

**Office of the Auditor General**  
**Southwest State of Somalia**

**Annual Audit Report 2019**

**Presented to the Parliament on 06/11/2021**

Annual Audit Report 2019

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Transmittal Letter

6<sup>th</sup> Nov 2021

Honourable Prof. Ali Saciid Fiqi  
Speaker of Parliament  
Southwest State of Somalia  
Baidoa, Somalia.

Dear Sir,

Pursuant to the provisions of section 32(3) of the 2017 PFM Act, And Sections 30, 32 and 33 of the Audit Act 2021 of South West State of Somalia (SWSS), I have the honour to submit to you the 2019 Annual Audit Report of the Office of the Auditor General (OAG) for tabling in the State Parliament.

This report provides a summary of the major issues identified while much more detail in relation to these issues can be found in the annexes attached. These are:

1. The 2019 Financial Statements of SWSS and accompanying Audit Opinion (Annex 1).
2. The Audit Management Letter for 2019 including the detailed findings, recommendations for improvement and formal responses from Ministry of Finance (Annex 2).

Yours Faithfully,



Omar Ahmed Hassan  
Auditor General  
Southwest State of Somalia

- CC:
1. President South West State of Somalia
  2. Minister of Finance South West State of Somalia

## 1. Executive Summary

The Office of the Auditor General (OAG) is an independent institution whose main function is to be the external Auditor of the State as per Section 58 of the Constitution of South West State of Somalia (SWSS).

Section 32(3) of the PFM Act 2017 and Section 30(4) of the Audit Act 2021 require the Auditor General to examine, at least annually, the consolidated financial statement of the South West State of Somalia and report to Parliament. The law requires the Auditor General to express an opinion on the truth and fairness of the consolidated financial statements, report on significant findings and recommendations on the usage of public funds and also report on internal control deficiencies.

Since the Auditor General (AG) was appointed, the OAG was operationalized with the recruitment of three staff. There is a lack of budget to train staff and execute the office mandate, and a lack of other essential facilities such as proper working space and support from the political leadership. The UK Government and the European Union have provided some technical assistance over the last three years and have also provided limited support in terms of infrastructure. In order to carry out the legal mandate, and given the current challenges faced, the OAG mandated a private audit firm to conduct the audit for financial year 2019. This audit was completed, with OAG staff, to audit the consolidated financial statement for the period ending 31st December 2019 in accordance with the audit legislation. These financial statements, along with the audit opinion, are included as Annex 1 of this report.

This report gives a summary of the Opinion, significant findings and recommendations and internal control deficiencies for the financial year ending 31st December 2019. More detail on these findings is presented in Annex 2 to this report along with responses from the Ministry of Finance.

The overall audit opinion is a Qualified Opinion — this means that the Auditor General considers that the financial statements are a true and fair representation of the financial activities during the 2019 financial year except in two key areas.

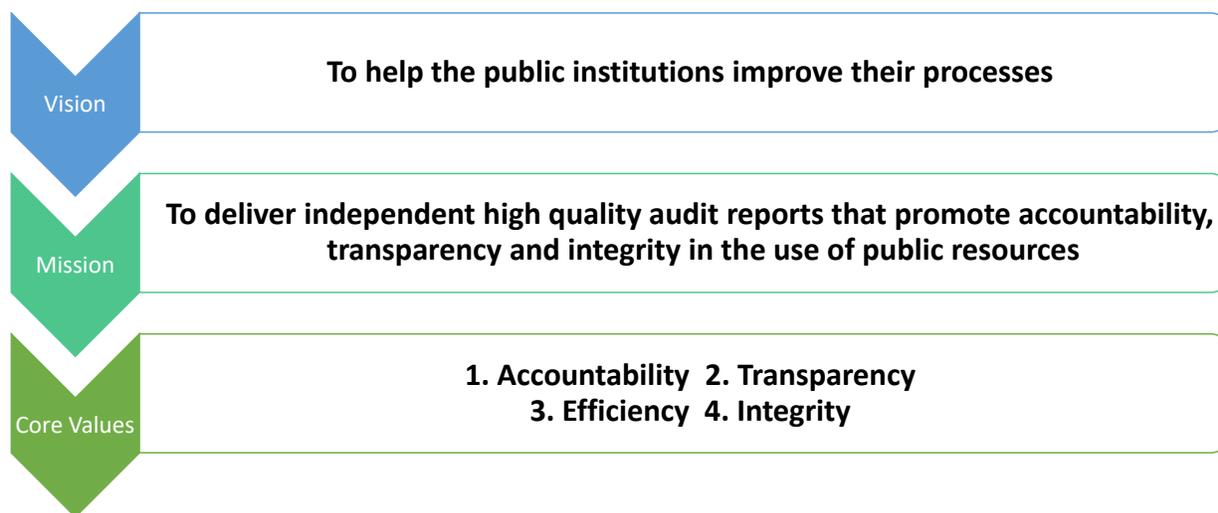
- Firstly, our audit identified payments amounting to USD 687,784, representing 16% of total payments reported in the Consolidated Fund Statement of Receipts and Payments, which lacked adequate evidence of occurrence and validity of transactions.
- We also noted grant receipts amounting to USD 455,684, representing 5% of total receipts recorded in the Consolidated Fund Statement of Receipts and Payments which were not confirmed by the donors and the Federal Government of Somalia. As a result, we are unable to ascertain whether these transactions are fully and correctly presented in the financial statements

The performance of the state in terms of accountability is same with the previous year in which a similar audit opinion was issued.

The main body of this report summarises the main findings identified during the audit. Greater detail on all audit issues identified is included in the Audit Management Letter attached at Annex 2.

## 2. About the OAG

### 2.1 Vision, Mission and Core Values



### 2.2 Functions of the OAG as per Audit Law

As per Sections 6 and 7 of the Audit Act 2021, functions of the OAG are:

1. To perform financial, compliance, performance and other audits on all public bodies of SWSS and report to the State Assembly with copies to the President, and the Minister responsible for finance.
2. Conduct special investigations for the purpose of ascertaining dishonesty, fraud or corruption.
3. If it is determined that sufficient evidence exists to warrant criminal investigation and prosecution, the OAG should refer the case to the Police and appropriate judicial authorities.
4. The OAG shall report at least annually, but no later than four months after receipt of the public accounts from the Minister of Finance and from Heads of Spending Agencies, on the results of the audit work of his/her office to parliament through the speaker.
5. The OAG may choose to conduct special audits and at his/her discretion prepares special reports for submission to parliament or for inclusion into annual reports.
6. The OAG to make reports public through print and electronic media, publishing through the official gazette, through comments and interviews to the press or other media on the subject of any published audit reports.

### 2.3 Current Status of the OAG

The OAG was established in 2015 but was not fully operational until January 2018 and the Audit Act was passed by parliament on 7<sup>th</sup> January 2021. Since then, with the support of the UK/EU funded PREMIS project, staff and institutional capacity have steadily improved. The Office currently has an Auditor General (AG) and three other staff that were recruited through the Civil Service Commission (CSC).

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Apart from continuing capacity building activities through regular workshops and on-the-job coaching in the field, the PREMIS project has also provided the office with computer equipment, financed the purchase of furniture and supported the OAG in renting an office.

### 2.4 OAG Challenges

The SWSS OAG is relatively new and so, not surprisingly, the office faces a number of challenges. Key amongst these are;

- Lack of resources in terms of operational budget.
- Inadequate staff resources and difficulty in retaining trained staff.
- Inadequate, but developing, staff capacity.
- Lack of awareness from other public bodies on the roles and mandate of the OAG.

### 2.5 Responsibilities of Other Parties in the Audit process

#### 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 independence of the Auditor General is important. As such, he has no role in the preparation of the financial statements and plays no part in controlling the underlying transactions that are reported in the financial statements.

#### Risk Bridge Private Audit Firm

As mentioned above, SWSS OAG did not have the requisite experience to conduct a fully independent audit on its own at the time of executing this audit, but this is gradually changing. We plan to carry out the FY 2020 audit on our own. This necessitated the hiring of an external private audit firm to perform the audit work with, and on behalf of, the OAG. One main feature of this engagement with Risk Bridge was capacity building of the OAG staff. The OAG staff were given on-the-job training and they spearheaded the audit work acting as a link between Risk Bridge and the Ministry of Finance. This engagement is in accordance with Sections 20-23 of the Audit Act 2021.

## 3. Key Terminologies

### 3.1 Audit Opinion

This is the auditor's judgment on the financial statements prepared by management. An audit opinion is a professional view offered by a qualified accountant at the completion of an audit of financial records. In addition to an overall conclusion, the opinion describes the processes used during auditing, the standards used by the auditor, and other relevant information.

#### Types of Audit Opinions

*Unqualified opinion*—no reservations concerning the financial statement. This is also known as a clean opinion meaning that the financial statements appear to be **presented fairly in all material respects**.

*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 known as "**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 due to a material limitation of scope. The auditor is therefore unable to express his 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 relevant financial reporting framework.

### 3.2 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.

### 3.3 Materiality

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.

## 4. Key Audit Results and Recommendations

### 4.1 Report of the Independent Auditor

#### Qualified Opinion

We have audited the financial statements of the South West State of Somalia which comprise the Consolidated Funds Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts for the period ended 31 December 2019 and Notes to the Consolidated Financial Statements including a summary of significant accounting policies.

In our opinion, except for the matter discussed in the Basis of Qualified Opinion section of our report, the accompanying financial statements for 2019 are mostly in conformity with the provisions of the PFM Act 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

The audit opinion on the financial statements for the year 2018 was the same.

#### **Basis for Qualified Opinion**

Our audit identified payments amounting to USD 687,784, representing 16% of total payments reported in the Consolidated Fund Statement of Receipts and Payments, which lacked adequate evidence of occurrence and validity of transactions

We also noted grant receipts amounting to USD 455,684 representing, 5% of total receipts recorded in the Consolidated Fund Statement of Receipts and Payments, which were not confirmed by the donors and the Federal Government of Somalia. We, therefore, could not ascertain the occurrence and validity of the grant receipts.

We conducted our audit in accordance with International Standards on Auditing (ISSAI). 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 South West State of Somalia in accordance with the approved SWSS OAG code of ethics document.

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## 4.2 Revenue

In our assessment we found the following weaknesses in the revenue collection process during the audit.

### Weaknesses in revenue collection and recording process.

- a) Revenue vouchers and other supporting documents for turn over tax, customs duty and road user tax did not capture the tax payers name, tax identification number and purpose for which tax is levied
- b) We also noted that the supporting documents did not have the tax base documented as well as the total income being taxed to counter check with what has been paid. This makes it impossible to verify the completeness and accuracy of the taxes being paid by the taxpayers to Ministry of Finance (MOF)
- c) We noted the Revenue Clerks collect taxes in cash and the banking is either done on the same day or the following day after collection. There is a risk that tax collected is not deposited intact as cash is inherently risky.
- d) We noted that the foreign exchange rate used for conversion from Somalia Shilling to US\$ by both the Treasury and the RCC is not clearly documented and this is based on knowledge by different tax revenue officers which may lead to inconsistencies and misstatements in translation of revenue from taxes.

### Recommendation:

- To implement daily or weekly reconciliation of cash collections receipts to the daily banking.
- The Tax have to be collected by using Electronic Method such as EVC,E-Dahab or bank account because using cash is riskier.
- Create a field in RMS to record the physical receipt number for ease of tracking supporting documents during revenue assurance reviews.
- The Government should ensure that exchange rate used for conversion of Somali Shilling to US\$ is adequately documented and reasonable.

To implement a receipting system and interface it with RMS to enable posting of the cash received directly to RMS.

### Huge gaps in revenue collected during the period under review

For Domestic Revenue, we noted unexplained fluctuations of revenue collection in certain months. It was also noted that the revenue collection of these specific months were over 30% off the average monthly revenue of \$162,294. No plausible explanation was given in this regard as shown in the graph below.

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No collections were made in some of the months.

**Recommendation:**

- The ministry should undertake periodic analytical review of the revenue accounts to check on completeness and accuracy of revenue collected and recorded.
- When major fluctuations are noted, management should also undertake audits and investigations to know the reason for the same and this process should be documented for future reference.

**Variance between revenue recorded under RMS and FMIS**

During our audit we noted that there were differences between revenue recorded under the Revenue Management System (RMS) and Financial Management Information System (FMIS) amounting to US\$ 1,793,257 indicating inaccuracy and errors in the recording and completeness of the recorded revenue. Without reconciliation between the two systems, it is difficult to confirm the accuracy and completeness of revenue collected and recorded.

**Recommendation:**

We recommend for the real time interface and regular (monthly or weekly) reconciliations between RMS and FMIS to enable Ministry of Finance counter check the completeness and accuracy of revenue collected and recorded in real time.

**Weaknesses in recognition of Grant Income from Donors**

When we reviewed the grants from donors, we noted differences between the recorded amount under FMIS and the confirmed amounts from donors and there were no explanations or reconciliations provided. Amounts received from donors were not regularly reconciled by MOF.

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We also found out that proper filing system and contract management focal points were lacking. There were also missing contract documents that were not available for audit. Some of the grant agreements did not disclose vital information such as detailed budget and contract conditions.

### **Recommendation:**

- We recommend all donor grants to be centralized within a section of the EAFS that monitors the contracts for expiration and compliance.
- We also recommend Monthly reconciliation between FMIS and actual receipts as per bank statement.

### 4.3 Expenditure

#### **Lack of proper supporting documents**

We have noted instances where Conflict Resolution expenses amounting to USD 300,000 and Contingency Expenses amounting to USD 387,784 were not supported with any third-party documentation. The expenses were only supported with an internal letter from MoF's Director General. In prudent public financial management and fund controls, MoF cannot write a letter to itself to release cash funding. Additionally, both expenses were not supported by activity and budget terms of reference such as approved itemized costing expenditure and approval of the signatory of the user department.

Procurement and cash expenditure lacked documentation to show evidence of goods delivered or services rendered such as delivery notes, GRN, motor vehicle log sheets, timesheets and certificate of work completion.

### **Recommendation:**

SWSS should ensure compliance with PFM and Treasury Regulations. Appropriate supporting documents must be obtained/retained to support all payments.

#### **Weaknesses in procurement**

Instances of single sourcing of suppliers were noted. This has the effect of loss of value for money and competitive pricing of goods and services.

### **Recommendation:**

Single sourcing justification be minimal and only triggered under one-off emergency purchases

#### **Expenditure documents not stamped as "PAID."**

Expenditure support documents were not stamped "PAID" to avoid use of same set of documentation for multiple payments.

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**Recommendations:**

- To Invalidate paid documents by cancelling through PAID mark, including budget code, donor and project references
- For own source use of funds at the treasury, all invoices, receipts, attendance sheets, request letters, tickets and boarding passes bear government stamp-MoF PAID

**4.4 Weaknesses in human resource and payroll process**

From the review of the personnel files from the Civil Service Commission and the payroll expenditures from IFMIS, we noted the below weaknesses in human resource and payroll process:

- a) Discrepancies between the number of employees that were signed off in the physical signed payroll sheets versus the payroll extracts from the FMIS
- b) Absence of leave records and monitoring thereof
- c) No evidence to show Performance Management and Performance Appraisals in employee personnel files
- d) Lack of background checks on some employees before they were brought on board into the different Ministries
- e) Personnel files and employee personal information were not maintained for the following state officers and personnel:
  - a) Ministers and Politicians
  - b) Security Forces
  - c) Wage Workers
- f) No payslips

Weaknesses in payments to Security Forces were as follows

- a) There were missing signatures in the payment list of security personnel while some signatures/ thumbprints seemed similar. This puts into doubt whether the intended beneficiaries did receive the funds.
- b) The payment list of security personnel sent from the Ministry of Internal Security did not have the amounts paid to each individual officer. Thus, it was impossible to ascertain the payments per individual.
- c) The payments to security personnel are dispatched in cash which is inherently risky.

We noted the following weaknesses in payments relating to wage workers.

- a) Lack of evidence of competitive hiring of the wage workers
- b) No Contracts for the wage workers
- c) No Timesheets or attendance sheets
- d) Taxes were not deducted for all employees' salaries until July 2019.

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**Recommendations:**

The state should ensure that the payroll system is automated and payroll payments should be based on biometric identification of recipients. Periodic personnel head count should be carried out prior to release of lump sum required amounts. Mechanisms for managing leave and performance should be established. Background checks are important and should be done before issuing offer letters. Employees should be taxed as per the law throughout the year.

**4.5 Weaknesses in Asset Management**

We noted the following weaknesses in the management of assets by the state;

- a) Lack of a fixed assets management policy.
- b) The fixed assets were not tagged
- c) There was no evidence of periodic fixed asset verification
- d) The fixed assets register provided for audit was incomplete,

**Recommendations:**

The assets register should be updated to include all government property both movable and immovable. The SWSS should ensure that all assets are tagged with a unique identification code. An asset maintenance schedule be maintained and followed and all defective but useful pieces of assets be regularly repaired and put into good use. There should be regular physical verification exercise on the assets, the results of which should be updated in the Assets Management System.

**4.6 Bank and Cash**

We noted that the bank reconciliations for some months were not signed by either the preparer or reviewer or both. For all reconciliations, we also noted that the date of preparation and review were not indicated in the bank reconciliation statements

**Recommendation:**

Bank reconciliations should be timely and consistently prepared, reviewed and approved by management.

**4.7 Weaknesses in the budgeting and financial reporting process**

We noted a huge variance amounting to US\$ 3,314,112 (26%) between the budget revenue for the period and the actual financial performance. Similar huge variance was noted on the expenditures, as follows:

Details	Budget Amount (US\$)	Actual Amount (US\$)	Variance (US\$)	Variance (%)
Revenue	12,761,705	9,447,593	(3,314,112)	-26%
Expenditure	12,761,705	9,284,666	(3,477,040)	-27%

**Recommendation:**

The state should ensure that the annual budget is subject to review and any over or under forecast of the financial performance adjusted in subsequent supplementary reviews.

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#### 4.8 IT General and Application Controls

##### **Lack of interface between Budget Preparation Module (BPM) and FMIS**

Variances totalling to USD 88,000 were noted between approved budget amounts in BPM and FMIS

##### **Recommendation:**

There should be an automated interface between the two systems to ensure changes to the budget are accurately and completely reflected in FMIS. Any official changes to the budget should also be updated and the approval be documented to address the variances noted.

##### **General Computer Controls**

We also noted several other weaknesses in Access Controls as follows;

- i. Weak segregation of duties in FMIS
- ii. Weaknesses in access assignment for FMIS
- iii. Gaps in user access rights review
- iv. Weak password configuration controls for FMIS, RMS and BPM
- v. Inadequate review of administrator activities in FMIS
- vi. Weaknesses in physical security of MoF premises
- vii. Existence of Generic user accounts
- viii. Inactive user accounts

##### **Recommendation:**

- Review all user roles in IFMIS and implement strong segregation of duties controls that are documented to ensure all areas of conflict which may lead to invalid, unauthorized or fraudulent transactions are prevented
- All users' access be adequately documented and approved by appropriate management level.
- To consider acceptable access rights to ICT personnel for continuity purposes of the support for system users
- To implement a process to periodically review all users' rights to validate that user access rights are commensurate with assigned job responsibilities for all financial systems. Any exceptions be documented with a valid justification with approval from the Permanent Secretary
- The password policies and procedures be improved to include: Maximum number of allowable unsuccessful attempts; and password lockout duration. And password policies and configuration settings be improved for windows and all critical business systems.
- Consider revoking transaction processing privileges for the IT Administrator. Where this is necessary, consider a regular and independent review of administrator activities be done and documented to verify that no unauthorised entries were passed.

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- A register be availed for the recording of laptop serial numbers for all laptops being brought into and taken out of SWSS offices. And a gate pass system be set up to record and approve any electronics being taken out for service or being transferred from their original locations
- The Admin user ID be changed to show the ICT Director's name if possible, otherwise, the individual in charge of ICT administration be created with the relevant administrative rights for the purpose of accountability. And all generic IDs be deactivated if not in use or be documented and assigned to specific employees after approval by the relevant management for accountability.
- All inactive user IDs be temporarily deactivated if not in use for over 60 days until they are needed by their owners

### **IT Operations**

We noted the following weaknesses in IT operations:

- Inadequately documented Information Security Policies
- IT Security awareness training
- Logging of IT support and helpdesk incidents

### **Recommendation:**

- A documented, approved and implementable policy and procedures document be prepared incorporating the mentioned policies and circulated to users and IT administrators for compliance
- Regular/Annual training sessions be organized to train users on the latest attacks and measures to protect the IT assets from compromise.
- A comprehensive incident reporting and logging system be formalized to include the following: name of logger, format used to record incidents, e.g. incident tracking system, remedy, etc; and name/title of person who investigates and resolves them.

### **Systems Change Control**

We found these weaknesses during our audit;

- Lack of formal change management policy
- Lack of adoption of system development and acquisition policy

### **Recommendation:**

A change management policy be developed, documented and approved to include:

- initiation of the change; classification of the change; authorization for the change; unit and system testing in a test environment; business user testing and signoff; and migration to production.

### **IT Disaster Recovery and Business Continuity**

We also found the following weaknesses:

- Lack of an IT Disaster Recovery and Business Continuity Plan
- Lack of implementation of a formalised backup strategy

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**Recommendation:**

- A business continuity plan be documented, approved, implemented, tested and annually updated to cover new risks
- A comprehensive strategy for backup of relevant data and programs to include:
  - Responsibility for performing backups;
  - Format of backup tool,
  - Corrective action to be taken in the event of failed backups has been outlined
  - And the backup schedule is commensurate with the risk of data loss based on the criticality of the system

4.9 Failure to Implement Prior Year Audit Recommendations

We noted that, most of the audit recommendations made for the audit year of 2018 have not yet been implemented.

The following table shows that the implementation status of OAG recommendations made in the Annual Report 2018.

Total No. of Prior Year Recommendations	Implemented	Partially Implemented	Not Implemented
14	0	1	13

The OAG regularly gives recommendations to the Government to address the various issues identified during audit. These recommendations key tools to support effective governance and to improve financial management.

**Recommendations:**

- The Ministry should develop an action plan to implement for the OAG audit recommendations with timelines and responsible officers clearly identified.
- Progress against this action plan should be reported regularly to the Minister of Finance.

## 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 Ministry of Finance.

We highly thank our donor partners for heavily investing in the establishment and development of our office. Finally, we also give special thanks to Risk Bridge, the private audit firm who worked tirelessly throughout the period and help us to complete the audit process and any other party that has in one way or the other contributed to making the audit process a success.



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Annex 1 – South West State of Somalia (SWSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2019



**SOUTH WEST STATE OF SOMALIA (SWSS) AUDIT REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2019**

**FINAL REPORT**

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**i) STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE**

The Public Financial Management (PFM) Act 2018 of South West State of Somalia requires Ministry of Finance (The Ministry) to prepare Consolidated Fund Statement of Receipts and Payments for each financial year that recognizes all cash receipts and payments and cash balances controlled by the State. The State is required to maintain proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Ministry accepts responsibility for the preparation and presentation of these Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting 2017 and in the manner required by the Public Financial Management Act, 2018 of South West State of Somalia. The Ministry also accepts responsibility for:

- i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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 South West State of Somalia (SWSS) on 25/07/ 2021.

**Minister for Finance**

**Signature**





## ii) REPORT OF THE INDEPENDENT AUDITOR

### Modified Opinion

We have audited the financial statements of the South West State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Government Financial Statistic (GFS) Statement of Operation for the year ended 31 December 2019 and Notes to the Financial Statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section the report the financial statements presents fairly, in all material respects, the financial position of the South West State of Somalia as at 31 December 2019 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public- Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting, 2017.

### Basis for Qualified Opinion

We identified material misstatements in the context of our audit as follows:

- Our audit identified payments amounting to USD 687,784 representing 16% of total payments reported in the Consolidated Fund Statement of Receipts and Payments, which lacked adequate evidence of occurrence and validity of transactions
- We also noted grant receipts amounting to USD 455,684 representing 5% of total receipts recorded in the Consolidated Fund Statement of Receipts and Payments which were not confirmed by the donors and the Federal Government of Somalia. We, therefore, could not ascertain the completeness and validity of the grant receipts.

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

#### **a) Collection and recording of revenue.**

The procedures applied by the South West State of Somalia administration are not sufficient to prevent tax leakages and misstatement of the financial statements. This is because:

- SWSS lacks a comprehensive list of organizations and business entities from which taxes can be levied which increases difficulty in verification of completeness of revenue recorded in the financial statements.
- Receipts are recorded into the accounting system based on the amounts banked derived from the bank slips instead of receipts issued for tax paid.
- Most tax revenue is collected in cash, and the revenue collection system is not automated.
- Tax collected is not reconciled to amounts banked and the accounting system.
- The revenue collection system is not reconciled to the financial reporting system – the Financial Management Information System (FMIS)
- Grant receipts from donors and the Federal Government of Somalia (FGS) are not adequately reconciled to the FMIS and to the donor records. Further, the grant contracts are not consistently maintained to account for the grant receipts.

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

- Conducted interviews with the relevant officers at the Ministry of Finance, Revenue Collection Centre staff and the tax collection agents to understand the procedures applied for revenue collection.
- We performed substantive tests to verify that the procedures are operational.
- We reviewed the recording and receipt of receipts at the source point, i.e. the Revenue Collection Centre (RCC) to ascertain the accuracy of the amounts reported internally generated receipts.
- We sought external confirmations for revenue from the Federal Government of Somalia (FGS) and donors and compared the confirmations received with the financial statements.
- We traced receipts recorded on the ledgers to the bank statements and receipt books to

verify accuracy of receipt recorded on the financial statements.

- We reviewed the bank statements for indicators of undisclosed receipts in order to verify the completeness of receipts.
- We tested on a sample basis receipts declared on the financial statements against supporting documentation and performed substantive tests, analytical review procedures and cut off tests.
- We made inquiries from management on the variances identified for receipts and reported in the management letter where explanations were inadequate.

**b) Expenditure payments.**

We found the following practices that increased the risk of payments made and reported in the financial statements:

- The State did not maintain evidence of delivery of the goods and services related to the payments
- Failure to maintain supporting documentation to support the procurement process large expenditures
- Failure to maintain supporting documentation to verify the stages of work completion and subsequent authorization of payment based on satisfactory completion of work

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

- We reviewed the ledger to ascertain the actual expenditures recorded for key suppliers
- We traced the payments to the suppliers as recorded in the ledger to the bank statements of the State in order to verify that the suppliers were paid
- We reviewed the progress reports on the construction and other works projects

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

The Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the Public Financial Management Act 2018 and the International Public-Sector Accounting Standard (IPSAS) - Financial Reporting under the Cash Basis of Accounting and for such internal control as the Management Committee is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Management is responsible for assessing the SWSS'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 Financial Statements**

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

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

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

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Bulle Ahmed - Practising certificate No. 2055.



28 July 2021.

Certified Public Accountants (Kenya)

Nairobi

2021

ii) **CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF SOUTH WEST STATE OF SOMALIA**



# CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF THE SOUTH WEST STATE OF SOMALIA

For the Year Ended 31 December 2019

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

**Prepared by the  
Ministry of Finance**  
South West State of  
Somalia

## **Statement of Certification – 2019 Financial Statements**

The 2019 financial statements together with the accompanying notes have been prepared in accordance with the International Public Sector Accounting Standards, cash basis of accounting (2017)

In the opinion of the Ministry of Finance, the financial statements of the South West State of Somalia as submitted to audit in accordance with *Section 32 of the Public Finance Management Act 2018* are materially accurate and present fairly the Government's financial position for the year ended 31 December 2019.

**For and on behalf of the South West State of Somalia**

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**Minister for Finance**

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**Date:**

**South West State of Somalia**  
**Consolidated Financial Statement of Receipts and Payments**  
**Treasury Single Account**  
**For the Year Ended 31 December 2019**

	Note	2019		2018		
		Controlled by	Controlled by	Payments by		
		TSA	TSA	Third Party		
		USD	USD	USD		
<b>Receipts / Inflows</b>						
Taxes	2					
Taxes on income, profits, and capital gains		10,018				
Taxes on payroll and workforce		487,784	229,927			
Taxes on goods and services		952,700	1,854,842			
Taxes on international trade and transactions		452,283	922,287			
<b>Taxes</b>		<b>1,902,785</b>	<b>3,007,055</b>			
Grants	3					
From foreign governments						
From international organizations		1,713,636	651,991	3,995,566		
From other general government units		5,802,666	2,266,140			
<b>Grants</b>		<b>7,516,301</b>	<b>2,918,131</b>	<b>3,995,566</b>		
Other Revenue	4					
Property income		5,192	3,232			
Sale of goods and services		9,680	12,780			
Fines, penalties and forfeits		13,635				
<b>Other Revenue</b>		<b>28,507</b>	<b>16,012</b>			
<b>Receipts / Inflows</b>		<b>9,447,593</b>	<b>5,941,199</b>	<b>3,995,566</b>		
<b>Payments / Outflows</b>						
Compensation of Employees	5					
Wages and Salaries		6,317,051	5,557,214			
Compensation of Employees		6,317,051	5,557,214			
Use of Goods and Services	6					
Travel & Conferences		43,575	2,530	275,943		
Operating Expenses		310,526	47,562			
Rent		10,800				
Other Operating Expenses		232,686	53,007	739,653		
Conflict Resolution Expenses		300,000				
Contingency		387,784				
Use of Goods and Services		1,285,371	103,099	1,015,596		
Grants	7					
Grants To Other General Government Units		21,000				
Grants		21,000				
Social Benefits	8					
Employment-related social benefits				680,517		
Social Benefits				680,517		
Other Expenses	9					
Transfers not elsewhere classified		45,773	840	413,085		
Other Expenses		45,773	840	413,085		
Nonfinancial assets	10					
Fixed Assets		1,602,971	280,283	1,886,368		
Inventories		12,500				
Nonfinancial assets		1,615,471	280,283	1,886,368		
<b>Payments / Outflows</b>		<b>9,284,666</b>	<b>5,941,435</b>	<b>3,995,566</b>		
Increase Decrease in Cash		162,928	-236			
Cash at Beginning of Year		327,421	327,657			
Cash at End of Year	1.4	490,348	327,421			

**South West State of Somalia**  
**Consolidated Fund Statement of Comparison of Budget and Actual Amounts**  
**For the Year Ended 31 December 2019**  
**(Classification of Payments and Receipts by Economic Class)**

	Note	2019			2018	
		Original Estimate Appropriation	Final Estimate Appropriation	Controlled by TSA	Difference Between Final Budget and Actual	Controlled by TSA
		USD	USD	USD	USD	USD
<b>Receipts / Inflows</b>						
Taxes						
		22,680	22,680	10,018	(12,662)	
		501,004	501,004	487,784	(13,221)	229,927
		2,155,208	2,155,208	952,700	(1,202,508)	1,854,842
		1,449,746	1,446,746	452,283	(994,463)	922,287
	<b>13</b>	<b>4,128,638</b>	<b>4,125,638</b>	<b>1,902,785</b>	<b>(2,222,853)</b>	<b>3,007,055</b>
Grants						
		2,423,496	3,438,061	1,713,636	(1,724,426)	651,991
		3,638,047	5,013,437	5,802,666	789,229	2,266,140
	<b>14</b>	<b>6,061,543</b>	<b>8,451,498</b>	<b>7,516,301</b>	<b>(935,197)</b>	<b>2,918,131</b>
Other Revenue						
		85,639	85,639	5,192	(80,447)	3,232
		98,930	98,930	9,680	(89,250)	12,780
				13,635	13,635	
	<b>15</b>	<b>184,569</b>	<b>184,569</b>	<b>28,507</b>	<b>(156,062)</b>	<b>16,012</b>
<b>Receipts / Inflows</b>						
<b>10,374,750</b>						
<b>12,761,705</b>						
<b>9,447,593</b>						
<b>(3,314,112)</b>						
<b>5,941,199</b>						
<b>Payments / Outflows</b>						
Compensation of Employees						
		6,778,207	8,044,277	6,317,051	(1,727,227)	5,557,214
	<b>16</b>	<b>6,778,207</b>	<b>8,044,277</b>	<b>6,317,051</b>	<b>(1,727,227)</b>	<b>5,557,214</b>
Use of Goods and Services						
		134,821	170,093	43,575	(126,518)	2,530
		827,718	843,129	310,526	(532,603)	47,562
		33,600	31,600	10,800	(20,800)	
		458,954	493,774	232,686	(261,088)	53,007
			300,000	300,000		
		150,000	240,000		(240,000)	
		400,000	400,000	387,784	(12,216)	
	<b>17</b>	<b>2,005,093</b>	<b>2,478,596</b>	<b>1,285,371</b>	<b>(1,193,225)</b>	<b>103,099</b>
Grants						
		36,000	36,000	21,000	(15,000)	
	<b>18</b>	<b>36,000</b>	<b>36,000</b>	<b>21,000</b>	<b>(15,000)</b>	
Social Benefits						
		20,000				
		20,000				
		117,000	113,400	45,773	(67,628)	840
	<b>19</b>	<b>117,000</b>	<b>113,400</b>	<b>45,773</b>	<b>(67,628)</b>	<b>840</b>
Nonfinancial assets						
		1,405,950	2,076,932	1,602,971	(473,961)	280,283
		12,500	12,500	12,500		
	<b>20</b>	<b>1,418,450</b>	<b>2,089,432</b>	<b>1,615,471</b>	<b>(473,961)</b>	<b>280,283</b>
<b>Payments / Outflows</b>						
<b>10,374,750</b>						
<b>12,761,705</b>						
<b>9,284,666</b>						
<b>(3,477,040)</b>						
<b>5,941,435</b>						
Increase Decrease in Cash						
162,928						
162,928						
(236)						

**South West State of Somalia**  
**Statement of Operations**  
**For the Year Ended 31 December 2019**

	2019	2018
	USD	USD
Transactions Affecting Net Worth		
<b>Revenue</b>	<b>9,447,593</b>	<b>9,936,765</b>
<b>Taxes</b>	<b>1,902,785</b>	<b>3,007,055</b>
Taxes on income, profits, and capital gains	10,018	0
Taxes on payroll and workforce	487,784	229,927
Taxes on goods and services	952,700	1,854,842
Taxes on international trade and transactions	452,283	922,287
<b>Grants</b>	<b>7,516,301</b>	<b>6,913,697</b>
<b>From foreign governments</b>	<b>7,516,301</b>	<b>6,913,697</b>
From international organizations	1,713,636	4,647,557
From other general government units	5,802,666	2,266,140
<b>Other Revenue</b>	<b>28,507</b>	<b>16,012</b>
Property income	5,192	3,232
Sale of goods and services	9,680	12,780
Fines, penalties and forfeits	13,635	0
Expense	7,669,194	7,770,350
Compensation of Employees	6,317,051	5,557,214
Wages and Salaries	6,317,051	5,557,214
Use of Goods and Services	1,285,371	1,118,695
Travel & Conferences	43,575	278,473
Operating Expenses	310,526	47,562
Rent	10,800	0
Other Operating Expenses	232,686	792,660
Conflict Resolution Expenses	300,000	0
Contingency	387,784	0
Grants	21,000	0
Grants To Other General Government Units	21,000	0
Social Benefits	0	680,517
Employment-related social benefits	0	680,517
Other Expenses	45,773	413,925
Transfers not elsewhere classified	45,773	413,925
Gross Operating Balance	1,778,399	2,166,415
Transactions In Non Financial Assets		
Net worth and its changes	1,615,471	2,166,651
Nonfinancial assets	1,615,471	2,166,651
Fixed Assets	1,602,971	2,166,651
Inventories	12,500	0
Transactions in Financial Assets & Liabilities		
Change In Net Worth. Transactions (Assets)	162,928	-236
Financial assets	162,928	-236
Domestic	162,928	-236
Liabilities	0	0
Liabilities	0	0
Liabilities	0	0
Overall Statistical Discrepancy	0	0

## Note 1 Summary of Significant Accounting Policies

### 1.1 Basis of Preparation

The South West State of Somalia's (SWSS) Consolidated Financial Statements have been prepared in accordance with the *Public Financial Management Act of 2018* and the International Public Sector Accounting Standard (IPSAS) which had been applied in all material aspects - *Financial Reporting Under the Cash Basis of Accounting (2017)*. The notes to the financial statements form an integral part to understanding the statements and must be read in conjunction with the statements.

The accounting policies have been applied consistently throughout the period.

### 1.2 Change of Accounting Policy

IPSAS Financial Reporting Under a Cash Basis of Accounting (2017) standard is for annual financial statements covering periods beginning on or after January 1 2019. SWSS has reported in accordance with IPSAS Cash Basis of Accounting (2007) standard in previous years and adopted IPSAS Cash Basis of Accounting (2017) with effect from the 2019 financial year.

Due to application of the new cash-based reporting standard for the reporting period of these financial statements, the impact on the financial statements are as follows:

1. There have been no changes in accounting policy that impacts opening cash balances,
2. The Third-Party disclosure columns on the face of the Statement of Receipts and Payments and Comparison of Budget and Actual Amounts for the 2018 financial year has been removed. The figures as reported on the face of the 2018 statements were:

	<b>2018</b>
	<b>USD</b>
<b>Receipt/Inflows</b>	
Grants	
Grants from International Organisations	3,995,566
<b>Total Receipts/Inflows</b>	<b>3,995,566</b>
<b>Payments/Outflows</b>	
Use of Goods and Services	
Travel and Conferences	275,943
Other Operating Expenses	739,653
Total Use of Goods and Services	1,015,596
Social Benefits	
Employment-related Social Benefits	680,517
Total Social Benefits	
Other Expenses	
Transfers not elsewhere classified	413,085
Non-Financial Assets	
Fixed Assets	1,886,368
<b>Total Payments/Outflows</b>	<b>3,995,566</b>

In accordance with IPSAS Cash basis of Accounting (2017), presentation of 3<sup>rd</sup> party assistance have been moved to the voluntary note disclosure section in these financial statements (see note 21 for presentation of comparison between years).

### ***1.3 Reporting Entity***

The Financial Statements are for the South West State of Somalia. The financial statements encompass the reporting entities as specified in the *SWSS Appropriation Act No. 1 and 2 of 2019* and are comprised of:

- 1 State Ministry of President
- 2 Ministry of Justice & Judiciary
- 3 Ministry of Finance
- 4 Ministry of Interior & Local Governments
- 5 Ministry of Agriculture & Irrigation
- 6 Ministry of Internal Security
- 7 Ministry of Energy & Petroleum
- 8 Ministry of Seaports & Sea Transportation
- 9 Ministry of Planning and International Cooperation
- 10 Ministry of Health
- 11 Ministry of Education
- 12 Ministry of Information
- 13 Ministry of Posts & Communications
- 14 Ministry of Youth & Sports
- 15 Ministry of Mineral Resources & Water
- 16 Ministry of Industry & Commerce
- 17 Ministry of Reconciliation & Constitutional Affairs
- 18 Ministry of Aid & Disaster Management
- 19 Ministry of Islamic Affairs & Endowments
- 20 Ministry of Labor & Employment
- 21 Ministry of Women & Human Rights
- 22 Ministry of Transportation & Airports
- 23 Ministry of Livestock & Veterinary
- 24 Ministry of Fisheries and Sea Minerals
- 25 Ministry of Public Works and Reconstruction
- 26 Civil Service Commission
- 27 Parliament
- 28 Office for Auditor General
- 29 Accountant General Office

All ministries were created by *Presidential Decree SWSS-0001/03/01/15* entitled *A Decree Establishing Ministries of South West State of Somalia and Defining Roles and Functions of Ministries* dated 03 January 2015 and a separate Act creating the Ministry of Finance and the Revenue Collection Authority entitled *An*

*Act Establishing the Ministry of Finance and Revenue Collection Authority and Other Related Matters 2018.*

An Act establishing the Civil Service Commission (CSC) and its purpose entitled *An Act establishing the Civil Service Commission of the South West State of Somalia dated 22 January 2018* established the office of the Civil Service Commission. A companion Act also established the Civil Service and the Civil Service Salary structure.

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

#### ***1.4 Treasury Single Account & Project Account***

In addition to Treasury Single Account and Project Account bank accounts, six bank accounts were opened during the year under a written authorization of the Minister for Finance. These e bank accounts were opened as sub-accounts of the TSA as a requirement of the donor’s. As at the end of FY2019 balances of these bank accounts were as follows:

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Treasury Single Account(TSA)	425,707	304,453
WB-Recurrent Cost and Reform Financing-RCRFII	60,791	22,968
Support to Stabilization(S2S)	0	
Local Development Fund(MOI)	3,767	
Somali Urban Investment Planning Project-Baidoa Municipality	83	
Ministry of Livestock & Veterinary	0	
Ministry of Health	0	
Ministry of Planning	0	
<b>Total</b>	<b>490,348</b>	<b>327,421</b>

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

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Cash on Hand and Balances with Banks	<u>490,348</u>	<u>327,421</u>

### ***1.5 Cash & Cash Equivalents***

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

### ***1.6 Reporting Currency***

The financial statements are presented in United States Dollar (USD), which is the reporting currency of the State, rounded to the nearest dollar.

### ***1.7 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 (These are identified in Note 1.2)

The original budget was approved by Parliaments on the 6th April 2019 and a supplemental budget was approved on the 30th September 2019. The reason for Supplementary Budget was due to a shortfall in some main budget items namely Security Police Forces, Daily Meals, Electricity, Office Rent, Wage Workers and Publications.

### ***1.8 Authorization Date***

The financial statements were authorized for issue on 30 April 2020 by H.E; Ahmed Mohamed Hussein, Minister for Finance.

## **Note 2 Taxes**

A total of taxes for FY 2019 amounted to \$1,902,785 a decrease of approximately 37% from \$3,007,055 for 2018. It was collected under the category of taxes on income, taxes on payroll, taxes on goods and service and taxes on international trade and transactions. South West Revenue Authority introduced taxes on income, profits and capital gains in line with the Revenue Act for the last quarter of this year. The decrease on taxes for this financial year was attributed to decrease in collection from both taxes on goods and services (49%) and taxes on trade on international trade (51%) as well.

A total of \$10,018 of Personal Income Tax was collected by the Revenue Collection Authority from the State Civil Servants and project-based staff. This is a new source of income which was introduced in this financial year.

Taxes on Goods and Services was \$952,700 in comparison to \$1,854,482 collected in 2018. A decrease of 49%. This reduction was attributed that Afgoe, Burhakaba and Berdalle was not accurately collected taxes availing the opportunity of State transition from the previous regime to the current administration.

A total of Taxes on International Trade and Transactions for FY 2019 amounted to \$452,283, a decrease 51% from \$922,287 for 2018. This reduction is attributed to decline of Khat shipping volume at Baidoa Airport.

Description	2019	2018
	USD	USD
<b>Taxes on Income, Porits and Capital Gains</b>		
Personal Income tax	10,018	
<b>Taxes on Payroll and Workforce</b>		
Payroll Tax - Non-Government	487,784	229,927
<b>Taxes on Goods and Services</b>		
Turnover Tax	86,213	2,004
Business & Professional Licenses	19,500	10,531
Licenses for permits for households		1,000
Landing Fees	89,500	135,650
Local Passenger Fees	111,536	161,451
Road User Tax	502,607	1,433,339
Urban Road User Tax	53,900	
International NGOs registration	20,000	26,000
Local NGO's Registration	26,594	33,500
Local Companies Registration	2,500	
Work Permit Licenses	19,310	15,823
Livestock Fees	12,887	35,545
Passport Service	8,154	
<b>Taxes on International Trade and Transactions</b>	<b>952,700</b>	<b>1,854,842</b>
Customs duties - KHAT	440,785	891,671
Customs duties - Cigarettes	11,498	30,616
	<b>452,283</b>	<b>922,287</b>
<b>TOTAL</b>	<b>1,902,785</b>	<b>3,007,055</b>

The following represents Taxes on Goods and Services received into the TSA from the relevant Ministries,

	2019					2018	
	Controlled by TSA					Controlled by TSA	
	Ministry of Finance	Ministry of Interior and Local Government	Ministry of Industry and Commerce	Ministry of Labour and Employment	Ministry of Transportation and Airports		
Total	USD	USD	USD	USD	USD	USD	
Turnover Tax	86,213	86,213				2,004	
Business & Professional Licenses	19,500			19,500		10,531	
Licenses for Permits and Households	0			0		1,000	
Landing Fees	89,500				89,500	135,650	
Local Passenger Fees	111,536	111,536				161,451	
Road User Tax	502,607	472,334	30,274			1,433,339	
Urban Road User Tax	53,900	53,900					
International NGOs registration	20,000	20,000				26,000	
Local NGO's Registration	26,594	26,594				0	
Local Companies Registration	2,500	2,500				33,500	
Work Permit Licenses	19,310				19,310	15,823	
Livestock Fees	12,887		12,887			35,545	
Passport Service	8,154	8,154				0	
	<b>952,700</b>	<b>781,231</b>	<b>43,161</b>	<b>19,500</b>	<b>19,310</b>	<b>89,500</b>	<b>1,854,843</b>

### Note 3 Grants

Grants from International Organizations and the Federal Government of Somalia amounted to \$7,516,301, an increase of approximately 158% from 2018 (\$2,918,131). It was collected under the category of grants from International Organizations and other general government units.

	2019	2018
	USD	USD
Current Grants From International Organizations	1,713,636	651,991
Grants from Federal Government of Somalia	5,786,435	2,266,140
Grants from local Government-South West State	16,231	
<b>TOTAL</b>	<b>7,516,301</b>	<b>2,918,131</b>

#### 3. 1 Grants from International Organizations

In FY2019 a grant totaling \$37,440 was received from the Somalia Multi-partner fund (SMPF) administered by the Public Resource Management in Somalia (PREMIS). The purpose of these grants was to assist the offices for Civil Service Commission and Auditor General with the procurement of ICT Equipment and rent for their respective office's operation.

A new grant agreement was signed between SWSS and the Federal Government of Somalia (FGS) which will continue to May 2020. The grant is funded via the multi-donor fund (RCRFII) administered by the World Bank and is renewed annually. The grant will be renewed on yearly basis and there is no specific allocation to SWSS to that grant. In 2019, \$1,087,514 was received from the RCRFII project for the reimbursement of Government salaries.

A grant totaling \$167,880 was received from the Somalia Urban Investment Planning (SUIP) administered by the World Bank. The purpose of these grants was assessment on urban investment, consultation fees and operation cost for the SUIP office.

The Local Development Fund (LDF) administered by the UNCDF, provided a grant totaling \$402,992. The purpose of these grants was to improve public service delivery and increasing local government access to financing infrastructure.

A grant totaling \$4,380 was received from the Norwegian Refugee Council administered by the Ministry of Planning and International Cooperation. The purpose of these grants was to assist in developing South West State Development Plan. And \$3,500 was received from Norwegian Refugee Council (NRC) and goes to both Ministry of Health and Ministry of Livestock and Veterinary. \$ 9,930 for RCA Communication campaign in 2018 was reimbursed by PREMIS

### 3.2 Grants from Federal Government of Somalia

The rehabilitation of Airport Road project commenced in 2017 with the aim of improving the airport road infrastructure and creation of employment opportunities. During the 2019 financial year, a total of \$205,642 was received in 2018 from the Federal Government of Somalia to complete the Baidoa airport road project.

Funding for budget support was received to support the federalism in Somalia through increased and improved inter-governmental fiscal transfers from Federal Government to its Federal Member States. The grant is funded via the European Union fund (Budget Support) administered by the FGS and South West State of Somalia received \$5,786,435 during the 2019 financial year.

The State provided budget support of \$16,231 to the Hudur and Baidoa districts for financing UNCDF projects

### Note 4 Other Revenue

A total of Other Revenues for FY 2019 amounted to \$28,507 and increase of approximately 78% from \$16,012 for 2018. It was collected under the category of property income and sales of goods and services and fines, penalties and forfeits. The increase in fines and penalties was due to collection of unanticipated fines from the State citizens.

	<u>2019</u>	<u>2018</u>
	<u>USD</u>	<u>USD</u>
Rental income from Organizational Offices	5,192	3,232
Visa Fees	1,800	
Number Plate Registration	7,700	12,780
Logbook Registration		
Clearance Letter Fee	180	
Market Fees		
Fines/Penalties	13,635	
	<u>28,507</u>	<u>16,012</u>

### Note 5 Compensation of Employees

Wages and salaries are a combination of all salaries, allowances and in-kind payments to staff which includes both the civil servants and political positions. In addition to salaries for permanent employees, compensation of employees includes wage workers whereby wages were paid for seven (7) Ministries' wage with four (4) Ministries' incurring wage worker costs in the 2018 financial year.

This increase of 14% was attributed to the number of civil servants, teacher salaries hired during 2019 and daily meals for South West State Security Forces. A comprehensive summary breakdown of wages and salaries is provided below:

	<u>2019</u>	<u>2018</u>
	<u>USD</u>	<u>USD</u>
Permanent employees/Regular staff	848,903	600,139
Wage workers	1,015,740	268,075
Security Forces (Police, Intel Forces and Prison)	1,603,440	2,700,000
Remuneration to Ministers and Statutory	171,100	231,000
Remuneration to Politicians	1,346,400	1,758,000
Teacher's Salary	125,500	
Accommodation Allowance	1,950	
Daily meals	1,204,018	
<b>Total Compensation of Employees</b>	<b><u>6,317,051</u></b>	<b><u>5,557,214</u></b>

## Note 6 Use of Goods and Services

Use of goods and services spending for the year relate to amounted to \$1,285,371 in comparison to \$103,099 for 2018.

	<u>2019</u>	<u>2018</u>
<b>Description</b>	<u>USD</u>	<u>USD</u>
Internal Travel	34,425	2,530
External Travel	9,150	
Water	15,533	932
Electricity	6,940	5,832
Internet	33,780	7,455
Satellite fee	63,000	
Gasoline	75,023	16,500
Stationary	33,735	15,144
Publications	2,620	1,700
Office Refreshment	810	
Cleaning Supplies	2,318	
Material Transportation	16,500	
Maintenance of equipment	18,750	
Maintenance of Vehicles	10,268	
Vehicle Hire/car rental	30,750	
Cleaning Services	200	
Security Services	300	
Office Rent	10,800	
Consultation Fees	224,928	25,000
Audit Fees		14,150
Staff Training and Development	3,250	
Bank charges	3,808	3,227
Television and Newspaper Advertisement	700	700
Marketing and Promotion		9,930
Conflict Resolution Expenses	300,000	
Contingency	387,784	
<b>Total</b>	<b><u>1,285,371</u></b>	<b><u>103,099</u></b>

## 6.1 Travel & Conferences

Travel and Conferences relates to internal/external travels spent by the State in the course of carrying out government functions. This increase was attributed that all Bank Projects was channeled through project account to process payments from the TSA rather than payment in cash from the World Bank as earlier. Below is the breakdown of travel and conferences:

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Internal Travel	34,425	2,530
External Travel	9,150	
<b>Total Travel &amp; Conferences</b>	<b>43,575</b>	<b>2,530</b>

These payments consist of operations costs incurred by State. The table below presents the summary breakdown of operating items.

## 6.2 Operating Expense

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Water	15,533	932
Electricity	6,940	5,832
Internet	33,780	7,455
Satellite fee	63,000	0
Gasoline	75,023	16,500
Stationary	33,735	15,143
Publications	2,620	1,700
Office Refreshment	810	0
Cleaning Supplies	2,318	0
Material Transportation	16,500	0
Maintenance of equipment	18,750	0
Maintenance of Vehicles	10,268	0
Vehicle Hire/car rental	30,750	0
Cleaning Services	200	0
Security Services	300	0
<b>Total Operating Cost</b>	<b>310,526</b>	<b>47,562</b>

## 6.3 Rent

Office rent incurred by State related to CSC and OAG rent funded by PREMIS through Specific Purpose Grant Agreement. The table below presents the summary breakdown of operating expense items.

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Office Rent	10,800	0
<b>Total of Operating Expense</b>	<b>10,800</b>	<b>0</b>

Other operating costs incurred by State during the year amounted to \$232,686 in comparison to \$53,007 for the previous year. The increase in spending was mainly as a result of the increase in Consultation fees relating to Afgoe Road Rehabilitation and other projects and Rehabilitation of office of the president as well Somali Urban Investment Project funded by FGS and World Bank.

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Consultation Fees	224,928	25,000
Audit Fees	0	14,150
Staff Training and Development	3,250	0
Bank charges	3,808	3,227
Television and Newspaper Advertisements	700	700
Marketing and Promotion		9,930
<b>Total of Other Operating Expense</b>	<b>232,686</b>	<b>53,007</b>

### 6.5 Conflict Resolution Expense

Conflict resolution expenses are only incurred when conflicts arise and are unpredictable and undetermined. During the year \$300,000 was paid in relation to mediation between two brotherly sub-clans in Burhakaba. Expenses

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Conflict Resolution Expense	300,000	0
<b>Total of Conflict Resolution Expense</b>	<b>300,000</b>	<b>0</b>

### 6.6 Contingency Fund

This a cost incurred by State for Berdale floods and mediation between clans. The table below presents the summary breakdown of other operating items.

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Contingency Fund	387,784	-
<b>Total Contingency Fund</b>	<b>387,784</b>	<b>-</b>

### Note 7 Grants to Other Government Units

These comprise of transfers from the Federal Government of Somalia to lower level government in South West State of Somalia through Ministry of Interior and Local governments. The transfer was mainly to four districts of South West State of Somalia namely Baidoa, Hudur, Barawe and Berdalle as well the Ministry of Interior's Office operation costs to run office their tasks smoothly.

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
	21,000	-
<b>Total of Grants</b>	<b>21,000</b>	<b>-</b>

## Note 9 Other Expense

These include all other expenditure transactions not elsewhere classified and consist of miscellaneous expenses.

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Miscellaneous Expense	45,773	840
<b>Total Other Expense</b>	<b>45,773</b>	<b>840</b>

## Note 10 Non-Financial Asset

Non-Financial Asset of \$1,615,471 consists of non-residential building, cars, ICT equipment and office furniture. This increase in comparison to the previous was mainly attributed to the payment made for road Afgoe Road constructios funded by UNCDF, and

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Buildings Other than dwellings	250,934	0
Road Construction	697,131	250,783
School Rehabilitation	44,938	0
Rehabilitation	260,380	0
Cars	39,650	0
Information, computer and telecommunications (ICT)	37,500	19,800
Machinery and Equipment not elsewhere classified	86,356	4,500
Furniture & fixtures	186,081	0
Computer software and databases	0	5,200
Office Furniture	12,500	0
<b>Total of Non-Financial Assets</b>	<b>1,615,471</b>	<b>280,283</b>

## Note 11 Statement of Operations

The Statement of Operations report is in accordance with the Government Finance Statistics Manual 2014 (GFSM 2014). Government Finance Statistics (GFS) is an accounting framework developed by the International Monetary Fund (IMF) to provide guidelines for the compilation of fiscal accounts. The GFS framework is designed to provide statistics that enable policymakers and analysts to study developments in the financial operations and financial position of government. It is also used to analyze the operations of a specific level of government, transactions between levels of government, and the public sector

The Statement of Operations produces summary information on the overall performance and financial position of the general government. This Statement is divided into three sections that present: revenue and expense transactions; transactions in non-financial assets; and transactions in financial assets and liabilities. This Statement is a voluntary disclosure and not a reporting requirement under the International Public

Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting (2017), which is the standard adopted in preparing these financial statements.

## Note 12 Undrawn External Assistance

During the 2015 financial year, a new project called the Recurrent Cost and Reform Financing (RCRF II) was introduced. The project will run up to 20 June 2022 and is reviewable on a yearly 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 TFA0534 Dated 07 November 2016 between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the South West State of Somalia by virtue of a sub-agreement with FGS has a running project with IDA which will last to 20 June 2022. Undrawn External assistance in respect to the RCRF II project is contingent upon SWSS meeting the threshold conditional requirements of the project

The RCRF II budget outlined in the Project Appraisal Document (PAD) does not identify the budgeted breakdown for SWSS in particular. The grant amount is subject to annual review and approval by the IDA. For the fiscal year ending 31st December 2019, SWSS had received funds from the RCRFII Project totaling \$1,087, 514 in 2019.

	<u>2019</u>
	<u>USD</u>
Beginning Balance	22,968
RCRF II Inflow	1,087,514
RCRF II Outflow	1,049,691
Funds Held in the Project Account@31 Dec 2019	<u>60,791</u>

## Note 13 Taxes

A Total of \$4,125,638 tax collections were targeted to be raised In FY2019 however an actual collection of \$1,902,785 was achieved. The shortfall was due to the inability to implement some tax streams in the budget. Following is a breakdown of taxes collected during the year.

Description	2019			2018
	USD			USD
	Estimate	Actual	Variance	Actual
<b>Taxes on Income, Porits and Capital Gains</b>				
Personal Income tax	22,680	10,018	12,662	-
<b>Taxes on Payroll and Workforce</b>				
Payroll Tax - Non-Government	501,004	487,784	13,221	229,927
<b>Taxes on Goods and Services</b>				
Turnover Tax	65,203	86,213	(21,010)	2,004
Fuel Tax	221,258	-	-	-
Vehicle & Drivers Licences	31,283	-	-	-
Licenses for permits for households	-	-	-	1,000
Business & Professional Licenses	55,979	19,500	36,479	10,531
Landing Fees	209,204	89,500	119,704	135,650
Local Passenger Fees	91,165	111,536	(20,371)	161,450
Road User Tax	1,228,808	502,607	726,201	1,433,339
Urban Road User Tax		53,900	(53,900)	
Road Tax-Saloon	37,321		37,321	
International NGOs registration	32,000	20,000	12,000	26,000
Local NGO's Registration	80,000	26,594	53,406	33,500
Local Companies Registration	12,000	2,500	9,500	
Work Permit Licenses	12,151	19,310	(7,159)	15,822
Livestock Fees	78,836	12,887	65,949	35,545
Passport Service		8,154	(8,154)	
	<b>2,155,208</b>	<b>952,700</b>	<b>949,967</b>	<b>1,854,841</b>
<b>Taxes on International Trade and Transactions</b>				
Customs duties - KHAT	1,384,060	440,785	943,275	891,671
Customs duties - Cigarettes	62,686	11,498	51,188	30,616
	<b>1,446,746</b>	<b>452,283</b>	<b>994,463</b>	<b>922,287</b>
<b>TOTAL</b>	<b>4,125,638</b>	<b>1,902,785</b>	<b>1,970,312</b>	<b>3,007,055</b>

## Note 14 Grants

Total grants of \$7,516,301 were received against a budgeted sum of \$8,451,498. 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

	2019			2018
	USD			USD
	Estimate	Actual	Variance	Actual
Current Grants From International Organizations	3,438,061	1,713,636	1,724,426	651,991
Grants from Federal Government of Somalia	4,992,847	5,786,435	(793,588)	2,266,140
Grants from local Government-South West State	20,590	16,231	4,359	
<b>Total Grants</b>	<b>8,451,498</b>	<b>7,516,301</b>	<b>935,197</b>	<b>2,918,131</b>

## Note 15 Other Revenue

Other revenue collections consist of voluntary transfers other than grants and sale of goods and services with some collection of fines and penalties. A total of \$28,507 of other revenue collections was generated during the reporting period.

	2019			2018
	USD			USD
	Estimate	Actual	Variance	Actual
Fines and Penalties	-	13,635	(13,635)	-
Rental Income from Organisation Offices	85,639	5,192	80,447	3,232
Visa Fees	-	1,800	(1,800)	-
Market Fees	9,244		9,244	-
Clearance Letter Fees	-	180	(180)	
Number Plate Registrations	47,060	7,700	39,360	12,780
Log Book Registrations	42,626		42,626	-
<b>Total Other Revenue</b>	<b>184,569</b>	<b>28,507</b>	<b>156,062</b>	<b>16,012</b>

## Note 16 Employee Compensation

A total of \$6,317,051 was spent on employee compensation against a final budget of \$8,044,277. The underspend of \$ 1,727,227 was due to inability of the State to fund compensation expenses from domestic revenue.

	<b>2019</b>			<b>2018</b>
	<b>USD</b>			<b>USD</b>
	<b>Estimate</b>	<b>Actual</b>	<b>Variance</b>	<b>Actual</b>
Permanent employees/Regular staff	1,100,385	848,903	251,482	600,139
Contract employees	16,650		16,650	
Wage workers	1,408,056	1,015,740	392,317	268,075
Security Forces (Police, Intel Forces and Prison)	1,604,099	1,603,440	659	2,700,000
Remuneration to Ministers and Statutory	501,600	171,100	330,500	231,000
Remuneration to Politicians	1,795,200	1,346,400	448,800	1,758,000
Teacher Sallary	396,000	125,500	270,500	
Accommodation Allowance	3,450	1,950	1,500	
Transportation allowance	4,440		4,440	
Daily meals	1,214,397	1,204,018	10,379	
<b>Total Compensation of Employees</b>	<b>8,044,277</b>	<b>6,317,051</b>	<b>1,727,227</b>	<b>5,557,214</b>

## **Note 17 Use of Good and Services**

The ability to expense in the South West State of Somalia is limited to the revenue collections over a specified period of time. In the case of goods and services, SWSS spent a total of \$1,285,371 which represents 52% of the final estimated budget of \$2,478,596.

	<b>2019</b>			<b>2018</b>
	<b>USD</b>			<b>USD</b>
	<b>Estimate</b>	<b>Actual</b>	<b>Variance</b>	<b>Actual</b>
Internal Travel	65,221	34,425	30,796	2,530
External Travel	74,000	9,150	64,850	
Local conferences	30,872		30,872	
Water	34,850	15,533	19,317	932
Electricity	56,450	6,940	49,511	5,832
Mobile Phone Expenses	90		90	
Internet	150,800	33,780	117,020	7,455
Satellite fee	63,000	63,000	-	
Gasoline	91,400	75,023	16,377	16,500
Stationary	128,866	33,735	95,131	15,144
Published fees	8,400		8,400	
Meeting Supplies	11,830		11,830	
Publications	5,720	2,620	3,100	1,700
Office Refreshment	4,240	810	3,430	
School Supervision	51,663		51,663	
Cleaning Supplies	29,650	2,318	27,332	
Computer Consumables	800		800	
Material Transportation	16,500	16,500	-	
Maintenance of equipment	32,000	18,750	13,250	
Maintenance of Vehicles	25,000	10,268	14,732	
Maintenance contracts	5,000		5,000	
Vehicle Hire/car rental	121,770	30,750	91,020	
Cleaning Services	4,800	200	4,600	
Security Services	300	300	-	
Office Rent	31,600	10,800	20,800	
Consultation Fees	377,354	224,928	152,426	25,000
Marketing and Promotion			-	9,930
Audit Fees	46,400		46,400	14,150
Staff Training and Development	31,400	3,250	28,150	
Bank charges	15,920	3,808	12,112	3,227
Television and Newspaper Advertisi	22,700	700	22,000	700
Conflict Resolution Expenses	300,000	300,000	-	
RCRF-Non Salary Recurrent Cost	150,000		150,000	
Education Sector Recurrent Cost	90,000		90,000	
Contingency	400,000	387,784	12,216	
<b>Total Use of Goods &amp; Services</b>	<b>2,478,596</b>	<b>1,285,371</b>	<b>1,193,225</b>	<b>103,099</b>

## Note 18 Grants

A total of \$36,000 was budgeted for grants and \$21,000, of which 58% of the final budget was spent during the reporting period

## Note 19 Other Expense

A total of \$113,400 was budgeted for Miscellaneous other expenses however \$45,773 (40%) was spent in relation to printing tax receipts.

## Note 20 Non-Financial Assets

Non-financial assets worth \$1,615,471 against budgeted amount of \$2,089,432 related to the purchase of office equipment and furniture, ICT equipment and non-residential buildings.

	<b>2019</b>			<b>2018</b>
	<b>Estimate</b>	<b>Actual</b>	<b>Variance</b>	<b>Actual</b>
Non-residential Buildings	384,934	250,934	134,000	
Road Construction	702,849	697,131	5,718	250,783
School Rehabilitation	48,318	44,938	3,380	
Rehabilitation	439,791	260,380	179,410	
Cars	39,650	39,650	-	
Information, computer and telecommunications (ICT)	72,474	37,500	34,974	19,800
Machinery and Equipment not elsewhere classified	188,282	86,356	101,925	4,500
Furniture & fixtures	196,635	186,081	10,554	
Computer software and databases	4,000		4,000	5,200
Office Furniture	12,500	12,500	-	
<b>Total Non-Financial Assets</b>	<b>2,089,432</b>	<b>1,615,471</b>	<b>473,961</b>	<b>280,283</b>

## Note 21 Third Party Costs

During 2019, the PREMIS project, funded by the UK Department for International Development (DFID) and European Union (EU), provided support for machinery of government in the South West State of Somalia (SWS), centered on the introduction and enhancement of a Financial Management Information System (FMIS) and associated public financial management (PFM) processes and systems, in addition to support for revenue administration, planning, procurement and civil service management (Public Administration or PA). In 2019, support to the Office of the Auditor General was added. The project specifically focussed on the Ministry of Finance, Civil Service Commission and Office of the Auditor General, however some support has been provided to the Parliamentary Finance Committee, in direct support of the Parliament's involvement in the PFM system, as specified in the Relevant PFM Act. The project's overall goal is to contribute to the Public Resource Management in Somalia (PREMIS), particularly, this project has four main outputs, which are as follows: • Federal member states have systems in place for managing and accounting for their expenditures • Federal member states can demonstrate PFM compliance in line with international best practices • Federal States are able to effectively raise revenue on a local level • Federal States' MoF have the requisite capacity to carry out their functions effectively. Apart from funding some projects directly through the Treasury Single Account (TSA) via the Specific Purpose Grant (SPG) mechanism, which form part of the normal SWS accounts, PREMIS also provides significant 3rd party support in the form of Technical Assistance, Training and support of ICT systems. SWS benefits from these goods and services purchased on its behalf through cash payments made by PREMIS directly to the supplier during the period

	<b>MoF</b>	<b>CSC</b>	<b>OAG</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Technical Assistance	239,843	43,600	9,485	<b>292,928</b>
Training	131,521	79,946	7,587	<b>219,054</b>
ICT Support	93,969			<b>93,969</b>
<b>Total 3rd Party</b>	<b>465,333</b>	<b>123,546</b>	<b>17,072</b>	<b>605,951</b>

Various Economic livelihoods projects were undertaken focusing on: Baidoa District Stability, Employment Skills and Entrepreneurship Strengthening project (BDSESES) Project Baidoa District

- Establishing Job Club, Growth Hub and Demand led TVET with an employment focus and international accreditation

- Creating employment opportunities for unemployed youth of host community women, IDPs, returnees and marginalized persons by providing new training towards employment in demand-driven sectors Solar Lighting – Dinsor & Xhudur

- Provision of solar lumps Economic development project-Barawe

- Strengthening fishery sector for improved livelihoods and economic development in Barawe

- Strengthening capacities of key players in the local fishing economy (local cooperatives and its members) and enhancing / improving the capacity of the government to provide technical, policy and strategy development to the fishing sector

- Rehabilitation of the existing fish market and purchase of cold storage facilities. Economic development project -Elberde, Hudur and Dinsor

- Provision of employment training, employability skills, micro-credit loans,

2. Completion of Barawe airstrip fencing wall construction, 2000km runway and the terminal building and completion of the Rehabilitation and Upgrading of Dr. Ayub Stadium perimeter wall.

3. Projects on conducting a reconciliation process between two warring clans in Merka-Lower shabele region and subsequent signature of peace deal between the two sides.

4. A women empowerment project

	<b>Ministry of Commerce</b>	<b>Ministry of Land &amp; Airport</b>	<b>Ministry of Interior &amp; Local Government</b>	<b>Ministry of Energy &amp; Water</b>	<b>Ministry of Fisheries</b>	<b>Ministry of Youth &amp; Sports</b>	<b>Ministry of Women &amp; Human Rights</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Economic Development Building (non-Office)	496,182	2,126,347		114,181	250,523	540,465	618,255	<b>2,019,606</b>
Stabilisation & Conflict Resolution			105,835			124,152		<b>105,835</b>
<b>Total 3rd Party</b>	<b>496,182</b>	<b>2,126,347</b>	<b>105,835</b>	<b>114,181</b>	<b>250,523</b>	<b>664,617</b>	<b>618,255</b>	<b>4,375,940</b>



Annual Audit Report 2019

Annex 2 –Final Management Letter. Independent Auditor’s Report on The Audit of South West State of Somalia (SWSS) For the Year Ended 31 December 2019



South West State of Somalia  
Report to Ministry of Finance  
For the year ended  
31 December 2019

29 January 2021

Minister,  
Ministry of Finance,  
Baidoa, South West State,  
Somalia.

Dear Sir,

**Report to the Minister for the year ended 31 December 2019**

We have recently completed our audit of the Consolidated & Ministerial Financial Statements of the South West State of Somalia for the year ended 31 December 2019 which we conducted in accordance with International Standards of Supreme Audit Institutions (“ISSAI”). Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual 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. An audit is conducted to enable us to form and express an opinion on the financial statements that have been prepared by management with the oversight of the Minister of Finance. The audit of the financial statements does not relieve the Ministries of their responsibilities. However, in accordance with our normal practice, we write to draw your attention to certain matters which we identified during our audit. Those issues are set out in the attached report.

Management responses have been provided through the co-ordination of the Ministry of Finance. We would like to thank the management and staff for their assistance and co-operation during the audit.

We would be pleased to provide any clarification that you may require on the issues raised in this report

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full commercial impact before they are implemented. This report has been prepared solely for your use as the Ministries of the South West State of Somalia and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

Yours faithfully,



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**Certified Public Accountants (Kenya)**  
**Nairobi**

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Auditor General, South West State of Somalia  
Baidoa, Somalia

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# 1 Summary performance ratings on areas reviewed.

For ease of follow up and to enable your management to focus effectively in addressing the issues in our report, we have classified the issues arising from our audit in order of significance: “High”, “Medium” and “Low”. In ranking the issues between “High”, “Medium” and “Low” ISSAIs require us to consider the relative importance of a matter, taken in context.

## Key to Summary

<b>High</b>	The recommended measures should be implemented quickly because they cover significant weaknesses
<b>Medium</b>	The improvements should be taken into account in the medium-term.
<b>Low</b>	The recommendations correspond to the best practices and can be implemented in the longer-term.

The table below presents a summary of the audit findings. In the table, we have provided summaries of each finding and a visual indicator of the assessed significance of each.

## Current Year findings:

Control area	Risk key	Control weakness noted	Amount in USD
2. Revenue		2.1 Weaknesses in revenue collection and recording process	-
		2.2 Huge gaps in revenue collected during the period under review	258,852
		2.3 Variance between revenue recorded under RMS and FMIS	1,793,257
		2.4 Variance between Grants recorded and Confirmation received from donors	455,684
		<b>Total value of weaknesses identified in revenue</b>	<b>2,507,793</b>
		<b>Weaknesses identified in revenue expressed as a % of total revenue</b>	<b>27%</b>
3. Expenditure excluding payroll costs		3.1 Lack of proper support documents	687,784
		3.2 Weaknesses in procurement	-
		3.3 Payment documents not stamped as “PAID”	-
		<b>Total value of weaknesses identified in expenditure (Excluding payroll)</b>	<b>858,155</b>
		<b>Weaknesses identified in expenditure Excluding payroll expressed as %</b>	<b>16%</b>
4. Payroll		4.1 Weaknesses in human resource and payroll processes (Weaknesses noted amounts to 25% of the total payroll cost)	1,278,320
5. Fixed assets		5.1 Weaknesses in fixed assets management	(1,356,645)
6. Bank and Cash		6.1 Bank reconciliations not prepared	-
		6.2 Dormant bank accounts	-

Control area	Risk key	Control weakness noted	Amount in USD
7. Budgeting and Financial Reporting		7.1 Unrealistic annual budget	-
		7.2 Non-compliance with Public Finance Management Act	-

## Application and General Computer Controls

Control Area	Risk Key	Issues Noted
<b>Application Controls</b>		
Revenue		<p><b>Collection and Receipting</b></p> <p>We noted the receipt numbers used for revenue collection are not keyed into RMS, creating a gap in the tracking process of supporting documents.</p>
		<p><b>Revenue Collection: Manual receipts for local taxes</b></p> <p>For the local taxes, there is no automated system for revenue collection from the sources such as road user tax, livestock market and others, creating a revenue leakage risk through handling of cash.</p>
Payroll		<ul style="list-style-type: none"> <li>For the period under review, we noted the difficulty to link Wages and Salaries sub-ledgers to the general ledgers and eventually the Trial balance due to inadequate mapping of the account numbers and account names. e.g. Salaries sub ledger with names of employees.</li> </ul>
<b>General Computer Controls</b>		
Access Controls		Some users on FMIS, RMS, BPM and AMS could not be identified in the official HR records.
		Weak Password Configuration Controls.
		Administrator and Privileged user activities in FMIS are not independently monitored and reviewed.
		Weak Physical security controls of MoF premises that host key systems and data.
IT Operations		Lack of documented Information Security Policies
		IT Security Awareness Training
Systems Change Control		Lack of a formal change management policy
		No formal system development and acquisition policy
IT Disaster Recovery and Business Continuity		Lack of an IT Disaster Recovery and Business Continuity Plan to facilitate recovery of critical business operations and IT systems in the event of failure or disaster that could render the operations and systems unavailable for an extended period of time.
		Lack of a formalised strategy for backup of relevant data and programs.

## 2 Revenue

### 2.1 Weaknesses in revenue collection and recording process.

#### Observation

##### Condition

The Revenue Clerks collect the tax receipt books in the morning and return them in the evening to the Revenue Collection Centre (RCC) for the handover of the local taxes collected for the day. Taxes collected by the different Revenue Clerks is collected via cash.

From the review of the revenue process and the supporting documents, we noted the he following gaps affecting accuracy, completeness and classification of the revenue collected from different form of taxes:

1. The different Revenue Vouchers provided as support document for Turnover tax, Customs Duty on Khat, Road User tax did not show the Taxpayer Identification Number (TIN) making it impossible to know who paid the taxes and for what purpose. It was also noted that the supporting documents did not have the tax base documented as well as the total income being taxed to counter check with what has been paid, hence making it impossible to verify the completeness and accuracy of the taxes being paid by the taxpayers to MoF.
2. The Revenue Clerks collect taxes in cash, and the banking is either done on the same day or the following day after collection. Cash is inherently risky and there is a risk of Revenue Collection Clers not receipting all revenues collected. We noted there exists other less riskier modes of tax collection within the state e.g. Electronic Voucher Cash.
3. While the tax receipt books used by the Revenue Collection Clerks are prenumbered, we noted that there is no control / reconciliation performed to ensure that:
  - a. each receipt number is accounted for in the daily collection totals and
  - b. the daily collections per carbon copies of the receipts match the daily banking, and hence the RMS posting

Indeed, we noted the following differences between the amounts banked and the amounts collected per the receipt books:

Document No	Date	Description	Amount per RMS (USD)	Amount per Receipt (USD)	Variance (USD)
19/00001459 RV	11/04/2019	Customs duties – KHAT	573	617	(44)
19/00000021	01/07/2019	Customs duties – KHAT	1,279	1,325	(46)
19/00000853 RV	07/16/2019	Road User Tax	200	209	(9)
19/00000996 RV	08/07/2019	Road User Tax	320	454	(134)
19/00001032 RV	08/08/2019	Road User Tax	280	268	12

4. In addition, we noted that the foreign exchange rate used for conversion from Somalia Shilling to US\$ by both the Treasury and the RCC is not clearly documented and this is based on knowledge by different tax revenue officers which may lead to misstatement in translation of revenue from taxes.

### **Criteria**

The PFM Act of 2018 provides for the clear authorisation, collection of taxes, levies and charges and standards to be followed in the assessment and collection of taxes and other revenue as well as the roles, rights and obligations of the taxpayers and collecting authority. The Act provides that an official receipt to be provided by tax officials containing the date of payment, name and number of the official receiving the payments, place at which payment is made, name and identifying number of taxpayer, amount paid and liability in respect of which payment is made. The records of all taxes collected must be kept in the form according to procedures prescribed by regulations issued by Minister of Finance. Receipt payment are to be audited by MoF to ensure there was no irregularities and fraud and make correction in case of any improper payment.

In addition, best practice in Revenue Collection is to use non-cash methods which are less riskier in terms of pilferage and mishandling.

### **Cause**

The process of collection of taxes by the Revenue Clerks and final accountability to the Revenue Collection Centre (RCC) is manual dependent and is susceptible to error and manipulation. In addition, lack of reconciliation of collections and bankings leads to the inability to confirm the accuracy and completeness of revenue.

### **Effect**

The gaps in the revenue collection and recording process may lead to revenue to be misstated. The manual process leads to revenue be susceptible to fraud and errors.

### **Recommendation**

We recommend:

- The different support vouchers to include TIN, the tax base and total income being taxed.
- Daily or weekly reconciliation of cash collections receipts to the daily bankings
- Non-cash methods for revenue collections, such as Electronic Voucher Cash, or Bank Transfer for large payments – digitization of the tax payment process. The tax collectors should be able to issue printed out receipts after confirming payments done via digital channels.
- Create a field in RMS to record the physical receipt number for ease of tracking supporting documents during revenue assurance reviews
- Implement a receipting system and interface it with RMS to enable posting of the cash received directly to RMS
- Redesign of tax collection forms and receipts in order to allow for documentation of sufficient details to allow for re-computation of taxes. This will encourage accountability, and fairness and reduce revenue leakage that could arise due to erroneous tax computation.
- State to ensure that exchange rate used for conversion of Somali Shilling to USD is adequately documented and reasonable

### **Significance**

High

**Management response**

The weaknesses in the revenue collection and reporting process have been noted.

The ministry of Finance is willing to initiate reforms in the revenue administration of the State to:

- Include Tax Identification Numbers of the tax payers in the relevant tax forms
- Include the details of the taxes and tax base on the tax documentation
- Digitize the tax collection process, where possible, in order to reduce the risk associated with cash payments as well as manual tax collections
- Initiate reconciliations between the tax collection receipts to the daily banking
- Formalise the documentation of foreign exchange rates used in translation of USD to Somali Shillings

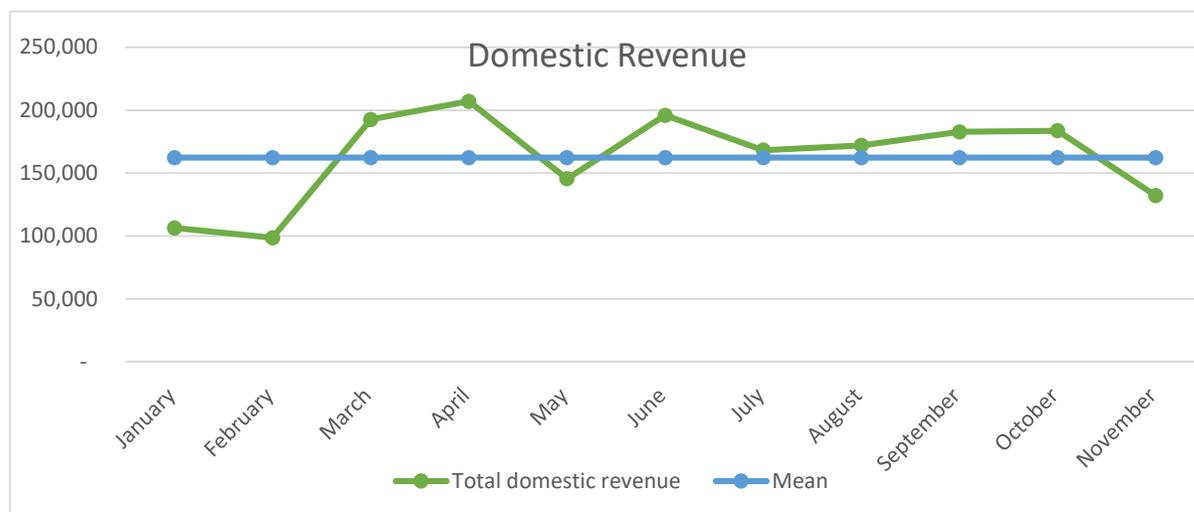
## 2.2 Huge gaps in revenue collected during the period under review.

### Observation

#### Condition

From analytical review done for revenue, we noted fluctuations and gaps under below revenue accounts:

- a) Domestic Revenue we noted unexplainable fluctuations of revenue collection in certain months such as January (\$ 55,929), February (\$ 63,294), and April (\$ 44,688). It was noted that revenue collection trend of these specific months were over 30% off the average monthly revenue of \$162,294. No plausible explanation was made available for these fluctuations in revenue. See below.



- b) We noted gaps in revenue recorded under domestic revenue streams where some months did not have any taxes recorded. The significant gaps may be a representation of lack of capacity of the Ministries or the need for capacity building of the Ministries staff.

Ministry Name	Jan USD	Feb USD	Mar USD	April USD	May USD	June USD	July USD	Aug USD	Sept USD	Oct USD	Nov USD	Dec USD	Grand Total (USD)
Personal Income tax	-	-	-	-	-	-	-	-	-	2,368	2,356	5,294	10,018
Turnover Tax	-	-	-	18,000	-	18,201	19,190	18	804	18,000	12,000	-	86,213
Business & Professional Licenses	-	-	-	-	7,100	2,900	1,500	1,200	900	2,800	2,800	300	19,500
Urban Road User Tax	-	-	-	-	12,400	-	-	24,500	-	-	17,000	-	53,900
Local Companies Registration	-	-	-	-	-	500	-	-	-	2,000	-	-	2,500
Work Permit Licenses	-	-	-	9,810	-	6,000	-	-	1,000	2,000	-	500	19,310
Livestock Fees	680	1,095	2,097	3,467	50	202	2,859	2,029	408	-	-	-	12,887
Passport Service	-	-	6,254	-	-	-	500	-	-	1,100	300	-	8,154
Customs duties – Cigarettes	1,275	565	1,260	1,200	551	1,872	-	1,400	1,569	-	1,500	306	11,498
Rental income from	-	90	90	90	90	90	90	1,942	-	432	1,080	1,198	5,192

Organizational Offices													
Visa Fees	-	-	-	-	-	-	-	1,800	-	-	-	-	1,800
Number Plate Registration	-	-	-	-	-	-	-	-	7,700	-	-	-	7,700
Clearance Letter Fee	-	-	-	-	-	-	180	-	-	-	-	-	180
International NGOs registration	1,000	-	3,000	5,000	4,000	1,000	3,000	-	1,000	-	-	2,000	20,000
<b>Total</b>													<b>258,852</b>

### Criteria

The PFM Act of 2018 provides for the clear authorisation, collection of taxes, levies and charges and standards to be followed in the assessment and collection of taxes and other revenue as well as the roles, rights and obligations of the taxpayers and collecting authority.

### Cause

Fluctuation of revenue in the period under review that cannot be explained.

### Effect

The revenue fluctuations in the period may be an indication of the revenue collected not being accurately and completely accounted for and recorded in the draft financial statements.

### Recommendation

Management should ensure they undertake periodic analytical review of the revenue accounts to check on completeness and accuracy of revenue collected and recorded. Where major fluctuations are noted, management should undertake audits and investigations to know the reason for the same and this process should be documented for future reference.

### Significance

High

### Management response

Fluctuations in monthly revenues have been noted and the audit team provided with explanations to most of the fluctuations realised during the year of audit. The South West Ministry of Finance is however interested in formalising the periodic analytical reviews on key revenue streams to identify anomalous movements and initiate investigations where necessary.

## 2.3 Variance between revenue recorded under RMS and FMIS.

### Observation

#### Condition

We noted that there was variance between revenue recorded under the Revenue Management System (RMS) and Financial Management Information System (FMIS) amounting to US\$ 1,793,257 indicating inaccuracy and errors in the recording and completeness of the recorded revenue. This is attributed to lack of integration and interface between the two systems to enable the provision of reconciled reports when needed as below:

Description	Revenue recorded under FMIS (US\$)	Revenue recorded under RMS (US\$)	Total variance (US\$)
Domestic revenue total	1,947,523	154,266	1,793,257

#### Criteria

To achieve end to end consistency, an integration between RMS and FMIS is needed to support the revenue collection process

#### Cause

Lack of integration between FMIS and RMS.

#### Effect

Lack of integration between the two systems leads to the inability to confirm the accuracy and completeness of revenue collected and recorded.

### Recommendation

We recommend for the real time interface and regular (monthly or weekly) reconciliations between RMS and FMIS to enable MoF counter check the completeness and accuracy of revenue ollected and recorded in real time.

### Significance

High

### Management response

RMS is currently used at the Revenue Collection Centres (RCC) while FMIS is used by the Treasury. Currently, all revenues collected through the RMS are eventually reflected in the FMIS if they can be traced to the bank statement. However there are instances where the revenues are directly identified in the bank statement and posted to the FMIS without passing through the RMS. There are also instances where some revenue is recognised by the Treasury directly through FMIS. In these instances, these revenues will not be reflected in the RMS.

The South West MoF is however keen to identify the gaps bweteen the RMS and FMIS in order to consistently reconcile and monitor them.

## 2.4 Weaknesses in recognition of Grant Income from Donors

### Observation

#### Condition

From the review of grants from donors, we noted variances between the recorded amount under FMIS and the confirmations from donors as below:

Donor	Amount Recorded (US\$)	Amount Confirmed (US\$)	Variance (\$)
Norwegian Refugee Council (NRC)	4,380	4,630	(250)
Federal Government of Somalia (FGS)	5,786,435	5,330,501	455,934
<b>Total variance</b>			<b>455,684</b>

No explanation or reconciliation was provided for the differences between the confirmed amounts and the recorded amounts.

In addition, we noted the following weaknesses in accounting for revenue from grants by the MoF:

- i. There was lack of regular donor fund reconciliation by MoF between FMIS and actual receipts as per bank statements.
- ii. Inadequate filing system and lack of contract management focal point.
- iii. The below contract documents were not availed to the audit team for their review:
  - Norwegian Refugee Council (US\$ 4,380)
  - World Bank SUIP Project (US\$ 167,880)
  - FGS sub-grant agreement / MoU (US\$ 5,786,435)
  - PREMIS/ ASI(US\$ 47,370)
- iv. The grant agreements provided either did not have the agreed budget and detailed contract conditions on eligible spending with the donor, or the budget provided on the agreement was not broken down into allowable budget lines for each of monitoring. The instances were:
  - UNCDF (US\$ 402,992) – Lacking detailed contract conditions and detailed budget on allowable spending
  - RCRF II (US\$ 1,087,514) – Lacking detailed budget on allowable spending
  - Save the Children (US\$ 3,500) - Lacking detailed contract conditions and detailed budget on allowable spending

#### Criteria

Grants from donors should correspond to amount recorded by MoF under FMIS.

#### Cause

Lack of reconciliation of funds between amount received from donors as per bank statement and amount as per FMIS records. In addition, lack of proper contract management and inadequate contract management.

**Effect**

There is a risk of grant revenue being misstated and the non compliance of contractual terms as per donor agreements.

**Recommendation**

We recommend:

- All donor grants to be centralized within a section of the EAFS that monitors the contracts for expiration and compliance.
- Improvement of the filing system to ease the retrieval and archival of donor agreements and other support documents.
- Monthly reconciliation between FMIS and actual receipts as per bank statement.

**Significance**

High

**Management response**

Some of the grant agreement documents are kept by the respective ministries and agencies responsible for implementation of the funded projects, hence the difficulty in obtaining them. South West MOF is interested in improving the filing system in order to be able to effectively maintain a record of all grant agreements with external donors.

## 3 Expenditure

### 3.1 Lack of proper supporting documents

#### Observation

Expenditure testing analytics:

	Amount- \$	
<b>Total expenditure reported</b>	9,447,413	100%
<b>Less payroll (tested separately- section 4.1)</b>	(5,111,083)	54%
<b>Procurement and cash expenditures</b>	4,336,330	46%
<b>Total unsupported expenditures (Annex I to Annex III)</b>	687,784	7%
<b>% of unsupported expenditure</b>	687,784	15.86%

#### Condition

We noted instances of expenditure not supported fully or partially supported as detailed in the table below:

Categories of weaknesses	Amount: \$
<b>Expenditure- partially supported- Annex 1</b>	2,628,438
<b>Conflict resolution expenses not supported- Annex II</b>	300,000
<b>Contingency expenses not supported- Annex III</b>	387,784
<b>Total</b>	<b>3,316,222</b>

- i. Annex I: Procurement and cash expenditures: partially supported- instances of lack of evidence of goods delivered or services rendered documentation such as delivery notes, GRN, motor vehicle log sheets, timesheets and certificate of work completion.
- ii. Annex II: Conflict resolution funding from MoF to the concerned persons amounting to \$300,000 is not supported with requests from the user agencies and departments, but rather an internal letter from MoF's Director General. In prudent public financial management and fund controls, MoF cannot write a letter to itself to release cash funding to persons involved in conflict resolution. The conflict resolution cash payments are not accompanied by activity and budget terms of reference such as approved itemized costing expenditure and approval of the signatory of the user department
- iii. Annex III: Contingency expenses amounting to \$387,784 funding to MoF to the concerned persons is not supported by a request from the user department, instead supported with an internal letter from MoF Director General. There is lack of documentation of activity and budget terms of reference such as approved itemized costing expenditure and approval of the signatory of the user agency or department.

#### Criteria

Section 30, subsection 7 (30.7) of the Public Financial Management Act of 2018 requires maintenance and safekeeping of all documents relating to public finance transactions in a manner and for the length of time prescribed in accounting regulations under this Act. Section 4.1.2.10 of the budget execution regulation issued on 1 January 2018 requires that all transaction documents relating to the purchase of goods and services will be presented to the certifying officer prior to payment processing.

**Cause**

Lack of adequate expenditure verification prior to the payment process. Also, requests made by some agencies using telephone conversation or inquiry through a walk in by the messengers.

**Effect**

Weaknesses at one stage of the expenditure control cycle can undermine the integrity and credibility of the system as a whole e.g. where payments are made for goods and services not received. Expenditures that do not have supporting documentation; can be termed ineligible by the Parliament or the donors.

**Recommendation**

To enhance compliance with PFM and treasury regulations, appropriate support documents be maintained for all payments.

In addition, the Conflict resolution expenses should have adequate supporting documentation such as activity Terms of Reference, background documents.

**Significance**

High

**Management response**

i. We shall ensure that we raised goods received note or supplied received note, motor vehicle log sheets as evidence of having received the required goods or service.

ii. We shall ensure all the contingency and conflict resolution funds be supported with activity and budget terms of reference with approval of the signatory from their respective departments.

### 3.2 Weaknesses in procurement

<b>Observation</b>				
<b>Condition</b>				
<b>Lack of competitive bidding / single sourcing of suppliers</b>				
We noted lack of competitive procurement process in the prequalification and engagement of the below suppliers/service providers. In effect, these suppliers were single sourced.				
<b>Supplier</b>	<b>Category of goods and services</b>	<b>Finding</b>	<b>Frequency of work with government</b>	<b>Contract value – USD</b>
<b>Indian Ocean General Trading and Construction</b>	Rehabilitation	Lack of procurement bid analysis	High	62,669
<b>Nasra Trading and Construction Company</b>	Rehabilitation	Lack of procurement bid analysis	High	137,137
<b>Nafis Construction and water Company</b>	Machine & Equipment not elsewhere classified	Lack of procurement bid analysis	High	19,057
<b>Salam General Trading</b>	Road Construction	Lack of procurement bid analysis	High	126,342
<b>Silver General Logistics</b>	Fuel services	Lack of procurement bid analysis	High	185,200
<b>Criteria</b>				
Section 4.8.1 of the procurement procedures manual of South West State states that all eligible prospective bidders with timely and adequate notification of the SWSS’s requirements and an equal opportunity to bid for the required goods, works, and non-consultant services. Section 4.2.3 states that open competition is the basis for efficient public procurement. In most cases therefore, the SWSS requires that where possible goods, works, and non-consultant services be obtained through a competitive bidding process (“Competitive Bidding”) open to eligible suppliers and contractors.				
Section 4.25.4 states that sole and single sourcing is contracting without competition and may be an appropriate method under exceptional circumstances. Therefore, single sourcing should be exceptional rather than the norm.				
<b>Cause</b>				
Non-compliance with the law or inadvertent use of a single condition in the procurement regulation.				
<b>Effect</b>				
Loss of value for money and competitive pricing of goods and services.				
<b>Recommendation</b>				
1. Minimize the use of single sourcing justification based on Section 4.25.4 of the procurement regulation.				
2. Single sourcing justification be minimal and only triggered under one off emergency purchases.				
<b>Significance</b>				
High				
<b>Management response</b>				

We shall minimize single sourcing and where applicable will shall provide justification letter .

### 3.3 Expenditure documents not stamped as “PAID.”

<b>Observation</b>
<b>Condition</b> Failure to invalidate support documents by stamping 'PAID' to prevent resubmission of these documents to another donor or to MoF.
<b>Criteria</b> In line with the best practices in expenditure management, to strengthen financial processes control and prevention of double payments to suppliers and services providers, financial and payment support documents ought to be invalidated to prevent re-use and resubmission.
<b>Cause</b> As per discussions with the MoF team, the processed documentation were not stamped paid due to oversight from the finance team.
<b>Effect</b> Risk of resubmission/reuse of invoices and bills in a different donor or budget line. Failure to indicate documentation as "PAID" increases the likelihood of multiple payments based on the same set of documentation.
<b>Recommendation</b>
<ol style="list-style-type: none"><li>1. Invalidate paid documents by cancelling through PAID mark, including budget code, donor and project references</li><li>2. For own source use of funds at the treasury, all invoices, receipts, attendance sheets, request letters, tickets and boarding passes bear government stamp-MoF PAID.</li></ol>
<b>Significance</b>
High
<b>Management response</b>
We shall stamp MoF PAID to all our supporting documents and finance department to play oversight role to ensure such is achieved.

# 4 Payroll

## 4.1 Weaknesses in human resource management process

### Observation

#### Condition

From the review of the personnel files from the Civil Service Commission and the payroll expenditures from IFMIS, we noted the below weaknesses in human resource and payroll process:

- i. We noted wide discrepancies between the number of employees that were signed off in the physical signed payroll sheets Versus the payroll extracts from the FMIS examples are as follows:

Month	Total Employees per FMIS	Signed off in physical payroll	Variance
January 2019	266	45	221
May 2019	318	38	280
October 2019	608	51	557
November 2019	629	101	528

- ii. Neither the Civil Service Commission (CSC) nor the respective Ministry's HR departments maintain and monitor a record of employee leave days.
- iii. We also noted that there was no documentation relating to Performance Management and Performance Appraisals under the employee personnel files.
- iv. From the review of personnel files; there was no evidence of background checks on some employees before they were onboarded into the different Ministries.
- v. Personnel files and employee personal information were not maintained for the following state officers and personnel:
  - Ministers and Politicians
  - Security Forces
  - Wage Workers
- vi. SWSS does not prepare payslips/pay advices to individual employees on a monthly basis that are signed off by the employee as proof of payment.
- vii. Weaknesses in payments to Security Forces as follows
  - The payment list of Security personnel sent from the Ministry of Internal Security contained similar thumbprints (signatures). In addition, some names lacked any signatures, raising concerns as to whether the purported recipients received the supposed payments. An example of a Payment List is at Annex IV. Details of missing signatures are shown in Annex V
  - The payment list of Security personnel sent from the Ministry of Internal Security did not have the amounts paid to each personnel. Thus, it was unclear to ascertain the payments per individual.
  - The payments to Security personnel is dispatched in cash to the HR department of the Ministry of Finance for eventual payment. We noted that there are however other less riskier payment modes such as Dahabshiil or Hormuud's EVC (mobile money). Cash is inherently risky and is susceptible to fraud.
- viii. Instances of unsupported expenditures under the wage workers payroll. The missing support were as follows:

- Evidence of competitive hiring of the wage workers
- Contracts for the age workers
- Invoice supporting payments
- Timesheets or attendance sheets
- The documents were not stamped “PAID”

Refer to Annex VI for details.

ix. Taxes were not deducted for all employees’ salaries until July 2019.

**Criteria**

- a) Payroll processing- section 5.1.3.2 of Instruction D- Budget Execution regulations, payroll and salary payment should be support by detailed documentation
- b) The Civil Service Commission regulations, law number 11 requires staff to undertake annual appraisal and performance review. It also requires all civil servants to take 2 days of annual leave for each month of completed service
- c) The Civil Service Commission regulations using law number 11, requires background checks to be carried out on all new staff joining the government.
- d) Best practice requires that salaries and wages should be paid through minimal risk – avoid cash payments where there are alternative less riskier methods

**Cause**

No justification was given for this.

**Effect**

Weaknesses in the human resource process may lead to the misstatement of payroll for the State. The weaknesses could also lead to duplicate payments being made or payments to “ghost workers” – workers who do not exist/work for the state.

**Recommendation**

We recommend the State:

- Automate and base the payroll expenses on biometric identity of recipients
- MoF to obtain monthly personnel head count and status prior to release of lumpsum required amounts
- A leave monitoring system be set up using the newly acquired HRMIS at the Civil Service Commission.
- Background checks be completed prior to the offer letter.
- Performance management and appraisal be incorporated in the newly acquired HRMIS.’
- Deduction of taxes for all employees be done consistently for all the months of the year.

**Significance**

High

**Management response**

Weaknesses in the payroll and personnel management processes have been noted. The South West have following comments to make:

- Sign in sheets for staff: The MoF now uses the biometric sign-in method for all civil servants. This the automation of the process, we expect that all employee attendance data will be easily available for scrutiny
- Staff leave days – The Civil Service commission and the respective ministries are keen to ensure reforms in the personnel management and will endeavour to satisfactorily keep documents related to the tracking of staff leave days
- Staff performance appraisal – This is currently not formally done. The MoF and the relevant MDAs will ensure to improve in documenting staff appraisals and keeping records in support of the same.
- Reference checks – background checks on new staff is done although this is undertaken in an informal way without any documentation. The State will ensure that any relevant background checks performed is sufficiently documented together with the results
- Personnel files – high ranking government officials are currently not required to avail their personal information maintenance in the personnel files. Wage workers are also not included in the personnel files database because they are relatively short term employees. The State is however keen to improve the personnel record keeping process and will explore options for having some information to include in the personnel files for the ministers, wage workers, security forces and politicians
- Payslips – these are currently prepared but not signed by the employees. The MOF will ensure this is done in future.
- Payment to security forces – the payment to security forces is now done electronically through EVC mobile payment system
- Wage workers payment – there exists supporting documents for wage workers but these are normally kept at the relevant ministries. They will be availed early in future audits
- Taxes on payroll – this is now deducted for all staff

## 5 Fixed assets

### 5.1 Weaknesses under Fixed assets

#### Observation

##### Condition

1. We noted that the State does not have a fixed assets management policy. This makes the fixed asset management process inconsistent, incoherent and ad hoc with several weaknesses mentioned below.
2. The fixed assets were not tagged by the various Ministries, Departments and Agencies; hence it was impossible to ascertain the completeness, existence and quantities of the assets included in the fixed assets register.
3. There was no evidence of periodic fixed asset verification by the different ministries, departments or agencies, to confirm the conditions, value and existence of the assets in order to effectively and timely update the fixed assets register.
4. The fixed assets register provided for audit was incomplete, with only assets from the following ministries and agencies having been recorded:
  - Ministry of Finance
  - Civil Service Commission
  - Office of Auditor General

We were not provided with fixed assets register for other Ministries, Department and Agencies (listed in Annex VII)

5. We noted that there was no periodic reconciliation between the FMIS and the Assets Management System. We noted discrepancies between the FMIS (annual additions) and the fixed assets system as follows.

Act #	Description	Ledger USD	Fixed Asset Subledger USD	Variance USD
311121	Non-residential Buildings	250,934.00	2,165,025.00	(1,914,091.00)
311131	Road Construction	697,131.00	303,352.00	393,779.00
311221	Information, computer and telecommunications (ICT)	37,500.00	126,780.02	(89,280.02)
311222	Machinery and Equipment not elsewhere classified	86,356.46	9,440.00	76,916.46
311223	Furniture & fixtures	186,081.00	10,050.03	176,030.97
Total				(1,356,645)

6. The Fixed Asset Register does not include some of the State-owned assets such as land, buildings and motor vehicles; e.g Municipality, Airport Port buildings, Roads, Infrastructure.

##### Criteria

Fixed assets are critical wealth of the government. Fixed assets should be controlled through tracking and maintaining an organization's physical assets and equipment. Asset types include vehicles, computers, furniture and machinery.

##### Cause

From inquiry, we noted that most of the weaknesses were attributed to the lack of fixed assets management policy, to assist in the management and administration of the assets.

**Effect**

Lack of a comprehensive fixed assets register could lead to the difficulty in accounting of the assets as well as the susceptibility of the assets to theft or misplacement.

**Recommendation**

The assets register should be updated to include all government property both movable and immovable.

The SWSS should ensure that all assets are tagged with a unique identification code.

An asset maintenance schedule be maintained and followed and all broken but useful pieces of assets be regularly repaired and put into good use.

There should be regular physical verification exercise on the assets, the results of which should be updated in the Assets Management System.

**Significance**

High

**Management response**

There currently exists fixed assets regulations governing management of fixed assets in the South West State of Somalia. We will ensure that the all the fixed assets for all ministries, departments and agencies are tagged and periodic asset verification is done.

We will also endeavour to ensure that all fixed assets from all ministries, departments and agencies are included in the assets register.

The ministry will also endeavour to ensure that the annual additions in the FMIS are adequately reconciled to the Fixed Assets Management system.

## 6 Bank and Cash

### 6.1 Weaknesses in preparation of bank reconciliation

#### Observation

##### Condition

We noted that the bank reconciliations for some months were not signed by either the preparer or reviewer or both. These are as follows:

Bank Account Name	Month
Treasury Single Account – TSA	October 2019
Treasury Single Account – TSA	January 2019
Support to Stabilization S2S	November 2019
Ministry of Livestock Bank Account	November 2019

For all reconciliations, we noted that the date of preparation and review were not indicated in the bank reconciliation statements.

##### Criteria

PFM Act, states that the Treasury Single Account and any other bank accounts of the State are to be reconciled preferably daily or at a minimum weekly/monthly within 2 days after end of the week/month by the Treasury Department, Ministry of Finance using the financial management information system (FMIS). Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer. Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format.

##### Cause

Late implementation of prior period audit recommendations.

##### Effect

Errors and omissions in the cash book general ledger and bank statements may go undetected for long periods of time leading to misstatements of cash balances as well as misstatements in receipts and payments accounts.

#### Recommendation

Bank reconciliations should be timely and consistently prepared, reviewed and approved by management.

#### Significance

Medium

#### Management response

All the bank reconciliations are currently done on a monthly basis.  
We will ensure that the preparer and reviewer consistently signs as per recommendations above.

## 6.2 Dormant bank accounts

### Observation

#### Condition

We noted that there is a dormant bank account under Dahabshil (Support to Stabilization) with zero balance that has been inactive for a sustained period of time and has not been operational.

#### Criteria

Section 29 of PFM Act of 2018 provides for the procedures for opening, closing, operating and the signatory arrangements for South West State of Somalia bank accounts.

#### Cause

Lack of closure of non-operational bank account by the different Ministry concerned under the SWSS.

#### Effect

The lack of transaction activities make dormant account more susceptible to fraud and misuse.

### Recommendation

The dormant bank account should be reviewed and approval for closure to be given by the MoF.

### Significance

Medium

### Management response

The account in question has only been unused for less than one year. There possibility of the bank account being used when the programme commences again in future.

## 7 Budgeting and Financial Reporting

### 7.1 Weaknesses in the budgeting and financial reporting process

<b>Observation</b>				
<b>Condition</b>				
We noted a huge variance amounting to US\$ 3,314,112 (26%) between the budget revenue for the period and the actual financial performance. Similar huge variance was noted on the expenditures, as follows:				
Details	Budget Amount (US\$)	Actual Amount	Variance (US\$)	Variance %
Revenue	12,761,705	9,447,593	(3,314,112)	-26%
Expenditure	12,761,705	9,284,666	(3,477,040)	-27%
<b>Criteria</b>				
Section 8 of the PFM Act 2018 states that, the fiscal framework for the Consolidated Budget should be based on estimates for the fiscal year and for the two subsequent years, which take into account the economic and development policies that are consistent with the South West State of Somalia declared medium-term economic and fiscal objectives.				
<b>Cause</b>				
Non compliance with Section 8 of the PFM Act of 2018.				
<b>Effect</b>				
Risk of non compliance with the PFM regulations				
<b>Recommendation</b>				
The annual budget be subject to review and any over or under forecast of the financial performance adjusted in the July supplementary review.				
<b>Significance</b>				
Medium				
<b>Management response</b>				
The South West Ministry of Finance is keen on ensuring that the budgeting process is strengthened to comply with the relevant legislations and regulations. We will ensure that the Consolidated Budget is based on estimates for the fiscal year and for the two subsequent years, which take into account the economic and development policies that are consistent with the South West State of Somalia declared medium-term economic and fiscal objectives.				

## 8 IT General and Application Controls

### 8.1 Application Controls

#### 8.1.1 Variances between approved budget amount in BPM and FMIS

<b>Observation</b>				
<b>Condition</b>				
We reviewed the budget amounts of expenses for the period approved, the amount posted in the Budget Preparation Module (BPM) and FMIS and noted a variance of 88,000 USD as below:				
Category	Approved Budget (US\$)	BPM (US\$)	FMIS (US\$)	Variance (US\$)
Expenses	8,678,438	8,678,438	8,766,438	88,000
<b>Criteria</b>				
Budget amounts approved and posted in BPM and expensed in FMIS should first match the amount approved by the parliament and secondly, consistent between the two systems.				
<b>Cause</b>				
The system is not configured to automatically update budget values between BPM and IFMIS. Any budget changes against the actual revenue and expenditure are therefore not updated in IFMIS.				
<b>Effect</b>				
There is a risk that the Expenses and revenue budget values posted could be mis-stated as a result of variances between approved budget values in BPM and IFMIS. Also, the budget expenditure controls will be less effective if the budget is not fully up to date i.e. officers could spend where there is no approved budget.				
<b>Recommendation</b>				
Implement an automated interface to ensure changes to the budget are accurately and completely reflected in FMIS. Any official changes to the budget should also be updated and the approval be documented to address the variances noted.				
<b>Significance</b>				
High				
<b>Management response</b>				
The recommendation is noted. The IT department will work with the Finance Department to ensure that any changes to the budget are accurately and completely reflected in FMIS				

## 8.2 General Computer Controls

### 8.2.1 Access Controls

#### 8.2.1.1 Weak Segregation of Duties (SOD) Controls in FMIS

<b>Observation</b>
<p><b>Condition</b></p> <p>Segregation of duties (SoD) controls regarding transaction processing in FMIS has not been adequately defined. At the time of review, we noted the following Segregation of Duties conflicts for the following users:</p> <ol style="list-style-type: none"><li>Some treasury users, in charge of initiating payments to suppliers were also allocated vendor administration rights (VENDORADMIN) creating a segregation of duties conflict that allows the users to amend vendor details as well as process payments.</li><li>The account user, ADMIN in FMIS and BPM that has access to system backend modules, had also had transaction processing privileges allowing the user to process transactions in Budget, Inventory, Payroll, Procurement and Asset modules.</li><li>A user in RMS had the following rights, creating a conflict of being able to register a taxpayer and modifying their tax details</li></ol>
<p><b>Criteria</b></p> <p>A Segregation of duties Matrix is implemented and enforced to prevent unauthorized/ invalid transactions being posted or invalid activities being implemented in the financial systems.</p>
<p><b>Cause</b></p> <p>Inadequately documented and implemented segregation of duties controls.</p>
<p><b>Effect</b></p> <p>There is a risk of undetected fraudulent transactions going unnoticed.</p>
<b>Recommendation</b>
<p>Review all user roles in IFMIS and implement strong Segregation Of Duties controls that are documented to ensure all areas of conflict which may lead to invalid, unauthorized or fraudulent transactions are prevented.</p>
<b>Significance</b>
<p>High</p>
<b>Management response</b>
<p>The weakness is noted and we will work closely with the Finance department and the Treasury Department to ensure that any entries being passed are valid and authorized by the relevant department heads.</p>

### 8.2.1.2 Weaknesses in access assignment for FMIS

<b>Observation</b>
<p><b>Condition</b></p> <ol style="list-style-type: none"><li>1. We noted user's access form was missing as part of our sample to confirm that all new users were approved before being assigned access rights</li><li>2. We also noted an ICT officer, does not have access to the system, making it difficult to learn on how to support users when need arises.</li></ol> <p><b>Criteria</b></p> <ul style="list-style-type: none"><li>• All users created in the system require approval from the direct line manager/supervisor and the Permanent Secretary.</li><li>• In order to give effective support to end users, the ICT personnel require to be familiar with the systems.</li></ul> <p><b>Cause</b></p> <ul style="list-style-type: none"><li>• Inadequate process for the creation of users in various financial systems.</li></ul> <p><b>Effect</b></p> <ul style="list-style-type: none"><li>• Unauthorized access to critical systems</li><li>• Inadequate support continuity when the main support personnel is not available.</li></ul>
<b>Recommendation</b>
<ul style="list-style-type: none"><li>• All users' access be adequately documented and approved by appropriate management level.</li><li>• Consider acceptable access rights to ICT personnel for continuity purposes of the support for system users.</li></ul>
<b>Significance</b>
High
<b>Management response</b>
<p>The recommendations are noted and will be implemented diligently going forward. We will enable the user to access the system and start training her on administration duties of all the relevant systems</p>

### 8.2.1.3 Gaps in user access rights review

<b>Observation</b>
<p><b>Condition</b></p> <p>We noted □some users created in the systems could not be attributed to the employees in the official HR records, hence it was difficult to determine whether their access rights are commensurate with assigned job responsibilities</p> <p><b>Criteria</b></p> <p>Best practise dictates that all users with access rights be periodically reviewed to confirm those right are aligned to their responsibilities</p> <p><b>Cause</b></p> <p>Inadequate process of reviewing user access rights.</p> <p><b>Effect</b></p> <p>Unauthorised/fraudulent transactions may be passed using the user’s excess rights</p>
<b>Recommendation</b>
<p>Implement a process to periodically review all users’ rights to validate that user access rights are commensurate with assigned job responsibilities for all financial systems. Any exceptions be documented with a valid justification with approval from the Permanent Secretary.</p>
<b>Significance</b>
<p>High</p>
<b>Management response</b>
<p>We acknowledge the weakness in the documentation of the access approval, however, the listed users include PREMIS staff and high level government officials. We will work to ensure their access approval is adequately documented moving forward.</p>

### 8.2.1.4 Weak password configuration controls for FMIS, RMS and BPM

<b>Observation</b>
<p><b>Condition</b></p> <p>v. The documented information systems policies establish standards/guidelines for passwords composition, management, and syntax with respect to Change of password at first sign-on, Minimum password length, Password change intervals and Password complexity. Guidance on Maximum number of allowable unsuccessful attempts; and Password lockout duration have not been defined.</p> <p>v. We further inspected the password configurations on FMIS, RMS, BPM AMS and the Operating System and noted the following:</p> <ul style="list-style-type: none"><li>• Change of password at first sign-on not set for the FMIS and the BPM;</li><li>• Password change intervals not set for windows</li><li>• Password complexity (e.g., alpha-numeric) ;Inadequate for all systems as I managed to use these passwords for the test accounts: DADI@smss(FMIS and BPM), rms123(RMS)</li></ul>
<p><b>Criteria</b></p> <p>Password policies require that a maximum number of allowable unsuccessful attempts and password lockout duration be set and implemented.</p>
<p><b>Cause</b></p> <p>Inadequately documented and implemented password security policies and controls</p>
<p><b>Effect</b></p> <p>Compromise of critical business systems as a result of successful password security attacks such as dictionary attack and brute force.</p>
<b>Recommendation</b>
<ul style="list-style-type: none"><li>• The password policies and procedures be improved to include: Maximum number of allowable unsuccessful attempts; and Password lockout duration</li><li>• Password policies and configuration settings be improved for windows and all critical business systems.</li></ul>
<b>Significance</b>
High
<b>Management response</b>
We agree on the identified weaknesses for passwords and plan to work closely with the vendor to improve the password policies documentation and implementation.

### 8.2.1.5 Inadequate review of administrator activities in FMIS

<b>Observation</b>
<b>Condition</b> We noted that system administrator activities are not regularly reviewed by business process owners for appropriateness.
<b>Criteria</b> Business owners/heads should regularly review activities in the core business systems to establish whether administrators are operating within their mandate in relation to the business operations.
<b>Cause</b> The activities of the administrative user in the system are not independently tracked, monitored and reviewed.
<b>Effect</b> There is a risk of posting of unauthorised or invalid transactions.
<b>Recommendation</b>
Consider revoking transaction processing privileges for the IT administrator. Where this is necessary, consider a regular and independent review of administrator activities be done and documented to verify that no unauthorised entries were passed.
<b>Significance</b>
Medium
<b>Management response</b>
We agree that there is a gap and we will work closely with the business to establish a review mechanism for all activities carried out by the FMIS administrators on a monthly basis.

### 8.2.1.6 Weaknesses in physical security of MoF premises

<b>Observation</b>
<b>Condition</b> We noted inadequate physical restriction controls to protect IT systems from theft considering SWSS MOF is a public office which is visited by many people, who may easily walk in and out movable electronics such as laptops.
<b>Criteria</b> Physical security is important in order to secure ICT assets of the organisation.
<b>Cause</b> Weaknesses in physical security in MoF premises.
<b>Effect</b> There is a risk of unauthorised access to key IT infrastructure that support processing of transactions and reported financial balances at SWSS.
<b>Recommendation</b>
A register be availed for the recording of laptop serial numbers for all laptops being brought into and taken out of SWSS offices. A gate pass system be set up to record and approve any electronics being taken out for service or being transferred from their original locations.
<b>Significance</b>
Medium
<b>Management response</b>
We agree with the finding and plan to institute a register for laptops and a gate pass system for movement of electronic assets out of and into the ministry.

### 8.2.1.7 Generic user accounts

<b>Observation</b>
<b>Condition</b> We noted use of generic user IDs in Revenue Management System(RMS), Budget Preparation Module (BPM), Asset Management System (AMS) and Financial Management Information System (FMIS). Below are the generic user IDs we identified in use for transaction processing: <ul style="list-style-type: none"><li>• Admin (RMS, BPM, FMIS and AMS)</li></ul> These generic users cannot be attributed to MoF employees for the purpose of accountability.
<b>Criteria</b> For the purpose of accountability, all users created in the system require to be attributable to specific users.
<b>Cause</b> Inadequate processes for system user creation and access controls.
<b>Effect</b> Use of generic IDs to pass fraudulent transactions since it is difficult to prove accountability.
<b>Recommendation</b>
The Admin user ID be changed to show the ICT Director's name if possible, otherwise, the individual in charge of ICT administration be created with the relevant administrative rights for the purpose of accountability.  All generic IDs be deactivated if not in use or be documented and assigned to specific employees after approval by the relevant management for accountability.
<b>Significance</b>
High
<b>Management response</b>

We agree on the issue, however, after analysis of the impact of deactivating the admin user, we shall implement your recommendation to improve our controls.

### 8.2.1.8 Inactive user accounts

<b>Observation</b>
<b>Condition</b> We noted inactive user IDs for over 60 days in Revenue Management System(RMS) and Budget Preparation Module (BPM) and Financial Management Information System (FMIS).
<b>Criteria</b> For the purpose of preventing misuse of rarely used IDs, all inactive users are to be deactivated until needed by the users.
<b>Cause</b> Inadequate processes for system user creation and access controls.
<b>Effect</b> Inactive user IDs may be used to pass fraudulent transactions which may be hard to detect as they are rarely used.
<b>Recommendation</b>
All inactive user IDs be temporarily deactivated if not in use for over 60 days until they are needed by their owners
<b>Significance</b>
Medium
<b>Management response</b>
We agree that there are users who haven't used the system for a long time, however, after assessing the impact of deactivation, we shall implement your recommendation promptly.

## 8.2.2 IT Operations

### 8.2.2.1 Inadequately documented Information Security Policies

#### Observation

##### Condition

The Information Security policies have not been documented to incorporate the following areas:

- statement of the importance of security to the organization;
- communication and acknowledgement of the policy;
- physical access to computing resources;
- bring your own device policy;
- employee and contractor responsibilities;
- access administration, re-certification, and termination;
- access to applications, databases, and operating systems;
- password parameters/ password security;
- network monitoring;
- remote access;
- virus protection; and
- review of security related events.

##### Criteria

To effectively manage the confidentiality, integrity and availability of system programs and data, there is need to document information security policies and procedures.

##### Cause

Undocumented information policies and procedures.

##### Effect

Exposure of IT assets to compromise on Confidentiality, Integrity and Availability of critical programs and data.

#### Recommendation

A documented, approved and implementable policy and procedures document be prepared incorporating the mentioned policies and circulated to users and IT administrators for compliance.

**Significance**

Medium

**Management response**

We are working closely with the PREMIS IT advisor to have a policy document for this purpose.

### 8.2.2.2 IT Security awareness training

<b>Observation</b>
<b>Condition</b> We noted that for the year under review, there was no IT security awareness training for both end users and administrators of the critical business systems.
<b>Criteria</b> To effectively protect Information Technology assets, security awareness training is important for both administrators and end users.
<b>Cause</b> Inadequate process to train end users and system administrators.
<b>Effect</b> Financial losses or breach of confidentiality and system availability by adversaries due to successful attacks.
<b>Recommendation</b>
Regular/Annual training sessions be organized to train users on the latest attacks and measures to protect the IT assets from compromise.
<b>Significance</b>
Medium
<b>Management response</b>
We acknowledge the weakness and are planning regular internal training for users and will plan for training opportunities for the IT team as well.

### 8.2.2.3 Logging of IT support and helpdesk incidents

<b>Observation</b>
<p data-bbox="86 321 220 345"><b>Condition</b></p> <p data-bbox="86 362 1407 459">We noted that South West State of Somalia incidents are reported to Superusers as the first line of support on email, phone or verbally, the second line of support are the PREMIS Advisors and the third line of support is the Vendor for the relevant system. The incidents reported are not logged to include the following:</p> <ul data-bbox="149 475 1035 586" style="list-style-type: none"><li>• name of logger;</li><li>• format used to record incidents, e.g. incident tracking system, remedy, etc; and</li><li>• name/title of person who investigates and resolves them.</li></ul> <p data-bbox="86 646 199 670"><b>Criteria</b></p> <p data-bbox="86 686 1407 751">All issues raised by users for resolution require to be logged and effectively tracked in order to establish a root cause and formulation of a permanent solution or a repeatable solution in order to create efficiency.</p> <p data-bbox="86 808 178 833"><b>Cause</b></p> <p data-bbox="86 849 873 881">Inadequate processes and technology to record and track reported issues.</p> <p data-bbox="86 938 178 963"><b>Effect</b></p> <p data-bbox="86 979 1407 1044">Failure to deliver services due to unaddressed incidents which may lead to loss of system availability or compromise to system integrity and/or confidentiality.</p>
<b>Recommendation</b>
<p data-bbox="86 1133 1119 1157">A comprehensive incident reporting and logging system be formalized to include the following:</p> <ul data-bbox="149 1174 1035 1284" style="list-style-type: none"><li>• name of logger;</li><li>• format used to record incidents, e.g. incident tracking system, remedy, etc; and</li><li>• name/title of person who investigates and resolves them.</li></ul>
<b>Significance</b>
Low

**Management response**

We agree that there is a weakness in this regard. We are working closely with the PREMIS IT advisor and the users to get them used to reporting issues using a help desk system introduced in 2020.

## 8.2.3 Systems Change Control

### 8.2.3.1 Lack of formal change management policy

#### Observation

##### Condition

We noted that the South West State of Somalia has not adopted a change management policy

For the period under review, there were no changes initiated at SWSS.

##### Criteria

To effectively make program changes, a formal documentation and authorization process is necessary.

##### Cause

Inadequate program changes process.

##### Effect

Compromise of data and program availability and integrity due to implementation of unauthorised and untested changes into product.

#### Recommendation

A change management policy be developed, documented and approved to include:

- initiation of the change;
- classification of the change;
- authorization for the change;
- unit and system testing in a test environment;
- business user testing and signoff; and
- migration to production.

#### Significance

Medium

**Management response**

We are working with the PREMIS advisor to have the policy in place.

### 8.2.3.2 Lack of adoption of system development and acquisition policy

#### Observation

##### Condition

We noted that South West State of Somalia has not adopted a development and acquisition policy which is communicated to all relevant employees (and contractors) and incorporates the following:

- Initiating and authorizing system projects;
- Assigning priorities to projects;
- Developing requirements and specifications;
- Testing applications;
- Business user testing and formal signoff;
- Migration from the test environment to the production environment; and
- Reconciliation of data migrated to new or significantly modified applications.

For the period under review, a HR Management system was acquired for the Civil Service Commission, however, we noted the following gaps:

- It is not interfaced with the Payroll system to minimize data entry when enrolling new employees, managing changes/transfers or exits.
- Not all employees have been enrolled into the system i.e. only 300 out of over 700 employee have been enrolled into the system.

##### Criteria

To effectively address any business challenges, there is need for a formalized system development and acquisition policy.

##### Cause

Inadually formalized process for system development and acquisition.

##### Effect

Wastage of resources or lack of synergy by running parallel or uninterfaced systems.

#### Recommendation

A collective/combined policy and procedures be documented and implemented to include:

- Initiating and authorizing system projects;

- Assigning priorities to projects;
- Developing requirements and specifications;
- Testing applications;
- Business user testing and formal signoff;
- Migration from the test environment to the production environment; and
- Reconciliation of data migrated to new or significantly modified applications.

**Significance**

Medium

**Management response**

We are working with the PREMIS advisor to have the policy in place.

**8.2.4 IT Disaster Recovery and Business Continuity**

**8.2.4.1 Lack of an IT Disaster Recovery and Business Continuity Plan**

**Observation**

**Condition**

Lack of an IT Disaster Recovery and Business Continuity Plan to facilitate any critical business operations

**Criteria**

Any business environment requires a plan to counter any unknown or unpredictable events that may disrupt service delivery.

**Cause**

Weakness in formalization of the IT Disaster Recovery and Business Continuity Plan.

**Effect**

Lack of an IT Disaster Recovery Plan may lead to the State not being able to resume operations efficiently if disaster were to happen.

### **Recommendation**

A business continuity plan be documented, approved, implemented, tested and annually updated to cover new risks. The business continuity plan needs to include the following areas:

- an introduction, with distribution list, executive summary, objectives and glossary;
- a risk management plan with business impact analysis;
- an incident response plan, with plan activation, incident response team, communications and contact list;
- a recovery plan;
- a test, evaluate and update schedule.

### **Significance**

Medium

### **Management response**

We are working with the PREMIS advisor to have the plan in place.

### 8.2.4.2 Lack of implementation of a formalised backup strategy

#### Observation

##### Condition

We noted that South West State of Somalia has not implemented a formalised strategy for backup of relevant data and programs to include:

- responsibility for performing backups;
- format of backup tool, e.g. Veritas, Galaxy, etc;
- the operational process to be followed to successfully perform the backup of financial data and applications has been outlined;
- corrective action to be taken in the event of failed backups has been outlined; and
- the backup schedule is commensurate with the risk of data loss based on the criticality of the system (Daily, weekly, monthly etc).

##### Criteria

To support availability of data and programs, a formal backup strategy is needed.

##### Cause

Dependence on the system vendors.

##### Effect

Failure to resume service delivery in due time.

#### Recommendation

A comprehensive strategy for backup of relevant data and programs to include:

- responsibility for performing backups;
- format of backup tool, e.g. Veritas, Galaxy, etc;
- the operational process to be followed to successfully perform the backup of financial data and applications has been outlined;
- corrective action to be taken in the event of failed backups has been outlined; and

- the backup schedule is commensurate with the risk of data loss based on the criticality of the system (Daily, weekly, monthly etc).

**Significance**

High

**Management response**

The gap is noted. We will work with the PREMIS IT advisor to have this control in place as per recommendation.

## 9 Status of prior year audit recommendations

Total No. of Prior Year Recommendations	Implemented	Partially Implemented	Not Implemented
14	-	1	13

	Condition	Management comments	Status of action
1.	<p><b>Inadequately supported payments</b></p> <p>Substantial payments were either lacking supporting documents or were inadequately supported.</p> <p>Inadequate evidence of the occurrence of transactions reduces the reliability of the financial statements since value assigned to transactions, correct classification of payments and control procedures applied on transactions cannot be adequately verified.</p>	<p>Ministry of Finance Work plan is being prepared that will address this audit finding. The Internal Audit Department will be assisting by providing oversight on progress against the work plan to ensure all payments are accompanied by the relevant supporting documents. In addition, document management training was provided to MoF staff in the 2019FY to provide them the necessary training to manage and maintain document files for audit.</p>	Not implemented
2.	<p><b>Improvement in tax administration</b></p> <p>Our review of the FMIS (accounting system), RMS (revenue collection system) and supporting documents for tax collected and reported by the State revealed the following:</p> <p>a) Road and Khat Taxes: These were the major taxes collected during the period. We compared tax collected as per the receipt books provided by the revenue department to revenue management system(RMS) which revealed that out of USD 209,838 tax collected as per the receipts, USD</p>	<p>This finding was discussed on the 8th December Meeting which was held at the Ministry Building and processes were discussed and was agreed that all transactions will be processed through the TSA.</p> <p>Manual Receipts will be positioned at each collection/custom point in South West State of Somalia and must reconcile RCA records in the RMS against the Bank Deposit Slip on a monthly basis. For NGO</p>	Not Implemented

Condition	Management comments	Status of action
<p>69,584 was deducted and utilized before being banked.</p> <p>b) Receipt books: The State did not provide receipts showing tax collected other than for Baidoa town. The practice was that tax collection agents deposit tax as they collect and revenue management rely on their deposit slips. No reconciliation is prepared between the deposit slips and the receipts. In addition, for Baidoa town, the State did not provide some receipt books.</p> <p>c) Registration of Local and International NGOs: The State did not provide a list of the NGOs registered during the period. In the RMS ledger of NGOs registered, the basis of how fees recorded on the RMS collected from NGOs during the period was not provided. Therefore, completeness of the fees generated from NGOs could not be verified.</p> <p>d) Payroll Tax: There was no evidence provided by the state showing how they verify the amounts paid as employee income tax. The State relied on the deposit slips and bank statements from the individual organizations. There were no staff payroll listings submitted to the State alongside the tax payment deposit slips to enable recalculation of tax due and verification of the completeness of employment tax paid.</p> <p>e) Landing fees and local passenger fees: We noted that the tax is collected by agents appointed by the state, however there was no mechanism to verify that the amount of tax declared and paid can be independently verified by the state that it was the correct amount declared by individuals paying this taxes. This is because flight manifests were not submitted to the State alongside the tax payment</p>	<p>registration, the Ministry of Planning and International Cooperation and the Ministry of Finance shall work on register verification and review on a monthly basis. Individual Organisations should come with a justification if there is a discrepancy in the previous data and manifest of passengers should be shared with the RCA Director to improve the verification mechanism... RMS and FMIS will be reconciled on a monthly basis.</p>	

	Condition	Management comments	Status of action
	<p>deposit slips to enable recalculation of tax due and verification of the completeness of landing fees paid</p> <p>f) The State prepared FMIS and RMS electronic acknowledgment vouchers for tax collected and filed as supporting documents. The system keeps audit trail and records of the preparer and approver on the face of the documents. We noted that evidence of preparer and approver was available on FMS, however in most instances, the FMIS vouchers had no evidence of the approver and in some cases, there was no evidence of both preparer and approver.</p> <p>g) Underutilization of the BISAN RMS: the RMS is not linked to the BISAN FMIS for a seamless interface between the collection point and the posting into the accounting software. We noted that total receipts excluding grants recorded on FMIS was USD 3,023,067 while RMS was USD 2,751,482 resulting in a variance of USD 271,585. FMIS total was more than RMS implying that RMS is not fully updated which ideally should be the entry point when recording all revenue collected.</p>		
3	<p><b>Poor Road rehabilitation works</b></p> <p>Our review of the financial report and transaction ledger for SWSS revealed that the State paid two contractors: Bay Service Provider USD 85,283 and Jabal Construction and Trading Company USD 165,500 totaling to USD 250,783 for rehabilitation airport road in Baidoa. We physically verified the road in August 2019 which was indicated as completed as per the final weekly report prepared on 29 March 2018 and noted that the condition of the road was dilapidated and therefore we</p>	<p>Management will ensure that all supporting documents are obtained and maintained on file. And ensure that adherence to the competitive procurement process in accordance with the Procurement Regulations.</p>	Not Implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
	<p>concluded that either the rehabilitation was not performed or was poorly done.</p> <p>It is also unclear why two contractors were required for this road which is only 1 kilometer long.</p> <p>We also compared the photos attached to the weekly progress report prepared in February and March 2018 with the status during the physical verification that we conducted in August 2019. We found that the photos from the weekly report did not match the status during our visit.</p> <p>As a result of lack of documentation such as contract, invoices, completion certificates for the road rehabilitation, we could not ascertain whether payments were being made after duly completed and certified work,</p> <p>Further, we could not verify whether the competitive procurement process was conducted since documents for the procurement process were not provided.</p> <p>Our conclusion from physical verification of road works whose payments totalled USD 250,783 is that the road works were unsatisfactorily performed and therefore value for money on these payments was not enjoyed.</p>		
4	<p><b>Gaps at Procurements</b></p> <p>We noted the following weaknesses:</p> <ul style="list-style-type: none"> <li>The procurement policy does not have stipulated guidelines on the composition and number of members that should form the procurement committee.</li> </ul>	<p>With the assistance from the Internal Audit Unit to ensure that the current processes are strengthened and in accordance with Procurement Regulations. The newly hired staff will be also be provided with adequate training on the Procurement process</p>	Not Implemented

	Condition	Management comments	Status of action
	<ul style="list-style-type: none"> <li>The procurement department at Ministry does not prepare an annual/periodic procurement plan</li> <li>The Ministry does not maintain a prequalified list of suppliers.</li> <li>We also noted non-compliance with the state's procurement guidelines</li> </ul>		
5	<p><b>Third party confirmations differed from the financial statements</b></p> <p>The financial statement for the year ended 31 December 2018 reflects USD 4,083,566 as payments by third-party yet Note 3 of the financial statements showed USD 3,995,567 (SSF USD 3,149,068 and PREMIS USD 846,499). Detailed scrutiny indicated that the variance arose from third party payments by PREMIS. This is because the independent auditor's confirmation received from PREMIS showed USD 846,499 which agreed to the Note 3 to the financial statements. This means that the Note 3 is correct but the face of the financial statements contains the error.</p>	<p>The data was corrected after it had been noticed that the 3rd party confirmation received from PREMIS included the amount of USD 88,000 which the State had already been entered in the FMIS for the FY 2018.</p>	Not implemented
6	<p><b>Weaknesses in payroll and timesheets management</b></p> <p>We noted the following weaknesses in human resource management;</p> <ul style="list-style-type: none"> <li>SWSS has an automated time recording system for staff in only 3 ministries ((Ministry of Finance, Ministry of Health, Ministry of Education) and the CSC, the other ministries maintain manual daily attendances for its permanent staff.</li> <li>The SWSS Civil Service Commission does not have an automated system linked with the</li> </ul>	<p>The CSC should put in place a system linked with the BISAN payroll to ensure data security and integrity. Further, they should ensure there is regular reconciliation between their records and the payroll. SWSS should ensure payroll taxes are deducted as per the tax regulations</p>	Not implemented

	Condition	Management comments	Status of action
	<p>BISAN payroll system to improve on data security and integrity. The employees' data is maintained on Microsoft excel workbook. Consequently, we noted some staff included in the Bisan payrolls for the Months of January to September were missing in the staff list maintained by the SWSS CSC</p> <ul style="list-style-type: none"> <li>Income tax was not deducted for the SWSS staff during the year contrary to the Tax regulation included in the Revenue Act.</li> </ul>		
7	<p><b>Gaps in personnel records and recruitment process</b></p> <p>We noted the following weaknesses in human resource management;</p> <ul style="list-style-type: none"> <li>Based on our review of the personnel files, we noted some key documents were missing such as reference checks, passport photos, leave forms, code of conduct, inductions, and copies of staff ID. Further, there was no evidence to demonstrate performance review had been performed for employees while for the staff leavers, there was no evidence filed to demonstrate proper hand over procedures through a hand over-report.</li> <li>An amount of USD 7,710 reported under personnel costs relating to six months' salary for former DG ministry of Justice was reported as ineligible under the world bank project. Based on our interview with the EAFS Director, we were informed that the staff was noted as double claiming salaries from both the FGS &amp; the SWSS for 8 months' period (November 2017 to June 2018) during monitoring done by World Bank. He was given</li> </ul>	<p>Contracts - lack clause on notice period to be issued by resigning staff. Well noted, we will review all civil Servant contracts and amend accordingly.</p> <p>The performance appraisal process for all civil servants will be carried out from 2019 FY</p> <p>Background checks. Background checks for all new civil servants are carried out but there is no system between the Federal Member States and Federal Government for information sharing and we will review this to strengthen communication between FGS and other FMS for information sharing on civil servants.</p> <p>We communicated with the employing authorities on the staff resigned to prepare hand over the</p>	Not Implemented

	Condition	Management comments	Status of action
	<p>a chance to choose between working for FGS and SWS and he decided to stay in FGS and refund all salary claimed under SWS. The money was refunded to FGS. This shows gaps in recruitment since the CSC should have performed background reference checks with the FGS &amp; other states before hiring the staff in the year 2017.</p> <ul style="list-style-type: none"> <li>Based on the staff contracts reviewed, we noted that the contracts lack important clauses such as the resignation notice period, staff leave days applicable.</li> </ul>	<p>process in the transition and still waiting for a response from them, we agree that some supportive documents of staff is missing and have already started updating.</p>	
8	<p><b>Inadequately supported cost for salaries</b></p> <p>We noted the following gaps in salary payments for staff not engaged through the CSC;</p> <ul style="list-style-type: none"> <li>Security allowances payments amounting to USD 8,500 were not supported with a signed listing as evidence of funds receipt.</li> <li>Wage worker's payments amounting to USD 21,600 were not supported with signed listing as evidence of receipt by recipients.</li> <li>Security allowance payments list had details of the names, the amount paid to the police and signature or thump stamp for each police officer, however, the payment list section on identification number and job position of the police officers had not been filled. Additionally, the payment list was only verified and signed by one person. i.e. the paying officer.</li> <li>Insufficient supporting documents (contracts, signed daily attendance) for wage workers amounting to USD 244,475.</li> </ul>	<p>The modality of payment to the police forces is in the process of being reformed. Formerly, the Ministry of Internal Security was solely responsible to pay disbursements but that payment approach will be reviewed and updated to ensure that Payment Order for Salaries and Payment (POSA) signatories will be two people and all wage workers payment will be accompanied with contract and signed attendance list ensuring that no payment will be processed without contracts and signed sheets. Until the police are recorded on the PFM systems, cooperation between the two ministries will be employed to ensure that all CPO packages or supporting documents are well maintained.</p>	Not Implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
	<ul style="list-style-type: none"> <li>• Payment Order for Salaries (POSA) forms about payments for politicians and ministers amounting to USD 694,200 and USD 25,200 were not signed by approving officers</li> <li>• There are no documented guidelines on the rates paid to security officers, ministers, wage workers, and politicians.</li> </ul>		
9	<p><b>Gaps in administration of bank transactions</b></p> <p>Bank reconciliations were not being prepared every week as required, instead, these were prepared every month contrary to the guidelines.</p> <p>The monthly bank reconciliations prepared did not indicate the specific dates when the reconciliations were performed, the persons who prepared or who reviewed and who approved the reconciliations</p> <p>There is no authorization limit for the signing of cheques - All payments approved by a minimum of 2 signatories.</p> <p>Bank reconciliation was for each month through Bisan (FMIS) however, we found the following gaps for the two accounts maintained by the ministry of finance on behalf of the state:</p> <ul style="list-style-type: none"> <li>- Incorrectly prepared bank reconciliations</li> <li>- Delays in preparation of bank reconciliations</li> </ul>	<p>All TSA Bank Reconciliations were prepared correctly and the Preparer and Approver was very clear on the reconciliation documents. For instance, your observations say that November bank reconciliation for Project Accounts is incorrect but it was very accurate as payments were processed on 31st May 2018 and 1st June is non-working day for the Bank and the Ministry as well. This is beyond our control but all payment documents were presented to Dahabshil Bank and two persons were not paid due to time as they explained later. See the Working Papers shared with you during your audit exercise.</p>	Not Implemented
10	<p><b>Weaknesses in assets management</b></p> <p>The following weaknesses were noted;</p> <p>a) The fixed assets register is incomplete and lacks details such as date of purchase, original or estimated value and expense voucher reference</p>	<p>Physical asset count and report on the condition, has been prepared and will be issued at the end of each year as part of the year-end process. This Instruction requires a physical stocktake of assets checking against</p>	Not Implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
	<p>number (payment request voucher) as required in the policy.</p> <p>b) We performed a physical verification of assets and noted the following;</p> <ul style="list-style-type: none"> <li>- A number of 9 out of the 16 sampled for physical verification could not be traced.</li> <li>- One of the assets, a water dispenser had been affixed with a different identification number from the one indicated on the register.</li> <li>- Another asset; a safe had not tag number or serial, however, the register had been updated with such information.</li> </ul> <p>c) We further noted that the register was only updated with items purchased in 2018 onwards, there was no evidence of previous assets being included in the Asset Management system.</p> <p>d) The Asset register only included items held by the ministry of finance on behalf of the state, there was no evidence of a consolidated assets register being maintained by the state at the Ministry of finance offices.</p> <p>e) There was no evidence of assets verification performed during the year 2018.</p>	<p>the AMS data. This will be carried out for the 2019FY. Commencing from the 2020FY, a monthly process to review the FMIS asset transactions will be carried out and reconciled to the AMS.</p>	
11	<p><b>Lack of formalized organization IT policies and standards</b></p> <p>Our review of SWSS IT environment revealed that the State does not have a comprehensive ICT policy and procedures which stipulates the following key components:</p> <ul style="list-style-type: none"> <li>- An IT policy that provides various guidelines on System change, User Access, Business Continuity/ Disaster Recovery Plans</li> </ul>	<p>The former Minister for Finance issued instruction C which is pursuant to section 22(1) of the PFM Act. And it is the Use of the Bisan FMIS, BPM &amp; RMS Systems.</p> <p>The State has MIFI Policy and Instruction F, Managing Capital Assets, which has been issued to support the management of the AMS.</p>	Not Implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
	<p>(BCP/DRP), etc. However, they do have a policy on usage of MiFi Modems (Internet).</p> <ul style="list-style-type: none"> <li>- Formalized procedures to log (track event) and escalate issues regarding system failure/gaps which if not tracked will remain unresolved for a long period.</li> <li>- Guidelines on how the State should conduct Business Continuity and Disaster Recovery plans.</li> <li>- Structured and formalized IT training for new and existing staff.</li> </ul>		
12	<p><b>Gaps in user access management</b></p> <p>Our review of the implementation of the Bisan system revealed the following:</p> <ul style="list-style-type: none"> <li>- Lack of a formal procedure for notifying the IT director to disable user accounts promptly for staff who had left employment either through resignation or termination.</li> <li>- Lack of periodic user access reviews of the activities performed by users to detect if there are any anomalies in access provisioned or other privilege or excessive access.</li> <li>- Saved Passwords in browsers can be retrieved and read in Plain text. We noted that users can save their passwords on the browser after logging in, this possesses a risk as the password can be retrieved in plain text.</li> <li>- Proper antivirus software has not been installed on the entity’s workstations, which exposes the entity to a risk of prolonged downtime in case the workstations are infected with viruses. We found that the State was currently using the free anti-virus available from the internet which is</li> </ul>	<p>There is a User Maintenance Form in which the Access Rights/Group for Data Entry and Approver is recorded. The ICT doesn’t give access to the new user unless the immediate supervisor ticks the access group rights and signed off the document. The form is also flexible and is used for disabling staff access when staff “leave the job or terminated”</p> <p>The access rights are well managed and antivirus is managed by the ICT Director.</p>	Partially Implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
	not very reliable as it may only offer limited protection.		
13	<p><b>Budget tracking</b></p> <p>We noted that the State has a clear calendar for budget preparation and monitoring however, there is no mechanism to ensure that the budget tracking was done and whether the stipulated calendar dates were fulfilled. No emails or minutes were evidencing any form of tracking of the budget</p>	<p>In accordance with Section 11 (2) of the PFM Act and Para 3.4 of Regulation 3 the Minister issues a Budget Circular (Instruction G) to all Spending Agencies and State-Owned enterprises of the Government no later than the first week in July of the preceding year.</p> <p>The Budget Circular outlines the responsibilities regarding budget preparation of budget estimates and dates for budget processes. Included in the Budget Circular is the Budget Calendar which is set at the commencement of the Budget preparation cycle. Whilst the budget preparation process is monitored against the budget calendar some delays have resulted from the delay in MDA's submitting their draft budget to the MoF. We are proactively working to improve the timeliness of receiving these draft budgets from MDA's</p>	Not Implemented
14	<p><b>Failure to approve Journal Entries</b></p> <p>We found that explanation for passing journal adjustment entries are not documented on the journal voucher, further, there is no evidence to demonstrate that the preparer and approver of the journals.</p>	There is no user who can do the data entry and approve it. The System shows the individual who had worked on the data entry and the approver. Segregation of duties is in place. Data is entered by the Treasury	Partially implemented

	<b>Condition</b>	<b>Management comments</b>	<b>Status of action</b>
		Officer and approves the Treasury Director	