



Office of the Auditor General Southwest State of Somalia

Annual Audit Report 2018

Presented to the Parliament on 21st July 2020

Annual Audit Report 2018

Contents

1. Executive Summary.....	4
2. About the OAG.....	6
2.1 Vision, Mission and Core Values	6
2.2 Functions of the OAG as per Proposed Audit Law	6
2.3 Current Status of the OAG	6
2.4 OAG Challenges.....	7
2.5 Responsibilities of Other Parties in the Audit process.....	7
3. Key Terminologies.....	8
3.1 Audit Opinion	8
3.2 Consolidated Financial Statements.....	8
3.3 Materiality.....	8
4. Key Audit Results and Recommendations	9
4.1 Report of the Independent Auditor	9
4.2 Revenue	9
4.3 Expenditure.....	11
4.4 Procurement	11
4.5 Gaps in salary payments to Security Forces, MPs, Ministers & Casual Workers	13
4.6 Weaknesses in Asset Management	13
4.7 Failure to Implement Prior Year Audit Recommendations.....	14
5. Acknowledgement	16
Annex 1 – South West State of Somalia (SWSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2018.....	17
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 2018	18

Annual Audit Report 2018

Transmittal Letter

21st July 2020

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

Dear Sir,

Pursuant to the provisions of section 32(3) of the 2017 PFM Act, I have the honour to submit my 2018 Annual Audit Report for tabling in the State Parliament of South West State of Somalia (SWSS).

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 2018 Financial Statements of SWSS and accompanying Audit Opinion (Annex 1).
2. The Audit Management Letter for 2018 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 in South West Sate of Somalia

Annual Audit Report 2018

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 2018 and section 30(4) of the *proposed* Audit Bill 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.

The Auditor General (AG) was appointed in 2015 and The OAG was operationalised with the recruitment of three staff in 2018. The office lost two of the most senior and experienced staff in 2019 and this had an impact upon the overall capacity of the office. This is coupled with lack of budget to train staff and execute the office mandate, and lack of other essential facilities such as proper working space and support from the political leadership. The UK Department for International Development and European Union have provided some technical assistance over the last two 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 2018. This audit was completed, with OAG staff, to audit the consolidated financial statement for the period ending 31st December 2018 in accordance with the proposed audit legislation. These financial statements, along with the relevant audit opinions, 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 2018. 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 2018 financial year except in two, key areas. Unsupported and inadequately supported payments totalling \$325,358, representing 5.5%, of total payments reported, lacked adequate evidence to support these transactions. Without such evidence it is impossible to say whether these payments have been correctly disclosed in the financial statements. Additionally, payments of \$250,783 (4.2% of total payments) were made for road rehabilitation that was not performed to a satisfactory standard.

The performance of the state in terms of accountability is significantly worse this year compared to 2017 when an unqualified audit report was issued.

Several critical audit issues were identified during the audit. These include, but are not limited to, the following:

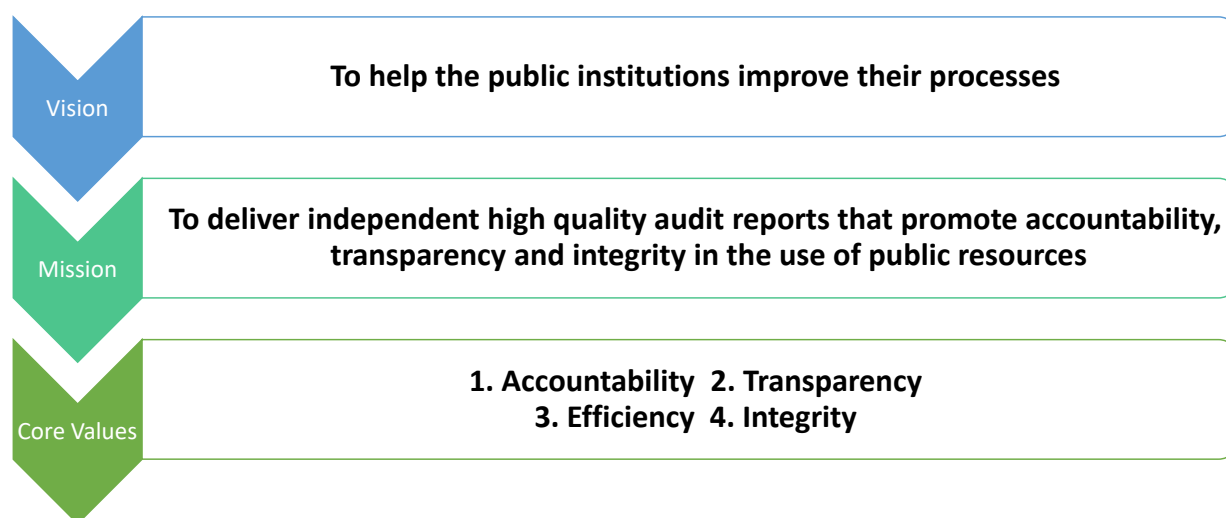
Annual Audit Report 2018

- Basic internal control deficiencies such as the failure to prepare bank reconciliations and incomplete bank reconciliations.
- Insufficient controls over collection and recording of revenue.
- Non-compliance with elements of the procurement regulations such as use of single source method without adequate justification.

The body of this report summarises the main issues 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 Proposed Audit Law

As per Section 6 and 7 of SWSS *proposed* audit law states, 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. Since then, with the support of the UK/EU funded PREMIS project, staff and institutional capacity have steadily improved.

Annual Audit Report 2018

The Office currently has an Auditor General (AG) and three other staff that were recruited through the Civil Service Commission (CSC).

Apart from continuing capacity building activities through quarterly 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 myriad 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.

Critically, the proposed Audit Law has still not been approved by Parliament. Although the SWSS Constitution and PFM Acts give some structure on the roles and responsibilities of the Auditor General, the Audit Act is required to provide further detail and to reinforce the mandate of the office.

2.5 Responsibilities of Other Parties in the Audit process

Ministry of Finance

As per section 32(1) and (2) of the PFM Act, 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.

Baker Tilly (BT) Private Audit Firm

As earlier mentioned, SWSS OAG staff do not yet have the requisite experience to conduct a fully independent audit. 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 BT was capacity injection to the OAG staff. The OAG staffs were given on-the-job training and they spearheaded the audit work acting as a link between BT and the Ministry of Finance. This engagement is in accordance with Section 20-23 of the proposed audit legislation.

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 close of an audit of financial records. The opinion describes the processes used during auditing, the standards used by the auditor, and other relevant information.

Types of Audit Opinions

Unqualified opinion —no reservations concerning the financial statements. 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.

Annual Audit Report 2018

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 on Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts for the period ended 31 December 2018 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 2018 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 – page number 4

The audit opinion on the financial statements for the year 2017 was unqualified.

Basis of Qualified Opinion

Our audit identified payments totalling \$325,358 representing 5.5% of total payments reported in the Consolidated Fund Statement of Receipts and Payments which lacked adequate evidence of occurrence and classification of transactions and are therefore material in the context of this audit. In addition, payments of \$250,783 (4.2% of total payments) were made for road rehabilitation that was not performed to a satisfactory standard.

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)

4.2 Revenue

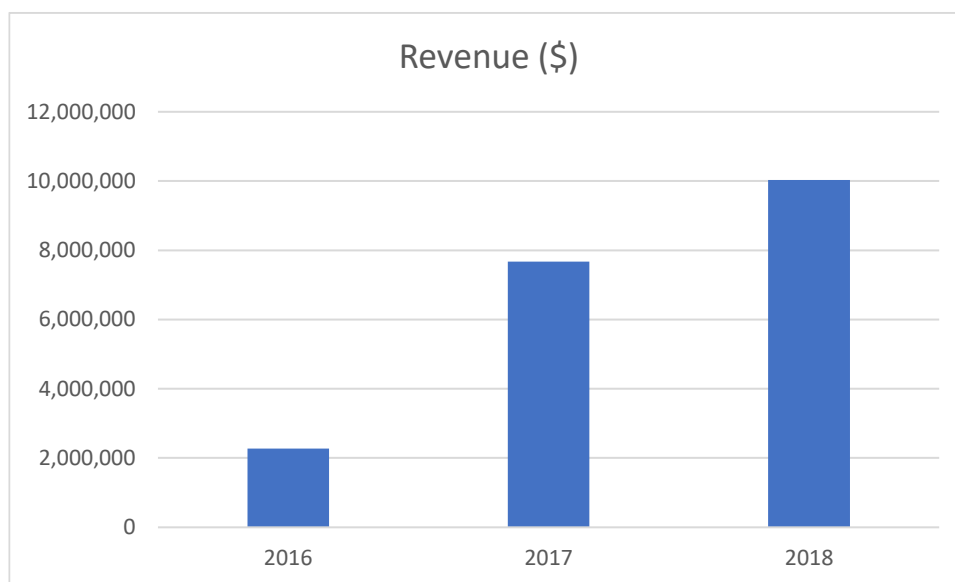
In our assessment we found an increased risk of revenue leakages and misstatement of receipts in the financial statements in the following areas:

- Road and Khat Taxes collected during the period and traced to receipt books available at the Revenue Department revealed that out of \$209,838 collected, deductions of \$69,584 were made. We also noted instances of total deduction made in some days which translates to the incompleteness of income by 33%. This represents a significant amount of potential lost revenue for the state.

Annual Audit Report 2018

- Other than in Baidoa, no receipt books were maintained by the Revenue Department of SWSS and no reconciliation is prepared between the deposit slips and the receipts.
- There was no evidence (receipts, approved list) of the list of the NGOs registered during the period. In the Revenue Management System (RMS) ledger of NGOs registered, the basis of how the revenues recorded on the RMS was not provided.
- We determined there was a variance between RMS total and Financial Management Information System (FMIS). FMIS total was \$3,023,067 (Total TSA revenue exclusive of grants) while RMS was \$2,751,482 resulting in a variance of \$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.

The following chart below shows the trends of receipts of SWSS over the last three years.



As the above chart indicates, overall receipts of the State have increased significantly over the last three years. Nonetheless, more can be done to increase this further.

We recommend the State to perform the following:

- 1. All revenue should be declared and recorded in the system before any payments (deductions) are made to any service providers responsible for facilitating the collection.**
- 2. All taxes should be recorded and maintained especially receipts that were issued at the tax collection point. The receipts should be attached to the deposit slips.**
- 3. There should be adequate supporting documents submitted by the paying of Local and International NGOs. The documents should be well maintained and attached to deposit slips and receipts as evidence demonstrating the accuracy of the tax paid.**

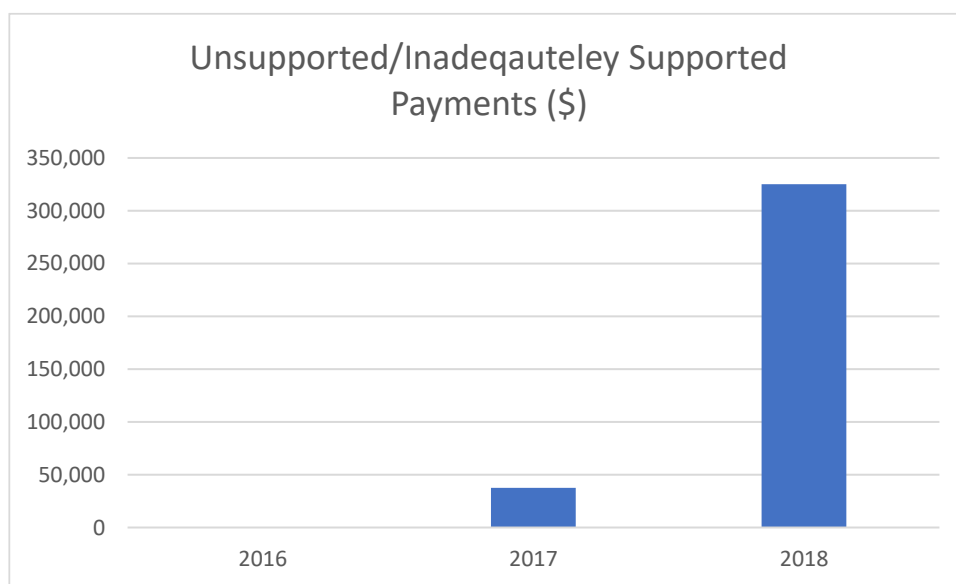
Annual Audit Report 2018

- FMIS and RMS should be regularly reconciled in order to minimise lost revenues. Further, all reports generated from the two systems in the form of receipts, payment vouchers should demonstrate evidence of segregation of duty in their preparation.**

4.3 Expenditure

Supporting documents for expenditure amounting to \$281,033 out of the total amount of \$350,047 were not availed for our review as at the close of the audit fieldwork. Further payments totalling \$44,325 were not adequately supported with third party supporting documents such as delivery notes, goods receipt notes, completion certificates and certificates of work done.

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



It is clear that the problem with unsupported/inadequately supported has got significantly worse over the last three years.

We recommend the following:

- No payment should be made without adequate and full supporting documentation being available.**

4.4 Procurement

We noted the following gaps in the rehabilitation of the airport road in Baidoa

- There is no substantial evidence to prove that whether these two companies (Bay Service Provider and Jabal Construction and Trading Company) actually exist.

Annual Audit Report 2018

- We also compared the photos attached to the weekly progress report prepared in the month of February and March 2018 with photos from the physical verification that we conducted in August 2019. We found that the photos from the weekly report did not match with photos taken by us during the audit period. (see below)
- Further, we could not verify whether the competitive procurement process was conducted since procurement documents were not provided to the auditors for review. Refer to finding no.1 and Annex 1. Also, we could not ascertain whether payments were made after duly completed and certified work.

These Pictures below are the pictures of monitoring report obtained from SWSS:



These Pictures below are the physical verification conducted by the auditors:



Our recommendations;

- 1. Documentation is maintained to demonstrate that the competitive procurement procedure was performed in award contracts of such major capital investments.**
- 2. Each payment for construction work should be supported by engineers approved certificate for the work done/stages of completion.**

Annual Audit Report 2018

3. Evidence of work done should be consistent with the intended objective of construction works.

4.5 Gaps in salary payments to Security Forces, MPs, Ministers & Casual Workers

In our review we noted that the following gaps in salary payments for staff not engaged through the CSC:

- Wage worker's payments amounting to \$21,600 were not supported with signed listing as evidence of receipt by recipients.
- Security allowance payments list had details of the names, the amount paid to the police and signature or thumb 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 (the paying officer).
- Insufficient supporting documents (contracts, signed daily attendance) for wage workers amounting to \$244,475. (100% of the amount concerned)
- Payment Order for Salaries (POSA) forms in relation to payments for politicians and ministers amounting to \$694,200 and \$25,200 expenditure were not signed by approving officers.
- There are no documented guidelines on the rates paid to security officers, ministers, wage workers, and politicians.

A detailed breakdown for the gaps above is included under Annex 6 (ML).

Recommendations from the OAG are as follows:

- 1. MoF should ensure allowances paid to non-civil servants are adequately supported with approved payment orders, contracts, payrolls, appointment letters, signed attendances and supporting documentation evidence on funds receipt by the staff.**
- 2. The payment for allowances should be accompanied by a signed payment list indicating the number of security officers paid. The list should be signed by the supervisors and at least two other witnesses.**
- 3. A master roll list should also be maintained and together with the payment list be used to verify the security officers before payment is done. The state can exploit options such as introducing an electronic registration system.**
- 4. The Ministry of Finance should make the payments directly to the respective security officers' bank accounts or use money transfer services.**
- 5. Guidelines on payment of allowances to security officers, ministers and MPs should be documented and presented for approval.**

4.6 Weaknesses in Asset Management

The following weaknesses were noted;

- The fixed asset register is incomplete and lacks details such as date of purchase, original or estimated value and expense voucher reference number (payment request voucher) as required in the policy.
- We performed a physical verification of assets and noted the following

Annual Audit Report 2018

- 9 assets out of the 16 sampled for physical verification could not be traced.
- One of the assets, a water dispenser, had been affixed with a different identification number from the one indicated on the register.
- Another asset; a safe, had no tag number or serial number attached.
- The Asset register only included items held by the Ministry of Finance. There was no evidence of a consolidated assets register being maintained for the whole state.
- There was no evidence that an asset verification was performed during 2018.

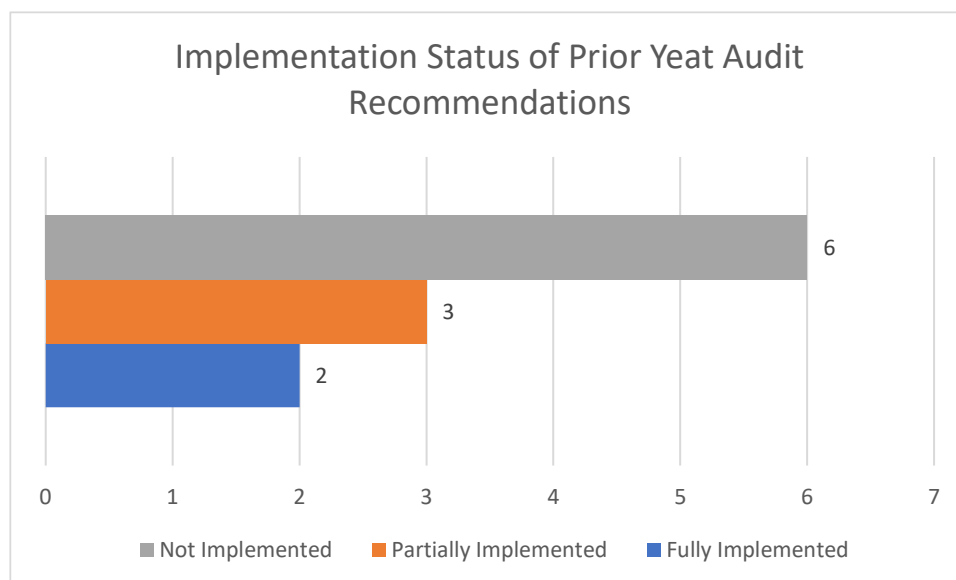
Recommendations from the Office of the auditor General are the following;

1. **The State should ensure that accurate information and data is captured in the Asset Management System.**
2. **Physical verification should be conducted for all the SWSS assets and the register should be updated and the assets tagged. This should be performed on at least an annual basis.**
3. **The State should update the asset register to ensure that all state-owned assets are included in the asset register.**

4.7 Failure to Implement Prior Year Audit Recommendations

We noted that, most of the audit recommendations made for the audit year of 2017 have not yet been implemented.

The following chart shows that the implementation status of OAG recommendations made in the Annual Report 2017.



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.

Annual Audit Report 2018

Recommendations are as follows:

- 1. The Ministry should develop an action plan to implement for the OAG audit recommendations with timelines and responsible officers clearly identified.**
- 2. 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 Director General (DG).

We highly thank our donor partners for heavily investing in the establishment and development of our office. Finally, we also give special thanks to the BT, 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.

Annual Audit Report 2018

Annex 1 – South West State of Somalia (SWSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2018



**SOUTH WEST STATE OF SOMALIA (SWSS)
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2018**

FINAL REPORT

TABLE OF CONTENTS

I) STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE.....	3
II) REPORT OF THE INDEPENDENT AUDITOR	4
III) CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF SOUTH WEST STATE OF SOMALIA.....	8

i) STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE

The Public Financial Management Decree 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 recognises all cash receipts and payments and cash balances controlled by the State. The State is required to maintain proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State and for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Ministry accepts responsibility for the preparation and presentation of these Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting 2017 and in the manner required by the Public Financial Management Act, 2017 of 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 Financial Statements;
- ii) Selecting and applying appropriate accounting policies; and
- iii) Making accounting estimates and judgments that are reasonable in the circumstances.

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

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

Approved by the South West State of Somalia (SWSS) on.....30/04/2020.

Ahmed Mohamed Hussein

Minister for Finance

Ahmed

Signature



Baker Tilly Merali's

1st Floor, New Rehema House,
Rhapta Road, Westlands
P.O. Box: 67486 – 00200
Nairobi
Kenya

T: (+254) 20 444 1384

(+254) 20 259 2780

M: (+254) 738 600 209

reception2@meraliscpa.com

www.bakertillymeralis.co.ke

ii) REPORT OF THE INDEPENDENT AUDITOR

Opinion

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

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

Basis for Qualified Opinion

Our audit identified payments totalling USD 325,358 representing 5.47% of total payments reported in the Financial Statements which lacked adequate evidence of occurrence of transactions

Our physical verification of road works whose payments totalled USD 250,783 or 4.22% of total payments recorded on the financial statements revealed works likelihood that works were unsatisfactorily performed and therefore value for money on these payments was not enjoyed.

The above payments are considered material in the context of this audit.

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

We are independent of the 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 Financial Statements in Somalia, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our opinion and our professional judgment, were of most significance in our audit of the Financial Statements of the period. These matters were addressed in the context of our Audit of the Financial Statements as a whole, in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for 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 control practices by SWSS increase the risk of tax leakages and therefore misstatement of receipts in the financial statements as described below:

- Utilization of tax collected before remittance to revenue collection officers.
- Lack of reconciliation of tax collected to the amount banked and the accounting system.
- Most receipt books show evidence of tax collected by the tax agents on behalf of the state in different towns were not provided.

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

- We traced receipt recorded on the ledgers to the bank statement and receipt book to verify the accuracy of receipt recorded on the financial statements.
- We performed substantive test to verify that the procedures are operational.
- We sought external confirmations of revenue from the Federal Government of Somalia(FGS) and donors and compared the confirmations received with the financial statements.
- We reviewed bank statements for indicators of undisclosed receipts in order to verify the completeness of receipts.
- We reviewed the bank statements and cross-check to the records of the revenue management system to verify whether the two records reconcile.
- We tested on a sample basis receipts declared on the financial statement against supporting documentation and performed substantive test, analytical procedures and cut off tests.

Payments for road works

We found the following practices that increased the risk of payments made and reported in the financial statements for inadequate roads works performed:

- Our physical verification of road works revealed works are likely not to have been satisfactorily performed.
- The State did not maintain evidence to certify that road rehabilitation works was performed.
- Failure to maintain documentation to support the procurement process for rehabilitation of the airport road.
- Failure to maintain supporting documentation to verify the stages of work completion and subsequent authorization of payment based on satisfactory completion of the work.

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

- Conducted physical verification of the airport road in order to ascertain whether the work was performed.
- We reviewed the ledger to ascertain the actual expenditure recorded relating to road rehabilitation.

- We traced the payments to the contractors as recorded in the ledger to the bank statements of the State in order to verify that the contractors were paid.
- We reviewed the monthly progress reports on the airport road rehabilitation project.

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure, and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

Date: 05 May.....2020

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



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

For the Period Ended 31 December 2018

*Prepared in accordance with the
International Public Sector
Accounting Standard (IPSAS) -
Financial Reporting 2007 Under
the Cash Basis of Accounting*

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

Statement of Certification - 2018 Financial Statements

The 2018 financial statements together with the accompanying notes have been prepared in accordance with the International Public Sector Accounting Standards, cash basis of accounting.

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 and financial activities for the year ended 31 December 2018.

For and on behalf of the South West State of Somalia

Minister for Finance



Date:

30/04/2020

South West State of Somali
consolidated Financial Statement Cash Receipt & Payment
Treasury Single Account
For the Year Ended 31st December 2018

	Note	2018		2017	
		Controlled	Payments	Controlled	Payments
		by TSA	by Third	by TSA	by Third
		USD	USD	USD	USD
Receipts / Inflows					
Taxes	2				
Taxes on income, profits, and capital gains				75,645	
Taxes on payroll and workforce		229,927		28,349	
Taxes on goods and services		1,854,842		880,610	
Taxes on international trade and transactions		922,287		374,633	
Taxes		3,007,055		1,359,237	
Grants	3				
From foreign governments					
From international organizations		651,991	4,083,566	381,388	3,741,500
From other general government units		2,266,140		2,189,110	
Grants		2,918,131	4,083,566	2,570,498	3,741,500
Other Revenue	4				
Property income		3,232			
Sale of goods and services		12,780		5,792	
Transfers not elsewhere classified				50	
Other Revenue		16,012		5,842	
Receipts / Inflows		5,941,199	4,083,566	3,935,577	3,741,500
Payments / Outflows					
Compensation of Employees	5				
Wages and Salaries		5,557,214		2,127,418	
Compensation of Employees		5,557,214		2,127,418	
Use of Goods and Services	6				
Travel & Conferences		2,530	275,943	300	
Operating Expenses		47,562		1,445,747	22,200
Other Operating Expenses		53,007	739,653	1,400	808,398
Use of Goods and Services		103,099	1,015,596	1,447,447	830,598
Social Benefits	7				
Employment-related social benefits			680,517	18,000	
Social Benefits			680,517	18,000	
Other Expenses	8				
Transfers not elsewhere classified		840	413,085	5,639	595,308
Other Expenses		840	413,085	5,639	595,308
Nonfinancial assets	9				
Fixed Assets		280,283	1,974,368	14,530	2,315,594
Nonfinancial assets		280,283	1,974,368	14,530	2,315,594
Payments / Outflows		5,941,435	4,083,566	3,613,034	3,741,500
Increase Decrease in Cash		(236)		322,542	
Cash at Beginning of Year		327,657		5,115	
Cash at End of Year	1	327,421		327,657	

South West State of Somalia

Consolidated Fund Statement of Comparison of Budget and Actual Amounts

For the Year Ended 31 December 2018

(Classification of Payments and Receipts by Economic Class)

		2018					2017	
	Note	Original Estimate Appropriation USD	Final Estimate Appropriation USD	Controlled by TSA USD	Difference Between Final Budget and Actual USD	Payments by Third Party USD	Controlled by TSA USD	Payments by Third Party USD
Receipts / Inflows								
Taxes								
	10							
		8,964	8,964		-8,964		75,645	
		254,700	254,700	229,927	-24,773		28,349	
		1,629,563	1,648,633	1,854,842	206,209		880,610	
		1,857,715	1,857,715	922,287	-935,429		374,633	
		3,750,942	3,770,012	3,007,055	-762,957		1,359,237	
Grants								
	11							
		2,061,991	2,124,301	651,991	-1,472,310	4,083,566	381,388	3,741,500
		2,347,900	2,347,900	2,266,140	-81,760		2,189,110	
		4,409,891	4,472,201	2,918,131	-1,554,070	4,083,566	2,570,498	3,741,500
Other Revenue								
	12							
				3,232	3,232			
		20,709	20,709	12,780	-7,929		5,792	
		1,262	1,262		-1,262			
							50	
		21,971	21,971	16,012	-5,959		5,842	
Receipts / Inflows		8,182,804	8,264,184	5,941,199	-2,322,985	4,083,566	3,935,577	3,741,500
Payments / Outflows								
Compensation of Employees								
	13							
		6,602,552	6,894,052	5,557,214	-1,336,838		2,127,418	
		6,602,552	6,894,052	5,557,214	-1,336,838		2,127,418	
Use of Goods and Services								
	14							
		138,621	68,421	2,530	-65,891	275,943	300	
		372,812	181,982	47,562	-134,420		1,445,747	22,200
		9,600	18,000		-18,000			
		357,330	372,180	53,007	-319,173	739,653	1,400	808,398
		90,000	90,000		-90,000			
		968,363	730,583	103,099	-627,484	1,015,596	1,447,447	830,598
Social Benefits								
	15							
						680,517	18,000	
						680,517	18,000	
Other Expenses								
	16							
			600		-600			
		5,400	3,000	840	-2,160	413,085	5,639	595,308
		5,400	3,600	840	-2,760	413,085	5,639	595,308
Nonfinancial assets								
	17							
		606,489	635,949	280,283	-443,666	1,974,368	14,530	2,315,594
		606,489	635,949	280,283	-443,666	1,974,368	14,530	2,315,594
Payments / Outflows		8,182,804	8,264,184	5,941,435	-2,410,749	4,083,566	3,613,034	3,741,500

South West State of Somalia
Statement for Operations
For the Year Ended 31 December 2018

	2018	2017
	USD	USD
Transactions Affecting Net Worth		
Revenue	10,034,766	7,677,077
Taxes	3,007,055	1,359,237
Taxes on income, profits, and capital gains	0	75,645
Taxes on payroll and workforce	229,927	28,349
Taxes on goods and services	1,854,842	880,610
Taxes on international trade and transactions	922,287	374,633
Grants	7,011,698	6,311,998
From foreign governments	0	0
From international organizations	4,745,558	4,122,888
From other general government units	2,266,140	2,189,110
Other Revenue	16,012	5,842
Property income	3,232	0
Sale of goods and services	12,780	5,792
Transfers not elsewhere classified	0	50
Expense	7,780,351	5,024,411
Compensation of Employees	5,557,214	2,127,418
Wages and Salaries	5,557,214	2,127,418
Use of Goods and Services	1,118,695	2,278,046
Travel & Conferences	278,473	300
Operating Expenses	47,562	1,467,947
Other Operating Expenses	792,660	809,798
Social Benefits	680,517	18,000
Employment-related social benefits	690,518	18,000
Other Expenses	413,925	600,947
Transfers not elsewhere classified	413,925	600,947
Gross Operating Balance	2,254,415	2,652,666
Transactions In Non Financial Assets		
Net worth and its changes	2,254,651	2,330,124
Nonfinancial assets	2,254,651	2,330,124
Fixed Assets	2,254,651	2,330,124
Transactions in Financial Assets & Liabilities		
Change In Net Worth. Transactions (Assets)	-236	322,542
Financial assets	-236	322,542
Domestic	-236	322,542
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 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 2007. The notes to the financial statements form an integral part to understanding the statements and must be read in conjunction with the statements.

The accounting policies have been applied consistently throughout the period.

1.2 Reporting Entity

The Financial Statements are for the South West State of Somalia. The financial statements encompass the reporting entities as specified in the SWSS Appropriation Act No. 1 and 2 of 2018 and are comprised of:

- (i) State Ministry of President
- (ii) Ministry of Justice & Judiciary
- (iii) Ministry of Finance
- (iv) Ministry of Interior & Local Governments
- (v) Ministry of Agriculture & Irrigation
- (vi) Ministry of Internal Security
- (vii) Ministry of Energy & Petroleum
- (viii) Ministry of Seaports & Sea Transportation
- (ix) Ministry of Planning and International Cooperation
- (x) Ministry of Health
- (xi) Ministry of Education
- (xii) Ministry of Information
- (xiii) Ministry of Posts & Communications
- (xiv) Ministry of Youth & Sports
- (xv) Ministry of Mineral Resources & Water
- (xvi) Ministry of Industry & Commerce
- (xvii) Ministry of Reconciliation & Constitutional Affairs
- (xviii) Ministry of Aid & Disaster Management
- (xix) Ministry of Islamic Affairs & Endowments
- (xx) Ministry of Labor & Employment
- (xxi) Ministry of Women & Human Rights
- (xxii) Ministry of Transportation & Airports
- (xxiii) Ministry of Livestock & Veterinary
- (xxiv) Ministry of Fisheries and Sea Minerals
- (xxv) Ministry of Public Works and Reconstruction
- (xxvi) Civil Service Commission
- (xxvii) Parliament
- (xxviii) Office for Audit General
- (xxix) 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.

1.3 Treasury Single Account & Project Account

A new project account was opened under a written authorization of the Minister of Finance on August 2016 with the Ref. *MOF-73/08/16*. As an integral condition to the Recurrent Cost and Reform Financing program (RCRF II) grant, the project account was solely opened for the operations of the RCRF and in such a manner as to avoid the grant funds comingling with other SWSS operations. However, the TSA still remains the core account of State. As of the end of FY2018 balances at both accounts were as follows.

	2018 USD	2017 USD
Treasury Single Account	304,453	309,901
Project-RCRF II	22,968	17,756
Total	327,421	327,657

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

	2018 USD	2017 USD
Cash On Hand with Bank Balances	327,421	327,657

1.4 Reporting Currency

The Financial Statement is presented in United States Dollar (USD).

1.5 Undrawn External Assistance

During the 2015 financial year, a new project called the Recurrent Cost and Reform Financing (RCRF II) was introduced. This project will run for a period of five years, however due to additional financing (AF) the period has been extended (up to 30 June 2022) and is reviewable on an annual basis.. The 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 2020 and recently agreed to be extended till 30 June 2022

Undrawn External assistance in respect to the RCRF II project is contingent upon SWSS meeting the threshold conditional requirements of the project however the grant identifies the budgeted breakdown for SWSS over the five-year term as follows. The grant amount is subject to annual review and approval by the IDA.

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

1.6 Reporting Amount

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

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 the legislations or Parliaments on 8th January 2018 and a supplemental budget was approved by the South West State of Somalia Executives on the 22nd July 2018. The main objective of the Supplementary Budget was to bring in the budget for the SURGE funding provided by FGS and reallocation of the original budget amongst the Ministries, Department and Agencies.

1.9 Authorization Date

The financial statements were authorized for issue on **31st May 2019** by **H.E Ahmed Mohamed Hussein, Minister of Finance**

Note 2 Taxes

A Total of taxes for FY 2018 amounted to **\$3,007,055**, and increase of approximately **121%** from **\$1,359,237** for 2017. It was collected under the category of taxes of payroll, goods and services and tax on international trade and transactions.

Taxes on Payroll and Workforce

A total of **\$229,927 (\$28,349 for 2017)** of Payroll Tax for non-government collected by the Revenue Collection Authority from Non-government institutions.

Taxes on Goods and Services

The following represents Taxes on Goods and Services received into the Treasury Single Account. The Ministry of Finance collected the larger portion of this revenue and increase of approximately **110%** from **\$880,610** for 2017.

		Ministry of Finance	Ministry of Interior	Ministry of Transportati on and Airport	Ministry of Labor and Employe nt	
	Total	USD	USD	USD	USD	USD
Taxes						
Taxes on Income, Profit, and Capital Gains						75,645
Taxes on Payroll and Workforce	229,927					
Payroll Tax for Non-government	229,927	229,927				
Taxes on Goods and Services	1,854,843	1,599,125	104,245	135,650	15,823	880,610
Turover Tax	2,004	2,004				-
Business and Professional License	10,531	10,531				18,722
License for Permits for Households	1,000	1,000				17,320
Port Docking Fees	-					400
Landing Fees	135,650			135,650		79,824
Local/International Departure Tax	161,451	161,451				25,035
Road User Tax	1,433,339	1,364,639	68,700			739,309
International NGO Registration	26,000	26,000				-
Local NGO's Registration	33,500	33,500				-
Work Permit License	15,823				15,823	
Livestock Fees	35,545		35,545			

Taxes on International Trade and Transactions

A total of Taxes on International Trade and Transactions for FY 2018 amounted to **\$922,287** and increase of approximately **146%** from **\$374,273** for 2017.

Note 3 Grants

A total of grants from International Organizations and Federal Government of Somalia for FY2018 amounted to **\$2,918,131** and increase of approximately **14%** from **\$2,570,498** for 2017.

Grants from International Organization

In FY2018 a grant totaling **\$44,400** 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 Ministry of Finance with the procurement of ICT Equipment for Biometric, engagement of Audit Firm for FY2016 Financial Statement and supplies and instalment of Biometric Systematic for the State and its maintenance as well.

A new grant agreement was signed between SWSS and the Federal Government of Somalia (FGS) which will continue to December 2022. 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 2018, **\$607,591** was received from the RCRFII project for the reimbursement of Government salaries.

Grants from General Government Units

South West State of Somalia had written down a concept note with regards to Airport Road Rehabilitation and submitted to the Federal Government of Somalia and both parties agreed as this project was aiming at public works and employment generation activities across Somalia. **\$398,600** was received from the FGS with the aim of rehabilitating the airport road in Baidoa.

There is also a budget support operation from EU which aims 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 **\$1,867,540** for budget support to the State.

3rd Party Grants from International Organization

3rd Party Grants refers to grants paid directly by donors to vendors on behalf of SWSS for the benefit of specific ministries. SWSS benefitted from 3rd party projects implemented by SSF worth \$3,149,068 and also PREMIS worth \$846,499. The 3rd party payments contained both recurrent costs and capital expenses. Below is a summary breakdown of grants received and the entities that benefitted and divided into PREMIS and SSF.

	2018	2017
Public Resource Management In Somalia (PREMIS		
Internet		22,200.00
Staff Training and Development	485,648.00	503,021.00
Technical Assistance	254,005.00	218,678.00
Information, computer and telecommunications (ICT)	106,846.00	6,000.00
Computer software and databases	88,000.00	92,000.00
Total	934,499.00	841,899.00
Somali Stability Fund (SSF)		
Conflict Resolution Expenses	275,943.00	
Consultation Fees		86,699.00
Creation of Employment	680,517.00	
Natural Disaster	413,085.00	595,308.00
Non-residential Buildings		850,882.00
Road Construction	76,095.00	
Rehabilitation		1,366,712.00
Construction	1,638,001.00	
Furniture & fixtures	65,426.00	
Total	3,149,067.00	2,899,601.00
Total Third Party Grants	4,083,566.00	3,741,500.00

Note 4 Other Revenue

A total of Other Revenues for FY 2018 amounted to **\$16,012** and increase of approximately **174%** from **\$5,842** for 2017. It was collected under the category of property income and sales of goods and services.

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. A comprehensive summary breakdown of wages and salaries is provided below:

	USD	USD
Permanent employees/Regular staff	600,139	349,068
Wage workers	268,075	
Security Forces (Police, Intel Forces and Prison)	2,700,000	600,000
Remuneration to Ministers and Statutory	231,000	32,900
Remuneration to Politicians	1,758,000	655,700
Regular Food Provision	0	360,000
Daily meals	0	129,750
Compensation of Employees	5,557,214	2,127,418

Salaries to politicians are payments made to political positions and are separate from those made to the Civil Service (Permanent employees/ Regular staff)... Regular food provision is in-kind payments to the Military forces of South West State that is made in the form of food and other related food supplies

	USD	2018					2017					
		Permanent Employee s/ Regular staff	Wage workers	Security Forces (Police, Intel Forces and Prison)	Remuner ation to Ministers and Statutory	Remunera tion to Politicians	Permane nt Employee s/ Regular staff	Security Forces (Police, Intel Forces and Prison)	Remuner ation to Ministers and Statutory	Remunera tion to Politicians	Regular Food Provisio n	Daily Meals
Ministry of State Presidency	41,856	25,056			16,800		8,352		2,800			
Ministry of Justice	17,346	17,346					14,615					
Ministry of Finance	360,254	191,979	159,875		8,400		259,181		700			
Ministry of Interior	89,356	25,056	63,600		700		4,176		700			
Ministry of Agriculture	18,795	8,995			9,800							
Ministry of Internal Security	2,724,971	16,571		2,700,000	8,400			600,000	1,400		360,000	129,750
Ministry of Energy and Petroleum	16,110	7,710			8,400				1,400			
Ministry of Seaports	17,395	8,995			8,400				1,400			
Ministry of Planning	33,456	25,056			8,400		4,176		1,400			
Ministry of Health	54,291	45,891			8,400		8,352		1,400			
Ministry of Education	49,886	33,086			16,800		8,352		2,800			
Ministry of Information	23,395	8,995	14,400		-							
Ministry of Posts and Comm	16,110	7,710			8,400				1,400			
Ministry of Youth and Sports	66,386	19,386	30,200		16,800				2,800			
Ministry of Resource and Mineral We	27,787	19,387			8,400				1,400			
Ministry of Industry and Commerce	16,110	7,710			8,400				1,400			
Ministry of Reconciliation and Constit	17,395	8,995			8,400				1,400			
Ministry of Aid and Disaster Mgt	17,395	8,995			8,400				1,400			
Ministry of Islamic Affairs and Endow	16,110	7,710			8,400				1,400			
Ministry of Labour and Employment	17,395	8,995			8,400				1,400			
Ministry of Women and Human Right	17,395	8,995			8,400				1,400			
Ministry of Transportation and Airpo	19,386	19,386			-							
Ministry of Livestock and Vetiniery	8,995	8,995			-							
Ministry of Fisheries and Sea Min	8,400				8,400				1,400			
Ministry of Public Works and Reconst	17,395	8,995			8,400				1,400			
Civil Service Commission	51,544	31,244			20,300		41,864		2,100			
Parliament	1,758,000					1,758,000				655,700		
Office for Auditor General	26,600	18,900			7,700							
Accountant General Office	7,700	-			7,700							
	5,557,214	600,139	268,075	2,700,000	231,000	1,758,000	349,068	600,000	32,900	655,700	360,000	129,750

Note 6 Use of Goods and Services

Use of goods and services are combination of travel conferences, operating expense, other operating expense and other expenses amounted to **\$103,099** for 2018. A comprehensive summary breakdown of use of goods and services is provided below:

Travel and Conference

	2018	2017
	USD	USD
Internal Travel	2,530	300
Travel and Conference	2,530	300

Operating Expense

	2018	2017
	USD	USD
Water	932	-
Electricity	5,832	815.00
Gasoline	16,500	29,000.00
Internet	7,455	22,200.00
Stationery	15,143	2,532.00
Publication	1,700	-
Security and Operational Costs	-	1,413,000.00
Meeting Supplies	-	400.00
Operating Expense	47,562	1,467,947.00

Other Operating Expenses

	2018	2017
	USD	USD
Consultation Fees	25,000	
Audit Fees	14,150	0
Bank Charges	3,227	5,639
Television and Newspaper Advertisement	700	1,400
Marketing and Promotion	9,930	0
Other Operating Expense	53,007	7,039

A total of **\$25,000** of consultation fee was utilized in the financial year 2018 under the project of Airport Rehabilitation funded by the Federal Government of Somalia. An audit fee of **\$14,150** funded by PREMIS was paid in relation to the audit of the 2017 financial statements.

Note 7 Social Benefits

3rd Party Grants refers to grants paid directly by donors to vendors on behalf of SWSS for the benefit of specific ministries and SWSS benefitted from 3rd party projects implemented by SSF worth **\$690,518**

Note 8 Other Expense

Total of operating expense for the financial year 2018 is **\$840** for advertisement cost as per the below table:

	2018 USD	2017 USD
Miscellaneous Expense	840	0
Other Expense	840	0

Note 9 Non-Financial Assets

Treasury Single Account

Total Non-Financial Assets for the financial year 2018 is **\$280,283** as per the below table.

	2018 USD	2017 USD
Road Construction	250,783	0
Information, Computer and Telecommunication	19,800	
Machinery and Equipment	4,500	4,940
Furnitures and Fixtures		9,590
Computer Software and Database	5,200	0
Non-Financial Asset	<u>280,283</u>	<u>14,530</u>

Note 10 Taxes

A total of **\$3,770,012** tax collections were targeted to be raised In FY2018 with an actual collection of **\$3,007,055** was achieved (\$1,359,237 for 2017)

Following is a breakdown of taxes collected in during the year.

	2018						2017	
	Original Estimate Appropriation	Final Estimate Appropriation	Controlled by TSA	Difference Between Final Budget and Actual	3rd Party Contribution Estimate	Payments by Third Party	Controlled by TSA	Payments by third Party
Taxes	USD	USD	USD	USD	USD	USD	USD	USD
Payrol Tax for Non-Government	254,700	254,700	229,926	24,774			28,160	
Turnover Tax	219,700	219,700	2,004	217,696			75,645	
Business and Professional Licences	52,500	52,500	10,531	41,969			18,722	
Licences for Permit Households	0	0	1,000	(1,000)			17,320	
Landing Fees	28,373	28,373	135,650	(107,277)			79,824	
Local/International Departure Tax	64,896	64,896	161,451	(96,555)			25,035	
Road User Tax	810,000	810,000	1,433,339	(623,339)			739,309	
International NGO Registration	5,200	24,270	26,000	(1,730)			0	
Local NGO Registration	3,250	3,250	33,500	(30,250)			0	
Work Permit Licences	0	0	15,822	(15,822)			0	
Livestock Fees			35,545	(35,545)			0	
Custom Duties-Khat	1,530,715	1,530,715	891,671	639,044			372,302	
Custom Duties-Cigarette	327,000	327,000	30,616	296,384			2,331	
Payrol Tax Government	0	0	0	0			189	
Port Docking Fees	0	0	0	0			400	
			3,007,055	308,349			1,359,237	

Note 11 Grants

Total grants of **\$2,268,140** were received against a budgeted sum of **\$2,347,900**. 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.

Account	2018		2017	
	Controlled By TSA	Payment by Third Party	Controlled By TSA	Payment by Third Party
	USD	USD	USD	USD
Grants				
From International Organisations	651,991		381,388	3,741,500
From other General Government Units	2,266,140		2,189,110	
Grants	2,918,131		2,570,498	3,741,500

Note 12 Other Revenue

Other revenue collections consist of voluntary transfers other than grants and sale of goods and services. A total of **\$16,012** of other revenue collections was generated during the reporting period.

Account	2018 Controlled By TSA USD	2017 Controlled By TSA USD
Other Revenue		
Property Income	3,232	-
Sales of Goods and Services	12,780	5,792
Transfers not elsewhere classified	-	50
Other Revenue	16,012	5,842

Note 13 Employee Compensation

A total of **\$5,557,214** was spent on employee compensation against a final budget of **\$6,894,052**. The underspend of **\$1,336,838** was due to the delay in recruiting civil servants as a result of the establishment of the structures and mandates of the Ministries, Departments and Agencies (MDA).

Note 14 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 **\$103,099** against the final estimated budget of **\$730,583**. The variance is attributed to constraints in available income.

Note 15 Other Expense

A total of **\$840** was spent on other expenses against **\$3,600** and the underspent of **\$2,760** was due to limited TSA funds available.

Note 16 Non Financial Assets

Non-financial assets worth **\$280,283** against budgeted amount of **\$723,959** related to the purchase of Non-Financial Assets namely road construction and installation of a Biometric Systems.

	2018 USD	2017 USD
Road Construction	250,783	0
Information, Computer and Telecommunication	19,800	
Machinery and Equipment	4,500	4,940
Furnitures and Fixtures		9,590
Computer Software and Database	5,200	0
Non-Financial Asset	280,283	14,530

Annual Audit Report 2018

**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 2018**



FINAL MANAGEMENT LETTER

MARCH 2020

**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF
SOUTHWEST STATE OF SOMALIA (SWSS)
FOR THE YEAR ENDED 31 DECEMBER 2018**

TABLE OF CONTENTS

ABBREVIATIONS	3
1 INTRODUCTION.....	5
1.1 RANKING	5
2 MANAGEMENT LETTER	6
2.1 SUMMARY OF FINDINGS.....	6
2.2 MANAGEMENT CONTROL FINDINGS	7
3 FOLLOW UP OF PREVIOUS AUDIT FINDINGS.....	33
ANNEXES.....	36
ANNEX 1: UNSUPPORTED PAYMENTS.....	37
ANNEX 2: INADEQUATE SUPPORTING DOCUMENTS	40
ANNEX 3: DEDUCTIONS ON KHAT AND ROAD TAXES	42
ANNEX 4: ROAD PHYSICAL VERIFICATION VS MONITORING REPORT	51
ANNEX 5: PROCUREMENT RECORDS	53
ANNEX 6: GAPS IN NON – CIVIL SERVANTS PAYMENTS	54
ANNEX 7: INCOMPLETE PERSONNEL FILES	64
ANNEX 8: ASSET PHYSICAL VERIFICATION RESULT	68

ABBREVIATIONS

Acronyms	Full Description
ASI	Adam Smith International
CPA	Certified Public Accountant
FMIS	Financial Management and Information System
FGS	Federal Government of Somalia
FY	Financial Year
JV	Journal Voucher
ISA	International Standards on Auditing
MoF	Ministry of Finance
MoU	Memorandum of Understanding
PFM	Public Finance Management
PSA	Project Single Account
OAG	Office of Auditor General
RMS	Revenue Management System
SOP	Standard Operating Procedures
USD	United States Dollar
SWSS	South West State of Somalia
SSF	Somalia Stability Fund
TSA	Treasury Single Account

Mr. Ahmed Mohamed Hussein
Ministry of Finance,
South West State of Somalia (SWSS)
Baidoa, Somalia

Dear Sir,

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

The Ministry of Finance is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by the Ministry are required to assess the expected benefits and related costs of the internal control structure, policies, and procedures. The objectives of an internal control structure are to provide the Ministry with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Ministry's authorization and recorded properly to permit the preparation of financial statements in accordance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting (2017), and Section 30 of the of Public Finance Management (PFM) Act 2018.

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

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

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

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


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

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

Date... 05 May 2018

1 INTRODUCTION

We have completed the audit of the South West State of Somalia (SWSS) for the period ended on 31 December 2018. We have set out issues identified during the course of our normal audit work and have not attempted to indicate all possible improvements which a special review might develop.

1.1 Ranking

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

Priority 1 - Urgent remedial action is required.

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

Priority 2 - Prompt specific action is required.

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

Priority 3 - Specific remedial action is desirable.

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

2 MANAGEMENT LETTER

2.1 SUMMARY OF FINDINGS

Ref.	Summary of findings	Priority	Amount in (USD)
1.	Inadequately supported payments	1	325,358
2.	Improvement in tax administration	1	69,584
3.	Poor road rehabilitation works	1	-
4.	Gaps in procurement	1	-
5.	Third party confirmations differed from the financial statements	1	-
6.	Weaknesses in payroll and timesheets management	1	-
7.	Gaps in personnel records and recruitment process	1	-
8.	Inadequately supported cost for salaries	1	-
9.	Gaps in administration of bank transactions	2	-
10.	Weaknesses in assets management	2	-
11.	Lack of formalized organization IT policies and standards	2	-
12.	Gaps in user access management	2	-
13.	Budget tracking	2	-
14.	Failure to approve Journal Entries	2	-
Total			394,942

2.2 MANAGEMENT CONTROL FINDINGS

Finding n°: 1	Title: Inadequately supported payments	
Criteria: Section 3.1 of SWSS accounting policy on analysis of transactions and events provides that each transaction shall be evidenced by some source document. Also, best practice requires that, ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all payments are supported by adequate documents such as invoices, receipts, agreements, tickets, boarding pass, delivery notes, etc.		
Description of the finding: Substantial payments were either lacking supporting documents or were inadequately supported as illustrated below;		
Inadequacy	Reference:	Amount in USD
Unsupported payments	Annex 1	281,033
Inadequately supported Payments	Annex 2	44,325
Total		325,358
Implication: 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.		
Financial Impact: USD 325,358		
Priority Rating Priority 1 - Urgent remedial action is required		
Recommendation: a) The ministry should ensure that adequate supporting documents are maintained to prove that all the services or goods have been provided or delivered and therefore associated costs are eligible for inclusion in the financial statements. b) There is a need to strengthen controls to ensure only costs which are incurred are recorded in the financial reports. c) SWSS should formulate a schedule of documentation expected to be obtained for various categories of transactions.		
Agreed/Disagreed: Agreed		
Comments from SWSS: A 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.		
Responsible person: The Permanent Secretary, Ministry of Finance.		

Finding n°: 1	Title: Inadequately supported payments
Action plan: Ministry of Finance Work plan being prepared.	
Estimated Completion date: 30 th March 2020	

Finding n°: 2	Title: Improvement in tax administration
<p>Criteria:</p> <p>A key requirement in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all revenue collected is promptly banked entirely and expense is paid directly from the bank using cheques or by other banking instruments.</p> <p>Section 5.2.1 of the RMS manual states that, "The goal of tax agents who work for the Ministry of Finance will be for them to deliver the money collected to the cash window at the Ministry of Finance for counting, entering into RMS and receipting. The receipt will be sent to the Treasury Department for entering into the FMIS. The Ministry of Finance cash receipts department will make the daily deposit to Dahabshiil".</p> <p>Description of the finding:</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> <ul style="list-style-type: none"> 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 69,584 was deducted and utilized before being banked. 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. 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. 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. 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 deposit slips to enable recalculation of tax due and verification of the completeness of landing fees paid 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. 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>Implication:</p> <ul style="list-style-type: none"> a) There was an opportunity for revenue leakage because of a lack of regular reconciliations of the revenue collections. 	

Finding n°: 2	Title: Improvement in tax administration
b) Weakness in revenue collections procedures and lack of adequate records could lead to loss of funds, inadequate accounting for taxes collected as well as inaccurate financial reporting. c) There is a risk of understatement of receipts from revenue collection further leading to an understatement of revenue in the financial statements. d) The lack of supporting documents for tax reduces the ability for verification of the accuracy of revenue amounts and assessment of the effectiveness of control procedures applied on the transactions.	
Financial Impact: USD 69,584 (<i>Bullet point (a) on the description of findings</i>)	
Priority rating: Priority 1 - Urgent remedial action is required	
Recommendation: We recommend the State to ensure that: <ul style="list-style-type: none"> a) All revenue should be banked intact, declared and recorded in the system before any payments are made to any service providers responsible for facilitating the collection. Further, any payment should be through contracts by both parties and the payment should be booked as an expenditure. b) The State should develop measures to enable recalculation of employee income tax which should be compared with tax paid. c) For all taxes paid, there should be adequate supporting documents submitted by the paying organization. The documents should be well maintained and attached to deposit slips and receipts as evidence demonstrating the accuracy of the tax paid. d) The tax collected should be promptly banked intact and regular reconciliation performed. e) An officer not involved in revenue collection should perform reconciliations of revenues collected with the amounts banked on a regular basis such as daily or weekly. These reconciliations should be reviewed by senior officers and such reviews demonstrated by signing in the reconciliation statement. 	
Agreed/Disagreed: Agreed	
Comments from SWSS: This finding was discussed on the 8 th 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. 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 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.	
Responsible person: The RCA. 31st January 2020.	
Action plan: There is an action item included in the MoF work plan that all RMS receipts should be reconciled with the FMIS, Manual Receipts and Banks Deposit Slips.	
Estimated Completion date: 31 st January 2020	

Finding n°: 3	Title: Poor road rehabilitation works
<p>Criteria:</p> <p>Article 4.15.3 and 4.15.4 of Regulation 8, establishing the Public Procurement Policies and Procedures Manual states that “Contracts for works shall provide for interim progress payments (usually monthly) for work done in furtherance of contract performance, less a retention percentage as specified in the contract. Retention money so withheld shall be released at the successful completion of the contract and upon compliance with all contractor’s obligations.”</p> <p>“Any interim payments for work done shall be based on the estimated amount of the work completed to date, less previous payments, and the method for certification of work done (usually by an independent Engineer or Consultant) shall be specified in the contract. Amounts and timing of other payments to be made, such as for materials delivered to the site for incorporation in the works, shall also be specified in the contract.”</p> <p>Article 4 (c) of SWSS procurement policy provides that competitive procurement process involving public tendering will be undertaken for purchases above USD 10,000.</p> <p>Description of the finding:</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 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. Refer to Annex 4.</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. Refer to finding no.1 and Annex 1.</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>	
Financial Impact: USD 250,783	
<p>Priority rating:</p> <p>Priority 1 - Urgent remedial action is required</p>	
Agreed/Disagreed: Agreed	
<p>Recommendation:</p> <p>SWSS should review the state of the road for remedial measures to upgrade the road to the required standard and validate the work done by the constructor.</p> <p>In order to ensure value for money is achieved when awarding contracts, MOF SWSS Management should ensure that competitive process is applied when procuring goods and services and retain supporting documents to demonstrate those procedures and the procurement decisions made.</p>	

Finding n°: 3	Title: Poor road rehabilitation works
Comments from SWSS: 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.	
Responsible person: The Procurement Director.	
Action plan: Review current processes, strengthen to ensure the procurement process is in place in accordance with the Regulation and the Ministry will investigate this further to take remedial actions in case a fraud is detected.	
Estimated Completion date: March 2020	

Finding n°: 4	Title: Gaps in Procurements
<p>Criteria</p> <p>Article 4 of SWSS procurement policy provides the guidelines for the procurement of goods and services as follows;</p> <ul style="list-style-type: none"> a) Sole and Single-Sourcing; this is to be undertaken in the following circumstances; <ul style="list-style-type: none"> • When there is an existing contract for goods, works or non-consultant services, awarded as per the procedure acceptable to SWSS. • Standardization of equipment or spare parts to be compatible with existing equipment. • When the required equipment is proprietary and is obtainable only from one source. • In exceptional cases, such as in response to natural disasters. • When the value of the contract is one thousand United States Dollars (USD1,000) or less. b) Shopping method – purchases less than USD 10,000; require a minimum of three quotes and price analysis done. c) The competitive procurement process involving public tendering will be undertaken for purchases above USD 10,000. <p>Description of the finding:</p> <p>We noted the following weaknesses:</p> <ul style="list-style-type: none"> • The procurement policy does not have stipulated guidelines on the composition and number of members that should form the procurement committee. • The procurement department at Ministry does not prepare an annual/periodic procurement plan. • The Ministry does not maintain a prequalified list of suppliers. • We also noted non-compliance with the state's procurement guidelines as detailed on Annex 5. <p>Implication:</p> <p>Lack of application of competitive procurement procedures poses the risk of SWSS not benefitting from the best value for money for the taxpayers and donor's money.</p> <p>In addition, lack of adherence to set procurement procedures may lead to malpractice in the procurement process.</p>	
<p>Priority rating:</p> <p>Priority 1 - Urgent remedial action is required</p>	
<p>Recommendation:</p> <ul style="list-style-type: none"> • Competitive procurement procedures should be adhered to as per the guidelines • The Ministry should ensure procurement for goods and services carried out in accordance with the procurement policy. Where single sourcing is done, a justification should be documented. • We also recommend that policy reviewed updated with guidelines stipulating the composition and number of members that should form the procurement committee. • MOF Procurement department should take measures to strengthen control by ensuring that annual procurement plan is prepared and regularly pre-qualify its suppliers. 	
<p>Agreed/Disagreed: Agreed</p>	

Finding n°: 4	Title: Gaps in Procurements
Comments from SWSS: <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>	
Responsible person: Procurement Director	
Action plan: Review current processes and strengthen where necessary to ensure procurement processes are in place in accordance with the Regulation.	
Estimated Completion date: April 2020	

Finding n°: 5	Title: Third party confirmations differed from the financial statements
Criteria: Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all donor receipts are properly recorded and reconciled periodically with donor records.	
Description of the finding: 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.	
Implication There are errors on the face of the financial statements resulting in the notes to the financial statements being inconsistent with the financial statements.	
Priority rating: Priority 2 – Prompt specific action is required	
Recommendations: The financial statements should be updated	
Agreed/Disagreed: Disagreed	
Comments from SWSS: 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.	
Responsible person: Not provided	
Action plan: N/A	
Estimated Completion date: N/A	
Auditor's additional comments: The updated financial statement shared on 25 th September 2019, still shows that the difference has not been corrected to date.	

Finding n°: 6

Title: Weaknesses in payroll and timesheets management

Criteria:

The SWSS Ministry of Finance has a human resources manual that provides guidelines on the general administration of staff.

Article 20.2 of the SWSS CSC Act provides that, "attendance records are to be maintained and submitted on a weekly basis by all staff below the level of Director General. Salaries will be paid only if there is a satisfactory record of attendance for the month."

Section 6 of the SWSS revenue act of 2017 provides payroll tax at 3% of the gross salary for the income of civil servants.

Description of the finding:

We noted the following weaknesses in human resource management;

- 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.
- The SWSS Civil Service Commission does not have an automated system linked with the 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 as per tabulation below;

Ministry /Institution	Employee No.	Employee Name	Months Charged per Payroll
Ministry of Finance	90036	Alnoor Hassan Abdi	January to September 2018
Ministry of Finance	90007	Abdirazak Abdi Ibrahim	January to August 2018
Ministry of Finance	90012	Abdirizak Mohamed Haj Nur	January to August 2018
Ministry of Justice	90057	Mohamed Hassan Ahmed	January to June 2018

- Income tax was not deducted for the SWSS staff during the year contrary to the Tax regulation included in the Revenue Act.

Implication:

Lack of automated time management system interlinked to the payroll system reduced efficiencies and increases risk of error.

Failure to deduct employment taxes denies the State tax revenues and results in overpayment to employees to the extent to taxes of deducted.

Priority rating:

Priority 1 - Urgent remedial action is required.

Recommendation:

We recommend the following;

- An automated time recording mechanism should be developed to record staff daily attendance. Monthly reports should then be generated, reviewed by the line supervisors before approval is done by the Human Resource Director.

Finding n°: 6	Title: Weaknesses in payroll and timesheets management
<ul style="list-style-type: none"> 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. 	
Agreed/Disagreed: Disagreed	
<p>Comments from SWSS: Disagreed:</p> <p>These Civil Servants had resigned from the Job and they are no longer civil servants:</p> <ul style="list-style-type: none"> Alinoor Hassan Abdi (90036): He took unpaid leave on 2nd February 2019 and joined one of International Organisations and the time he was on payroll was January 2019 which means this is his last tenure with the Ministry for Finance. From February 2019, he was not in the payroll. Abdirazak Abdi Ibrahim (90007): He took unpaid leave from 1st September 2018 to 31st May 2019 which has already been elapsed. He was not on the payroll list from September 2018. Abdirizak Mohamed Haj Nur (90012): He resigned from the job on 5th August 2018 and he was not on the payroll list since September 2018. Mohamed Hassan Ahmed (90057): He was not in the Payroll from July 2018. It was noted that the Monitoring Agent came to know that Mohamed Hassan is on two payrolls (FGS and SWSS). The FGS asked him to remain one payroll and opted for the FGS one. <p>Agreed: The payroll tax was implemented in September 2019.</p>	
Responsible person: The HR Director, January 2020	
Action plan: The CS/HR Director will maintain the necessary payroll tax documents on file.	
Estimated Completion date: December 2019	
<p>Auditor's additional comments:</p> <p>Our finding relates to transactions for the year 2018 and not 2019. SWSS should ensure the payroll is reconciled to the CSC records. There was no reconciliation provided at the time of the audit fieldwork.</p>	

Finding n°: 7	Title: Gaps in personnel records and recruitment process
<p>Criteria:</p> <p>The following article of the civil service act state that:</p> <p>Article 12.2, Appointed Employees shall sign an employment contract on the terms and conditions prescribed in the appointment letter. The Civil Servant shall be provided with a copy of his or her contract.</p> <p>Article 12.3, All Employees shall, on appointment, submit and make available authenticated copies of his or her academic and professional certificates to the Commission. Copies of all certificates shall be kept on the personal file of the Employee. The Commission is responsible for taking appropriate steps to verify the authenticity of certificates and qualifications claimed by candidates for appointment. A Civil Servant found to have provided incorrect information about their qualifications or fraudulent certificates will be dismissed.</p> <p>Article 19.1, The performance of every Civil Servant below the level of Director General (Permanent Secretary) shall be subject to a formal discussion with an assessment by his or her Manager on an annual basis or as required. Regulations for annual performance reviews will be issued by the Civil Service Commission.</p> <p>Description of the finding:</p> <p>We noted the following weaknesses in human resource management;</p> <ul style="list-style-type: none"> 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. This is detailed under annex 7. 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 & the SWSS for 8 months' period (November 2017 to June 2018) during monitoring done by World Bank. He was given 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 & other states before hiring the staff in the year 2017. Based on the staff contracts reviewed, we noted that the contracts lack important clauses such as the resignation notice period, staff leave days applicable. 	
<p>Implication:</p> <ul style="list-style-type: none"> This is non-compliance with the CSC guidelines on recruitment. Without appraisals, the state may not effectively monitor the staff's progress and use it as a basis for the promotion and renewal of contracts. Failure to conduct background checks on candidates may expose the state to the hiring of inappropriate candidates. Without proper handover process, the smooth transition may not be guaranteed during staff resignation. 	
<p>Recommendation Priority:</p> <p>Priority 1 - Urgent remedial action is required.</p>	

Finding n°: 7	Title: Gaps in personnel records and recruitment process
Recommendation: We recommend the following; <ul style="list-style-type: none"> • Background checks with the FGS, other federal states, and previous employers should be done before the staff is hired. • SWSS should ensure staff appraisals are performed for all staff to monitor the staff performances. • Proper hand over should be done for resigning staff as per the civil service guidelines. Additionally, the staff contracts should be updated to include clauses on the required notice for resigning staff. • CSC should ensure that staff personnel files are updated. Each file should have a standard checklist indicating the minimum requirement of documents that should be in a personnel file. Regular file reviews should be performed to ensure that all documents are maintained. 	
Agreed/Disagreed: Agreed	
Comments from SWSS: <ul style="list-style-type: none"> • Contracts - lack clause on notice period to be issued by resigning staff. Well noted, we will review all civil Servant contracts and amend accordingly. • The performance appraisal process for all civil servants will be carried out from 2019 FY • 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. • We communicated with the employing authorities on the staff resigned to prepare hand over the 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. 	
Responsible person and date: CSC Commissioner	
Action plan: Review of contract wording, revise to include required notice for resignation.	
Estimated Completion date: April 2020	

Finding n°: 8	Title: Inadequately supported cost for salaries
<p>Criteria:</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all payments are supported by adequate documents such as payrolls, signed attendances, contracts, and evidence on funds receipt by the staff.</p> <p>Further, section 3.1 of SWSS accounting policy on analysis of transactions and events provides that each transaction shall be evidenced by a source document.</p> <p>Description of the finding:</p> <p>We noted the following gaps in salary payments for staff not engaged through the CSC;</p> <ul style="list-style-type: none"> • Security allowances payments amounting to USD 8,500 were not supported with a signed listing as evidence of funds receipt. • Wage worker's payments amounting to USD 21,600 were not supported with signed listing as evidence of receipt by recipients. • Security allowance payments list had details of the names, the amount paid to the police and signature or thumb 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. • Insufficient supporting documents (contracts, signed daily attendance) for wage workers amounting to USD 244,475. • 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. • There are no documented guidelines on the rates paid to security officers, ministers, wage workers, and politicians. <p>A detailed breakdown for the gaps above is included under Annex 6.</p>	
<p>Implication:</p> <p>Inadequate evidence that the occurrence of transactions reduces the reliability of the financial statements since transactions cannot be adequately verified.</p>	
<p>Recommendation Priority:</p> <p>Priority 1 - Urgent remedial action is required</p>	
<p>Recommendation:</p> <ul style="list-style-type: none"> • MOF SWSS should ensure allowances paid to non-civil servants are adequately supported with approved payment orders, contracts, payrolls, appointment letters, signed attendances and supporting documentation evidence on funds receipt by the staff. • The payment for allowances should be accompanied by a signed payment list indicating the number of security officers paid. The list should be signed by the supervisors and at least two other witnesses. • A master roll list should also be maintained and together with the payment list be used to verify the security officers before payment is done. The state can exploit options such as introducing an electronic registration system. • The ministry of finance should make the payments directly to the respective security officers' bank accounts or use money transfer services. • Guidelines on payment of allowances to security officers, ministers and MPs should be documented and presented for approval. 	

Finding n°: 8	Title: Inadequately supported cost for salaries
Agreed/Disagreed: Agreed	
Comments from SWSS: <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>	
Responsible person: The Minister, PS, and Treasury Director.	
Action plan: Review of the payment process to ensure adequate supporting documents are maintained on file and POSA's are signed by 2 personnel.	
Estimated Completion date: 30 April 2020	

Finding n°: 9

Title: Gaps in administration of bank transactions

Criteria:

According to the PFM Act and precisely Regulation 5 Cash and Banking agreements, 3.1.1 it states "The Treasury Single Account and any other bank accounts of the [FMS] are to be reconciled preferably daily or at a minimum weekly within 2 days after the end of the week by the Treasury Department, Ministry of Finance using the financial management information system (FMIS). '3.1.2. Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer and lastly' "3.1.3. Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format."

Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all payments are supported by adequate documents such as payrolls, signed attendances, contracts, and evidence on funds receipt by the staff.

Further, section 3.1 of SWSS accounting policy on analysis of transactions and events provides that each transaction shall be evidenced by a source document.

Description of the finding:

- Bank reconciliations were not being prepared every week as required, instead, these were prepared every month contrary to the guidelines.
- 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.
- There is no authorization limit for the signing of cheques - All payments approved by a minimum of 2 signatories.
- 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:

Bank Account/Cashbook details	Observation
Name Treasury Single Account – Main – Account Code: 321201 Bank: Dahabshiil Account No: BAYD0010436	<ul style="list-style-type: none"> • Incorrectly prepared bank reconciliations for Feb 2018 for the TSA account and May, October & Nov 2018 for the RCRF II account - code 321201. The reconciliation statements did not capture the reconciling items (unpresented cheques). • Delays in preparation of bank reconciliations for June, July, August and September 2018. • No reconciliation statement filed for April 2018.
Name: WB RECURRENT COST & REFORM FINANCING (RCRF II) PR -Project Account - RCRF II Account Code: 321202 Bank: Dahabshiil Account No: BAYD0011151	<ul style="list-style-type: none"> • Incorrectly prepared bank reconciliations for May, October and Nov 2018. The reconciliation statements did not capture the reconciling items (unpresented cheques). • Delays in preparation of bank reconciliations the months of January to August and October to December 2018. All the bank reconciliation was dated either 11 Feb 2019, or 12 Feb 2019 implying that reconciliation for 2018 was prepared in 2019 in exception to November which was prepared on 22 December 2018.

Finding n°: 9	Title: Gaps in administration of bank transactions
	<ul style="list-style-type: none"> The reconciliation statements for January to December 2018 do not indicate the persons preparing, reviewing and approving them.
Implication: <ul style="list-style-type: none"> Non-compliance with the PFM Act provisions for the preparation of weekly bank reconciliations. Lack of timelines for the bank reconciliations are to be prepared increases the risk of failure to detect questionable transactions and bank errors. 	
Recommendation Priority: Priority 2 - Prompt specific action is required	
Recommendation: We recommend the following; <ul style="list-style-type: none"> SWSS should ensure adherence to the regulations through the preparation of weekly bank reconciliations. SWSS should ensure all bank reconciliations are prepared correctly. They should reflect the correct bank statement, cashbook balances and any reconciling items. The name and title of the preparer and reviewer should be indicated on each of the reconciliations. 	
Agreed /Disagreed: Disagreed	
Comments from SWSS: 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.	
Responsible person and date: Treasurer and Head of EAFS	
Action plan: Not provided	
Estimated Completion date: Not provided	
Additional Auditor's comment: The management comments are well noted. The bank reconciliation statements were incorrect.	

Finding n°: 10	Title: Weaknesses in assets management
<p>Criteria:</p> <p>Article 1.193.10 of the SWSS accounting manual and regulation 9 of the PFM Act 2018 provide guidelines on the management of assets.</p> <p>They require that assets be expensed in the year of purchase regardless of its economic or useful life just like any other expense except that a fixed asset register needs to be maintained to track the assets and ensure safekeeping and maintenance. The asset register should contain the following details;</p> <ul style="list-style-type: none"> • Asset name; • Name of Budget Organization (Ministry); • Responsible Person within Ministry; • Physical description; • Serial number; • Date of receipt; • Location; • Category; • Financing source; • Original or estimated value; • Date of disposal. • Expense voucher reference number (Payment Request Voucher). <p>Description of the finding:</p> <p>The following weaknesses were noted;</p> <ol style="list-style-type: none"> a) The fixed assets register is incomplete and lacks details such as date of purchase, original or estimated value and expense voucher reference number (payment request voucher) as required in the policy. b) We performed a physical verification of assets and noted the following; <ul style="list-style-type: none"> • A number of 9 out of the 16 sampled for physical verification could not be traced. Details are show under annex 8. • One of the assets, a water dispenser had been affixed with a different identification number from the one indicated on the register. • Another asset; a safe had not tag number or serial, however, the register had been updated with such information. 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. 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. e) There was no evidence of assets verification performed during the year 2018. <p>Implication:</p> <p>Without an updated fixed asset register and tagged assets, it would be difficult to track SWSS assets and the assets may be misappropriated.</p>	

Finding n°: 10	Title: Weaknesses in assets management
Recommendation Priority: Priority 2 - Prompt specific action is required	
Recommendation: We recommend the following; <ul style="list-style-type: none"> a) The State should ensure that accurate information and data is captured in the Asset Management System. b) Physical verification should be conducted for all the SWSS assets, assets register should be updated and the assets should be tagged as well. Assets verification should be performed at least an annual basis. c) The state should update the asset register to ensure that all state-owned assets are included in the asset register. 	
Agreed/Disagreed: Agreed	
Comments from SWSS: Instruction L: 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 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.	
Responsible person and date: The Procurement Director.	
Action plan: Instruction L to be issued as part of the year-end process instructing that a physical audit count is carried out and report on asset condition prepared. Monthly review of the asset transactions in the FMIS is to be carried out and reconciled to the AMS.	
Estimated Completion date: January 2020	

Finding n°: 11	Title: Lack of formalized organization IT policies and standards
<p>Criteria:</p> <p>Policies and procedures are an essential component of any organization for protecting its ICT systems and infrastructure against unauthorized access. Therefore, adequate guidelines must be in place to ensure confidentiality, integrity, and reliability of the system.</p> <p>Description of the finding:</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"> • An IT policy that provides various guidelines on System change, User Access, Business Continuity/ Disaster Recovery Plans (BCP/DRP), etc. However, they do have a policy on usage of MiFi Modems (Internet). • Formalized procedures to log (track event) and escalate issues regarding system failure/gaps which if not tracked will remain unresolved for a long period. • Guidelines on how the State should conduct Business Continuity and Disaster Recovery plans. • Structured and formalized IT training for new and existing staff. 	
<p>Implication:</p> <ul style="list-style-type: none"> • IT-related processes may not be followed due to the absence of defined comprehensive IT policy and procedures. • Lack of BCP and DRP could result in the organization being unable to continue with its operations in the event of a disaster and possible risk of data loss. • Lack of a formalized training program could lead to staff being inadequately prepared to perform their roles and responsibilities. 	
<p>Priority rating:</p> <p>Priority 2 - Prompt specific action is required</p>	
<p>Recommendations:</p> <p>We recommend the state:</p> <ul style="list-style-type: none"> • To consider developing a comprehensive IT policy that is in line with the Ministry's daily operations and IT guidelines. Further, they should regularly review the policies for consistency and relevance to changing events. • The IT policy should incorporate procedures for conducting BCP and DRP. • To ensure that a structured training guideline is developed to enable staff orientation on IT matters and any new features on the system. 	
<p>Agreed /Disagreed: Disagreed</p>	
<p>Comments from MoF SWSS:</p> <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 & 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>	
<p>Responsible person and date: The ICT Director</p>	
<p>Action plan: Not provided</p>	

Finding n°: 11	Title: Lack of formalized organization IT policies and standards
Estimated Completion date: Not provided	
Auditor's additional comments: SWSS should deliberate and ensure they have a defined comprehensive IT policy document to provide guiding principles for working in the ministry's IT work environment i.e. Business continuity, disaster recovery, and change management, etc.	

Finding n°: 12	Title: Gaps in user access management
<p>Criteria:</p> <p>Article 5 of the Bisan User Controls and Access Manual Version 1.0 Dated: June 2015 provides a workflow on the process of admitting new users to the Bisan system. The guideline requires that formal approvals be obtained from the relevant heads of the department for the creation of new users in the Bisan system.</p> <p>Description of the finding:</p> <p>Our review of the implementation of the Bisan system revealed the following:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. • Proper antivirus software has not been installed on the entity's workstations, which exposes the entity to a risk of prolonged downtime in case the workstations are infected with viruses. We found that the State was currently using the free anti-virus available from the internet which is not very reliable as it may only offer limited protection. 	
<p>Implication:</p> <ul style="list-style-type: none"> • User IDs of terminated employees may still be active in the system and can be misused for processing of financial transactions and such transactions would not only be unauthorized but also lack accountability. • Without periodic user access reviews, excessive access may remain with the users and anomalies in the operations of the system may not be identified early enough. This may have some greater repercussions on the operations such as manipulation of crucial data stored in the system. • User accounts may be allocated excess rights by the system administrators, intentionally or unintentionally, in breach of the organization's requirements. • Using an out of date Antivirus leaves the organization data more exposed to cyber-attacks and prolonged downtime. 	
<p>Priority rating:</p> <p>Priority 2 - Prompt specific action is required</p>	
<p>Recommendations:</p> <p>We recommend that:</p> <ul style="list-style-type: none"> • The identified user accounts belonging to terminated staff should be immediately disabled. Also, a standardized procedure should be developed, documented and approved by the State to regulate this process revoking user access. Once an employee leaves the entity, the IT Director should be notified promptly to ensure the user account is disabled. • The State should ensure a periodic review of users in the systems is done against the list of leavers. • Existing user accounts and access rights should be reviewed at least annually to detect dormant accounts and accounts with excessive privileges. • The Anti-virus should be centrally managed and updated by the IT Director. 	

Finding n°: 12	Title: Gaps in user access management
Agreed /Disagreed: Disagree	
Comments from MoF SWSS: <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>	
Responsible person and date: The ICT Director	
Action plan: Not provided	
Estimated Completion date: Not provided	
Auditor's additional comments: <p>The issue was not with the user creation process, but rather on the user deactivation procedures of staff who had left the ministry. A formal procedure for notifying the IT director to disable user accounts was mainly verbal therefore it was difficult to ascertain if this was timely done as there was no record maintained.</p> <p>At the time of our review, among the computers sampled did not have any antivirus installed.</p>	

Finding n°: 13	Title: Budget tracking																
Description of the finding: <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. Details are shown below:</p> <table border="1"> <thead> <tr> <th>Activity</th><th>Calendar dates</th></tr> </thead> <tbody> <tr> <td>Submission of the proposed budget by the minister to Parliament</td><td>2 months before the start of the fiscal year (October)</td></tr> <tr> <td>Notice to the parliament of the introduction of changes to the consolidated budget</td><td>1 Calendar month before submission</td></tr> <tr> <td>Public Access to the Budget</td><td>Immediately after submission to parliament</td></tr> <tr> <td>President Approval</td><td>1 January (beginning of the fiscal year).</td></tr> <tr> <td>Submission of the Supplementary budget to parliament (Mid –fiscal year review of the implementation of the budget).</td><td>Mid -July</td></tr> <tr> <td>Parliament Approval of the supplementary budget</td><td>1 August</td></tr> <tr> <td>Supplementary budget approval</td><td>Not later than 31 August of each year</td></tr> </tbody> </table>		Activity	Calendar dates	Submission of the proposed budget by the minister to Parliament	2 months before the start of the fiscal year (October)	Notice to the parliament of the introduction of changes to the consolidated budget	1 Calendar month before submission	Public Access to the Budget	Immediately after submission to parliament	President Approval	1 January (beginning of the fiscal year).	Submission of the Supplementary budget to parliament (Mid –fiscal year review of the implementation of the budget).	Mid -July	Parliament Approval of the supplementary budget	1 August	Supplementary budget approval	Not later than 31 August of each year
Activity	Calendar dates																
Submission of the proposed budget by the minister to Parliament	2 months before the start of the fiscal year (October)																
Notice to the parliament of the introduction of changes to the consolidated budget	1 Calendar month before submission																
Public Access to the Budget	Immediately after submission to parliament																
President Approval	1 January (beginning of the fiscal year).																
Submission of the Supplementary budget to parliament (Mid –fiscal year review of the implementation of the budget).	Mid -July																
Parliament Approval of the supplementary budget	1 August																
Supplementary budget approval	Not later than 31 August of each year																
Implication: <ul style="list-style-type: none"> Lack of a calendar tacking mechanism may lead to failure by the State to meet the set budget timelines which may have a ripple effect on another key decision making regarding the economic affairs of the state that is linked to budget-making. 																	
Recommendation Priority: Priority 2 - Prompt specific action is required																	
Recommendation: The State should establish a mechanism for monitoring and tracking the budget calendar.																	
Agreed/Disagreed: Disagreed																	
Comments from SWSS: <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>																	
Responsible person: Not provided																	

Finding n°: 13	Title: Budget tracking
Action plan: Not provided	
Estimated Completion date: Not provided	
Auditor's additional comments: The Ministry should maintain records such as minutes of the meeting held by the budget committees to demonstrate evidence that the budget calendar has been adhered to.	

Finding n°: 14	Title: Failure to approve Journal Entries
Criteria: <p>Article 4.4 of the SWSS Regulation on Establishing Accounting and Reporting Standards states that "Authorization and approval procedures prevent invalid transactions from occurring. Thus, this type of control typically involves authorization or approval of computerized and manual transactions. (e.g., requiring signatures of authorized individuals) or automated (e.g., password protected) authorizations for computer transactions."</p>	
Description of the finding: <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>	
Implication: <p>There is a risk of lack of accountability towards the preparation and approval of exceptional transactions. Lack of explanation on the journals creates ambiguity.</p>	
Recommendation Priority: <p>Priority 2 - Prompt specific action is required</p>	
Recommendation: <p>We recommend SWSS to ensure that all journal entries have documented explanations on the voucher. Also, the management should ensure that all journals are either be signed manually or electronically by the preparer and approver.</p>	
Agreed/Disagreed: Disagreed	
Comments from SWSS: <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 Officer and approves the Treasury Director</p>	
Responsible person and date: The Treasury Director	
Action plan: Not provided	
Estimated Completion date: Not provided	
Auditor's additional comments: <p>Evidence of preparation and approval of journal entries was not demonstrated, further, there was no evidence of supporting documentation that demonstrated journals are prepared and independently checked and approved.</p>	

3 FOLLOW UP OF PREVIOUS AUDIT FINDINGS

No.	Finding Title	Recommendation	Status	Comments from SWSS	Conclusion
1.	Inadequacies noted in the recording of Revenue	<ul style="list-style-type: none"> SWS should consider automating the revenue collection and reduce cash payments for taxes. Such modalities can include the use of mobile money and payments using the banking system. Taxes collected should be remitted in full to the revenue department and banked intact. If tax agents must incur costs, an advance should be provided to them which is to be accounted for and reconciled promptly before replenishment. The officer in charge should use the receipt books to record the revenue in the RMS system to enhance audit trail and completeness. A copy of the receipt should be attached to the RMS revenue voucher and bank deposit slip for recording in FMIS. There should be regular reconciliation of taxes collected to the amount banked and FMIS accounting records. Such reconciliation should be performed by a revenue officer not involved in the tax collection and recording process. The support documents should be attached to the FMIS payment voucher and filed sequentially by date. 	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
2.	Inadequately supported payments	The Ministry should ensure that adequate supporting documents are maintained to demonstrate that all the services or goods have been provided as a basis for making payments and recording in the financial statement.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open

No.	Finding Title	Recommendation	Status	Comments from SWSS	Conclusion
3.	Revenue unsupported	We recommend that the Ministry of Finance should ensure that adequate supporting documents are maintained to support all revenue declared in the financial statements.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
4.	Gaps in Procurement	The Ministry should ensure procurement for goods and services is carried out in accordance with the procurement policy. Where single sourcing is done, a justification should be documented and approved before single sourcing is performed.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
5.	Unreconciled variance	The variance should be reconciled.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
6.	Weaknesses in Assets and Inventory Management	<ul style="list-style-type: none"> The asset register should be updated with the missing information. Physical verification should be conducted for all the SWSS assets, assets register updated, assets are tagged. Assets verification should be performed at least an annual basis. The Ministry should ensure that a record of inventory listing for consumables is maintained which clearly shows the movement. Controls should also be established to ensure that the inventory records are reviewed by another person other than the preparer regularly. 	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
7.	Lack of audit trail from the supporting documents to the ledger	SWSS should improve the quality of its record-keeping. It could do this by ensuring consistency in the filing system, adequate referencing the IFMIS vouchers to the RMS	No similar instances noted		Closed

No.	Finding Title	Recommendation	Status	Comments from SWSS	Conclusion
		vouchers, attaching the deposit slips, and adequate filing system. The Ministry of Finance should also ensure that payment is not processed until all supporting documents are providing.			
8.	Gaps in the human resource recruitment process and personnel records	CSC should ensure that staff personnel files are updated. Each file should have a standard checklist indicating the minimum requirement of documents that should be in a personnel file. Regular file reviews should be performed to ensure that all documents are maintained.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
9.	Gaps in preparation of bank reconciliations	The Ministry should ensure that monthly bank reconciliations are prepared on time, further, the reconciliation should be independently approved, this should be done by ensuring that the reviewer /approver signed and dates each monthly reconciliation. Name and title of the preparer and reviewer should be indicated on each of the reconciliations.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open
10.	Failure to provide for budget contingency	SWS should ensure all relevant regulations regarding budget estimates are complied with, to ensure the adequacy and sufficiency of State budget estimates.	Not applicable - The Act budgetary does not make it mandatory for the state to have a contingency		Closed
11.	Failure to implement the prior year's audit findings	The Ministry should ensure that all prior year audit recommendations are acted upon and relevant changes to the systems and controls are implemented where necessary.	Similar instances noted	The Internal Audit Unit will work on this and come up with a plan to sort this issue of recurrence out.	Open