

## IV. Financial Management

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. General Information

The principal address of the reporting entity is:

Ministry of Finance  
Shanganni District  
Mogadishu  
Somalia

#### 2. Basis of preparation

These special purpose financial statements have been prepared in accordance with IPSAS Financial Reporting under The Cash Basis of Accounting issued by Public Sector Committee of the International Federation of Accountants (IFAC-PSC). They are presented in United States Dollar (US\$). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

#### 3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during year, unless otherwise stated

##### (a) Reporting entity

The financial statements are for the **Recurrent Cost and Reform Financing Project – Phase II (P1154875, TF0A0534) implemented by the Federal Government of Somalia (FGS) through The Ministry of Finance**. The transactions to be captured are only those that are controlled by the reporting entity and those controlled by third parties for and on behalf of the reporting entity. For purposes of these financial statements there were no third-party transactions reported in respect of the project activities.

##### (b) Reporting currency and translation of foreign currencies

The functional and reporting currency is the United States Dollar (US\$), which is accepted as legal tender in the Federal Republic of Somalia. Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates.

##### (c) Reporting Period

The reporting period for these financial statements is covered for the period ended 31 March 2018.

##### (d) Payments by Third Parties

During the quarter ended, the project did not benefit from any goods and services as reported to have been purchased on its behalf as a result of cash payments made by third parties during the year.

##### (e) Receipts

Receipts represent cash received by the Recurrent Cost and Reform Financing Project – Phase II (P1154875, TF0A0534) during the period and

comprise external assistance from cash disbursements received under Somalia Multi-Partner Fund. The cash disbursements have been recognized as revenue and included in the financial statements when payments are made from the project Designated Accounts (DA) A and (DA) B which were operated as holding accounts to the main Treasury Single Account (TSA) and direct payments made by WB on behalf of FGS. The closing balance on the Designated Accounts was also included as revenue receipts from the World Bank.

**(f) Expenses**

Expenditure represents outlays of cash made by the project or other agencies for and on behalf of the project. The expenses comprise both of recurrent and capital expenditure and in general they are included in the financial statements when cash is paid out.

**(g) Capital items/Non-current assets**

As of March 31, 2018, there are Capital items purchased at project money. Under the government's cash basis of accounting, capital items have been fully expensed in the year of purchase. However, these assets are recorded in the Fixed Asset Registers at historical cost as a memorandum record with effect from effective date of the project.

**(h) Foreign currency transactions**

Foreign currency transactions denominated in foreign currencies would be converted into United States Dollars (US\$) at the exchange rate ruling on the date of the transaction; realized gains and losses resulting from these transactions would be recognized in the Statement of Receipts and Payments. Monetary assets and liabilities denominated in foreign currency at the year-end would be translated at the closing rate of exchange with the resulting exchange gains/(losses) dealt with through the Statement of Receipts and Payments. However, for purposes of this accounting policy, there was no other foreign currency transactions than US Dollar translated at the reporting date.

**(i) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise of deposits held at call with Central Bank of Somalia.

**(j) Employee benefits**

Employee benefits include salaries, allowances and other related-employment costs and these have been recognized in the financial statements only when actual payments are made.

Employee salaries and allowances eligible for reimbursement under the RCRF II project are paid in cash at the Central Bank of Somalia through bank accounts employees have with licensed private banks. To enable this process, payments are made over few days for each monthly payroll. Thus, employees are then collecting their salaries from their bank accounts with licensed private banks.

**(k) Authorization date**

The financial statements were not authorized yet for publication by the Accountant General.

**4. Exchange rates**

All monetary amounts in the financial statements are expressed in United States Dollars (US\$). The estimated US\$ closing rates for major currencies were:

	<b>Previous Years US\$</b>	<b>2018 US\$</b>
Somali Shilling	22,500	22,500
Great Britain Pound	0.641584	0.641584
Euro	0.825748	0.825748

## Surge Support Fund Disclosure Note

The Federal Government (FGS) has requested donors to provide additional fiscal support for urgent public works activities, to be undertaken by government. This comes at a time of heightened domestic and political pressure on the new administration. In parallel, the FGS continues to face fiscal pressure, despite year on year increases in customs revenues, and a commitment to mobilize new sources of Inland Revenue, based on the 2017 Appropriation Act.

The World Bank and the FGS, following discussions with donors to the Multi Partner Fund, have agreed to provide temporary, and policy-based, additional support for FGS civil service salaries, thereby creating fiscal space for public works activities and non-salary recurrent costs. Public works would be prepared and delivered by FGS and Federal Member States (FMS). The Bank will utilize existing, government-led instruments to deliver this support.

**Policy-based Support:** The World Bank and donors have agreed to make up to \$6 million of additional (conditional) resources available for this initiative, on top of the ongoing support. The support will be delivered through the second Recurrent Cost and Reform Financing Project (henceforth RCRF) of the Multi Partner Fund (MPF), on a reimbursement basis as per the project's regular procedures. The resources will be phased in, with an additional \$2 million being available in July (for earlier salaries paid in 2017; conditional on agreement on this package of benchmarks) and the remainder to be phased in two further tranches once policy benchmarks

***Surge Support fund has specific bank account number 1348 at the Central Bank under Single Treasury Account. First two tranches of surge were \$2,000,000 each that has been derived from April and July 2017 payroll expenses. Bank and FGS has agreed that fund will be expensed at the discretion of Government through specific arrangement and framework. This account is not RCRF II Designated Accounts and it has been treated as government account under TSA. Funds came to this account is treated as expenses incurred by FGS and Bank has reimbursed them to government. In project financial report, the said amount of 4 million is expense that project reimbursed to the government through inter-fund transfer mechanism.***











