



THE FEDERAL REPUBLIC OF SOMALIA

OFFICE OF THE AUDITOR GENERAL



Audit of the Financial Statements of the Federal Government of Somalia for the Financial Year ended 31 December, 2018

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 Villa Somalia
Mogadishu, Somalia

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FOREWORD BY THE AUDITOR GENERAL

To: Speaker of House of the People

To: Speaker of Upper House

Federal Republic of Somalia



Auditor General

I am honoured to fulfil the constitutional mandate of submitting the report on the Financial Statements of the Federal Republic of Somalia for the financial year ended 31st December, 2018 as required by Article 26 of Financial and Accounting Procedure of the State of 1961 (amended in 1971) and Article 114 of the Provisional Constitution of the Federal Republic of Somalia that gives the Auditor General the mandate to audit all public finances.

In this report, I have highlighted significant audit results on failure to comply legislation, revenue collected and used at source contrary to the law, weaknesses in internal controls, some bank accounts of the Federal Government of Somalia not being part of Financial Statements, failure to enforce ministries, departments and agencies to submit annual accounts for audit among others.

The highlights in this report will provide you with issues that my audit found to be most pertinent that I considered important to draw to the attention of those charged with governance. The issues mentioned in this report are those which could not be resolved during the audit process.

The audit was conducted for the first time in the history of our nation in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), which are the standards relevant for the audit of Public Sector entities. My Office has issued an opinion on the Financial Statements of Federal Government of Somalia. Additionally, on our advice, the Accountant General has adopted and produced financial statements of the Federal Government that is in line with IPSAS Cash Basis.

It is my expectation that my report and the audited financial statements for the year ended 31 December 2018 will contribute to greater transparency and accountability in the use of public finances to improve on service delivery for the people of the Federal Republic of Somalia.

Sincerely,

H.E. Mohamed M. Ali
Auditor General
Mogadishu, 2019

Cc: Prime Minister of the F.G.S
President of the F.R.S



The Federal Republic of Somalia
Office of the Auditor General

Ref: OAG/AG –137/2019

Date: 08/10/2019

Audit of the Financial Statements of the Federal Government of Somalia for Financial Year ended 31 December 2018

1. Adverse Opinion

I have audited the financial statements of the Federal Government of Somalia set out on pages 13 to 29 prepared by the Accountant General as required by Article 156 of the Approbation of Regulations for the Accounts of the State of 1962 (as amended in 1971) for the year ended 31 December 2018. These financial statements comprise: (a) the Statement of Cash Receipts and Payments, (b) Cash Flow Statement; and (c) Statement of Comparison of Budget and Actual Amounts for the year then ended, and (d) a summary of significant accounting policies and other explanatory information. **These financial statements are only for bank accounts which are in the Treasury Single Account.**

In my opinion, except for the effects of the matter(s) described in the Basis for Adverse Opinion section of my report, the accompanying financial statements do not present fairly (or do not show true and fair view), in all material respects the (a) the receipts and payments, (b) cash flows, and the budget comparison and actual amounts for the year ended 31 December 2018 in accordance with the Cash Basis IPSAS (2017 edition).

2. Basis for Adverse Opinion

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 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 the Federal Republic of Somalia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

a. Revenues collected of US \$ 1,350,400 and used at source without reporting

Based on my audit sample of reporting entities, there were some government ministries, departments and agencies that collected revenues amounting to a total US \$ 1,350,400 and used them at source contrary to the provisions of the Financial and Accounting Procedure (FAPS) of the State of 1961 (as amended in 1972).

The Ministry of Transport & Civil Aviation collected US \$ 86,980 and used it at source. The Somali Police Force (CID) collected US \$ 577,014 and used it at source. Somali Civil Aviation Meteorology Agency collected US \$130,130 and used it at source. The Somali National University collected US \$ 556,276 and used it at source.

Total revenues of US \$ 1,350, 400 was neither included in these financial statements nor accountabilities for expenditures made thereof have been submitted for my audit. Therefore, the financial statements have been understated by these receipts and related expenditures and any balances thereof.

b. External assistance from the European Union

Receipts of external assistance from the EU has been understated by US \$3.738 million being the difference of receipts included in the Statement of Receipts and Payments and actual amounts disbursed by the European Union for budget support during the year.

The EU disbursed to the Ministry of Finance a total of US \$ 17, 004, 816 whereas the financial statements presented show only US \$ 13, 266,667 for the year, being the amount deposited in the Treasury Single Account of the Federal Government of Somalia. Therefore, cash and cash equivalents, and budget performance (surplus) at the end of the year have also been understated by US \$ 3.738 million in respect of external assistance from the EU.

c. External assistance from the Kingdom of Saudi Arabia

Additionally, there was a balance of receipts of external assistance from the Kingdom of Saudi Arabia to the Federal Government of Somalia totalling US \$ 20,000,000 for the year ended 31 December 2018. Of that amount only US \$ 6,070,868 was disclosed in the annual financial statements because the SFMIS captured the latter amount whilst the balance US \$ 13,929,132 was in an off-shore bank account which is not part of the Treasury Single Account.

Therefore, cash and cash equivalents, and the budget surplus (performance) at the end of the year have also been understated by US \$ 13,929,132 in respect of external assistance from the Kingdom of Saudi Arabia.

d. External assistance from UNOPS

Receipts of external assistance from UNOPS for Somali Police Force stipends have been understated by US \$ 719,451 being the difference of receipts included in the Statement of Receipts and Payments and actual amounts disbursed by UNOPS to the Ministry of Finance during the year.

UNOPS disbursed to the Ministry of Finance a total of US \$ 1,254,743 whereas the accounts show only US \$ 535,292 for the year, being the amount deposited in the Treasury Single Account of the Federal Government of Somalia. Therefore, cash and cash equivalents, and budget performance surplus) at the end of the year have also been understated by US \$ 719,451 in respect of external assistance from UNOPS.

e. Summary of misstatement of external assistance

From the above analysis, external assistance for the year was understated by US 18,386,732 because not all external assistance to the Federal Government of Somalia are immediately transferred to the Treasury Single Account to be reported by the Accountant General's Office.

Therefore, cash and cash equivalents and budget performance (surplus) for the year ended 31 December 2018 were understated by US \$ 18,386,732. Details are set out in the table below: -

No	Name of development partner	Total amount disbursed to FGS US \$	Total amount per accounts (Treasury Single Account) US \$	Understatement of external assistance for the year 2018 US \$
1	The European Union	17,004,816	13,266,667	3,738,149
2	Kingdom of Saudi Arabia	20,000,000	6,070,868	13,929,132
3	UNOPS	1,254,743	535,292	719,451
Total		38,259,559	19,872,827	18,386,732

f. External assistance from the World Bank not reconciled

Total receipts of all external assistance from the World Bank for a number of projects for the year has not been reconciled with records of the World Bank. The World Bank disbursed to the Ministry of Finance and made direct payments with prior approval of the Ministry of Finance for a total sum of US \$ 41,225,875 during the year whereas the financial statements show a total amount received of US \$ 49,007,950. Without a reconciliation, external assistance for receipts and applicable expenditures from the World Bank are not fairly stated.

3. 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. Project Funds and Expenditures

There are a number of projects financed through external assistance. There are no separate financial statements prepared for these projects. Project expenditures are included as part of use of goods and services (see note 7 of the financial statements) and consumption of non-current assets (see note 8 of the financial statements).

I conducted the audit and test reasonableness of these projects included under these heads.

4. Other matters

a. Statement of assets and liabilities

The statement of assets and liabilities for the year has not been presented for my audit in total disregard to the requirement of Article 156 of the Approbation of Regulations for the Accounts of the State of 1962 (as amended in 1971). There is none compliance with the law since the required statement is not part of these financial statements.

b. Treasury Single Account

The financial statements presented are for those bank accounts which are in the Treasury Single Account of the Federal Government of Somalia operated with the Central Bank of Somalia. Therefore, transactions in bank accounts that are not in the Treasury Single Account are not included in these financial statements, for example some balances from the European Union, Kingdom of Saudi Arabia and from UNOPS mentioned above.

c. Compliance audit report for the year ended 31 December 2018.

I draw your attention to a compliance audit report for the Accountant General's Office for the year ended 31 December 2018. This is included in the consolidated Compliance Audit Report for non-security sector entities of the Federal Government of Somalia. The Report was issued on 30 June 2019 under separate cover, and elaborates further on internal control issues.

d. Management Letter accompanying this audit report

I draw your attention to a management letter issued to the Accountant General's Office following my audit of the financial statements for the year ended 31 December 2018. The main issues include the following:

- i. some bank accounts of the Federal Government of Somalia are not part of the Treasury Single Account;
- ii. failure to carry year-end full reconciliations;
- iii. failure to enforce ministries, departments and agencies to submit annual accounts for audit.

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

The Minister of Finance, the Accountant General and management under them are responsible for the preparation and fair presentation of these financial statements in accordance with the Cash Basis IPSAS and the financial regulations of the country. 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 going concern considerations, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible of overseeing the financial reporting process of the Accountant General's Office.

6. 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 the Financial Audit Manual, which is consistent with the Fundamental Auditing Principles (ISSAIs 100-999) of the 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 Financial Audit Manual, which is consistent with the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit. I also:

- (a) 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.
- (b) 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 Entity's internal control.
- (c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) 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 Entity'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.
- (e) 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.



The Federal Government of Somalia
Office of the Auditor General

Ref: OAG/AG -136/2019

Date: 08/10/2019

The Accountant General,
The Accountant General's Office,
The Ministry of Finance,
Mogadishu, Somalia

**Annual Accounts of the FGS for the Year ended 31 December 2018
Management Letter**

Dear Fatima,

INTRODUCTION

The audit of the annual financial statements of the Federal Government of Somalia for the year ended 31 December 2018 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 and it is in addition to the compliance audits we conducted earlier for which a separate report was issued on 30 June 2019.

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, 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 in accordance with 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 in accordance with 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 will also include 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 Accounting Officer. 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

It would be appreciated if your comments on these findings could be submitted within 2 days after the date of this report for incorporation.

ACKNOWLEDGEMENTS

I would like to thank you particularly for having adopted the International Public Sector Accounting Standards (IPSAS) and taking the necessary steps in preparing the first ever financial statements of the Federal Government of Somalia following the international standards. Although a number of challenges were met, it is nevertheless a huge progress in the right direction.

I would also like to thank your team who have worked tireless in the preparation of these financial statements. Special thanks go to various staff of your office who provided information, explanations and support during the course of my audit.

Sincerely,

Mohamed M. Ali

Auditor General

Federal Republic of Somalia

*Cc: HE the Minister of Finance, Ministry of Finance;
Director General, Ministry of Finance*

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

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1.1 Coverage of annual accounts for the year 2018 of the FGS

1.1.1 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.

The accounts of the State include those listed in Article 156 and taking into account typically includes the following: -

- i. Statement of Receipts and Payments
- ii. Statement of Comparison of Budget and Actual Amounts
- iii. Reconciliation of opening and closing bank and cash balances
- iv. Statement of Cash Flows
- v. Comprehensive accounting policies and detailed explanatory and disclosure notes
- vi. Statement of assets and liabilities
- vii. Statement of Public debt
- viii. Statement of all public funds, outstanding loans made by the State, and other statements that may be required by Parliament.

In preparing the annual accounts of the Federal Government of Somalia, all bank accounts, whether in the Treasury Single Account or not, should be considered as long as the bank accounts are for the Federal Government of Somalia.

1.1.2 Observations

It was noted during the audit that annual accounts presented for audit considered only transactions of bank accounts that were in the Treasury Single Account and excluded those transactions in bank accounts that were not in the Treasury Single Account. There were therefore material discrepancies between amounts transferred from development partners to the FGS as external assistance and amounts disclosed in the financial statements. The Somali Financial Management Information System (SFMIS) only captures transactions from only those bank accounts in the Treasury Single Account.

Whilst the European Union made a total of US \$ 17,004,816 as external assistance to the Federal Government of Somalia for the year ended 31 December 2018, only a total amount of US \$ 13,266,667 was disclosed in the annual financial statements because the SFMIS captured the latter amount whilst the balance of US \$ 3,738,149 was in an off-shore bank account.

Management Letter Following Audit of Annual Financial Statements of the FGS

For the year ended 31 December 2018

Additionally, there was a balance of receipts of external assistance from the Kingdom of Saudi Arabia to the Federal Government of Somalia totalling US \$ 20,000,000 for the year ended 31 December 2018. Of that amount only US \$ 6,070,868 was disclosed in the annual financial statements because the SFMIS captured the latter amount whilst the balance US \$ 13,929,132 was in an off-shore bank account which is not part of the Treasury Single Account.

Similarly, this also applies to external assistance provided by UNOPS for a total amount of US \$1,254,743 for which only US \$ 535,292 was disclosed in the annual financial statements because the SFMIS captured the latter amount which was transferred to the Treasury Single Account whilst the balance of US \$ 719,451 was in an off-shore bank account.

Receipts of external assistance for the year ended 31 December 2018 was understated by US \$ 18,386,732. Similarly, cash and cash equivalents, and financial performance (Surplus) were also understated by the same amounts. This summarised in the table below: -

No	Name of development partner	Total amount disbursed to FGS	Total amount per accounts (Treasury Single Account)	Understatement of external assistance for the year 2018
		US \$	US \$	US \$
1	The European Union	17,004,816	13,266,667	3,738,149
2	Kingdom of Saudi Arabia	20,000,000	6,070,868	13,929,132
3	UNOPS	1,254,743	535,292	719,451
Total		38,259,559	19,872,827	18,386,732

1.1.3 Risks

There are several risks associated with this financial management arrangement.

Firstly, there is a risk that the financial statements of the Federal Government of Somalia comprising: (a) statement of receipts and payments; (b) statement of cash flows; (c) statement of budget comparison and actual amounts; and (d) budget surplus or deficit for the year are misstated and do not show a true and fair view of financial performance and financial position at the end of financial year.

Secondly, there is a risk that funds held outside the Treasury Single Account (in off-shore bank accounts) are not managed in a transparent manner and this could impair proper financial planning and strict financial management supervision if there is no independent oversight over such funds.

Thirdly, there is a risk that there is no accountability on the use of funds held outside the Treasury Single Account since there is no independent audit conducted over such funds and reported to parliament.

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

1.1.4 Recommendations

All funds of the Federal Government of Somalia held in various bank accounts of the FGS, whether or not in the Treasury Single Account, should be included in the annual accounts of the Federal Government of Somalia. A comprehensive stock of all bank accounts of the FGS wherever held should be compiled and appropriate steps taken to capture all transactions in the SFMIS.

The SFMIS should be re-configured to capture all transactions of all bank accounts of the Federal Government of Somalia wherever they are held. The Accountant General's Office, should have direct access to all these bank accounts to enable preparation of annual accounts of the Federal Government of Somalia that show a true and fair financial performance, position and cash flows of the government.

All transactions should be recorded at gross since off-setting amounts are not allowed by accounting standards, except in rare specific instances.

1.1.5 Management response

We are in agreement with the recommendation presented; that all bank accounts of the Federal Government of Somalia whether in the Treasury Single Account or not, should be set up in the SFMIS, including the off-shore bank accounts and ensure that all transactions through these accounts are properly recorded and reconciled.

Follow up shall be made with the Central Bank of Somalia to ensure that all transactions in the bank statements are also recorded gross so as to facilitate the reconciliations.

1.2 Receipt of external assistance funds

1.2.1 Good practice

Receipt of public finances, in particular external assistance, should be through banking system rather than receiving cash and carry cash to banks. Receipt through the banking system is efficient and accords with international best practice. This arrangement also provides sufficient audit trail on the source and actual amounts received. This also reduces risks of losses of funds through error, omission and commission. Thirdly, it also minimises the risk of money laundering.

1.2.2 Observation

It was during the audit that external assistance from Turkey of US \$ 20 million for the year ended 31 December 2018 was received in cash and banked in cash.

1.2.3 Risks

There is no independent audit trail for the amount and receipt of external assistance from Turkey.

There is a risk that external assistance from Turkey was not banked intact in the Treasury Single account in a timely manner.

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

The officers who were involved in this cash transactions of large amounts could be exposed to the risk of being involved money laundering.

1.2.4 Recommendations

All external assistance should be transferred through the banking system only. Such transfers should be made direct to the Treasury Single Account.

1.2.5 Management response

Agreed with the audit recommendation and the necessary steps will be taken up with the relevant authority to ensure that all receipts of external assistance are handled through the banking system.

1.3 Failure to Submit Annual Accounts Based on IPSAS Cash Basis for audit by the due date

1.3.1 The Law

The current law no. 2 of 29 December 1961 “Financial & Accounting Procedure of the State”. Annual accounts of the State are described in Article 25 of the law.

Article 30 of the law which was amended 1971 mandates the Accountant General to manage the accounts of the State. Article 37 of the law requires every officer or agent managing public finances of the State to render accounts.

Article 40 requires the Accountant General to prepare and or submit accounts for audit, with or without comments. This is further strengthened by Article 7 (a), (c) and (d) of the “Regulation for the Accounts of the State 317” which was amended 1971.

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.

The accounts of the State include those listed in Article 156 and taking into account typically includes the following: -

- i. Statement of Receipts and Payments
- ii. Statement of Comparison of Budget and Actual Amounts
- iii. Reconciliation of opening and closing bank and cash balances
- iv. Statement of Cash Flows
- v. Comprehensive accounting policies and detailed explanatory and disclosure notes
- vi. Statement of assets and liabilities
- vii. Statement of Public debt
- viii. Statement of all public funds, outstanding loans made by the State, and other statements that may be required by Parliament.

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

1.3.2 Observations

The minimum annual accounts, based on cash-basis of accounting, comprise the following: -

- i. Statement of Receipts and Payments
- ii. Statement of Comparison of Budget and Actual Amounts;
- iii. Reconciliation of opening and closing bank and cash balances,
- iv. Statement of Cash Flows
- v. Comprehensive accounting policies and detailed explanatory and disclosure notes.
- vi. Statement of assets and liabilities (*optional under cash-basis IPSAS*).
- vii. Statement of third-party receipts and payments on behalf of the FGS (*optional under cash-basis IPSAS*).

1.3.3 Post-due date of submission of annual accounts for audit

According to the law, the due date for submission by the Office of the Accountant General is 30 April 2019 in respect of the financial year ended 31 December 2018. The Office of the Accountant General has made 3 submissions. The first submission was made on 28 April and were found to have not been prepared in accordance with international accounting standards, in particular cash basis - International Public Sector Accounting Standards (IPSAS) and was also not in compliance with the current laws.

On the advice of the Auditor General, the Accountant General's Office made a second submission on 19 June 2018 past the due date for submission. Although the second submission (based on Cash-Basis IPSAS), was much better than the first one, it had material inaccuracies.

The second submission was superseded by a third submission of annual financial statements for the Federal Government of Somalia made on 14 August 2019 which much better aligned to but not compliant with the cash basis-IPSAS (2017 edition).

1.3.4 Risks

The Office of the Accountant General has partially complied with both the law and international standards in preparing and submitting annual accounts for the financial year ended 31 December 2018 to the Auditor General for audit.

There is a risk that Parliament may not be able to exercise its financial oversight over public finances of the FGS for the financial year ended 31 December 2018 in a timely manner, and ensure execution of approved budget resulted into for service delivery.

1.3.5 Recommendations

There is an urgent need for a major accounting reform led by the Accountant General. It's important to enhance the adoption of IPSAS Cash-basis as a starting point.

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

Additionally, the Office of the Accountant General should immediately initiate training MDAs to fully comply the submission of annual accounts based on IPSAS Cash-basis.

This should be supported by developing a realistic plan for full compliance with Cash-basis IPSAS in the medium term and is adequately resourced.

1.3.6 Management response

The 2018 accounts were submitted for audit by the statutory date of April 30, 2019. During the audit process, it was advised that the accounts needed to be revised to fully comply with the Cash Basis IPSAS 2017 as this was a prerequisite for the Office of the Auditor General to conduct the statutory audit of the 2018 Annual Financial Statements for the first time, in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Being the first time of adoption of International Public Sector Accounting Standards (IPSAS) for the Accountant General’s Office and first time audit of IPSAS compliant financial statements by the Office of the Auditor General using the ISSAIs, there were delays in both offices as per the below schedule of “Key dates in submission and audit of the annual financial statements of 2018” and the entire process has indeed been a great learning experience for both offices as they strive to strengthen the PFM system through the adoption of internally recognised standards in their work. The Accountant General’s Office will continue and remains committed to ensuring timely submission of credible Annual Financial Statements that are fully compliant with the IPSAS Cash Basis, 2017.

Key Dates in Submission and Audit of the Annual Financial Statements of 2018: -

Date	Action	Remarks
28/04/2019	Initial submission (AG’s office)	Submission of the annual financial statements in line with the legal requirements.
15/06/2019	Auditor General’s response	Indicated that the report was not fully in compliance with the IPSAS Cash basis standard.
19/06/2019	Revised submission (AG’s office)	Aligned the accounts with the new formats of the FGS accounts to ensure full compliance with the Cash basis IPSAS requirements.
20/06/2019	Auditor General’s response	Invitation for meeting for a discussion on the 2018 financial statements.
24/06/2019	AG’s office response	Finalization of the FGS financial statements with responses provided to the observations and comments made by the Auditor General.
24/07/2019	Auditor General’s response	Invitation for meeting as part of the audit process on the financial statements.
03/08/2019	Final submission (AG’s office)	Submission of the audited (English version) reports and financial statements of the Federal Government of Somalia for the 2018 Fiscal year along with the AG’s office responses to the Auditor General’s comments on the previous submission.
11/09/2019	Auditor General’s response	Request for additional information to be provided in the financial statements.

Management Letter Following Audit of Annual Financial Statements of the FGS

For the year ended 31 December 2018

22/09/2019	Draft Letter of Representation by the Auditor General	Submission of the draft letter of representation shared by the Auditor General for review and signing by the Accountant General.
23/09/2019	Submission of review comments to the Draft Letter of Representation (AG's office)	Accountant General's office submission of review comments and input to the draft letter of representation for concurrence by the Auditor General.
02/10/2019	Final draft of Letter of Representation provided by the Auditor General's office	Submission of the Final draft of letter of representation for signing by Accountant General.
02/10/2019	Management Letter provided by the Auditor General's office	Submission of management letter for response by the Accountant General.
03/10/2019	Final draft of Letter of Representation Signed by the Accountant General and shared with the Auditor General	Submission of the signed letter of representation by the Accountant General and shared with the Auditor General.
03/10/2019	Exit Meeting held between OAG and AGO to close the 2018 audit.	Exit meeting held between AGO and OAG teams to close the 2018 audit.
06/10/2019	Submission of the responses to the Management Letter by the Accountant General	Submission of the Management letter with the management comments provided by the Accountant General.

1.4 Failure to carry comprehensive year-end closing procedures

1.4.1 Best practice

Preparation of annual financial statements includes carrying out year-end procedures. Carrying out reconciliations of account balances at the end each reporting period ensures that account balances are correctly stated. For example, conducting bank reconciliations, reconciling external assistance funds with development partners, reconciling all categories of domestic revenues with collecting agencies, etc.

1.4.2 Observations

During the course of the audit, there was no evidence that proper reconciliation of the following account balances were conducted: -

- (a) Revenues collected by government agencies and used at source in 2018 – for US \$ 1,350,400
- (b) External assistance from the World Bank
- (c) External assistance from the European Union
- (d) External assistance from the Kingdom of Saudi Arabia
- (e) External assistance from other development partners
- (f) Bank balances which are not in the Treasury Single Account

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

1.4.3 Risks

Firstly, there is a risk that various account balances in the financial statements may be misstated because of not carrying out year-end closing procedures. The financial statements may not show a true and fair financial performance, position, cash flows, and resulting budget surplus or budget deficit for the financial year audited.

Secondly, any errors, omission, and commissions may take long for timely remedial action.

1.4.4 Recommendations

Design and implement a comprehensive year-end procedure for preparation of annual financial statements of the Federal Government of Somalia.

The procedures should include preparation of reconciliations of all critical and or major account balances, obtaining confirmations, and carrying out analytical reviews to ensure consistency of financial data and information drafted.

1.4.5 Management response

Year-end procedures were in place and will continue to be issued annually. Importantly arrangements are now being made to ensure that the period/year-end procedures in place are properly conducted and fully complied with.

Regarding the revenues amounting to US \$ 1,350,400 collected by government agencies and used at source, follow up shall be made once the details are provided to ensure that proper instructions are issued to require all revenue collected to be paid into the TSA intact and without any delay.

1.5 Non-submission of annual accounts by entities of the FGS for audit

1.5.1 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.

1.5.2 Observation

The entities of the Federal Government of Somalia managing public funds did not submit their accounts for the year ended 31 December 2018 for my audit. This has been going on for a very long time in the history of the Federal Government of Somalia.

Management Letter Following Audit of Annual Financial Statements of the FGS
For the year ended 31 December 2018

1.5.3 Risks

The entities of the FGS has 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 has not been able to hold public officers accountable for public finances appropriated for several years.

Any error, omission and commission in the public finances of the FGS for the past years could not be detected for timely and appropriate remedial action.

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

1.5.4 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.

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.

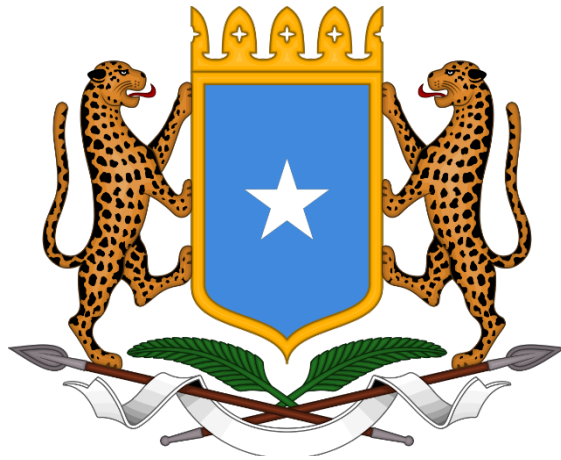
1.5.5 Management response

Agreed with the audit recommendations and arrangements are already underway to enable and require the MDAs to prepare and submit their accounts starting from the FY 2019.

As part of the arrangements, the Accountant General's Office intends to hold a training for the MDAs on the new IPSAS compliant financial reporting templates to assist in the preparation of their individual accounts and the FGS Consolidated Accounts. The training will also cover the year end procedures and the requirements of the Cash Basis IPSAS, 2017 as they relate to the individual MDAs. It is expected that after the training, the MDAs will be in position to prepare and submit their Accounts accordingly.

THE FEDERAL GOVERNMENT OF SOMALIA

Office of the Accountant General



**Reports and Financial Statements for the year
ended 31 December 2018**

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

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FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

I. STATEMENT OF THE MINISTER OF FINANCE

The Federal Government of Somalia (FGS) has achieved significant progress in laying the foundations for stability and development. The overall macroeconomic objective is to increase citizens' access to services and public goods, to restore economic resilience by laying the foundations for longer-term poverty reduction and inclusive growth, and to offer economic opportunities for a fast growing population.

The financial reports of the Federal Government for the year ended 31 December 2018 show the extent to which the government has fulfilled its aspirations as indicated in the Appropriation Act for 2018. The allocation of resources during the financial year was aimed at increasing domestic revenues towards fiscal independence, establishing prudent fiscal policies for restoring citizens' trust in institutions, and strengthening accountability and oversight.

The Government is committed to improving public financial management and during the financial year of 2018, a number of reforms were undertaken, namely: (i) expand the scope of domestic revenue mobilization (DRM); (ii) continue with the implementation of Treasury Single Account (TSA) in the Federal Government for an improved cash management; (iii) deepen budget execution reforms and align them with the 2018-2021 Public Financial Management (PFM) Reform Action Plan; (iv) adopt the Cash Basis International Public Sector Accounting Standards (Cash Basis IPSAS) and start preparing government accounts based on the Standards; and (v) enhance fiscal accountability and transparency.

The rollout of improved public financial management systems will continue throughout government in order to improve the impact of government spending through prudent fiscal policies aimed at reducing waste and improving efficiency in service delivery.

I commend the Accountant General's Office for preparing the first ever government accounts for the year ended 31 December 2018 based on the international standards, and I look forward to the rest of the ministries, departments and agencies adopting the same Standards in the near future.

.....

Dr. Abdirahman Dualeh Beileh
HE, Minister of Finance

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

II. STATEMENT OF RESPONSIBILITIES

The financial statements set out from page 11 to page 26 have been prepared in line with the provisions of the Financial and Accounting Procedure Regulations of the State (FAPRS) of 1961 (as amended in 1972) and in accordance with the requirements of the Cash Basis IPSAS, as revised in 2017.

In accordance with Article 1 of the amended Regulations for the Accounts of the State of 27 December 1971, the Accountant General is required to prepare the final accounts of the State in accordance with Article 26 of the Financial and Accounting Procedure Legislative Decree of 1961 (as amended) and submit them to the Magistrate of Accounts for Audit.

Under the Articles 25, 155 and 156 (a) to (h) of the FAPRS of 1961 (as amended), the Annual Accounts shall contain such accounts, data and information as may be necessary to show the results of the management of the budget, a comparison between the estimated and the actual revenues and expenditures and any other information prescribed in the regulation.

Article 27 of the same FAPR requires the Magistrate of Accounts (Auditor General) to audit the annual financial statements of the Federal Government of Somalia and submit an audit report, along with the financial statements, to the National Assembly (Federal Parliament) not later than 30 June of the year immediately the year under audit. Further and in line with Articles 1 of the amended Regulation for the Accounts of the State of 27 December 1971, the Accountant General shall advise the Secretaries of State (Ministers) on the accounting system to be adopted in their Ministries and inform the Secretary of State for Finance (Minister of Finance) of any case in which, in his/her opinion, the system is unsatisfactory. In line with this article, the Accountant General has adopted internationally accepted accounting standards in the preparation of the accounts of the government and has followed the Cash Basis IPSAS in the preparation of these financial statements.

Accordingly, and in reference to Article 156 of the amended decree of 1971, I am pleased to submit the annual financial statements of the Federal Government of Somalia for the financial year ended December 31st 2018 as required by the law.

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 books of accounts, which have been properly kept.

.....

Fatuma Osman Farah,
Accountant General

To the best of my knowledge these financial statements of the Federal Government of Somalia as at 31 December 2018 have been prepared in accordance with the Financial and Accounting Procedure Legislative Decree of 1961 (as amended).

.....

Dr. Abdirahman Dualeh Beileh
Minister of Finance

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

III. EXECUTIVE COMMENTARY

HIGHLIGHTS OF THE FINANCIAL PERFORMANCE FOR THE YEAR

As shown in the diagrams below, the total budgeted revenue during the 2018 fiscal year was \$297,072,158. The actual outturn of revenue collected was \$276,296,234 which is 7.5% lower than the budgeted revenue. Further details can be found in the explanatory notes under Section X.

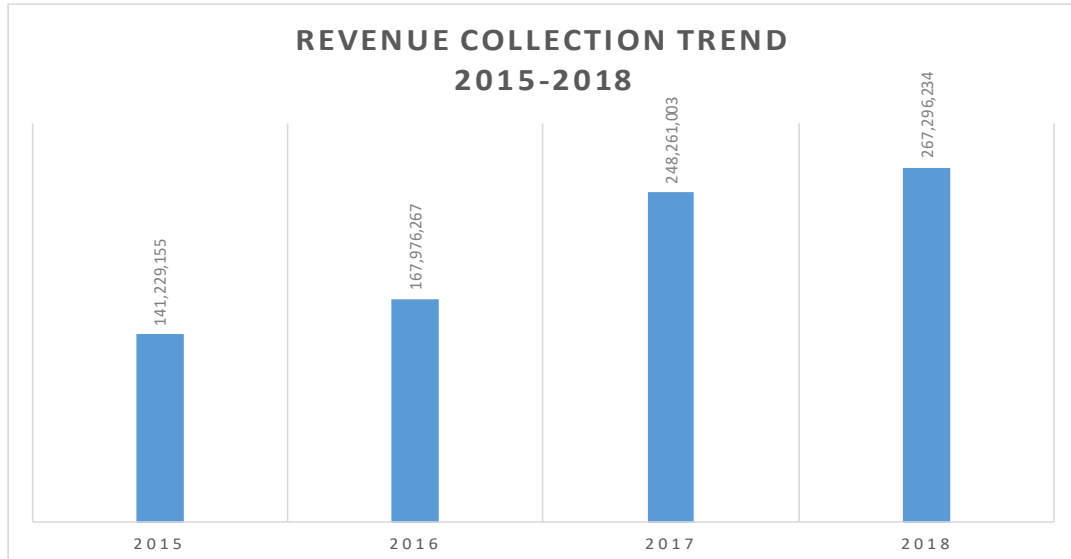


Figure 1 Revenue trend analysis for the FY 2015-2018

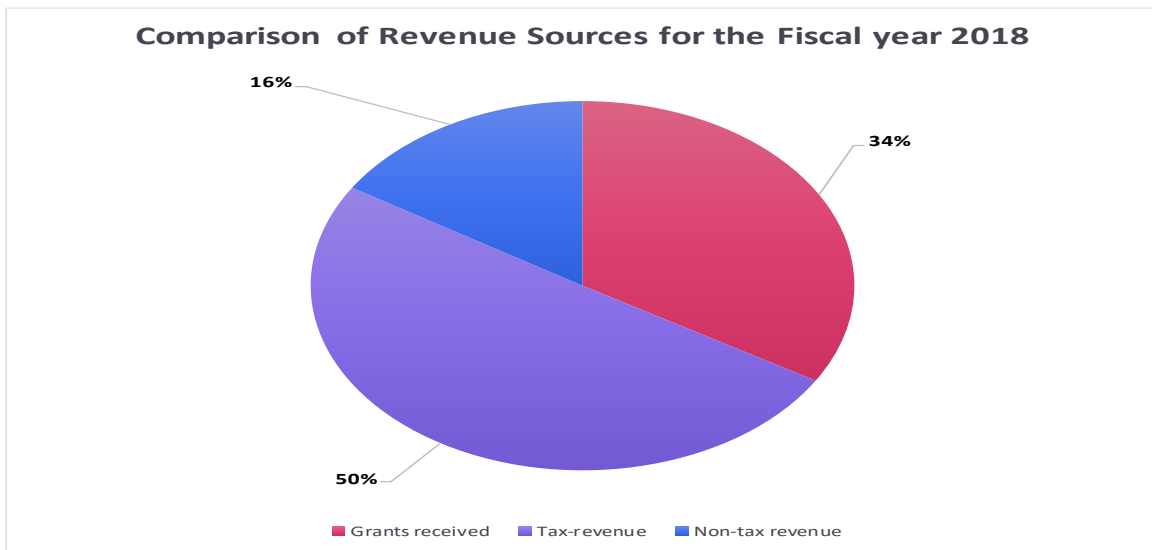


Figure 2 Revenue sources in comparison for the FY 2018

Figure 2 depicts the different sources of revenue for the Government as taxes, non-tax and external grants from donors. The major source of revenue during the 2018 fiscal year was domestic revenue followed by the grants received through external assistance from the donors. Tax revenue accounted for 50% of the total revenue, while non-tax revenue and grants accounted for 16% and 34% respectively.

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

The total domestic revenue collected amounted to 66% out of the total revenue receipts for the 2018 fiscal year and this covered 68.32% of the total Government expenditures, with the remaining portion of 31.60% covered by the external grants.

The total expenditure incurred by the Federal Government of Somalia during the 2018 fiscal year amounted to \$268,521,523. The increase in expenditure from the previous financial year 2017 was due to the increase in compensation of employees and projects implemented during the year.

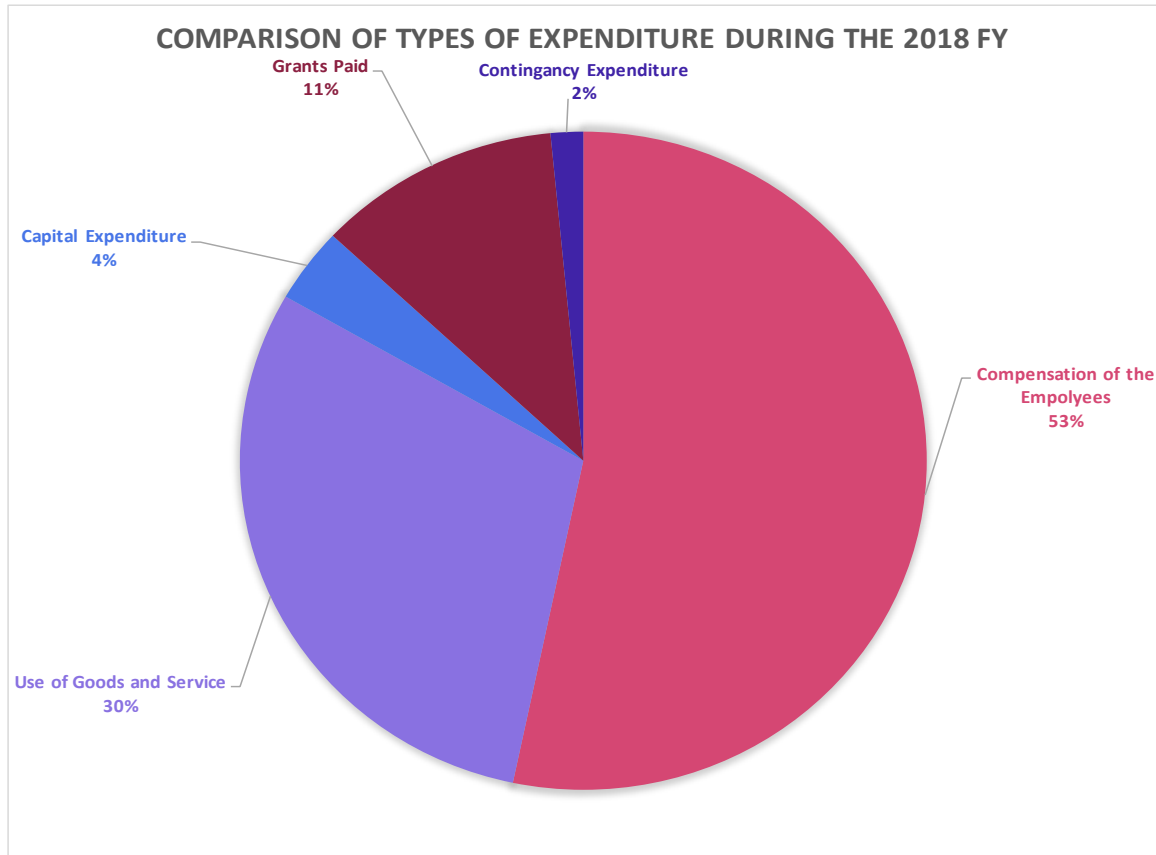


Figure 3: Comparison between the 5 types of Budgeted Expenditure

Figure 3 shows that Compensation of the Employees (which comprises of the salary and allowances for the civil servant staff and the armed forces) remains the main Government expenditure item accounting for 53% of the total expenditure incurred by the Government, followed by the use of goods and services at 30%. These two expenditure categories represent 83% of the total Government expenditure. The remaining expenditure categories accounted for 16% (Grants paid (11%), Capital expenditure (4%) and Contingency expenditure (2%))

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

IV. STATEMENT OF CASH RECEIPTS AND PAYMENTS

	Notes (Sec. X)	31-Dec 2018 US \$
RECEIPTS		
Tax Receipts	3	138,945,588
Non – Tax Cash Receipts	4	44,473,235
External Grants	5	92,877,412
TOTAL RECEIPTS		276,296,234
PAYMENTS		
Compensation of employees	6	143,071,787
Use of goods and services	7	80,635,606
Consumption of fixed assets	8	9,869,867
Grants paid/transferred	9	30,837,538
Other payments (contingency)	11	4,106,725
TOTAL PAYMENTS		268,521,523
(Deficit)//Surplus for the year		7,774,711
Cash beginning of the year	12	5,640,814
Cash end of the year	12	13,415,525

The accounting policies and explanatory notes from pages 15 to 23 to these financial statements form an integral part of the financial statements.

.....
Fatuma Osman Farah
Accountant General

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

V. STATEMENT OF CASH FLOWS

	Notes (Sec. X)	31-Dec 2018 US \$
Receipts from operating activities		
Receipts		
Tax Receipts	3	138,945,588
Non – Tax Receipts	4	44,473,235
External Grants	5	92,877,412
Total receipts from operating activities		276,296,234
Expenses		
Compensation of employees	6	143,071,787
Use of goods and services	7	80,635,606
Grants paid/transferred	9	30,837,538
Other payments (Contingency)	11	4,106,725
Total payments from operating activities		258,651,656
Net cash flow from operating activities		17,644,578
Cash outflow from Investing Activities		
Acquisition of fixed assets	8	(9,869,867)
Net cash outflow from Investing Activities		(9,869,867)
Cash flow from Financing Activities		
Proceeds/Repayment of borrowings		0
Net cash flow from financing activities		0
Net increase/(decrease) in cash and cash equivalents		7,774,711
Beginning balances of cash and cash equivalents	13	5,640,814
Closing balances of cash and cash equivalents	13	13,415,525

The accounting policies and explanatory notes from pages 15 to 23 to these financial statements form an integral part of the financial statements.

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Fatuma Osman Farah
Accountant General

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

VI. STATEMENT OF BUDGET COMPARISON AND ACTUAL AMOUNTS

	Original Budget US \$	Revised US \$	Final Budget US \$	Actual Outturn US \$	Variance US \$	% Variance
RECEIPTS						
Tax Receipts [note 3]	114,180,000	13,680,000	127,860,000	138,945,588	11,085,588	8.7
Non Tax Receipts [note 4]	41,847,305	2,802,695	44,650,000	44,473,235	(176,765)	(0.4)
Bilateral Sources - Grants [note 5]	61,072,000	17,615,741	43,456,259	29,533,127	(13,923,132)	32
Multilateral Sources - Grants[note 5]	57,530,886	23,575,013	81,105,899	63,344,284	(17,761,615)	(21.9)
Total Cash Receipts	274,630,191	22,441,967	297,072,158	276,296,234	(20,775,924)	(7)
Recurrent Expenses						
Compensation of employees [note 6]	139,264,884	9,639,743	146,557,282	143,071,787	3,485,495	2.4
Use of goods and services[note 7]	94,660,843	6,263,995	98,305,549	80,635,606	17,669,943	18
Grants paid [note 9]	23,746,000	8,852,838	32,580,338	30,837,537	1,742,801	5.4
Other expenses (Contingency)[note 12]	2,500,000	78,866	4,336,871	4,106,725	230,146	5.3
Total Recurrent Expenditure	260,171,727	24,677,710	281,780,040	258,651,655	23,128,385	8.2
Capital Expenditure						
Capital [note 8]	14,458,464	833,655	15,292,119	9,869,867	5,422,252	35.46%
Total Capital Expenditure	14,458,464	833,655	15,292,119	9,869,867		
Total Expenditure	274,630,191	25,511,365	297,072,158	268,521,523	28,550,635	9.6%
Surplus/ (Deficit)				7,774,712	(7,774,713)	

The accounting policies and explanatory notes from pages 15 to 23 to these financial statements form an integral part of the financial statements.

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Fatuma Osman Farah
Accountant General

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

VII. STATEMENT OF PAYMENTS BY FUNCTIONS OF GOVERNMENT

<i>Functions of Government based on the GFS 2014 classification</i>	<i>Budgeted Expenditure For the Federal Government Budget Sector Entities</i>	<i>Actual Payments</i>
	Year ended 31 Dec 2018	Year ended 31 Dec 2018
	US \$	US \$
Payments- Recurrent		
Education Services	8,246,168	7,056,913
Health Services	1,400,196	1,168,173
Social Security and Welfare	4,935,690	2,323,902
Defense	65,539,451	64,642,081
Public Order and Safety	67,145,661	62,651,019
Recreation, Culture and Religion	1,521,845	1,401,690
Economic Services	19,533,393	16,946,986
General Public Service	113,458,836	102,460,890
Total Payments-Operating	281,781,240	258,651,654
Payments-Capital		
Education Services	1,773,400	894,648
Health Services	-	-
Defense	-	-
Public Order and Safety	-	-
Social Security and Welfare	1,351,211	49,409
Recreation, Culture and Religion	-	-
Economic Services	3,109,600	1,949,912
General Public Service	9,056,708	6,975,899
Total Payments-Capital	15,290,919	9,869,868
Total Payments	297,072,159	268,521,523

The accounting policies and explanatory notes from pages 15 to 23 to these financial statements form an integral part of the financial statements.

.....
Fatuma Osman Farah
 Accountant General

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

VIII. GENERAL INFORMATION AND ACCOUNTING POLICIES

(i) General Information

The Federal Government of Somalia has its seat in Mogadishu, the capital of the Federal Republic of Somalia. The principal address of the reporting entity is:

The Office of the Accountant General
Buliding of the Ministry of Finance
Shinagni District
Mogadishu
Somalia

The principal activities of the Government and its controlled entities are providing quality government services.

The relevant legislation governing the Government's operations are the FGS laws currently underpinned by:-

- a) The Appropriation Act, 2018; and
- b) Financial and Accounting Procedures Regulations of 1961 of the State as amended 1971.

(ii) Significant Accounting Policies

These are the specific principles, bases, conventions, rules and practices adopted by the Federal Government of the Republic of Somalia in preparing and presenting the financial statements. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all transactions unless otherwise stated. The following specific policies have been used:

(a) Statement of Compliance and Basis of preparation of the accounts

The financial statements have been prepared in accordance with the State Finance and Accounting Regulations of 1961 and related legal framework. These financial statements have been authorized for issue by the Federal Minister of Finance and the Federal Accountant General on 14 August 2018, being the date of third submission to the Auditor General for audit.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

Pursuant to Article 156(a) and (h) of the SFAR of 1961, the financial statements have for the first time been prepared in accordance with Cash-basis International Public Sector Accounting Standards (Cash Basis IPSAS) (as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants) and as set out in the accounting policy note below.

The financial statements have been prepared according to the Cash Basis IPSAS (2017), and the reporting requirements of the Financial and Accounting Procedure Regulations of the State (FAPRS) of 1961 (as amended in 1971). The presentation, classification of items in the financial statements and accounting policies adopted have been consistently applied throughout the first year of adoption of the Cash Basis IPSAS.

FEDERAL GOVERNMENT OF SOMALIA

Reports and Financial Statements - for the year ended December 31, 2018

(b) Reporting entity

The Report and the Financial Statements have been prepared by the Office of the Accountant General pursuant to Articles 156 SFAR (61) that empowers the Accountant General to prepare annual financial statements of the Federal Government of Somalia.

These financial statements are for the Federal Government of Somalia and includes transactions with Federal Government entities as specified in the Appropriation Act, 2018; the budget sector entities for that year. A list of the budget sector entities is shown in Annex 1 to these financial statements.

(c) Reporting currency

The functional currency of the Federal Government of Somalia is the United States dollar because: (a) government revenues and expenditures are made in that currency; (b) most of the financing is provided in that currency; and (c) bank transactions and balances are principally in the US \$.

(d) Reporting Period

The Federal Government of Somalia financial year runs from 1st January to 31st December, the calendar year. These financial statements are for the period of 1st January 2018 to 31st December 2018.

(e) Payments by Third Parties

The Government of Somalia may also benefit from goods and services purchased on its behalf as a result of cash payments made by third parties during the period. During the 2018 financial year third party payments (in particular by the World Bank) which were formally advised or verified by the Government were included in the financial statements.

(f) Revenue Recognition

Receipts represent cash received by the FGS during the financial year and comprise: tax revenue, non-tax revenue, and external assistance. These receipts are recognized and included in the financial statements only when received as cash by the FGS or on behalf of the FGS.

(g) Expenses

Payments represent outlays of cash made by the FGS or other agencies for and on behalf of the FGS. All payments are recognised and included in the financial statements when cash is paid out.

(h) Expenditure arrears

The Government has conducted a data collection of claimed domestic liabilities that have been accumulated over previous years. It has been developed eligibility criteria for domestic liabilities claims classification. The total of 251 claims in the amount of US \$45.7 million have been registered. On the basis of liabilities eligibility criteria established for liabilities classification, none of the claims satisfies with eligibility criteria. Thus, the Government does not maintain a memorandum record of public liabilities that have satisfied with terms and conditions of eligibility criteria. However, when all vetting procedures on claims classification is finalized, the domestic liabilities record will be reconstructed and reconciled before the amount can be included in the statement of financial assets and liabilities.

FEDERAL GOVERNMENT OF SOMALIA

Reports and Financial Statements - for the year ended December 31, 2018

(i) Property, Plant and Equipment & other non-current assets (Capital items)

Non-current assets principally comprises land, buildings, plant, vehicles, equipment, and any other capital assets controlled by the Federal Government of Somalia. Under the cash basis of accounting, purchases of property, plant, equipment and other non-current assets have been expensed fully in the year of purchase. However, these assets are recorded in Asset Registers at historical cost as a memorandum record.

(j) Comparative figures for previous period

Notwithstanding the adoption of the Cash Basis IPSAS 2017 for the first time and for purposes increasing the usefulness and understandability of the financial statements, comparative figures for the previous financial year 2017 have been **reclassified** and presented in the notes to the financial statements to conform to the requirements of the Cash Basis IPSAS (2017) that has been adopted in the preparation of accounts starting from the financial year 2018.

(k) Foreign currency transactions and foreign operations

Foreign currency transactions denominated in foreign currencies would be recorded into United States Dollars and incorporated the statement of cash receipts and payments at the exchange rate ruling on the date of the transaction. Cash balances 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 as a reconciling item between the opening and closing cash balances for the financial year. However for purposes of this accounting policy, there were no cash balances held in a foreign currency for the reporting period and therefore no translation exchange differences.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts.

(m) 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.

(n) Original and final approved budget and comparison of actual and budget amounts

The approved national budget of the FGS is developed on the same accounting basis (cash basis), same classification basis (GFS, 2014 economic classification), and for the same period (1st January 2018 to 31st December 2018) as the financial statements. It encompasses the same budget sector entities as the Federal Government financial statements - these are identified in Annex 1.

The original budget was approved by Parliament on 14/12/2017 and a supplementary appropriation of **US \$ 22,441,967** was approved by Parliament in October 2018 largely as a result of an expected increase in the revenue of the Federal Government. The original budget objectives and policies, the subsequent revisions and the material differences between the budget and actual amounts, are explained more fully in the executive commentary provided as part of these financial statements.

A commitment control system is in place and is implemented through the Somali Financial Management Information System (SFMIS) with adequate system controls to ensure that no expenditure can be incurred in excess of the approved budget as may be revised through realllocations and supplementary appropriation.

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

(o) Authorization Date

The financial statement was authorized for publication on **28 April 2019** by **Dr. Abdirahman Dualeh Beileh**, the Minister of Finance and **Ms. Fatuma Osman Farah**, the Accountant General of the Federal Government of Somalia.

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

IX. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Functions of government

For presentation of certain information in the financial statements by functions of government, the Government Finance Statistics [GFS] as developed by the Organization for Economic Cooperation and Development [the OECD], and as published by the International Monetary Fund [IMF], 2014 has been followed.

2. Exchange Rates

All monetary amounts in the financial statements are expressed in United States Dollars, the transaction and reporting currency. The US\$ closing rates (the Central Bank of Somalia middle rate) were:

	Actual 31 Dec 2018 US \$	Actual 31 Dec 2017 US \$
Euros	1.13	1.19
Somali Shilling	1/22,500	1/22,500

3. Tax Receipts

Tax revenues arise from both direct and indirect taxes levied and collected by the FGS and consists of the following:

	31 Dec 2018 US\$	31 Dec 2017 US\$
Payable Individual	6,870,543	2,989,135
Payable Corporation	1,379,171	164,889
Other income Tax	386,538	293,658
Sales Taxes	-	410
Excise Taxes	3,235,039	3,600,000
Telecommunication Taxes	5,593,345	5,300
Sale Taxes on imported goods	13,236,283	-
Taxes Water and beverage	3,316,000	-
Customs and other Import duty	86,976,837	79,845,492
Tax khat	13,357,545	12,941,434
Inland Revenue Taxes	4,914,373	6,896,987
Other Stamp duty	2,992,598	4,653
Total Tax Revenues	138,945,588	112,036,658

4. Non-Tax Cash Receipts [NTR]

Non Tax revenue represents other domestic revenues collected by the FGS other than from taxes. These comprise of the following:

	31 Dec 2018 US\$	31 Dec 2017 US\$
Administrative Charges	3,639,738	124,614
Visa Charges	9,495,596	7,195,124
Albeyra Charge fee	29,179,596	23,292,064
Work permits foreign employee fee	740,544	-

FEDERAL GOVERNMENT OF SOMALIA
Reports and Financial Statements - for the year ended December 31, 2018

	31 Dec 2018	31 Dec 2017
	US\$	US\$
License fee commerce industry	948,604	-
Fees Hamar port	469,078	-
Total Non-Tax Receipts during the year	44,473,235	30,611,802

5. External Assistance (Grants)

External assistance was received in the form of grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. This represents grants received from the donor community that are not repayable in future. The amounts in the statement of receipts and payments are only recognized when received by and are under the control of the FGS. The amount of external assistance received in 2018 consists of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$.
Grants received during the year		
Bilateral Agencies	29,533,127	61,822,785
Government of Turkey	20,000,000	29,822,785
Kingdom of Saudi Arabia	6,070,868	30,000,000
State of Qatar	3,462,259	-
United Arab Emirates (UAE)	-	2,000,000
Multilateral Agencies	63,344,284	43,789,760
World Bank	49,056,205	37,040,742
European Union (EU) – Budget Support & Police Salaries	13,266,667	4,8591,166
African Development Bank	486,120	989,529
UNOPS (Support to stabilization)	535,292	900,323
Total External Assistance Received during the year	92,877,411	105,512,545

Non – compliance with significant terms and conditions:

There have been no known instances of non compliance with terms and conditions with regards to loan or grant agreements or guarantees which have resulted in cancellation of the assistance or has given rise to an obligation to return the assistance previously given.

6. Compensation of employees

The other employee costs are salaries for the staff hired under the Capacity Injection Program. Compensation of employees comprised of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
Employee salaries	40,669,108	40,262,739
Employee Wages	95,914,051	82,903,317
Social contributions	306,060	-
Other employee costs	6,182,568	1,735,806
Arrears - Salaries and Allowances	-	3,968,530
Total compensation of employee costs	143,071,787	128,870,992

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7. Use of goods and services

These are mainly comprised of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
Utilities General expenses	4,880,259	4,529,898
Rent Expense	1,395,829	422,019
Fuel and lubricant	4,690,179	3,853,959
Repairs and maintenance	1,274,232	1,263,253
Officer Material and other consumables	2,658,348	2,680,725
Travel expenses	4,175,160	4,680,254
Education Expense	829,514	62,079
Training Expense	680,067	738,845
Consulting and Professional fees	8,313,192	9,396,647
Audit fees	373,275	187,816
Bank Commission	4,862,910	4,212,458
Insurance Charges /premium	5,320	-
Health and hygiene	1,117,549	910,000
Military material supplies and service	1,746,000	1,496,000
Other specialized material and service	1,276,360	1,414,722
Special Operational Service	4,406,845	2,126,380
Other General Expense	37,950,568	41,149,444
Arrears - Use Of Goods & service	-	3,814,016
Total Use of goods and services	80,635,607	82,938,514

8. Capital expenditure – consumption of non current assets

As explained in accounting policy (i) , all non current assets purchased during the year are expensed during the year of purchase [fully depreciated in the year of purchase]. The value of capital expenditure acquired during the financial year and expensed comprised of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
Office equipment, furniture and fittings	-	8,875
Information and Communication Technology	99,283	884,454
Other fixed assets	280,176	242,092.65
Transport equipment	8,908,907	5,118,247
Other machinery and equipment	-	9,908
Intangible assets	581,499	85,093
Total Capital expenditure expensed	9,869,867	6,348,671

9. Grants paid

The Government paid grants during the year to the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
To foreign governments	608,099	112,500
To international organizations	116,000	514,000
To sub-national governments		

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	31 Dec 2018	31 Dec 2017
	US\$	US\$
Puntland Sate of Somalia	4,674,129	4,205,002
Jubbaland State of Somalia	2,204,151	2,466,402
South West State of Somalia	3,397,591	1,510,033
Galmudug State of Somalia	1,809,111	1,652,544
Hirshabelle State of Somalia	2,988,423	1,150,000
Local Government	15,040,33	11,787,042
Total grants for the year	30,837,538	23,397,523

Grants to sub-national governments are support grants to Federal Member States within the appropriated amounts by Parliament.

10. Social benefits

Social benefits paid during the year comprised of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
Employment related social benefits	306,060	-
Total social benefits for the year	306,060	-

11. Other payments (contingency)

These comprised of the following:

	31 Dec 2018	31 Dec 2017
	US\$	US\$
Other Expenses [Contigency]	4,106,725	4,010,343
Total of other expnses paid during the year	4,106,725	4,010,343

12. Cash and Cash equivalents

This is comprised of the cash and bank balances of all bank accounts operated by the Office of the Accountant General (Treasury) with the Central Bank of Somalia under the Treasury Single Account (TSA) framework. This includes balances on the main Treasury Single Account, MDA TSA sub-accounts and the project TSA sub - accounts. It also includes deposit accounts, revenue collection bank accounts with commercial banks and petty cash balances held by the ministries, departments and agencies at the end of the financial year.

The amounts have no known restrictions except for the externally financed projects that are restricted for use in line with the objectives and purpose specified in the respective financing agreements. Details are provided below as follows:-

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	31 Dece 2018	31 Dec 2017
	US\$	US\$
General Government Fund		
Treasury Single Account and sub-accounts	156,357	112,733
External Assistance Funds (Donor Funds)		
African Development Bank Phase	333,060	-
Capacity Injection Project	157,252	124,522
ICT Phase 2	564,113	632,774
ICT - Puntland	212,120	129,590
PFM Phase 2 Scaled up	271,295	407,138
RCRF Phase 2 FGS Bank	3,046,174	0.09
RCRF Phase 2 Regions	741,753	774,016
RCRF Surge Support	7,059,724	1,534,018
SCORE Project-Puntland	-	299,472
SCORE Project	75,091	111,301
SFF-LD Project UN	97,303	876,592
SFF-LD World Bank	330,198	157,679
SURP Project	129,793	-
Somali Urban Resilience Project (SUIP)	-	69,865
Support to Stabilization Project (S2S)	241,292	411,114
Total cash and cash equivalents	13,415,525	5,640,814

13. Accumulated Funds

The accumulated surplus (deficit) as at the year end was as follows:

Accumulated surplus (deficits)	31 Dec 2018	31 Dec 2017
	US\$.	US\$
At beginning of the year, 1st January		
Opening balances	5,640,814	2,945,857
Prior year adjustments	-	-
Surplus (deficit) for the year- Statement of Cash Receipts and Payments	7,774,711	2,694,959
At end of the year, 31st December	13,415,525	5,640,816

14. Other Important Disclosures

14.1: Presentation of the statement of assets and liabilities

Article 156 of the Financial and Accounting Procedure Regulations of the State (FAPRS) of 1961 as amended requires the preparation of a statement of assets and liabilities as part of the annual accounts of the Federal Government. This statement has not been prepared owing to the current exercise embarked on by the Government to verify and reconcile its assets and liabilities.

14.2: Preparation of statement of funds

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. During the financial year there were no known funds operated by the Government

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ANNEX 1 – LIST OF BUDGET ENTITIES FOR THE FGS ACCOUNTS

(a) Ministries, Departments and Agencies

Sector Code	Sector Name	Parent Institution	Reporting Entity (MDA)
100	Administration		
	101	Office of the Presidency	
		10101	Office of the Presidency
	102	Parliament	
		10201	Office of Speaker (People's House)
		10202	Member of Parliament (People's House)
		10203	Upper House (Senate)
	103	Prime Minister	
		10301	Office of the Prime Minister
	104	Ministry of Foreign Affairs	
		10401	Ministry of Foreign Affairs
		10402	Embassies
	105	Ministry of Finance	
		10501	Ministry of Finance
		10502	Accountant General
		10503	Other Activities of the State
		10504	Directorate of Financial Institutions
	106	Ministry of Planning and Economic Development	
		10601	Ministry of Planning and Economic Development
		10602	National Statistics Department
	107	Ministry of Interior and Federal Affairs	
		10701	Ministry of Interior and Federal Affairs
		10702	Somali Refugee and IDPs Commission
	108	Ministry of Endowment and Religious Affairs	
		10801	Ministry of Religious Affairs
	109	Ministry of Justice	
		10901	Ministry of Justice
		10902	Custodian Corps
	110	Judicial Authorities	
		11001	Supreme Court
		11002	Banadir Court
		11003	Appeal Court
		11004	Constitutional Court
		11005	Judiciary Service Committee
	111	Attorney General	
		11101	Attorney General
	112	Solicitor General	
		11201	Solicitor General
	113	Auditor General	
		11301	Auditor General
	114	Ministry of Humanitarian and Disaster Mgt	

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		11401	Ministry of Humanitarian and Disaster Mgt
	115	Ministry of Constitution	
		11501	Ministry of Constitution
	116	Special Commissions	
		11601	Boundaries and Federation Commission
		11602	National Reconciliation Commission
		11603	National Independent Electoral Commission
		11604	Human Rights Commission
		11605	Independent Constitution Review and Implementation Commission
		11606	National Civil Service Commission
		11607	National Independent Anti- Corruption Commission
200	Defence and Security		
	201	Ministry of Defence	
		20101	Ministry of Defence
		20102	Armed Forces
		20103	Military Court
		20104	Orphans and Disabled
	202	Ministry of National Security	
		20201	Ministry of National Security
		20202	Police Force
		20203	National Security Force
		20204	Immigration Department
300	Economic Services		
	301	Ministry of Water and Energy	
		30101	Ministry of Water and Energy
	302	Ministry of Mineral	
		30201	Ministry of Mineral
	303	Ministry of Agriculture	
		30301	Ministry of Agriculture
	304	Ministry of Livestock and Forestry	
		30401	Ministry of Livestock and Forestry
	305	Ministry of Fishery and Marine Resource	
		30501	Ministry of Fishery and Marine Resource
		30502	Somali Marine Research
		30503	Offshore Fisheries Development Project
	306	Ministry of Information	
		30601	Ministry of Information
	307	Ministry of Post and Telecommunication	
		30701	Ministry of Post and Telecommunication
		30702	Somali National Telecommunications Authority
	308	Ministry of Public Work & Reconstruction	
		30801	Ministry of Public Work & Reconstruction
	309	Ministry of Transport and Aviation	
		30901	Ministry of Transport and Aviation
		30902	Civil Aviation and Metro-Authority
	310	Ministry of Transport and Ports	
		31001	Ministry of Transport and Ports

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		31002	Hamar Port
	311	Ministry of Industry & Commerce	
		31101	Ministry of Industry & Commerce
400	Social Services		
	401	Ministry of Health	
		40101	Ministry of Health
	402	Ministry of Education	
		40201	Ministry of Education and Higher Education
	403	Ministry of Labour and Social Affairs	
		40301	Ministry of Labour and Social Affairs
	404	Ministry of Youth and Sport	
		40401	Ministry of Youth and Sport
	405	Ministry of Women and Human Rights Dev.	
		40501	Ministry of Women and Human Rights Dev.

(b) Special Projects

Ref	Parent MDA Code	Parent MDA Name	Full Project Name
500	Special Projects		
	501	Prime Minister - Special Projects	
		70201	Capacity Injection and Institutional Strengthening Project
	502	Ministry of Finance - Special Projects	
		70202	Special Financing Facility (MPTF and UN)
		70203	Public Financial Management Reform Project
		70204	Economic and Financial Governance Institutional Support Project
		70205	Recurrent Cost & Reform Financing Facility
		70206	Somali Core Economic Institutions and Opp. Prg (SCORE)
	503	Ministry of Interior - Special Projects	
		70207	Support Stabilization Project (S2)
		70208	Somali Urban Investment Planning Project (UN)
	504	Ministry of Minerals - Special Projects	
		70209	SOPTAP (Petroleum)
	505	Ministry of Post and Telecommunications - Special Projects	
		70210	ICT Sector Support