



The Federal Government of Somalia  
Office of the Auditor General

Ref: OAG/AG-189/2020

Date: 16/11/2020

The Accountant General  
Ministry of Finance  
Mogadishu, Somalia

**Management Letter - Annual Accounts of the Federal Government of Somalia for the Year ended 31 December 2019**

Dear Fatuma Osman Farah,

**INTRODUCTION**

The audit of the annual financial statements of the Federal Government of Somalia (FGS) for the year ended 31 December 2019 was completed and the purpose of this letter is to bring to your attention the findings that were revealed during the audit. This management letter is a result of the audit of the financial statements that we conducted this year.

**SCOPE AND DETERMINATION OF RESPONSIBILITY**

As an independent Office of the FGS as enshrined in Article 114 of the Provisional Constitution of the Federal Republic of Somalia (FRS), and in accordance with the Law 34 of Magistrates of Accounts (in particular Articles 6, 7, 8, 9, 13 and 17), I conducted the audit using the International Standards of Supreme Audit Institutions (ISSAIs). The Office of the Auditor General (OAG) is a member of the International Organization of Supreme Audit Institutions (INTOSAI), AFROSAI, AFROSAI-E and ARABOSAI.

The audit was conducted using the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

An audit includes:

- Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements.
- Assessment of the accounting principles used, and significant estimates made by management; and
- Evaluation of the overall financial statement presentation.

The audit also includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Accountant General as the Accounting Officer of the FGS. Our responsibility is to express our opinion on these financial statements.

The audit findings which were identified during the course of the audit are included below.

### MANAGEMENT COMMENTS

I acknowledge receipt of your comments on these findings and recommendations which have been incorporated in this final management letter. I have also included our responses to some of your comments where there is a difference of opinion.

### ACKNOWLEDGEMENTS

I would like to thank you and the team who worked with my team during the course of the audit the financial statements of the Federal Government for the year ended 31 December 2019. Special thanks go to various staff of your office who provided information, explanations and support during the course of my audit.

Sincerely,



H.E. Mohamed M. Ali  
Auditor General  
Federal Republic of Somalia

Cc: Parliament FRS,  
The Minister of Finance,  
Director General of Ministry of Finance

**MANAGEMENT LETTER FOLLOWING AUDIT OF ANNUAL FINANCIAL  
STATEMENTS OF THE FGS FOR THE YEAR ENDED 31 DECEMBER 2019**

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# MANAGEMENT LETTER FOLLOWING AUDIT OF ANNUAL FINANCIAL STATEMENTS OF THE FGS FOR THE YEAR ENDED 31 DECEMBER 2019

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## 1. Repeated submissions of annual financial statements for audit

### 1.1. The Law

The current law no. 2 of 29 December 1961 “Financial & Accounting Procedure of the State” requires the preparation of annual accounts of the State. The Federal Government of Somalia is the “State” for which annual accounts should be prepared.

Article 155 specifically requires the Accountant General, at the close of the financial year, to prepare annual accounts of the State and submit for audit by 30 April in the year following that to which the accounts relate.

### 1.2. Observations

Like the previous financial year during which there were 3 submissions for audit, there has been a re-submission of financial statements of the FGS for the FY ended 31 December 2019. This is contrary to established practice as it delays the audit process.

### 1.3. Risks

Repeated submission of financial statements is contrary to established best practices. Also, this could result into delaying the audit process and non-compliance with the law in terms of issuing audit reports to parliament by the due dates in order for the latter to exercise financial oversight in a timely manner.

### 1.4. Recommendation

Every effort should be taken to ensure the financial statements submitted for our audit are final financial statements of the FGS for audit.

### 1.5. Management Response

*“Repeated submissions are incorrect the FGS annual financial statements for the year ending 31st December 2019 were submitted on the due date of 30th April 2020. The audit of the accounts commenced August 17th, 2020 and during the audit process the necessary adjustments in line with the audit recommendations were made which is quite a normal audit practice therefore reference to “repeated submission of financial statements” does not provide a proper context of the audit process made.”*

### 1.6. Audit remarks to management response

The re-submitted financial statements to the OAGS of 5<sup>th</sup> November 2020 were fundamentally different from the set that was submitted on 30<sup>th</sup> April 2020. There were more than accounting adjustments as below:

- i. the financial statements were re-structured to remove the Statement of Financial Assets and Liabilities from the section of primary financial statements to an Annex 1 as a memorandum statements as part of additional disclosures;
- ii. the presentation of the financial statements was re-structured to accommodate re-statement of the audited financial statements for the year ended 31 December 2018; and
- iii. additional disclosures were made on cash balances and the Buffer Fund which were not previously in the original submission of the financial statements of 30<sup>th</sup> April 2020.

In my opinion, this amounted to a fresh submission of the financial statements of the Federal Government of Somalia for my audit.

**2. The Buffer Fund lacks legal or regulatory framework for its establishment**

**2.1. Establishment**

The Government reportedly established a Buffer Fund following guidance provided by the IMF under the SMP IV program for purposes of sustaining critical expenditures in the face of volatile revenues. Depending on the needs of critical expenditures, amounts are transferred from the Buffer Fund to general budget support during periods of revenue shortfalls. The Buffer Fund currently includes funds from European Union (EU), the Kingdom of Saudi Arabia, and Qatar State.

**2.2. Observations**

There was no documented and approved policy guidelines or regulations or legal instrument to support the establishment of the Buffer Fund, its management and accountability of the Buffer Fund.

**2.3. Risks**

Without an approved policy guidelines or regulations or a legal instrument, the legal basis of the Fund could be challenged.

Secondly, there is a risk that future managers of the Fund might use the Fund for purposes not originally intended.

Thirdly, oversight and accountability of the Buffer Fund has been compromised.

**2.4. Recommendation**

There should well documented and clear policy guidelines or regulations or legal instrument for the establishment of the Fund, for its management and accountability process. This should be shared with all relevant stakeholders and deposited with the Office of the Auditor General as by law required for registration of all contracts etc with financial implications on the Federal Government of Somalia.

**2.5. Management response**

*“There are Buffer Guidelines drafted by the IMF in consultation with the Federal Government of Somalia. The policies, regulations and procedures for implementation of these Buffer were not implemented in the year 2019 but it is ongoing process which will reflect for the next year financial statement.”*

**2.6. Audit remarks to management response**

The audit team made repeated requests for the Guidelines and none was provided during the course of the audit.

This is long overdue for the operationalisation of the Buffer Fund and should be prioritized for better management and accountability of the Fund.

We are still waiting for a copy of the draft Guidelines that were reportedly drafted by the IMF with inputs of the Federal Government of Somalia.

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**3. Failure to prepare periodic reconciliations of the Buffer Fund**

**3.1. Accounting practice**

It is generally accepted accounting practice to reconcile key accounts that make the financial statements. This is to ensure that the amounts disclosed on the face of the financial statements are fairly stated. If there any differences detected in the course of the reconciliation process, these are investigated, appropriate action taken and appropriate entries passed accordingly.

**3.2. Observations**

There were no reconciliations presented to show movements in the Buffer Fund. At the time of the audit, the Buffer Fund included funds from European Union (EU), the Kingdom of Saudi Arabia, and Qatar State. It was difficult to ascertain independently the movements in the Buffer Fund during the year and the closing Fund balance at the end of the year reconciled to bank balances held with the Central Bank of Somalia.

There was a discrepancy of US \$ 1,149,849.79 for one of the sub-accounts of the Buffer Fund because there was no reconciliation between the amounts shown in the financial statements and confirmation by the Central Bank of Somalia. The amount of exchange difference of US \$ 498,784.47 was not satisfactorily explained.

**3.3. Risks**

The Buffer Fund balance may not be fairly stated in the financial statements. Without periodic reconciliations of the Buffer Fund and sub-accounts, there is a risk that some transactions in the Buffer Fund might have not been reflected in the financial statements.

**3.4. Recommendations**

There should be periodic reconciliations of the Buffer Fund and its sub-accounts so that any differences are identified, investigated, appropriate action are taken and appropriate entries passed to eliminate the differences.

The Buffer Fund should be periodically reconciled to show balances at the beginning of each period, receipts into the Fund from development partners during the period, amounts transferred for general support during the period and closing balance of the Fund at the end of the year fully reconciled to the sub-accounts. The recommended reconciliation to be considered is set out below: -

	31 December xxxx	31 December xxxx-1
	US \$	US \$
Accumulated Buffer Fund balance at beginning of the year, 1 January	xxxxxx	xxxxxx
Receipts from development partners during the year: -		
• The Kingdom of Saudi Arabia	xxxxxx	xxxxxx
• The European Union	xxxxxx	xxxxxx
• The Government of Qatar	xxxxxx	xxxxxx
<b>Sub-total</b>	xxxxxx	xxxxxx
Less released /transferred to budget support: -		
• The Kingdom of Saudi Arabia	(xxxxxx)	(xxxxxx)
• The European Union	(xxxxxx)	(xxxxxx)
• The Government of Qatar	(xxxxxx)	(xxxxxx)
<b>Sub-total</b>	(xxxxxx)	(xxxxxx)
<b>Accumulated Buffer Fund balance at the year-end – 31 December</b>	xxxxxxx	xxxxxxx

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Thereafter, reconcile by each Buffer Fund sub-accounts as below: -

	At 1 January 2019	Receipts during the period	Transfer to general budget support	At 31 December 2019
	US \$	US \$	US \$	US \$
The Kingdom of Saudi Arabia	XXXXXX	XXXXXX	(XXXXXX)	XXXXXX
The European Union	XXXXXX	XXXXXX	(XXXXXX)	XXXXXX
The Government of Qatar	XXXXXX	XXXXXX	(XXXXXX)	XXXXXX
<b>Totals</b>	XXXXXX	XXXXXX	(XXXXXX)	XXXXXX

**3.5. Management response**

*“Failure of the buffer account reconciliation is incorrect as there was no buffer account in financial year 2019 but there were reserve accounts reported as a sub of TSA Accounts and at the end of the year the Office of the Accountant General carried out a reconciliation as an individual accounts under TSA sub account as in the note 11 of the financial statement.*

*As per the CBS Confirmation Letter dated October 8, 2020 there is no discrepancy of US \$ 1,149,849.79 in one of the sub-accounts. In regards to the amount of the exchange difference of US \$ 498,784.47 for the Government, we are not recognizing any exchange differences because the FGS does not have a Euro bank account in its books for us to talk about any translation exchange losses/gains and foreign currency transactions must also be advised by CBS to the Accountant General at the prevailing CBS spot rate which should be the basis of record the disbursements received in the Treasury books of account. The difference in question was therefore as a result of applying different exchange rates from those that were used by the Central Bank of Somalia as per the CBS Letter dated October 15, 2020. Accordingly, the effect of the adjustment was to correct the overstatement of the US \$ equivalent of EU grants and the associated bank balance.”*

**3.6. Audit remarks to management response**

From the financial statements submitted for audit (both the original and the second submission) there were and are still several references about the Buffer Fund. Please refer to the Statement of Cash Receipts and Payments; Statement of Cashflows; Accounting Policy (n); Note 11 on Cash and Cash Equivalents; Notes 14.3-14.5; Note 15.1 to the financial statements.

From the financial statements, some of the Buffer Funds were held in the Treasury Single Account (TSA) whilst the others were held outside the Treasury Single Account.

There was no reconciliation made available during the audit to show opening balances of Buffer Fund at 1<sup>st</sup> January 2019; receipts into the Fund; withdrawals from the Buffer Fund and closing balances at 31<sup>st</sup> December 2019. Only the closing balances of the Buffer Fund is disclosed in Note 11 to the financial statements without a reconciliation.



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**4. Failure to submit annual financial statements of the Buffer Fund**

**4.1. The law**

Article 154 (3) of the Financial and Accounting Procedure Regulations of the State (FAPRS) of 1961 as amended, also requires the Accountant General to prepare annual accounts for any Fund operated and submit them for audit.

Furthermore, the Cash Basis IPSAS, paragraph 1.3.30, prohibits disclosure of accounting policies used, or by notes or any explanatory material to rectify inappropriate accounting treatments.

**4.2. Observation**

For the second financial year, no financial statements of the Buffer Fund have been submitted for audit contrary to the above law.

**4.3. Risks**

Although transactions and balances of the Buffer Fund have been included in the financial statements of the FGS for the year ended 31 December 2019, it does not remove the obligation to comply with the law for a separate financial statement of the Fund.

Besides, there is no assurance that all transactions of the Buffer Fund have been included in the FGS financial statements and whether or not the Buffer Fund has been managed in accordance with approved guidelines or regulations or legal instrument.

There is no independent assurance on accountability of the Buffer Fund to stakeholders and development partners whose funds were deposited to the Buffer Fund.

**4.4. Recommendation**

Annual financial statements of the Buffer Fund should be prepared and submitted for audit as by law required.

**4.5. Management response**

*“There has been no failure in submitting the annual financial statements of the buffer fund because the reserve account was operated as TSA sub-accounts and included in the Treasury Accounts (Refer to Note 11 of the FGS financial statements) as there was still no basis to operate the buffer fund as a special fund considering that the legal and regulatory framework for the establishment of the fund is still being worked on. It is expected that the next year when the policy and legal framework is in place, any reporting obligations as may be specified shall be duly complied with.”*

**4.6. Audit remarks to management response**

From the financial statements submitted for audit (both the original submission and subsequent submission) there were and are still several references about the Buffer Fund.

The financial statements are very explicit on the operation of the Buffer Fund by the Federal Government of Somalia.

The following references to the Buffer Fund in the financial statements include the following: (a) the Statement of Cash Receipts and Payments; (b) Statement of Cashflows; (c) Accounting Policy (n); (d) Note 11 on Cash and Cash Equivalents; (e) Notes 14.3-14.5; and (f) Note 15.1 to the financial statements about the Buffer Fund.

## MANAGEMENT LETTER FOLLOWING AUDIT OF ANNUAL FINANCIAL STATEMENTS OF THE FGS FOR THE YEAR ENDED 31 DECEMBER 2019

### 5. Non- compliance with the Cash Basis IPSAS – disclosure of deviations

#### 5.1. The Cash Basis IPSAS

In preparing the annual accounts of the Federal Government of Somalia, the government has used the Cash Basis International Public Sector Accounting Standards (IPSAS), the Standards. The Cash Basis IPSAS, paragraph 1.1.6 requires full disclosures of any deviations of the Standards as a note in the financial statements

#### 5.2. Observations

There were several instances where deviations in complying with the Cash Basis IPSAS with respect to the financial statements of the FGS for the year ended 31 December 2019. These deviations are supposed to be disclosed as a note to the financial statements – Cash Basis IPSAS, paragraph 1.1.6.

The Cash Basis IPSAS, paragraph 1.3.12 require that total receipts and payments should be included in the financial statements. Yet, there were several receipts and payments of extra-budgetary funds of the FGS that were not included in the financial statements.

There were also some ministries, departments and agencies of the FGS that collected cash (revenues) and used them at source without being captured by the Somali Financial Management Information System (SFMIS), and included in the financial statements.

There were also cash and cash equivalents controlled by the FGS but were held outside the Treasury Single Accounts (TSA) but not included in the financial statements.

#### 5.3. Risk

These deviations resulted into understatement of cash receipts and cash payments, and cash balances, if any, in the financial statements. Without disclosing prominently deviations in the application of Cash Basis IPSAS in the notes to the financial statements, it would give a false impression that all cash receipts and cash payments, and cash balances of the Federal Government of Somalia have been included in these financial statements.

#### 5.4. Recommendation

It is recommended that all deviations of the Cash Basis IPSAS, Part 1 should be disclosed prominently in the notes to the financial statements.

#### 5.5. Management response

*“As part of the accounting policies and as explained during the audit process, the reporting entity of the FGS Annual Financial Statements for the FY ending 2019 is the budget sector as permitted under paragraph 1.4.8 of the Cash Basis IPSAS 2017 which is reproduced in Box 1 below for ease of reference.*

#### **Box 1. Cash Basis IPSAS – Reporting Entity (Paragraph 1.4.8)**

*Financial statements may be prepared for a single organization or administrative unit such as a government department, agency or program; for the government as a whole; or **for a group of entities or identifiable activities such as those that reflect the budget sector**, general government sector or other sector of the government. The disclosure of information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. It will also enable users to identify the significant entities or sectors that make up the reporting entity and changes therein since the last reporting date. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.*

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Indeed, the basis for conclusion BC8 in box 2 provides a rationale why the earlier standard was revised to permit entities to prepare accounts.

### **Box 2. Basis for conclusion – rationale for the revision to the Cash Basis IPSAS (BC 8)**

*This revision removes from part 1 of the Standard and recasts an encouragement in Part 2 of the Standard the requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities. This is intended to overcome a major obstacle to the adoption of the IPSAS.*

Regarding receipts collected and used at source by MDAs, management is not aware of this and requests that specific information is provided for any instances that may have been identified by the auditors.

*For cash and cash equivalents controlled by the FGS but were held outside the Treasury Single Accounts (TSA) but not included in the financial statements, an initial effort was made to provide a disclosure of the extra-budgetary funds under the appendices to the financial statements where information was provided by the MDAs. This effort is continuing and indeed will involve discussions with donors towards the need to use country systems.”*

### **5.6. Audit remarks to management response**

It is appreciated that the financial statements are for the Federal Government of Somalia, and you have adopted to prepare financial statements for a group of entities or identifiable activities such as those that reflect the budget sector as set out in Note 16 of the financial statements.

However, the Cash Basis IPSAS, paragraph 1.3.12 still requires that **total receipts and payments should be included in the financial statements** for the group of entities elected. Yet, there were receipts and payments of extra-budgetary funds of the FGS that were not included in the financial statements.

Cash receipts collected and used at source were by the entities of the Federal Government of Somalia. Based on the audit of a sample of ministries, departments, and agencies, total cash receipts of US \$ 1,857,170 was collected by the Ministry of Transport and Civil Aviation; Ministry of Endowment and Religious Affairs; and Somali Civil Aviation Authority, and the amounts were used at source. These cash collections and payments were not included in the financial statements of the Federal Government of Somalia.

It is the responsibility of the management of the Ministry of Finance to put in place policies, procedures and other mechanisms for capturing and reporting on public funds collected by these institutions of the Federal Government of Somalia. These should part of year-end procedures conducted by the Ministry of Finance when preparing financial statements of the Federal Government of Somalia.

**Cash Basis IPSAS, paragraph 1.3.30 states as follows: Inappropriate accounting treatments are not rectified either by disclosure of accounting policies used, or by notes or explanatory material.**

Therefore, excluding cash receipts and payments collected and used at source by reporting entities of the Federal Government of Somalia, and excluding extra-budgetary funds in the financial statements of the Federal Government of Somalia are both inappropriate accounting treatments, and cannot be rectified by disclosures as per paragraph 1.3.30 of the Cash Basis IPSAS.

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**6. Non-compliance with the Cash Basis IPSAS – notes to the financial statements not systematically presented**

**6.1. The Cash Basis IPSAS**

In preparing the annual accounts of the Federal Government of Somalia, the Accountant General has adopted to use the Cash Basis IPSAS (the Standards). The Cash Basis IPSAS, paragraph 1.3.26 requires that notes to the financial statements shall be presented in a systematic manner to ensure that every item on the face of the Statement of Cash Receipts and Payments and other financial statements are cross-referenced to any related information.

**6.2. Observations**

There were several instances where certain notes and accounting policies that were not related or linked to the financial statements audited were included in section for accounting policies and notes to the financial statements. For example, note 12 on payables, and note 13 on Accumulated Fund were neither related to nor linked to the three primary financial statements.

**6.3. Risk**

As these notes related to the incomplete memorandum Statement of Financial Assets and Liabilities, it would be construed that the audit covered the above statement and an audit opinion expressed covered that financial statement.

**6.4. Recommendation**

The spirit of the Cash Basis IPSAS, paragraph 1.3.26 should be followed.

**6.5. Management response**

*“Through the audit process and following discussions with the audit team, it was recommended that we remove the Statement of Financial Assets and Liabilities from the primary financial statements and include it as a memorandum Statement in the annexes as the FGS continues with the effort of preparing a complete balance sheet through the ongoing verification process of all its financial liabilities and non-current asset.*

*The notes referred to have been included and properly referenced to provide details for the balance sheet that has been included in the appendices as part of the encouraged disclosures under the cash Basis IPSAS.”*

**6.6. Audit remarks to management response**

Management agreed that the Statement of Financial Assets and Liabilities was materially incomplete in many respects and were not in accordance with the requirements of the law under which the financial statements of the Federal Government for the year ended 31<sup>st</sup> December 2019 was prepared.

Secondly, the Note 12 on payables and Note 13 on Accumulated Fund neither related to the Statement of Cash Receipts and Payments nor the Statement of Cashflows nor to the Statement of Comparison of Budget and Actual Amounts which were the primary financial statements under the Cash Basis IPSAS. These should have been relegated immediately under Annex 1 (the Memorandum Statement of Financial Assets and Liabilities).

## **7. Failure to present a complete Statement of Assets and Liabilities for audit**

### **7.1. The Law**

The current law no. 2 of 29 December 1961 “Financial & Accounting Procedure of the State” requires the preparation of annual accounts of the State. The Federal Government of Somalia is the “State” for which annual accounts should be prepared.

Article 155 specifically requires the Accountant General, at the close of the financial year, to prepare annual accounts of the State and submit for audit by 30 April in the year following that to which the accounts relate.

One of the financial statements required is the **statement of assets and liabilities** (a balance sheet) of the Federal Government.

### **7.2. Accounting practice**

In accordance with recognized accounting standards, the **Statement of assets and liabilities** includes all assets and liabilities of the reporting entity. It discloses the financial position of the entity.

### **7.3. Observations**

For the second year running there has been non-compliance with this provision of the law. Instead, preparation of a memorandum statement of financial statement of assets and liabilities was adopted.

However, the statement of financial assets and liabilities presented was incomplete in many respects because it did not include publicly known public debt of the Federal Government of Somalia for which there have been on-going negotiations. It also did not include other expenditure arrears for goods and services. It did not include other financial assets such as receivables, and other financial assets of the FGS.

There were no disclosures about government guarantees, contingent liabilities etc.

### **7.4. Risks**

The incomplete statement of financial assets and liabilities understated financial liabilities of the FGS, for example public debt, expenditure payment arrears for goods and services, other government guarantees and contingent liabilities etc.

The incomplete Statement of financial assets and liabilities also overstated the accumulated funds of the FGS and consequently could never present a true and fair financial position of the FGS.

### **7.5. Recommendation**

The law should be complied with, and a statement of assets and liabilities of the FGS should be submitted annually for audit.

If presentation of the Statement of Financial Assets and Liabilities of the FGS is adopted, it should include all financial assets (including receivables, advances and other financial assets) and all financial liabilities (including public debt, all categories of expenditure payment arrears) accompanied with full disclosures of all government guarantees and contingent liabilities to disclose fairly financial position of the FGS.

### **7.6. Management response**

*“As was explained during the audit process, a key objective of the accounting reforms being implemented by the FGS through the Office of the Accountant General is to adopt most of the part II optional requirements of the Cash Basis IPSAS in order to provide more useful information to the users of the FGS financial statements for accountability and decision-making purposes. As part of this effort and also as a legal requirement a balance sheet has been included as an annex to the financial statements covering items of financial assets and current liabilities as a starting point. The coverage of the balance sheet shall be expanded in a progressive manner as various liability and asset*

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*management reform initiatives are undertaken to address the data gaps. See also response under audit issue #1.6 above.”*

**7.7. Audit remarks to management response**

The legal requirement to submit a complete Statement of Assets and Liabilities for my audit has not been met by the Accountant General.

In preparing a Statement of Financial Assets and Liabilities of the Federal Government of Somalia for my audit, the Statement must complete in all material respects to enable me to express an opinion.

Non-compliance with the law of the Federal Government of Somalia, and non-compliance with the generally accepted accounting practice cannot be corrected by submitting a Memorandum Statement of Financial Assets and Liabilities for my audit.

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### 8. Non-submission of annual financial statements for audit by some entities of the FGS

#### 8.1. The Law

As provided in law no. 2 of 29 December 1961 “Financial & Accounting Procedure of the State”, and as required by Article 37 of the same law, every officer or agent managing public finances of the State is to render accounts.

The Accountant General is required by Article 40 (1) of the same law to transmit the annual accounts to the Auditor General for audit as stipulated in Article 40 (2).

Where the entities have not submitted the annual accounts for audit, the Accountant General is required to prepare and submit the annual accounts of the entities concerned in an ex-officio position as stipulated in Article 41 (1) of the law.

#### 8.2. Observation

Some entities of the Federal Government of Somalia managing public funds did not submit their accounts for the year ended 31 December 2019 for my audit. This has been going on for a very long time in the history of the Federal Government of Somalia. The following are the entities that did not submit financial statements for the year ended 31 December 2019: -

No.	Entity Name	No.	Entity Name
1	Office of the President	19	Ministry of Fisheries and Marine Resources
2	Ministry of Humanitarian Affairs and Disaster Management	20	Somali Marine Resource Research Center
3	Banadir Regional Court	21	Fisheries Development Program/Projects
4	Banadir Regional Appeal Court	22	Armed Forces Court
5	Supreme Court	23	Agency of Disabled and Orphans of the Armed Forces.
6	Ministry of Commerce and Industries	24	Somali Police Force
7	National Independent Electoral Commission	25	National Intelligence and Security Agency (NISA)
8	Somali National Army	26	Office of Attorney General
9	Ministry of Petroleum	27	Office of State Attorney General
10	Ministry of Labor and Social Affairs	28	Financial Reporting Center
11	Ministry of Youth and Sports	29	Ministry of Planning
12	Ministry of Women and Human Rights	30	Ministry of Foreign Affairs
13	Somali Disability Agency	31	Somali Civil Aviation Authority
14	Ministry of Health	32	National Independent Commission for Asylum Seekers
15	Ministry of Ports and Marine Transportation	33	National Independent Commission for Human Rights
16	Ministry of Post and Telecommunications	34	National Commission for Justice
17	National Communication Authority	35	Commission for Border and Federalism
18	Ministry of Livestock		

#### 8.3. Risks

The above entities of the FGS failed to account for public finances appropriated to them by the parliament. This is a violation of the laws on public finances and accountability. Therefore, parliament may not be able to hold public officers accountable for public finances appropriated for several years.

Finally, this might have affected adversely service delivery in the Federal Republic of Somalia as a whole.

#### 8.4. Recommendations

Firstly, the Accountant General should take appropriate steps to ensure all government entities prepare and submit to her annual financial statements for on-ward submission to the Audit General for audit as by law required.

**MANAGEMENT LETTER FOLLOWING AUDIT OF ANNUAL FINANCIAL STATEMENTS OF THE FGS FOR THE YEAR ENDED 31 DECEMBER 2019**

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Alternatively, the Accountant General could prepare and submit the annual accounts of the entities concerned in an ex-officio position as stipulated in Article 41(1) of the law.

**8.5. Management response**

*“The Office of the Accountant General embarked on major accounting reforms to ensure that all MDAs (Public Bodies) prepare and submit in-year and annual financial statements in line with the new PFM legal and regulatory framework. As the 2019FY was the first year of implementation of this initiative, only 28 MDAs out of 63 i.e (44%) were able to prepare and successfully submit their annual financial statements for audit. In the subsequent financial years, it is envisaged that a higher percentage of MDAs preparing and submitting their accounts shall be achieved.”*