



Transmittal Letter

18th August 2020

Speaker of State Parliament
Hirshabelle State of Somalia
Jowhar, Somalia

Honourable Speaker,

In accordance with Section 32(3) of the PFM Act 2018 and Sections 30, 32 and 33 of the Audit Act 2019 of Hirshabelle State of Somalia (HSS), I have the pleasure to submit to you my annual FY 2018 Audit Report for tabling in the State Parliament.

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

Responsibility of the Office of the Auditor General (OAG)

The OAG is the Supreme Audit Institution (SAI) in HSS. The office audits the state accounts to ascertain whether funds have been utilised in accordance with the requirements set down in the PFM Act 2018 and associated regulations. The primary function of the OAG is to deliver independent highly quality public sector audit that promotes greater economy, efficiency and effectiveness in the use of public resources and provide reliable report to the Parliament on the use of public funds by budget units as stated in Section 6(2) and Section 7(1) of the Audit Act 2019.

The focus of our work is to provide reasonable assurance that public funds are planned, administered, used and reported properly. We also work closely with Parliament to expand our capacity in delivering high quality information.

Legitimacy of OAG Authority

Section 28(1) of the Audit Act 2019 outlines the responsibility of the OAG to audit the accounts of all public bodies of HSS. Section 7(1) of the Audit Act 2019 states that the Auditor General (AG) shall act independently in the exercise and performance of his functions, duties and powers. The independence of the AG is a fundamental characteristic of a well-functioning SAI that operates in accordance with International Standards of Supreme Audit Institutions (ISSAIs).

In line with the provisions of section 32(3) of the PFM Act 2018 and Section 30(4) of the Audit Act 2019, the AG should submit the Annual Audit report to Parliament within four months after the receipt of the Financial Statements from the Minister for Finance. The Speaker of the Parliament shall then table all audit reports in the State Assembly within five working days after receipt as per Section 33(1) of the Audit Act 2019.

Role of Minister for Finance

The role of the Minister for Finance is to prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four months after the end of the financial year as stated at Section 32(1) of the PFM Act 2018. To help ensure my independence, I have no role in the preparation of these financial statements nor in authorising or controlling any of the underlying transactions.

FY 2018 Audit Process

At the time of the audit, the OAG staff did not have the necessary skills and experience to conduct a full financial statement audit. HSS OAG staff were recruited in July 2019 (at this time the FY 2018 audit planning and preparations were underway). This necessitated the hiring of an external private audit firm, Baker Tilly (BT), to perform the audit work with, and on behalf of, the OAG in line with sections 20-23 of the Audit Act 2019. HSS OAG retained overall responsibility for the audit, acting as a link between BT and the Ministry of Finance.

HSS OAG staff will be able to take on more responsibility for the audit work going forward as they have gained some experience in the conduct of FY 2018 audit. The upcoming FY 2019 audit will still be performed by a private sector audit firm together with HSS OAG staff; as with FY 2018 audit, a major feature of the audit will be building the capacity of HSS OAG staff.

FY 2018 Audit Opinion

We audited the HSS Financial Statements for the year ended 31st of December 2018, which includes the Consolidated Funds Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual Amounts as well as Notes to the Financial Statements and have issued a **qualified audit opinion**. The financial statements were deemed to be *mostly* in conformity with the provisions of the PFM Act 2017 and International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting. The full Audit Opinion is included (with the Financial Statements) in Attachment 1 – page number iv.

It is possible that the 2018 Financial Statements, as presented, do not fairly represent the financial activities of government in one important area: payments totalling **US\$ 2,177,346 representing 67% of total payments made during 2018** reported in the Consolidated Fund Statement of Receipts and Payments **lack adequate evidence to support these transactions**. Without such evidence it is impossible to say whether these payments have been correctly recorded and disclosed in the financial statements.

Other main findings are reported in the Audit Management Letter (Attachment 2) with constructive recommendations for improvement. For these recommendations to improve the work of the state they need to be implemented. Thus, the contribution of Parliament and the Government in increasing accountability in public administration and in addressing audit recommendations is of critical importance.

Acknowledgement

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

Attached to this letter are:

- The 2018 Financial Statements of HSS and accompanying Audit Opinion (Attachment 1).

- The Audit Management Letter for 2018 including the detailed findings and recommendations for improvement (Attachment 2)

Yours sincerely,



Abdullahi Abdi Ibrahim
Auditor General

CC;

1.President HSS

2.Minister for Finance HSS



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

FINAL REPORT

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Hirshabelle State of Somalia (HSS) Audited Consolidated Financial Statements for the period ended 31 December 2018

i) STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE

The Public Financial Management (PFM) Act 2018 of Hirshabelle 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 Management accepts responsibility for the preparation and presentation of these Financial Statements in accordance International Public Sector Accounting Standards (IPSAS) - Financial Reporting under the Cash Basis and in the manner required by the Public Financial Management (PFM) Act 2018 of Hirshabelle State of Somalia. The Management also accepts responsibility for:

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

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

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

Approved by the State of Hirshabelle State of Somalia (HSS) on 17/04/2020 2020

<i>Abolishakur Abukar Hassan</i>	<i>[Signature]</i>
Minister for Finance	Signature



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ii) REPORT OF THE INDEPENDENT AUDITOR

Qualified Opinion

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

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

Basis for Qualified Opinion

Our audit identified payments totalling US\$ 2,177,346 representing 67% 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. These payments were partially supported, with either internally generated documentation or inadequate documentation from suppliers.

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

We are independent of the Hirshabelle 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

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

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

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

Key Audit Matters

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

Collection and recording of tax revenue

The procedures applied by the Hirshabelle State Administration of Somalia increase the risk of revenue leakages and misstatement of the financial statements caused by:

- Lack of automated revenue collection system.
- Utilization of tax revenue collected before submission to revenue collection officers.
- Lack of separation of functions because same officer performs the functions of collection, banking and recording taxes.
- Lack of reconciliation of revenue collected to amounts banked and the accounting system.

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

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

Lack of value for money in the road rehabilitation cost

We noted that an amount of US\$ 748,700 reported in Note 13 to the financial statements was utilized for the rehabilitation of a 15 KMs of road between Jowhar City and the Airport. From review of the documentation, we found deficiencies as follows:

- 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 at a cost of US\$ 748,700.
- 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 verified supporting quotations and bill of quantities in order to verify for the nature and scope of works to be provided.
- Reviewed the request and approval of the road rehabilitation by the requesting unit/function at MOF and budget availability at the time of approval.
- We verified the bid analysis process in arriving at the selected supplier verified the contract to the winning supplier and communication to the supplier on the contract award.
- We requested for supporting inspection documents and photos indicating the degree of completion by the Contractor and the MoF procurement head/ engineer in order to establish the level of work performed.
- Reviewed payment documentation to establish whether the supplier received the funds.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 Managements' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

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

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

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


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

Date: 29 April 2020

iii) **CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF HIRSHABELLE STATE OF SOMALIA**



HSS 2018 Financial
Statements and Notes



CONSOLIDATED &
MINISTERIAL
FINANCIAL
STATEMENTS OF THE
HIRSHABELLE STATE
OF SOMALIA

For the Year Ended 31 December 2018

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

Prepared by the Ministry of Finance
Hirshabelle State of Somalia



Ref: WM/XW/0029/2019

May 1, 2019

Statement of Certification – 2018 Financial Statements

The 2018 Financial Statements, together with the accompanying notes, have been prepared in accordance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting 2017 and in the manner required by the Public Financial Management Act (PFM).

In the opinion of the Minister for Finance, the Financial Statements of the Hirshabelle State of Somalia (HSS) as submitted for Audit in accordance with section 32 of the Public Financial Management Act 2018, are materially accurate and provide a true and fair view of HSS of HSS Financial Activities for the year ended 31 December 2018. The Minister further Confirms the Completeness of the accounting of the accounting records maintained for the Hirshabelle State of Somalia which have been relied upon in the preparation of the Hirshabelle's Financial Statements as well as the adequacy of the system of internal financial control.

For and on behalf of the Hirshabelle State Somalia

Minister for Finance & Economic Development

Mohamed Mohamud Abdulle



Hirshabelle State of Somalia
Consolidated Fund Statement of Cash Receipts and Payments
Treasury Single Account
For the Year Ended December 31,2018

	<u>Notes</u>	<u>2018</u> <u>Controlled</u> <u>by TSA</u> <u>USD</u>
Receipts / Inflows		
Taxes		
Taxes on goods and services	2	537,771
Taxes on international trade and transactions	3	135,792
Taxes		673,563
Grants		
From international organizations	4	258,476
From other general government units	5	2,357,000
Grants		2,615,476
Receipts / Inflows		3,289,040
Payments / Outflows		
Compensation of Employees		
Wages and Salaries		1,842,450
Compensation of Employees	6	1,842,450
Use of Goods and Services		
Travel & Conferences	7	188,780
Operating Expenses	8	147,972
Rent	9	4,650
Other Operating Expenses	10	1,304
Contingency	11	127,000
Use of Goods and Services		469,706
Grants		
Grants To Other General Government Units	12	190,289
Grants		190,289
Nonfinancial assets		
Fixed Assets		756,500
Nonfinancial assets	13	756,500
Payments / Outflows		3,258,945
Increase Decrease in Cash		30,095
Cash at Beginning of Year		9,378
Cash at End of Year	1.4	39,473

Hirshabelle State of Somalia
Consolidated Fund Statement of Comparison of Budget and Actual Amounts
For the Year Ended 31 December 2018
Appropriation Budget Approved on Cash Basis
Classification of Payments By Economic Class

		2018			
		Original Estimate Appropriation A	Final Estimate Appropriation B	Controlled by TSA C	Difference Between Final Budget and Actual C-B
		USD	USD	USD	USD
	<u>Notes</u>				
Receipts / Inflows					
Taxes					
Taxes on property		1,441,379	1,441,379	-	(1,441,379)
Taxes on goods and services		4,703,533	4,703,533	537,771	(4,165,762)
Taxes on international trade and transactions		699,296	699,296	135,792	(563,504)
Taxes	14	6,844,208	6,844,208	673,563	(6,170,645)
Grants					
From international organizations		642,004	642,004	258,476	(383,528)
From other general government units		2,700,000	2,700,000	2,357,000	(343,000)
Grants	15	3,342,004	3,342,004	2,615,476	(726,528)
Other Revenue					
Sale of goods and services		426,965	426,965	-	(426,965)
Fines, penalties and forfeits		5,000	5,000	-	(5,000)
Other Revenue	16	431,965	431,965	-	(431,965)
		10,618,577	10,618,577	3,289,040	(7,329,137)
Receipts / Inflows					
Payments / Outflows					
Compensation of Employees					
Wages and Salaries		6,593,282	6,593,282	1,842,450	(4,750,832)
Compensation of Employees	17	6,593,282	6,593,282	1,842,450	(4,750,832)
Use of Goods and Services					
Travel & Conferences		602,971	602,971	188,780	(414,191)
Operating Expenses		737,756	737,756	147,972	(589,784)
Rent		70,300	70,300	4,650	(65,650)
Other Operating Expenses		32,600	32,600	1,304	(31,296)
RCRF Non-Salary Recurrent Cost		80,000	80,000	-	(80,000)
Contingency		237,079	237,079	127,000	(110,079)
Use of Goods and Services	18	1,760,706	1,760,706	469,706	(1,291,000)
Grants					
Grants To Other General Government Units	19	1,100,600	1,100,600	190,289	(910,311)
Grants		1,100,600	1,100,600	190,289	(910,311)
Nonfinancial assets					
Fixed Assets		1,256,698	1,256,698	756,500	(500,198)
Nonfinancial assets	20	1,256,698	1,256,698	756,500	(500,198)
Payments / Outflows		10,706,578	10,706,578	3,258,945	(7,447,633)

Hirshabelle State of Somalia
Statement of Government Operations
For the year Ended 31 December 2018

	2018 USD
Transactions Affecting Net Worth	
Revenue	3,289,040
Taxes	673,563
Taxes on goods and services	537,771
Taxes on international trade and transactions	135,792
Grants	2,615,476
From international organizations	258,476
From other general government units	2,357,000
Expense	2,502,445
Compensation of Employees	1,842,450
Wages and Salaries	1,842,450
Use of Goods and Services	469,706
Travel & Conferences	188,780
Operating Expenses	147,972
Rent	4,650
Other Operating Expenses	1,304
Contingency	127,000
Grants	190,289
Grants To Other General Government Units	190,289
Gross Operating Balance	786,595
Transactions In Non Financial Assets	
Change In Net Worth. Transactions (Assets)	756,500
Nonfinancial assets	756,500
Fixed Assets	756,500
Transactions in Financial Assets & Liabilities	
Change In Net Worth. Transactions (Assets)	39,473
Financial assets	39,473
Financial assets	39,473
Net Worth Equity	(9,378)

Notes to the Financial Statements

Note 1 Accounting Policies

1.1 Basis of Preparation

The Hirshabelle State of Somalia's (HSS) consolidated financial statements have been prepared in accordance with the *Public Financial Management Act 2018* and the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting under the Cash Basis of Accounting (2017)*. These are the initial statements of the Hirshabelle State of Somalia. 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.

The Financial statements are for the Hirshabelle State of Somalia. The financial statements encompass the reporting entities as specified in the *HSS Appropriation Act No. 1 2018* and are comprised of:

1. Ministry of Justice & Religious Affairs
2. Ministry of Livestock, Forestry and Vegetation
3. Ministry of Ports and Maritime Transport
4. Ministry of Postal, Communication and Modern Technology
5. Ministry of Education, Youth and Sports
6. Ministry of Environmental and Sea Protection
7. Ministry of Agriculture and Irrigation
8. Ministry of Health and Social Care
9. Ministry of Fishery & Marine Resources
10. Ministry of Public Works and Reconstruction
11. Ministry of Information and Culture
12. Ministry of Interior and Local Government
13. Ministry of Planning, Investment and International Cooperation
14. Ministry of Transport, Air and Land
15. Ministry of Security and Rehabilitation
16. Ministry of Labor and Employment
17. Ministry of Finance and Economic Development
18. Ministry of Constitution & Federal Affairs
19. Ministry of Commerce & Industry
20. Ministry of Water, Energy and Minerals
21. Civil Service Commission
22. Hirshabelle Parliament
23. Ministry of State Presidency
24. Auditor General Office

Ministries were created by a preceding Presidential Decree on 20th February 2017 entitled *A Decree Establishing Ministries of Hirshabelle State of Somalia and Defining Roles and Functions of Ministries*. The

Ministry of Finance & Economic Development and Revenue Collection Authority was Established by a Presidential Decree in March 2017. The purposes of establishing the Ministry of Finance and Revenue Collection Authority was to ensure that the Hirshabelle State of Somalia has a Ministry of Finance & Economic Development that is responsible for the overall financial management of the Hirshabelle State of Somalia and to also ensure that within the Ministry of Finance & Economic Development there is a Revenue Collection Authority that is fully staffed, organized, administered and empowered to collect & deposit into the TSA all legally established taxes and other revenues of the Hirshabelle State of Somalia and Other Related Matters. The Decree Establishing the Ministry of Finance & Economic Development was changed into an Act of Parliament on 06 Feb.2018. The Auditor General’s Office was created via Presidential Decree in 2018 and changed to an Audit Act in 18 March 2019, however, the Office was not established during the 2018 financial year. The Jowhar Airport and Baletwayne Airport are legalized separately.

A subsequent decree on establishing the Civil Service Commission (CSC) and its purpose entitled *A Decree for establishing the Civil Service Commission of the Hirshabelle State of Somalia dated December, 2017* established the office of the Civil Service Commission. Companion Decrees also established the Civil Service and the Civil Service Salary structure. The inauguration of the HSS constitution automatically established the Hirshabelle Parliament. The Civil Service Commission (CSC) was changed in to act in October 2018. The respective statements of all the listed entities form part of the consolidated Financial statements as these entities were included as part of the *HSS Appropriation Act No. 1, 2018*.

The consolidated financial statements include all entities controlled during the year. None of the entities own another entity however HSS Municipalities is controlled by the Ministry of Interior and Local Government.

1.2 Treasury Single Account& Project Accounts

In 2018, a Project Account was opened under a written authorization of the Minister of Finance & Economic Development, in accordance with Section 27, paragraph 2 of the PFM Act 2018. The account relates to separate RCRF II project account and is a sub-account of the treasury single account. As of the end of FY2018, balances at both the TSA and project account were as follows:

	<u>2018</u>
	<u>USD</u>
Treasury Single Account - Main	39,466
Project Account - RCRF II	0

1.3 Cash & Cash Equivalents

Cash and Cash Equivalents means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognized at its nominal amount. Somali banks do not pay interest.

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

	2018
	USD
Cash on Hand and balances	39,466

All cash on hand at end of year is unrestricted and is free to be utilized in normal operations.

1.4 Reporting Currency

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

1.5 Borrowings

HSS did not receive any loans during FY2018 or before and has zero owing in respect of banks, and other commercial institutions.

1.6 Reporting Amounts

The reporting amounts are in USD, rounded to the nearest dollar.

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

The approved budget is developed on the same accounting basis (Cash basis), same classification basis and for the same period (From 1st January 2018 to 31st December 2018) as for the financial statements. It encompasses the same entities as the consolidated financial statement (these are identified in Note 1.1)

The original budget was approved by the Hirshabelle Parliament on 4th March 2018. No Supplementary Budget was passed in FY 2018.

1.8 Authorization Date

The financial statements were authorized to issue on 30 April 2019 by HE Mohamed Mohamud Abdule, Minister of Finance.

Note 2 Taxes on Goods and Services

These are combined taxes charged for the use of services offered by HSS. The following outlines the breakdown and the sources of the taxes on goods and services collected within the jurisdiction of HSS. Currently the Ministry of Finance and Economic Development is the only institution collecting Revenue.

Description	2018
Road User Tax	533,269
livestock fees	4,502
Grand Total	<u>537,771</u>

Road User Tax is levied on gross vehicle weight, not on the quantity or value of goods being transported. The amount of tax charged and collected depends on the registered gross weight of the vehicles using the road, not on the quantity or value of the goods. A uniform rate of tax is applied and is authorized by the Revenue Act.

Note 3 Taxes on International Trade and Transactions

Taxes on International Trade incorporate all taxes that are imposed on goods and services exported from, and imported into Hirshabelle State of Somalia. During this financial year, Custom duties levied on import of Khat is the only tax collected, which amounts in 135,792.

Note 4 Grants from International Organizations

In the 2018 financial year, grants were received from international organizations totalling \$258,476. The RCRF II project, funded via transfer from FGS, provided \$198,423 while PREMIS funded \$60,053.

Note 5 Grants from Other Government Units

In 2018 the Federal Government of Somalia granted a total of \$2,357,000 to the Hirshabelle State of Somalia. This funding was provided for the following reasons:

Budget Support	\$1,460,000
Surge Support	897,000.00
Total	<u>\$2,357,000</u>

Note 6 Wages and Salaries

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

	2018
	USD
Permanent employees/Regular staff	206,823
Security Forces (Police, Intel Forces and Prison)	486,750
Remuneration to Ministers & Statutory Appointments	1,009,000
Salary Arrears	54,650
Other allowances	11,500
Daily meals	73,727
	1,842,450

Remuneration to Ministers and statutory appointments encompasses salaries made to Ministers and Parliamentarians. Daily meals are in-kind payments to the Military forces of Hirshabelle that is made in form of food and other related food supplies.

Note 7 Travel and Conferences

Travel and Conferences amounting to \$188,780 comprise Travel and Conferences costs within and outside and the country. The following provides a breakdown of the total costs

	2018
	USD
Internal Travel	164,580
External Travel	24,200
	188,780

Note 8 Operating Expenses

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

	2018
	USD
Water	10,000
Electricity	16,907
Internet	3,460
Gasoline	75,700
Stationery	1,471
Meeting Supplies	38,484
Cleaning Supplies	200
Maintenance of Equipment	1,750
	147,972

Note 9 Rent

Office rent expenses amounting to \$ 4,650 was incurred in 2018 and was funded through a grant from PREMIS with the purpose of paying the Office Rent for the Civil Service Commission.

Note 10 Other Operating Expenses

Other operating expenses comprise Bank charges and Television & News Paper Advertisements as follows.

	2018
	USD
Bank Charges	129
Television and Newspaper Advertisements	1,175
	1,304

Note 11 Contingency

Due to a drought and flood emergency in Beletwayne and other cities in 2018, \$127,000 of the contingency budget was utilized. The funds were used to help the victims of the affected cities and bridge rehabilitation.

Note 12 Grants to other General Government units

Other government units refer to lower level governments such as the Transfers Jowhar, Beledwayne and Balcad Municipalities. These are the only active local governments in HSS that operates both a revenue collection and expenditure process. The Municipalities collects revenue from the public

transport system and other mobile businesses within HSS. There is an informal agreement between the Ministry of Finance and the Municipalities specifying that all revenue collections shall be deposited into the TSA and request for incurring expenditures is made by the local government from transfers from the state government.

Note 13 Non-Financial Assets

Total Non-Financial Assets of \$756,500 consist of costs that were incurred for Road Construction (between Jowhar city and the Airport which is 15 KM the road which was rehabilitated), Office equipment, Furniture and Fixtures. A breakdown of HSS Non-Financial asset costs is detailed as follows.

	2018 USD
Office Equipment and Furnitures	7,800
Road Construction	748,700
	756,500

Note 14 Taxes

A total of \$6,844,208 tax collections was estimated to be raised in the 2018 financial year, however an actual collection of \$673,563 was achieved. The amount collected represents 10% of the total revenue for the 2018 financial year

Revenue collections from road user tax and custom duties accounted for 99% of the total revenue collected during the FY 2018. The significant under collection is due to lack of political will and very weak revenue collection controls implemented during the year.

	2018
Road User Tax	533,269
Livestock Fees	4,502
Customs duties - KHAT	135,792
	673,563

Note 15 Grants

Total grants of \$2,615,476 were received against a budgeted sum of \$ 3,342,004. Grants from the Federal Government and International Organizations were not received as per estimated in the budget. The difference from International Organizations is due to an over optimistic revised estimate of RCRF II funding. RCRF II majorly funds civil servant salaries that have been recruited following a very rigorous process that is in full compliance with the HSS CSC Act and implementing Regulation, along with a lesser amount related to non-salary recurrent costs (NSRC). HSS did not recruit at the pace that was originally planned, nor could HSS access NSRC due to a combination of unapproved eligibility criteria by the donor and the fact that in order to access NSRC funding, HSS

must pre-fund the expenditures from their own source revenues. Own source revenues in 2018 were tight and therefore any additional cash resources were prioritized for other expenditures

Note 16 Other Revenue

Sale of government goods and services and fines and penalties constitute other sources of revenue. A total of \$431,965 was budgeted in the year of 2018, however no revenue in this category was collected due to the state's fragility and capacity to collect the targeted revenue. In addition, political challenges surrounding the Ministry of Finance and Economic Development contributed to the inability to collect the targeted revenue.

Note 17 Employee Compensation

A total of \$ 1,842,450 was spent on employee compensation against a final budget of \$ 6,593,282. The under spend of 4,750,832 was mostly due to State fragility and thus significant under collection of revenues. Due to this, there was insufficient resources to fund employee compensation as planned. Additionally, there was a long delay in HSS being granted access to the RCRF II project, thus civil servants could not be recruited as planned. A detailed breakdown of the actual execution against budget for 2018 is as follows:

	Budgeted	Actual	Under Spend
Permanent employees/Regular staff	1,025,769	206,823	(818,946)
Security Forces (Police, Intel Forces and Prison)	1,413,200	486,750	(926,450)
Remuneration to Ministers & Statutory Appointments	3,903,692	1,009,000	(2,894,692)
Salary Arrears	87,721	54,650	(33,072)
Other allowances	18,900	11,500	(7,400)
Daily meals	144,000	73,727	(70,273)
	6,593,282	1,842,450	(4,750,832)

Note 18 Use of Good and Services

The ability to expense in the Hirshabelle State of Somalia is limited to the amount of revenue that is collected. In the case of goods and services, HSS spent a total of \$469,706 against a budget of \$1,760,706, representing 27 percent of the final estimated budget. The variance distributed across the entities is mainly attributed to constraints in the actual available income.

Note 19 Grants to Other General Government Units

Grants to other General Government Units relates to transfers made to lower levels of government of HSS. In FY 2018, a sum of \$1,100,600 was budgeted for the Lower level Governments of HSS and \$190,289 was actually transferred to the Middle Shabelle Region to facilitate their operations as well as provide key services to the Region. The lower level municipalities of the Middle Shabelle Region, which is the only region operating under an informal agreement between the MoF and HSS Municipalities (see Note 12), operate their own standard procedures in managing funds as stipulated in the informal agreement with the MoF.

Note 20 Non-Financial Assets

During the year, 60 % of the non-financial assets budget was spent on assets budgeted for during the year. This is related to the rehabilitation of road between Jowhar City and Jowhar Airport.

	2018 USD
Office Equipment and Furnitures	7,800
Road Construction	748,700
	756,500

Note 21 Payments by Third Parties, External, Other & Undrawn Assistance

21.1 Payments by Third Parties

During the FY2018 HSS benefited from payment made by third parties to purchase goods and services on its behalf. These payments do not constitute cash receipts or payments by the HSS but these payments do benefit the government. They include payments made by multilateral and bilateral aid agencies. They form part of the support for government programs provided by way of external and other assistance. Information about external and other assistance is provided below. The government has verified that the following payments have been made by third parties to purchase goods and services during 2018.

Budget Entity	Technical Assistance	Training	ICT Support	Total
Ministry of Finance & Economic Development	144,481	476,859	106,846	728,186
Civil Service Commission	29,593			29,593
Parliament	4,800	3,005		7,805
Office of the Auditor General	17,694	7,698		25,392
Total	196,568	487,561	106,846	790,976

21.2 External Assistance

External assistance was received in the form of grants from multilateral and bilateral donor agencies under agreements specifying the purpose for which the assistance will be utilized. Total assistance in cash was utilized for funding salaries and third-party assistance is described in Note 21.1 above. The following amounts were received in FY2018:

		<u>2018</u>
External Assistance		
Total Cash Receipts	258,576	
Total Third Party Payments	790,976	
Total External Assistance	A=B+C	<u>1,049,552</u>
Mulilateral Aid Agencies		
Cash Receipt	198,423	
Third Party Payments	-	
	B	<u>198,423</u>
Bilateral Aid Agencies		
Cash Receipt	60,053	
Third Party Payments	790,976	
	C	<u>851,029</u>

21.3 Undrawn External Assistance

During the 2018 financial year, HSS became eligible to participate in the Recurrent Cost and Reform Financing (RCRF II) project. This project runs through to 30 June 2022 and is reviewable on an annual basis. The RCRF II project is a multi-partner fund administered by the International Development Association (IDA), with funds flowing through the Federal Government of Somalia and onto HSS. The objective of the project is to support the recipient to provide a credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, eligible Federal Member States and Interim and Emerging Administration.

As specified in a binding agreement *Number TFOA0534 Dated 29 June 2015* between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the Hirshabelle State of Somalia, by virtue of a sub-agreement with FGS, has a current project which will last to 30 June 2022.

Undrawn External assistance in respect to the RCRF II project is contingent upon HSS meeting the threshold conditional requirements of the project. However, the grant identifies the budgeted breakdown for HSS over the five-year term as follows. The grant amount is subject to annual review and approval by the IDA. At this time, there is no agreed amount of funding for years 2020, 2021 and 2022.

	<u>Year</u>				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Budgeted Amount	456,667	1,254,254	-	-	-

As at the 31 December 2018, HSS had accessed a total of \$198,423 of the RCRF II project funds since becoming eligible. The project is anticipated to continue to completion.

It is expected that conditions will continue to be satisfied and the projects are anticipated to continue under the terms of agreement between the donor and HSS. There have been no instances of non-compliance with terms and conditions which have resulted in cancelation of external assistance grants.

Note 22 Statement of Operations

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

The Statement of Operations produces summary information on the overall performance and financial position of the general government. This Statement is divided into three sections that present: revenue and expense transactions; transactions in non-financial assets; and transactions in financial assets and liabilities. This Statement is a voluntary disclosure and not a reporting requirement under the International Public Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting standard, which is the standard adopted in preparing these financial statements.



FINAL MANAGEMENT LETTER

MARCH 2020

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF

HIRSHABELLE STATE OF SOMALIA (HSS)

FOR THE YEAR ENDED 31 DECEMBER 2018

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ABBREVIATIONS

Acronyms	Full Description
CPO	Commitment and Payment Order
FMIS	Financial Management Information System
FMS	Federal Member State
GFS	Government Financial Statistics
IPSAS	International Public Sector Accounting Standards
HSS	Hirshabelle State of Somalia
MDA	Ministries, Departments and Agencies
MOFED	Ministry of Finance and Economic Development Hirshabelle State of Somalia
MPs	Members of Parliament
PFM	Public Finance Management
PV	Payment Voucher
RCRF	Recurrent Cost & Reform Financing Project
REG	Regulation
RMS	Revenue Management System
RV	Revenue Voucher
TSA	Treasury Single Account
USD	United States Dollar

**The Director General,
Ministry of Finance
Johwar Somalia
Hirshabelle State of Somalia (HSS)**

Dear Madam,

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

The Ministry of Finance and Economic Development is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by the Ministry are required to assess the expected benefits and related costs of the internal control structure, policies, and procedures. The objectives of an internal control structure are to provide the Ministry with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Ministry's authorization and recorded properly to permit the preparation of financial statements in accordance with the International Public Sector Accounting Standard (IPSAS) - Financial Reporting Under the Cash Basis of Accounting (2017), and Section 32 of the 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 Hirshabelle State of Somalia (HSS). Our review of the HSS'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 29 April 2018

1 INTRODUCTION

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

1.1 Ranking

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

Priority 1 - Urgent remedial action is required.

Key internal controls are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in internal control or in a series of internal controls which involves a substantial risk of either material error, or irregularity or fraud with regard to the expenditure and revenue stated in the Financial Report of the 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 an internal control or in a series of internal controls which, although not fundamental, relates to shortcomings which expose specific internal control areas (e.g. cash and bank management or budgetary and expenditure control) to a less immediate level of risk of either error or irregularity or fraud. Such a risk could impact on the effectiveness of the internal controls and on the internal control objectives and should be of concern to the Entity's management. Prompt specific action should be taken.

Priority 3 - Specific remedial action is desirable.

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

2 DETAILED MANAGEMENT LETTER

2.1 SUMMARY OF FINDINGS

Ref	Summary of findings	Priority	Amount in USD
1.	Improvement on tax administration	Priority 1	-
2.	Inadequately supported payments	Priority 1	2,177,346
3.	Poor road rehabilitation works	Priority 1	-
4.	Improvements to procedures for bank reconciliations	Priority 1	-
5.	Unsupported journals for 2018	Priority 1	-
6.	Excessive use of cash payments	Priority 1	-
7.	Weaknesses in personnel management	Priority 1	-
8.	Weaknesses in the procurement process	Priority 1	-
9.	Weakness in logical access controls	Priority 1	-
10.	Gaps in internal audit	Priority 1	-
11.	Lack of formalized organization IT policies and standards	Priority 2	-
12.	Gaps in User management access controls	Priority 2	-
13.	Weaknesses in assets management	Priority 2	-
14.	Failure to stamp support documents "PAID"	Priority 2	-
15.	Weaknesses in budgeting	Priority 2	-
	Total		2,177,346

2.2 DETAILED AUDIT FINDINGS AND RECOMMENDATIONS

Finding n°: 1	Title: Improvement in tax administration
Criteria: <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all revenue collected is promptly banked entirely and expenses are paid directly from the bank using cheques or other banking instruments.</p> <p>The Revenue Process outline sections of Hirshabelle State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states "Collection of revenue per the revenue decree/law is done either by government-employed tax collectors or authorized collection agents on behalf of the government, or the taxpayer can pay directly into the TSA bank account or the cash office at the Ministry of Finance. Tax collection by collectors or agents is always supported by the collector/agent issuing a numerically controlled, authorized revenue receipts. Tax collectors should deposit the money to the bank.</p> <p>Revenue is recorded into the FMIS utilizing the proper revenue codes.</p>	
Description of the finding: <p>We noted that the process followed in collecting taxes by the state during the period was as follows:</p> <ol style="list-style-type: none">i. Tax collectors collected road tax at Hawa Tako and El-Adde checkpoints in the middle Shabelle region.ii. Receipt books of the Ministry are issued to tax collectors and every two days, a customs officer visits the collection point, prepares the custom report and deposits the amounts collected into the TSA account in Salam bank. <p>a) We identified the following deficiencies:</p> <ul style="list-style-type: none">• Receipts amounting to USD 16,926 were not provided. In addition, tax collection receipts for Khat Tax in Jowhar and Beletweyne Airports amounting to USD 92,614 were not provided, and nor were receipts amounting to USD 4,502.00 and 4,118.69 respectively in relation to Livestock fees and Road User Tax in Beledweyne provided.• No evidence of control checks since there was no preparer, reviewer, and approver indicated on the revenue reports prepared by the customs officer.• Cash collected was not banked intact; expenses are paid by the collecting agents out of cash collected and the balance is thereafter banked. Details on the expenses by the agents were not provided.• The collecting agents are not Ministry staff and are not registered. Section 25 article 61 of the revenue act states: All entities collecting revenues for or on behalf of the government of Hirshabelle State of Somalia are required to nominate one or more responsible officials to be registered by the Minister as an Accredited Collecting Agent with authority to collect specified revenues within a stipulated locality. <p>b) Failure to carry out regular reconciliations of the revenue receipts to the amounts deposited in the TSA bank account.</p>	
Implication: <ol style="list-style-type: none">a) Weakness in tax collections procedures could lead to loss of funds, inadequate accounting for taxes collected as well as inaccurate financial reporting.b) The tax recording cycle does not follow the revenue cycle which increases the risk of leakages in revenue collected and difficulty in tax reconciliations.	

- c) 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.

Recommendation Priority:

Priority 1- Urgent remedial action is required.

Recommendations:

- a) HSS should institute full automation at the tax collection points.
- b) Supporting receipts should be maintained for all the revenue recorded by HSS.
- c) As a control measure, HSS should ensure the revenue reports indicate the staff preparing, reviewing and approving them.
- d) Tax collectors should all be registered and have unique identification for ease of their recognition, these officers should be adequately trained.
- e) The tax collected should be promptly banked intact and regular reconciliation performed.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 2	Title: Inadequately supported payments		
Criteria:			
<p>According to the HSS Financial management procedures, Certification for payment Clause states “Certification for Payment occurs after receipt of goods or services. A competent person (this would usually be the person originally identifying the requirement for Commitment Authorization) must first verify that the service has been performed or goods delivered in accordance with the Purchase Order. This person must complete the Receiving Report section of the Purchase Order”.</p> <p>Key requirements in ensuring an accurate and complete set of financial files are effective financial control policies and procedures. An important financial control is ensuring all payments are supported by adequate documents such as invoice, receipts, agreements, tickets, boarding pass, delivery notes, etc.</p>			
Description of the finding:			
We noted payments which were either lacking supporting documents or were inadequately supported as detailed below:			
Inadequacy	Reference Annex No.	Financial impact in USD	Financial impact as a percentage of the sample selected
Unsupported payments	Annex 1	33,589	1%
Inadequately supported payments	Annex 2 and 3	2,143,757	88%
Total		2,177,346	89%
Financial Impact: USD 2,177,346			
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.			
Recommendation Priority:			
Priority 1- Urgent remedial action is required.			
Recommendation:			
<p>a) We recommend that adequate accounting records are prepared and maintained to support all costs incurred.</p> <p>b) HSS should formulate a schedule of documentation expected to be obtained for various categories of transactions.</p> <p>c) There is a need to strengthen controls to ensure only costs which are incurred are recorded in the financial statements.</p> <p>d) 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.</p> <p>e) 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.</p>			

- f) The Ministry of finance should make the payments directly to the respective security officers' bank accounts or use money transfer services.
- g) The payments for food supplies should be supported with purchase documents such as purchase orders, invoices, receipts, delivery notes and goods received notes. Evidence on subsequent distribution of the supplies such as inventory distribution lists should also be maintained as well.
- h) Guidelines on payment of allowances to staff should be documented and presented for approval. Further, all transport, accommodation and professional allowances paid should be adequately supported with third party support documents such as invoices, receipts, and accountability reports.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 3	Title: Poor road rehabilitation works
<p>Criteria:</p> <p>Article 4.2.1 of the Procurement policy states Hirshabelle State of Somalia “HSS” is responsible for implementing Projects and therefore for selecting the contractors and suppliers and awarding and subsequently administering the contracts. While in practice the specific procurement rules and procedures to be followed in the implementation of a Project depend on the circumstances of the particular case, the following five considerations generally guide the application of this Procurement Procedures Manual - these are led by item (a) below - the "guiding principle" for HSS.</p> <ol style="list-style-type: none"> a. Conduct all activities with the highest levels of integrity, in a fair and transparent manner with an obvious lack of any corrupt practices. This shall act as the guiding principle to all procurement activities for the HSS. b. Open, fair, and competitive procedures used in a transparent manner to solicit, award, and administer contracts to procure goods, works, and non-consultant services; c. Procurements for goods, works, and non-consultant services shall be based upon a clear and accurate description of the goods, works, or non-consultant services to be acquired; d. Contracts shall be awarded only to qualified and capable suppliers and contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and/or Local Purchase Order and on a cost-effective and timely basis; and e. No more than a commercially reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to procure goods, works, and non-consultant services. <p>Description of the finding:</p> <p>We noted that an amount of USD 748,700 reported in the financial statements was utilized for the rehabilitation of a 15 KM road between Jowhar City and the Airport. The rehabilitation was being funded EU SURGE support program funded through FGS. However, from our review of the supporting documents provided we noted the following gaps:</p> <ol style="list-style-type: none"> a) There were only two suppliers who quoted for the provision of the road construction. The two bids were not supported with detailed Bill of Quantities (BOQs) clearly indicating the nature and scope of works to be provided, detailed profiles of the two companies. b) Only the quotation from the winning bidder was provided for our review, the quotation from the other bidder listed in the Bid Evaluation Report could not be traced. c) The payment was not supported with completion certificates and photos indicating the degree in completion of the road. d) The road rehabilitation had been carried in the last two quarters of 2018. We physically inspected the road on August 9, 2019, and noted that the road was in a dilapidated state. Illustrative photos are included under Annex 6 of this report. e) Our conclusion from physical verification of road works whose payments totaled USD 748,700 is that the road works were unsatisfactorily performed and therefore value for money on these payments was not enjoyed. 	
<p>Financial Impact: USD 748,700</p>	
<p>Implication:</p> <ul style="list-style-type: none"> • Value for money may not have been achieved 	

- Lack of application of competitive procurement procedures poses the risk of HSS not benefitting from the best value for money for the taxpayers and donor's money.
- In addition, lack of adherence to set procurement procedures may lead to malpractices in the procurement process.

Recommendation priority

Priority 1 – Urgent remedial action is required.

Recommendations:

- HSS 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.
- In order to ensure value for money is achieved when awarding contracts, MOFED HSS 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.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 4	Title: Improvements to procedures for bank reconciliations					
Criteria:						
<p>Best accounting practice requires that an accurate and complete set of financial control procedures are maintained in an organization. One such control is performing bank reconciliations between bank statements and organization cash books in order to highlight any errors.</p> <p>Further, article 3.1 of the cash management regulations require that bank reconciliations be performed on a preferable daily basis or at a minimum weekly basis within 2 days after the end of the week checked and approved by the treasurer or designated senior officer.</p> <p>Article 8.1. of the Operation of Bank Accounts Procedures Manual, states: "In December each year, the Cash Management Unit will conduct a review of the bank register and all government bank accounts. The review will cover the following key issues" Section (e) states: "Yearly confirmation request of banks to confirm name and account numbers of all bank accounts registered in the name of the [FMS]"</p>						
Description of the finding:						
We noted the following gaps:						
<p>a) The Bank reconciliations were not being prepared on a weekly basis as required, instead, these were prepared on a monthly basis contrary to the guidelines.</p> <p>b) Despite the bank reconciliations were prepared through the BISAN accounting software on monthly basis, the TSA bank account reconciliations for the months of January, February and May 2018 and RCRF II Bank account reconciliation for December 2018 were not correctly prepared. The reconciliation statements did not reflect the correct bank and cashbook balances and the respective reconciling items as illustrated in the table below:</p>						
	Recomputation by Auditors			MOFED Computation as per the Bank Reconciliation Statement		
Month	Balance as per Bank Statement USD	Reconciling Items USD	Balance as per Bank Ledger USD	Balance as per Bank Statement USD	Reconciling Items USD	Balance as per Bank Ledger USD
TSA Account						
January 2018	14,811.30	14,811.30	-	-	-	-
February 2018	16,359.81	16,359.81	-	-	-	-
May 2018	226,668.31	-	226,668.31	510,332.34	-	510,332.34
RCRF II Project Account						
December 2018	198,423.10	198,423.10	-	-	-	-
<p>c) Treasury department under the Ministry of Finance had not obtained the yearly confirmation request from the Commercial banks to confirm that the name and account numbers of all bank accounts registered are in the name of the Ministry of Finance by the time of our audit in August 2019.</p>						
Implications:						
<p>Noncompliance with the state cash management regulations, though the requirement for weekly bank reconciliations results in increased administrative workload for the finance teams which may not result in incremental benefit to control environment for bank transactions.</p> <p>Lack of timelines for the bank reconciliations are to be prepared increases the risk of failure to detect questionable transactions and bank errors.</p>						

Failure to obtain bank confirmation at year-end when preparing the Consolidated Financial Statements could lead to misstatements

Recommendation Priority:

Priority 1- Urgent remedial action is required.

Recommendations:

We recommend that:

- a) HSS considers revising the Fiduciary Procedures Manual to provide for monthly preparation of bank reconciliations rather than weekly.
- b) The date for preparing and reviewing the bank reconciliation statements should be well documented in bank reconciliation, this includes stating the designations of reviewers and approvers.
- c) The Treasury Department at MOFED HSS should prepare and send bank confirmation letters to the Banks at year-end requesting the banks to confirm the balances held.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 5	Title: Unsupported Journals for 2018
Criteria: Section 5 of the FMIS guidelines on journal vouchers highlights the process in journals determination, recording, review, approvals and subsequent filing of the approved journal print outs.	
Description of the finding: From the review of the financial statements, we noted a number of correction journals passed through the BISAN FMIS. However, there were no approved journal vouchers filed to support the journals passed during the year as required under the guidelines.	
Implication: Without supporting approved justification for the journals passed, there is a risk the journals passed were not reviewed and approved as per the guidelines. Unapproved journals could also lead to fraudulent manipulation of data in the system.	
Recommendation Priority: Priority 1- Urgent remedial action is required.	
Recommendation: MOFED should ensure all the correction and reallocation journals passed are adequately supported with approved journal print outs clearly providing justification for their posting. Further, the DG and the Treasury Director should conduct random spot checks of the Journals passed to ensure they are adequately approved.	
Comments from MOFED HSS: No comments received to date since report was provided for management comments on 20 November 2019.	

Finding n°: 6	Title: Excessive use of cash payments
Criteria: <p>An effective measure in achieving an accurate set of financial files is reducing the reliance on cash payments, wherever possible. This is because cash is associated with a higher degree of risk and error compared to other payment methods. These risks include fraudulent activities and the potential for individuals to misappropriate funds.</p> <p>Also, Hirshabelle State of Somalia Financial Management and Expenditure/Revenue Procedures Manual states in Expenditure process detail section "Payment to suppliers for goods and services can be made by check or when it becomes feasible by funds transfer to the supplier's account".</p>	
Description of the finding: <p>We noted excessive use of cash payments. For example:</p> <ul style="list-style-type: none">• USD 719,000 which 22% of the total payments reported (included Annex 3) was paid as Remuneration to Ministers and Politicians• Ministry of Internal Security paid USD 300,046, which 9% of the total payments reported (included Annex 3), for Security Forces (Police, Intel Forces, and Prison) allowances.	
Implication: <p>Significant cash payments reduce audit trail for transactions, increased risk of loss of funds and misappropriation.</p>	
Recommendation Priority: <p>Priority 1- Urgent remedial action is required.</p>	
Recommendation: <p>HSS should reduce its reliance on cash payments. It could achieve this by limiting the level of cash payments and by imposing upper limits. The banking system and mobile cash transfer payments which are available in Somalia should be used to pay beneficiaries. Cash payment should be kept at a minimum or only used in exceptional circumstances.</p>	
Comments from MOFED HSS: <p>No comments received to date since report was provided for management comments on 20 November 2019.</p>	

Finding n°: 7	Title: Weaknesses in personnel management
Criteria: <p>The HSS Ministry of Finance has a human resources manual which provides guidelines on the general administration of staff.</p> <p>Further, the HSS Civil Service Act 2017, regulation 1 provides guidelines on the recruitment, promotion, and transfer of civil servants.</p> <p>The HSS revenue regulation act schedule 3 no. 25 requires that the civil servants pay tax at a flat rate of 3% from their salary.</p>	
Description of the finding: <p>We noted the following weaknesses in human resource management;</p> <ul style="list-style-type: none">• HSS lacked an automated time recording system. During the year, there were no timesheets maintained for the staff engaged through the Civil Service Commission, only signed attendance lists were maintained which did not indicate the percentage of time spent on various administration work or different projects. Additionally, for the staff not covered under the CSC (security forces, MPs, ministers, and casuals), there was no documented evidence of their daily attendance maintained as evidence of the work done.• The HSS 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.• 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 the report for all the staff who resigned during the year.• Based on the staff contracts reviewed, we noted that the contracts lack important clauses such as the resignation notice period, staff leave days applicable.• Income tax was not deducted for the HSS staff during the year contrary to the Tax regulation included in the Revenue Act.	
Implication: <p>Incomplete personnel records may hinder proper reference of records, hence leading to a lack of evidence of vital information about employees.</p> <p>Failure to give adequate notice in adherence to the set resignation regulations may result in inefficiencies in business processes as a result of improper handovers. It may also lead to loss of revenue in cases where the resigning personnel is the revenue collection department and the employee hasn't banked and recorded the day's collections.</p>	
Recommendation Priority: <p>Priority 1- Urgent remedial action is required.</p>	
Recommendation: <p>We recommend the following;</p> <ul style="list-style-type: none">• An automated time recording mechanism should be developed to monitor staff daily attendances. Monthly reports should then be generated, reviewed by the line supervisors before approval is done by the Human Resource Director.	

- The Ministry management should ensure all salary costs are adequately supported with payrolls, contracts and monthly timesheets. Monthly reconciliations should also be performed between the payrolls and the ledgers, variances investigated and corrective measures are taken.
- 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.
- The CSC should put in place a system linked with the BISAN payroll to ensure data security and integrity.
- MOFED should ensure tax is deducted for all civil servants as per the revenue regulations.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 8	Title: Weaknesses in the procurement process
<p>Criteria:</p> <p>Section 4 of the procurement policy provides guidelines on the procurement of goods, works, and non-consultant services awarded and/or funded by the Hirshabelle State Somalia (HSS) including with funds provided by any international Donor that are processed through the HSS Treasury Single Account.</p> <p>It provides the following procurement methods;</p> <p>a) Competitive bidding – requiring open international advertisement. No threshold provided.</p> <p>b) Other methods; to be used where competitive bidding may not be the most economical and efficient method of procurement, and where other methods are deemed more appropriate as illustrated below;</p> <ul style="list-style-type: none"> • Limited bidding; direct invitation without open advertisement. No threshold provided. • Shopping method for goods and services amounting to USD 10,000 or less - requires a minimum of 3 quotations. • Sole and Single Sourcing for goods or services amounting to USD 1,000 or less. <p>Description of the finding:</p> <p>We noted the following gaps in the procurement process;</p> <ul style="list-style-type: none"> • Numerous instances of single sourcing of suppliers without documented justification and approval. These did not meet the criteria set out in the HSS Procurement Policy & procedure manual. Examples are highlighted under Annex 11. • Lack of annual approved procurement plan for the year 2018. • HSS lacks a prequalified list of suppliers. • Failure to establish a procurement committee as required by HSS Procurement Policy & Procedure Manual. The manual is also silent in regards to the tenure and composition of the procurement committee members. Currently, the procurement department reviews the quotes received. • The policy lacks thresholds for competitive bidding and limited bidding as well as purchases for goods and services above USD 10,000. <p>Implication:</p> <ul style="list-style-type: none"> • Lack of application of competitive procurement procedures poses the risk of HSS not benefitting from the best value for money for the taxpayers and donor’s money. • In addition, lack of adherence to set procurement procedures may lead to malpractices in the procurement process. 	
<p>Recommendation priority</p> <p>Priority 1 – Urgent remedial action is required.</p>	
<p>Recommendations:</p> <ul style="list-style-type: none"> • In order to ensure value for money is achieved when awarding contracts, MOFED HSS 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. • We also recommend that HSS takes steps to update the procurement manuals and have these approved for use, establish a procurement committee with associated guidelines, prequalified list of suppliers. 	
<p>Comments from MOFED HSS:</p> <p>No comments received to date since report was provided for management comments on 20 November 2019.</p>	

Finding n°: 9	Title: Weakness in ICT Logical Access controls
<p>Criteria:</p> <p>Unauthorized access can lead to devastating effects. Entities can become victims of malicious activities such as identity theft, financial fraud, theft of data and attacks on systems (e.g., denial of service), which can be especially harmful to online systems.</p> <p>The security parameters set at the Bisan application level, for both RMS, FMIS and BPM modules, require a unique User Name and a strong password of at least 5 characters. That means an appropriate length of a minimum of 5 digits, different characters (numbers, letters, lowercase, and uppercase) are being enforced by the system. Password changes are done after every 60 days is enforced by the system and the last 2 passwords are remembered and cannot be re-used. The segregation of duties principle is working effectively.</p> <p>Description of the finding:</p> <p>We noted the following weaknesses;</p> <ol style="list-style-type: none"> 1) Lack of Account Lockout Threshold after a number of failed sign-in attempts (i.e. can be an attempt to log in with an incorrect password 8 times.) and account lockout duration (can be set to automatically unlocks after a 5 to 15-minute period). We also noted that some workstations did not have a password set and were not automatically logging off, when left idle and unattended for a long time, so anyone could gain access. 2) Saved Passwords in browsers can be retrieved and read in Plain text. We noted that it's possible to save your password on the browser after logging in, this possesses a risk as the password can be retrieved in plain text. 3) Inadequate antivirus software installed on the entity's workstations. We found that the State was currently using the free anti-virus available from the internet which offers limited protection as its possible for ransomware like a crypto-locker virus to infect cloud storage through synchronization like Google Drive, which the entity is using. If a crypto-locker infiltrates a computer, it will encrypt all data stored on the local disk and synchronize with the cloud service, then to the other synchronized devices including those of colleagues. 4) Lack of formalized incident and problem management procedures to log, track and escalate technical problems, to ensure timely resolution by the Bisan support team. 5) Lack of seamless integration between the FMIS and RMS modules. We noted there was no direct transfer or importing of data from RMS to the FMIS system and the RMS personnel were inputting the figures manually into the FMIS. <p>Implication:</p> <ol style="list-style-type: none"> 1) Lack of system user account lockout threshold policy. 2) For any user having web browser remember their passwords details can be convenient, but it poses some security risk for instance if the user's computer is ever compromised and accessed remotely over the internet by an unauthorized party, the unauthorized party will have immediate and complete access to the user's online accounts if the passwords have been stored locally. 3) Lack of adequate and up to date Antivirus leaves the organization data more exposed to cyber-attacks which can result in unexpected and prolonged downtime as viruses/malware can jeopardize data integrity, disrupt computer processing, and create system outages. 4) Gaps in the incident and problem management process may not guarantee the escalated incidents have received the appropriate attention and resolved within agreed-upon time frames as defined on the service level agreement with the provider. 5) Lack of seamless system integration between FMIS and RMS may lead to possible alteration of data and incorrect figures due to human error. 	
Priority Rating:	

Priority 1 – Urgent remedial action is required

Recommendations:

We recommend the state:

- 1) The Account Lockout Policy and use of CAPTCHA can be implemented as another possible defense mechanism against password-guessing or brute force attacks, which means the account will be temporarily locked/disabled after a specified number of invalid or failed login attempts.
- 2) Saving of login credentials on the browser should be discouraged going forward.
- 3) The state should ensure all its computer workstations all installed with proper and up to date antivirus software. Staff should also be trained in basic IT system security and good practices.
- 4) The state should consider having in place a support and incident tracking system which can ideally be interfaced with the Bisan system which will assist in providing the audit trail and status required to monitor problems, as well as ensure appropriate solution and timely resolutions of all support queries.
- 5) The state should consider automating the data transfer between key modules to ensure integrity and accurate information as well as improve efficiency.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 10	Title: Gaps in Internal Audit
Criteria: An internal audit department is designed to add value to and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.	
Description of the finding: From our review, we noted the following weakness in the internal audit function; <ul style="list-style-type: none">a) The internal audit department is not adequately staffed for operational efficiency as an internal control measure. The department currently has only one staff and there were no internal audit reports provided as evidence of work done.b) The internal audit function does not have a charter highlighting details such as the qualifications expected for the HSS internal audit staff, values and the responsibilities of various staff. As per the existing State structure, the Internal Audit function reports to the Director-General MOFED.	
Implications: Without an adequately staffed internal audit department with documented charter, there is a risk that the organizational risks and control gaps are not identified timely and corrective measures advised timely.	
Recommendation priority: Priority 1 – Urgent remedial action is required.	
Recommendations: HSS should develop an internal audit charter and ensure the internal audit function is adequately staffed for effective operations of the State's internal audit function and report to the Director-General MOFED.	
Comments from MOFED HSS: No comments received to date since report was provided for management comments on 20 November 2019.	

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. Regardless of size, it is important for every organization to have defined and documented IT Policies to help protect the organization's data and other valuable assets.</p> <p>Description of the finding:</p> <p>We noted the following weaknesses;</p> <ol style="list-style-type: none"> a) Weak Governance of IT operations and lack of IT policies and procedures on key areas such as IT risk management, information security, business continuity, and change control. b) Lack of system program change and review policy. Program change control is the process of the programmer making changes to the system modules based upon requests from users or due to general system maintenance requirements. The change process involves authorization and approval procedures, an audit trail of requests, program testing, segregation of duties and documentation of the process. i.e. The goal of IT Security Policies to address security threats and implement strategies to mitigate IT security vulnerabilities, as well as defining how to recover when a system intrusion occurs. c) There is an absence of a well-defined, approved and tested business continuity plan (BCP), a disaster recovery plan (DRP) and an incident response plan (IRP). We noted the In-house IT is not involved in the backup process of the Bisan system and therefore, it's difficult to ascertain if indeed backups are performed automatically and if success or failure of daily backups is being monitored. The BCP defines and prioritizes the organization's critical operations and determines the resourcing and focus areas of the DRP. The IRP considers potential incidents and details the immediate steps to ensure a timely, appropriate and effective response. 	
<p>Implication:</p> <ol style="list-style-type: none"> a) Without appropriate IT policies and procedures, an organization's control over its IT systems, accuracy and reliability of its system's data would be weakened. b) Absence of Change management policy and authorization, any emergency, inappropriate or untested application changes without proper authorization trail and testing to correct or perform an immediate fix on the system can result in changes that can potentially affect the system's stability and sanity of the financial data. Wherein a number of transactions would have been processed by the time an inappropriate change is identified. c) The absence or existence of a well-defined and tested BCP, DRP, and IRP, may pose the following risks to the organization in the event of a Disaster: <ul style="list-style-type: none"> • The organization's ability to fully restore its operations on a full scale at the earliest to minimize the financial and data loss. • To retrieve and protect the information maintained in the systems. • Damage to state reputation in case of untimely operational failures which would adversely affect the citizen's assurance on the government revenue if they become unavailable. 	
<p>Priority Rating:</p> <p>Priority 2– Prompt specific action is required</p>	
<p>Recommendations:</p> <p>We recommend the state:</p> <ol style="list-style-type: none"> a) The entity should consider developing comprehensive and have appropriate policies and procedures in place for key areas such as IT risk management, information security, business continuity, and 	

change control. IT strategic plans and objectives support the entity's strategies and objectives. We recommend the use of standards and frameworks as references to assist the Entity in implementing good practices.

- b) Control processes should be well developed and consistently followed for changes to IT systems (databases, applications or batch jobs). All changes should be subject to thorough planning and impact assessment to minimize the likelihood of problems. All system changes should be appropriately authorized, tested and approved changes formally tracked. Change requests should be instituted using a formal and approved change request form.
- c) We recommend the state to put in place appropriate measures should then be put in place BCP, DRP, and IRP to reduce such risks, further these plans should be documented, periodically tested and updated as necessary. These plans should be tested periodically. The Bisan support can alert SWSS of the success or otherwise via email to the IT Director.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 12	Title: Gaps in User management access controls
<p>Criteria:</p> <p>According to the Bisan User Access Controls, manual 8.1 Version 1.0 dated July 2017 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>Requests for access to Bisan are received by head of the relevant department in the Ministry of Finance and approved by the Treasury Director in MOF, before being passed to the ICT Director who actions the request, and assign the new user the privileges in Bisan specified. For a sample of new joiners who were granted access to the Bisan system and we established that the process was being followed, however, these instructions between the IT Director and Treasury Director were mainly verbal and not through a formal process.</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"> a) Lack of a formal procedure for notifying the IT director to disable user accounts in a timely manner for staff who had left employment either through resignation or termination. b) Lack of periodic user access reviews of the activities performed by users to detect if there are any anomalies or inappropriate user access which could result in the posting of unauthorized financial transactions. c) The Bisan’s “Administrator” user account has advanced permissions necessary for the administration of the system, however, it’s held by one person wherein an administrator account can create new users, change account permissions, modify security settings such as password settings, his activities are not reviewed by anyone. We also noted there is no second-level authorization obtained for any amendments done on the system by the IT Administrator. 	
<p>Implication:</p> <ul style="list-style-type: none"> a) User IDs of terminated employees may still be active in the system and can be misused for processing of financial transactions and such transactions would not only be unauthorized but also lack accountability. b) Without periodic user access reviews, excessive access may remain with the users and anomalies in the operations of the system may not be identified early enough. This may have some greater repercussions on the operations such as manipulation of crucial data stored in the system. User accounts may also be allocated excess rights by the system administrators, intentionally or unintentionally, against the user’s job responsibilities. c) Lack of detective controls and periodic reviews of activities of IT Administrators and power users who have administrative access in all the key modules may result in an unnoticed violation of access rights and manipulation of data stored in the system. 	
<p>Priority Rating:</p> <p>Priority 2 – Prompt specific action is required</p>	
<p>Recommendations: We recommend that:</p> <ul style="list-style-type: none"> a) A formalized user termination process should be implemented and followed in order to revoke the access rights of users who have left the organization. Further current identified user accounts belonging to terminated staff should be immediately disabled. In addition, a standardized procedure should be developed, approved and documented to regulate this process revoking user access. Once an employee leaves the entity, the IT Director should be notified in a timely manner and disabled immediately. 	

- b) The state should consider performing periodic User Access Review (UAR) or Account Recertification, which is a critical step of the user account management to evaluate user access and while evaluating access rights assigned.
- c) We recommend that the System Administrator's activities be controlled, monitored and verified by a suitably qualified person within the Ministry, who can challenge the justifications provided by the System Administrator for any alterations done on the system.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 13	Title: Weaknesses in assets management												
<p>Criteria:</p> <p>Good accounting practices require maintenance and regular updating of assets register as a vital control in assets management.</p> <p>Further, articles 4.1, 4.2 and 5.3 of the HSS capital asset policy provides the guidelines for maintenance of an assets register, tagging of assets and annual assets counts respectively.</p> <p>Description of the finding:</p> <p>a) HSS has in place an assets management system and the assets register provided was system generated. However, from our review we established the register was incomplete as detailed below;</p> <ul style="list-style-type: none"> • Assets amounting to USD 7,800 included in the financial statements were not recorded in the assets register. The only assets included in the assets register were laptops purchased by ASI – Premis on behalf of the HSS. These were however not supported with a hand over report and listing indicating the total number and details of the laptops provided. • From the physical verification performed on a sample basis, we noted the following two laptops had not been included in the assets register. <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Asset</th> <th>Serial Number</th> <th>Responsible Person</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>Laptop</td> <td>5CD724BH59</td> <td>Mohamed Aded Ali</td> <td>Budget Officer</td> </tr> <tr> <td>Laptop</td> <td>5CD724PH5G</td> <td>Ali Adan Mumin</td> <td>Custom Director</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The assets register maintained did not indicate the purchase cost of the assets. <p>b) The HSS assets were not tagged. Based on physical verification done on a sample basis, we noted that all the assets verified were not tagged as illustrated in Annex 5:</p> <p>c) There was no evidence on annual physical verification of assets undertaken by the Ministry.</p> <p>d) We noted there were no documented asset purchase requisitions and no cost or depreciation has been recorded against them.</p> <p>e) The asset lifecycle plan has not been implemented to effectively manage the inventory of assets.</p> <p>f) Some assets were shown as “Not in Use” in the system but had not been securely quarantined in a designated location as per the disposal plan. Further, other assets were indicated in the system as pending and had not been approved on the system.</p>		Asset	Serial Number	Responsible Person	Position	Laptop	5CD724BH59	Mohamed Aded Ali	Budget Officer	Laptop	5CD724PH5G	Ali Adan Mumin	Custom Director
Asset	Serial Number	Responsible Person	Position										
Laptop	5CD724BH59	Mohamed Aded Ali	Budget Officer										
Laptop	5CD724PH5G	Ali Adan Mumin	Custom Director										
<p>Implications:</p> <ul style="list-style-type: none"> • Incomplete recording and tagging of assets hinder effective tracking and monitoring of assets. • Lack of physical verification of assets increases risk theft and misappropriation of assets. 													
<p>Priority Rating:</p> <p>Priority 2 – Prompt specific action is required</p>													
<p>Recommendations:</p> <p>We recommend that MOFED HSS should ensure the following;</p> <ul style="list-style-type: none"> • The costs of assets are recorded on the Financial Statements as per the fixed assets register in the year of acquisition. It is necessary to undertake a reconciliation of the fixed assets register with the Financial Statements. • That the asset register is updated with all key information such as the value of the asset to ensure effective control of assets. 													

- There should be regular physical verifications of fixed assets for effective control and tracking of assets.
- All assets are tagged with unique tag numbers as per the assets register.
- Requisitions should be utilized and reviewed and approved when an asset is required to be purchased.
- Improvements are needed, in order to strengthen the governance structure; document processes and procedures.

Comments from MOFED HSS:

No comments received to date since report was provided for management comments on 20 November 2019.

Finding n°: 14	Title: Failure to stamp support documents "PAID"
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 to cancel all supporting documents on which payment had been settled by stamping "PAID" to distinguish them from the unpaid expenses and reduce the likelihood of multiple payments being made based on the same set of documentation.	
Description of the finding: We noted all expenditure payment vouchers and their supporting documentation had not been stamped "PAID".	
Implications: Failure to cancel all supporting documents by stamping "PAID" increases the likelihood of multiple payments based on the same set of documentation, more so documents such as supplier's invoices, receipt vouchers, and Delivery Notes.	
Recommendation Priority: Priority 2 - Prompt specific action is required	
Recommendations: We recommend that treasury management of HSS ensures that all documents on which payment has been made should be stamped "PAID" to distinguish them from unpaid expenses. Since HSS undertakes several projects, it is necessary to design mechanisms to identify which funds the payments have been made.	
Comments from MOFED HSS: No comments received to date since report was provided for management comments on 20 November 2019.	

Finding n°:15	Title: Weaknesses in Budgeting
Criteria:	
<p>The PFM act states that “After the approval of the Annual Budget by Parliament, the Minister shall: Where the Ministry, institution or agency is responsible for the collection of revenues, require them to prepare an annual revenue collection plan broken down by month;”</p>	
Description of the finding:	
<ul style="list-style-type: none"> • Variance noted between the approved expenditure budget amount of USD 10,090,941 and the budget amount used on the financial statements of USD 10,706,578. USD 601,615 of this amount was reconciled with journal vouchers raised in respect to the additional approved project budgets, however, a variance of USD 14,022 was not reconciled. • We noted that HSS budget estimates were not reflective and a comparison of the annual budget estimates against the actual revenue receipts disclosed huge discrepancies. The state was only able to raise revenue amounting to USD 3,289,040 out of the total estimated appropriation amount of USD 10,618,577 thus realizing only 31% of the budgeted amount. • We noted that the state did not prepare monthly revenue plans as required under the PFM Act of 2018. 	
Implications:	
<ul style="list-style-type: none"> • Without correct budget records and reflective appropriation estimates, the state may not be able to utilize effectively the budget as a planning tool. • Lack of periodic revenue planning could lead to poor cash flows/revenue deficits that could halt critical operations of the state. 	
Recommendation priority:	
Priority 2 - Prompt specific action is required.	
Recommendations:	
<p>MOFED HSS should ensure;</p> <p>When preparing the annual budgets, the annual estimated appropriation amounts should be informed by both past trends, envisaged receipts in the form of revenue and prevailing economic times, any budget variances reconciled timely.</p> <p>The State should increase its revenue base to ensure the budget estimates are realistic and will mostly be funded by locally generated revenues in the form of taxes</p> <p>Monthly revenue planning is implemented as required by the PFM Act so as to ensure the State does not run into revenue deficits.</p>	
Comments from MOFED HSS:	
No comments received to date since report was provided for management comments on 20 November 2019.	