, progress in implementing audit recommendations has been minimal. It is important that this improves going forward. To this end, MOF should implement a formal mechanism for taking appropriate corrective actions.

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
Improvement in tax administration					
11.1	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	GSS should institute full automation at the tax collection points. 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. GSS should explore modalities to expand tax collection sources and ensure tax collection occurs throughout the year. All entries into the books at the various stages of the revenue and accounting cycles should be based	Critical	Not Implemented	GSS should implement the OAG recommendation. <i>Management Response:</i> GSS MOF has put in place work plan to track and implement previous audit recommendation. Tracking of previous audit recommendation is done using Microsoft Planner. Refer to GSS MOF Microsoft planner for update

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
	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. 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	on unique references derived from the appropriate documentation used at the various stages.			

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
	(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.				
Undisclosed bank accounts					
11.2	We received a bank confirmation from the Central Bank of Somalia indicating amounts of USD 1,978 was held in the account number 1099 and USD 88 held in the account number. 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 account number. 780 was not included in the State's Financial Statements.	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.	Critical	Not Implemented	GSS should transfer the amount held at the Central Bank of Somalia to the Treasury Single Account.
Improvements to procedures for bank reconciliations					
11.3	Bank reconciliations were performed on a monthly basis instead of on weekly basis.	GSS complies with the required guidelines by ensuring bank reconciliations are performed at least weekly. 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. The Treasury Department at MOFED GSS should	Critical	Not Implemented	GSS should ensure that all bank reconciliations are carried out, printed off on a weekly basis and filed.

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
		prepare and send bank confirmation letters to the Banks at year-end requesting the banks to confirm the balances held.			
<i>Inadequately supported payments</i>					
11.4	Payments made were not supported with documents.	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.	Critical	Not Implemented	MOF staff should file supporting documents.
<i>Excessive use of cash payments</i>					
11.5	Excessive use of cash payments which was channelled through individual accounts.	GSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits.	Critical	Not Implemented	GSS should execute payments through eligible supplier/staff bank accounts.
<i>Weakness in the procurement process</i>					
11.6	GSS did not adhere to competitive procurement procedures.	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.	Critical	Not Implemented	GSS should put measures in place to enhance compliance with the Public Procurement Manual.

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
Weakness in asset management					
11.7	GSS-MOF have not recorded all assets of the state in the asset register.	GSS should record all assets into asset management system as well as ensure that the asset register is updated.	Critical	Not Implemented	GSS should ensure that all assets are recorded in the asset management system.
Weakness in personnel Management					
11.8	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.	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.	Important	Implemented	No further work required
Lack of formalized organization IT policies and standards					
11.9	Our review of GSS IT environment revealed that the State does not have a comprehensive ICT policy and procedures	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.	Critical	Not Implemented	GSS should consider developing a comprehensive IT policy that is in line with the Ministry's daily operations.

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
		- 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.			
Weakness in ICT Logical Access controls					
11.10	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. We noted the below issues; --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.	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. b) Monitor attempts to log in to the system should be carried out. c) The Antivirus should be centrally managed by the IT manager and password protected. d) The IT Director to ensure the Antivirus up to date.	Critical	Not Implemented	GSS should employ ICT logical access 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.
Excessive editor rights granted to IT Director					

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
11.11	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	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: a) An active account assigned to external consultant or employees that no longer work for the Institution. b) An active account with access rights for which the user's role and responsibilities do not require access.	Critical	Not Implemented	Original recommendation should be implemented. Responsible Officer:
Gaps in user access management controls					
11.12	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.	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.	Critical	Not implemented	Original recommendation should be implemented :
Other control weaknesses					
11.13	We noted instances where Commitment and Payment Orders (CPO) sections for prepared by and authorized by were not signed by the respective authorized staff.	We recommend that the Payment processing guidelines be adhered to before any amounts are paid out to the suppliers of goods and services.	Important	Partially Implemented	All CPOs should complete by spending Ministries, every section of CPO correctly filled, verified and approved.

Ref	Original Findings	Original Recommendations	Priority	Status	Further Action Required
	The CPOs also lacks a description of the expense to be paid. Also, 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.				