



Office of the Auditor General

Galmudug State of Somalia

2017 Annual Report

Presented to Parliament on 18th May
2019



Transmittal Letter

18th May 2019

Speaker of State Parliament
Galmudug State of Somalia
Dhuusamareeb, Somalia

Dear Sir

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), it is my honour to submit the 2017 Annual Report of the Office of the Auditor General (OAG) for tabling in the State Parliament.

Attached to this letter are:

- The OAG Annual report for 2017.
- The 2017 Financial Statements of GSS and accompanying Audit Opinion (Annex 1).
- The Audit Management Letter for 2017 including the detailed findings and recommendations for improvement and formal responses from Ministry of Finance (Annex 2).
- The 2016 Financial Statements of GSS and accompanying Audit Opinion (Annex 3).
- The Audit Management Letter for 2016 including the detailed findings and recommendations for improvement and formal responses from Ministry of Finance (Annex 4).

The audits for both financial year 2016 and 2017 were completed by a private sector audit firm working with my staff. Since the audit issues identified during these audits were similar, and the audits were conducted fairly close together, I have decided to present these reports to Parliament together. The OAG Annual Report for 2017 summarises what I deem to be the key issues, while much more detail in relation to these issues is contained in the various reports attached as annexes.

Yours sincerely

Hashi Osman Mohamed

Auditor General

CC;

1. President GSS
2. Chief Minister GSS
3. Minister for Finance GSS



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1. Executive Summary

This executive summary represents an overview of the annual report.

1.1 About the OAG

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

Like other Government institutions in GSS, the OAG has only recently been established with the help of the United Kingdom's Department for International Development (DFID) and the European Union (EU). As a result, the few officials of the OAG do not yet have the adequate skills to audit the state on their own. Consequently, a private audit firm, Baker Tilly Meralis (BTM), was contracted to audit the GSS Financial Statements for the Financial years 2016 and 2017 on behalf of, and with the help of, the OAG. This delegation to a private sector audit firm is in accordance with section 20(1) of the 2018 Audit Act.

1.2 Audit Opinion

The Overall audit opinion on the 2017 Consolidated Financial Statement of GSS was a **qualified** audit opinion. The financial statements were deemed to be mostly in conformity with the provisions of the PFM Act 2017 and International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting. The full Audit Opinion is included (with the Financial Statements) in Annex 1.

However, in two areas, it is possible that the 2017 Financial Statements as presented do not fairly represent the financial activities of government. These are:

- Transactions totalling \$377, 909, representing approximately 7% of total expenditure, could not be supported with sufficient and appropriate evidence. Without such evidence, it is impossible to confirm whether these transactions occurred or whether they have been properly classified in the Financial Statements.
- Approximately \$1.2 million, sent from the Federal Government of Somalia (FGS), was confirmed with the Federal Government but could not be traced to the GSS Treasury Single Account and is not included in the Financial Statements. It is possible that this money was received, and spent, by GSS and that these transactions have been incorrectly excluded from the Financial Statements.



In addition, as any such transactions would occur outside of the normal internal control system, there is a risk that this money was not spent for the purposes intended and as approved by Parliament.

1.3 Main Findings

The following are the major findings identified during the 2017 audit, and reported in the Final Management Letter, including formal responses from the Ministry of Finance, at Annex 2:

- *Possible understatement of revenues.* The amount of revenue declared by GSS in the Financial Statements as received from the FGS is \$2,064,336 while the amounts confirmed as money sent to GSS by FGS is \$3,300,000. This indicates a possible understatement of revenue of \$1,235,664.
- *Weakness in remittance of receipts from FGS.* We noted instances where income was deposited into the GSS Treasury Single Account from FGS by an individual rather than by using inter-bank electronic fund transfers. Use of such manual systems increases transaction risk and GSS should insist that all future transfers are carried out by electronic transfer. In addition, GSS should ensure that regular reconciliations are performed between money sent by FGS and money received in the GSS Treasury Single Account. Any discrepancies should be fully investigated in a timely manner.
- *Weaknesses in revenue collection controls.* These include; lack of segregation of duties, a manual revenue collections system which is difficult to control, inconsistencies between amounts recorded in receipts, amounts banked and amounts recorded in the financial system and insecure receipt books. Without proper controls in place around collecting state revenue, significant amounts of potential revenue may be misappropriated.
- *Inadequately supported payments.* There were instances of payments made to local government officials but it could not be confirmed whether it has reached the intended final beneficiary. There were other instances where payments were supported with internally generated documents, in these cases the payments lacked third party documentation such as invoices, delivery notes etc. Where there were third party documents, these were often assessed to be insufficient. We also noted that there was excessive use of cash as a payment method, huge security payments amounting to \$452,000 was paid in cash rather than through the banking or mobile money system.

Treasury should ensure that payments are not made without evidence of proper supporting documents. The use of excessive cash payments should be addressed immediately.

- *Non-compliance with the competitive procurement procedures.* In this regard we noted instances where competitive procurement procedures were not adhered to as required by the PFM/Procurement regulations and the GSS procurement manual. Failure to follow proper procurement processes means that it is likely maximum value for money was not achieved and that limited state resources were wasted.
- *Late Submission of the Annual Financial Statements for Audit.* The PFM Act 2017 requires that the Minister for Finance submits the Consolidated Financial Statements four months after the end of the financial year to the Auditor General (i.e. by 30th April). This was not adhered to and draft Financial statements were not submitted for audit until July 2018. In future this office will work



Galmudug State of Somalia
Auditor General Office

with Ministry of Finance to ensure that draft financial statements, and audit reports, are produced earlier and in line with the relevant legislation.

- *Revenue Performance.* When we compared the own tax revenue for 2016 and 2017, we found that the own source revenues for 2017 have drastically dropped when compared with the previous period. The own revenue collections for 2016 was \$1,051,807 while the 2017 own collections revenue was \$339,929 resulting to a decline in revenue of \$711,878 which translates to a decline of 68%. This sharp drop is a concern; for GSS to succeed as a state we need to increase our own source revenue, reduce our dependence on donor support and be able to fund more projects to improve the lives of our fellow citizens.
- *Improvement in Financial Management.* Notwithstanding the issues raised above we noted some improvements in the financial management of GSS in 2017 compared to 2016. The inadequately supported expenses were \$1,200,000 in 2016 while in 2017 this reduced to \$377,908; this represents an improvement of 69%.

Each of the items mentioned in this summary has been explained in a more detailed manner in the main body of this report and in the relevant Final Management Letters for 2017 and 2016 included in Annexes 2 and 4 respectively.



2. Introduction

GSS OAG is the Supreme Audit Institution (SAI) of the state. We are the External Auditors of the state's accounts and it is our job to ascertain whether state funds have been utilized in accordance with the requirements set down in the PFM Act 2017.

2.1 Mandates of the Different Stakeholders

Office of the Auditor General

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

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 and the Speaker shall table all audit reports in the State Assembly within five working days after the receipts of the report as per section 33(1) of the Audit Act 2018.

Ministry of Finance

As per section 32(1) and (2) of the PFM Act 2017, the Minister shall prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four months after the end of the fiscal year. The unaudited Final Account of the Consolidated Budget shall be in accordance with the content and classifications of the budget.

The responsibility for preparing the financial statements rests with the Minister of Finance. To help guarantee independence, the Auditor General has no role in the preparation of these financial statements nor in authorising or controlling any of the underlying transactions.

Baker Tilly Meralis (BTM) - Private Audit Firm

Our staff do not yet have the requisite experience to conduct a full financial statement audit on their own. This necessitated the hiring of an external private audit firm to perform the audit work with, and on behalf of, the Office of the Auditor General. The audits for 2016 and 2017 were conducted by BTM in line with section 20-23 of the Audit Act 2018.

During these audit exercises BTM also helped to build the capacity of OAG staff. The OAG staff were given on-the-job-training and spearheaded the audit work, acting as a link between BTM and the Ministry of Finance. It is planned that a private audit firm will also be used for the 2018 audit but with OAG staff taking on even more of the responsibilities. From the 2019 audit onwards it is hoped that OAG staff will be in a position to complete the audit without the need for private sector audit support.



2.2 GSS OAG Resources and Challenges

The OAG has two staff that were recruited through the Civil Service Commission as well as the AG and a deputy AG that were appointed by the President and approved by Parliament. Donor funds provided by DFID and EU has helped establish the office through, for example:

- Provision of laptops.
- Hiring of an office.
- Fully equipping the office.
- Internet services.
- Establishment of OAG website.
- Basic IT training.
- Official Email accounts.
- Capacity building through workshops, onsite and offsite support.

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

- Inadequate staff numbers.
- Lack of budget to support office operations.
- Little experience of existing staff.
- Low staff morale due to low and sometimes lack of salaries for key staff like the Deputy AG.
- Lack of transport to ease movement of staff.
- Expectation gap in terms of OAG mandate awareness.

2.3 Our Audit Methodology

We conduct our audit in accordance with International Standards on Supreme Audit Institutions (ISSAIs). We are independent of the GSS in accordance with the provisions of ISSAI 30 together with the ethical requirements that are relevant to our audit of the Consolidated Fund Statement of Receipt and Payments of GSS, and we have fulfilled our ethical responsibilities in accordance with these requirements. All our staff sign off the GSS OAG code of conduct annually to confirm compliance.

2.4. Meaning of Key Terms

Audit Opinion

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

Types of Audit Opinions

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



Qualified opinion — this means that the auditor has taken exception to certain current-period accounting applications or is unable to establish the potential outcome of a material uncertainty. Also commonly known as the “except for” opinion.

Disclaimer opinion — this is an audit opinion whereby the auditor is unable to state his/her view as to whether the financial statements are free from material misstatements or not due to a significant limitation of scope. The auditor is unable to express an opinion.

Adverse opinion — this is a type of audit opinion which states that the financial statements do not fairly present the financial position, results of operations, and changes in financial position, in conformity with the applicable financial reporting framework.

Consolidated Financial Statements

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

Material

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

2.5 Acknowledgement

We take this opportunity to acknowledge the cordial corporation accorded to us by the officials of the Ministry of Finance headed by the Director General.

We also thank our donor partners for heavily investing in the establishment and development of our office.

Finally, we thank BTM-The private audit firm that helped us complete the audit process and any other party that has in one way or the other contributed to this, our first, Annual Audit Report.



3. Major Findings of the Audit

3.1 Qualified Audit Opinion

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

Basis for Qualified Opinion

There were two reasons for issuing a qualified audit opinion:

1. Our audit identified payments totalling \$377,909, representing 7% of total payments reported in the Consolidated Fund Statement of Receipts and Payments, which lacked evidence of occurrence of transactions and are therefore material in the context of this audit.
2. We performed independent funds disbursements confirmation with the Federal Government of Somalia and the confirmations received revealed under declaration of revenue on the Consolidated Fund Statement of Receipts and Payments. If all the receipts as per Federal Government of Somalia confirmation had been reported, the revenue under the TSA would be \$3,645,209 as compared to the receipts disclosed of \$2,409,545 implying that there is a 34% under declaration of revenues which is significant variance.

We asked the Federal Government of Somalia on 14 August 2018 to provide further information such as copies of deposit slips for funds banked into GSS accounts in order to support the Federal Government of Somalia confirmation. To date, this further information has not been provided.

3.2 Receipts

There is possible understatement of receipts by GSS since the confirmations received from the FGS revealed that the amounts channelled to GSS in the FY ending 31st Dec 2017 was \$3,300,000 while the amounts reported as received by GSS in the Financial Statements was \$2,064,336 resulting into a possible understatement of revenue of \$1,235,664.

The variances should be investigated and adjustments made where necessary, GSS should obtain account statements on a regular basis from the FGS and perform reconciliations against GSS records and the monthly and year-end financial reporting procedures at the GSS Ministry of Finance should include a full reconciliation of funds received against the sources of funds, amounts banked and supporting remittances/receipts.

We noted instances where income was deposited into the GSS Treasury Single Account from Federal Government of Somalia (FGS) by an individual rather than use of inter-bank funds transfer. **We recommend that, in future, all funds should be remitted through funds transfers and cash collected promptly banked intact.**

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



- The revenue collection is a manual-based system
- Revenue received was recorded into the Financial Management Information System (FMIS) using bank deposit slips
- There was no evidence of segregation of duties in revenue collection process
- Inconsistency between amounts recorded in FMIS and the total amounts on the daily receipts
- We identified variance between revenue receipts recorded, amount banked and the totals of revenue receipt
- We also noted that GSS had receipt books where each receipt reflected a Standard amount of \$350. The Tax chargeable for a particular type of motor vehicle would be manually be subtracted in arriving at the amount due as the Road Tax. In our review of computations on the receipts, we noted numerous discrepancies.

We recommend as follows:

- **Tax collectors should use the system generated reference number and include it in the specific batch of receipts amounting to the total amount banked for the day**
- **Tax collected should be promptly banked intact**
- **Recording of revenues into FMIS should be referenced using the same references as appears on the serialized receipt books**
- **There should be proper segregation of duties so as to minimize the risk of collusion in the reconciliation, collection and banking of receipts**

3.3 Expenditure

We noted an instance where allowances paid to the Ministry of Local Government employees were not supported by detailed breakdown or evidence of receiving allowances. We also noted that payments were supported mostly by documents generated from FMIS and not third-party external documentation. Where third party documentation was provided, there were inadequate details on the documents.

We recommend that management ensures the financial management systems in place are adhered to so that proper accounting records are prepared and maintained to support all costs incurred.

We have also noted excessive use of cash payments. For example, Ministry of Internal Security paid \$452,000 for security allowances in cash. **We recommend that GSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. The banking system and mobile cash transfer payments which are available in Somalia should be used to pay beneficiaries. Cash payments should be kept at minimum and only used in exceptional circumstances.**

3.4 Procurement

We noted instances where evidence of compliance with the competitive procurement procedures were not adhered to.

In order to ensure value for money is achieved when awarding contracts, GSS should ensure that competitive process is applied when procuring goods and services and retain supporting documents to demonstrate those procedures and the procurement decisions made. This is not purely a matter of



non-compliance with laws and regulations. Failure to achieve maximum value for money results in wastage of scarce state resources.

3.5 Late Submission of the Annual Financial Statements

We noted that the GSS annual signed financial statements were submitted for audit by the Minister of Finance on 7 July 2018 instead of by the legislative deadline of 30 April 2018. **We recommend that the Minister of Finance should put in place mechanisms to ensure the preparation of the financial statements are concluded within the timeframe of the applicable legislation.**

3.6 Asset Management

While individual tagging information was recorded for state assets recorded on the asset register, the physical assets themselves were not tagged. This made it impossible to trace individual assets to and from the asset register. It is important that MoF conduct regular asset verification exercises to ensure state assets are being used properly and have not been misappropriated. To this end, **we recommend that all assets are tagged and that regular physical verification exercises (to and from the asset register v physical assets) are performed. To provide an adequate audit trail, this exercise should be formally documented.**

3.7 Financial Performance

Own source revenues for 2017 have drastically reduced when compared to 2016. The own source revenue collections for 2016 was \$1,051,807 while the 2017 own collections revenue was \$339,929; a decline of \$711,878 which translates to a decline of 68%.

In the 2017 budget, approved by Parliament, GSS had budgeted for own source revenue of approximately \$2.4M; roughly seven times what was actually collected. As a result of this enormous under collection, it comes as no surprise that only about \$2.2M out of a total expenditure budget of around \$6M was actually spent.

This failure to adequately collect revenue, and resulting lack of money and impact on expenditure plans, raises alarms about state sustainability. Put simply, if own source revenue collection does not improve dramatically in coming years, it is difficult to see how government activities can continue to function.



Annex 1 – Galmudug State of Somalia (GSS) Audited Financial Statements for The Period Ended 31 December 2017

**GALMUDUG STATE OF SOMALIA (GSS)
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2017**

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i) STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The Public Financial Management Decree of Galmudug State of Somalia requires Ministry of Finance to prepare Consolidated Fund Statement of Receipt and Payments for each financial year that gives a true and fair view of the financial position of the State at the end of the financial year and of its surplus or deficit for that year. It also requires the State to ensure that the State maintains proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management accepts responsibility for the preparation and presentation of these Financial Statements in accordance with International Public Sector Accounting Standards and in the manner required by the Public Financial Management Decree of Galmudug State of Somalia. The Management also accepts responsibility for:

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

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

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

Approved by the State of Galmudug (GSS) on Febrayo 2019.

Omar Hassan GSS PS on behalf of the minister
Minister for Finance and Economic Development



Signature

ii) REPORT OF THE INDEPENDENT AUDITOR

Qualified Opinion

We have audited the financial statements of the Interim Galmudug Administration of Somalia which comprise the Consolidated Funds Statement on Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts for the period ended 31 December 2017 and Notes to the Financial Statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis of Qualified Opinion section of our report the financial statements presents fairly, in all material respects, the financial position of the Galmudug State of Somalia as at 31 December 2017 and its financial performance for the period then ended in accordance with the Public Financial Management Decree of 2016 and the International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting.

Basis for Qualified Opinion

- a) Our audit identified payments totalling USD 377,909 representing 7% of total payments reported in the Consolidated Fund Statement of Receipts and Payments which lacked evidence of occurrence of transactions and are therefore material in the context of this audit.
- b) We performed independent funds disbursements confirmation with the Federal Government of Somalia and the confirmations received revealed under declaration of revenue on the Consolidated Fund Statement of Receipts and Payments. If all the receipts as per Federal Government of Somalia confirmation had been reported, the revenue under the TSA would be USD 3,645,209 as compared to the current receipts of USD 2,409,545 implying that there is a 34% under declaration of revenues which is significant variance. We requested the Federal Government of Somalia on 14 August 2018 to provide further information such as copies of deposit slips for funds banked into Galmudug Administration of Somalia accounts in order to support the Federal Government of Somalia confirmation. However, these further information were not provided.

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

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

Other Information

Management is responsible for the other information. Other information comprises the information included in the Annual Report but does not include the Consolidated Fund Statement of Receipt and Payments and our auditor's report thereon.

Our opinion on the Consolidated Fund Statement of Receipt and Payments does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Key Audit Matters

Key audit matters are those matters that, in our opinion and our professional judgement, were of most significance in our audit of the Consolidated and Ministerial Financial Statements of the period. These matters were addressed in the context of our Audit of the Consolidated and Ministerial Financial Statements as a whole, in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the key audit matters
<p>Completeness of revenue</p> <p>We noted opportunities exist for revenue leakages and misstatement.</p> <p>The revenue collected from Road user taxes is not banked intact on the day of the collection or the following day and there lacks robust safeguards against loss of the revenue collected.</p> <p>There was inadequate evidence of segregation of duties in revenue collection and reconciliation process.</p> <p>During the last quarter of the year 2017, road tax revenue collected though the amounts were not recorded as received or even banked during the period as a result of interclan disagreements.</p> <p>We noted that funds received from the Federal Government of Somalia (FGS) was deposited by individuals rather than use of inter-bank funds transfers. There were instances where funds from FGS were not fully banked.</p>	<p>Conducted interviews with the relevant management responsible for recording revenue to understand the procedures applied for revenue collection.</p> <p>We performed substantive test to verify that the procedures are operational.</p> <p>We sought external confirmations for revenue from the Federal Government of Somalia (FGS) and donors and compared the confirmations received with the financial statements.</p> <p>We traced receipts recorded on the ledgers to the bank statements and receipt books to verify accuracy of receipt recorded on the financial statements.</p> <p>We reviewed the bank statements for indicators of undisclosed receipts in order to verify completeness of receipts.</p> <p>We tested on a sample basis receipts declared on the financial statements against supporting documentation.</p> <p>We made inquiries from management on the variances identified for receipts and reported in the management letter where explanations were inadequate.</p>

Responsibilities of the Management and those charged with governance for the Consolidated Fund Statement of Receipt and Payments

The Management is responsible for the preparation and fair presentation of these Consolidated Fund Statement of Receipt and Payments in accordance with the Public Financial Management Decree of 2016 and the International Public-Sector Accounting Standard (IPSAS) - Financial Reporting under the Cash Basis of Accounting and for such internal control as the Management Committee is necessary to enable the preparation of Consolidated Fund Statement of Receipt and Payments that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Fund Statement of Receipt and Payments, the Management is responsible for assessing the GSS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management intends to liquidate the organization, or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the Audit of the Consolidated Fund Statement of Receipt and Payments.

Our objectives are to obtain reasonable assurance about whether the Consolidated Fund Statement of Receipt and Payments as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of

assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Fund Statement of Receipt and Payments.

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

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA John Mucheru P/No 1854.


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

Date: *11 Feb*2019

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



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

For the Period Ended 31 December 2017

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

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

Statement of Certification - 2017 Financial Statements

The 2017 financial statements, together with the accompanying notes, have been prepared in accordance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting.

In the opinion of the Ministry of Finance and Economic Development, the financial statements of the Galmudug State of Somalia (GSS) as submitted for Audit in accordance with Section 30 of the Public Finance Management Decree 2016 are materially accurate and provide a true and fair view of the GSS's financial position for the year ended 31 December 2017.

For and on behalf of the Galmudug State of Somalia

Minister for Finance & Economic Development

01/07/2018

Date:



Galmudug State of Somalia

**Consolidated Fund Statement of comparison of Budget and Actual Amounts
For the Period Ended 31 December 2017**

Appropriation Budget on Cash Basis
(Classification of Payments By Economic Class)

	2017				2016	
	Original Estimate Appropriation	Final Estimate Appropriation	Controlled By TSA	Difference Between Final Budget & Actual	Controlled By TSA	Payment By Thirty Party
Notes	A	B	C	C-B	USD	USD
	USD	USD	USD	USD	USD	USD
Receipts / Inflows						
Taxes & Other Revenue						
Taxes on income, profits, and capital gains	372,000	372,000		(372,000)		
Taxes on goods and services	59,020	59,020		(59,020)		
Taxes on international trade and transactions	2,000,000	2,000,000	339,929	(1,660,071)	1,051,807	
Taxes & Other Revenue	2,431,020	2,431,020	339,929	(2,091,091)	1,051,807	
Grants						
From international organizations	1,045,020	1,045,020	357,824	(687,196)	58,850	1,083,507
From other general government units	2,500,000	2,500,000	1,711,792	(788,208)	746,900	
Grants	3,545,020	3,545,020	2,069,616	(1,475,404)	805,750	1,083,507
Receipts / Inflows	5,976,040	5,976,040	2,409,545	(3,566,495)	1,857,557	1,083,507

Galmudug State of Somalia

Consolidated Fund Statement of comparison of Budget and Actual Amounts For the Period Ended 31 December 2017

Appropriation Budget on Cash Basis
(Classification of Payments By Economic Class)

	Notes	2017				2016				
		Original Estimate Appropriation	Final Estimate Appropriation	Controlled By TSA	Difference Between Final Budget & Actual C-B	Payment By Thirty Party	Controlled By TSA	Payment By Thirty Party		
									A	B
Payments / Outflows										
Compensation of Employees										
Wages and Salaries	15	4,517,470	4,517,470	1,809,293	(2,708,177)	1,519,997				
Compensation of Employees		4,517,470	4,517,470	1,809,293	(2,708,177)	1,519,997				
Use of Goods and Services										
Travel & Conferences		92,000	92,000	7,020	(84,980)	6,540				
Operating Expenses		342,720	342,720	189,475	(153,245)	16,808				
Rent		123,800	123,800	3,098	(120,702)	32,884				
Other Operating Expenses		98,000	98,000	500	(97,500)	499,626				
Conflict Resolution Expenses		50,000	50,000		(50,000)					
RCRF Non Salary Recurrent Cost		48,000	48,000		(48,000)					
Use of Goods and Services	16	754,520	754,520	200,093	(554,427)	56,232				
Grants										
Grants To Other General Government Units	17	252,000	252,000	31,559	(220,441)					
Grants		252,000	252,000	31,559	(220,441)					
Social Benefits										
Employer social benefits	18	30,000	30,000	29,200	(800)					
Social Benefits		30,000	30,000	29,200	(800)					
Miscellaneous other expense										
Miscellaneous other expense	19	360,000	360,000	134,100	(225,900)	272,604				
Miscellaneous other expense		360,000	360,000	134,100	(225,900)	272,604				
Nonfinancial assets										
Fixed Assets	20	62,050	62,050		(62,050)	7,872				
Nonfinancial assets		62,050	62,050		(62,050)	7,872				
Payments / Outflows		5,976,040	5,976,040	2,204,245	(3,771,795)	1,856,705				
					3,199,452	499,626				

Galmudug State of Somalia
GFS Statement of Operation
Treasury Single Accounts
For the Period Ended 31 December 2017

	2017	2016
	USD	USD
Transactions Affecting Net Worth		
Revenue	2,409,545	2,941,064
Taxes	339,929	1,051,807
Taxes on goods and services	-	-
Taxes on international trade and transactions	339,929	1,051,807
Grants	2,069,616	1,889,257
From international organizations	357,824	1,142,357
From other general government units	1,711,792	746,900
Expense	2,204,245	2,348,459
Compensation of Employees	1,809,293	1,519,997
Wages and Salaries	1,809,293	1,519,997
Use of Goods and Services	200,093	555,858
Travel & Conferences	7,020	6,540
Operating Expenses	189,475	16,808
Rent	3,098	32,884
Other Operating Expenses	500	499,626
Grants	31,559	-
Grants To Other General Government Units	31,559	-
Social Benefits	29,200	-
Employer social benefits	29,200	-
Other Expenses	134,100	272,604
Miscellaneous other expense	134,100	272,604
Gross Operating Balance	205,300	592,605
Transactions In Non Financial Assets		
Net Worth and its Changes	-	591,753
Nonfinancial assets	-	591,753
Fixed Assets	-	591,753
Transactions in Financial Assets & Liabilities		
Change In Net Worth. Transactions (Assets)	205,300	3,066
Financial assets	205,300	3,066
Domestic	205,300	3,066
Liabilities	-	-
Liabilities	-	-
Net Worth Equity	-	(2,214)
Net Worth Equity	-	(2,214)
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 Decree of 2016* and the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting Under the Cash Basis of Accounting*. The notes to the financial statements form an **integral** part to understanding the statements and must be read in conjunction with the statements.

The accounting policies have been applied consistently throughout the period.

1.2 Reporting Entity

The Financial statements are for the Galmudug State of Somalia (GSS). This is the Governments second year of operation and covers the period 1 January – 31 December 2017. The financial statements encompass the reporting entities as specified in the *GSS Appropriation Act No. 1 of 2017* 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

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. Companion Decrees 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 2017*.

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 Payments by Third Parties

The GSS has benefited from goods and services purchased by third parties on its behalf as a result of cash payments made by third parties during the period. See Note 3.

1.4 Treasury Single Account (TSA) & Project Account

A project account was opened under a written authorization of the Minister of Finance, as a sub-account of the TSA. As a condition to the World Bank funded Recurrent Cost and Reform Financing program (RCRF II) grant, the project account was solely opened for the operations of the RCRF II project and in such a manner as to avoid the grant funds commingling with other GSS operations. As at the end of the 2017 financial year, the balance of both accounts were as follows.

	2017	2016
	USD	USD
Treasury Single Accounts	174,605	3,066
Project Account	33,761	-
Total	208,366	3,066

1.5 Cash & Cash Equivalents

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

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

	2017	2016
	USD	USD
Cash On Hand and Balances with Banks	208,366	3,066
Total	<u>208,366</u>	<u>3,066</u>

Cash on Hand of \$174,605 is held in the treasury single account from GSS internally generated revenue and FGS while \$33,761 is held World Bank to the RCRFII project at end of 31 December 2017.

1.6 Reporting Currency

The reporting currency is the United States Dollar (USD)

1.7 Borrowings

In 2016 GSS the closing balance from the 2015 interest free loans totalling \$1,220,533 from the local businesses. These borrowings are held off-balance sheet in a separate manual ledger. The funds were utilized in establishing the GSS administration. Due to the budget constraints it was agreed that GSS repays the obligations in instalments dependent on the availability of funds. The table below provides a movement schedule of the obligation.

Total Closing Balance FY2016	1,220,533
FY2017 Repayment	<u>(134,100)</u>
Remaining Balance at the End 31 Dec-17	<u>1,086,433</u>

1.8 Undrawn External Assistance

In the 2016 financial year a new project called Recurrent Cost and Reform Financing (RCRF II) was introduced. The project will run for a period of five years (up to 20 June 2020) and is reviewable on an annual basis. The RCRF II project is a multi-partner fund administered by the International Development Association (IDA). 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.

As specified in a binding agreement Number TFOA0534 Dated 29 June 2016 between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the Galmudug State by virtue of a sub-agreement with FGS has a running project with IDA which will last to 20 June 2020.

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, however there is a pooled budget to cover GSS, South West State and HirShabelle State over the five-year term as follows:

The grant amount is subject to annual review and approval by the IDA. For the fiscal year ending 31st December 2017, GSS had received funds from the RCRFII Project totalling \$352,544 against a budget of 1,001,380. The variance resulted from a number of Civil Servants not being recruited and not being able to access the non-salary recurrent cost component.

1.9 Reporting Amounts

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

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

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

The original budget was approved by the council of Ministers and signed by the President on the 20 December 2016. There was no supplementary budget during the period.

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

1.11 Authorization Date

The financial statements were authorized for issue on 31 May 2018 by Mr Said Siyad Shirwa.- Minister for Finance.

Note 2 Taxes on International Trade (Transit of Goods across State Borders)

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

quantity or value of the goods. A uniform rate of tax is applied. Following is a detailed breakdown of road taxes raised and their respective source of entry.

	2017	2016
	USD	USD
Tax on goods on Transit	<u>331,752</u>	<u>0</u>
Customs duties- Imported Goods	<u>8,177</u>	<u>1,051,807</u>
	<u>339,929</u>	<u>1,051,807</u>

Note 3 Grants from International Organizations

Treasury Single Account

During the 2017 financial year, grants totalling \$357,824 was received. A grant totalling \$352,544 was received from the RCRF II project, funded by the Somalia Multi-Partner Fund (SMPF) and administered by the World Bank. An additional grant from PREMIS was received to fund a revenue communication campaign in Adado and Galkio respectively.

3rd Party Grants from International Organization

3rd Party Grants refers to grants paid directly by donors to vendors on behalf of GSS for the benefit of specific Ministries or Agencies. GSS benefitted from 3rd party projects implemented by the PREMIS and SSF totalling \$3,199,452. The 3rd party payments contained both recurrent costs and capital expenses. GSS are able to report these 3rd Party-funded projects as financial information was provided to GSS by the donor in order to meet the reporting requirements of the IPSAS Cash-based reporting standard. There were other projects directly funded by donors, however insufficient information is available to GSS to allow recording on the face of the financial statements. Below is a summary breakdown of grants received and the entities that benefitted.

Ministry	Description of Grants	2017 USD	2016 USD
Ministry of Finance	Provision of Financial, Budgeting & PA System		583,881
	PFM/FMIS/Budget/RMS Training & Support		415,145
	Technical Assistant	166,508	
	Training	329,997	
	ICT Support	142,502	
		639,007	999,026
Office of the Speaker-Parliament	Training	15,400	
Civil Service Commission	Technical Assistant	41,627	
	Training	44,999	
	PA Support		84,481
		86,626	84,481
Ministry of Interior	Conflict resolution	2,279,743	
Ministry of Youth & Sport	Maintenance of building & repairs	71,433	
Ministry of Presidency	Conflict resolution	107,243	
Total		3,199,453	1,083,507

Note 4 Grants from Other Government Units

In 2017 the Federal Government of Somalia agreed to provide funding for the Galmudug Security Forces and associated running costs. Grants totalling \$1,711,792 were received from the Federal Government of Somalia during the period. \$1,000,000 was allocated to a military aid project from FGS while \$711,792 was allocated for Galmudug security forces, namely Darwish, NISA and Police forces.

Note 5 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.

	2017	2016
	USD	USD
Permanent employees/Regular staff	318,783	64,363
Wage workers	1,400	38,250
Security Forces (Police, Intel Forces and Prison)	999,043	651,598
Salaries to Ministers and Statutory Appointments	12,682	65,000
Remuneration to Politicians	149,000	0
Transportation allowance	200	0
Other allowances	44,145	0
Regular Food Provision	248,750	700,786
Daily Meals	35,290	0
Total	<u>1,809,293</u>	<u>1,519,997</u>

GSS paid Permanent employees/Regular staff \$93,600 in arrears upon meeting the RCRF II project requirement criteria and being granted formal access from FY2016 and \$225,183 salaries related to 2017. Security forces were paid \$999,043 in total, \$520,000 of which consisted of a specific military aid project funded by FGS while \$479,043 was through regular funding.

Other allowances of \$44,145 was paid to tax collectors. Regular food provision are in-kind payments to the Military forces of Galmudug and comprises food and other related food supplies, whereas the daily meals relate to meals prepared for the staff at the State Ministry and amounted to \$35,290.

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

	Salaries to								
	Permanent	Security Forces	Ministers and	Remuneration			Regular		
	Employees/ Regular staff	Wage Workers	Forces Allowances	Statutory Appointment	to Politicians	Transportation Allowance	Other Allowances	Food Provision	Daily Meals
Ministry of Interior & Local Government	-	-	-	-	-	-	-	-	-
Ministry of Justice & Judiciary	-	-	-	-	-	-	-	-	-
Ministry of Finance & Economic Development	278,020	1,400	-	2,000	-	200	44,145	-	-
Ministry of Internal Security	-	-	999,043	-	-	-	-	248,750	-
Ministry of Planning & International Cooperation	-	-	-	-	-	-	-	-	-
Ministry of Endowment & Religious Affairs	-	-	-	-	-	-	-	-	-
Ministry of Fisheries & Marine Resources	-	-	-	-	-	-	-	-	-
Ministry of Public Works & Rebuilding	-	-	-	-	-	-	-	-	-
Ministry of Commerce & Industry	-	-	-	-	-	-	-	-	-
Ministry of Information & Culture	-	-	-	-	-	-	-	-	-
Ministry of Aviation & Transport	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-
Ministry of Post & Communication	-	-	-	-	-	-	-	-	-
Ministry of Livestock & Agriculture	-	-	-	-	-	-	-	-	-
Ministry of Environment & Forestry	-	-	-	-	-	-	-	-	-
Ministry of Health	-	-	-	6,492	-	-	-	-	-
Ministry of Women & Family Affairs	-	-	-	-	-	-	-	-	-
Ministry of Labour	-	-	-	-	-	-	-	-	-
Ministry of Youth & Sport	-	-	-	-	-	-	-	-	-
Ministry of Water & Electricity	-	-	-	-	-	-	-	-	-
Ministry of Constitution & Reconciliation	-	-	-	-	-	-	-	-	-
Ministry of Ports & Maritime Transport	-	-	-	-	-	-	-	-	-
Ministry of Diaspora & Investment	-	-	-	-	-	-	-	-	-
Ministry of the Disabled and Humanitarian Affairs	-	-	-	-	-	-	-	-	-
Presidency	-	-	-	-	-	-	-	-	35,290
Office of the Speaker and Parliament	-	-	-	-	149,000	-	-	-	-
Civil Service Commission	40,763	-	-	4,190	-	-	-	-	-
Total	318,783	1,400	999,043	12,682	149,000	200	44,145	248,750	35,290

Note 6 Travel and Conferences

Travel and conferences amounting to \$7,020 comprise internal travel costs within the country, External travel and Local conferences within Galmudug state. The following provides a breakdown of the total Costs.

	2017	2016
	USD	USD
Internal Travel	3,540	4,780
External Travel	500	1,580
Local Conferences	2,980	180
	7,020	6,540

Note 7 Operating Expenses

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

	2017	2016
	USD	USD
Water	200	
Electricity	300	1,552
Mobile Phone Expenses	-	371
Internet	300	1,220
Diesel	150	2,574
Oil (machines)	-	150
Stationary	260	909
Gasoline	59,930	-
Books	-	222
Published fees	7,485	270
Meeting Supplies	400	500
Cleaning Supplies	400	-
Security Operational Allowances	70,000	2,000
Maintenance of equipment	50,050	100
Vehicle Hire/car rental	-	6,940
	189,475	16,808

Note 8 Rent

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

Entity	2017	2017
	USD	USD
Ministry of Interior & Local Government	300	
Ministry of Interior & Local Government		640
Ministry of Justice & Judiciary		3,076
Ministry of Finance & Economic Development		15,350
Ministry of Finance & Economic Development		2,000
Ministry of Internal security	236	
Ministry of Public Works& Rebuilding	300	
Ministry of Information & Culture		2,000
Ministry of Aviation & Transport	800	
Ministry of Health		300
Ministry of Constitution & Reconciliation	400	700
Office of the Presidency		580
Office of the Presidency	1,062	
Office of the Speaker and Parliament		1,000
Civil Service Commission		6,838
Civil Service Commission		400
	3,098	32,884

Note 9 Grants to Other General Government Units

The transfers made to lower levels of government during the reporting period totalled \$31,559. This transfer has benefited two districts, Adaado and Galkaio. The transfers to districts were allocated to running costs and sanitation.

Note 10 Social Benefits

In FY2017, 29,200 in Social benefits were paid to treat staff of GSS both locally and outside the county. Medical treatment is usually provided to the security personnel who are injured during service.

Note 11 Miscellaneous Other Expenses

Other Miscellaneous expenses totalling \$134,100 relate to repayment of GSS obligations (refer note 1.7) for previous debts and arrears owed by GSS at the time of state establishment.

Note 12 Non Financial Assets

Treasury Single Account

GSS had not incurred Non-Financial Asset costs during in FY17 in relation to Office equipment, and Furniture and Fixtures across all Ministries of GSS. A comprehensive breakdown of GSS Non-Financial asset costs for 2016 is detailed below.

	2017	2016
	USD	USD
Office Equipment	-	5,051
Office Furniture	-	2,821
	-	7,872

Note 13 Taxes

A total of \$ 2,431,020 in Revenue collections was estimated to be raised and received in FY2017, however an actual collection of \$339,929 was achieved. The shortfall was a result of not implementing some taxes estimated in the budget and the government not in control of key transit points for good in order to collect road user taxes. Following is a breakdown of taxes collected in FY2017.

Tax Type	Final Estimate	Actual Collections	Difference between Final Estimate and Actual
Tax on income, profits & Capital gains	372,000	-	(372,000)

Tax Type	Final Estimate	Actual Collections	Difference between Final Estimate and Actual
Custom duties-Imported goods	-	8,177	8,177
Tax on goods on transit	2,000,000	331,752	(1,668,248)
Tax on goods & Services	59,020	-	(59,020)
Total	2,431,020	339,929	(2,091,091)

Tax on Goods on Transit was estimated at \$2,000,000 and collections were \$331,752. This deficit was caused by droughts in Somalia in 2016 & 2017 and livestock export decreases due to the droughts and the number of trucks transiting roads declined.

Note 14 Grants

Total grants of \$2,069,616 were received against a budgeted sum of \$ 3,545,020. Grants from International organizations and other general government units were not received as per estimated in the budget. The following table presents a detailed breakdown of the grant variances.

Grant Type	Final Estimates	Actual Collections	Difference between Final Estimates and Actual
Grants from Federal Government of Somalia	2,500,000	1,711,792	(788,208)
Grants from international organisations	1,045,020	357,824	(687,196)
Total	3,545,020	2,069,616	(1,475,404)

The variance of \$1,475,404 is a result of not receiving the estimated budget amount \$687,196 from international organisation and \$ 788,208 from the federal government. With respect to grants from International Organisations, this variance resulted from RCRF II support not received as estimated because receiving RCRF II support depends on the number of civil servants recruited by GSS. Because GSS did not recruit civil servants at the pace they budgeted, grants from the RCRF II programme was significantly less than budgeted.

Note 15 Employee Compensation

A total of \$1,809,293 was spent on employee compensation against budget of \$4,517,470. Under spending of (\$2,708,177) was as a result of low revenue collected, thus not having the resources to pay budgeted employee compensation expenses and under recruitment of civil servants as discussed in the note above related to grants.

Note 16 Use of Good and Services

The ability to disburse in the Galmudug State of Somalia was limited to the revenue collections over a specified period of time. In the case of goods and services, GSS spent a total of \$200,093 which represents 27 percent of the final estimated budget. The variance is attributed to constraints in the actual available income.

Note 17 Grants to Other Governments

Grants to other governments units were \$31,559 during the reporting period. MOF and two districts (Adado and Galkio) entered into an informal agreement that the districts will deposit their locally-generated revenue from districts into the TSA and subsequently request payment of their operational costs through the established expenditure payment procedures of the Ministry of Finance.

Note 18 Employer Social Benefits

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

Note 19 Miscellaneous Other Expenses

A total of \$360,000 was budgeted for Miscellaneous Other Expenses with actual expenditure of \$134,100 incurred. These expenses relate to the GSS obligation incurred during state formation process. Payments during this reporting period were contingent on the availability of funds.

Note 20 Non Financial Assets

Fixed assets budgeted during the year were not purchased due constraints in the actual available income.



Annex 2 – Final Management Letter. Independent Auditor’s Report on The Audit of Galmudug State of Somalia (GSS) For the Year Ended 31 December 2017

**FINAL
MANAGEMENT LETTER**

7 JANUARY 2019

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF

GALMUDUG STATE OF SOMALIA (GSS)

FOR THE YEAR ENDED 31 DECEMBER 2017

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ABBREVIATIONS

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

Mr. Said Siyad
Ministry of Finance and Economic Development,
Galmudug State of Somalia (GSS)
Adado

Dear Sir,

MATTERS ARISING DURING THE AUDIT FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

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


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Date 11 Feb 2019

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1. INTRODUCTION

We have completed the audit of Galmudug State of Somalia (GSS) for the year ended 31 December 2017. We have set out issues identified during the course of our normal audit work and have not attempted to indicate all possible improvements which a special review might develop.

1.1 Ranking

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

Priority 1 - Urgent remedial action is required.

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

Priority 2 - Prompt specific action is required.

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

Priority 3 - Specific remedial action is desirable.

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

2. MANAGEMENT LETTER POINTS

2.1 SUMMARY OF FINDINGS

Ref	Summary of findings	Priority	Financial impact
1.	Understated funds receipts	1	1,235,664
2.	Improvements to procedures for Bank Reconciliations	1	-
3.	Weakness in banking of receipts from FGS	1	9,000
4.	Weakness in Revenue Collection Controls	1	-
5.	Inadequately supported payments	1	377,909
6.	Excessive use of Cash payments	1	-
7.	Weakness in Procurement process	1	-
8.	Late submission of Financial statements to the Auditor General for audit.	1	-
9.	Weakness in asset management	2	-
10.	Failure to implement prior year audit recommendations	3	-
11.	Weakness in personnel records management	3	-
12.	Use of unapproved manuals, policies and procedures and regulations	3	-
13.	Other control weaknesses	3	-

2.2 DETAILED AUDIT FINDINGS AND RECOMMENDATIONS

Finding n°: 1	Title: Understated funds receipts				
Criteria:					
Article 5.1.4 of the PFM regulation 6 states that “All receipts and Payments shall be recorded and reported in the FMIS using the Government Financial Statistics (GFS) chart of accounts structure as outlined in Regulation #2, Establishing the Budget Classification Structure”.					
Description of the finding:					
a) We performed independent income confirmation with the Federal Government of Somalia (FGS). The confirmations received indicated under declaration of revenue on the Consolidated Fund Statement of Receipts and Payments as follows:					
Details		Reference in Financial Statements	Financial Statements (same amount as per bank confirmations)	FGS confirmation amount	Variance (under-declared)
			(USD)	(USD)	(USD)
Grants from Other General Government Units	FGS support for GSS security forces	Note 4	1,711,792	2,000,000	288,208
Grants from international organizations	RCRF Project II	Note 3	352,544	1,300,000	947,456
Total					1,235,664
If all the receipts as per FGS confirmation had been reported, the receipts under the TSA would be USD 3,645,209 as compared to the current receipts of USD 2,409,545 implying that there is a 34% under declaration of revenues which is significant.					
Detailed scrutiny of the monthly records for funds received indicated variances between funds recorded versus confirmations received as detailed in Annex 1 of this report.					
On 14 August 2018 we requested FGS to provide further information such as copies of deposit slips for funds banked into GSS accounts in order to support the FGS confirmation. However, these further confirmations were not provided.					
b) The Consolidated Fund Statement of Receipts and Payments reflects USD 339,929 as ‘Taxes on International Trade and Transactions’ whereas the bank statements showed an amount of USD 348,929 was received during the year 2017. The understated receipts of USD 9,000 is yet to be reconciled.					
Based on the observations in (a) and (b) above, the likely underdeclared receipts totals to USD 1,244,664.					
Implication					
The financial statements are inaccurate as a result of the under declaration of receipts.					
Recommendation Priority					
Priority 1 – Urgent remedial action is required.					

Finding n°: 1	Title: Understated funds receipts
Recommendations:	
<p>a) The variances should be investigated and adjustments made as necessary.</p> <p>b) GSS should obtain account statements on a regular basis from the FGS and perform reconciliations against GSS records.</p> <p>c) Evidence of funds deposited by FGS or other external parties into GSS bank accounts should be provided to GSS and retained as part of supporting documentation for revenue.</p> <p>d) The monthly and year-end financial reporting procedures at the GSS Ministry of Finance should include a full reconciliation of funds received against the sources of funds, amounts banked and supporting receipts.</p>	
Agreed/Disagreed: Disagreed.	
Comments from GSS:	
<p>We are not in agreement with the reconciliation of funds received against the FGS confirmation. We note that the confirmation from FGS is listing \$1.3m against SURGE support but is shown against RCRF funding to determine the variance. The \$1m received in November 2017 was in relation to funding for Military Assistance with the \$300,000 received from FGS as SURGE funding in support of youth development. \$150,000 was deposited into the TSA with \$150,000 paid by FGS direct to the construction company. We ask that you review your reconciliation for the months of November and December to reflect the amounts received for RCRF.</p> <p>In relation to the \$9,000 variance between the bank statements and what is reported in the Financial Statements for Taxes on International Trade and Transactions, we will review our revenue figures to obtain the reason for this variance. Please note, the bank reconciliation is prepared in the FMIS and any variances would be reported at the time of reconciliation as a “reconciling item”. The bank reconciliations are up to date and there is no evidence of a discrepancy of income reported against what was deposited in the TSA.</p> <p>Also note the Regulations were not finalised until early 2018 so your reference to Regulation #3 and Regulation #6 is incorrect.</p>	
Responsible person and date:	
DG, MoFED	
Further comments by the Auditor:	
<p>On receipt of the confirmation of the from FGS, we shared the same with Director General (DG) and further computed the variances between their financial records and the amounts confirmed by FGS. The DG did not provide a reconciliation on the variances. In addition, FGS did not also revert to us when we requested for copies of the banking slips and evidence of having transferred the amounts to GSS. Therefore, GSS should carry out regular reconciliations of the income received from FGS to ensure the figures carried in the State’s Financial statements are accurate before they are presented for audit of other reviews.</p> <p>Further, although regulations #3 and #6 were in draft form, they were already in use guiding operations and they actually do align to best practice of regular reconciliation of all revenue avenues to ensure for completeness of income.</p>	

Finding n°:2	Title: Improvements to procedures for bank reconciliations
<p>Criteria:</p> <p>According to the PFM Act and precisely Regulation 5_Cash and Banking agreements, 3.1.1 it states “The Treasury Single Account and any other bank accounts of the [FMS] are to be reconciled preferably daily or at a minimum weekly within 2 days after end of the week by the Treasury Department, Ministry of Finance using the financial management information system (FMIS). ‘3.1.2. Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer and lastly’ “3.1.3. Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format.”</p> <p>Article 8.1. of the Operation of Bank Accounts Procedures Manual, states: “In December each year, the Cash Management Unit will conduct a review of the bank register and all government bank accounts. The review will cover the following key issues:” Section (e) states: “Yearly confirmation request of banks to confirm name and account numbers of all bank accounts registered in the name of the [FMS]”</p>	
<p>Description of finding</p> <p>a) We find that the requirement for weekly bank reconciliations is administratively tedious and may not result in significant increase in strength of controls above the frequency of monthly bank reconciliations.</p> <p>b) Based on our review on the bank reconciliations, we noted the following observations:</p> <p>i) Although bank reconciliations were prepared on monthly basis, these did not bear evidence of approval by a senior officer.</p> <p>ii) The bank reconciliations provided for audit did not indicate the date of preparation and approval.</p> <p>iii) Treasury department under the Ministry of Finance had not obtained the yearly confirmation request of the banks to confirm that the name and account numbers of all bank accounts registered are in the name of the Ministry of Finance.</p>	
<p>Implication:</p> <p>The requirement for weekly bank reconciliations results in increased administrative work load for the finance teams which may not result in incremental benefit to control environment for bank transactions.</p> <p>Lack of evidence of review and approval of bank reconciliations by a senior officer increases the risk of failure to detect fraudulent transactions and bank errors.</p> <p>There was noncompliance with requirements to confirm bank account details which increases the risk of delayed identification of anomalies in the bank accounts.</p>	
<p>Recommendation Priority:</p> <p>Priority 2 – Prompt specific action is required.</p>	
<p>Recommendation:</p> <p>We recommend that:</p> <p>a) GSS considers revising the Fiduciary Procedures Manual to provide for monthly preparation of bank reconciliations rather than weekly.</p> <p>b) That bank reconciliation statements be prepared, checked and approved as per the requirements of the PFM Act. Evidence of review and approval should be demonstrated on the face of the bank reconciliations. This includes stating the date and designations of reviewers and approvers.</p> <p>c) GSS should include confirmations of bank accounts details as part of year end procedures in compliance with the procedure’s manuals.</p>	
<p>Agreed/Disagreed: Disagreed</p>	

Finding n°:2	Title: Improvements to procedures for bank reconciliations
Comments from GSS: <p>We disagree with recommendation (a) as we are focused on implementing best practice and sound controls to ensure regular processes are in place regardless of volume. Given the small volume of transactions we do not consider weekly reconciliations to be an administrative burden.</p> <p>A Cash Management training was held in July 2018 which included a review bank reconciliation processes in particular review and sign off. This process has been implemented in the 2018 financial year.</p> <p>Regulation #5 was not finalised until early 2018, and is expected to be promulgated by the Minister for Finance before the end of the 2018 financial year. Therefore, requirements under this Regulation will be adhered to as from the 2018 financial year.</p>	
Responsible person and date: DG, MoFED	
Further comments by the Auditor: <p>The recommendations on monthly bank reconciliations instead of weekly bank reconciliations are made with consideration of future increase in volume of activity at GSS and therefore can be considered for adoption in future. Monthly bank reconciliations are also in line with best practice.</p> <p>Although regulation #5 was in draft form, they were already in use guiding operations and they actually do align to best practice of regular reconciliation of all revenue avenues to ensure for completeness of income.</p>	

Finding n°: 3	Title: Weakness in remittance of receipts from FGS
<p>Criteria:</p> <p>Article 6.3.1 of PFM regulation 6 of accounting and reporting states that “Each Spending Agency /Entity is required to report on a Monthly basis to the Minister on all revenues, reporting on collections against estimates, providing details of any variances of 10% or more against estimates. Where the variance is an under-collection year to date, details as to whether the estimated revenue will be collected and any revisions that maybe required to the revenue forecasts”.</p> <p>In addition, best practice requires that all Receipts are reconciled to funds actually received in the bank accounts. Funds should be remitted through funds transfers and any cash collected should be promptly banked intact.</p> <p>Description of the finding:</p> <p>We noted instances where income was deposited into the GSS Treasury Single Account from Federal Government of Somalia (FGS) by an individual rather than use of inter-bank funds transfer. Examples of such instances are detailed under Annex 2 of this report.</p> <p>On Annex 2, we have provided details of an instance where USD 74,000 was recorded 23 September 2017 through reference number 17/00000133 RV as received whereas the amounts reflected on the bank account was USD 65,000. It is unclear on what basis the revenue of USD 74,000 was reflected on the ledgers whereas the bank statements reflect a lower amount of USD 65,000. This resulted in an overstatement of revenue of USD 9,000 which is yet to be reconciled.</p>	
<p>Implication</p> <p>There is increased risk of loss of funds and inadequate accountability for funds received when cash deposits are made instead of funds transfers through the banking system. Because the funds received in the bank accounts differed from the financial statements, this implies financial statements are not wholly drawn from the financial records.</p>	
<p>Recommendation Priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>The variance identified should be reconciled and corrections made as necessary. The financial statements should be drawn from the underlying accounting records. Receipts should be reconciled to funds actually received and all funds should be remitted through funds transfers and cash collected promptly banked intact.</p>	
<p>Agreed/Disagreed: Agreed</p>	
<p>Comments from GSS:</p> <p>We will review the variance of \$9,000 as it is likely that it is a mis posting and relates to the understatement of revenue under finding 1 of this management letter.</p> <p>We will review processes to ensure that the process of transferring funds mitigates the need for manual transfer of funds.</p>	
<p>Responsible person and date:</p> <p>DG, MoFED</p>	

Finding n°: 4	Title: Weaknesses in revenue collection controls
<p>Criteria:</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all revenue collected are promptly banked entirely and expense are paid directly from the bank using cheques or other banking instruments.</p> <p>Also, Galmudug State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states in Revenue Process outline sections “Collection of revenue per the revenue decree/law is done either by government-employed tax collectors or authorized collection agents on behalf of the government, or the taxpayer can pay directly into the TSA bank account or the cash window at the Ministry of Finance.</p> <p>Tax collection by collectors or agents is always supported by the collector/agent issuing a numerically controlled, authorized revenue receipt. Tax collectors should deposit the money to the bank.</p> <p>Revenue is recorded into the FMIS utilizing the proper revenue codes”</p> <p>Description of the finding:</p> <p>We noted that in practice, the officers within the revenue department at the Ministry of Finance follows the following procedure when collecting and recording of revenue, though the system was not in place for whole of 2017.</p> <ol style="list-style-type: none"> a) Tax collection agents collect receipt books from the Revenue Office within the MoF premises in the morning and return them in the evening together with cash received. Most tax collection is made through the Electronic Verification Code which is a mobile money funds transfer system therefore the amounts are held in the collection officers’ sim card. The tax collected in cash is handed over to the revenue department for subsequent banking. b) The collection officer in the revenue department reconciles cash received to amounts recorded in the receipt books. c) Daily cash collection is banked by the same officer who reconciled the receipt books the following working day. The cash is banked in the Treasury Single account held at Salaam Somali Bank. There is currently no Central Bank in the GSS and therefore the State uses, Salaam Bank a which is a commercial bank. d) The collection officer uses the Bank deposit slips instead of the receipt books to record the different types of taxes in the RMS. e) From the RMS a receipt Voucher is generated which is used to make records in the FMIS system by the finance team. <p>We reviewed the revenue receipts recorded in the Financial Statements and noted the following weaknesses:</p> <ol style="list-style-type: none"> a) The revenue collection is a manual-based system and lacks automation at the points of revenue collection. b) Revenue received was recorded into the FMIS using bank deposit slips without proper reference numbers in the revenue ledgers of the amounts being indicated in the batch of receipts for ease of Audit trail. c) There was no evidence of segregation of duties in revenue collection process as there were no preparer, reviewer and approver indicated on the revenue reconciliation sheet. d) We noted inconsistency between the revenue receipt description and the total amount in the batch of receipts. As detailed in Annex 3A. e) We identified variance between revenue receipts recorded, amount banked and the totals of revenue receipt as detailed in Annex 3B. 	

Finding n°: 4	Title: Weaknesses in revenue collection controls
<p>f) We also noted that GSS had receipt books where each receipt reflected a Standard amount of USD 350. The Tax chargeable for a particular type of motor vehicle would be manually subtracted in arriving at the amount due as the Road Tax. In our review of computations on the receipts, we noted numerous discrepancies, we have highlighted a few examples under Annex 3C.</p>	
<p>Implication Weakness in revenue collections procedures could lead to loss of funds, inadequate accounting for taxes collected as well as inaccurate financial reporting.</p>	
<p>Recommendation Priority Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations: Measures should be put in place to enhance segregation of duties in the revenue collections. The gaps in revenue collection should be reviewed and controls strengthened by including the following procedures:</p> <ul style="list-style-type: none"> a) Tax collectors should use the system generated reference number and include it in the specific batch of receipts amounting to the total amount banked for the day. In addition, the serialized receipt vouchers for collecting revenues, these receipt books should be issued following a sequence to improve accountability. b) Tax collected should be promptly banked intact c) An officer not involved in revenue collection should perform reconciliations of revenues collected with the amounts banked on regular basis such as daily or weekly. These reconciliations should be reviewed by senior officers. d) Recording of revenues into FMIS should be references using the same references as appears on the serialized receipt books. 	
<p>Agreed/Disagreed: Agreed</p>	
<p>Comments from GSS: We agree with the recommendations and the Ministry of Finance & Economic Development will be working with Internal Audit to review current processes and implement stronger controls over the revenue collection process.</p>	
<p>Responsible person and date: DG, MoFED</p>	

Finding n°:5	Title: Inadequately supported payments										
<p>Criteria:</p> <p>According to the GSS Financial management procedures, Certification for payment Clause states “Certification for Payment occurs after receipt of goods or services. A competent person (this would usually be the person originally identifying the requirement for Commitment Authorization) must first verify that the service has been performed or goods delivered in accordance with the Purchase Order. This person must complete the Receiving Report section of the Purchase Order”.</p> <p>Description of the finding:</p> <p>a) We noted an instance where allowances paid to the Ministry of Local Government employees were not supported by detailed breakdown or evidence of receiving allowances:</p>											
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Date</th> <th style="text-align: left;">Reference</th> <th style="text-align: right;">Amount in USD</th> </tr> </thead> <tbody> <tr> <td>3.4.2017</td> <td>17/00000091 PV</td> <td style="text-align: right;">3,700</td> </tr> <tr> <td colspan="2">Total</td> <td style="text-align: right;">3,700</td> </tr> </tbody> </table>			Date	Reference	Amount in USD	3.4.2017	17/00000091 PV	3,700	Total		3,700
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<p>b) During the financial year ended 31 December 2017, Galmudug State of Somalia paid USD 14,400 in salaries to the PS, Ministry for Finance. However, we noted that the employee resigned October 2016 and resignation acceptance letter dated November 2016 was provided. We were informed that the employee worked in acting capacity for the year 2017. However, there was no evidence to show that he worked for GSS in the year 2017.</p> <p>c) We noted that payments were supported mostly by documents generated from FMIS and not third-party external documentation as detailed below. Where third party documentation was provided, there were inadequate details on the documents.</p>											
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Finding n°:5	Title: Inadequately supported payments
Social Benefits	GSS paid USD 29,200 in respect of security services, medical treatment offered but for which no supporting document was provided for audit review. Refer to Annex 7 .
Other Expenses	GSS paid USD 129,100 on IGA state formation obligations. However, the following weaknesses were noted: <ul style="list-style-type: none"> ▪ No description on payment voucher and commitment payment order. ▪ Invoice lacked quantity and unit price, the invoice description was IGA obligations hence we could not verify what the details of the obligations were. Refer to Annex 8.
<p>Implications:</p> <p>Inadequate evidence that occurrence of transactions reduces reliability of the financial statements since transactions cannot be adequately verified.</p> <p>This make difficult to judge the reasonableness of the prices invoiced and arithmetic accuracy of invoices since the quantity and unit prices were not provided on the invoice.</p> <p>The amount of USD 14,400 discussed in part (b) of the findings should be reversed from GSS payments and refunded to the RCRFII project. There is need to strengthen controls to ensure only costs which are incurred are recorded in the financial reports.</p>	
<p>Recommendation Priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <ol style="list-style-type: none"> a) We recommend that the management ensures the financial management systems in place are adhered to so that proper accounting records are prepared and maintained to support all costs incurred in the implementation of the programme. b) GSS should formulate a schedule of documentation expected to be obtained for various categories of transactions. c) Original documents and other evidence supporting all transactions should be maintained for future review. d) We recommend that the suppliers should have the quantity and unit prices that can be checked for reasonableness. 	
<p>Agreed/Disagreed: Agreed but section B of findings we disagree</p>	
<p>Comments from GSS:</p> <p>We agree with the recommendations. The amount of USD 14,400 in part (b) of the findings has been raised is not correct for two reasons:</p> <ol style="list-style-type: none"> 1. After resignation of PS the Minister officially requested to be acting until recruiting new PS, as per the Civil service Act, competitively recruited staff with acting positions will have the allowance of that position. That is why he has been paid. 2. The allegation (there was no evidence to show that he worked for GSS in the year 2017) we disagree there is no suggestions to clarify that he worked or not because DGs are not supposed to sign attendance letter as per the civil service act. 	

Finding n°:5	Title: Inadequately supported payments
<p>With the assistance of the Internal Audit Unit, the Treasury Department will be reviewing the documentation that is maintained to support payments and ensure processes are in place to properly file these documents for easy access.</p> <p>We will consult with suppliers to determine if they can include the unit price and quantity on their invoices.</p>	
Responsible person and date: DG, MoFED	
Further comments by the Auditor: GSS MoFED did not provide us with any documentation indicating the terms and conditions of engaging the outgoing PS in an acting capacity nor was a record of his service during the year 2017 provided for our review.	

Finding n°: 6	Title: Excessive use of cash payments
<p>Criteria:</p> <p>An effective measure in achieving an accurate set of financial files is reducing the reliance on cash payments, wherever possible. This is because cash is associated to a higher degree of risk and error compared to other payment methods. These risks include fraudulent activities and the potential for individuals to misappropriate funds.</p> <p>Also, Galmudug State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states in Expenditure process detail section “Payment to suppliers for goods and services can be made by check or when it becomes feasible by funds transfer to the supplier’s account”.</p>	
<p>Description of the finding:</p> <p>We noted excessive use of cash payments. For example, USD 31,559 (see Annex 6) was paid as causal labour allowances for the Ministry of Local Government and the Ministry of internal security paid USD 452,000 (see Annex 8 (b)) for security allowances in cash.</p>	
<p>Implication:</p> <p>Significant cash payments increase risk of loss of funds and misappropriation.</p>	
<p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>GSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. The banking system and mobile cash transfer payments which are available in Somalia should be used to pay beneficiaries. Cash payment should be kept at minimum or only used in exceptional circumstances.</p>	
<p>Agreed/Disagreed: Agreed</p>	
<p>Comments from GSS:</p> <p>We agree with the recommendations and as part of the review of payment processes, we will review the existing method of payments to ensure in accordance with GSS payment requirements and payments in cash are eliminated. GSS has requested a Security Sector review and until the outcome of this review is available and resulting action taken, it will be necessary continue paying using the paymaster process. However, we will work to obtain the necessary from the paymaster.</p>	
<p>Responsible person and date:</p> <p>DG, MoFED</p>	

Finding n°: 7	Title: Weakness in procurement process
<p>Criteria:</p> <p>Article 4 of PFM regulation act of procurement policy provides the guidelines for procurement of goods and services as follows;</p> <p>a) Sole and Single Sourcing; this is to be undertaken in the following circumstances;</p> <ul style="list-style-type: none"> • When there is an existing contract for goods, works or non-consultant services, awarded in accordance with procedures acceptable to GSS. • Standardization of equipment or spare parts in order to be compatible with existing equipment. • When the required equipment is proprietary and is obtainable only from one source. • In exceptional cases, such as in response to natural disasters. • When the value of the contract is one thousand United States Dollars (US \$1,000) or less. <p>b) Shopping method – purchases less than USD 10,000; require a minimum of three quotes and price analysis done.</p> <p>c) Competitive procurement process involving public tendering will be undertaken for purchases above USD 10,000.</p> <p>Description of the finding:</p> <p>However, we noted instances where evidence of compliance with the competitive procurement procedures were not adhered to as <i>shown in Annex 10</i>.</p> <p>In addition, the procurement policy lacks guidelines on composition and number of members that should form the procurement committee.</p>	
<p>Implication:</p> <p>Lack of application of competitive procurement procedures poses the risk of GSS not benefitting from best value for money.</p>	
<p>Recommendation priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>In order to ensure value for money is achieved when awarding contracts, GSS should ensure that competitive process is applied when procuring goods and services and retain supporting documents to demonstrate those procedures and the procurement decisions made.</p>	
<p>Agreed/Disagreed: Agreed</p>	
<p>Comments from GSS: Treasury department will work with Procurement Department and Internal Audit Unit to review the procurement processes and ensure all staff involved in the procurement process are made aware of procurement policies and procedures required when conducting public procurements. Also, with the assistance from PREMIS, state-based procurement workshops will be held.</p>	
<p>Responsible person and date:</p> <p>DG, MoFED</p>	

Finding n°:8	Title: Late Submission of the Annual Financial Statements for Audit
<p>Criteria:</p> <p>Section 32 of the PFM Act 2017, (1) states, "The Minister shall prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four (4) months after the end of the fiscal year."</p> <p>Description of the finding:</p> <p>We noted that the GSS annual signed financial statements were submitted for audit by the Minister of Finance on 7 July 2018 instead of by the deadline of 30 April 2018.</p>	
<p>Implications</p> <p>There was non-compliance with the PFM Act which delays prompt decision making based on the financial statements.</p> <p>In addition, the delay will also result in consequent delays in Audit of the financial statements and in the official Gazettement of the Audit report.</p>	
<p>Recommendation Priority:</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>The Minister of Finance should put in place mechanisms to ensure the preparation of the financial statements are concluded within the timeframe of the applicable legislation.</p>	
<p>Agreed/Disagreed: Agreed</p>	
<p>Comments from GSS:</p> <p>We agree with the recommendations and will improve this for the 2018 financial year where, following training conducted by PREMIS scheduled for December 2018, we intend to have our draft financial statement prepared for the March 2019 IPSAS financial Statement Review workshop scheduled in Nairobi by PREMIS.</p>	
<p>Responsible person and date:</p> <p>DG, MoFED</p>	

Finding n°: 9	Title: Weakness in asset management
<p>Criteria:</p> <p>Article 3.2 of the responsibility under regulation 9 of the PFM act states that “The Director General (or equivalent) may delegate duties for coordinating asset physical inventory counts, as well as ensuring capital asset acquisitions, transfers, and disposals are recorded in the centralized Capital Asset Register.”</p>	
<p>Description of the finding:</p> <ul style="list-style-type: none"> • We noted that asset register reflects identification codes and descriptions but the assets were not tagged rendering physical verification exercises difficult. • There was no evidence that a physical verification on the asset had been conducted. 	
<p>Implications:</p> <ul style="list-style-type: none"> • The weaknesses identified reduce ability to perform certain control functions, this include as accountability in case of the theft or even misappropriation. 	
<p>Recommendation priority:</p> <p>Priority 2 - Prompt specific action is required.</p>	
<p>Recommendations:</p> <ul style="list-style-type: none"> • Ensure that the costs of assets are recorded on the Financial Statements as per the fixed assets register in the year of acquisition. It is necessary to undertake a reconciliation of the fixed assets register with the Financial Statements. • Ensure that asset register is updated with all key information such as value of the asset to ensure effective control and tracking of assets. 	
<p>Agreed/Disagreed: Agreed from the 2018 Financial year</p>	
<p>Comments from GSS:</p> <p>The Asset Management Module was implemented late in the 2017 financial year (November). Regulation #9 was finalized early 2018, therefore we agree with your recommendations beginning from the 2018 financial year but not for the 2017 financial year.</p>	
<p>Responsible person and date:</p> <p>DG, MoFED</p>	

Finding n°:10	Title: Weakness in personnel management
<p>Criteria</p> <p>Best Human Resources practice requires that the following information be maintained in the official personnel file for each employee: Application, Resume, Prescreening application notes, Employment interview report form, Education verification, Employment history verification, Other background verification, Emergency Contact Form, Request for non-medical leave of absence and approval/denial of leave and Employment offer letter as a bare minimum.</p> <p>Description</p> <p>Review of personnel files however revealed that for the Permanent Staff, Performance appraisals, induction training and leave details were missing.</p> <p>We were not provided with employee time records such as time sheets or alternate records for the civil servants as evidence of continuous presence at the work station for all of the Ministries and government institutions.</p>	
<p>Implications</p> <p>Incomplete personnel records may hinder proper reference of records, hence leading to lack of evidence of vital information about employees.</p>	
<p>Recommendation Priority:</p> <p>Priority 2 - Prompt specific action is required.</p>	
<p>Recommendations:</p> <p>GSS Civil Service Commission in conjunction with MoF should endeavour to ensure that complete personnel records are kept for the permanent staff members and that these are updated regularly.</p>	
<p>Agreed/Disagreed: Disagreed.</p>	
<p>Comments from GSS:</p> <p>Staff appraisal has not been implemented yet so there are no staff appraisal records. However, there are full HR records including attendance sheets for timekeeping / leave etc.</p>	
<p>Responsible person and date:</p> <p>Civil Service Commissioner</p>	
<p>Further comments by the Auditor:</p> <p>The personnel records such as signed attendance sheets to record time spent on duty by staff was not provided during the audit fieldwork dates. The Civil Service Commission should consider investing in an automated or a biometric system for recording work hours by staff wherein such date would be easily retrievable.</p>	

Finding n°:11	Title: Use of unapproved manuals, policies and procedures and regulations
Criteria:	
<p>Part 1, Section 1 of the PFM Act (2) states, " This Act governs all matters related to the management of the public finances of the Galmudug State of Somalia. It lays out fundamental procedures for the preparation, adoption, execution and final accounts of the Galmudug State of Somalia Consolidated Budget and related matters including internal control, accounting and auditing of public finances. This Act shall be supplemented by enabling regulations promulgated by the Ministry of Finance to further specify the procedures in each of the areas mentioned herein, and which may be amended from time to time. Parliament in execution of its oversight responsibilities, shall ensure that all regulations issued pursuant to this Act are consistent with the Act."</p>	
Description of the finding:	
<p>We noted all the regulations in place guiding the utilization of public resources were in draft form and lacked evidence of being promulgated by the Ministry of Finance. For example:</p> <ul style="list-style-type: none"> • Reg_1_Establishing the Organizational Structure with MoF_GENERIC_v1 • Reg_2_Establishing Budget Classification Structure for Budgeting and Budget Execution_GENERIC_v1 • Reg_3_Establishing Year End Budget Procedures_GENERIC_v3 • Reg_5_Cash Management Banking Arrangements_GENERIC-v4 final • Reg_6_Accounting and Reporting_GENERIC_v2 • Reg_9_Capital Asset Policy_GENERIC_v4 among the others. 	
Implications	
<p>The regulations in place are lacking adequate approval thus reducing effectiveness of its application.</p>	
Recommendation Priority:	
<p>Priority 2 - Prompt specific action is required.</p>	
Recommendations:	
<p>The State through the ministry of finance should ensure compliance with the provisions of the PFM Act of 2017 to have all regulations and standard operating procedures approved.</p>	
Agreed/Disagreed: Agreed	
Comments from GSS:	
<p>We agree with the recommendations. The Regulations were finalized and forwarded to the Minister for Finance & Economic Development in early 2018 and the intention is to have these submitted to Parliament November 2018.</p>	
Responsible person and date:	
<p>Minister for Finance & Economic Development</p>	

Finding n°:12	Title: Other control weaknesses
We noted other control weaknesses as follows:	
Criteria	Description of the finding
<p>According to GSS Financial Management and Expenditure/Revenue procedures manual Commitment Authorization section and specially Appendix A treasury forms instruction specially in Form 2: Commitment and Payment Order (CPO) Detailed Instructions states that:</p> <ul style="list-style-type: none"> • This first section of the CPO form is to be completed by the spending Ministry • Ministry Requesting Officer should sign to confirm the Commitment is required to meet the needs of the Ministry. • Ministry Authorizing Officer (frequently the Ministry head) should sign after satisfied himself/herself that: • The proposal is in accordance with the policies of the IGA; and • The proposed expenditure will make efficient and effective use of the public moneys available from the IGA Consolidated Budget for programs implementing those policies. • The Appropriation Account in the IGA Consolidated Budget has been assigned, to which the amount is chargeable. 	<p>We noted instances where Commitment and Payment Orders (CPO) sections for prepared by and authorized by were not signed by the respective authorized staff.</p> <p>The CPOs also lacks description of the expense to be paid.</p>
<p>Good accounting practice requires that once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This makes the payment invalidated and helps avoid duplication of payments, more so if the entity is running more than one project with different funding sources.</p>	<p>We noted all the expenditure supporting documentation had not been stamped "PAID" or "POSTED" to invalidate the support documents once payments are made.</p>
<p>Implications:</p> <p>Control weaknesses reduce effectiveness of controls which increase the risk of errors and irregularities occurring without detection.</p>	
<p>Recommendation priority:</p> <p>Priority 2 - Prompt specific action is required</p>	
<p>Recommendations:</p> <p>We recommend that the payments processing guidelines be adhered to before any amounts are paid out to the suppliers of goods and services.</p>	

Finding n°:12	Title: Other control weaknesses
In relation to the third-party documents, once a transaction has been posted to the accounting system and payments effected, the support documents ought to be stamped "PAID" or "POSTED". This invalidation process for the payments helps avoid erroneous or deliberate duplication of transactions.	
Agreed/Disagreed: Agreed.	
Comments from GSS: We agree with the recommendations and as mentioned in findings 6 & 7 we will work with the Internal Audit Unit to review current processes and ensure processes are in accordance with GSS procurement policies and procedures.	
Responsible person and date: DG, MoFED	

Finding n°:13	Title: Failure to implement prior year audit recommendations
<p>Criteria: Best practice requires that when an audit is finalized, the management of the Entity will take responsibility to improve the internal control system and thus prevent similar occurrences in future.</p> <p>Description of finding: We have noted some audit recommendations made for the audit year ended 31 December 2016 have not been implemented. The audit for 2016 was finalized close to when the 2017 Audit was commissioned. See "Follow up on prior period audit recommendations" on Section 3.0.</p>	
<p>Implication: GSS does not benefit from audit recommendations.</p>	
<p>Recommendation Priority: Priority 2 - Prompt specific action is required.</p>	
<p>Recommendation: We recommend that GSS and specifically the Ministry of Finance (MoF) should ensure that all weaknesses identified in the audit are addressed based on the recommendation provided or other control measures that would address the weakness satisfactorily.</p>	
<p>Agreed/Disagreed: Agreed for 2018 financial year</p>	
<p>Comments from GSS: We acknowledge the prior year audit recommendations and agree that these recommendations need to be implemented. However, as the 2016 audit was not finalized until the 2018 financial year these recommendations will be actioned and implemented in the 2018 financial year.</p>	
<p>Responsible person and date: DG, MoFED</p>	



Annex 3 – Galmudug State of Somalia (GSS) Audited Financial Statements for The Period Ended 31 December 2016



CONSOLIDATED &
MINISTERIAL
FINANCIAL
STATEMENTS OF THE
INTERIM GALMUDUG
ADMINISTRATION OF
SOMALIA

For the Nine Months Ended 31 December 2016

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

Prepared by the Ministry of Finance

Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

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Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

1.0 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Public Financial Management Decree of Galmudug State of Somalia requires Ministry of Finance to prepare Consolidated Fund Statement of Receipt and Payments for each financial year that gives a true and fair view of the financial position of the State at the end of the financial year and of its surplus or deficit for that year. It also requires the State to ensure that the State maintains proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management accepts responsibility for the preparation and presentation of these Consolidated Fund Statement of Receipt and Payments in accordance with International Financial Reporting Standards and in the manner required by the Public Financial Management Decree of Galmudug State of Somalia. The Management also accepts responsibility for:

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

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

The Management acknowledges that the independent audit of the Consolidated Fund Statement of Receipt and Payments does not relieve them of their responsibilities.

Approved by the State of Galmudug (GSS) on behalf of MoF *JM Hussein* 2018.

Responsibilities of the Management and those charged with governance for the Consolidated Fund Statement of Receipt and Payments

The Management is responsible for the preparation and fair presentation of these Consolidated Fund Statement of Receipt and Payments in accordance with the Public Financial Management Decree of 2016 and the International Public-Sector Accounting Standard (IPSAS) - Financial Reporting under the Cash Basis of Accounting and for such internal control as the Management Committee is necessary to enable the preparation of Consolidated Fund Statement of Receipt and Payments that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Fund Statement of Receipt and Payments, the Management is responsible for assessing the GSS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management intends to liquidate the organization, or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the Audit of the Consolidated Fund Statement of Receipt and Payments.

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

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

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



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MERALI'S**

- Evaluate the overall presentation, structure, and content of the Consolidated Fund Statement of Receipt and Payments, including the disclosures, and whether the Consolidated Fund Statement of Receipt and Payments represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA John Mucheru P/No 1854.

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

Date: *05 Nov*.....2018

Interim Galmudug Administration (IGA) of Somalia
 Audited Consolidated Fund Statement of Receipt and Payments
 For the nine months ended 31 December 2016.

3.0 CONSOLIDATED FUND STATEMENT OF RECEIPT AND PAYMENTS

Interim Galmudug Administration of Somalia
 Consolidated Fund Statement of Receipts and Payments
 Treasury Single Accounts
 For the Nine Months Ended December 31, 2016

	Notes	2016		2015	
		Controlled	Payments	Controlled	Payments
		By	By	By	By
		TSA	Thirty party	TSA	Third Party
		USD	USD	USD	USD
Receipts / Inflows					
Taxes					
Taxes on goods and services					
Taxes on international trade and transactions	4	1,051,807			
		1,051,807			
Grants					
From international organizations	7	58,850	1,083,507		
From other general government units	8	746,900			
		805,750	1,083,507		
Receipts / Inflows		1,857,557	1,083,507		
Payments / Outflows					
Compensation of Employees					
Wages and Salaries	12	1,519,997			
Compensation of Employees		1,519,997			
Use of Goods and Services					
Travel & Conferences	13	6,540			
Operating Expenses	14	16,808			
Rent	15	32,884			
Other Operating Expenses			499,626		
Use of Goods and Services		56,232	499,626		
Other Expenses					
Miscellaneous other expense	18	272,604			
Other Expenses		272,604			
Nonfinancial assets					
Fixed Assets	19	7,872	583,881		
Nonfinancial assets		7,872	583,881		
Payments / Outflows		1,856,705	1,083,507		
Increase Decrease in Cash		852			
Cash at Beginning of Year		2,214			
Cash at End of Year		3,066			

Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

4.0 CONSOLIDATED FUND STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Interim Galmudug Administration of Somalia

Consolidated Fund Statement of comparison of Budget and Actual Amounts
For the Nine Months Ended 31 December 2016

Appropriation Budget on Cash Basis

(Classification of Payments By Economic Class)

	Notes	2016						2015			
		Original Estimate		Final Estimate		Controlled By TSA		Difference Between Final Budget & Actual		Controlled By TSA	
		A	B	C	C-B	Thirty Party Contribution Estimate	Payment By Thirty Party	Contribution Estimate	Contribution Estimate		
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
Receipts / Inflows											
Taxes											
Taxes on payroll and workforce	20	182,856	182,856				(182,856)				
Taxes on goods and services		583,300	583,300				(583,300)				
Taxes on international trade and transactions		860,000	860,000	1,051,807			191,807				
Other taxes		20,000	20,000				(20,000)				
Taxes		1,646,156	1,646,156	1,051,807			(594,349)				
Grants											
From international organizations	21	635,050	752,250	58,850		1,083,507	(693,400)	1,083,507	1,083,507		
From other general government units		1,050,000	1,050,000	746,900			(303,100)				
Grants		1,685,050	1,802,250	805,750		1,083,507	(996,500)	1,083,507	1,083,507		
Other Revenue											
Sale of goods and services	22	80,000	80,000				(80,000)				
Other Revenue		80,000	80,000				(80,000)				
Receipts / Inflows		3,411,206	3,528,406	1,857,557		1,083,507	(1,670,849)	1,083,507	1,083,507		

**Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.**

	2016						2015							
	Notes	Original Estimate		Final Estimate	Controlled By		Difference Between Final Budget & Actual	Thirty Party Contribution		Payment By		Controlled Thirty Party Contribution		
		A	B		C	TSA		C-B	Estimate	Estimate	Thirty Party	TSA	Estimate	Estimate
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
Payments / Outflows														
Compensation of Employees														
Wages and Salaries	12	4,077,120	4,168,620	4,168,620	1,519,997	(2,648,623)	1,519,997	(2,648,623)						
Compensation of Employees		4,077,120	4,168,620	4,168,620	1,519,997	(2,648,623)	1,519,997	(2,648,623)						
Use of Goods and Services														
Travel & Conferences	13	55,100	55,100	55,100	6,540	(48,560)	6,540	(48,560)						
Operating Expenses	14	329,900	334,000	334,000	16,808	(317,192)	16,808	(317,192)						
Rent	15	135,000	135,000	135,000	32,884	(102,116)	32,884	(102,116)						
Other Operating Expenses		2,000	6,600	6,600		(6,600)		(6,600)	499,626		499,626			
RCRF Non Salary Recurrent Cost			2,000	2,000		(2,000)		(2,000)						
Use of Goods and Services		522,000	532,700	532,700	56,232	(476,468)	56,232	(476,468)	499,626		499,626			
Other Expenses														
Miscellaneous other expense	18	690,444	690,444	690,444	272,604	(417,840)	272,604	(417,840)						
Other Expenses		690,444	690,444	690,444	272,604	(417,840)	272,604	(417,840)						
Nonfinancial assets	19													
Fixed Assets		123,500	138,500	138,500	7,872	(130,628)	7,872	(130,628)	583,881		583,881			
Nonfinancial assets		123,500	138,500	138,500	7,872	(130,628)	7,872	(130,628)	583,881		583,881			
Payments / Outflows		5,413,064	5,530,264	5,530,264	1,856,705	(3,673,559)	1,856,705	(3,673,559)	1,083,507		1,083,507			
Increase Decrease in Cash		(2,001,858)	(2,001,858)	(2,001,858)	852	2,002,711	852	2,002,711						

5.0 NOTES TO THE CONSOLIDATED FUND STATEMENT OF RECEIPT AND PAYMENTS

Note 1 Summary of Significant Accounting Policies

1.1 Basis of Preparation

The Interim Galmudug Administration (IGA) consolidated Fund Statement of Receipt and Payments have been prepared in accordance with the Public Financial Management Decree of 2016 and the International Public-Sector Accounting Standard (IPSAS) - Financial Reporting Under the Cash Basis of Accounting. The notes to the Consolidated Fund Statement of Receipt and Payments 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 Consolidated Fund Statement of Receipt and Payments are for the Interim Galmudug Administration of Somalia (IGA). This is the Government's first year of operation and covers the period 1 April – 31 December 2016. The Consolidated Fund Statement of Receipt and Payments encompass the reporting entities as specified in the *IGA Appropriation Act No. 1 of 2016* 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

Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

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

All ministries were created by **Presidential Decree** entitled, "A Decree Establishing Ministries of Interim Galmudug Administration 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 Interim Galmudug Administration 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 Interim Galmudug Administration" dated 28th December 2015 established the office of the Civil Service Commission. Companion Decrees also established the Civil Service and the Civil Service Salary structure. The inauguration of the IGA constitution automatically established the Galmudug Parliament. Their respective statements form part of the consolidated Fund Statement of Receipt and Payments as these entities were included as part of the *IGA Appropriation Act No.1 of 2016*.

The consolidated Fund Statement of Receipt and Payments include all entities controlled during the year. None of the entities own another entity or a separate business unit.

1.3 Payments by Third Parties

The IGA has benefited from goods and services purchased by third parties on its behalf as a result of cash payments made by third parties during the period. See Below;

Entity	Description of Other operating Costs	2016	2015
		Amount in USD	Amount in USD
Ministry of Finance	Provision of Financial, Budgeting & PA System	583,881	-
	PFM/FMIS/Budget/RMS Training & Support	415,145	-
Civil Service Commission	PA Support	84,481	

1.4 Treasury Single Account (TSA) & Project Account

A project account was opened under a written authorization of the Minister of Finance. As an integral 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 co-mingling with other IGA operations. However, the TSA still remains the core account of IGA. As at the end of the 2016 financial year the balance of both accounts were as follows:

Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

	<u>2016</u> <u>USD</u>	<u>2015</u> <u>USD</u>
Treasury Single Account	3,066	-
Project Account	-	-
Total	<u>3,066</u>	<u>-</u>

1.5 Cash & Cash Equivalents

Cash and Cash Equivalents means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognized at its nominal amount. Interest is credited to revenue as it is received.

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

	<u>2016</u> <u>USD</u>	<u>2015</u> <u>USD</u>
Cash On Hand and Balances with Banks	3,066	-

Cash on Hand of \$3,066 is held in the treasury single account from IGA internally generated revenue. No funds were transferred from the World Bank to the RCRFII project account during the period.

1.6 Reporting Currency

The reporting currency is the United States Dollar (USD\$)

1.7 Borrowings

In 2015 IGA received interest free loans totalling \$1,493,137 from the local businesses. The funds were utilized in establishing the IGA administration. Due to the budget constraints it was agreed that IGA repays the obligations in instalments dependent on the availability of funds. The table below provides a movement schedule of the obligation. (See Note 18).

Total Received	1,493,137
FY 2016 Repayments	(272,604)
Remaining Balance	<u>1,220,533</u>

1.8 Undrawn External Assistance

In the 2016 financial year a new project called Recurrent Cost and Reform Financing (RCRF II) was introduced. The project will run for a period of five years (up to 20 June 2020) and is reviewable on an annual basis. The RCRF II project is a multi-partner fund administered by the International Development Association (IDA). 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.

As specified in a binding agreement Number TFOA0534 dated 29 June 2016, between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the Interim Galmudug Administration by virtue of a sub-agreement with FGS has a running project with IDA which will last to 20 June 2020.

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Undrawn External assistance in respect to the RCRF II project is contingent upon IGA meeting the threshold conditional requirements of the project. IGA 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 IGA in particular, however there is a pooled budget to cover IGA, Interim South West Administration and HirShabelle over the five-year term as follows:

	2015	2016	2017	2018	2019	2020	Total
Budgeted Amount (USD)	1,350,000	1,400,000	1,050,000	2,350,000	3,150,000	100,000	9,400,000

The grant amount is subject to annual review and approval by the IDA as of 31st December 2016, IGA did not access any funds from the RCRFII Project, although the project was approved effective as of 1 July 2016. The reason for this was due to late approval of IGA in 2016, although the effective date was backdated to 1 July 2016, and cash flow constraints within the project after IGA became approved. The project made its first payment in early 2017 but related to payment of salary arrears effective from 1 July 2016.

1.9 Reporting Amounts

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

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

The approved budget is developed on the same accounting basis (Cash basis) and same classification basis as the Consolidated Fund Statement of Receipt and Payments. It encompasses the same entities as the consolidated Fund Statement of Receipt and Payments.

The original budget was approved by the council of Ministers and signed by the President on the 26th April, 2016. There was no supplementary budget during the period.

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

1.11 Financial Transactions in FY2016

The total financial transactions of IGA in 2016 was 1,856,557 all relating to 2016.

1.12 Authorization Date

The Consolidated Fund Statement of Receipt and Payments were authorized for issue on 30 June 2017 by Mr Ahmed Mohamed Farah, Ag. Minister of Finance.

Note 2 Taxes on Income profit and gains

Zero amount was collected under the category of income, profits and capital gains.

Note 3 Taxes on Goods and Services

These are combined taxes charged on the use of services offered by IGA, again zero was collected under this tax.

Note 4 Taxes on International Trade

Taxes on International Trade incorporate all taxes that are imposed on goods and services exported from and imported into Galmudug State of Somalia. In 2016 IGA imposed a road tax in place of a customs. In FY2016, road taxes levied on imports are the only tax collected under this class. The main road /highway connecting Galmudug to the port of Bosasso was the main source of taxes on international trade. The rates for road taxes fluctuate depending on the number of tones of goods imported. Following is a detailed breakdown of road taxes raised and their respective source of entry.

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	<u>2016</u>	<u>2015</u>
	<u>USD</u>	<u>USD</u>
Road Tax-Imported Goods	1,051,807	-
	<u>1,051,807</u>	<u>-</u>

Note 5 Other taxes

No tax was raised under other taxes during the period.

Note 6 Grants from Foreign Governments

During the period IGA did not receive grants from any foreign government.

Note 7 Grants from International Organizations

Treasury Single Account

During the 2016 financial year, a grant totalling \$58,850 was received from the Somali Stability Fund (SSF). The purpose of the grant was to assist the Ministry of Finance and Civil Service Commission to establish and operate the PFM system and the recruiting process acceptable for RCRF II funding support. The amount funded civil servant salaries for three (3) months and provided a small amount to cover essential PFM-related operating costs.

A new grant agreement was signed between IGA and the Federal Government of Somalia (FGS) which will continue to the year 2020. The grant is funded via the multi-donor fund, administered by the World Bank and will be renewed on an annual basis. In 2016, FGS and World Bank approved a partial year cash flow budget of \$117,260, however this budget was not drawn down upon because of late approval and cash flow constraints within the project after IGA became approved.

3rd Party Grants from International Organization

3rd Party Grants refers to grants paid directly by donors to vendors on behalf of IGA for the benefit of specific Ministries. IGA benefitted from 3rd party projects implemented by the SSF worth \$1,083,507. The 3rd party payments contained both recurrent costs and capital expenses (Please see Note 15 & 19). Below is a summary breakdown of grants received and the entities that benefitted.

Entity	Description	2016	2015
		Amount USDS	Amount USDS
Ministry of Finance	Computer Software	583,881	
	Training and Development	415,145	
Civil Service Commission	Computer Software	57,579	
	Training and Development	26,902	
Total		<u>1,083,507</u>	

Note 8 Grants from Other Government Units

In 2016 the Federal Government of Somalia agreed to provide funding for the Galmudug Security Forces, a total of \$746,900 was received from the Federal Government of Somalia during the period.

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Note 9 Property Income

Property income relates to rental income collected from government owed premises. No revenue was generated from Property Income during the period.

Note 10 Sale of Goods and Services

Sale of goods and services consist of income generated from IGA providing necessary legal documents to its citizens. No revenue was generated from sale of goods and services during the period.

Note 11 Fines, penalties and Forfeits

During the period there was no income from fines, penalties and forfeits.

Note 12 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.

	<u>2016</u>	<u>2015</u>
	<u>USD</u>	<u>USD</u>
Permanent employees/Regular staff	64,363	-
Wage workers	38,250	-
Security Forces (Police, Intel Forces and Prison)	651,598	-
Salaries to Ministers and Statutory Appointments	65,000	-
Regular Food Provision	700,786	-
	-	-
Total	<u>1,519,997</u>	<u>-</u>

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IGA started paying salaries in FY2016 after the Civil Service Salaries Decree came into force. Regular food provision are in-kind payments to the Military forces of Galmudug that is made in form of food and other related food supplies, whereas the daily meals relate to meals prepared for the staff at the State Ministry. The following is a breakdown of wages and salaries for each reporting entity:

	<u>Permanent Employees/ Regular Staff</u>	<u>Wage Workers</u>	<u>Salaries to Politicians</u>	<u>Securities forces Allowances</u>	<u>Regular Food Provision</u>
Ministry of Interior & Local Government	-	-	-	-	-
Ministry of Justice & Judiciary	-	-	-	-	-
Ministry of Finance & Economic Development	51,183	38,250	-	-	-
Ministry of Internal Security	-	-	-	651,598	700,786
Ministry of Planning & International Cooperation	-	-	-	-	-
Ministry of Endowment & Religious Affairs	-	-	-	-	-
Ministry of Fisheries & Marine Resources	-	-	-	-	-
Ministry of Public Works & Rebuilding	-	-	-	-	-
Ministry of Commerce & Industry	-	-	-	-	-
Ministry of Information & Culture	-	-	-	-	-
Ministry of Aviation & Transport	-	-	-	-	-
Ministry of Education	-	-	-	-	-
Ministry of Post & Communication	-	-	-	-	-
Ministry of Livestock & Agriculture	-	-	-	-	-
Ministry of Environment & Forestry	-	-	-	-	-
Ministry of Health	-	-	-	-	-
Ministry of Women & Family Affairs	-	-	-	-	-
Ministry of Labor	-	-	-	-	-
Ministry of Youth & Sport	-	-	-	-	-
Ministry of Water & Electricity	-	-	-	-	-
Ministry of Constitution & Reconciliation	-	-	-	-	-
Ministry of Ports & Maritime Transport	-	-	-	-	-
Ministry of Diaspora & Investment	-	-	-	-	-
Ministry of the Disabled and Humanitarian affairs	-	-	-	-	-
Presidency	2,080	-	-	-	-
Office of the Speaker and Parliament	-	-	53,000	-	-
Civil Service Commission	11,100	-	12,000	-	-
	<u>64,363</u>	<u>38,250</u>	<u>65,000</u>	<u>651,598</u>	<u>700,786</u>

Interim Galmudug Administration (IGA) of Somalia
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Note 13 Travel and Conferences

Travel and conferences amounting to \$6,540 comprise internal travel costs within the country, external travel and Local conferences within Galmudug state. The following provides a breakdown of the total Costs.

	<u>2016</u>	<u>2015</u>
	<u>USD</u>	<u>USD</u>
Internal Travel	4,780	-
External Travel	1,580	-
Local Conferences	180	-
	<u>6,540</u>	<u>-</u>

Note 14 Operating Expenses

Operating Costs are combination of costs that are geared towards facilitating the running of the Ministry offices. The following is a detailed breakdown of the operating costs incurred by IGA during FY2016.

	<u>2016</u>	<u>2015</u>
	<u>USD</u>	<u>USD</u>
Electricity	1,552	-
Mobile Phone Expenses	371	-
Internet	1,220	-
Diesel	2,574	-
Oil (machines)	150	-
Stationary	909	-
Books	222	-
Published fees	270	-
Meeting Supplies	500	-
Security Operational Allowances	2,000	-
Maintenance of equipment	100	-
Vehicle Hire/car rental	6,940	-
	<u>16,808</u>	<u>-</u>

Note 15 Rent

Rental expenses constitute of Office Rents amounting to \$29,544 and other rentals of \$3,340.

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For the nine months ended 31 December 2016.

3RD Party Payments

During the period IGA has received various support from International Organization through third party. Practically, SSF support IGA with establishment of Ministry of Finance and Civil Service Commission, Recruitment of key Civil Servants for both entities, provision of Laptops for Ministry of Finance & CSC and other developmental projects.

Shown below is a detailed line item breakdown and description of other 3rd Party operating costs.

		2016	2015
Entity	Description of Other operating Costs	Amount in USD	Amount In USD
Ministry of Finance	Provision of Financial, Budgeting & PA System	583,881	-
	PFM/FMIS/Budget/RMS Training & Support	415,145	-
Civil Service Commission	PA Support	84,481	-

Note 16 Grants to other General government units

There were no transfers made to lower level government of IGA during the reporting period.

Note 17 Social Benefits

Social benefits costs comprise of Medical treatment totalling was paid zero amount to treat staff of IGA both locally and outside the county. Medical treatment is usually provided to the security personnel who are injured during service.

Note 18 Miscellaneous Other Expenses

Other Miscellaneous expenses totalling to \$272,604 of IGA obligation relate to repayment of IGA obligations (refer note 1.7) to previous debts and arrears owed to IGA since inception.

Note 19 Non-Financial Assets

Treasury Single Account

Total Non-Financial Asset of \$7,872 consists of costs that were incurred in relation to Office equipment, and Furniture and Fixtures across Ministries.

A comprehensive breakdown of IGA Non-Financial asset costs is detailed below.

	<u>2016</u>	<u>2015</u>
	USD	USD
Office Equipment	5,051	-
Office Furniture	<u>2,821</u>	<u>-</u>
	<u>7,872</u>	<u>-</u>

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Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.

3RD Party Payments

Non-financial assets paid by Somalia Stability Fund on behalf of IGA totalled to \$641,460 these transactions are spread between the Ministry of Finance and Civil service Commission The following is a summary breakdown of the 3rd party Non-financial assets for the reporting period of FY2016.

Budget entity	3RD Party Payments	Notes
	USD	
Ministry of Finance	583,881	Computers & software, Ministerial Decree/Org structure & Roles/Staff Recruitment support and Port reorganization
Total	583,881	

Note 20 Taxes & Other Revenue

A total of \$ 3,528,406 tax collections was estimated to be raised in FY2016. However, an actual collection of \$ 1,857,557 was achieved. The shortfall was as a result of not implementing some taxes estimated in the budget. Taxes such as payroll and work forces taxes, fuel taxes, electricity taxes, property taxes, both local and international NGO registration fees, business licences, Livestock fees, fishing fees, port docking fees, landing fees, road tax tracks, road saloon, road tax land cruiser, custom duties- tobacco, tax collect from local government, and work permits were not operationalized. Following is a breakdown of taxes collected in FY2016.

Tax Type	Final Estimated Budget	Actual Collections	Difference Between final Budget and Actual
Payroll tax-Government	167,856	-	(167,856)
Payroll tax-Non-Governmental	15,000	-	(15,000)
Fuel Tax	10,000	-	(10,000)
Electricity Tax	10,000	-	(10,000)
Property Tax	165,000	-	(165,000)
Drivers licences	28,800	-	(28,800)
Business licences	35,000	-	(35,000)
Work Permit licences	16,000	-	(16,000)
Local NGO Registration	1,500	-	(1,500)
Livestock Fees	100,000	-	(100,000)
Fishing Fees	5,000	-	(5,000)
Port docking Fees	10,000	-	(10,000)
Landing Fees	90,000	-	(90,000)

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 For the nine months ended 31 December 2016.

Tax Type	Final Estimated Budget	Actual Collections	Difference Between final Budget and Actual
Passenger fees	50,000	-	(50,000)
Road Tax-trucks	20,000	-	(20,000)
Road Tax-Saloon	6,000	-	(6,000)
Road Tax-land Cruiser	16,000	-	(16,000)
International NGO registration	20,000	-	(20,000)
Custom duties-Imported goods	500,000	1,051,807	551,807
Custom duties-Tobacco	360,000	-	(360,000)
Revenue collections from local Government	20,000	-	(20,000)
Grants from Federal Government of Somalia	1,050,000	746,900	(303,100)
Grants from international organisations	202,250	58,850	(143,400)
Total	2,898,406	1,857,557	(1,040,849)

Note 21 Grants

Total grants of \$805,750 were received against a budgeted sum of \$ 1,600,000. Grants from International organizations and other general government units were not received as per estimated in the budget. The following table presents a detailed breakdown of the grant variances.

Description	Final Estimated Budget	Actual Collections	Difference between Final Budget and Actual
Grants from International organizations	550,000	58,850	(491,150)
Grants from other Government units	1,050,000	746,900	(303,100)
Total	1,600,000	805,750	(794,250)

The variance of \$794,250 is as a result of not receiving the estimated budget amount \$491,150 from international organisation and \$ 303,100 from the federal government.

Grant from the Somali Stability Fund was the sole grant received in 2016 under the category of grants from international organisation. Similarly, out of an estimated budget of \$1,600,000 expected from the Federal Government of Somalia and international organizations only \$805,750 was received during the reporting period.

**Interim Galmudug Administration (IGA) of Somalia
Audited Consolidated Fund Statement of Receipt and Payments
For the nine months ended 31 December 2016.**

Note 22 Other Revenue

Nothing was collected during this period under other revenues due to factors like, inadequate facilities, security challenges and tax payer's knowledge of these taxes.

Note 23 Employee Compensation

A total of \$1,519,997 was spent on employee compensation against budget of \$4,168,620. The under spending of (\$2,648, 623) was as a result of low revenue collected.

As a result of unexpected delays in accessing RCRF funding for fiscal year 2016, at the end of the financial year, IGA had an amount of \$93,660 in salary arrears payable to Government employees. These outstanding 2016 salary arrears are not included in the statement of Receipts and Payments as IGA records and reports in accordance with the cash-basis of accounting, thus expenses are only recorded and recognized when the expenditure is paid. These arrears will be paid in the 2017 financial year and charged against the regular 2017 appropriation line for permanent salaries.

Note 24 Use of Good and Services

The ability to expend in the Interim Galmudug Administrations was limited to the revenue collections over a specified period of time. In the case of goods and services, IGA spent a total of \$56,232 which represents 10.6 percent of the final estimated budget. The variance is attributed to constraints in the actual available income.

Note 25 Grants to Other Governments

Grants to other governments units were zero amount because of inadequate funds during the reporting period.

Note 26 Miscellaneous Other Expenses

A total of \$690,444 was budgeted for Miscellaneous - other expenses with actual expenditure of \$272,604 incurred in relation to IGA obligation incurred during state formation process. Payments during the year were contingent on the availability of funds.

Note 27 Non-Financial Assets

Some assets budgeted during the year were not purchased due constraints in the actual available income.

**6.0 INDIVIDUAL BUDGET ENTITY STATEMENT OF CASH RECEIPTS & PAYMENTS &
COMPARISON TO BUDGET**

For the Nine Months Ended 31 December 2016

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

Ministry of Interior & local Government
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016
 Government Uses a Treasury Single Account System to Manage Funds

		2016				2015							
Notes	Original Estimate	Final Estimate		Controlled By		Difference Between		Payments By		Controlled By		Payments By	
		A	B	TSA	C	Final Budget & Actual	C-B	Actual/Third Party	TSA	TSA	Third Party	USD	USD
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows													
Consolidated Fund Appropriations		84,370	84,370	5,044		(79,326)							
Receipts / Inflows													
Payments / Outflows													
Compensation of Employees													
Wages and Salaries	12	57,220	57,220			57,220							
Compensation of Employees		57,220	57,220			(57,220)							
Use of Goods and Services													
Travel & Conferences	13	2,400	2,400	1,080		(1,320)							
Operating Expenses	14	14,250	14,250	3,324		(10,926)							
Rent	15	6,000	6,000	640		(5,360)							
Use of Goods and Services		22,650	22,650	5,044		(17,606)							
Nonfinancial assets													
Fixed Assets	19	4,500	4,500			(4,500)							
Nonfinancial assets		4,500	4,500			(4,500)							
Payments / Outflows		84,370	84,370	5,044		(79,326)							

Ministry of Justice & Judiciary
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations									
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
12	41,320	41,320	41,320	41,320	(41,320)				
Wages and Salaries									
	41,320	41,320	41,320	41,320	(41,320)				
Compensation of Employees									
Use of Goods and Services									
13	2,400	2,400	2,400	2,400	(2,400)				
Travel & Conferences									
14	14,250	14,250	14,250	14,250	(14,250)				
Operating Expenses									
15	6,000	6,000	3,076	6,000	(2,924)				
Rent									
	22,650	22,650	3,076	22,650	(19,574)				
Use of Goods and Services									
Nonfinancial assets									
	4,500	4,500	4,500	4,500	(4,500)				
Fixed Assets									
	4,500	4,500	4,500	4,500	(4,500)				
Nonfinancial assets									
	68,470	68,470	3,076	68,470	(65,394)				
Payments / Outflows									

Ministry of Finance & Economic Development
Combined Statement of Cash Receipts and Payments & Comparison to Budget
 For the Nine months Ended December 31, 2016
 Government Uses a Treasury Single Account System to Manage Funds

		2016				2015					
Notes	Original Estimate	Final Estimate		Difference Between Final Budget & Actual		Thirty Party Contribution		Payments By Third Party		Controlled Payments By Third Party	
		A	B	C-B	Estimation	By Third Party	By Third Party	TSA	Third Party	USD	USD
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows											
Consolidated Fund Appropriations	1,028,394	1,145,594	396,834	(748,760)				999,026			-
Taxes											
Taxes on payroll and workforce	182,856	182,856		(182,856)							
Taxes on goods and services	583,300	583,300		(583,300)							
Taxes on international trade and transactions	860,000	860,000	1,043,438	183,438							
Other taxes	20,000	20,000		(20,000)							
Taxes	1,646,156	1,646,156	1,043,438	(602,718)							
Grants											
From international organizations	622,950	740,150	58,850	(681,300)			999,026	999,026			
From other general government units	1,050,000	1,050,000	696,900	(353,100)							
Grants	1,600,000	1,717,200	696,900	(1,020,300)			999,026	999,026			
Other Revenue											
Sale of goods and services	80,000	80,000		(80,000)							
Other Revenue	80,000	80,000		(80,000)							
Receipts / Inflows	3,399,106	3,516,306	1,799,188	(1,717,118)			999,026	999,026			

		2016				2015				
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	Thirty-Party Contribution Estimation	Payments By		Controlled Payments By	
			Appropriation A	Appropriate B			By TSA	By C	By Third Party	By TSA
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Payments / Outflows										
	12	220,600	312,100	89,433	(222,667)					
Compensation of Employees		220,600	312,100	89,433	(222,667)					
Wages and Salaries										
Compensation of Employees										
Use of Goods and Services										
Travel & Conferences	13	7,500	7,500	2,705	(4,795)					
Operating Expenses	14	76,850	80,950	11,859	(69,091)					
Rent	15	24,500	24,500	17,350	(7,150)					
Other Operating Expenses		2,000	6,600		(6,600)			415,145		415,145
RCRF Non Salary Recurrent Cost			2,000		(2,000)					
Use of Goods and Services		110,850	121,550	51,914	(89,656)			415,145		415,145
Other Expenses										
Miscellaneous other expense	18	690,444	690,444	272,604	(417,840)					
Other Expenses		690,444	690,444	272,604	(417,840)					
Nonfinancial assets	19	6,500	21,500	2,883	(18,617)			583,881		583,881
Fixed Assets		6,500	21,500	2,883	(18,617)			583,881		583,881
Nonfinancial assets										
Payments / Outflows		1,028,394	1,145,594	396,834	(748,760)			999,026		999,026
Increase/Decrease in Cash		2,370,712	2,370,712	1,402,354	968,357			-		-

Ministry of Internal Security
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015					
Notes	Original Estimate	Final Estimate		Contrilled By		Difference Between		Payments By		Controlled Payments By	
		A	B	TSA	C	Final Budget & Actual	C-E	Third Party	TSA	Third Party	
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows											
Consolidated Fund Appropriations		2,125,170	2,125,170	1,353,789		(771,381)					
Tax											
Tax on International Trade & Transactions	20			8,369		8,369					
Taxes				8,369		8,369					
Receipts / Inflows											
Payments / Outflows											
Compensation of Employees											
Wages and Salaries	12	2,098,020	2,098,020	1,352,384		(745,636)					
Compensation of Employees		2,098,020	2,098,020	1,352,384		(745,636)					
Use of Goods and Services											
Travel & Conferences	13	2,400	2,400	1,405		(995)					
Operating Expenses	14	14,250	14,250			(14,250)					
Rent	15	6,000	6,000			(6,000)					
Use of Goods and Services		22,650	22,650	1,405		(21,245)					
Nonfinancial assets	19										
Fixed Assets		4,500	4,500			(4,500)					
Nonfinancial assets		4,500	4,500			(4,500)					
Payments / Outflows		2,125,170	2,125,170	1,353,789		(771,381)					

Ministry of Endowment & Religious Affairs
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	USD	Final Estimate	Controlled By TSA C	Difference Between Final Budget & Actual C-B	USD	Payments By Third Party	USD	Controlled Payments By TSA	USD
Receipts / Inflows									
Consolidated Fund Appropriations	54,160	54,160		(54,160)					
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	34,760	34,760	(34,760)					
Compensation of Employees		34,760	34,760	(34,760)					
Use of Goods and Services									
Travel & Conferences	13	1,600	1,600	(1,600)					
Operating Expenses	14	9,300	9,300	(9,300)					
Rent	15	4,000	4,000	(4,000)					
Use of Goods and Services		14,900	14,900	(14,900)					
Nonfinancial assets	19	4,500	4,500	(4,500)					
Fixed Assets		4,500	4,500	(4,500)					
Nonfinancial assets		4,500	4,500	(4,500)					
Payments / Outflows		54,160	54,160	(54,160)					

Ministry of Fisheries & Marine Resources
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes		Original	Final	Controlled	Difference	Payments	Controlled	Payments	
		Estimate	Estimate	By	Between	By	By	By	
		Appropriation	Appropriate	ISA	Final Budget & Actual	Third Party	ISA	Third Party	
		A	E	C	C-E				
		USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
	Consolidated Fund Appropriations	60,720	60,720		(60,720)				-
Payments / Outflows									
	Compensation of Employees								
12	Wages and Salaries	41,320	41,320		(41,320)				
	Compensation of Employees	41,320	41,320		(41,320)				
	Use of Goods and Services								
13	Travel & Conferences	1,600	1,600		(1,600)				
14	Operating Expenses	9,300	9,300		(9,300)				
15	Rent	4,000	4,000		(4,000)				
	Use of Goods and Services	14,900	14,900		(14,900)				
	Nonfinancial assets								
19	Fixed Assets	4,500	4,500		(4,500)				
	Nonfinancial assets	4,500	4,500		(4,500)				
	Payments / Outflows	60,720	60,720		(60,720)				-

Ministry of Public Works & Rebuilding
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

2,016 2,015

Notes	Original Estimate		Final Estimate		Controlled By		Difference Between		Payments By		Controlled By		Payments By	
	A	B	E	C	TSA	C	Final Budget & Actual C-E	USD	USD	Third Party	TSA	USD	USD	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows														
Consolidated Fund Appropriations	55,760	55,760					(55,760)							
Receipts / Inflows														
Payments / Outflows														
Compensation of Employees														
Wages and Salaries	12	36,360	36,360				(36,360)							
Compensation of Employees		36,360	36,360				(36,360)							
Use of Goods and Services														
Travel & Conferences	13	1,600	1,600				(1,600)							
Operating Expenses	14	9,300	9,300				(9,300)							
Rent	15	4,000	4,000				(4,000)							
Use of Goods and Services		14,900	14,900				(14,900)							
Nonfinancial assets	19													
Fixed Assets		4,500	4,500				(4,500)							
Nonfinancial assets		4,500	4,500				(4,500)							
Payments / Outflows		55,760	55,760				(55,760)							

Ministry of Commerce & Industry
**Combined Statement of Cash Receipts and Payments & Comparison to Budget
 For the Nine months Ended December 31, 2016**

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015				
Notes	Original Estimate	Final Estimate		Controlled By		Difference Between Final Budget & Actual C-E	Payments By		Controlled Payments By	
		A	B	TSA	C		Third Party	TSA	Third Party	TSA
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows										
Consolidated Fund Appropriations	71,670	71,670			(71,670)					-
Receipts / Inflows										
Payments / Outflows										
Compensation of Employees										
Wages and Salaries	12	44,520	44,520			(44,520)				
Compensation of Employees		44,520	44,520			(44,520)				
Use of Goods and Services										
Travel & Conferences	13	2,400	2,400			(2,400)				
Operating Expenses	14	14,250	14,250			(14,250)				
Rent	15	6,000	6,000			(6,000)				
Use of Goods and Services		22,650	22,650			(22,650)				
Nonfinancial assets	19									
Fixed Assets		4,500	4,500			(4,500)				
Nonfinancial assets		4,500	4,500			(4,500)				
Payments / Outflows		71,670	71,670			(71,670)				-

Ministry of Aviation & Transport
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2,016		2,015					
Notes	Original Estimate	Final Estimate		Difference Between		Payments By		Controlled Payments By	
		A	B	Final Budget & Actual	C-B	Third Party	TSA	Third Party	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		68,470	68,470	(68,470)					
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	41,320	41,320	(41,320)					
Compensation of Employees		41,320	41,320	(41,320)					
Use of Goods and Services									
Travel & Conferences	13	2,400	2,400	(2,400)					
Operating Expenses	14	14,250	14,250	(14,250)					
Rent	15	6,000	6,000	(6,000)					
Use of Goods and Services		22,650	22,650	(22,650)					
Nonfinancial assets	19	4,500	4,500	(4,500)					
Fixed Assets		4,500	4,500	(4,500)					
Nonfinancial assets		4,500	4,500	(4,500)					
Payments / Outflows		68,470	68,470	(68,470)					

Ministry of Education

**Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016**

Government Uses a Treasury Single Account System to Manage Funds

		2,016				2,015			
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	Payments By Third Party	Controlled Payments By		
			ISA	C			ISA	Third Party	
	USD	USD	USD	USD	USD	USD	USD	USD	
Receipts / Inflows	54,160	54,160			(54,160)			-	
Consolidated Fund Appropriations									
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	34,760	34,760		(34,760)				
Compensation of Employees		34,760	34,760		(34,760)				
Use of Goods and Services									
Travel & Conferences	13	1,600	1,600		(1,600)				
Operating Expenses	14	9,300	9,300		(9,300)				
Rent	15	4,000	4,000		(4,000)				
Use of Goods and Services		14,900	14,900		(14,900)				
Nonfinancial assets	19	4,500	4,500		(4,500)				
Fixed Assets		4,500	4,500		(4,500)				
Nonfinancial assets		4,500	4,500		(4,500)				
Payments / Outflows		54,160	54,160		(54,160)			-	

Ministry of Post & Communication
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2,015				2,016					
Notes		Original Estimate		Final Estimate		Difference Between Final Budget & Actual		Payments By Third Party		Controlled Payments By Third Party	
		USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
	Receipts / Inflows										
	Consolidated Fund Appropriations	46,810	46,810	46,810	(46,810)						
	Receipts / Inflows										
	Payments / Outflows										
	Compensation of Employees										
	Wages and Salaries	34,760	34,760	34,760	(34,760)						
	Compensation of Employees	34,760	34,760	34,760	(34,760)						
	Use of Goods and Services										
	Travel & Conferences	800	800	800	(800)						
	Operating Expenses	4,750	4,750	4,750	(4,750)						
	Rent	2,000	2,000	2,000	(2,000)						
	Use of Goods and Services	7,550	7,550	7,550	(7,550)						
	Nonfinancial assets										
	Fixed Assets	4,500	4,500	4,500	(4,500)						
	Nonfinancial assets	4,500	4,500	4,500	(4,500)						
	Payments / Outflows	46,810	46,810	46,810	(46,810)						

Ministry of Livestock & Agriculture
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate		Difference Between Final Budget & Actual C-E	Payments By Third Party		Controlled Payments By Third Party		
		A	B		ISA	C	ISA	USD	USD
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		68,470	68,470	(68,470)					-
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	41,320	41,320	(41,320)					
Compensation of Employees		41,320	41,320	(41,320)					
Use of Goods and Services									
Travel & Conferences	13	2,400	2,400	(2,400)					
Operating Expenses	14	14,250	14,250	(14,250)					
Rent	15	6,000	6,000	(6,000)					
Use of Goods and Services		22,650	22,650	(22,650)					
Nonfinancial assets	19								
Fixed Assets		4,500	4,500	(4,500)					
Nonfinancial assets		4,500	4,500	(4,500)					
Payments / Outflows		68,470	68,470	(68,470)					-

Ministry of Women & Family Affairs
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015						
Notes	USD	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	USD	Payments By		USD	Controlled Payments By		USD
			A	B			TSA	C		Third Party	TSA	
Receipts / Inflows												
Consolidated Fund Appropriations		46,810	46,810		(46,810)							
Receipts / Inflows												
Payments / Outflows												
Compensation of Employees												
	Wages and Salaries	12	34,760	34,760	(34,760)							
	Compensation of Employees		34,760	34,760	(34,760)							
Use of Goods and Services												
	Travel & Conferences	13	800	800	(800)							
	Operating Expenses	14	4,750	4,750	(4,750)							
	Rent	15	2,000	2,000	(2,000)							
	Use of Goods and Services		7,550	7,550	(7,550)							
Nonfinancial assets		19										
	Fixed Assets		4,500	4,500	(4,500)							
	Nonfinancial assets		4,500	4,500	(4,500)							
Payments / Outflows			46,810	46,810	(46,810)							

Ministry of Youth & Sports
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-E	Payments By		Controlled Payments By	
			A	E		Third Party	TSA	TSA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations	46,810	46,810			(46,810)				-
Payments / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	34,760	34,760		(34,760)				
Compensation of Employees		34,760	34,760		(34,760)				
Use of Goods and Services									
Travel & Conferences	13	800	800		(800)				
Operating Expenses	14	4,750	4,750		(4,750)				
Rent	15	2,000	2,000		(2,000)				
Use of Goods and Services		7,550	7,550		(7,550)				
Nonfinancial assets	19								
Fixed Assets		4,500	4,500		(4,500)				
Nonfinancial assets		4,500	4,500		(4,500)				
Payments / Outflows		46,810	46,810		(46,810)				-

Ministry of Water & Electricity
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate		Difference Between Final Budget & Actual C-B	Payments By Third Party		Controlled Payments By TSA Third Party		
		A	B		C	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		54,160	54,160	(54,160)					
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
	Wages and Salaries	34,760	34,760	(34,760)					
	Compensation of Employees	34,760	34,760	(34,760)					
Use of Goods and Services									
	Travel & Conferences	1,600	1,600	(1,600)					
	Operating Expenses	9,300	9,300	(9,300)					
	Rent	4,000	4,000	(4,000)					
	Use of Goods and Services	14,900	14,900	(14,900)					
Nonfinancial assets									
	Fixed Assets	4,500	4,500	(4,500)					
	Nonfinancial assets	4,500	4,500	(4,500)					
Payments / Outflows		54,160	54,160	(54,160)					

Ministry of Constitution & Reconciliation
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

	2016				2015			
	Original Estimate	Final Estimate	Controlled By	Difference Between	Payments By	Controlled Payments By	By	By
Notes	A	B	C	C-B	Third Party	TSA	Third Party	USD
	USD	USD	USD	USD	USD	USD	USD	USD

Receipts / Inflows

Consolidated Fund Appropriations

Receipts / Inflows

Payments / Outflows

Compensation of Employees

Wages and Salaries

Compensation of Employees

Use of Goods and Services

Travel & Conferences

Operating Expenses

Rent

Use of Goods and Services

Nonfinancial assets

Fixed Assets

Nonfinancial assets

Payments / Outflows

	54,160	54,160	1,700	(52,460)				
12	34,760	34,760		(34,760)				
13	1,600	1,600	1,000	(600)				
14	9,300	9,300	700	(9,300)				
15	4,000	4,000	1,700	(3,300)				
19	14,900	14,900		(13,200)				
	4,500	4,500		(4,500)				
	4,500	4,500		(4,500)				
	54,160	54,160	1,700	(52,460)				

Ministry of Ports & Maritime Transport
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	Payments By third Party		Controlled Payments By	
			A	B		USA	C	USA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations	67,210	67,210			(67,210)				-
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	40,060	40,060		(40,060)				
Compensation of Employees		40,060	40,060		(40,060)				
Use of Goods and Services									
Travel & Conferences	13	2,400	2,400		(2,400)				
Operating Expenses	14	14,250	14,250		(14,250)				
Rent	15	6,000	6,000		(6,000)				
Use of Goods and Services		22,650	22,650		(22,650)				
Nonfinancial assets	19	4,500	4,500		(4,500)				
Fixed Assets		4,500	4,500		(4,500)				
Nonfinancial assets		4,500	4,500		(4,500)				
Payments / Outflows		67,210	67,210		(67,210)				-

Ministry of Ports & Maritime Transport
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31,2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015				
Notes	Original Estimate	Final Estimate		Controlled By		Difference Between Final Budget & Actual C-E	Payments By third Party		Controlled Payments By	
		A	B	ISA	C		USD	USD	ISA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows										
Consolidated Fund Appropriations		67,210	67,210			(67,210)				-
Receipts / Inflows										
Payments / Outflows										
Compensation of Employees										
Wages and Salaries	12	40,060	40,060			(40,060)				
Compensation of Employees		40,060	40,060			(40,060)				
Use of Goods and Services										
Travel & Conferences	13	2,400	2,400			(2,400)				
Operating Expenses	14	14,250	14,250			(14,250)				
Rent	15	6,000	6,000			(6,000)				
Use of Goods and Services		22,650	22,650			(22,650)				
Nonfinancial assets	19									
Fixed Assets		4,500	4,500			(4,500)				
Nonfinancial assets		4,500	4,500			(4,500)				
Payments / Outflows		67,210	67,210			(67,210)				-

Ministry of Diaspora & Investment
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31,2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate		Difference Between Final Budget & Actual C-B	Payments By		Controlled Payments By		
		A	B		TSA	C	TSA	Third Party	
	USD	USD	USD	USD	USD	USD	USD	USD	
Receipts / Inflows									
Consolidated Fund Appropriations		46,810	46,810	(46,810)					
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	34,760	34,760	(34,760)					
Compensation of Employees		34,760	34,760	(34,760)					
Use of Goods and Services									
Travel & Conferences	13	800	800	(800)					
Operating Expenses	14	4,750	4,750	(4,750)					
Rent	15	2,000	2,000	(2,000)					
Use of Goods and Services		7,550	7,550	(7,550)					
Nonfinancial assets	19								
Fixed Assets		4,500	4,500	(4,500)					
Nonfinancial assets		4,500	4,500	(4,500)					
Payments / Outflows		46,810	46,810	(46,810)					

Ministry of the Disabled & Humanitarian Affairs
Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31,2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	Payments By		Controlled Payments By	
			A	E		TSA	C	TSA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		46,810	46,810		(46,810)				
Receipts / Inflows									
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	34,760	34,760		(34,760)				
Compensation of Employees		34,760	34,760		(34,760)				
Use of Goods and Services									
Travel & Conferences	13	800	800		(800)				
Operating Expenses	14	4,750	4,750		(4,750)				
Rent	15	2,000	2,000		(2,000)				
Use of Goods and Services		7,550	7,550		(7,550)				
Nonfinancial assets	19								
Fixed Assets		4,500	4,500		(4,500)				
Nonfinancial assets		4,500	4,500		(4,500)				
Payments / Outflows		46,810	46,810		(46,810)				

Ministry of Presidency

**Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016**

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate	Controlled By		Difference Between Final Budget & Actual C-B	Payments By		Controlled Payments By	
			A	B		Third Party	Third Party	TSA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		116,530	116,530	4,624	(111,906)	-	-	-	-
Receipts / Inflows									
Payments / Outflows									
	12	104,480	104,480	2,080	(102,400)				
		104,480	104,480	2,080	(102,400)				
	13	800	800	350	(450)				
	14	4,750	4,750	500	(4,250)				
	15	2,000	2,000	580	(1,420)				
		7,550	7,550	1,430	(6,120)				
	19	4,500	4,500	1,114	(3,386)				
		4,500	4,500	1,114	(3,386)				
		116,530	116,530	4,624	(111,906)	-	-	-	-

Office of the Speaker & Parliament

Combined Statement of Cash Receipts and Payments & Comparison to Budget
For the Nine months Ended December 31, 2016

Government Uses a Treasury Single Account System to Manage Funds

		2016				2015			
Notes	Original Estimate	Final Estimate		Controlled By	Difference Between Final Budget & Actual C-B	Payments By		Controlled Payments By	
		A	B			TSA	Third Party	TSA	Third Party
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Receipts / Inflows									
Consolidated Fund Appropriations		725,570	725,570	54,875	(670,695)				
Grants									
From other general government units				50,000	50,000				
Grants				50,000	50,000				
Receipts / Inflows				50,000	50,000				
Payments / Outflows									
Compensation of Employees									
Wages and Salaries	12	713,520	713,520	53,000	(660,520)				
Compensation of Employees		713,520	713,520	53,000	(660,520)				
Use of Goods and Services									
Travel & Conferences	13	800	800		(800)				
Operating Expenses	14	4,750	4,750		(4,750)				
Rent	15	2,000	2,000	1,000	(1,000)				
Use of Goods and Services		7,550	7,550	1,000	(6,550)				
Nonfinancial assets	19								
Fixed Assets		4,500	4,500	875	(3,625)				
Nonfinancial assets		4,500	4,500	875	(3,625)				
Payments / Outflows		725,570	725,570	54,875	(670,695)				

Note 1 Summary of Significant Accounting Policies for All Budget Entities

1.1 Consolidated Fund Statement of Receipt and Payments

Unlike the two single purpose consolidated Fund Statement of Receipt and Payments for the IGA Consolidated Fund, the IGA has chosen to issue a single Consolidated Fund Statement of Receipt and Payments for each budget entity that combines the *Statement of Receipts and Payments* with the *Statement of Comparison of Budget and Actual Amounts*, as allowed by the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting Under the Cash Basis of Accounting*.

1.2 Basis of Preparation

The individual budget entity Consolidated Fund Statement of Receipt and Payments for each ministry/authority of the Galmudug State of Somalia's (IGA) have been prepared in accordance with the *Public Financial Management Decree of 2016* and the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting Under the Cash Basis of Accounting*. These notes to the Consolidated Fund Statement of Receipt and Payments form an integral part to understanding the budget entity statements and must be read in conjunction with the statements.

The accounting policies have been applied consistently throughout the period. This is the Government's first year of operation and covers the period 1 April – 31 December 2016.

1.3 Consolidated Notes

The following notes serve as notes for all budget entities. There will not be separate and distinct notes given for each budget entity immediately following the respective budget entity Consolidated Fund Statement of Receipt and Payments. Where clarification is required for a particular budget entity, it will be clearly given in these combined notes.

1.4 Reporting Entities

The Consolidated Fund Statement of Receipt and Payments for each entity encompasses the reporting entity as specified in the *IGA Appropriation Act No. 1 of 2016*. All budget entities listed below are controlled by the IGA. All activities of budget entities are funded by the IGA Consolidated Budget or through 3rd Party external assistance.

The preceding individual Consolidated Fund Statement of Receipt and Payments are for the following public sector entities, whose main purpose is described in **Presidential Decree** entitled, *A Decree Establishing Ministries of Interim Galmudug Administration and Defining Roles and Functions of Ministries* dated 28 December 2015 plus a separate decree creating the Ministry of Finance entitled, *A Decree for the Purposes of Establishing the Ministry of Finance of the Interim Galmudug Administration and Other Related Matters* dated 28 December , 2015.

A decree on establishing the Civil Service Commission (CSC) and its purpose entitled, *A Decree for establishing the Civil Service Commission of the Interim Galmudug Administration* dated 28 December, 2015 established the office of the Civil Service Commission. Companion Decrees also established the Civil Service and the Civil Service Salary structure. The inauguration of the IGA constitution automatically established the Galmudug Parliament. Their respective statements form part of the Consolidated Fund Statement of Receipt and Payments as these entities were included as part of the *IGA Appropriation Act No.1 of 2016*.

Budget Entity

- 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

1.5 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 IGA during the period. The payments made by the third parties do not constitute cash receipts or payments of the budget entity but do benefit the entity. Where IGA has been formally advised by the 3rd party that such payments have been made or otherwise verified the payment/s, they are disclosed in the *Payments by 3rd Parties* column in the *Combined Statement of Cash Receipts and Payments & Comparison to Budget*.

1.6 Single Treasury Account

Budget entities do not operate their own bank account. The Government operates a centralized treasury function which administers cash expenditures incurred and cash receipts collected by all budget entities during the financial year. Payments made on this account in respect of the budget entities are disclosed in the Treasury Single Account column in the *Combined Statement of Cash Receipts and Payments & Comparison to Budget*.

1.7 Transfers

Amounts are transferred to eligible recipients in accordance with the agreements between the Ministry and the recipient.

1.7 Reporting Currency

The reporting currency is the United States Dollar (USD).

1.8 Comparative Re-classification of FY2015

This being the first reporting period there is no comparative date from the previous year, 2015 thus an economic re-classification of the FY2016 Consolidated Fund Statement of Receipt and Payments was unwarranted.

1.9 Authorization Date

On behalf of the individual budget entity, their Consolidated Fund Statement of Receipt and Payments were authorized for issue on 31 May 2017 by Mr Mohamed Ahmed Farah, Acting & deputy Minister of Finance.

Note 2 Consolidated Fund Appropriations

This represents the cumulative amount of expenditures that were funded from the consolidated fund (TSA).

Amounts appropriated by the Galmudug parliament to the budget entities are managed through a single account administered by the Treasury department. These amounts are not controlled by the individual budget entities but are deployed on their behalf by the single account administrator (Treasury department) on completion of appropriate documentation and authorization through the FMIS. The amount reported as Consolidated Fund Appropriations in the *Individual entity Combined Statement of Cash Receipts and Payments & Comparison to Budget* is the amount Treasury has released through the Treasury Single Account for the benefit of the budget entities (the amount of “draw down” on the appropriation).

The amount does not reflect actual cash receipts from Treasury because the budget entities do not control their own bank account. The amount reflects the “source” of funds used to make payments.

The following is a summary explanation of the nature of source of Income and the expenses financed through general fund appropriations.

Note 3 Taxes

Taxes refer to revenue arising from taxes on income, profit and capital gains, payroll and work force, goods and services, local government tax collections and taxes on international trade transactions. Some entities though regarded as costs centres, also generate a proportion of the total revenue collections. However, this does not mean that such entities have control over the revenue they collect but instead remit their collections in to the Treasury Single Account where it is utilized to fund appropriations to the budget entities.

While some taxes are collected directly by the concerned Ministry in most instances, the MoF places their own employees from the revenue department who are tasked in the actual revenue collection. The following is a summary breakdown of tax receipts collected by relevant entities in comparison to the final budget estimate.

Budget Entity	2016 Total Revenue Estima USD	2016 Total Revenue USD
Ministry of Finance	3,516,306	1,799,188
Internal Security	-	8,369
Parliament	-	50,000
Civil Service Commission	12,100	-
TOTAL	3,528,406	1,857,557

Note 4 Grants

Treasury Single Account

Grants from international organizations and the Federal Government of Somalia are remitted through the TSA and therefore recorded under the Ministry of Finance.

Grant income of \$1,600,000 was budgeted during the reporting period of FY2016, however, \$805,750 was received.

Budget Entity	Grant Donor			Total Grants
	Somalia Stability Fund	World Bank	Federal Government of Somalia	
	(USD)	(USD)	(USD)	(USD)
Ministry of Finance	58,850	0	746,900	805,750

The table below demonstrates actual beneficiaries of the donor grants.

Budget Entity	Description of Expense	Amount
Ministry of Finance	Stipend and salaries to the Ministry staffs, office equipment, operations cost, and arrears.	319,354
Ministry of Internal security	IGA security forces, food Salaries provision.	474,296
Civil Service Commission	Salaries to the Secretariat, office equipment and operation cost.	12,100
Grand Total		805,750

3rd Party Contributions

Non-financial assets paid by Somalia Stability Fund on behalf of IGA totally to \$1,083,507. These transactions are spread between the Ministry of Finance and Civil service Commission. Following is a summary breakdown of the 3rd party Non-financial assets for the reporting period of FY2016.

Description	Cost (USD)
Provision of Financial, Budgeting & software	583,881
Taining & Development	415,145
Consultiton fees - Technical Support	84,481
Total	1,083,507

For more clarification please see Note 10.

Note 5 Other Revenue

Property income, sale of government goods and services and fines and penalties constitute other sources of revenue. No revenue was realised from other revenue during the period.

Note 6 Employee Compensation

Employee Compensation entails all salaries and wages including in kind payment. Salaries to the civil servants and the security forces make up the prime part of employee compensation. The Recurrent Cost and Reform Financing (RCRF II) pay for the salaries of the permanent employees of IGA who have been recruited competitively by the CSC. During the reporting period, the project has paid salaries to two entities namely the Ministry of Finance and the Secretariat to the Civil Service Commission. Ministry of Finance and the employees of both entities received salaries for three months April –June 2016 whilst salary for July –Dec is not yet paid. Arrears are expected to be paid in 2017 after access to RCRFII funding.

A competitive recruitment process is a fundamental condition for eligibility to the RCRF II project and in order to meet the criteria a civil service commission had to be established to spearhead the process. There was a delay in accessing the RCRFII Project thus salaries for competitively recruitment civil servants were not paid for six months during the reporting period (01 July through 31 December 2016).

Note 7 Use of Good and Services

IGA's ability to pay for its operating costs, goods and services and other miscellaneous expenses are determined by the ability to raise or receive sufficient revenue for its budget execution. IGA does not have access to a credit facility and therefore due to this integral constraint IGA has prioritized and spent 34 percent of the budget based on the available income in executing budgets across ten entities. The following is a summary of the IGA Wages/Salaries and operational budget execution level. Note the table only summarizes for Salaries/Wages and operational budget. Please see Note 10 for the corresponding Non- financial assets.

Budget Entity	Budget	Excution	% Excution
Ministry of Interior & Local Government	84,370	5,044	6%
Ministry of Justice & Judiciary	68,470	3,076	4%
Ministry of Finance & Economic Development	1,028,394	396,834	39%
Ministry of Internal Security	2,125,170	1,353,789	64%
Ministry of Planning & International Cooperation	81,970	-	0%
Ministry of Endowment & Religious Affairs	54,160	-	0%
Ministry of Fisheries & Marine Resources	60,720	-	0%
Ministry of Public Works & Rebuilding	55,760	-	0%
Ministry of Commerce & Industry	71,670	-	0%
Ministry of Information & Culture	55,960	2,000	4%
Ministry of Aviation & Transport	68,470	-	0%
Ministry of Education	54,160	-	0%
Ministry of Post & Communication	46,810	-	0%
Ministry of Livestock & Agriculture	68,470	-	0%
Ministry of Environment & Forestry	46,810	-	0%
Ministry of Health	67,660	-	0%
Ministry of Women & Family Affairs	46,810	-	0%
Ministry of Labour	46,810	-	0%
Ministry of Youth & Sport	46,810	-	0%
Ministry of Water & Electricity	54,160	-	0%
Ministry of Constitution & Reconciliation	54,160	1,700	3%
Ministry of Ports & Maritime Transport	67,210	-	0%
Ministry of Diaspora & Investment	46,810	-	0%
Ministry of the Disabled and Humanitarian Affairs	46,810	-	0%
Presidency	116,530	4,624	4%
Office of the Speaker and Parliament	725,570	54,875	8%
Civil Service Commission	122,360	34,463	28%
Total	5,413,064	1,856,405	34%

Note 8 Other Operating Expenses

Treasury Single Account

A Zero amount was recorded for other operating costs such as consultation fees and television and newspaper advertisement.

3rd Party Payment

Third party payments under other Operating Expenses totalling to \$499,626 was paid by SSF on behalf of IGA. These costs consist of staff training & development support to Ministries. Detailed below illustrates the line item breakdown and description of other operating costs by Ministry.

Budget Entity	Description of Expense	Amount USDS
Ministry of Finance	Staff Training & Support	415,145
Civil Service Commission	Staff Training & Support	84,481
Total		499,626

Note 9 Grants to Other Government Units

Other government units refer to lower level governments such as the city municipalities. The Adado and Galkayo Municipalities are the active local government in Galmudug that operates both a revenue collection and expenditure process. However, during the period, the two Municipalities did not collect revenue. Their expenditure is processed through the Ministry of Interior and Local Government.

Note 10 Non-Financial Assets

Treasury Single Account

Non-financial assets consist of assets acquired by entities in running their business operations and include assets such as cars, computers, furniture and fixtures and construction of ministerial offices. The preliminary set-up of the entities warranted emphasis on assets acquisition towards ministerial office equipment and furniture which are both fundamental to the setup process.

During the reporting period, a total of \$ 7,872 was disbursed on non-financial assets which represented 6 percent of the total estimated budget for non-Financial Assets for the period. The variance was as a result of limited revenue for administration and partly due to some entities not being operational in 2016. IGA's ability to execute its budget on capital investment is limited to its revenue collections. Following is a summary breakdown of Non-financial asset budget execution level for the reporting period.

Non –Financial Assets Summary

Budget Entity	Budget	Excution	% Excution
Ministry of Interior & Local Government	4,500	-	0%
Ministry of Justice & Judiciary	4,500	-	0%
Ministry of Finance & Economic Development	21,500	2,883	13%
Ministry of Internal Security	4,500	-	0%
Ministry of Planning & International Cooperation	4,500	-	0%
Ministry of Endowment & Religious Affairs	4,500	-	0%
Ministry of Fisheries & Marine Resources	4,500	-	0%
Ministry of Public Works & Rebuilding	4,500	-	0%
Ministry of Commerce & Industry	4,500	-	0%
Ministry of Information & Culture	4,500	-	0%
Ministry of Aviation & Transport	4,500	-	0%
Ministry of Education	4,500	-	0%
Ministry of Post & Communication	4,500	-	0%
Ministry of Livestock & Agriculture	4,500	-	0%
Ministry of Environment & Forestry	4,500	-	0%
Ministry of Health	4,500	-	0%
Ministry of Women & Family Affairs	4,500	-	0%
Ministry of Labour	4,500	-	0%
Ministry of Youth & Sport	4,500	-	0%
Ministry of Water & Electricity	4,500	-	0%
Ministry of Constitution & Reconciliation	4,500	-	0%
Ministry of Ports & Maritime Transport	4,500	-	0%
Ministry of Diaspora & Investment	4,500	-	0%
Ministry of the Disabled and Humanitarian Affairs	4,500	-	0%
Presidency	4,500	1,114	25%
Office of the Speaker and Parliament	4,500	875	19%
Civil Service Commission	4,500	3,000	67%
Total	138,500	7,872	6%

3rd Party Non-Financial Assets

Third party non-financial assets were acquired on behalf of IGA by the Somalia Stability Fund for office computers/Laptops and acquisition financial support modules.

Budget Entity	Description of Expense	Amount
		USD\$
Ministry of Finance	Staff Training & Support	583,881
Total		583,881



Annex 4 – Final Management Letter. Independent Auditor’s Report on The Audit of Galmudug State of Somalia (GSS) For the Year Ended 31 December 2016



GALMUDUG STATE OF SOMALIA (GSS)

FINAL MANAGEMENT LETTER

FOR THE PERIOD FROM 1 APRIL TO 31 DECEMBER 2016

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GLOSSARY OF ABBREVIATIONS

Acronyms	Full Description
GSS	Galmudug State of Somalia
MoF	Ministry of Finance of Galmudug State of Somalia
TSA	Treasury Single Account
IGA	Interim Galmudug Administration
FMIS	Financial Management Information System
FMS	Federal Member State
CPO	Commitment and Payment Order
MDA	Ministries, Departments and Agencies
SSF	Somali Stability Fund

16 March 2018

Mr. Said Sayid Shirwac
The Minister of Finance
Galmudug State of Somalia
Adado City, Galmudug

Dear Sir,

RE: MANAGEMENT LETTER FOR THE NINE MONTHS ENDED 31 DECEMBER 2016

We have audited the Financial Statements of Galmudug State of Somalia (GSS) for the period from 1 April 2016 to 31 December 2016 in accordance with International Standards on Auditing (ISA). Those standards require we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The Management of GSS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by Management are required to assess the expected benefits and related costs of internal control structure, policies and procedures. The objectives of an internal control structure are to provide Management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with International Financial Reporting Standards.

The report set out below is based on information provided to us and observations made during our visit at your premises. It is worthy of note that absolute completeness in accounting and auditing is never achieved nor is it necessary. For this reason, our audit was based on a test sample basis necessary to enable us to reach reasonable conclusion on which to base our opinion.

We observed that the internal control systems in place at the moment were being followed with inadequacies in some of them as highlighted in this report. However, despite this we were able to obtain sufficient information to enable us draw reasonable conclusions as to the state of the entity's records and whether such information can be relied upon. In accordance with our firm's normal practice, we draw your attention to certain matters which we identified during the audit.

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

Yours truly,


Baker Tilly Meralli's

Date: 05. mar 2018

SUMMARY OF FINDINGS

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

Priority levels for ranking recommendations

Priority 1 - Urgent remedial action is required. Key internal controls are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in an internal control or in a series of internal controls which involves a substantial risk of either material error, or irregularity or fraud with regard to the expenditure and revenue stated in the Financial Report of the Project. There is a substantial risk of failure to achieve the control objectives for the Project which concern reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations notably the Contractual Conditions for the Project. Such risks could lead to an adverse impact on the financial report of the Project. Remedial action should be taken urgently.

Priority 2 - Prompt specific action is required. There is a weakness or deficiency in an internal control or in a series of internal controls which, although not fundamental, relates to shortcomings which expose specific internal control areas (e.g. cash and bank management or budgetary and expenditure control) to a less immediate level of risk of either error, or irregularity or fraud. Such a risk could impact on the effectiveness of the internal controls and on the internal control objectives and should be of concern to the Entity's Management. Prompt specific action should be taken.

Priority 3 - Specific remedial action is desirable. There is a weakness or deficiency in internal control which individually has no major impact but where the Project would benefit from improved internal controls and/or where the Entity would have the opportunity to achieve greater effectiveness and/or efficiency. There is a possibility of undesirable effects at the process level, which, combined with other weaknesses, could give cause for concern.

A summary of our Audit findings are as follows:

No.	Heading	Priority Rating
1	Inadequate Supporting Documentation	1
2.	Weakness in Revenue Collection	1
3.	Lack of Competitive bidding for goods and services procured	1
4.	Weakness in Segregation of Duties for payment of Expenditures	1
5.	Weakness in Bank reconciliations	1
6.	Excessive use of cash payments	1
7.	Weakness in Human Resource - lack of time management system	1
8.	Poor Record keeping	1
9.	Monthly Reports were not submitted	2
10.	Weakness in asset management	2

Finding n°: 1	Title: Inadequate Supporting Documentation
<p>Criteria</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring that all payments are supported by adequate documents such as invoice, receipts, agreements, tickets, boarding pass, delivery notes etc.</p> <p>The Financial Management and Expenditure/Revenue Procedures Manual for Galmudug State of Somalia states that in the expenditure process details section on page 9 "Certification for payment occurs after receipt of goods or services. A competent person (this would usually be the person originally identifying the requirement for Commitment Authorization) must first verify that the service has been performed or goods delivered in accordance with the Purchase Order. This person must complete the Receiving Report section of the Purchase Order. The Certifying Officer must be satisfied that the claimant has completed his part of the contract and that an invoice has been submitted which identifies the nature of the claim on the IGA Consolidated Budget in sufficient detail to avoid, for example, the possibility of a double payment or a later dispute on negotiated terms and conditions. The invoice must also clearly identify the name of the creditor and make reference to the purchase order number. The requirement is to ensure that payments are only made to the person or organization rendering the service. It is only after these checks have been made that an officer can certify that the claim is correct for payment."</p> <p>Description</p> <p>We noted that expenditure amounting to USD 1,308,899 as detailed in Annex 1, were not adequately supported.</p>	
<p>Implication</p> <p>Where expenditure claimed as eligible is not adequately supported with the necessary documents, it becomes difficult to ascertain occurrence and eligibility of the payments.</p>	
<p>Recommendation Priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>Galmudug MoF management should ensure that adequate supporting documents are maintained to support all costs declared in the Annual Financial Statements. Supporting documentation should be properly filed and securely kept. The documentation should form basis for effecting payments and recording costs in the accounting system. It would be useful to develop mechanisms to assist officers obtain all necessary supporting documentation. These mechanisms may include formulating standardized checklists for the various types of costs, training on documentation as part of accounting for funds and clearly stating in policies and procedures manual of Galmudug MoF, the documentation required for various transactions.</p>	
<p>Management Comment:</p> <p>In 2016, GSS had no office space therefore, we had to work from our homes plus political environment and staff were not adapted with GSS Systems.</p> <p>We agree with this finding 2016 was the GSS 1st year of operations; ministry of finance management will put in place corrective actions to address this weakness.</p>	

Finding n°: 2	Title: Weakness in Revenue Collection
<p>Criteria</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all revenue collected are promptly banked entirely and expense are paid directly from the bank using cheques or other banking instruments.</p> <p>Also, Galmudug State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states in Revenue Process outline sections "Collection of revenue per the revenue decree/law is done either by government-employed tax collectors or authorized collection agents on behalf of the government, or the taxpayer can pay directly into the TSA bank account or the cash window at the Ministry of Finance.</p> <p>Tax collection by collectors or agents is always supported by the collector/agent issuing a numerically controlled, authorized revenue receipt. Tax collectors should deposit the money to the bank.</p> <p>Revenue is recorded into the FMIS utilizing the proper revenue codes"</p> <p>Description</p> <p>We reviewed the income recorded in the Financial statements and noted the following weaknesses:</p> <ul style="list-style-type: none"> • We were not provided the receipts used for collecting the revenue recorded in the system from Galakyo and Haboyo Customs. • We received some receipts from Adado and Godinlabe Customs and noted that all revenues collected are not banked because the practice is that expenses are paid as cash before banking. • Expenses paid from the revenue collected at customs are not recorded in FMIS hence, leading to the understatement of revenue and expenses reported. • No evidence of segregation of duties in revenue collection. • Income from Federal government of Somalia amount USD 746,900, were not supported by any evidence and we were not provided with details of the responsible person(s) within Somali Government that could be contacted on income confirmation to ensure the accuracy and completeness of the reported income. 	
<p>Implication</p> <p>Weakness in revenue collections could lead to misappropriation of tax payer money and inaccurate financial reporting.</p>	
<p>Recommendation Priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>We recommend that GSS's should ensure all receipts used for collection of revenues are kept in MoF revenue section, the money collected should be promptly deposited into the bank.</p> <p>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 and then submit the copies of the receipt and the bank deposit slip to the Revenue Department. Someone from Revenue Department should prepare daily reconciliations for the receipts issued and the money deposited to the bank. Another officer in Revenue Department should review, while a senior officer should approve the reconciliation after checking the money has been deposited into the bank.</p> <p>Also, there should be other check points after the custom check point, which records the vehicles passing through and the receipt numbers issued to the vehicles and the amount of money they have paid to ensure vehicles which have not paid the customs fees are not allowed to enter the city.</p> <p>Expense should only be paid from the bank account after the appropriate controls and documentation are obtained.</p>	

Management Comment:

We partly agree with this finding, official receipts issued to taxpayers at the check points were available and issued for road tax. Corrective action will be put in place to address revenue leakages where by some revenue collection related expenses were paid outside the TSA.

Further Auditor's Comment:

We were not provided the receipts used for collecting the revenue recorded in the system from Galakyo and Haboyo Customs and we received only some receipts from Adado and Godinlabe Customs. We are recommending all the receipts issued at customs should be kept in the ministry of Finance revenue department and availed for the audit. All Taxes collected should be promptly banked and expenses should not be paid from revenue collected before banking it.

Further, we are recommending that there should be proper segregation of duties in collecting revenues, reviewing and approval of daily reconciliations and recording the revenue in the FMIS system. This should be evidenced by paper work so that a third party can review and assess the effectiveness of these controls.

Finding n°: 3	Title: Lack of Competitive bidding for goods and services procured
<p>Criteria</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all goods and services procurement by the organization are competitively procured.</p> <p>Also, Article 4.2.1 of Galmudug State of Somalia Procurement policy and Procedure Manual states "Federal Member state (FMS) is responsible for implementing Projects and therefore for selecting the contractors and suppliers and awarding and subsequently administering the contracts. While in practice the specific procurement rules and procedures to be followed in the implementation of a Project depend on the circumstances of the particular case, the following five considerations generally guide the application of this Procurement Procedures Manual - these are led by item (a) below - the "guiding principle" for the [FMS]:</p> <ul style="list-style-type: none"> a) Conduct all activities with the highest levels of integrity, in a fair and transparent manner with an obvious lack of any corrupt practices. This shall act as the guiding principle to all procurement activities for the [FMS]. b) Open, fair, and competitive procedures used in a transparent manner to solicit, award, and administer contracts to procure goods, works, and non-consultant services; c) Procurements for goods, works, and non-consultant services shall be based upon a clear and accurate description of the goods, works, or non-consultant services to be acquired; <p>Description</p> <p>We noted that GSS procured goods and services for which evidence of competitive procurement was not provided. Examples for the transactions not procured competitively are detailed in Annex 2.</p>	
<p>Implication:</p> <p>Lack of application of competitive procurement procedures poses the risk of GSS not benefitting from best value for money for the tax payers and donor's money.</p>	
<p>Recommendation priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>In order to ensure value for money is achieved when awarding contracts, GSS MoF Management should ensure that competitive process is applied when procuring goods and services and retain supporting documents to evidence those procedures and the procurement decisions made.</p>	
<p>Management Comment:</p> <p>This finding mostly relates to payment of state obligation that was incurred before the establishment of MOF, other payment that required procurement and bidding processes were followed. The Management will strictly strengthen compliance with procurement processes.</p>	
<p>Further Auditor's Comment:</p> <p>82% of the transactions sampled which were not competitively procured related to regular food provision and Security, Intelligence and prison foods and other supplies. Only 17% relates to state formation. This shows payments other than state formation were not also competitively procured. See the details in Annex 2.</p>	

Finding n°: 4	Title: Weakness in Segregation of Duties for Payment of Expenditures
Criteria	
<p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is effective segregation of duties to ensure that one Ministry shall not be responsible for preparing, reviewing and approving payments.</p> <p>Also, Galmudug State of Somalia Financial Management and Expenditure/Revenue procedures manual states in the Commitment Authorization section on page 7 "The first step in the expenditure process occurs when a decision is taken which will lead directly to the expenditure of public moneys. This process is called Commitment Authorization. Only a person who has the authority to authorize proposals to spend public moneys can take such a decision. Ministry Heads and specific delegates will be designated as Authorizing Officers"</p> <p>Further, Appendix A treasury forms instruction specially in Form 2: Commitment and Payment Order (CPO) detailed instructions states that:</p> <ul style="list-style-type: none"> • This first section of the CPO form is to be completed by the spending Ministry. • Ministry Requesting Officer should sign to confirm the Commitment is required to meet the needs of the Ministry. • Ministry Authorizing Officer (frequently the Ministry head) should sign after satisfying himself/herself that: <ul style="list-style-type: none"> • The proposal is in accordance with the policies of the IGA; and • The proposed expenditure will make efficient and effective use of the public moneys available from the IGA Consolidated Budget for programs implementing those policies. • The Appropriation Account in the IGA Consolidated Budget has been assigned, to which the amount is chargeable. 	
Description of the finding:	
<p>We noted all Commitment and Payment Orders (CPO) are prepared and authorized by Ministry of Finance without involvement of authorizing officers in the line Ministries.</p>	
Implications:	
<p>This is breach on the Financial Management and Expenditure /Revenue procedures and also it will be very difficult to ascertain that the expenditure paid were truly incurred for the need of the MDAs charged.</p>	
Recommendation priority	
<p>Priority 1 – Urgent remedial action is required.</p>	
Recommendations:	
<p>In order to ensure adequate control is exercised over expenditures, the GSS should segregate duties of the expenditure process in accordance with Financial Management and Expenditure /Revenue procedures manual.</p>	
Management Comment:	
<p>We agree with this finding on authorization for CPOs for other MDAs, necessary remedies will be put into place to correct this deficiency. It is also important to mention that segregation of duty do exist for all other payment approval processes in the FMIS.</p>	

Finding n°: 5	Title: Weakness in Bank reconciliations
<p>Criteria</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is carrying out regular reconciliations between bank statements and cashbooks to highlight any errors or discrepancies as well as reducing the risk of fraud.</p> <p>Also, Galmudug state of Somalia financial management and expenditure/revenue procedures manual states in Tax Revenue Collection and recording Process Outline section "Bank reconciliation performed in Bisan© on a periodic basis, preferably daily".</p> <p>Description:</p> <p>We have noted that daily bank reconciliations are not prepared. We have been provided with only one reconciliation for the month of December 2016 which does not reflect the evidence of preparer, reviewer and approver.</p> <p>Also, the bank statement was not attached and the reconciliation was showing a difference negative USD 1,088.33 hence is not fully reconciled.</p> <p>Further, we noted the closing bank balance as at 31 December 2016 as per Financial statement shows USD 3,066 and whereas the ledger balance shows USD 3,266.</p>	
<p>Implication</p> <p>The lack of proper bank reconciliations means that there exists possibility of errors or discrepancies in the cashbooks and bank Accounts being carried forward without being noticed at an early stage. Bank reconciliations are key control systems for bank transactions, which were not enjoyed by Galmudug State of Somalia.</p>	
<p>Recommendation priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>In order to ensure adequate control is exercised over income and expenditures, the Management of GSS MoF, should ensure that bank reconciliations are carried out. It could do this by reconciling, on a daily, weekly or monthly basis, the Bank Account balances to the cashbook ledger.</p> <p>We also recommend clear segregation of duties in assigning roles of preparation, checking and approval of bank reconciliations. These should be demonstrated on the face of the bank reconciliations by indicating name, date and designation of preparer and reviewers alongside their respective signatures.</p>	
<p>Management comment:</p> <p>We do not agree with this finding. Online Bank reconciliation was prepared for all the nine months; however, we have not kept hard copies since bank reconciliation can easily be accessed in the FMIS per month for any period.</p>	
<p>Further Auditor's Comment:</p> <p>We were provided only December bank reconciliation in soft which was not having preparer and reviewer section. It is best practice requirement that the bank reconciliations should have evidence of preparer; reviewer; approver and kept in proper file to be availed for verifications during the audit.</p>	

Finding n°: 6	Title: Excessive use of Cash payments
<p>Criteria</p> <p>An effective measure in achieving an accurate set of financial files is reducing the reliance on cash payments, wherever possible. This is because cash is associated to a higher degree of risk and error compared to other payment methods. These risks include fraudulent activities and the potential for individuals to misappropriate funds.</p> <p>Also, Galmudug State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states in Expenditure process detail section "Payment to suppliers for goods and services can be made by check or when it becomes feasible by funds transfer to the supplier's account".</p> <p>Description</p> <p>We noted that huge amounts were paid in cash as detailed in Annex 3. Instead of paying the suppliers directly. GSS wrote a cheque to an individual who withdrew the cash and paid the supplier.</p>	
<p>Implication:</p> <p>Cash payments, especially large sums of money, expose the officers to fraudulent activities and thus the risk of misappropriation of funds.</p>	
<p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <p>To reduce the risk of inaccurate financial reporting, GSS should decrease its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. Bank payments should be used and the money should be deposited to the suppliers' bank account instead of giving a cheque to individuals working for GSS.</p>	
<p>Management Comment:</p> <p>We do not agree with this finding. During the period under review no cash payment was made, in fact it is impossible to pay cash since after completion of the payment process, the FMIS will automatically print Bisan© produced cheques and payment wired to the beneficiary bank account.</p>	
<p>Further Auditor's Comment:</p> <p>The accounting system should be registered with vendors' name not with individual names. Payments should be made directly to the vendors rather than through individuals and officers at GSS. See Annex 3 amount withdrawn by individuals working with GSS institutions and paid to vendor's instead of payments being made directly to the vendors.</p>	

Finding n°: 7	Title: Lack of Time Management System
Criteria Key requirements in ensuring an accurate and complete set of financial control policies and procedures. An important financial control is ensuring all staff prepares timesheets recording the number of hours spent by staff on different projects or activities on each day during the month or any other alternative time management system.	
Description We were not provided with evidence of time management systems for the civil servants as evidence of continuous presence at the work station for some of the Ministries and government institutions. We find that there were insufficient controls in place to assure us that salaries paid were for work done in line with civil servant's employment contracts.	
Implication: There is a risk that staff not working for Galmudug State of Somalia are paid.	
Recommendation priority: Priority 1 - Urgent remedial action is required	
Recommendations: We recommend that a time management system be instituted to ensure that civil servants manage their working time effectively. Requests for payments from the ministries should be accompanied with approved schedule of hours worked by the civil servants in the month due for payment. This information can be useful in performing verifications against the original daily record of attendance at the workplace if required.	
Management Comment: We agree with this finding and corrective action is now in place. Time sheet per employee per day was introduced since July 2017.	

Finding n°:8	Title: Poor Recording Keeping
Criteria A key requirement in ensuring an accurate, complete and up-to date set of financial files is ensuring that the record keeping system is well organized and well maintained. This acts as an aid to the financial reports that are produced from the accounting records and also reduces the risk of error.	
Description We noted that some supplier invoices were not having the quantity and unit price of the items invoiced instead the lump sum amounts were recorded.	
Implication: This makes it difficult to judge the reasonableness of the prices invoiced and arithmetic accuracy of invoices since the quantity and unit prices were not provided on the invoice.	
Recommendation priority: Priority 1 - Urgent remedial action is required	
Recommendations: We recommend that the suppliers should have the quantity and unit prices so that it can be checked for reasonableness.	
Management Comment: We agree there could be weakness in this area; MOF Management is determined to continuously improve the quality of record keeping of financial documents.	

Finding n°: 9	Title: Monthly Reports were not submitted
Criteria Article 6 of the Memorandum of Understanding (MOU) between Adam Smith International Africa Limited (the Fund Manager) acting on behalf of the Somalia Stability Fund (SSF) and The Ministry of Finance (MoF) of the Interim Galmudug Administration (IGA) states, "The MoF shall submit to the Fund Manager a monthly report, extracted from the Bisan© FMIS, indicating the commitments and expenditures progressively incurred in utilizing the Financial Assistance Grant. The Fund Manager is given the right to monitor the Bisan© FMIS transactions in real time, utilizing read only access."	
Description During our field audit, we were not provided any evidence of monthly reports sent to SSF.	
Implication: Lack of compliance with MoU	
Recommendation priority: Priority 2 - Prompt specific action is required	
Recommendations: We recommend that MoF should read the grant agreement and ensure all the reports required are sent as per the agreement or MoU with donors.	
Management Comment: We do not agree with this finding since quarterly reports can be accessed from the FMIS any time. During the period under review, SSF financial assistance grant was the only donor that had quarterly reports provided in its agreement. SSF representative were given READ ONLY ACCESS of the FMIS files and they were able to download quarterly reports.	
Further Auditor's Comment: It was a requirement that GSS submit monthly reports to the fund manager as well as given read only access and therefore there were no evidence of such submission provided for our review.	

Finding n°: 10	Title: Weakness in asset management
Criteria An important control procedure in the custody and maintenance of fixed assets is to ensure that the identification numbers on the assets are accurately recorded in the fixed asset register. This makes it easier to track the assets from the physical location to the assets register and vice versa.	
Description We conducted physical verification of existence of some of the assets bought using project's funds and found that: <ul style="list-style-type: none">(i) Only laptops provided by SSF Project are recorded in the fixed assets register. All other assets are not recorded.(ii) Apart from the laptops provided by SSF, the other assets were not tagged with GSS serial numbers.	
Implication: Inadequate documentation of assets matters may result in ineffective monitoring and control of the assets.	
Recommendation Priority Priority 2 - Prompt specific action is required	
Recommendations: GSS MoF should ensure that the comprehensive fixed assets register for all assets are prepared and properly maintained. At minimum, the details in such a register would include, among other details, the asset category and description, location, identification number, date of acquisition/disposal, supplier/invoice details and serial number. GSS MoF should also ensure that a fixed asset recognition policy is put in place in order to set a threshold above which a qualifying expenditure is recorded in the fixed assets register for effective monitoring and control of the asset by Management. The assets policy should consider the value, useful life and nature of items which qualify as assets. We also recommend that assets should be clearly tagged with donor and GSS insignia and fixed assets registers regularly updated.	
Management Comment: We agree with these comments and corrective actions have since been put into place. Asset management module has been procured with help of PREMIS.	