

HIRSHABELLE STATE OF SOMALIA (HSS)
INDEPENDENT AUDITORS' REPORT ON THE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

GLOSSARY OF TERMS

FGS	Federal Government of Somalia
FY	Financial Year
IPSAS	International Public Sector Accounting Standards (IPSAS)
ISSAI	International Standards of Supreme Audit Institutions
HSS	Hirshabelle State of Somalia
MoF	Ministry of Finance
US\$	United States Dollar

Hirshabelle State of Somalia (HSS) Audited Consolidated Financial Statements for the period ended 31 December 2019

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Hirshabelle State of Somalia (HSS) Audited Consolidated Financial Statements for the year ended 31 December 2019

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;

M. ABDULLE

Minister for Finance



2021 and signed on

Signature

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2.0 INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2.1 Independent Auditors' Opinion

Modified 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 2019 and Notes to the Financial Statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Modified 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 2019 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting.

Basis for Modified 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):

- There was a halt to the local tax collection effective July 2019 which as per our inquiry was due to administrative conflict. Based on the analysis and the run rate, the amount of local revenue lost in the second half of the year was amounting to \$680,560.94; representing 45.9% of the local revenue that the government would have realized in the financial year.
- We noted weaknesses in payroll processes due to insufficient support documents totaling US\$ 543,000; representing 15% of the total payroll payments in 2019;
- Our audit identified expenditures totaling US\$ 1,024, 672 representing 69% of total expenditure, excluding payroll, reported in the Consolidated Fund Statement of Receipts and Payments which lacked adequate evidence of occurrence of transactions;

- Expenses of around 30% to 40% of the revenue collected in cash from the custom points are netted off against the revenue that has been collected. In addition, security commission to SNA and regional forces are been paid off from the gross tax collection prior to the handover of the total taxes collected to Ministry of Finance (MoF) Hirshabelle. This poses a risk in accuracy and completeness of the taxes collected as the audit trail of total taxes collected is lost when net-offs are done before banking of the revenue collected. This also poses a challenge for the MoF in its budgeting and planning process since actual revenue collected from source should be the accurate measure when budgeting for the next financial period;
- The road construction expenditure of \$550,000 incurred in the improvement of road between Jowhar Town and the Airport lack civil engineers work completion report, Bill of Quantity (BOQ), contractor's handover work sign off and procurement process; and
- 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

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:-

Weaknesses in revenue collection and recording

The revenue collection procedures undertaken by Hirshabelle State of Somalia are not adequate to prevent material risk of misstatements resulting given the manual nature of the revenue collection which is susceptible to loss and misappropriation. These are attributable to the following revenue processes:-

1. Revenue is collected manually in cash by revenue collection agents who issue serialized receipts to the taxpayers. The banking is done daily after the day's collection or on the next working day. Cash is inherently risky and there is a risk of the Revenue Collection Agents not receipting all revenues collected;
2. Revenues from Customs duties and licenses (Road Usage Tax, Livestock, business licenses) are collected manually through serialized prenumbered receipt books. However, there is no independent review check and reconciliation of the daily collections versus the serialized receipts to ascertain that all utilized receipts have been properly accounted for in the daily collection totals and that the daily collections per carbon copies of the receipts match the daily banking, and hence the RMS posting;
3. Expenses of around 30% to 40% of the revenue collected in cash from the custom points are netted off against the taxes that have been collected. In addition, security commission to SNA and regional forces are been paid off from the gross tax collection prior to the handover of the total taxes collected to Ministry of Finance (MoF) Hirshabelle. This poses a risk in accuracy and completeness of the taxes collected as the audit trail of total taxes collected is lost when net-offs are done before banking of the revenue collected. This also poses a challenge for the MoF in its budgeting and planning process since actual revenue collected from source should be the accurate measure when budgeting for the next financial period;
4. 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; and
5. We noted that there was variance between revenue recorded under the Revenue Management System (RMS) and Financial Management Information System(FMIS) amounting to US\$ 785,769 indicating inaccuracy and errors in the recording and completeness of the recorded revenue. This is attributed to lack of integration and interface between the two systems to enable the provision of reconciled reports when needed.

Weaknesses in expenditures

- Expenditure under the State are not sufficiently supported to prevent ineligible expenditure and misstatements of the financial statements. The expenditure lack proper supporting documents including evidence of goods delivered or services rendered documentation such as Delivery Note (DN), Goods Received Note (GRN), motor vehicle log sheets, timesheets and certificate of work completion;
- The road construction expenditure of \$550,000 lacked adequate support documents such as procurement evaluation, certificate of work completion and the Bill of Quantities. As per our inquiry and interviews, the supplier has been selected on capacity and reliability in Jowhar. However HSS failed to document adequately attributed to capacity gaps in the procurement and finance department and
- Weaknesses in the procurement processes such as lack of defined processes such as user request, request for proposal, receipt of quotations, appointment of ad hoc procurement committee, and subsequent bid analysis report for award of contracts and purchase orders to supply.

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.

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.

2.0 Independent Auditors' Report (Continued)

- 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.

Certified Public Accountants (Kenya)

Nairobi

2021

CPA Bulle Ahmed - Practising certificate No. 2055

Signing partner responsible for the independent audit.

The Office of the Auditor General (Hirshabelle State of Somalia)

Jowhar

2021

Somalia

Signature.....



Hirshabelle State of Somalia (HSS) Audited Consolidated Financial Statements for the year ended 31 December 2019

Annex 1: Consolidated and Ministerial Financial Statements of Hirshabelle State of Somalia for the year ended 31 December 2019