

ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES FOR THE YEAR ENDED 31 DECEMBER 2022

TRANSMITTAL LETTER

10th December 2023

**The Speaker of the Parliament
Hirshabelle State of Somalia
Jowhar, Hirshabelle**

Dear Mr. Speaker,

I have the honor to respectfully submit the Annual Report of the Auditor General on the Accounts of the Hirshabelle State of Somalia for the financial year ended 31 December 2022. This report is presented in accordance with Section 32(3) of the Public Financial Management (PFM) Act, 2018, and Sections 30, 32 and 33 of the Audit Act, 2019 of the Hirshabelle State of Somalia.

The Office of the Auditor General is constitutionally mandated to provide Parliament with independent assurance on the management and use of public resources. In fulfilment of this mandate, we audited the financial statements and operations of Ministries, Departments, Agencies (MDAs), and other public institutions funded by the State. This report presents the significant audit findings, conclusions, and recommendations arising from those audits.

Our audits were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that audits be planned and performed with due professional care to obtain reasonable assurance that public funds have been managed lawfully, transparently, and effectively. The observations contained in this report relate to matters that remained unresolved during the audit process and, in our view, require the attention of Parliament and the Executive.

On behalf of the Office of the Auditor General, I wish to express my sincere appreciation to the Ministry of Finance and all audited institutions for their cooperation and assistance throughout the audit process.

I respectfully commend this report to Parliament for its consideration and trust that its recommendations will contribute to strengthening accountability, transparency, and good governance in the Hirshabelle State of Somalia.

Please accept, Mr. Speaker, the assurances of my highest consideration.

Yours faithfully,

Auditor General
Hirshabelle State of Somalia

CC:

1. The President of the Hirshabelle State Government
2. Minister of Finance, Hirshabelle State of Somalia

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

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

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

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

Approved by Hirshabelle State of Somalia (HSS) on their behalf by;

.....Ali Abdulle Nor.....

Minister for Finance

2023 and signed on



2.0 THE OFFICE OF THE AUDITOR GENERAL (OAG) REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2.1 Audit Opinion

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 2022 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 31 December 2022 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public- Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting.

Basis for Qualified Opinion

We identified the following material misstatements in the course of the audit conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI):

- Under the Hirshabelle State of Somalia (HSS), Revenue Collecting Agents are expected to collect custom duties at either Balcad or Beletweyn collection points and license fees (Road Usage Tax, Livestock, business licenses) to assist the State to run its operations. However, during the period under review (FY 2022), Fluctuation of local tax revenue across months with March 2022 recording \$501,644 and June 2022 just over \$ 100,000 may be an indication of the revenue not being accurately and completely accounted for and recorded under the HSS books. There is also an indication that HSS is over reliant on donor funding to run its operations;
- Consolidated expenditures including payroll, we have identified overall deficiencies and gaps representing 35% of the 2022 payments;
- We noted weaknesses in payroll, daily meals, transportation incurred on the Security Forces due to insufficient support documents totaling US\$ 1,914,659 ; representing 26% of the total payroll payments in 2022;

- **2.0 OAG Audit Report (Continued)**

- Our audit identified expenditures totaling US\$ 1,961,598 representing 43% of total expenditure, excluding payroll, reported in the Consolidated Fund Statement of Receipts and Payments which lacked adequate evidence of occurrence of transactions;
- Capital expenditures relating to constructions of structures such as checkpoints in the State amounting to US\$128,791 do not have certificate of completion to verify the condition of the structures and standards of quality;
- HSS does not have a complete fixed asset register to show assets the government owns and the corresponding title deeds;
- Lack of adequate interface between the BPM, RMS and IFMS. There is a risk that the Expenses and revenue budget values posted could be misstated because of variances between BPM and IFMIS;
- In addition, we noted that the foreign exchange rate used for conversion from Somalia Shilling to United States Dollar (US\$) by both the MoF is not clearly documented and inconsistencies in how these amounts are reported. The local custom officers at the districts, decide the exchange rate to be used which may lead to misstatement in translation of revenue from taxes.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the financial report* section of our report.

We are independent of Hirshabelle State of Somalia in accordance with the ethical requirements that are relevant to our audit of the financial report and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion.

Going concern

The consolidated financial statements have been prepared using the going concern basis of accounting. Based on the audit evidence we have obtained, there have been no material uncertainty exists related to events or conditions that may cast significant doubt on the HSS's ability to continue as a going concern.

Other information

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

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

In connection with our audit of the Consolidated Fund Statement of Receipt and Payments, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Fund Statement of Receipt and Payments or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a

Hirshabelle State of Somalia (HSS) Audited Consolidated Financial Statements for the year ended 31 December 2022

material misstatement of this other information: we are required to report that fact. We have nothing to report in this regard.

Key Audit Matters

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

- We have assessed inherent and control risks as high, attributed to fragile operating environment, capacity and resource constraints. Therefore, the existing internal control environment is not capable of detecting and preventing risks of material misstatements on the financial statements. For instance key support documents maintained by HSS are the internal IFMIS documentation such as CPO, POSA and CV filed with the payment vouchers. Gaps noted include weak or absence of purchasing and key procurement documents for the payments;
- The Asset Management System crashed during the year under year. Therefore, there is a lack of complete asset management register for the HSS; hence assets owned by the government could not be accounted for;

Responsibilities of Management and Those Charged with Governance for the financial statements

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

In preparing the Financial Statements, the Management is responsible for assessing the 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 HSS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the government'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 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 ISSAIs will always detect a material misstatement when it exists.

2.0 OAG Audit Report (Continued)

Auditor's Responsibilities for the audit of the financial statements (continued)

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 this financial report.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional scepticism 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 expressing an opinion on the effectiveness of the government's internal control.
- 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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HSS'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 report 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 HSS 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 represents 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 Office of the Auditor General (Hirshabelle State of Somalia)

Jowhar

Somalia,

**The Office of the Auditor
General (OAG)**

Signature----- *Mariam*

Date----- *05-12-2023*



**Annex 1: Consolidated and Ministerial Financial Statements of Hirshabelle State of Somalia
for the year ended 31 December 2022.**