



Office of Auditor General

Office of the Auditor General

Southwest State of Somalia

Annual Audit Report 2022

Presented to the Parliament on 25/03/2024.



Office of Auditor General

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Office of Auditor General

Transmittal Letter

25th Maarso 2024

Honourable Mohamed Nur Mo'allim Mohamed
Deputy Speaker & Acting Speaker of Parliament
Southwest State of Somalia
Baidoa, Somalia.

Dear Sir,

In accordance with the provisions of section 32(3) of the 2018 PFM Act, And Sections 30, 32 and 33 of the Audit Act 2021 of South West State of Somalia (SWSS), I have the honour to submit to you the 2021 Annual Audit Report of the Office of the Auditor General (OAG) for tabling in the State Parliament.

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

1. The 2022 Financial Statements of SWSS and accompanying Audit Opinion (Annex 1).
2. The Audit Management Letter for 2022 including the detailed findings, recommendations for improvement and formal responses from Ministry of Finance (Annex 2).

Yours Faithfully,

Mohamed Omar Ahmed
Auditor General
Southwest State of Somalia



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



Office of Auditor General

1. Executive Summary

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

Section 32(3) of the PFM Act 2018 and Section 30(4) of the Audit Act 2021 require the Auditor General to examine, at least annually, the consolidated financial statement of the South West State of Somalia and report to Parliament. The law requires the Auditor General to express an opinion on the truth and fairness of the consolidated financial statements, report on significant findings and recommendations on the usage of public funds and also report on internal control deficiencies.

Since the Auditor General (AG) was appointed, the OAG was operationalized with the recruitment of three staff. Main issues that are an impediment to the full functioning of the office include and not limited to; inadequate staffing, inadequate capacity among staff, lack of tools of work, lack of independence and zero financial resources to enhance the independence of the office.

Despite the aforementioned challenges, it is with pride and deep heart that SWSS-OAG presents the OAG annual report for the third year running without the support of private sector audit firms which has been the trend in previous years. .

This report gives a summary of the Opinion, significant findings and recommendations and internal control deficiencies for the financial year ending 31st December 2022. More detail on these findings is presented in **Annex 2** to this report along with responses from the Ministry of Finance.

The overall audit opinion is a Qualified Opinion — this means that the Auditor General considers that the financial statements are a true and fair representation of the financial activities during the 2022 financial year except in the following key areas.

- A. Receipts amounting to USD **153,217.59**, representing **4.5%** of total local revenue collections reported under note 2 of the financial statements, lacked supporting documents (The original receipt books, copies of which should have been issued to the tax payers). Therefore, we are unable to ascertain whether these transactions are fully and correctly presented in the financial statements.
- B. Payments totalling USD \$1,264,283 representing 24% of the sampled non-Salary expenses were only supported with internally generated documents. These expenses were only supported with commitment payment order, payment request form and the paying cheques (Bisan and bank cheque), these are all internal documents. These expenses lacked any evidence of occurrence. (details are found ML).



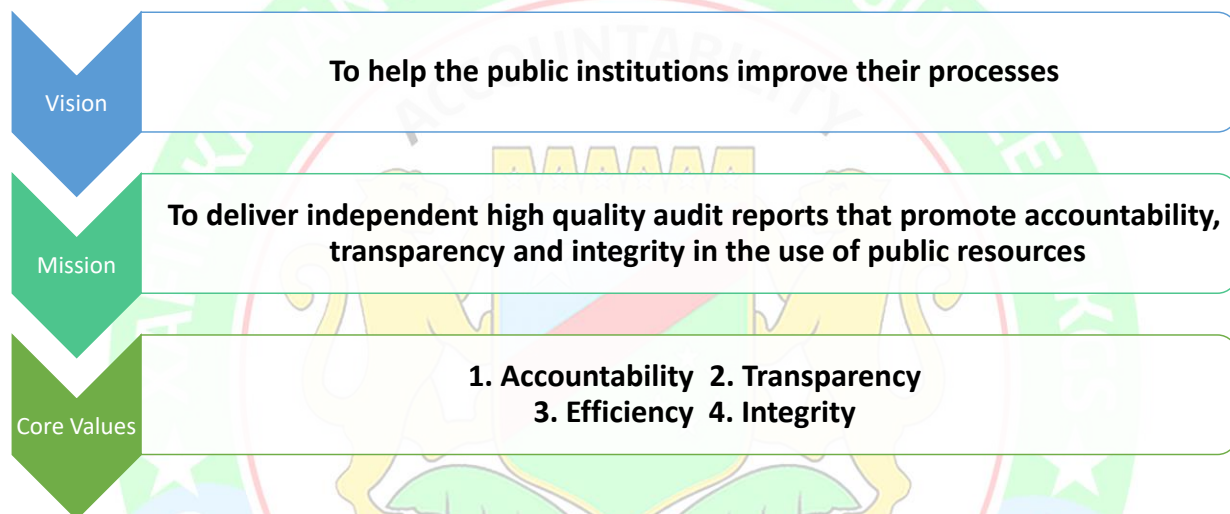
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The performance of the state in this year in terms of accountability is similar with the previous year in which the audit opinion was Qualified Opinion.

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

2. About the OAG

2.1 Vision, Mission and Core Values



2.2 Functions of the OAG as per Audit Law

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

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



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2.3 Current Status of the OAG

The OAG was established in 2015 but was not fully operational until January 2018 and the Audit Act was passed by parliament on 7th January 2021. Since then, with the support of the FCDO funded PREMIS project, staff and institutional capacity have steadily improved. The PREMIS project ended in 2022. Subsequently no other donor support whether technical or otherwise was extended to the office which greatly impacted both in the momentum of progress in the office but also threatened the erosion of hard gained reforms and technical capacity within the office. We are grateful for the EU funded SFAS Technical assistance project that has assigned an advisor to help us currently. It is worth mentioning that no technical assistance may be sustained and have long lasting impact without addressing underlying issues such as staffing, resources, independence, tools of work, retention of staff etc.

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

2.4 OAG Challenges

The Office of Auditor General of SWSS faces a number of challenges. Key amongst these are;

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

2.5 Responsibilities of Other Parties in the Audit process

Ministry of Finance

As per section 32(1) and (2) of the PFM Act 2018, the Minister shall prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four months after the end of the fiscal year. The unaudited Final Account of the Consolidated Budget shall be in accordance with the content and classifications of the budget.

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

3. Key Terminologies

3.1 Audit Opinion

This is the auditor's judgment on the financial statements prepared by management. An audit opinion is a professional view offered by a qualified accountant at the completion of an audit of financial records. In



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In addition to an overall conclusion, the opinion describes the processes used during auditing, the standards used by the auditor, and other relevant information.

Types of Audit Opinions

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

Qualified opinion — this means that the auditor has taken exception to certain current-period accounting applications or is unable to establish the potential outcome of a material uncertainty. Also known as “**except for...**” opinion.

Disclaimer opinion — this is an audit opinion whereby the auditor is **unable to state his/her view** as to whether the financial statements are free from material misstatements due to a material limitation of scope. The auditor is therefore unable to express his opinion.

Adverse opinion — this is a type of audit opinion which states that the financial statements **do not** fairly present the financial position, results of operations, and changes in financial position, in conformity with the relevant financial reporting framework.

3.2 Consolidated Financial Statements

These are the financial statements of the various Ministries, Departments and Agencies of the state that are presented as one combined statement for a given financial period.

3.3 Materiality

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



Office of Auditor General

4. Key Audit Results and Recommendations

4.1 Report of the Independent Auditor

Qualified Opinion

I have audited the financial statements of the South West State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Notes to the Financial Statements including a summary of significant accounting policies and other explanatory information. In our opinion, except for the effects of the matters described in the Basis for qualified Opinion paragraph, The financial statements presents fairly, in all material respects, the financial position of the South West State of Somalia as at 31 December 2021 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting, 2017.

Basis for Qualified opinion

- A. Receipts amounting to USD **153,217.59**, representing **4.5%** of total local revenue collections reported under note 2 of the financial statements, lacked supporting documents (The original receipt books, copies of which should have been issued to the tax payers). Therefore, we are unable to ascertain whether these transactions are fully and correctly presented in the financial statements.
- B. Payments totalling USD \$1,264,283 representing 24% of the sampled non-Salary expenses were only supported with internally generated documents. These expenses were only supported with commitment payment order, payment request form and the paying cheques (Bisan and bank cheque), these are all internal documents. These expenses lacked any evidence of occurrence. (details are found ML).

I conducted my audit in accordance with International Standards for Supreme Audit Institutions(**ISSAI**). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my Annual Report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in at Section 7 and 6 of the Audit Act 2021, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Office of the Auditor General Code of Ethics.



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4.2 Revenue

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

Weaknesses in revenue collection and recording process.

- a) During our review we found out that \$ 153,217.59, representing 4.5% of total local revenue were not supported with the original receipt books, copies of which should have been issued to the tax payers.
- b) Details of information in which payroll tax from organizations is calculated on has not been availed.
- c) Non reconciliation of various systems, books, records and documents used for collection of revenues
- d) Using cash as a mode of collection for some revenue streams casts doubt on the completeness and accuracy of banked revenues.
- e) Tax bases, total turnover on which tax rates are calculated on and tax payer details are missing from revenue receipts and vouchers.

Recommendation:

- All local revenue collections be supported by original receipt books and any other original documents in which the amount collected/recorded was based on.
- The different support vouchers to include TIN, the tax base and total income being taxed.
- Daily or weekly reconciliation of cash collections receipts to the daily banking
- Consider digitization of all collections of revenues.

Variance between revenue recorded under RMS and FMIS. As well as variances between donor income recorded in the state systems compared with amounts confirmed by the federal government of Somalia.

We noted that there was a variance between revenue recorded under the RMS and FMIS amounting to US\$ 713,909.34. We also noted that there was a variance of USD 198,226.56 between FGS transfers recorded in the state's financial systems and amounts confirmed by the FGS as having been transferred to the state. This points to a lack of reconciliation procedures and seamless interphase between systems essential for ensuring the accuracy and completeness of recorded revenues.

Recommendation:

We recommend for the real time interface between systems and regular reconciliation procedures to be implemented by the state.



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4.3 Expenditure

Lack of proper supporting documents

Payments totalling USD \$1,264,283 representing 24% of the sampled non-Salary expenses were only supported with internally generated documents. These expenses were only supported with commitment payment order, payment request form and the paying cheques (Bisan and bank cheque) which are all internal documents

Recommendation:

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

Weaknesses in procurement

Lack of competitive bidding / single sourcing of suppliers;

During our review of the paying documents, we found out that suppliers of goods and services and major contractors were not subjected to any procurement process as and when engaged by the state. There were no adverts, quotations or tender flotations depending on threshold. No tender opening minutes, procurement evaluation reports, professional opinions, notifications and regrets etc. The states procurement laws and regulations were not complied with. No justifications were provided for single sourcing.

Lack of procurement committee

During the audit, we noted that SWSS have not formed a procurement committee. And that can Cause loss of value for money and Inadequate scrutiny and control over state procurements

Recommendation:

- Conformity to the law on matters procurement is recommended. Value for money, fairness, equity and transparency in the states procurement process can only be achieved when procurement law is fully implemented.
- The State should establish a Procurement Committee to review the procurement procedures, documents, bid evaluations, award recommendations



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Expenditure documents not stamped as “PAID.”

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

Recommendations:

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

4.4 Payroll Expenses

Weaknesses in payments to Security Forces were as follows

- a) During our review of the security payments we have noted that an amount of **\$4,591,170** was spent on security payments.
- b) We have found out that there was no master roll showing all the details and current payroll establishment for the state.
- c) No HR files for the security officers
- d) Payments made in cash which is a risky mode of payment
- e) No system exists for tracking paid and pending security personnel dues

Recommendation:

- Automate and base the security’s payroll expenses on biometric identity of recipients
- MOF to obtain monthly security officers head count and status prior to release of lump sum required amounts
- Payment of officers through Electronic Voucher Card (EVC)/Bank accounts.

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

- a) Lack of evidence of competitive hiring of the wage workers
- b) No Contracts for the wage workers
- c) No Timesheets or attendance sheets

Recommendations:



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

Weaknesses in payments of Remuneration to ministers, politicians and teachers

- a. During our review of these payments we have found out that there were no individual's files for all these categories of payroll payments.
- b. There was no documentary evidence to show the rates payable to ministers, their deputies and state ministers.
- c. Unexplained inconsistencies were noted in the rates paid to different ministers, deputies and state ministers.
- d. As with Parliament there was no documentary evidence to show the basis for the rates payable to the speaker, his deputies and the members of Parliament.
- e. Teachers' payments had the following gaps; no complete list of all teachers that are supposed to receive salaries from the state. The list fluctuates from month to month, it is not clear how many teachers were paid per region per school etc., It is not also clear how many months' teachers were paid and how many months they were not paid, and no files for sampled teachers and their recruitment process.
- f. Unlike other state officers no taxes were deducted from the salaries of ministers and politicians.

Recommendations:

- Automate and base the payroll expenses on biometric identity of recipients
- The Ministry of Finance to obtain monthly personnel head count and status prior to release of lump sum required amounts
- Deduction of taxes be done consistently for all state officers
- There should be a documented basis for compensating ministers and politicians.

4.4 Weaknesses in Fixed asset / management of fixed assets

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

- Failure to establish a centralised fixed assets register
- Fixed assets are not tagged.
- No evidence for periodic assets verification procedures
- Acquired assets in the year could not be physically verified



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Recommendations:

- All assets acquired should be verifiable with ownership documents kept safely.
- Centralized assets register should be established and updated This should include all government property both movable and immovable.
- The SWSS should ensure that all assets are tagged with a unique identification code.
- An asset maintenance schedule be maintained and followed and all broken but useful pieces of assets be regularly repaired and put into good use.
- There should be regular physical verification exercise on the assets, the results of which should be updated in the Centralized assets register.

4.5 Bank and Cash

In our review of bank reconciliations, we have noted the following gaps;

- Some of the reconciliations lacked dates of preparation and review.
- There were instances of reconciliations not signed by preparer, reviewer or both.
- Bank reconciliations are done monthly instead of weekly

Recommendation:

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

4.6 Weaknesses in the budgeting and financial reporting process

We noted a huge variance between the budget revenue for the period and the actual financial performance. Also huge variance was noted on the expenditure:

Description	Budget	Actual	Variance	% age
Revenue (\$)	35,154,920	22,971,921	12,182,998	34.7%
Expenditure (\$)	35,154,920	22,323,507	12,831,413	36%

Recommendation:

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



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4.7 Failure to Implement Prior Year Audit Recommendations

We noted that, most of the audit recommendations made for the audit year of 2021 have not yet been implemented.

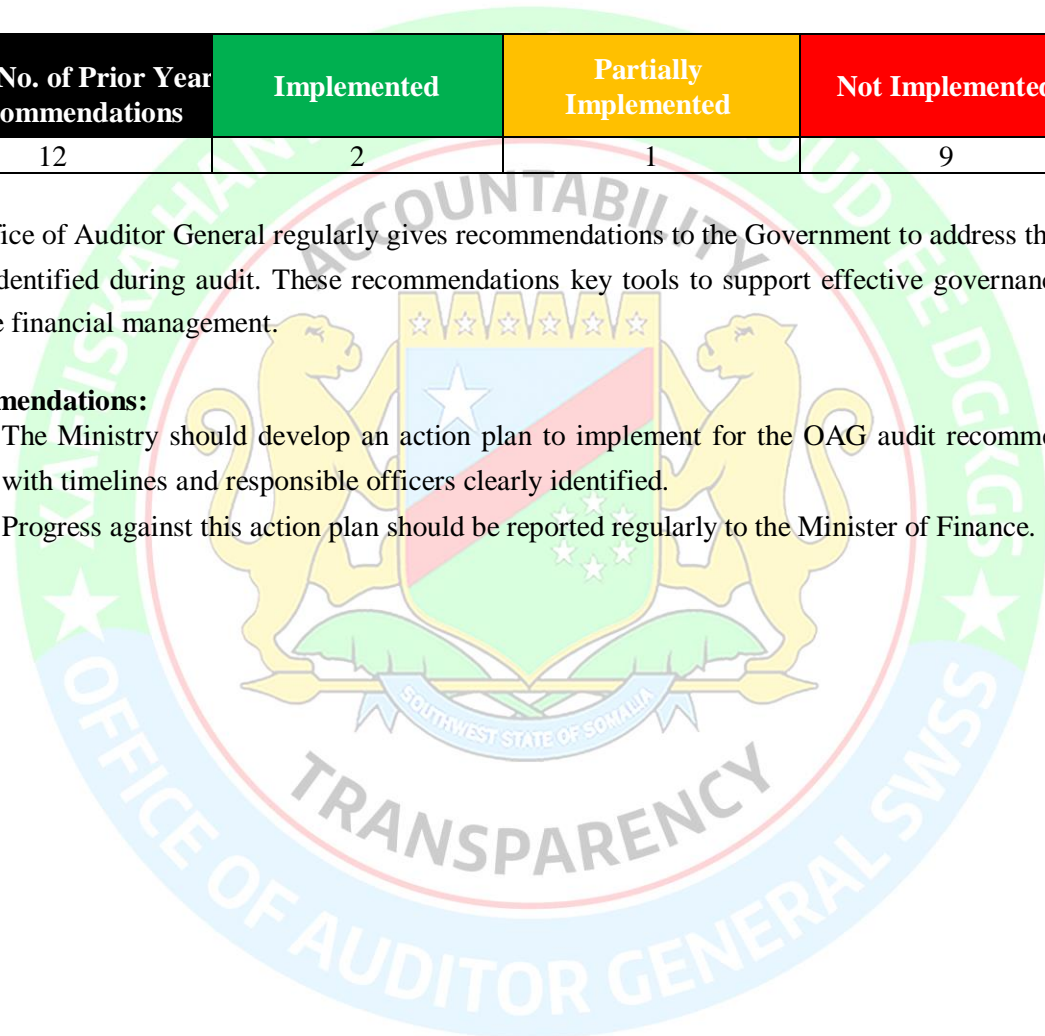
The following table shows that the implementation status of OAG recommendations made in the Annual Report 2021.

Total No. of Prior Year Recommendations	Implemented	Partially Implemented	Not Implemented
12	2	1	9

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

Recommendations:

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





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5 Acknowledgement

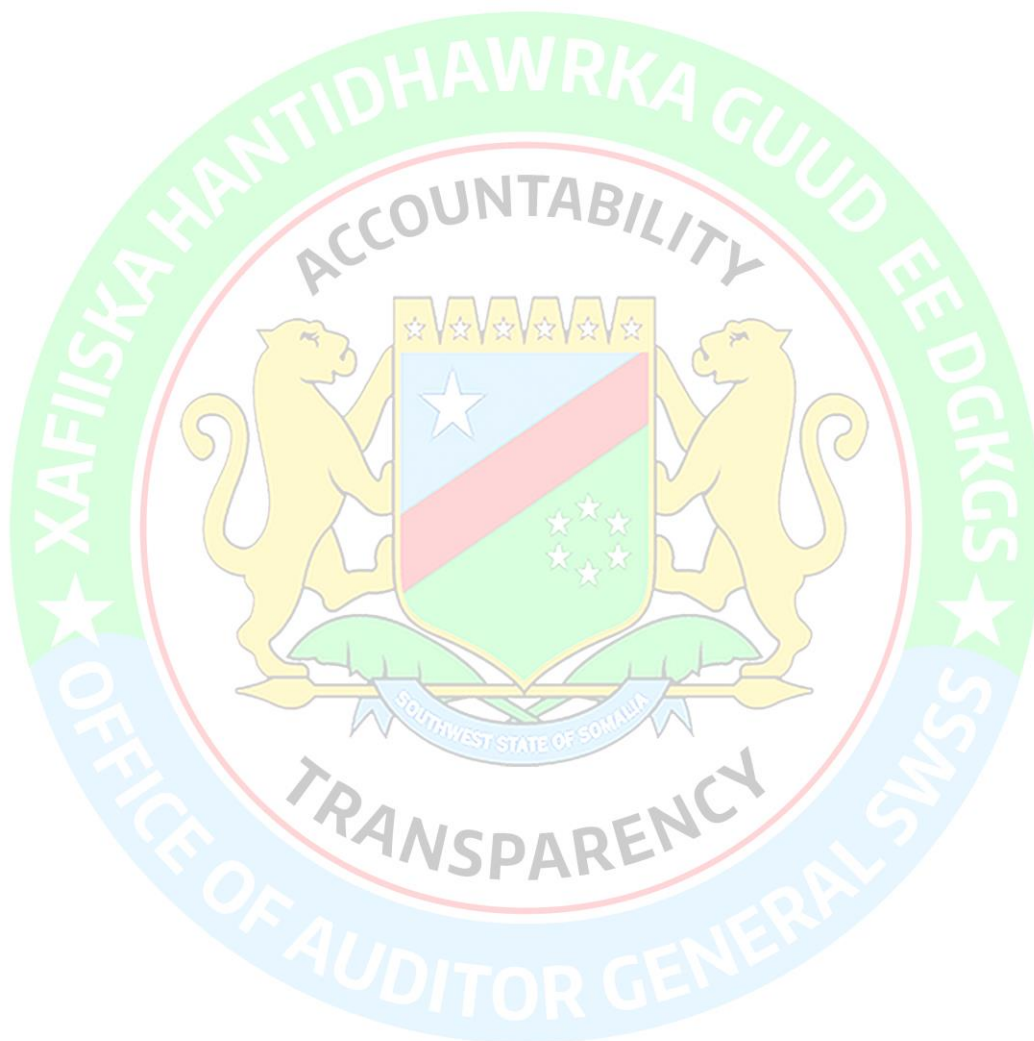
We take this opportunity to acknowledge the cordial corporation accorded to us by the officials of the Ministry of Finance headed by the Minister for Finance. We are also grateful for the valuable technical input of our EU Advisor and I appreciate e my staff for their commitment throughout this process.





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Annex 1 – South West State of Somalia (SWSS) Audited Consolidated Financial Statements for the Period Ended 31 December 2022 With Audit Opinion





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

REF/SWSS/AG/0026/2023

Date: December 31st 2023.

**Audit of Southwest State of Somalia Performed by the Auditor General
Final Audit opinion**

Ahmed Mohamed Hussein,
Minister of Finance,
South West State of Somalia,
Baidoa-Somalia.

Dear Sir,

Qualified Opinion

I have audited the financial statements of the South West State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Notes to the Financial Statements including a summary of significant accounting policies and other explanatory information. In our opinion, except for the effects of the matters described in the Basis for qualified Opinion paragraph, The financial statements presents fairly, in all material respects, the financial position of the South West 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, 2017.

Basis for Qualified opinion

- A. Receipts amounting to USD **153,217.59**, representing **4.5%** of total local revenue collections reported under note 2 of the financial statements, lacked supporting documents (The original receipt books, copies of which should have been issued to the tax payers). Therefore, we are unable to ascertain whether these transactions are fully and correctly presented in the financial statements.
- B. Payments totalling USD \$1,264,283 representing 24% of the sampled non-Salary expenses were only supported with internally generated documents. These expenses were only supported with commitment



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payment order, payment request form and the paying cheques (Bisan and bank cheque), these are all internal documents. These expenses lacked any evidence of occurrence. (details are found ML)

I conducted my audit in accordance with International Standards for Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my Annual Report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in at Section 7 and 6 of the Audit Act 2021, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Office of the Auditor General Code of Ethics.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

(a) Weakness in Revenue Collection Controls

We noted the following weaknesses in the management, collection and recording of revenues. More details on this can be found in the management letter;

- Revenues transactions not supported with original receipts
- Details of information in which payroll tax from organizations is calculated on has not been availed.
- Non reconciliation of various systems, books, records and documents used for collection of revenues
- Using cash as a mode of collection which is susceptible to manipulations
- Tax bases, total turnover on which tax rates are calculated on and tax payer details are missing from revenue receipts and vouchers.

(b) Grants from international organisation and FGS

- No periodic reconciliations between amounts received from donors and amounts recorded in Bisan as received from donors taking into account stage of agreement implementation.
- No clear documentation to show all donor projects been implemented, donors and parties to the project or agreement, stage of implementation, focal persons and contact addresses of all parties involved, signed donor agreements showing contractual relationships, deliverables, budgets and conditions.



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- Independent confirmations were either not received and or were not sent as a result of lack of addresses of donors
- There were Instances where funds from donors deposited in government bank accounts by individuals instead of funds coming through the name of the donors

(c) Weaknesses in Payroll for Security

- No security personnel master roll
- Payments made in cash which is susceptible to manipulations
- No physical files for security personnel
- No system for tracking pending and paid security personnel dues.

(d) Weaknesses in Wage workers and contract Employees

- No documented recruitment process for wage workers and contract employees
- Gaps such as missing contracts, missing attendance sheets, missing job descriptions etc. were noted
- Using cash as a payment mode was also noticed which is risky.

(e) Weakness in fixed assets.

- Failure to establish a centralised fixed assets register
- Fixed assets are not tagged.
- No evidence for periodic assets verification procedures
- Acquired assets in the year could not be physically verified



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Office of Auditor General**

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (IPSAS)-Financial Reporting Under the Cash Basis of Accounting and legislation, and for such internal control as management determines 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, management is responsible for assessing the state's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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

For Ministry of Finance



**Name: Ahmed Mohamed Hussein
Title: Minister of Finance
State: Southwest State of Somalia
Date: 01/02/2024**





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

Auditor's Responsibility for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards for Supreme Audit Institutions, 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 the AFROSAI-E Financial Audit Manual, which is consistent with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit. I 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 my 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 controls.
- 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 internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 state's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the state to cease to continue as a going concern.



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- 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.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Office of the Auditor General	
Name:	Mohamed Omar Ahmed
Title:	Auditor General
Date:	
Signature:	





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

For the Year Ended 31 December 2022

*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
Southwest State of
Somalia**

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Statement of Certification-2022 Financial Statement

The financial statement submitted for Audit in accordance with Section 32 (1) of the PFM Act shall include a Statement of Certification by the Minister outlining the basis of preparation and that the financial statements are materially accurate and fairly present the Government financial position for the period reported

The South-West State of Somalia with the support of Federal Government of Somalia and its development partners has continued to make steady progress in the implementation of various public financial management reforms providing critical support to state development priorities and helping to provide achievable macroeconomic stability during a challenging year from the effects from climate change resulting lengthened draught, security issues across Somalia and in particular SWS.

Several interventions were undertaken during the year to strengthen systems of domestic revenue mobilization, expenditure control and accountability in the state, sound financial management systems, improved inter- governmental coordination between FGS and FMS, and a responsive citizen-centric state system.

During the financial year 2022, the SWS took steps to widen the tax bases including increased coverage of payroll taxes and tax on international trade. Grants from Federal Government of Somalia has also more than doubled compared with previous year.

From the government's revenue reform effort, local revenue collection was estimated to be US\$3.9 million and actual raised was US\$3.4 million, there was a shortfall of (US\$0.5 million) of the actual revenue collected compared to the budget. Grants expected from both Federal Government of Somalia and international partners were estimated to be US\$31.2 million, actual grants received were only US\$19.5 million, resulting a shortfall of US\$11.7 million.

SWS government is committed to increase the domestic revenue mobilization by expanding the tax base of each category and activating other tax categories where there are still challenges exist. The goal for SWS is to keep on increasing own source revenue to a level where the government can meet its financial commitments and less rely on external assistances.

For and on behalf of the South West State of Somalia



Minister for Finance

26/04/2023

Statement of Responsibilities

The financial statements set out from page 13 to page 36 have been prepared in line with the provisions of the Public Financial Management Act (2018), the Public Financial Management Regulations, Public Financial Management Guidelines, and in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS), Cash Basis of Accounting (2017).

In accordance with Section 32 (1) of PART VII of the Public Financial Management Act 2018, The Minister shall prepare the unaudited Final Account of the Consolidated Budget and submit it to the Auditor General no later than four (4) months after the end of the fiscal year.

Section 32 (1) of PART VII of the Public Financial Management Act 2018, The Auditor General shall review the Final Account of the Consolidated Budget produced by the Minister and forward an audit report, along with the Final Account, to Parliament no later than four (4) months after receipt of the unaudited Final Account from the Minister. The audit report of the Auditor General shall include response and clarifications furnished by the Minister on the observations and comments raised by the Auditor General on the unaudited accounts.

Accordingly, and in reference to Section 32 (1) of PART VII of the Public Financial Management Act 2018, I am pleased to submit the annual financial statements of South West State of Somalia for the financial year ended 31st December, 2022.

I have provided and will continue to provide all the information and explanations as may be required in connection with these financial statements. To the best of my knowledge and belief, these financial statements agree with the accounts of the Government, which have been properly kept.

To the best of my knowledge these financial statements of South West State of Somalia, for the year ended 31 December 2022 have been prepared in accordance with the Public Financial Management Act (2018), the Public Financial Management Regulations (2018) and IPSAS Cash Basis of Accounting

Treasury Director

Name: **Kadar Ahmed Mohamed**

South West State of Somalia

Executive Summary

Overview of the Financial Statements

The Financial Statements of the Federal Member State of Somalia (JSS, SWS, HSS, GSS) provide a record of the Government's financial performance over the financial year, 2022 as outlined in the Statement of Receipts and Payments and the Statement of Comparison of Budget and Actual Amounts. The Financial Statements further summarize all financial transactions for the year ended 31st December 2022 and the FMS's financial cash position as at the 31st December 2022. These statements have been prepared by the Treasury Directors of the Federal Member State of Somalia and include financial information related to all Federal Member State Ministries, Departments and Agencies (MDAs).

The 2022 financial statements focus on reporting, primarily budgeted activities of the FMS for which an Annual Budget Statement was prepared for and authorized by the Federal Member State's parliament for the 2022 fiscal year. The budget and annual financial statements are produced to support FMS's strategic business and financial decisions critical to the fiscal and economic wellbeing of the state. The annual reports include the financial and budget activities of MDAs which directly and indirectly receive budget allocations from the Federal Member State. These MDA entities are listed in Note 1.2 of this report.

Format of the Financial Statements and additional disclosures

Consolidated Financial statements of the Federal Member State of Somalia have been prepared on a cash basis with activities and related transactions recognized when cash is received, and payments are made. The financial statements for the financial year have been compiled and presented in order to make a fair presentation of the SWS's financial information and have been prepared in accordance with the Public Financial Management Act October 2018 and compliance with Part 1 of the IPSAS Cash Basis of Accounting which requires the following mandatory information to be disclosed:

Statement of Cash Receipts and Payments

This is a statement of financial performance and measures the net surplus or deficit (the difference between total receipts and total payments) for the year. The statement provides information on the FMS's sources of revenue and the cost of its activities.

Statement of Comparison of Budget and Actual Amounts by Economic Nature

The statement of comparison of budget and actual amounts presents a comparison of the budget amounts and the actual amounts for the year based on the GFS economic classification. The statements are prepared to provide information on the extent to which resources were obtained and used in accordance with the budget approved by Southwest State Parliament.

Statement of Operations

The Statement of Operations produces summary information on the overall performance and financial position of the general government. This Statement is divided into three sections that present: revenue and expense transactions; transactions in non-financial assets; and transactions in financial assets and liabilities. This Statement is a voluntary disclosure and not a reporting requirement under the International Public Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting (2017), which is the standard adopted in preparing these financial statements.

Accounting Policies

These are the specific principles, bases, conventions, rules, and practices adopted by the South West of Somalia in preparing and presenting the financial statements.

Explanatory Notes to the Financial Statements

The explanatory notes to the financial statements assist in understanding the information reported in the principal statements to provide full disclosure and are considered an integral part of the financial statements.

Additional Disclosures

In order to meet the requirements under Section 6.1.4 of Regulation 6 2018, and also to provide further information to the financial statements reported under IPSAS, Cash Basis of Accounting, Part 2 of the standard encourages additional disclosures to be made so as to provide more information necessary for accountability and decision-making purposes.

Statement of Domestic Borrowing

This statement provides information on the outstanding national debt of South West State of Somalia at the end of the year and makes a distinction of the nature of the debt (capital and operational)

Summary of Financial Results

Financial Statement Highlights and Analysis

Table 1: Summary of Financial Performance

Financial performance	2022	2021
	USD	USD
Revenue	22,971,921	11,332,679
Expenditure	(22,323,507)	(11,832,541)
Surplus	648,414	(499,862)
Revenue increased by (%)	103%	
Original Budget	35,154,920	
Revised Budget (Mid-year Revision)	35,154,920	
Actual Expenditure	(22,323,507)	
Under Spending (Budget Saving)	12,831,412	
% Change		

Revenue Analysis

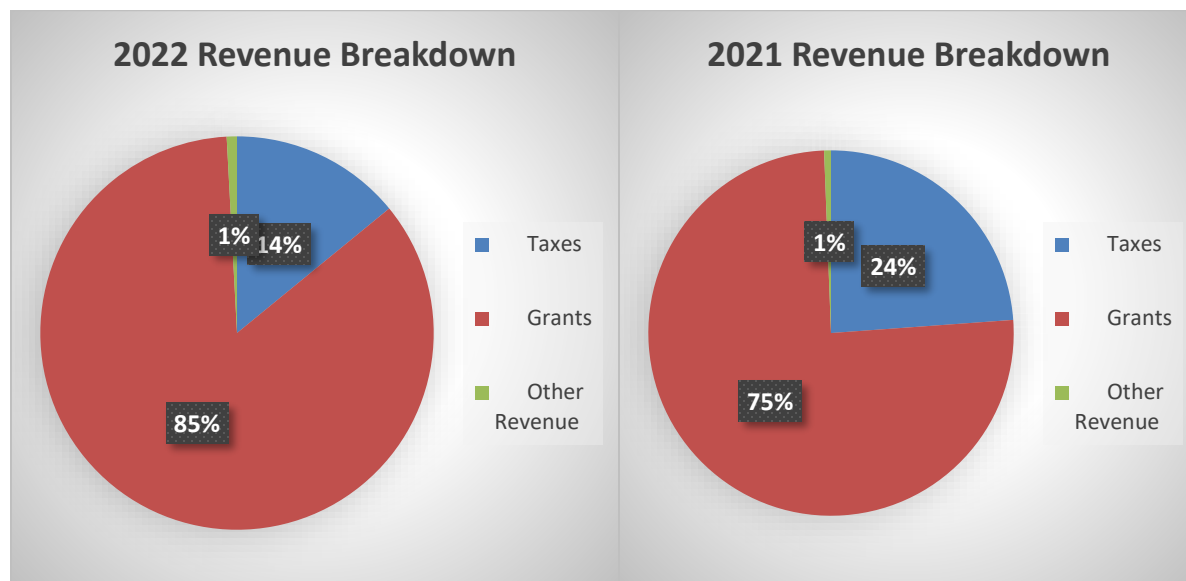
Southwest State total revenue has increased significantly from **\$11.3 million** in 2021 to **US\$23 million** in the 2022 financial year and increase of **US\$11.6 million (103%)**. **The main sources** of the FMS's revenue are grants from international partners and transfers from the Federal Government of Somalia. Revenue from own source (taxes) was **14% (US\$3.2 million of US\$22.9 million)** of total revenue which compared to the previous year was **US\$2.7 million (24%)** of total revenue (**US\$11.3** million).

Table 2: Summary of receipts

Revenue Type	2022	2021
	USD	USD
Receipts		
Taxes	3,235,688	2,703,236
Grants	19,542,910	8,560,530
Other Revenue	193,323	68,913
Total	22,971,921	11,332,679

The following chart further highlights, the breakdown of revenue collections for the year which shows that external grants were **85%** of the total receipts.

Chart 1: Comparison of SWS's sources of revenue



Tax Revenue

As detailed in Table 2, the current year's tax revenue (domestic receipts) stands at US\$3.2 million up from US\$2.7 million last year, in the same period. This upward movement of US\$0.5 million in this category of the revenue has mainly come from **taxes on payroll (52%)** where the government widened the tax base on payroll taxes during this financial year. As depicted in Chart 1 other revenue was 1% of the total revenue for the year.

Other Revenue

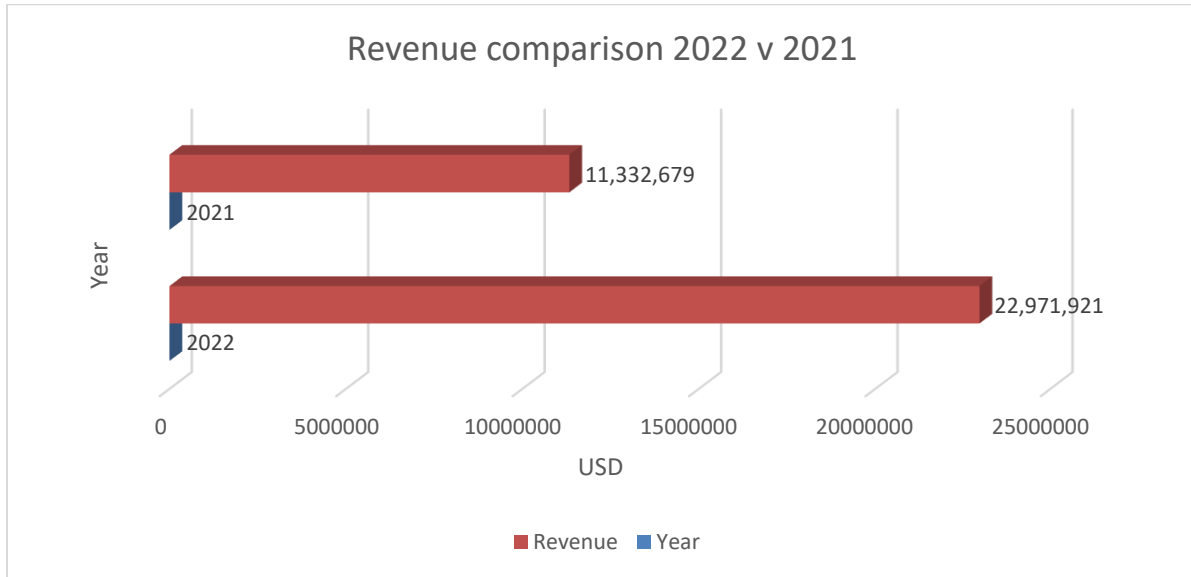
The financial year 2022 saw other revenue increase from US\$69k last year to US\$193k. This increase of US\$124k has been mainly attributed to the property income. As depicted in Chart 1 above, revenue from taxes collected was 14% of the total revenue for the year.

Grants

The financial year 2022 saw grant receipts from international partners and transfers from the Federal Government of Somalia were significant sources of funds accounting for US\$19.5 million, increasing by just under **\$11 million** when compared to the previous year. Grants received accounted for 85% of total revenue compared to 75% in previous year, an Increase of 10%. This is mainly due to the introduction of new projects and the transfers from the Federal Government of Somalia.

Further illustration and comparisons between current year and previous year is highlighted in Chart 2.

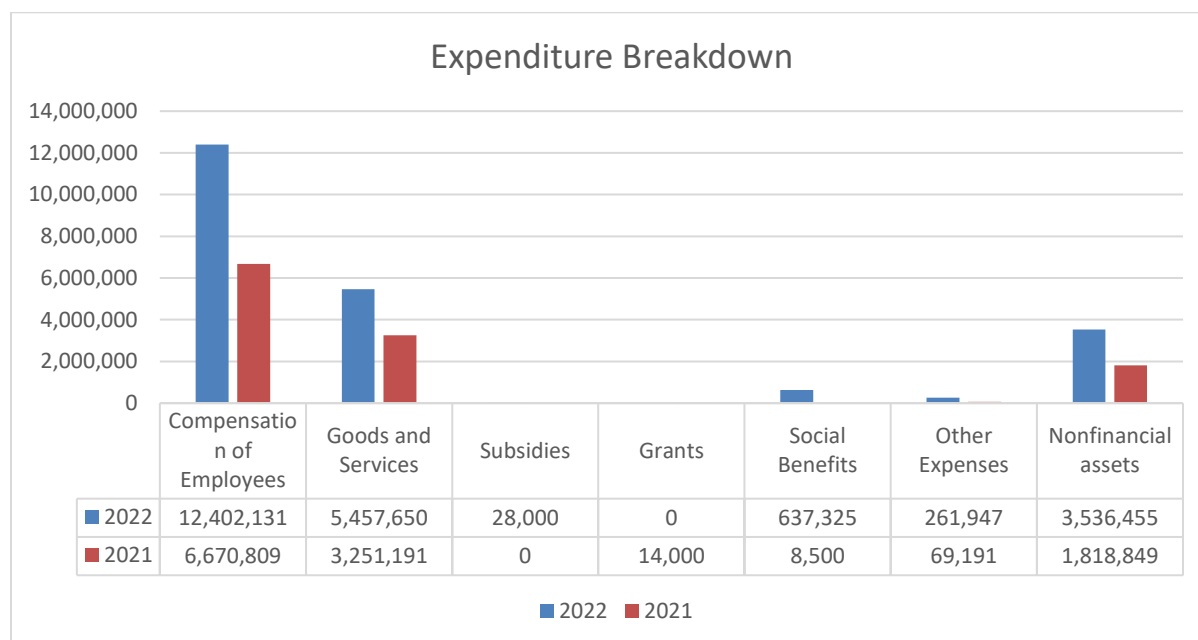
Chart 2: Yearly revenue comparison



Expenditure Analysis

The FMS's payments fall into four distinct categories; recurrent, non-financial assets (capital expenditure), social benefits and Grants paid. The recurrent expenses or costs are primarily manpower related expenses and cost on goods and services for operations. The recurrent expenses also include interest and other charges. Chart 3 summarizes the major areas of expenditure incurred by the FMS.

Chart 3: Expenditure categories



The total payments made during the year amounted to US\$22.3 million in comparison to US\$11.8 million in 2021. Overall, the SWS has increased its expenditure by US\$10.5 million (89%), with the highest increases are from compensation of employees of US\$5.7 million and goods and services US\$ 2.2 million, and social benefits with US\$629k.

Table 3 below shows expenditure categories for the 2022 financial year in comparison to the 2021 financial year.

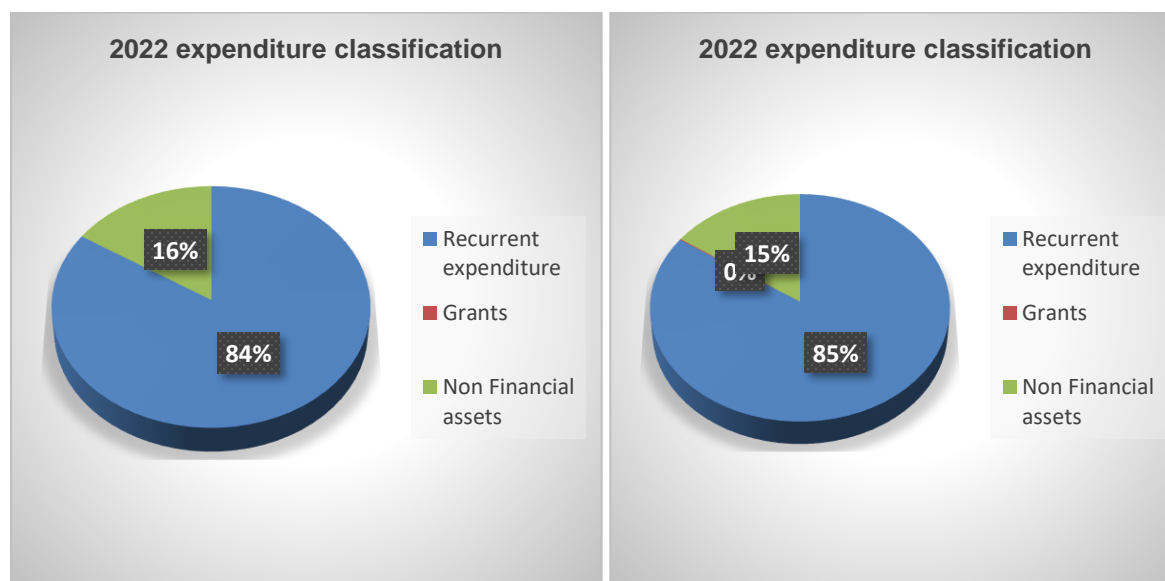
Table 3: Summary of expenditure for 2 years

	2022	2021		%
	USD	USD	Variance (USD)	Change
Compensation of Employees	12,402,131	6,670,809	5,731,321	86%
Use of Goods and Services	5,457,650	3,251,191	2,206,459	68%
Subsidies	28,000	-	28,000	
Grants	-	14,000	(14,000)	
Social Benefits	637,325	8,500	628,825	7398%
Other Expenses	261,947	69,191	192,756	279%
Nonfinancial assets	3,536,455	1,818,849	1,717,605	94%
Total Expenditure	22,323,507	11,832,541	10,490,967	89%

Table 4: Main expenditure headings

	2022	2021	Variance	
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>% change</u>
Recurrent expenditure	18,787,053	9,999,691	8,787,361	88%
Grants		14,000	-14,000	-1%
Non-Financial assets	3,536,455	1,818,849	1,717,605	94%
Total expenditure	22,323,507	11,832,541	10,490,967	89%

Chart 4: Expenditure classification in graphs



Non-Financial Assets

Non-financial assets (Capital expenditure) for the year was US\$3.5 million compared to US\$1.8 million for the previous year, an increase of US\$1.7 million (94%). **The major areas of expenditure were other fixed assets followed by inventories.** In accordance with reporting on a cash-basis and complying with IPSAS, cash basis of accounting, capital expenditure is expensed in the year of acquisition.

Budget and Expenditure Analysis

The annual budget of the SWS is the principal document by which the Government sets out its financial plan for the year. The original budget or financial plan approved by the State Parliament for the budgeted expenditure for the year was US\$35.2 million. Budget was not revised for the year.

The table below depicts the allocations and actual payments of each category of the expenditure.

Table 5: Expenditure comparison - Budget v Actual

	2022		
	Budget	Actual	Variance (Underspend)
Expenditure Category	USD	USD	%
Compensation of Employees	14,894,420	12,402,131	-17%
Use of Goods & Services	9,225,994	5,457,650	-41%
Subsidies	42,000	28,000	-33%
Grants	-	-	
Social benefit	640,400	637,325	0%
Other expenses	266,467	261,947	-2%
Non-Financial Assets	10,085,639	3,536,455	-65%
Totals	35,154,920	22,323,507	-36%

Functions of Government

Developed by the OECD, the Classification of the Functions of Government (COFOG) classifies government expenditure data for the purpose for which the funds are used by Ministries, Departments and Agencies. All expenditure relating to a particular function is aggregated into one category regardless of the economic nature of the expenditure. South West State of Somalia do not prepare COFOG report as of FY2022.

Consolidated Financial Statements of Receipts and Payments

South West State of Somalia
Consolidated Financial Statement of Receipts and Payments
Treasury Single Account
For the Year Ended 31 December 2022

	2022	2021
	Controlled by TSA	Controlled by TSA
Note	USD	USD
Receipts / Inflows		
Taxes	2	
Taxes on income, profits, and capital gains	63,849	58,173
Taxes on payroll and workforce	1,693,384	1,124,575
Taxes on goods and services	1,217,820	1,382,516
Taxes on international trade and transactions	260,636	137,972
Taxes	3,235,688	2,703,236
Grants	3	
From foreign governments		2,871,145
From international organizations	5,805,326	5,689,385
From other general government units	13,737,584	13,737,584
Grants	19,542,910	8,560,530
Other Revenue	4	
Property income	168,006	22,537
Sale of goods and services	16,293	24,830
Fines, penalties and forfeits	2,347	21,546
Transfers not elsewhere classified	6,677	
Other Revenue	193,323	68,913
Receipts / Inflows	22,971,921	11,332,679
Payments / Outflows		
Compensation of Employees	5	
Wages and Salaries	12,402,131	6,670,809
Compensation of Employees	12,402,131	6,670,809
Use of Goods and Services	6	
Travel & Conferences	907,298	438,704
Operating Expenses	2,182,013	1,103,822
Rent	97,500	103,190
Other Operating Expenses	2,270,339	1,605,474
Contingency	500	
Use of Goods and Services	5,457,650	3,251,191
Subsidies	7	
Subsidies to other sectors	28,000	-
Subsidies	28,000	-
Grants	8	
Grants To Other General Government Units	-	14,000
Grants	-	14,000
Social Benefits	9	
Employment-related social benefits	637,325	8,500
Social Benefits	637,325	8,500
Other Expenses	10	
Transfers not elsewhere classified	261,947	69,191
Other Expenses	261,947	69,191
Nonfinancial assets	11	
Fixed Assets	3,244,465	1,708,305
Inventories	291,990	110,544
Nonfinancial assets	3,536,455	1,818,849
Payments / Outflows	22,323,507	11,832,541
Increase Decrease in Cash	648,414	(499,862)
Cash at Beginning of Year	577,529	1,079,390
Cash at End of Year	1,225,943	577,529

Consolidated Fund Statement of Budget and Actual

South West State of Somalia
Consolidated Fund Statement of Comparison of Budget and Actual Amounts
For the Year Ended 31 December 2022

Classification of Payments and Receipts by Economic Class “Appropriation Budget Approved on Cash Basis”

	Note	2022				2021
		Original Estimate	Final Estimate	Controlled by	Difference Between	Controlled by
		Appropriation	Appropriation	TSA	Final Budget and Actual	TSA
		USD	USD	USD	USD	USD
Receipts / Inflows						
Taxes						
	12					
Taxes on income, profits, and capital gains		71,220	71,220	63,849	(7,371)	58,173
Taxes on payroll and workforce		1,067,152	1,067,152	1,693,384	626,232	1,124,575
Taxes on goods and services		2,342,540	2,342,540	1,217,820	(1,124,721)	1,382,516
Taxes on international trade and transactions		150,984	150,984	260,636	109,652	137,972
Other taxes		24,000	24,000		(24,000)	
Taxes		3,655,897	3,655,897	3,235,688	(420,208)	2,703,236
Grants						
	13					
From foreign governments						
From international organizations		6,688,820	6,688,820	5,805,326	(883,494)	2,871,145
From other general government units		24,571,153	24,571,153	13,737,584	(10,833,570)	5,689,385
Grants		31,259,973	31,259,973	19,542,910	(11,717,063)	8,560,530
Other Revenue						
	14					
Property income		24,151	24,151	168,006	143,856	22,537
Sale of goods and services		185,986	185,986	16,293	(169,693)	24,830
Fines, penalties and forfeits		22,236	22,236	2,347	(19,889)	21,546
Transfers not elsewhere classified		6,677	6,677	6,677		
Other Revenue		239,050	239,050	193,323	(45,726)	68,913
Receipts / Inflows		35,154,920	35,154,920	22,971,921	(12,182,998)	11,332,679
Payments / Outflows						
Compensation of Employees						
	15					
Wages and Salaries		14,894,420	14,894,420	12,402,131	(2,492,290)	6,670,809
Compensation of Employees		14,894,420	14,894,420	12,402,131	(2,492,290)	6,670,809
Use of Goods and Services						
	16					
Travel & Conferences		1,163,203	1,163,203	907,298	(255,905)	438,704
Operating Expenses		2,965,828	2,965,828	2,182,013	(783,815)	1,103,822
Rent		137,316	137,316	97,500	(39,816)	103,190
Other Operating Expenses		3,122,416	3,122,416	2,270,339	(852,077)	1,605,474
RCRF-Non Salary Recurrent Cost		1,533,500	1,533,500		(1,533,500)	
Contingency		303,731	303,731	500	(303,231)	
Use of Goods and Services		9,225,994	9,225,994	5,457,650	(3,768,344)	3,251,191
Subsidies						
	17					
Subsidies to other sectors		42,000	42,000	28,000	(14,000)	-
Subsidies		42,000	42,000	28,000	(14,000)	-
Grants						
	18					
Grants To Other General Government Units		-	-	-	-	14,000
Grants		-	-	-	-	14,000
Social Benefits						
	19					
Employment-related social benefits		640,400	640,400	637,325	(3,075)	8,500
Social Benefits		640,400	640,400	637,325	(3,075)	8,500
Other Expenses						
	20					
Transfers not elsewhere classified		266,467	266,467	261,947	(4,520)	69,191
Other Expenses		266,467	266,467	261,947	(4,520)	69,191
Nonfinancial assets						
	21					
Fixed Assets		9,673,861	9,673,861	3,244,465	(6,429,396)	1,708,305
Inventories		411,778	411,778	291,990	(119,788)	110,544
Nonfinancial assets		10,085,639	10,085,639	3,536,455	(6,549,184)	1,818,849
Payments / Outflows		35,154,920	35,154,920	22,323,507	(12,831,413)	11,832,541
Increase Decrease in Cash		(1)	(1)	648,414	648,415	(499,862)

Statement of Operations

South West State of Somalia Statement of Operations For the Year Ended 31 December 2022

	2022	2021
	USD	USD
Transactions Affecting Net Worth		
Revenue	11,332,679	15,246,340
Taxes	2,703,236	2,368,614
Taxes on income, profits, and capital gains	58,173	30,775
Taxes on payroll and workforce	1,124,575	711,271
Taxes on goods and services	1,382,516	1,478,335
Taxes on international trade and transactions	137,972	148,234
Grants	8,560,530	12,841,452
From foreign governments	-	-
From international organizations	2,871,145	1,940,782
From other general government units	5,689,385	10,900,670
Other Revenue	68,913	36,275
Property income	22,537	13,133
Sale of goods and services	24,830	23,142
Fines, penalties and forfeits	21,546	-
Expense	10,013,691	13,357,336
Compensation of Employees	6,670,809	10,845,345
Wages and Salaries	6,670,809	10,845,345
Use of Goods and Services	3,251,191	2,265,983
Travel & Conferences	438,704	148,890
Operating Expenses	1,103,822	1,029,628
Rent	103,190	107,885
Other Operating Expenses	1,605,474	759,927
Conflict Resolution Expenses	-	219,654
Grants	14,000	102,000
Grants To Other General Government Unit	14,000	102,000
Social Benefits	8,500	-
Employment-related social benefits	8,500	-
Other Expenses	69,191	144,009
Transfers not elsewhere classified	69,191	144,009
Net worth and its changes	1,818,849	1,299,962
Nonfinancial assets	1,818,849	1,299,962
Fixed Assets	1,708,305	1,276,998
Inventories	110,544	22,964
Overall Statistical Discrepancy	-	-

Notes to the Financial statements

1. Summary of Significant Accounting Policies

Basis of Preparation

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

Reporting Entity

The Financial Statements are for the Southwest State of Somalia. The designed capital of South West State is Baraawe, located on the coast in Lower Shabelle Region, half way between Mogadishu and Kismayo. However, the South West State Administration is located as an interim in Baidoa currently.

The principal address is the Ministry of Finance Building,
Ali Salaamey Street,
Wadajir Village,
Villa Southwest State of Somalia - Baidoa.

The principal activities of the Government and its controlled entities include the provision of health, education, defense, security, and general public services. The Financial statements are for the Southwest State of Somalia (SWSS) and covers the period 1 January to the 31 December 2022. The financial statements encompass the reporting entities as specified in the SWSS Appropriation Act No.1 of 2022 and are comprised of:

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

All ministries were created by Presidential Decree SWSS-0001/03/01/15 entitled A Decree Establishing Ministries of South West State of Somalia and Defining Roles and Functions of Ministries dated 03 January 2015 and a separate Act creating the Ministry of Finance and the Revenue Collection Authority entitled An Act Establishing the Ministry of Finance and Revenue Collection Authority and Other Related Matters 2018. An Act establishing the Civil Service Commission (CSC) and its purpose entitled An Act establishing the Civil Service Commission of the South West State of Somalia dated 22 January 2018 established the office of the Civil Service Commission. A companion Act also established the Civil Service and the Civil Service Salary structure. The consolidated financial statements include all entities controlled during the year. None of the entities owns another entity or a separate business unit. An establishment of the Audit General Office Act dated 1st January 2023.

Treasury Single Account & Project Accounts

In addition to Treasury Single Account and Project Account bank accounts, five bank accounts were opened during the year under a written authorization of the Minister for Finance. These bank accounts were opened as sub-accounts of the TSA as a requirement of the donors. As at the end of 2022 financial year, balances of these bank accounts were as follows:

	2022	2021
	USD	USD
Treasury Single Account - Main	9,418	36,702
Support to Stabilization(S2S)	-	2,055
Local Development Fund(MoI)	3,341	2,072
SUIPP-Baidoa Mucicipality	-	-
Ministry of Livestock & Veterinary	25	-
Ministry of Health	94,441	20,054
Ministry of Planning Investment	87	1,845
Rehabilitation of football stadium	-	-
Ministry of Information	-	-
Ministry of Education	80	80
Ministry of Women & Human Rights	21,925	19,500
Ministry of Interior, Local Government & Reconcili	80,056	39,527
Ministry of Aid & Disaster Management	100	-
Treasury Single Account - Main	5,262	33,045
PROJECT ACCOUNT RCRFII	-	-
BIYOOLE PROJECT	44,117	107,223
Ministry of Justice & Judiciary	-	-
Ministry of Labour & Employment	-	-
Ministry of EDUCATION	5,911	1,702
Global Partnership for Education	2,456	130,276
MoJ SWSS Women Project	-	-
Ministry of Planning Investment & Economic Develop	13,520	-
Ministry of Water & Energy	215,421	4,601
Ministry of Public Workers Reconstruction & Housin	10,850	-
TREASURY SINGLE ACCOUNT	16,507	-
Explosive Ordnance Disposal	-	-
Ministry of youth & sports SWSS	-	-
Project Account - RCRF III	70,146	5,967
Somali Urpan Recilience Project	518,937	170,977
Ministry of Agriculture & Irrigation	-	-
Ministry of Public Workers, Reconstruction & Housi	112	1,904
PERFORMANCE BASED CONDITIONS FOR RCRF	1	-
Ministry of Fisheries & Sea Minerals	-	-
WASAARADDA DEKEDAHA & GAADIIDKA BADI	50	-
SWSS Education Support for WFP	65	-
SOUTH WEST TEACHERS TRAINING INSTITUTE	19,300	-
SDM- Baidoa Local Government	6,000	-
Ministry of Health Salam Bank	87,813	-
Total	1,225,943	577,528

Cash & Cash Equivalents

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

Reporting Currency

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

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

The approved budget is developed on the same accounting basis (Cash basis) and same classification basis as the financial statements. It encompasses the same entities as the consolidated financial statement (These are identified in Note 1.2)

The original budget was approved by Parliaments on the 27 Dec 2022.

Authorization Date

The financial statements were authorized for issue on 26 April 2023 by H.E; Ahmed Mohamed Hussein, Minister for Finance.

2 Taxes

A total of taxes for year amounted \$3,235,688 to which represents an increase of 19.6% from \$2,703,236 for 2021. It was collected under the category of taxes on income, taxes on payroll, taxes on goods and service and taxes on international trade and transactions. The increase on taxes for this financial year was attributed due to an increase in collection from taxes on payroll and workforce.

During the 2022 financial year, SWSS collected taxes on income, profits, and capital gains of \$63,849 (\$58,173 in the 2021). The tax is paid by the Civil servants and other business employees on total remuneration (Salary) paid by the South West State of Somalia at a standard rate of 5%.

Taxes on payroll and workforce is paid by the employers based on the total remuneration (salary/wage bill) paid to all the employees at a standard rate of 9%. In 2022 financial year, \$1,693,384 (\$1,124,575 in 2021) were received from international organizations and business entities in South West State of Somalia.

Taxes on goods and services, are combined taxes charged for the use of services offered by South West State of Somalia. The applicable rates on services vary and mostly depend on the business sector and service type and are authorized in accordance with the Revenue Act 2018.

A total of Taxes on International Trade and Transactions for year amounted to \$260,636 increase of 89% from 2022 (\$137,972).

Description	2022	2021
	USD	USD
Taxes on income, profits, and capital gains		
Personal Income tax	63,849	58,173
Taxes on payroll and workforce		
Payroll Tax - Non-Government	1,693,384	1,124,575
Taxes on goods and services		
Turnover Tax	296,458	218,742
Fuel Tax	-	1,400
Property Tax	8,000	
Business & Professional Licenses	31,850	18,199
Landing Fees	138,600	80,750
Local Passenger Fees	206,093	194,421
Road User Tax	342,208	611,437
Urban Road User Tax	37,200	34,500
International NGOs registration	21,000	28,500
Local NGO's Registration	12,300	27,466
Work Permit Licenses	5,348	13,435
Livestock Fees	31,000	87,872
Passport fees	18,445	17,073
Roll Number Fees-Schools	69,317	48,720
Taxes on international trade and transactions	1,217,820	1,382,516
Customs duties - KHAT	247,046	126,238
Customs duties - Cigarettes	13,590	11,734
Sub Total	260,636	137,972
Total	3,235,688	2,703,236

The following represents variance Taxes received into the TSA from the relevant Ministries

	2022								2021
	Controlled by TSA								Controlled by TSA
	Total	Ministry of Finance	Ministry of Interior and Local Government	Ministry of Education	Ministry of Commerce	Ministry of Labour & Employment	Ministry of Transportation & Airports	High Court	USD
Personal Income tax	63,849	63,849							58,173
Payroll Tax - Non-Government	1,693,384	1,693,384							1,124,575
Turnover Tax	296,458	296,458							218,742
Fuel Tax	-	-							1,400
Property Tax	8,000	8,000							
Business & Professional Licenses	31,850	31,850							18,199
Landing Fees	138,600						138,600		80,750
Local Passenger Fees	206,093	206,093							194,421
Road User Tax	342,208	311,208	31,000						611,437
Urban Road User Tax	37,200	37,200							34,500
International NGOs registration	21,000	21,000							28,500
Local NGO's Registration	12,300	12,300							27,466
Work Permit Licenses	5,348					5,348			13,435
Livestock Fees	31,000		31,000						87,872
Passport fees	18,445	18,445							17,073
Roll Number Fees-Schools	69,317			69,317					48,720
Customs duties - KHAT	247,046	247,046							126,238
Customs duties - Cigarettes	13,590	13,590							11,734
	3,235,688	2,960,423	62,000	69,317	-	5,348	138,600	-	2,703,236

3 Grants

Grants from International Organizations and the Federal Government of Somalia amounted to \$19,547,910 and increase of approximately 128% compared with 2021 (\$8,560,530).

	2022	2021
	USD	USD
Current Grants From International Organizations	5,805,326	2,871,145
Grants from Federal Government of Somalia	13,727,827	5,689,385
Grants from South West State	9,757	-
	19,542,910	8,560,530

Grants from International Organizations

During the 2022 financial year, grants were received from international organizations of \$5,805,326 (\$2,871,145 in 2021). The amount received from international organizations is detailed in the breakdown below.

	2022	2021
	USD	USD
Danish Refugee Council	19,276	60,048
AAH	-	900
GIZ	87,813	-
Kube Energy	-	500
PAC	-	5,663
Islamic Relief	6,000	10,800
Care International	86,880	4,100
Population Service International	1,000	-
Mercy Corps	300	-
Save the Children International In Somalia	35,533	16,183
World Vision International	114,698	90,704
ADRA	4,092	10,899
I O M	11,000	10,300
Diakonia	17,220	20,060
GEEL	-	1,400
HIJRA	-	850
Norwegian Refugee Council (NRC)	19,220	990
FAO	109,916	28,129
International Labour Organization	159,303	163,810
UNDP	18,840	68,000
UNICEF	4,715,040	1,670,889
UN HABITAT	99,068	173,682
WFP	56,670	206,694
UN WOMEN	-	9,000
United Natation Population Fund UNFPA	18,000	-
UNCDF	179,288	320,343
UNSOM	46,170	-
	5,805,326	2,871,145

Grants from Federal Government of Somalia

	2022	2021
	USD	USD
Grants from Federal Government of Somalia	13,727,827	5,689,385
Grants from South West State	9,757	-
	13,737,584	5,689,385

4 Other Revenue

Other Revenues for FY 2022 amounted to \$193,323 and increase of approximately 81% from \$68,913 for 2021. It was collected under the category of property income and sales of goods and services and fines, penalties, and Vehicle Hire/Rent. The increase is due to Rent of Land and Buildings.

	2022	2021
	USD	USD
Rental income from Organizational Offices	1,586	902
Vehicle Hire/car rental Tax	47,020	21,634
Rent of land and buildings	119,400	-
Birth Certificate Fee	-	20
Death Certificate Fee	-	40
Marriage Certificate Fee	50	150
Clearance Letter Fee	15,093	23,720
Bidding Documentation fees	-	900
Boat Registration Fees	1,150	-
Fines/Penalties	-	16,100
Court Filing Fees	2,347	5,446
Individual Donations	500	-
Institutional Donations	6,177	-
	193,323	68,913

Compensation of Employees

Wages and salaries are a combination of all salaries, allowances and in-kind payments to staff which includes both the civil servants and political positions. In addition to salaries for permanent employees, compensation of employees includes wageworkers whereby wages were paid, as for 2022 financial year are as follows:

	<u>USD</u>	<u>USD</u>
Permanent employees/Regular staff	1,345,659	1,270,611
Contract employees	912,995	1,187,821
Wage workers	518,050	373,035
Security Forces (Police, Intel Forces and Prison)	4,591,170	2,417,440
Remuneration to Ministers and Statutory	416,600	70,300
Remuneration to Politicians	111,200	208,000
Teacher Salary	795,800	304,450
Accommodation Allowance	-	14,000
Transportation allowance	357,245	80,305
Other allowances	906,924	100,912
Security Operational Allowances	25,400	-
Per diem and DSA	813,898	283,935
Daily meals	1,607,190	360,000
	<u>12,402,131</u>	<u>6,670,809</u>

6 Use of Goods and Services

Use of goods and services spending for the year related to amounted to \$5,457,650 in comparison to \$3,251,191 for 2021.

	2022	2021
	USD	USD
Internal Travel	585,452	211,339
External Travel	104,433	14,090
Local conferences	217,413	213,275
Water	653,617	61,540
Electricity	29,457	28,359
Construction Material	-	2,600
Telephone fees	12,137	6,020
Internet	78,898	65,213
Satellite fee	77,000	42,000
G-suite Fees	4,234	2,617
Gasoline	96,534	29,444
Stationary	187,439	168,249
Published fees	900	-
Meeting Supplies	3,000	-
Publications	84,822	68,136
Office Refreshment	14,500	9,865
Refreshment	169,796	194,044
School Supervision	342,412	20,000
Supervision	5,640	20,507
Cleaning Supplies	13,460	9,334
Material Transportation	42,698	57,444
Maintenance of equipment	300	1,950
Maintenance of furniture & fittings	-	600
Maintenance of Vehicles	41,501	28,312
Vehicle Hire/car rental	323,670	258,959
Installation of Property Numbering	-	28,630
Office Rent	65,900	86,700
Venue Rent	31,600	16,490
Consultation Fees	823,295	866,235
Staff Training and Development	1,217,399	531,797
Bank charges	11,810	10,033
Technical Assistance	9,400	3,360
Preparation of Manuals/Guidelines	159,683	49,355
Recruitment and Selection Cost	-	58,440
Television and Newspaper Advertisements	48,753	86,255
Contingency	500	-
	5,457,650	3,251,191

7 Subsidies

This is Biyooley Project and for better distribution of seeds the SWS government gave a subsidies to the farmers.

	<u>2022</u>	<u>2021</u>
	<u>USD</u>	<u>USD</u>
Procurement of Seeds and Tools	28,000	-
	28,000	-

8 Grants

In 2022 there is no transfers to the local Government, because of the project Support to establishment (S2S) were ended 2021.

9 Social Benefits

This fund was meant to give a better health to the SWS specially the IDPs and Host Community in Baidoa and it is benefitted to the neediest community who visits MCHs in every day, and Health professionals distributed health kits to Wadajir, Hanaano IDPs, and Towfiq Area of Baidoa.

	<u>2022</u>	<u>2021</u>
	<u>USD</u>	<u>USD</u>
Medical Treatment	637,325	8,500
	637,325	8,500

10 Other Expenses

As of the financial year of 2022, SWS government had contributed the development of health sector in the state, and distribution of health kit and Hygiene material. This was a main activity that the government focused during the FY2022, as the vulnerable people get affected by diarrhea during the winter season of the year and malaria and typhoid at the rainy season.

	<u>2022</u>	<u>2021</u>
	<u>USD</u>	<u>USD</u>
Health & Hygiene Kits	111,205	67,520
Health & Hygiene Material	150,742	1,671
	<u>261,947</u>	<u>69,191</u>

11 Non-Financial Assets

Non-Financial Asset of \$3,536,455 acquired consisting of cars, ICT equipment, machinery & equipment and office furniture.

Comprehensive breakdown of non-financial asset acquisitions are detailed as follows:

	<u>2022</u>	<u>2021</u>
	<u>USD</u>	<u>USD</u>
Road Construction	106,432	-
Construction	1,910,353	658,125
Rehabilitation	790,784	536,865
Site Selection	73,263	74,241
Site Supervision	-	42,880
Cars	86,700	38,000
Information, computer and telecommu	1,500	15,000
Machinery and Equipment not elsewh	172,773	217,508
Furniture	1,400	-
Land Improvement	91,990	-
Tree,crop,&plant resources yielding re	49,960	-
Surveys	51,300	125,685
Laboratory Kits	-	30,000
Rehabilitation	200,000	80,544
	<u>3,536,455</u>	<u>1,818,849</u>

12 Taxes compared with budget

A total of \$3,655,897 tax collections was estimated to be raised in the 2022 financial year; however, an actual collection of \$3,235,688 was achieved. The amount collected represents 89% of the total tax revenue estimate for the year.

The shortfall was mainly due to the inability to implement some tax streams and the under collection of tax revenue directly relates to the election session in 2022. Following is a breakdown of taxes collected during the year.

Description	2022			2021
	Estimate	Actual	Variance	Actual
	USD	USD	USD	USD
Taxes on income, profits, and capital gains				
Personal Income tax	71,220	63,849	(7,371)	58,173
Taxes on payroll and workforce				
Payroll Tax - Non-Government	1,067,152	1,693,384	626,232	1,124,575
Taxes on goods and services				
Turnover Tax	256,726	296,458	39,732	218,742
Fuel Tax	14,400	-	(14,400)	1,400
Property Tax	750,000	8,000	(742,000)	-
Business & Professional Licenses	16,799	31,850	15,051	18,199
Landing Fees	80,500	138,600	58,100	80,750
Local Passenger Fees	193,160	206,093	12,933	194,421
Road User Tax	623,268	342,208	(281,060)	611,437
Urban Road User Tax	105,000	37,200	(67,800)	34,500
International NGOs registration	31,000	21,000	(10,000)	28,500
Local NGO's Registration	28,500	12,300	(16,200)	27,466
Work Permit Licenses	26,870	5,348	(21,522)	13,435
Livestock Fees	109,308	31,000	(78,308)	87,872
Passport fees	16,705	18,445	1,740	17,073
Roll Number Fees-Schools	90,304	69,317	(20,987)	48,720
Taxes on international trade and transactions	2,342,540	1,217,820	(1,124,721)	1,382,516
Customs duties - Tobacco	3,996	-	(3,996)	-
Customs duties - KHAT	133,143	247,046	113,903	126,238
Customs duties - Cigarettes	13,845	13,590	(255)	11,734
Stam Duty	24,000	-	(24,000)	-
	174,984	260,636	85,652	137,972
Total	3,655,897	3,235,688	(420,208)	2,703,236

12 Grants compared with budget

Total grants of \$19,542,910 was received against an estimate of \$31,077,341 Grants from International organizations and other general government units were not received as per estimated in the budget with the SUIP project carrying over to 2022 financial year and with elections having a greater impact on the donors themselves. The following table presents a detailed breakdown of the grant.

	2022			2021
	USD			
	Estimate	Actual	Variance	Actual
Current Grants from Governments	-	-	-	2,871,145
Current Grants From International Organizations	6,688,820	5,805,326	(883,494)	5,689,385
Grants from Federal Government of Somalia	24,570,854	13,727,827	(10,843,027)	-
Grant Total	31,259,673	19,533,153	(11,726,521)	8,560,530

14 Other Revenue compared with budget

Other revenue collections consist of revenue streams other than grants and sale of goods and services, which includes fees, fines and penalties. A total of \$239,050 of other revenue collections was collected during the reporting period against an estimate of \$193,323 a shortfall of \$45,726 (80%).

	2022			2021
	USD			USD
	Estimate	Actual	Variance	Actual
Rental income from Organizational Offices	2,094	1,586	(508)	902
Vehicle Hire/car rental Tax	22,056	47,020	24,964	21,634
Rent of land and buildings	-	119,400	119,400	-
Death Certificate Fee	160	-	(160)	40
Land Certificate Fee	125,198	-	(125,198)	-
Number Plate Registration	36,126	-	(36,126)	-
Marriage Certificate Fee	320	50	(270)	150
Clearance Letter Fee	20,532	15,093	(5,439)	23,720
Bidding Documentation fees	3,650	-	(3,650)	900
Boat Registration Fees	-	1,150	1,150	-
Fines/Penalties	16,560	-	(16,560)	16,100
Court Filing Fees	5,676	2,347	(3,329)	5,446
Individual Donations	500	500	-	-
Institutional Donations	6,177	6,177	-	-
Birth Certificate Fee	-	-	-	20
Total	239,050	193,323	(45,726)	68,913

15 Employee Compensation compared with budget

A total of \$12,402,131 was spent on employee compensation against a final budget of \$14,894,420 the under spend of \$2,492,290 was due to inability of the State to fund compensation expenses from domestic revenue.

	2022 USD		2021 USD	
	Final Budget	Actual	Variance	Actual
Permanent employees/Regular staff	1,559,880	1,345,659	(214,221)	1,270,611
Contract employees	1,553,700	912,995	(640,705)	1,187,821
Wage workers	530,411	518,050	(12,361)	373,035
Security Forces (Police, Intel Forces and Prison)	4,864,508	4,591,170	(273,338)	2,417,440
Remuneration to Ministers and Statutory	493,500	416,600	(76,900)	70,300
Remuneration to Politicians	1,261,200	111,200	(1,150,000)	208,000
Teacher Salary	795,800	795,800	-	304,450
Transportation allowance	362,800	357,245	(5,555)	80,305
Other allowances	990,364	906,924	(83,440)	100,912
Security Operational Allowances	25,400	25,400	-	-
Per diem and DSA	846,273	813,898	(32,375)	283,935
Daily meals	1,610,585	1,607,190	(3,395)	360,000
Accommodation Allowance	-	-	-	14,000
Total	14,894,420	12,402,131	(2,492,290)	6,670,809

16 Use of Good and Services compared with budget

The ability to incur expenditure is limited to funds available from revenue collection and grants from donors. In the case of goods and services, SWSS spent a total of \$5,457,650, which represents 58 percent of the final budget. The variance distributed across the entities is mainly attributed to constraints in the actual available income.

	2022			2021
	USD			USD
	Final Budget	Actual	Variance	Actual
Travel & Conferences				
Internal Travel	742,337	585,452	(156,885)	211,339
External Travel	121,010	104,433	(16,577)	14,090
Local conferences	299,856	217,413	(82,443)	213,275
Sub Total	1,163,203	907,298	(255,905)	438,704
Operating Expense				
Water	685,279	653,617	(31,663)	61,540
Electricity	62,346	29,457	(32,890)	28,359
Telephone fees	26,353	12,137	(14,216)	6,020
Internet	161,612	78,898	(82,714)	65,213
Satellite fee	84,000	77,000	(7,000)	42,000
G-suite Fees	9,083	4,234	(4,849)	2,617
Gasoline	115,150	96,534	(18,617)	29,444
Stationary	279,652	187,439	(92,213)	168,249
Published fees	900	900	-	-
Meeting Supplies	9,220	3,000	(6,220)	-
Publications	106,300	84,822	(21,478)	68,136
Office Refreshment	22,439	14,500	(7,939)	9,865
Refreshment	184,291	169,796	(14,495)	194,044
School Supervision	483,463	342,412	(141,051)	20,000
Supervision	85,023	5,640	(79,383)	20,507
Cleaning Supplies	34,887	13,460	(21,427)	9,334
Material Transportation	74,628	42,698	(31,930)	57,444
Maintenance of equipment	300	300	-	1,950
Maintenance of furniture & fittings	1,200	-	(1,200)	600
Maintenance of Vehicles	111,510	41,501	(70,010)	28,312
Vehicle Hire/car rental	428,193	323,670	(104,523)	258,959
Construction Material	-	-	-	2,600
Installation of Property Numbering	-	-	-	28,630
Sub Total	2,965,828	2,182,013	(783,815)	1,103,822
Rent				
Office Rent	105,291	65,900	(39,391)	86,700
Venue Rent	32,025	31,600	(425)	16,490
Sub Total	137,316	97,500	(39,816)	103,190
Other Operating Expenses				
Consultation Fees	1,059,119	823,295	(235,824)	866,235
Staff Training and Development	1,602,416	1,217,399	(385,017)	531,797
Bank charges	19,050	11,810	(7,240)	10,033
Technical Assistance	16,700	9,400	(7,300)	3,360
Preparation of Manuals/Guidelines	360,654	159,683	(200,971)	49,355
Television and Newspaper Advertisem	64,478	48,753	(15,725)	86,255
RCRF-Non Salary Recurrent Cost	1,471,834	-	(1,471,834)	-
Education Sector Recurrent Cost	61,666	-	(61,666)	-
Contingency	303,731	500	(303,231)	-
Recruitment and Selection Cost	-	-	-	58,440
Sub Total	4,959,647	2,270,839	(2,688,808)	1,605,474
Total	9,225,994	5,457,650	(3,768,344)	3,251,191

17 Subsidies

A total of \$42,000 was budgeted for procurement of seeds, and actual spent 28,000 (66%) during the reporting period.

18 Grants to sub-national governments

During FY 2022, there was no grant transfers to sub-national government because of S2S Project for this activity is ended.

19 Social Benefits

A total of \$640,400 was budget for medical treatment and \$637,325 was spent during the reporting period.

20 Other Expense

A total of \$ 266,467 was budgeted for Health & Hygiene Kits and Health & Hygiene Material, however, \$261,947 (98%) was spent in relation to printing tax receipts.

21 Non-Financial Assets

Non-financial assets amounting to \$9,904,939 was budgeted for and acquired amount was \$3,536,455. This related to the purchase of office equipment and furniture, ICT equipment and non-residential buildings.

	2022			2021
	USD			USD
	Final Budget	Actual	Variance	Actual
Road Construction	5,977,800	106,432	(5,871,368)	-
Construction	2,009,666	1,910,353	(99,314)	658,125
Rehabilitation	845,851	790,784	(55,066)	536,865
Site Selection	99,608	73,263	(26,345)	74,241
Cars	107,000	86,700	(20,300)	38,000
Information, computer and telecommunications (ICT)	34,981	1,500	(33,481)	15,000
Machinery and Equipment not elsewhere classified	269,843	172,773	(97,070)	217,508
Furniture	1,400	1,400	-	-
Land Improvement	92,000	91,990	(10)	-
Tree,crop,&plant resources yielding repeat product	80,000	49,960	(30,040)	-
Surveys	67,012	51,300	(15,712)	125,685
Office Furniture	20,778	-	(20,778)	-
Laboratory Kits	35,000	-	(35,000)	30,000
Rehabilitation	264,000	200,000	(64,000)	80,544
Site Supervision	-	-	-	42,880
Total	9,904,939	3,536,455	(6,368,484)	1,818,849

22 Statement of Operations

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

The Statement of Operations produces summary information on the overall performance and financial position of the general government. This Statement is divided into three sections that present: revenue and expense transactions; transactions in non-financial assets; and transactions in financial assets and liabilities. This Statement is a voluntary disclosure and not a reporting requirement under the International Public Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting (2017), which is the standard adopted in preparing these financial statements.

22 Undrawn External Assistance

During the 2015 financial year, a new project called the Recurrent Cost and Reform Financing (RCRF III) was introduced. The project will run up to 20 June 2024 and is reviewable on a yearly basis. The RCRF II project is a multi-partner fund administered by the International Development Association (IDA). The objective of the project is to support the recipient to provide a credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, eligible Federal Member states and Interim and Emerging Administration.

As specified in a binding agreement Number TFA0534 Dated 07 November 2016 between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the South West State of Somalia by virtue of a sub-agreement with FGS has a running project with IDA which will last to 20 June 2022. Undrawn External assistance in respect to the RCRF III project is contingent upon SWSS meeting the threshold conditional requirements of the project

The RCRF III budget outlined in the Project Appraisal Document (PAD) does not identify the budgeted breakdown for SWSS in particular. The grant amount is subject to annual review and approval by the IDA. For the fiscal year ending 31 December 2022, SWSS had received funds from the RCRFII Project totaling \$2,778,286.

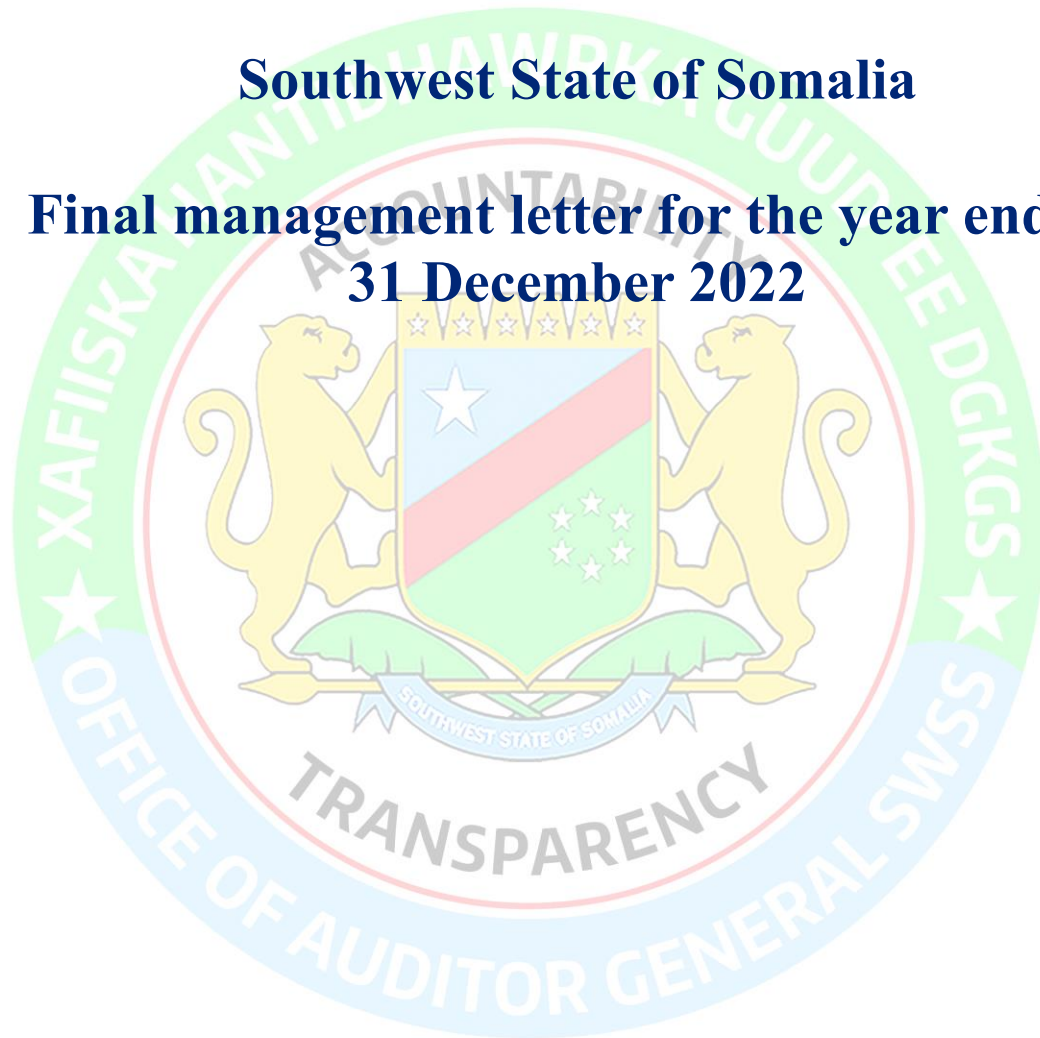
	2022
	USD
Beginning Balance	<u>5,967</u>
RCRFIII In Follow	2,778,286
RCRFII Out Follow	2,714,107
Fends Helde in the Project Account @ 31 Dec 2022	<u>70,146</u>



Office of Auditor General

Southwest State of Somalia

**Final management letter for the year ended.
31 December 2022**





Office of Auditor General

15th October 2023

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

Dear Sir,

MATTER ARISING DURING THE AUDIT FOR THE YEAR ENDED 31 DECEMBER 2022

We have recently completed our audit of the Consolidated & Ministerial Financial Statements of the Southwest State of Somalia for the year ended 31 December 2022 which we conducted in accordance with International Standards of Supreme Audit Institutions (“ISSAI”). Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatements but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit is conducted to enable us to form and express an opinion on the financial statements that have been prepared by management with the oversight of the Minister of Finance. The audit of the financial statements does not relieve the Ministries of their responsibilities. However, in accordance with our normal practice, we write to draw your attention to certain matters which we identified during our audit. Those issues are set out in the attached report.

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented.

Management responses should be provided through the co-ordination by the Ministry of Finance. We would like to thank the management and staff for their assistance and co-operation during the audit and would be pleased to provide any clarification that you may require on the issues raised in this report.

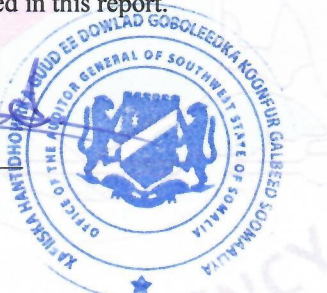
Yours faithfully,

Mohamed Omar Ahmed

Auditor General,

**Office of Auditor General -Southwest State of
Somalia .**

Baidoa, Somalia.





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1 Summary performance ratings on areas reviewed.

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

Key to Summary

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

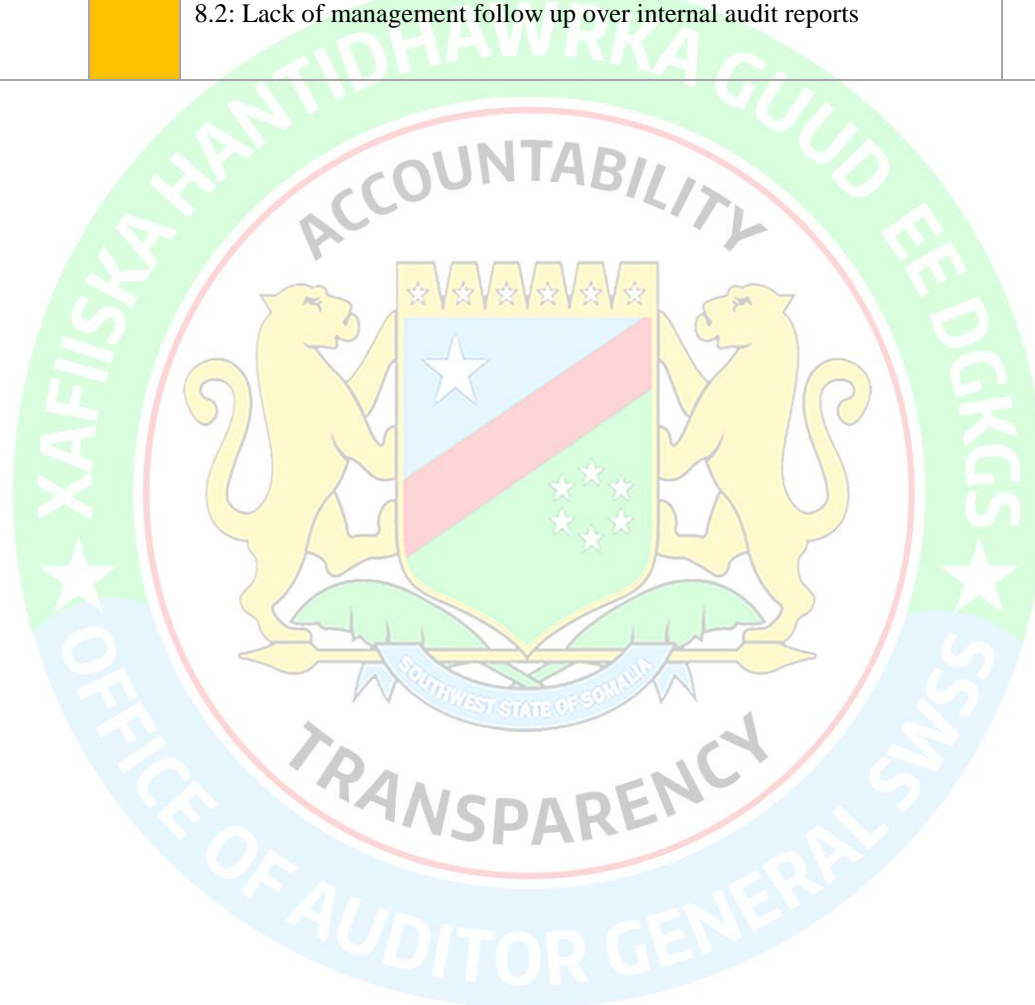
Current Year Summary of findings

Control area	Risk key	Control weakness noted	Amount in USD
2. Revenue		2.1 Unsupported Revenue	153,217.59
		2.1 Weaknesses in revenue collection and recording process	-
		2.2 Variance between revenue recorded under RMS and FMIS	894,083.20
		2.3 Variance between FGS Grants recorded, and Confirmation received from Federal Government of Somalia	198,227.03
		Total value of weaknesses identified in revenue	1,065,353.96
		Weaknesses identified in revenue expressed as a % of total revenue	4.62%
3. Expenditure excluding payroll costs & Non-financial Assets		3.1 Unsupported Expenses	1,264,283
		3.2 Expenditure documents not stamped as “PAID”	-
		3.3 Failure to competitively source for suppliers of goods and services	-
		3.4 Lack of procurement committee	-
		Total value of weaknesses identified in expenditure (Excluding payroll & Non-financial Assets)	1,264,283
	Weaknesses identified in expenditure Excluding payroll & Non-financial Assets expressed as %	24%	
4. Payroll		4.1 Lack of payroll reconciliations	
		4.2 Weaknesses in payroll for security personnel	
		4.3 weaknesses noted in wages and payment to contract employees	
		4.4 Weaknesses in payrolls for ministers, politicians and teachers	
5. Fixed assets		5.2 Weaknesses in management of fixed assets	-



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Control area	Risk key	Control weakness noted	Amount in USD
6. Bank and Cash		6.1 Weaknesses in bank reconciliations	
		6.2 Bank register not maintained and updated annually	
7. Budgeting and Financial Reporting		7.1 Weaknesses in the budgeting and financial reporting process	
8. Internal Audit		8.1: Reporting lines – internal audit function	-
		8.2: Lack of management follow up over internal audit reports	



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2 Revenue

2.1 Weakness in revenue collection

Condition

Recorded under note 2 and 4 of the financial statements is an amount of \$3,429,011.69 relating to local revenue collections for the period under audit. We have sampled \$717,506.72 of this local revenue representing 21% of the aggregate local revenue.

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

1. \$ 153,217.59 representing 21% of total local revenue sampled lacked supporting documentations. The revenues included Urban Road User Tax, Landing fees, Turn over tax, Payroll Tax and Road User Tax (Afgooye). The only documents available to support these transactions were revenue vouchers produced at the time of recording the transactions in the Financial Management Information System and the revenue management system. The original receipt books, copies of which should have been issued to the taxpayers, were not available for review.
2. We were not able to review the base amounts in which payroll deductions were based on. The amounts were only traced to the revenue vouchers and the bank statement. There were no staff payroll listings obtained from paying organizations to determine payable tax.
3. We noted that no reconciliations were made between receipt books, daily collection registers, deposit slips, FMIS and RMS.
4. Additionally, the Revenue Clerks collect taxes in cash, and the banking is either done on the same day or the following day after collections. Cash is inherently risky and there is a risk of Revenue Collection Clerks not banking all revenues collected. We noted there exists other less risky modes of tax collection within the state e.g., Electronic Voucher Cash. These affect the accuracy, completeness and classification of the revenues collected from different form of taxes.
5. We noted that the different Revenue Vouchers provided as support document for Turnover tax, Customs Duty on Chat, Road User tax did not show the Taxpayer Identification Number (TIN) making it impossible to know who paid the taxes and for what purpose.
6. It was also noted that the revenue vouchers did not have the tax base documented as well as the total income being taxed to counter check with what has been paid, hence making it impossible to verify the completeness and accuracy of the taxes being paid by the taxpayers to MoF.

Criteria

- Section 30(7) of the PFM Act 2018 states that each minister or head of a budgetary institution or agency is responsible for the filing, maintenance and safekeeping of all documents related to public finance transactions, in a manner and for the length of time prescribed in **accounting regulations** under the Act.
- Further, section 3.2.1 of regulation 10 on Financial Record Filing, Safekeeping & Retention Policy states that financial record filing must be well organized and classified in a systematic, logical, consistent and scalable manner to facilitate accurate and complete documentation retention and retrieval. It further provides that all revenue documentations should be retained for a minimum period of seven years.
- The PFM Act of 2018 also provides for the clear authorisation, collection of taxes, levies and charges and standards to be followed in the assessment and collection of taxes and other revenue as well as the roles, rights and obligations of the taxpayers and collecting authority. Receipts should be checked by MoF to ensure there was no irregularities and fraud and make correction in case of any improper transactions. In addition, best practice in Revenue Collection is to use non-cash methods which are less risky in terms of pilferage and mishandling.
- Also, The PFM Act of 2018 provides for the clear authorisation, collection of taxes, levies and charges and standards to be followed in the assessment and collection of taxes and other revenue as well as the roles, rights and obligations of the taxpayers and collecting authority. The Act

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provides that an official receipt to be provided by tax officials containing the date of payment, name and number of the official receiving the payments, place at which payment is made, name and identifying number of taxpayers, amount paid and liability in respect of which payment is made.

Cause

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

Effect

This may lead to misstatements of revenue. It may further lead to misclassification of revenue. The manual process leads to revenue be susceptible to fraud and errors.

Recommendation

We recommend.

- All local revenue collections be supported by original receipt books and any other original documents in which the amount collected/recorded was based on.
- The different support vouchers to include TIN, the tax base and total income being taxed.
- Daily or weekly reconciliation of cash collections receipts to the daily banking
- Non-cash methods for revenue collections, such as Electronic Voucher Cash, or Bank Transfer for large payments – digitization of the tax payment process. The tax collectors should be able to issue printed out receipts after confirming payments done via digital channels.

Significance

High

Agreed/Disagreed:

Comments from SWSS:

- We agree that there are challenges in terms of provision of original receipt books to avail to the office, but we have made some improvement regarding the previous year, and we will make sure that it will be solved next time.
- Disagree, in terms of voucher number, no receipt produced by the RMS without TIN number and total tax paid by the taxpayer.
- Disagree, we do daily reconciliation between RMS and Banking
- Disagree, we use all payment through banking transfer and electronic voucher cash method except road tax which is collected in Somali Shilling which is not except by Banks to deposit and we are willing to change this method by next year (Somali Shilling to Dollar)

Responsible person and date: Revenue Director, in 2024



Office of Auditor General

2.2 Variance between revenue recorded under RMS and FMIS.

Observation			
Condition			
<p>We noted that there was variance between revenue recorded under the Revenue Management System (RMS) and Financial Management Information System (FMIS) amounting to US\$ 713,909.34 indicating inaccuracy and errors in the recording and completeness of the recorded revenue. This is attributed to lack of integration and interface between the two systems to enable the provision of reconciled reports when needed as shown below:</p>			
Description	Revenue recorded under FMIS (US\$)	Revenue recorded under RMS (US\$)	Total variance (US\$)
Domestic revenue total	3,429,011.69	2,715,102.35	713,909.34
Criteria			
<p>To achieve end to end consistency, an integration between RMS and FMIS is needed to support the revenue collection process.</p>			
Cause			
<p>Lack of integration between FMIS and RMS.</p>			
Effect			
<p>Lack of integration between the two systems leads to the inability to confirm the accuracy and completeness of revenue collected and recorded.</p>			
Recommendation			
<p>We recommend:</p> <ul style="list-style-type: none"> We recommend for the real time interface and regular (monthly or weekly) reconciliations between RMS and FMIS to enable MoF counter check the completeness and accuracy of revenue collected and recorded in real time. 			
Significance			
High			
Agreed/Disagreed:			
Comments from SWSS:			
<ul style="list-style-type: none"> ➤ Agree, there is no interface between the RMS and FMIS and did not read one other. ➤ In this case we have made an improvement area where RMS and FMIS has been reconciled as a result, the variance between the two system has reduced regarding the previous year. 			
Responsible person and date: Treasury Director and Revenue Director by 2024			



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2.3 Variances between recorded grants income from FGS and amounts confirmed by FGS

Observation			
Condition			
From the review of grants from donors, we noted variances between the recorded amount under FMIS and the confirmations from donors as shown below:			
Donor	Amount Recorded (US\$)	Amount Confirmed (US\$)	Variance (\$)
Federal Government of Somalia (FGS)	13,727,826.53	13,529,599.97	198,226.56
No explanation or reconciliation was provided for the differences between the confirmed amounts and the recorded amounts.			
In addition, other gaps were identified during our review of Grants from Donors and FGS			
<ul style="list-style-type: none"> ➤ Most of donor agreements were not received from the client. ➤ During our review we were not able to send and receive independent confirmations from the international donors due to lack of Contacts. Therefore, it is difficult to verify the accuracy and classification of Receipts from donors as disclosed in the financial statements. ➤ UNICEF funds were not transferred from bank to bank but rather deposited by individuals in the government bank accounts. ➤ The grant agreements provided either did not have the agreed budget and detailed contract conditions on eligible spending with the donor, or the budget provided on the agreement was not broken down into allowable budget lines of each for monitoring. ➤ Inadequate filing system and lack of contract management focal point. ➤ There were no periodic reconciliations of amounts received from donors 			
Criteria			
Grants from donors and transfers from the Federal Government should correspond to amount recorded by MoF in the FMIS and recorded in the financial statements.			
Cause			
Lack of reconciliation of funds between amount received from donors as per bank statement and amount as per FMIS records. In addition, lack of proper contract management and inadequate contract management.			
Effect			
There is a risk of grant revenue being misstated and the noncompliance of contractual terms as per donor agreements			
Recommendation			



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We recommend:

- Periodic time bound approved reconciliations for both FGSs and other international donors for each and every program on monthly basis or at least at year end.
- A record of all active donor programs with details of contact persons, focal persons stage of implementation etc. needs to be maintained within the ministry of finance for ease of coordination. Donor agreements, MOUs and other donor related documents should reflect all necessary information such as budgets, objectives, deliverables, conditions etc.
- Improvement of the filing system to ease the retrieval and archival of donor agreements and other support documents.
- Fund must be transferred from bank to bank and show the donor's name on the bank statement to avoid leakage of money in the hands of the individuals depositing the funds received.

Significance

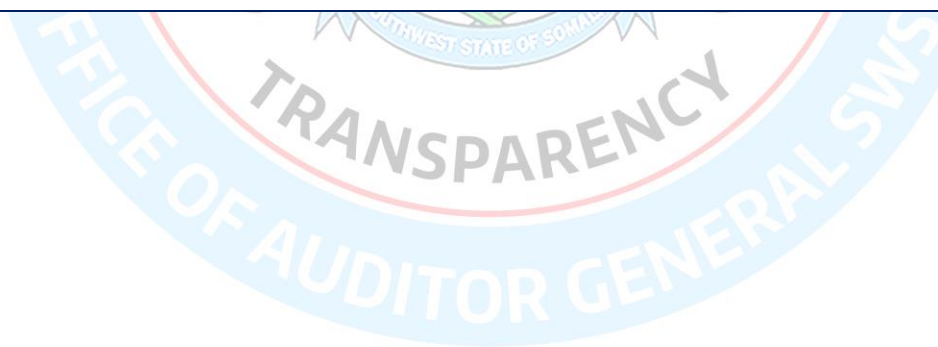
High

Agreed/Disagreed:

Comments from SWSS:

- During budget allocation, it can't be made without donor's agreements and MOUs they are available at the budget department office.
- For the case of personal Bank deposit rather than donors name the management noted and will be followed up and we will make correction.
- The Cause of variance from FGS grants is that the FGS Ministry finance recorded the release of the grants in their system as 31st December 2022 while the ministry of finance received the grant amount as 1st January 2022. This is due to delay release of the money by the Central Bank.

Responsible person and date: Treasury and Budget Directors by 2024





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3 Expenditure

3.1 Weakness in non-Salary Expenses

Observation
<p>Condition Disclosed in the financial statement is an aggregate non-payroll costs amounting to \$ 10,095,578.20 spent by the state to finance various operations such as operating costs, staff training and development, health and hygiene kits, machinery and equipment, transfers to lower-level government, Constructions, rehabilitation etc. We have sampled \$5,168,623.01 of these expenses representing 51.2% of the aggregate non-Salary costs. During our review we found out that \$1,264,283 representing 24% of the sampled non-Salary expenses were only supported with internally generated documents. These expenses were only supported with commitment payment order, payment request form and the paying cheques (Bisan and bank cheque), these are all internal documents. These expenses lacked any evidence of occurrence and were hence deemed unsupported.</p> <p>Criteria Section 30 (7) of the Public Financial Management Act of 2018 requires maintenance and safekeeping of all documents relating to public finance transactions in a manner and for the length of time prescribed in accounting regulations under this Act. Section 4.1.2.10 of the budget execution regulation issued on 1 January 2018 requires that all transaction documents relating to the purchase of goods and services will be presented to the certifying officer prior to payment processing.</p> <p>Cause Lack of adequate expenditure verification prior to the payment process.</p> <p>Effect Weaknesses at one stage of the expenditure control cycle can undermine the integrity and credibility of the system e.g., where payments are made for goods and services not received. Expenditures that do not have supporting documentation; can be termed ineligible by the Parliament or the donors.</p>
Recommendation
<p>To enhance compliance with PFM and treasury regulations, appropriate support documents be maintained for all payments. No payment should be made by Treasury without adequate supporting documents being presented.</p>
Significance
<p>High</p>
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Disagree, during the auditing process you have asked us to avail all payment documents related to these issues and we availed all that supported documents by treasury and EAFS offices but in case of your office missed some supported documents you can visit above offices. ➤ The treasury department doesn't process a single payment without presenting a support documents, the non-payroll expenses issues is serious issues we will take into considerations.
Responsible person and date: Treasury and EAFS Directors by 2024



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3.2 Expenditure documents not stamped as "PAID."

Observation
<p>Condition Failure to invalidate support documents by stamping "PAID" to prevent resubmission of these documents to another donor or to MoF.</p> <p>Criteria In line with the best practices in expenditure management, to strengthen financial processes control and prevention of double payments to suppliers and services providers, financial and payment support documents ought to be invalidated to prevent re-use and resubmission.</p> <p>Cause As per discussions with the MoF team, the processed documentation was not stamped paid due to oversight from the finance team.</p> <p>Effect Risk of resubmission/reuse of invoices and bills in a different donor or budget line. Failure to indicate documentation as "PAID" increases the likelihood of multiple payments based on the same set of documentation.</p>
Recommendation
<ol style="list-style-type: none">1. Invalidate paid documents by cancelling through PAID mark, including budget code, donor and project references2. For own source use of funds at the treasury, all invoices, receipts, attendance sheets, request letters, tickets and boarding passes bear government stamp-MoF PAID.
Significance
Low
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none">➤ Agree, its necessary to have paid MOF Stamp and we will consider having by the next month.➤ The withdrawal and deposit slip from the Bank have already paid stamp and they are available at our office with us.
Responsible person and date: Treasury Director



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3.3 Failure to follow procurement procedures in sourcing for Goods and Services

Observation
<p>Condition Lack of competitive bidding / single sourcing of suppliers During our review of the paying documents, we found out that suppliers of goods and services and major contractors were not subjected to any procurement process as and when engaged by the state. There were no adverts, quotations or tender flotations depending on threshold. No tender opening minutes, procurement evaluation reports, professional opinions, notifications and regrets etc. The states procurement laws and regulations were not complied with. No justifications were provided for single sourcing.</p> <p>Criteria Section 4.8.1 of the procurement procedures manual of Southwest State states that all eligible prospective bidders with timely and adequate notification of the SWSS's requirements and an equal opportunity to bid for the required goods, works, and non-consultant services. Section 4.2.3 states that open competition is the basis for efficient public procurement. In most cases therefore, the SWSS requires that where possible goods, works, and non-consultant services be obtained through a competitive bidding process ("Competitive Bidding") open to eligible suppliers and contractors. Section 4.25.4 states that sole and single sourcing is contracting without competition and may be an appropriate method under exceptional circumstances. Therefore, single sourcing should be exceptional rather than the norm.</p> <p>Cause Non-compliance with the law</p> <p>Effect Loss of value for money and competitive pricing of goods and services, lack of fairness in awarding government contracts.</p>
Recommendation
<p>Conformity to the law on matters procurement is recommended. Value for money, fairness, equity and transparency in the state's procurement process can only be achieved when procurement law is fully implemented.</p>
Significance
High
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Agree, it is true that most of the Ministries uses single sourcing out procurement but from now hence we will sit down with MDAs to avoid conformity to the low of procurements. ➤ To increase public trust, value for money, fairness, equity, and transparency we will establish state public procurement committee by the next year 2024.



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3.6. Lack of procurement committee

Observation
<p>Condition</p> <p>During the audit, we noted that SWSS have not formed a procurement committee during the year under audit.</p> <p>Criteria</p> <p>2.1.1 of the Regulation 8 of PFM Act states that a Procurement Committee shall be formed within the SWSS and shall review the procurement procedures, documents, bid evaluations, award recommendations, and contracts to ensure that the procurement process is carried out in accordance with the agreed procedures.</p> <p>Cause</p> <p>Non-compliance with regulations</p> <p>Effect</p> <p>Loss of value for money and Inadequate scrutiny and control over state procurements.</p>
Recommendation
<p>SWSS should establish a Procurement Committee to review the procurement procedures, documents, bid evaluations, award recommendations</p>
Significance
<p>High</p>
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Agree, the state will establish the public Procurement Committee by next year.
Responsible person and date: DG Ministry of Finance



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4. Payroll

4.1 Lack of payroll reconciliations

Observation

Condition

From the review of the state's payroll for civil servants we have found out that no official reviewed monthly payroll reconciliations were done throughout the year under audit.

Criteria

Safeguarding the integrity of the state's payroll requires month to month payroll reconciliations.

Cause

No justification was given for this.

Effect

This may lead to undetected errors in processing of payroll payments.

Recommendation

We recommend the State:

- Payroll for current month and that of the preceding month should be compared taking into account new hirers, resignations, terminations, promotions etc. The reconciled monthly payroll with proper justifications should be prepared by responsible officers within the payroll department in the MOF and reviewed by higher ranking officials within the MOF.

Significance

High

Agreed/Disagreed:

Comments from SWSS:

- Disagree, all what you recommend is what daily basis done by the MDAs and CSC

Responsible person and date:



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4.2. Weaknesses in Payroll for Security

Observation
<p>Condition</p> <p>During our review of the security payments, we have noted that an amount of \$4,591,170 was spent on security payments. The following weaknesses were established with regards to the management of payroll for security personnel;</p> <ul style="list-style-type: none"> • No muster roll or pay roll for security personnel • No HR files for the security officers • Payments made in cash which is a risky mode of payment • No system exists for tracking paid and pending security personnel dues <p>Criteria</p> <ol style="list-style-type: none"> a) Payroll processing- section 5.1.3.2 of Instruction D- Budget Execution regulations, payroll and salary payment should be support by detailed documentation. b) Best practice requires that salaries and wages should be paid through minimal risk – avoid cash payments where there are alternative less risky methods. <p>Cause</p> <p>No justification was given for this.</p> <p>Effect</p> <p>Possible payments to non-deserving persons and funds may not reach intended beneficiaries</p>
Recommendation
<p>We recommend the State:</p> <ul style="list-style-type: none"> • Automate and base the security’s payroll expenses on biometric identity of recipients. • MOF to obtain monthly security officers head count and status prior to release of lump sum required amounts. • Payment of officers through Electronic Voucher Card (EVC) or Bank Accounts.
Significance
High
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Agree, as we all know the security forces operates in all the three south west regions and an Automate and biometric system can’t be implemented. ➤ MOF have the list of the state security which we paid their salaries per month. ➤ As per your recommendation of payment of officers through EVC we will take it paid them through EVC.
<p>Responsible person and date: Treasury Director by 2024</p>

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4.3. Weaknesses in Wage workers and contract Employees

Observation
<p>Condition</p> <p>During our review of the payments to wage workers and contract employees we noted the following weaknesses;</p> <ul style="list-style-type: none"> • No documented process of recruitment for wage workers and contract employees • There were instances of missing contracts to support payments to wage workers and contract employees • There were instances where there were neither job descriptions nor attendance registers filled to support payments to wage workers and contract employees • We also noted instances where payments of wage workers and contract employees were made in cash which is a risky mode of payment. <p>Criteria</p> <p>Payroll processing- section 5.1.3.2 of Instruction D- Budget Execution regulations, payroll and salary payment should be supported by detailed documentation.</p> <p>Best practice requires that salaries and wages should be paid through minimal risk – avoid cash payments where there are alternative less risky methods.</p> <p>Cause</p> <p>No justification was given for this.</p> <p>Effect</p> <p>Loss of money to fraudulent payment, payment to ghost workers etc.</p>
Recommendation
<p>We recommend the State:</p> <ul style="list-style-type: none"> • Automate and base the payroll expenses including payment to casuals and contract employees on biometric identity of recipients. • MOF to obtain monthly personnel head count for contract and wage workers employees and status prior to release of lump sum required amounts
Significance
High
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Disagree, the management noted that all casuals and contract employees were paid on biometric identity recipients or attendance sheets. ➤ We as the Ministry of finance we are facing a challenge to convince to other state MDAs to use the single Treasury account (TSA)
Responsible person and date: Treasury Director by 2024

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4.4 Weaknesses in payments of Remuneration to ministers, politicians and teachers

Observation
<p>Condition</p> <p>SWSS spent \$416,600, \$111,200 and \$795,800 as remuneration payments to ministers, politicians and teachers respectively during the period of the audit.</p> <p>During our review of these payments, we have found out that there were no individual’s files for all these categories of payroll payments. Other weaknesses noted include and not limited to the following;</p> <ul style="list-style-type: none"> ➤ There was no documentary record, policy or law indicting rates payable to ministers, their deputies and state ministers. ➤ Unexplained inconsistencies were noted in the rates paid to different ministers, deputies and state ministers. ➤ In addition, the SWSS only paid one months’ salaries to parliament in the financial year under audit. This may affect the ability of parliament to provide effective oversight, legislation and representation. ➤ Teachers’ payments had the following gaps: no complete list of all teachers that are supposed to receive salaries from the state. The list fluctuates from month to month, it is not clear how many teachers were paid per region per school etc., It is not also clear how many months’ teachers were paid and how many months they were not paid, and no files for sampled teachers and their recruitment process. ➤ Unlike other state officers no taxes were deducted from the salaries of ministers and politicians. <p>Criteria</p> <p>Payroll processing- section 5.1.3.2 of Instruction D- Budget Execution regulations, payroll and salary payment should be support by detailed documentation.</p> <p>Cause</p> <p>No justification was given for this.</p> <p>Effect</p> <p>Weaknesses in the human resource process may lead to the misstatement of payroll for the State. The weaknesses could also lead to duplicate payments being made or payments to “ghost workers” – workers who do not exist/work for the state.</p>
Recommendation
<p>We recommend the State:</p> <ul style="list-style-type: none"> • All individuals paid from sates coffers should have a personnel file • There should be a documented basis for compensating ministers and politicians. • Deduction of taxes be done consistently for all state officers • Inconsistencies in payments to be investigated, justified or corrected • Teacher salary management should be improved addressing or concerns raised.
Significance
High
Agreed/Disagreed:
<p>Comments from SWSS:</p> <ul style="list-style-type: none"> ➤ Disagree, for the case politicians’ payroll payments, it is impossible to handle the politicians as a civil servant by requesting their attendance sheets, biometric and any other payment document used as Civil Servants. ➤ For the case of the teachers, you coated here, all 12 documents are available, and they are treated as a civil servants and ministry of Education obtain monthly personnel head count and status prior to release of lump sum required amounts. ➤ The ministry of finance has already commenced on tax deduction from teachers and other state officers.



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Responsible person and date:

5. Fixed assets

5.1 weaknesses identified in the management of fixed assets.

Observation
<p>Condition</p> <p>A number of weaknesses were identified which may not be limited to the following.</p> <ul style="list-style-type: none"> • Despite there been sound legal basis in the management of fixed assets specifically regulation 9, the state failed to establish a centralised fixed asset register to be maintained by the Director General Ministry of finance. • Fixed assets are not tagged. • No evidence for periodic assets verification procedures • Acquired assets in the year could not be physically verified <p>Criteria</p> <p>Fixed assets are critical wealth of the government. Fixed assets should be controlled through tracking and maintaining an organization’s physical assets and equipment. Asset types include vehicles, computers, furniture and machinery.</p> <p>Cause</p> <p>From inquiry, we noted that most of the weaknesses were attributed to lack of commitment to implement existing regulations.</p> <p>Effect</p> <p>Lack of a comprehensive fixed assets register could lead to the difficulty in accounting of the assets as well as the susceptibility of the assets to theft or misplacement.</p>
Recommendation
<ul style="list-style-type: none"> ➤ Centralised assets register should be established and updated This should include all government property both movable and immovable. ➤ The SWSS should ensure that all assets are tagged with a unique identification code. ➤ An asset maintenance schedule be maintained and followed, and all broken but useful pieces of assets be regularly repaired and put into good use. ➤ There should be regular physical verification exercise on the assets, the results of which should be updated in the Centralized assets register.
Significance
High
Agreed/Disagreed:
Comments from SWSS:
<ul style="list-style-type: none"> ➤ Currently we don’t have centralized asset register, but the ministry of finance has once initiated asset tagged and we are willing to implement other MDAs in the coming future. ➤ Asset register was in placed but not fully functional, but we will update the asset management system and it will be centralized to other MDAs
Responsible person and date:



Office of Auditor General

6. Bank and Cash

6.1 Weaknesses in preparation of bank reconciliation

Observation
<p>Condition In our review of bank reconciliations, we have noted the following gaps.</p> <ul style="list-style-type: none"> • Some of the reconciliations lacked dates of preparation and review. • There were instances of reconciliations not signed by preparer, reviewer or both. • Bank reconciliations are done monthly instead of weekly. <p>Criteria PFM Act, states that the Treasury Single Account and any other bank accounts of the State are to be reconciled preferably daily or at a minimum weekly/monthly within 2 days after end of the week/month by the Treasury Department, Ministry of Finance using the financial management information system (FMIS). Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or designated senior officer. Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format.</p> <p>Cause Late implementation of prior period audit recommendations.</p> <p>Effect Errors and omissions in the cash book general ledger and bank statements may go undetected for long periods of time leading to misstatements of cash balances as well as misstatements in receipts and payments accounts.</p>
Recommendation
Bank reconciliations should be timely and consistently prepared, reviewed and approved by management.
Significance
Medium
Agreed/Disagreed:
Comments from SWSS:
➤ Disagree, the treasury department makes daily reconcile in the FMIS and print out on monthly basis.
Responsible person and date:



Office of Auditor General

6.2 Lack of Bank Register and subsequent annual review

Observation

Condition

In our review of the cash and bank management process, we have noted that the SWSS does not maintain a bank register against the requirements of the regulations. Further an annual review of this register is not undertaken.

Criteria

Section 3.1.7 of the banking regulation requires the establishment of a bank register to record details of all bank accounts operated by the state to be maintained by the Treasury Department. This register records the details in regard to all bank accounts established and operated by the government.

Further Section 8 of The Bank Account Procedure Manual states that in December each year, the Cash Management Unit should conduct a review of the bank register and all government bank accounts to confirm bank names and account numbers of all bank accounts registered in the name of the SWSS.

Cause

Non implementation of existing regulations.

Effect

Existence of bank accounts outside the TSA.

Recommendation

The provisions of the banking regulations should be implemented.

Significance

Medium

Agreed/Disagreed:

Comments from SWSS:

- Disagree, the treasury department fully implement Bank register for all operating Banks at the state and no MDAs Bank accounts existing outside of TSA.

Responsible person and date: Treasury Department

Office of Auditor General

7. Budgeting and Financial Reporting

7.1 Weaknesses in the budgeting and financial reporting process

Observation

Condition

We noted variance for the budgeted and the actual financial performance of the year in both Revenue and expenditure as the table below shows.

Description	Budget	Actual	Variance	% age
Revenue (\$)	35,154,920	22,971,921	12,182,998	34.7%
Expenditure (\$)	35,154,920	22,323,507	12,831,413	36%

Criteria

Section 8 of the PFM Act 2018 states that, the fiscal framework for the Consolidated Budget should be based on estimates for the fiscal year and for the two subsequent years, which consider the economic and development policies that are consistent with the Southwest State of Somalia declared medium-term economic and fiscal objectives.

Cause

Non-compliance with Section 8 of the PFM Act of 2018.

Effect

Risk of non-compliance with the PFM regulations

Recommendation

The annual budget be subject to review and any over or under forecast of the financial performance adjusted in the July supplementary review.

Significance

Medium

Agreed/Disagreed:

Comments from SWSS:

- Agree, the management is well noted on that, and we will do supplementary budget for financial performance and adjustment.

Responsible person and date: Budget Director by 2024



Office of Auditor General

8. Internal Audit

8.1 Reporting lines – internal audit function

Observation
Condition During our audit, we noted that internal audit reports in MOF were shared with Permanent Secretaries and Head of department been audited and not directly with Ministers.
Criteria According to section 34 of the PFM Act 2018, the Ministers of line ministries and heads of institutions and agencies of government are ultimately responsible for all financial operations and transactions undertaken within their organization, including any sub-units they supervise or control. An internal auditor, reporting directly to him or her, whose tasks shall include to periodically review the organization of financial management within the organization or unit as well as to evaluate the adequacy of management checks and balances, and controls, in the financial management practices within the organization or unit.
Cause Non-compliance with Section 34 of the PFM Act of 2018.
Effects Ministers are not aware of key financial management and other control issues and, as a result, recommendations are not acted upon.
Recommendation We recommend that the internal auditors of the MOF should report directly to the Minister of Finance (and any other relevant Minister) as per the PFM Act 2018.
Significance Medium
Agreed/Disagreed:
Comments from SWSS: ➤ Disagree, the internal audit conducts internal financial control and report to the relevant authorities.
Responsible person and date:

8.2 Lack of management follow up over internal audit reports.

Observation
Condition Although internal audit reports are produced and submitted to senior management, there is no process to follow up whether recommendations have been implemented or not.
Effects Recommendations are not implemented.
Recommendation Management should regularly follow up internal audit reports to ensure recommendations are implemented as intended.
Significance Medium
Agreed/Disagreed:
Comments from SWSS: ➤ Disagree, the management always consider following up and implement all internal audit reports and recommendations.
Responsible person and date: Internal Audit 2024



Office of Auditor General



Office of Auditor General

9. Status of prior year audit recommendations

During the audit we followed up all audit recommendations made in previous years. A summary of the current status of these recommendations is shown in the table below:

Total No. of Prior Year Recommendations	Implemented	Partially Implemented	Not Implemented
12	2	1	9

As in previous years, progress in implementing audit recommendations has been minimal. It is important that this improves going forward. To this end, MOF should implement a formal mechanism for taking appropriate corrective actions.

