

Office of the Auditor General

Hirshabelle State of Somalia

Annual Audit Report for the

Financial Year 2023

Presented to Parliament on 28th
September 2024

ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES FOR THE YEAR ENDED 31 DECEMBER 2023

Transmittal letter

28th September 2024

Speaker of the Parliament

President of Hirshabelle State of Somalia

Jowhar, Hirshabelle

Dear Speaker,

I am honored to submit the Annual Report of the Auditor General on the Accounts of the Hirshabelle State of Somalia for the financial year ended 31 December 2023. This submission is made in accordance with Section 32(3) of the PFM Act 2018 and Sections 30, 32, and 33 of the Audit Act 2019 of Hirshabelle State of Somalia (HSS).

The primary function of my Office is to audit the accounts of Ministries, Departments, Agencies (MDAs), and other institutions financed from public funds. This report covers those MDAs whose transactions appeared in the consolidated financial statement of HSS for the financial year that ended 31 December 2023.

The audits were conducted to examine whether the funds appropriated by Parliament or raised by the Government and disbursed had been accounted for properly. The audit adhered to the International Standards of Supreme Audit Institutions (ISSAIs), which are the standards relevant for auditing public sector entities. The findings presented in this report pertain to issues that were unresolved during the audit process.

I would like to take this opportunity to express my gratitude to the employees of the Office of the Auditor General (OAG) and the MOF staff for their support and cooperation during the audits.

Yours sincerely,

Marwa: Marian Mohamud Omar.

MARIAN



Hirshabelle State of Somalia

CC:

1. The President of Hirshabelle State Government
2. Minister for Finance of Hirshabelle State of Somalia



ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES FOR THE YEAR ENDED 31 DECEMBER 2023

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ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES FOR THE YEAR ENDED 31 DECEMBER 2023

1. Acronyms

Acronym	Full Description
AG	Auditor General
ASI	Adam Smith International
CSC	Civil Service Commission
DG	Director General
FMIS	Financial Management Information System
FY	Financial Year
HSS	Hirshabelle State of Somalia
ID	Identity
ICT	Information and Communications Technology
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
MOF	Ministry of Finance
NGO	Non-governmental Organisation
OAG	Office of the Auditor General
PFM	Public Financial Management
EU	European Union
SFAS	Strengthening Financial Accountability in Somalia
RMS	Revenue Management System
SAI	Supreme Audit Institution
TSA	Treasury Single Account
TD	Treasury Director
UNDP	United Nations Development Program
USD	United States Dollar

2. Introduction

This report, produced in accordance with Sections 30, 32(3), and 33 of the Public Financial Management (PFM) Act 2018, reflects the outcomes of the audit conducted for the Hirshabelle State of Somalia for the financial year ended December 31, 2023. It presents our observations and insights gained during the audit whose aim was to provide reasonable assurance regarding the reliability of the state's financial statements and their compliance with applicable rules, policies, and legislation. This report highlights key audit findings, sheds light on issues impacting service delivery to the people of Hirshabelle State, and includes recommendations for governance bodies, oversight authorities, and other stakeholders. These recommendations are designed to enhance financial and performance management across Ministries, Departments, and Agencies (MDAs).

2.1 Mandate

Section 28(1) of the Audit Act 2019 mandates the Office of the Auditor General (OAG) to audit the accounts of all public bodies within HSS. According to Section 32(3) of the PFM Act 2018 and Section 30(4) of the Audit Act 2019, the Auditor General (AG) is required to submit the Annual Audit Report to Parliament within four months of receiving the Financial Statements from the Minister for Finance. The Speaker of Parliament must then table all audit reports in the State Assembly within five working days of receipt, as stipulated in Section 33(1) of the Audit Act 2019.

The independence of the Auditor General is a cornerstone of a well-functioning Supreme Audit Institution (SAI) operating in line with International Standards of Supreme Audit Institutions (ISSAIs). Article 67 of the Hirshabelle Constitution establishes the OAG as an independent institution with the primary function of serving as the external auditor for the State. Furthermore, Section 7(1) of the 2018 Audit Act underscores the Auditor General's independence in executing his/her responsibilities.

2.2 Appreciation

The OAG extends its appreciation to our dedicated employees whose contributions have been instrumental in maintaining our professionalism and upholding our mandate. The contribution of the technical Assistance(TA) from the European Union(EU) Funded Strengthening Financial Accountability in Somalia(SFAS) project implemented by our partners Adam Smith International (ASI) cannot be over emphasized. We also express our gratitude to Parliament,

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Ministry of Finance, and the Civil Service Commission for their support and cooperation, which have significantly contributed to the work of the OAG. We take pride in presenting the Auditor-General's Annual Report for 2023.

3. Executive Summary

This report presents the findings of the audit conducted for Hirshabelle State of Somalia (HSS) for the financial year ended December 31, 2023. The primary objective was to determine whether the financial statements of HSS are free from material misstatement and prepared in accordance with IPSAS – Financial Reporting under the Cash Basis of Accounting. The audit also assessed the adequacy of internal controls, compliance with regulations, and effective management of revenue, expenditure, and procurement processes.

The OAG is the Supreme Audit Institution (SAI) of Hirshabelle State of Somalia (HSS) and is an independent guardian institution of the public purse and economic security as mentioned in Section 7 of HSS Audit Act 2019.

Article 32(3) of PFM act 2018 and Section 6(3) of Hirshabelle Audit Act 2019 requires me to audit and report on the public accounts of HSS. Accordingly, I carried out the audit of the Consolidated HSS Financial Statements for the year ended 31 December 2023 to enable me report to Parliament.

Section 28 of Audit Act 2019, sets out further responsibilities of the auditor general to ascertain whether:

- (a) The accounting records have been faithfully and properly maintained.
- (b) The rules, procedures and internal controls are sufficient to secure effective control of the assessment, collection, and proper allocation of revenues.
- (c) All money expended and charged to an appropriation account has been applied to the purpose or purposes for which the State Assembly intended and with due regard to ensuring effective internal control; and
- (d) Internal controls, rules and procedures established and applied are sufficient to safeguard the control of stores and other public assets.

Additionally, as mentioned Section 30 of the Audit Act 2019 requires the AG to include in his report:

- His opinion on the truth and fairness of the consolidated and separate public accounts.

**ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2023**

- Significant findings and recommendations.
- Deficiencies identified in the internal control system.
- Details of essential records that have not been maintained; and
- Any money that has been expended without due regard to economy or efficiency.

3.1 Key Findings:

- ✓ **Gaps in the Financial statement;** We noted instances of mismatch between statement of receipts and payments and the accompanying notes. We also noted some payments disclosed in the face of the receipt and payments without notes. Variances were noted between the closing bank and cash balances declared in the financial statement and the accompanying trial balance. Specific variances were noted between closing system balances and the amounts disclosed in the financial statement for two bank accounts namely Ministry of health and social care of Hirshabelle account and MOHADM Hirshabelle bank account.
- ✓ **Cash and bank management weaknesses;** Lack of crucial details such as preparer, reviewer and approver on bank reconciliations, non-performance of year -end review procedures of the states bank register, missing bank year end reconciliations for two bank accounts and inconsistency between details of bank accounts recorded in the financial statement and in the FMIS for the same bank accounts.
- ✓ **Revenue Management:** We noted several inadequacies in revenue collection processes including instances of unsupported revenues, absence of revenue collection controls such as reconciliations between RMS and FMIS, reconciliation between original collection records and banking slips etc. and lack of proper forecasting of revenues. This not only impacts on the accuracy and completeness of revenues recorded but also affects both the classification as well as the occurrence of the transactions
- ✓ **Expenditure Management:** Various payments relating to non-payroll costs amounting to US\$ 3,695,029 representing 25% of total expenditure which lacked adequate evidence of occurrence were identified. There were no clearly documented procurement process and contractual engagements of third parties as well as evidence of occurrence of transactions. Elements of misclassified expenses as well the operation multiple payrolls were established. This poses significant risks to financial reporting and compliance.
- ✓ **Procurement:** Non-compliance with procurement guidelines was noted, with payments processed without competitive bidding and absence of formal procurement plans.

**ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2023**

- ✓ **Non-Current Assets:** The absence of an asset management system, establishment of a centralized fixed assets register, lack of assets tagging as well the non-existence of procedures for periodic assets verifications undermine effective asset tracking and management.
- ✓ **Follow-up on Prior Recommendations:** The current issues reported have recurred over the years which points to non-implementation of auditor recommendations.

3.2 Recommendations:

- **Financial statement;** All gaps identified should be addressed, the figures in the face of the financial statement should be supported by appropriate notes.
- **Cash and Bank;** preparation of formal and standard bank reconciliations should be adopted. Year-end banking procedures should be performed as stipulated by the banking regulations and procedures manual.
- **Revenue:** Implement improved documentation, record-keeping, forecasting and reconciliation practices.
- **Expenditure:** All expenses should be properly supported before payments. All laws and procedures in place should be adhered to so as to reduce any element of unauthorized payments. Review and correct misclassified payments and enhance the classification process.
- **Procurement:** Adhere to established procurement guidelines and implement a formal procurement plan.
- **Assets:** Develop and implement a centralized asset management system.
- **Prior Recommendations:** Address outstanding issues and ensure compliance with previously made recommendations.

**ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2023**

3.3 Opinion of the Auditor General

I have audited the financial statements of the Hirshabelle State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Notes to the Financial Statements including a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in the **Basis for qualified Opinion** section of our report the financial statements presents fairly, in all material respects, the financial position of the Hirshabelle State of Somalia as at 31 December 2023 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public-Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting, 2017.

3.4 Basis for Qualified of Opinion

We identified the following material misstatements in the course of the audit conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI):

1. Note 15 and 16 in the Consolidated fund statement of cash receipts and payments do not correspond to the correct notes to the financial statements.
In the consolidated fund statement of cash receipts and payments conflict resolution has no note, Note 15 relates to grants to other government units, while note 16 relates to miscellaneous other expenses. On the contrary in the notes to the financial statement; Note 15 relates to conflict resolution, note 16 relates to grants to other government units while there is no note that describes Miscellaneous other expenses.
2. Miscellaneous other expense totalling to \$510,100 does not have a note. Further, it was noted that the amount relates to lumpsum payments made to settle some state obligations incurred on various state activities. Details of the various state activities in which the payment relate to was not shown in the financial statement IPSAS requirement for an entity to present either on the face of the financial statement or on the notes, an analysis of expenses using a classified based on either the nature of the expenses or their function with the entity, whichever provides information that is reliable and more relevant has not been complied with.
3. Closing bank and cash balance for the state at the end of the year as per the financial statement and as per the trial balance generated from FMIS do not tally as follows'

Description	Amount in usd
As per the Financial statements	\$519,253
As per the Trial balance from FMIS	\$1,064,703
Variance	\$545,450

Further note 1.3 of the financial statement states cash and bank balances as \$1,071,925

**ANNUAL REPORT OF THE AUDITOR GENERAL OF HSS STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2023**

4. We have noted variances for specific bank account balances as at the end of the year for the following bank accounts. The cash book and FMIS balances for the accounts and amounts declared for the same accounts under note 1.3 of the financial statement are as follows;

Account details	Amount as per FMIS	Amount as Financial statement	Variance
Ministry of health and social care of hirshabelle	103,843	114,866	11,023
MOHADM Hirshabelle	35,697	31,896	(3,801)
Resultant variance			7,222

5. We identified Various payments relating to non-payroll costs amounting to US\$ 3,695,029 representing 25% of total expenditure which lacked adequate evidence of occurrence.

3.5 Challenges

HSS OAG seeks to have an independent, trained, professionally qualified and highly skilled audit staff who can deliver the legal mandate of the office with minimal support. This can only be achieved if the office gets enough financial resources that it can independently manage to buy IT equipment, attract and bolster its human resource capabilities, train its staff as well as continue keeping its current staff in post. Further appropriate resources should be provided to meet the operational and capacity needs of the office. The gap in the office resource capabilities has had a negative impact on all activities of the office. Skills uptake among OAG staff is minimal at the same time financial and budget control by the Ministry of finance is detrimental to the independence of the office.

3.6 Conclusion

The audit of the Hirshabelle State of Somalia's financial statements for the year ended December 31, 2023, revealed several significant issues impacting financial accuracy and compliance. Key areas of concern include unsupported revenue collections, inadequate documentation for expenditures, non-compliance with procurement guidelines, and the absence of an effective asset management system. It is crucial for HSS to address these issues promptly by implementing the recommended improvements in revenue management, expenditure classification, procurement practices, and asset management. Addressing these recommendations will enhance financial transparency, accountability, and overall management effectiveness.

It is worth noting that the key findings have appeared in our reports repeatedly in the last number of audits conducted by this office but it is encouraging to note that the scale and magnitude of the amounts been questioned have been reducing over the years in huge proportions.

Detailed reports are attached as annexes to this report

Annex 1: Auditor report on the financial statement and the final financial statement

Annex 2: Detailed Management Letter

**4. Annex 1- Auditor report on the financial statement and the
final financial statement**

Jamhuuriyadda Federaalka Soomaliya
Dowlad Goboleedka Hirshabelle
Xafiiska Hantidhowrka



جمهورية الصومال الفيدرالية
ولاية هيرشبيلي
مكتب المرجع العام

Federal Republic of Somalia
Hirshabele State
OFFICE AUDITOR GENERAL

Office Of the Auditor General Hirshabelle State of Somalia,

HIRSHABELLE STATE OF
SOMALIA (HSS)

INDEPENDENT AUDITORS'

REPORT ON THECONSOLIDATED

FINANCIAL STATEMENTS FOR

THE YEAR ENDED 31 DECEMBER

2023

GLOSSARY OF TERMS

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

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1.0 STATEMENT OF RESPONSIBILITY OF THE MINISTRY OF FINANCE

The Public Financial Management (PFM) Act 2018 of Hirshabelle State of Somalia requires Ministry of Finance (The Ministry) to prepare Consolidated Fund Statement of Receipts and Payments for each financial year that recognizes all cash receipts and payments and cash balances controlled by the State. The State is required to maintain proper accounting records that are sufficient to show and explain the transactions of the State and disclose, with reasonable accuracy, the financial position of the State. The State is also responsible for safeguarding the assets of the State and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Ministry accepts responsibility for the preparation and presentation of these Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting 2017 and in the manner required by the Public Financial Management Act, 2018 of Hirshabelle State of Somalia. The Ministry also accepts responsibility for:

- i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements;
- ii) Selecting and applying appropriate accounting policies; and
- iii) Making accounting estimates and judgments that are reasonable in the circumstances.

Having assessed the State's ability to continue as a going concern, the Management is not aware of any material uncertainties related to events or conditions that may cast doubt upon the State's ability to continue as going concern.

The Management acknowledges that the independent audit of the Consolidated Financial Statements does not relieve them of their responsibilities.

Approved by Minister of Finance
Hirshabelle State of Somalia



26 September 2024

Dated: _____

2.0 INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2.1 Independent Auditor's Opinion

Modified Opinion

We have audited the financial statements of the Hirshabelle State of Somalia which comprise the Consolidated Fund Statement of Receipts and Payments, the Consolidated Fund Statement of Comparison of Budget and Actual amounts, and Government Financial Statistic (GFS) Statement of Operation for the year ended 31 December 2023 and Notes to the Financial Statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Modified Opinion section of our report the financial statements presents fairly, in all material respects, the financial position of the Hirshabelle State of Somalia as at 31 December 2023 and its financial performance for the period then ended in accordance with the Public Financial Management Act, 2018 and the International Public Sector Accounting Standards (IPSAS) Financial Reporting Under the Cash Basis of Accounting, 2017.

Basis for Modified Opinion

We identified the following material misstatements in the course of the audit conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI):

1. Note 15 and 16 in the Consolidated fund statement of cash receipts and payments do not correspond to the correct notes to the financial statements.

In the consolidated fund statement of cash receipts and payments conflict resolution has no note, Note 15 relates to grants to other government units, while note 16 relates to miscellaneous other expenses. On the contrary in the notes to the financial statement; Note 15 relates to conflict resolution, note 16 relates to grants to other government units while there is no note that describes Miscellaneous other expenses.

2. Miscellaneous other expense totalling to \$510,100 does not have a note. Further, it was noted that the amount relates to lumpsum payments made to settle some state obligations incurred on various state activities. Details of the various state activities in which the payment relate to was not shown in the financial statement IPSAS requirement for an entity to present either on the face of the financial statement or on the notes, an analysis of expenses using a classified based on either the nature of the expenses or their function with the entity, whichever provides information that is reliable and more relevant has not been complied with.
3. Closing bank and cash balance for the state at the end of the year as per the financial statement and as per the trial balance generated from FMIS do not tally as follows'

Description	Amount in usd
As per the Financial statements	\$519,253
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Further note 1.3 of the financial statement states cash and bank balances as \$1,071,925

4. We have noted variances for specific bank account balances as at the end of the year for the following bank accounts. The cash book and FMIS balances for the accounts and amounts declared for the same accounts under note 1.3 of the financial statements are as follows;

Account details	Amount as per FMIS	Amount as Financial statement	Variance
Minstry of health and social care of hirshabelle	103,843	114,866	11,023
MOHADM Hirshabelle	35,697	31,896	(3,801)
Resultant variance			7,222

5. We identified Various payments relating to non-payroll costs amounting to US\$ 3,695,029 representing 25% of total expenditure which lacked adequate evidence of occurrence.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the financial report* section of our report.

We are independent of Hirshabelle State of Somalia in accordance with the ethical requirements that are relevant to our audit of the financial report and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion.

Going concern

The consolidated financial statements have been prepared using the going concern basis of accounting. Based on the audit evidence we have obtained, there have been no material uncertainty exists related to events or conditions that may cast significant doubt on the HSS's ability to continue as a going concern.

Other information

The Ministry of Finance is responsible for the other information. Other information comprises the information included in the Annual Report but does not include the Consolidated Fund Statement of Receipt and Payments and our auditor's report thereon.

Our opinion on the Consolidated Fund Statement of Receipt and Payments does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Fund Statement of Receipt and Payments, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Fund Statement of Receipt and Payments or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information: we are required to report that fact. We have nothing to report in this regard.

3.0 Key Audit Matters

Key audit matters are those matters that, in our opinion, our professional judgment, were of most significance in our audit of the Financial Statements of the period. These matters were addressed in the context of our Audit of Financial Statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Modified Opinion section, we've determined the matters described below to be the key audit matters to be communicated in our report: -

Weaknesses in revenue collection and recording

- 1. Local revenue;** we have noted various weaknesses in the collection, management and recording of local revenues as follows;
 - a) Huge fluctuations in monthly local revenue collections pointing to possible non collection and non-recording of all revenues.
 - b) Lack of support for local revenues making it difficult to ascertain occurrence and whether revenues have been recorded under the correct chart of accounts.
 - c) Lack of documented revenue reconciliation procedures between original receipts, banking slips and recorded revenues in both RMS and FMIS.
 - d) Lack of automated interphase between RMS and FMIS leading to variances between the two systems

Weaknesses in expenditures

- We have noted various expenses totaling to \$ 57,204 posted to incorrect budget lines. Further, we have noted that consultancy fees are described as salaries in the detailed ledger descriptions.
- We have noted that the state operates multiple manual payrolls for temporary staff, legislature, political appointees, security sector etc. This may cause controls failure which may lead to double payments, payment of ghost workers etc.

Weaknesses in procurement process

From the review of the procure to pay process, we noted the below weaknesses and gaps that should be improved by the Ministry:

1. Single sourcing of suppliers without documented justification
2. Lack of quotations, bid documents and bid analysis.
3. Lack of listing to verify prequalification process for vendors and service providers.
4. Non establishment of procurement committee as required by HSS Procurement Policy & Procedures
5. No evidence of preparations and review of bid evaluations, recommendations of awards, award notifications, notifications of losing bidders and contracting process documentations

Weaknesses in the management of fixed assets

Following issues were noted in relation to the entities fixed assets register

- The fixed asset register did not include a list of additions for the year
- The register also fails to record disposals made during the year
- the register does not list certain state-owned assets, including land, buildings, and motor vehicles.
- Assets are not tagged
- There are no procedures for periodic assets verifications.

4.0 Responsibilities of Management and Those Charged with Governance for the financial statements

The Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the Public Financial Management Act 2018 and the International Public Sector Accounting Standard (IPSAS) - Financial Reporting under the CashBasis of Accounting and for such internal control as the Management Committee is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Management is responsible for assessing the HSS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management intends to liquidate HSS or to cease operations, or has no realistic alternative but to do so.

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

5.0 Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect all material misstatement when they occur.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the government's internal control.
- Evaluate the overall presentation, structure, and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HSS's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause HSS to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Marwa: Marian Mohamud Omar.

MARIAN



Jowhar

Somalia

27th September 2024

**Annex 1: Consolidated and Ministerial Financial Statements of Hirshabelle State of Somalia for
the year ended 31 December 2023**



CONSOLIDATED & MINISTERIAL FINANCIAL STATEMENTS OF THE HIRSHABELLE STATE OF SOMALIA

For the Year Ended 31 December 2023

*Prepared in accordance with the International Public
Sector Accounting Standard (IPSAS) - Financial
Reporting Under the Cash Basis of Accounting (2017)*

**Prepared by the Ministry of Finance &
Economic Development
Hirshabelle State of Somalia**

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Jamhuuriyadda Federaalka Soomaaliya
Dowlad Goboleedka Hirshabelle
Wasaaradda Maaliyadda & Horumarinta
Dhaqaalaha



جمهورية الصومال الفيدرالية
حكومة إقليم هيرشبيلى
وزارة المالية والتنمية الاقتصادية

Xafiiska Wasiirka

Federal Republic of Somalia
Hirshabelle State of Somalia
Ministry of Finance & Economic Development
Office of the Minister

مكتب الوزير

Ref: W/WMHD/DGHS/023/2024

Jowhar

Date: 23/03/2024

Statement of Certification - 2023 Financial Statements

The 2023 financial statements, together with the accompanying notes, have been prepared in accordance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting (2017).

In the opinion of the Ministry of Finance and Economic Development, the financial statements of the Hirshabelle State of Somalia (HSS) as submitted for Audit in accordance with Section 30 of the Public Finance Management Act 2018 passed by the parliament, are materially accurate and provide a true and fair view of the HSS's financial position for the year ended 31 December 2023

For and on behalf of the Hirshabelle State of Somalia

Minister of Finance and Economic Development Hirshabelle

Mr Minister Abdirahim Isse Ali

Signature:

Xafiiska Wasiirka Wasaaradda Maliyadda iyo Horumarinta Dhaqaalaha Dowladda Hirshabelle

Tell: +252615595929– Email: Minister@hirshabelle.mof.so

Jowhar, Hirshabelle State of Somalia

Executive Summary

Overview of the Financial Statements

The Financial Statements of the Hirshabelle State of Somalia provide a record of the Government's financial performance over the financial year, 2023 as outlined in the Statement of Receipts and Payments and the Statement of Comparison of Budget and Actual Amounts. The Financial Statements further summarize all financial transactions for the year ended 31st December 2023 and the HSS financial cash position as of the 31st of December 2023. These statements have been prepared by the Treasury Department of the Ministry of Finance and Economic development of Hirshabelle State of Somalia and includes financial information related to all Hirshabelle State Ministries, Departments and Agencies (MDAs).

The 2023 financial statements focus on reporting, primarily budgeted activities of the HSS for which an Annual Budget Statement was prepared for and authorized by the Hirshabelle State's parliament for the 2023 fiscal year. The budget and annual financial statements are produced to support HSS strategic business and financial decisions critical to the fiscal and economic wellbeing of the state. The annual reports include the financial and budget activities of MDAs which directly and indirectly receive budget allocations from the State.

Disclosure has also been made on the extrabudgetary funds consolidating the financial information that MDAs have provided in respect of their extrabudgetary transactions.

Format of the Financial Statements and additional disclosures

Financial statements of the Hirshabelle State of Somalia have been prepared on a cash basis with activities and related transactions recognized when cash is received, and payments are made. The financial statements for the financial year have been compiled and presented to make a fair presentation of HSS State financial information and have been prepared in compliance with Part 1 of the IPSAS Cash Basis of Accounting which requires the following mandatory information to be disclosed:

Statement of Cash Receipts and Payments

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

Statement of Comparison of Budget and Actual Amounts by Economic Nature

The statement of comparison of budget and actual amounts presents a comparison of the budget amounts and the actual amounts for the year based on the GFS economic classification. The statements are prepared to provide information on the extent to which resources were obtained Accounting Policies

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

Explanatory Notes to the Financial Statements

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

Additional Disclosures

In order to meet the requirements under Article 49 of the PFM Act (2018) and also to provide further information to the financial statements reported under IPSAS, Cash Basis of Accounting, the following additional disclosures have been provided so as to provide more information necessary for accountability and decision-making purposes.

Statement of Cash flow

The statement of cash flow presents the movements of cash during the year resulting from operating, investing, and financing activities. This statement provides information on how cash has been raised and used during the year, including borrowing and repayment of borrowing, and the acquisition and disposal of fixed assets.

Summary of Financial Results

Financial Statement Highlights and Analysis

Table 1: Summary of Financial Performance

	2023 USD	2022 USD
Revenue	15,376,186	12,132,613
Expenditure	14,584,208	12,083,436
Surplus	791,978	49,176
% Change in Revenue	27%	
Original Budget	25,173,274	26,059,755.00
Revised Budget	34,221,000	32,207,267
Actual Expenditure	14,584,208	12,083,436
Under spending/Budget saving	10,589,066	
% Change in Expenditure	21%	

Revenue Analysis

The Hirshabelle State of Somalia total revenue has increased significantly from \$12,132,613million in 2022 to \$15,376,186million in the 2023 financial year and increase of \$3,243,573million (27%). The main sources of the HSS's 2023 own source revenues were road user taxes, turnover tax, Khat, private payroll taxes on non-civil servants, public taxes on payroll and workforce, taxes on goods and services, taxes on international trade and transactions, other revenues (sales of goods and services) as well as external assistance from international partners and Federal Government of Somalia. Revenue from own source (taxes and fees) was \$4,027,046 compared to the previous year which was \$3,289,853. HSS has made almost 22% increase of its domestic revenue compared to 2022 respectively.

Table 2: Summary of Receipts

Revenue Type	2023 USD	2022 USD	Difference USD
Taxes	3,893,782	2,483,668	1,410,114
Other revenue	133,264	806,186	(672,922)
Grants	11,349,140	8,842,759	2,506,381
Total revenue	15,376,186	12,132,613	3,243,573

The following chart further highlights the breakdown of revenue collections for the fiscal year 2023 which shows that external grants were 74% of the total receipts.

Chart 2: Sources of revenue 2023

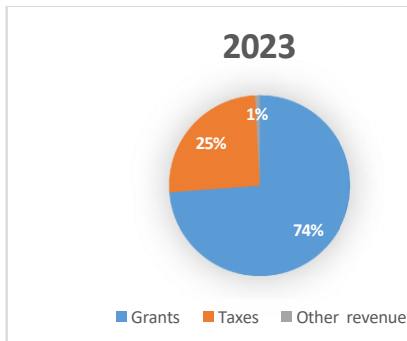
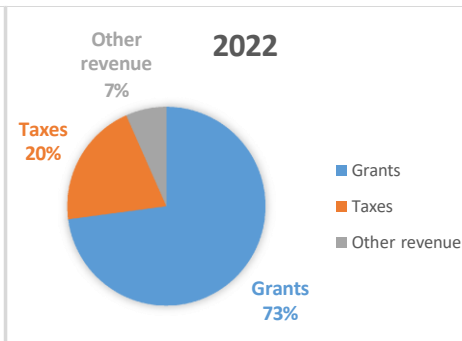


Chart 1: Sources of revenue 2022



Tax Receipts

The fiscal year 2023 saw revenue from taxes increase from \$2,483,668 last year to \$3,893,782 million. This increase has been mainly attributed to the taxes on payroll and workforce, taxes on international trade and transactions and other revenue. As depicted in Chart 1 above, revenue from taxes collected was 25%.

Other revenue

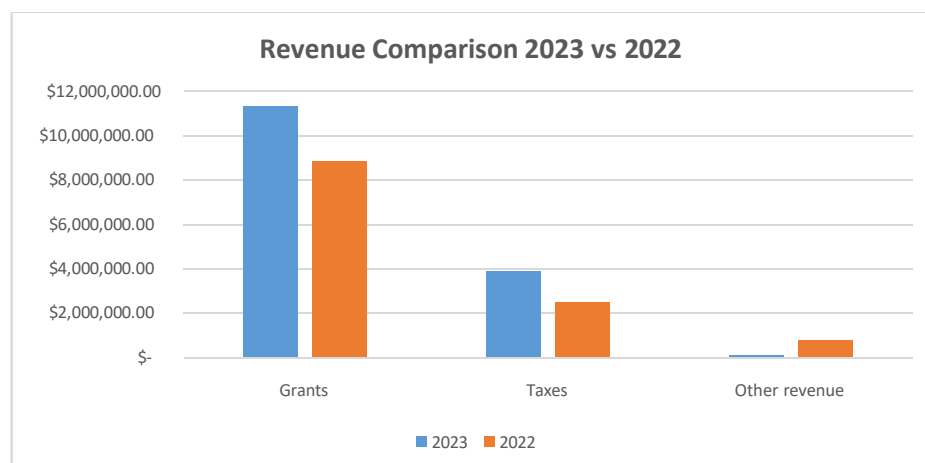
Financial year 2023 other revenue accounted for just 1% of the total revenue for the year. Main sources from this revenue came from fees charged on the Sale of goods and services.

Grants

External assistance and grants from international partners and transfers from the Federal Government of Somalia were significant sources of funds accounting for \$11,349,140 (74%) of total revenue compared to \$8,842,759 in the previous year, an increase of \$2,506,381.19. This is mainly due to the introduction of new projects and the transfers from the Federal Government of Somalia.

Further illustration and comparisons between current year and previous year is highlighted in Chart 3

Chart 3: Revenue comparison 2023 v 2022



Expenditure Analysis

The HSS's payments fall into three distinct categories; recurrent, capital expenditure, and Grants paid to sub-national governments. The recurrent expenses or costs are primarily manpower related expenses and cost on goods and services for operations. The recurrent expenses also include interest and other charges. Chart 4 summarizes the major areas of expenditure incurred by HSS.

The total expenditure made during the fiscal year 2023 amounted to \$14,584,208 million in comparison to \$12,083,436 million in 2022. Overall, the HSS has increased its expenditure by \$2,500,772 (21%) year on year, with the highest increases coming from compensation of employees and use of goods and services which amounts to 81% of total expenditure. Capital expenditure payment or other expenses incurred this year of \$448,048.6.

Table 3 below shows expenditure categories for the 2023 financial year in comparison to the 2022 financial year.

Table 3: Summary of expenditure for 2 years

Main Expenditure categories	2023	2022
Compensation of Employees	6,563,160	8,513,698
Use of Goods and Services	5,232,920	2,242,497
Grants	1,829,979	1,198,451
Nonfinancial assets	448,049	128,791
Total Expenditure	14,074,108	12,083,436

Chart 4: Summary of expenditure for 2 years

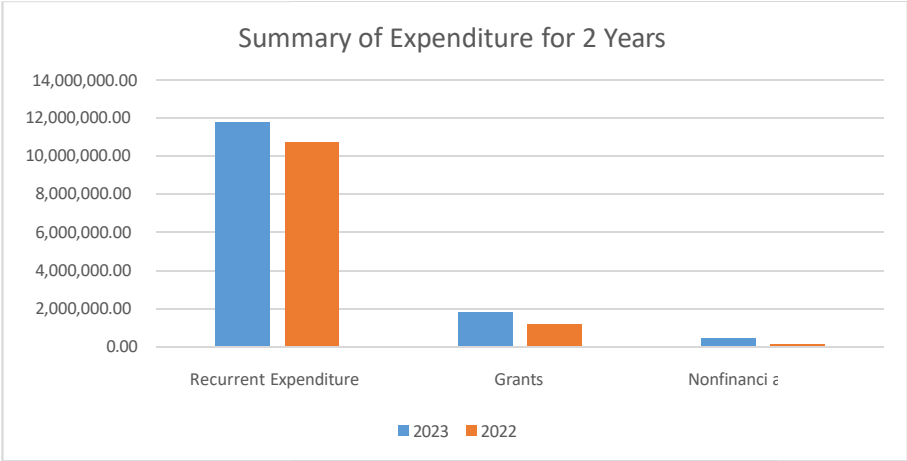


Chart 5: Expenditure paid in FY 2023

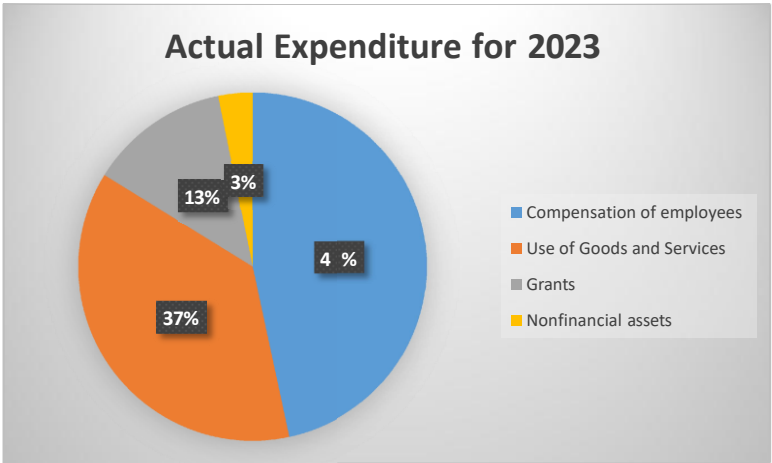
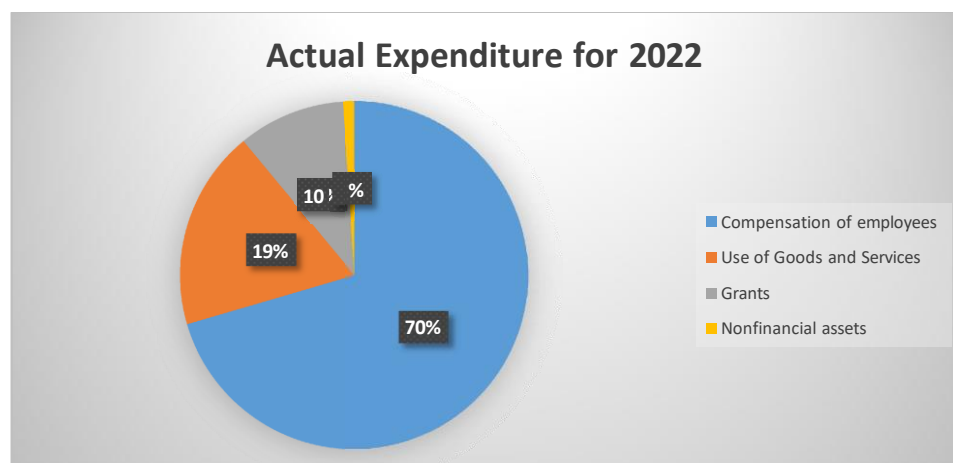


Chart 6: Actual expenditure 2022



Capital Expenditure Analysis (Non-Financial Assets)

The total expenditure made during the fiscal year 2023 amounted to \$14,584,208.08 million in comparison to \$12,083,436 million in 2022. Overall, the HSS has increased its expenditure by \$2,500,771.86 (21%) year on year, with the highest increases coming from compensation of employees and use of goods and services which amounts to 81% of total expenditure.

Capital expenditure (non-financial assets) for the year was \$448,049 compared to \$128,791 for the previous year, an increase of \$319,258(247%). The major areas of expenditure were other fixed assets followed by buildings. In accordance with reporting on a cash-basis and complying with IPSAS, cash basis of accounting, capital expenditure is expensed in the year of acquisition.

Table 4: Summary of capital expenditure for 2023 and 2022

	2023	2022
	USD	USD
Buildings other than dwellings	100,204	80,396
Machinery and Equipment not elsewhere classified	345,045	
Information, Computer and telecom (ICT) equipment	2,800	35,395
Office equipment, Furniture & fixtures	-	13,000
	448,049	128,791

Budget and Expenditure Analysis

The annual budget of the Hirshabelle State of Somalia is the principal document by which the Government sets out its financial plan for the year. The original budget or financial plan approved by the State Parliament for the budgeted. Expenditure for the year was \$14,584,208million.

Budget execution rate for 2023 financial year was 43% leaving 57% of the budgeted expenditure unfulfilled while in FY 2022 was lower than this year 38%.

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

Table 5: Expenditure - Budget v Actual

	2023			
	Budget	Actual	Budget underspending	% Budget not executed
Main expenditure categories	USD	USD	USD	USD
Recurrent expenditure	27,372,864	11,796,080	15,576,784	57%
Grants	4,000,420	1,829,979	2,170,441	54%
Social benefits	-	-	-	-
Capital expenditure	2,304,016	448,049	1855967	81%
Total Expenditure	32,677,300	14,074,108	18,603,192	57%

Recurrent expenditure				
Compensation of employees	15,438,604	6,563,160	8,875,443	57%
Use of Goods and Services	11,934,261	5,232,920	6,701,340	56%
Total recurrent expenditure	27,372,864	11,796,080	15,576,784	57%

	2022			
	Budget	Actual	Budget underspend	% Budget not executed
Main expenditure categories	USD	USD	USD	USD
Recurrent expenditure	26,510,630	10,756,195	15,754,435	59%
Grants	4,800,400	1,198,451	3,601,949	75%
Social benefits	550,000	-	550,000	-
Capital expenditure	346,237	128,791	217,447	63%
Total Expenditure	32,207,267	12,083,436	20,123,831	62%

Recurrent expenditure				
Compensation of employees	16,571,757	8,513,698	8,058,060	49%
Use of Goods and Services	9,938,873	2,242,497	7,696,376	77%
Total recurrent expenditure	26,510,630	10,756,195	15,754,435	59%

Net financial worth

The Hirshabelle State of Somalia net financial worth increased by \$519,253 in 2023 from a net worth of \$272,725 at the end of 2022 to a positive net financial worth of \$246,528.

Consolidated Fund Statement of Cash Receipts and Payments

Hirshabelle State of Somalia
Consolidated Fund Statement of Cash Receipts and Payments
Treasury Single Account
for the Year Ended 31 December 2023

Account		2023	2022
		Controlled by TSA	Controlled by TSA
Receipts / Inflows			
Taxes	Note:	USD	USD
Taxes on income, profits, and capital gains			
Taxes on payroll and workforce	2	464,550	292,007
Taxes on property	3	-	24,364
Taxes on goods and services	4	2,706,183	1,883,675
Taxes on international trade and transactions	5	399,175	190,000
Other taxes	6	323,875	93,621
		<u>3,893,782</u>	<u>2,483,668</u>
Grants			
From foreign governments			
From international organizations	7	2,369,831	127,636
From other general government units	8	8,979,310	8,715,123
		<u>11,349,140</u>	<u>8,842,759</u>
Other Revenue			
Sale of goods and services	9	133,264	806,186
		<u>133,264</u>	<u>806,186</u>
Receipts / Inflows		15,376,186	12,132,613
Payments / Outflows			
Compensation of Employees			
Wages and Salaries	10	6,563,160	8,513,698
		<u>6,563,160</u>	<u>8,513,698</u>
Use of Goods and Services			
Travel & Conferences	11	1,175,016	582,633
Operating Expenses	12	2,167,325	789,314
Rent	13	328,163	51,250
Other Operating Expenses	14	1,127,421	519,300
Conflict Resolution Expenses		434,996	300,000
		<u>5,232,920</u>	<u>2,242,497</u>
Grants			
Grants To Other General Government Units	15	1,829,979	1,198,451
		<u>1,829,979</u>	<u>1,198,451</u>
Other Expenses			
Miscellaneous other expense	16	510,100	
		<u>510,100</u>	
Nonfinancial assets			
Fixed Assets	17	448,049	128,791
Nonfinancial assets		<u>448,049</u>	<u>128,791</u>
Payments / Outflows		14,584,208	12,083,436
Increase Decrease in Cash		791,978	49,176
Cash at Beginning of Year		272,725	223,549
Cash at End of Year		519,253	272,725

Consolidated Fund Statement of Comparison of Budget and Actual Amounts

Hirshabelle State of Somalia					
Consolidated Fund Statement of Comparison of Budget and Actual Amounts					
Treasury Single Account					
for the Year Ended 31 December 2023					
Appropriation Budget Approved on Cash Basis					
Classification of Payments By Economic Class					
Account	2023				
	Original Estimate	Final Estimate	Controlled	Difference	2022
	Appropriation	Appropriation	by TSA	Between Final Budget and Actual	Controlled by TSA
	A	B	C	C-B	C
	USD	USD	USD	USD	USD
Receipts / Inflows					
Taxes					
Taxes on income, profits, and capital gains					
Taxes on payroll and workforce	1,520,000	1,520,000	464,550	(1,055,451)	292,007
Taxes on property	441,379	441,379		(441,379)	24,364
Taxes on goods and services	9,193,406	9,193,406	2,706,183	(6,487,223)	1,883,675
Taxes on international trade and transactions	1,296,461	1,296,461	399,175	(897,286)	190,000
Other taxes	1,000,000	1,000,000	323,875	(676,125)	93,621
Taxes	17 13,451,246	13,451,246	3,893,782	(9,557,464)	2,483,668
Grants					
From foreign governments	84,182	248,152		(248,152)	
From international organizations	901,590	1,857,664	2,369,831	512,166	127,636
From other general government units	9,287,051	15,839,451	8,979,310	(6,860,141)	8,715,123
Grants	18 10,272,823	17,945,267	11,349,140	(6,596,127)	8,842,759
Other Revenue					
Sale of goods and services	2,819,487	2,819,487	132,864	(2,686,624)	806,186
Fines, penalties and forfeits	5,000	5,000		(5,000)	
Other Revenue	19 2,824,487	2,824,487	132,864	(2,691,624)	806,186
Receipts / Inflows	26,548,556	34,221,000	15,376,186	(18,845,214)	12,132,613
Payments / Outflows					
Compensation of Employees					
Wages and Salaries	12,695,977	15,438,604	6,563,160	(8,875,443)	8,513,698
Compensation of Employees	20 12,695,977	15,438,604	6,563,160	(8,875,443)	8,513,698
Use of Goods and Services					
Travel & Conferences	1,105,035	2,363,553	1,175,016	(1,188,537)	582,633
Operating Expenses	2,651,419	4,148,618	2,167,325	(1,981,293)	789,314
Rent	511,170	778,270	328,163	(450,107)	51,250
Other Operating Expenses	1,527,206	2,678,028	1,127,421	(1,550,608)	519,300
Conflict Resolution Expenses	405,420	840,416	434,996	(405,420)	300,000
RCCF Non-Salary Recurrent Cost	3,115,000	736,567		(736,567)	-
Contingency	388,809	388,809		(388,809)	-
Use of Goods and Services	21 9,704,059	11,934,261	5,232,920	(6,701,340)	2,242,497
Grants					
Grants To Other General Government Units	4,000,420	4,000,420	1,829,979	(2,170,441)	1,198,451
Grants	22 4,000,420	4,000,420	1,829,979	(2,170,441)	1,198,451
Other Expenses					
Miscellaneous other expense		540,200	510,100	(30,100)	
Premiums, fees, claims related to non-life insurance	3,500	3,500		(3,500)	
Other Expenses	23 3,500	543,700	510,100	(33,600)	
Nonfinancial assets					
Fixed Assets	294,600	2,304,016	448,049	(1,855,967)	128,791
Nonfinancial assets	24 294,600	2,304,016	448,049	(1,855,967)	128,791
Payments / Outflows	26,698,556	34,221,000	14,584,208	(19,636,792)	12,083,436
Increase/Decrease in Cash	-150,000		791,978	791,978	49,176

Hirshabelle State of Somalia
Statement of Government Operations
For the Year Ended 31 Decembe 2023

Name	2023	2022
Transactions Affecting Net Worth		
Revenue	15,376,186	12,132,613
Taxes	3,893,782	2,483,668
Taxes on payroll and workforce	464,550	292,007
Taxes on property	-	24,364
Taxes on goods and services	2,706,183	1,883,675
Taxes on international trade and transactions	399,175	127,636
Other taxes	323,875	93,621
Grants	11,349,140	8,842,759
From international organizations	2,369,831	127,636
From other general government units	8,979,310	8,715,123
Other Revenue	133,264	806,186
Sale of goods and services	133,264	806,186
Expense	14,136,159	11,954,646
Compensation of Employees	6,563,160	8,513,698
Wages and Salaries	6,563,160	8,513,698
Use of Goods and Services	5,232,920	2,242,497
Travel & Conferences	1,175,016	582,633
Operating Expenses	2,167,325	789,314
Rent	328,163	51,250
Other Operating Expenses	1,127,421	519,300
Conflict Resolution Expenses	434,996	300,000
Grants	1,829,979	1,198,451
Grants To Other General Government Units	1,829,979	1,198,451
Other Expenses	510,100	
Miscellaneous other expense	510,100	
Gross Operating Balance	1,240,026	
Change In Net Worth. Transactions (Assets)	448,049	128,791
Nonfinancial assets	448,049	128,791
Fixed Assets	448,049	128,791
Overall Statistical Discrepancy	-	-

Notes to the Financial Statements

1 Accounting Policies

1.1. Basis of Preparation

The Hirshabelle State of Somalia's (HSS) consolidated financial statements have been prepared in accordance with the *Public Financial Management Act 2018* and the International Public Sector Accounting Standard (IPSAS) - *Financial Reporting under the Cash Basis of Accounting (2017)*. The notes to the financial statements form an integral part to understanding the statements and must be read in conjunction with the statements.

The accounting policies have been applied consistently throughout the period.

1.2. Reporting Entity

The Financial statements are for the Hirshabelle State of Somalia. The Hirshabelle Government operates in Jowhar which is the capital city of State. The principal address of the Government is: Jowhar Middle Shabelle region

The principal activities of the Government and its controlled entities include the provision of health, education, defense, security, and public services.

The financial statements encompass the reporting entities as specified in the *Appropriation Act No. 1 2023* and are comprised of:

- 1 Ministry of Justice & Religious Affairs
- 2 Ministry of Livestock, Forestry and Vegetation
- 3 Ministry of Ports and Maritime Transport
- 4 Ministry of Youth and Sports
- 5 Ministry of Postal, Communication and Modern Technology
- 6 Ministry of Education and Tertiary
- 7 Ministry of Environmental and Sea Protection
- 8 Ministry of Agriculture and Irrigation
- 9 Ministry of Health and Social Care
- 10 Ministry of Fishery & Marine Resources
- 11 Ministry of Public Works and Reconstruction
- 12 Ministry of Information and Culture
- 13 Ministry of Interior and Local Government
- 14 Ministry of Planning, Investment, and International Cooperation
- 15 Ministry of Transport, Air and Land
- 16 Ministry of Security and Rehabilitation
- 17 Ministry of Labor and Employment

- 18 Ministry of Finance and Economic Development
- 19 Ministry of Constitution & Federal Affairs
- 20 Ministry of Commerce & Industry
- 21 Ministry of Women & Human Rights
- 22 Ministry of Water, Energy and Minerals
- 23 Ministry of Humanitarian and Disaster Management
- 24 Civil Service Commission
- 25 Hirshabelle Parliament
- 26 Auditor General's Office
- 27 Ministry of State Presidency
- 28 Ministry of Rehabilitation and Disbarment
- 29 Ministry of Religious and Endowments
- 30 Ministry of Petroleum and mining
- 31 Ministry of Reconciliation and Resettlement
- 33 Ministry of Rural Development

Ministries were created by a preceding Presidential Decree on 20th February 2017 entitled *A Decree Establishing Ministries of Hirshabelle State of Somalia and Defining Roles and Functions of Ministries*. Number of Ministries/Agencies were increased to 31 by a preceding Presidential Decree on 22nd January 2019. The Ministry of Finance & Economic Development and Revenue Collection Authority was Established by a Presidential Decree in March 2017. The purposes of establishing the Ministry of Finance & Economic Development and Revenue Collection Authority was to ensure that the Hirshabelle State of Somalia has a Ministry of Finance & Economic Development that is responsible for the overall financial management of the Hirshabelle State of Somalia and to also ensure that within the Ministry of Finance & Economic Development there is a Revenue Collection Authority that is fully staffed, organized, administered and empowered to collect & deposit into the Treasury Single Account (TSA) all legally established taxes and other revenues of the Hirshabelle State of Somalia and Other Related Matters.

The Decree Establishing the Ministry of Finance & Economic Development was changed into an Act of Parliament on 06th February 2018. The Auditor General's Office was also created via Presidential Decree in 2018 and changed to an Audit Act 18th March 2019 and became operational during the 2019 financial year.

A subsequent decree on establishing the Civil Service Commission (CSC) and its purpose entitled *A Decree for establishing the Civil Service Commission of the Hirshabelle State of Somalia dated December, 2017* established the office of the Civil Service Commission. Companion Decrees also established the Civil Service and the Civil Service Salary structure. The inauguration of the HSS constitution automatically established the Hirshabelle Parliament. The Civil Service Commission (CSC) was changed into an Act in October 2018. The respective statements of all the listed entities form part of the consolidated Financial statements as these entities were included as part of the *HSS Appropriation Act No. 1, 2020*.

The consolidated financial statements include all entities controlled during the year. None of the entities own another entity. However, HSS Municipalities is controlled by the Ministry of Interior and Local Government.

1.3. Treasury Single Account & Project Accounts

Twenty two bank accounts were operational during the 2023 financial year, the Treasury Single Account (TSA), and sub-accounts of the TSA: a Project account that relates to the RCRF III project account, the HSS GPE Project Account, Ministry of Interior and Local Governance RCRF III Project Account, HSS WB RCRF PBCS Budget Support, HSS SURPII Project Account Ministry of Public Work & Reconstruction HSS Local Development Fund (LDF) and Ministry of Education and Higher Education. As of the end of the 2023 financial year, the balances of these accounts were as follows:

	2023	2022
	USD	USD
Treasury Single Account - Main	1	344
Project Account - RCRF II	-	-
HSS GPE Project Account	-	4,885
Ministry of Interior and Local Governance	17	5,143
Project Account - RCRF III	27,166	61,241
HSS WB RCRF PBCS BUDGET SUPPORT PROJECT ACCOUNT	395,904	1
HSS SURPII PROJECT ACCOUNT	9,506	179,334
MINISTRY OF PUBLIC WORK AND RECONSTRUCTION	14	14
HSS LOCAL DEVELOPMENT FUND (LDF)	1,034	1,034
Ministry of Education and Higher Education	0	20,729
HSS DAMAL CAFIMAD PROJECT ACCOUNT	30,732	-
Hirshabelle Treasury Single Account - DHSB	1,856	-
SWRR HIRSHABELLE STATE OF SOMALIA	172,728	-
Ministry of Agriculture and Irrigation of Hirshabelle	104,476	-
Ministry of Health & Social Care of Hirshabelle	114,866	-
MINISTRY OF WATER AND ENERGY HIRSHABELLE	-	-
MOHADM HIRSHABELLE	31,896	-
Ministry of Humanit Affairs and Disaster Management Hirshabelle	5,000	-
Ministry of Women and Human Rights of Hirshabelle State	75	-
GWR PROJECT ACCOUNT HIRSHABELLE STATE OF SOMALIA	31,911	-
HSS SEHCD PROJECT	144,743	-
HIRSHABELLE TREASURY SINGLE ACCOUNT-Amal Bank	-	-
TOTAL	1,071,925	272,725

1.4. Cash & Cash Equivalents

Cash and Cash Equivalents means notes and coins held, and any deposits held at call with a bank or financial institution. Cash is recognized at its nominal amount. Somali banks do not pay interest.

Cash included in the statement of cash receipts and payment comprises the following amounts:

	2023	2022
	USD	USD
Cash on Hand		
Balances held with Banks	1,071,925	272,725
Total cash on Hand and bank balances	1,071,925	272,725

1.5. *Reporting Currency*

The reporting currency is the United States Dollar (\$) and rounded to the nearest dollar (\$).

1.6. *Borrowings*

HSS did not receive any loans during the 2023 financial year and has no balances owing in respect of banks, and other commercial institutions.

1.7. *Original and Final Approved Budget and Comparison of Actual and Budget Amount*

The approved budget is developed on the same accounting basis (Cash basis), same classification basis and for the same period (From 1st January 2023 to 31st December 2023) as the financial statements. It encompasses the same entities as the consolidated financial statement (these are identified in Note 1.2)

The original budget was approved by the Hirshabelle Parliament on 31nd December 2022. No Supplementary Budget was passed in FY 2023.

1.8. *Authorization Date*

The financial statements were authorized to be issued on 23 March 2024 by HE Abdirahim Isse Adow, Minister of Finance and Economic Development.

2 Taxes on Payroll and Workforce

The tax is paid by both private and public employees based on the total remuneration (salary/wage bill) paid to all the employees at a standard rate of 5%. In 2023 financial year \$349,954 was received from private employees and \$114,595 from public employees in Hirshabelle State of Somalia.

	2023	2022
Public Taxes on payroll and workforces	114,596	68,611
Private Payroll taxes on non-civil servants	349,954	223,396
	464,550	292,007

3 Tax on Property

In 2023 Financial Year, the State did not collect any property taxes since this tax type was not enforced during the year. However, in 2022 an amount of \$24,364 was collected as property taxes.

4 Taxes on Goods and Services

These taxes are charged on goods and services. During this financial year, HSS has collected \$2,706,182 taxes on goods and services compared to \$1,883,675 in 2022. This represents an increase of 44%. Road user tax and turnover tax account for most of the taxes on goods and services.

	<u>2023</u>	<u>2022</u>
Turnover tax	952,069	99,808
Electricity and electronic materials		
Fuel		
Local passenger charge	770	1,260
Road user taxes	1,753,343	1,459,207
Fuel Tax		
Electricity Tax		
Vehicle & Drivers Licences		
Business & Professional Licenses		120,000
Fishing Fees		27,000
Landing Fees		20,000
International NGOs registration		
Local NGO's Registraton		11,400
Local Companies Registration		
Work Permit Licenses		
Livestock Fees		130,000
Agricultural Fees		15,000
International Departure Tax		
TOTAL	2,706,182	1,883,675

5 Taxes on international trade and transactions

Taxes on International Trade incorporate all taxes that are imposed on goods and services exported out of and imported into Hirshabelle State of Somalia. During this financial year, Custom duties

levied on imports are the only tax collected under this class. During this Fiscal Year 2023, \$399,175 was received from Khat imports compared to \$190,000 in 2022.

6 Other taxes

Other taxes encompass revenue collections from the local governments. During the year, Ministry of Finance (MoF) collected revenue on behalf of the Jowhar Municipality totaling \$323,875 compared to \$93,621 in 2022.

Jowhar, Beledwayne and Balcad Municipalities are the only local government entities established in the State that raises revenue from sources such as taxing mobile shops and local public transport. Through an agreement drafted between the MoF and Local Governments, all collections by these Municipalities must be deposited with the TSA and subsequent payments made following the set standard procedures laid down by the MoF.

7 Grants from International Organizations

In the 2023 financial year, grants were received from international organizations totaling \$2,369,831 compared to \$127,636 in 2022. United Nations International Children's Emergency, UNDP and FAO were the major international Organizations that funded different projects in the state during 2023 financial year.

	2023	2022
	USD	USD
UNDP	177,168	114,276
WFP	159,206	13,360
GIZ	127,976	
United Nations for Gender Equality and the Women	53,189	
United Nations International Children's Emergency	1,617,449	
SAVE THE CHILDREN	-	
FAO Projects	174,843	
SEED SYSTEMS GROUP	60,000	
TOTAL	2,369,831	127,636

8 Grants from Other Government Units

During 2023 financial year the Federal Government of Somalia granted a total of \$8,979,310 compared to \$8,715,123 in 2022 to the Hirshabelle State of Somalia. Funds include budget support, RCRFIII project administered by the World, Barwaqo Project and other projects.

	2023	2022
	USD	USD
Unconditional Budget Support	-	466,576
Budget Support	4,854,996	4,830,000
HSS Drought Allocation	-	400,000
MOE GPE Project	74,392	162,721
SURPII PROJECT	180,263	350,608
Health service deliver PBCS Project	618,955	457,667
RCRF11I	1,972,650	204,755
DAMAL CAFIMAAD PROJECT	266,054	-
Barwaqo Project	646,191	-
SEHCD PROJECT	265,809	-
GWR PROJECT	100,000	-
TOTAL	8,979,310	8,715,123

9 Sale of Goods and Services

Sales of goods and services consist of money generated from HSS providing public goods and services to its citizens. In 2023 financial year, the Ministries and Agencies collected a total amount of \$133,264 compared to \$806,186 in 2022. Election registration fee contributed to 2022 Fiscal Year high collections of sales of good and services compared to the 2023 Fiscal Year.

	<u>2023</u>	<u>2022</u>
Visa fees	1,645	
Work permit taxes	10,600	
Business and profession licenses	50,000	
Landing fees		
International NGO's registrations		
Local NGO's registrations.	12,600	
Local company registrations		
Livestock fees		
Agriculture fees.		
Fishing licenses fees		
Driving licenses fee		
Logbook fees		
Number plate registration fees		
Individual ID fees		
Birth certificate fees		
Land certificate fees		
Education services fees	47,018	31,186
Contract registration fees		
Election Registration Fee	7,000	775,000
Court filing fees	4,401	
TOTAL	133,264	806,186

10 Wages and Salaries.

Wages and salaries are a combination of all salaries, allowances, and in-kind payments. The staffs include both the civil servants and political positions. A comprehensive breakdown of wages and salaries are provided below: Legislature Allowance encompasses salaries made to Ministers and Parliamentarians. Accommodation allowance relates to allowances such as house allowance and hotel accommodation allowances paid to Ministers, Parliamentarians, Commissioners, and the civil servants of HSS. Regular food provisions are in-kind payments to the Military forces of Hirshabelle that are made in the form of food and other related food supplies, whereas the daily meals relate to meals prepared for the different sectors of Security forces whose duties are providing security to Government Institutions.

	<u>2023</u>	<u>2022</u>
	<u>USD</u>	<u>USD</u>
Basic salaries for general Civil Service	886,323	823,849
Contract employees	352,612	326,020
Temporary staff allowances	399,416	13,560
Security forces (Police, intel forces and prison)	1,819,585	4,240,498
Legislature allowances	1,257,000	1,447,000
Teacher salary	494,400	507,952
Health workers salary	245,400	-
Temporary staff salary	27,700	-
Accommodation Allowance	-	39,100
Professional allowance	-	38,770
Transportation allowance	-	32,300
Other allowances	-	4,050
Regular Food Provision	1,080,640	500,000
Daily Meals	-	540,599
TOTAL	6,563,100	8,513,698

11 Travel and Conferences

During 2023 financial year, Travel and Conferences amount to \$1,175,016 compared to \$582,633 in 2022. It is a yearly increase of 102% and this mainly consist of travel costs, conferences costs within and outside the country. The following provides a breakdown of the total costs:

	2023	2022
	USD	USD
Internal Travel	406,383	210,612
External Travel	97,812	32,856
Local conferences	667,820	339,165
Accommodation	3,000	-
TOTAL	1,175,016	582,633

12 Operating Expenses

Operating Costs are costs that are geared towards facilitating the running of the Ministries, Departments and Agencies of the HSS. Total operating costs of 2023 is \$2,167,325 compared to \$789,314. The operating costs has increased 175% during 2023 financial year. Following is a detailed breakdown of the operating costs incurred by HSS during the year.

	2023	2022
	USD	USD
Water	342,966	23
Electricity	109,153	4,593
Refuse collection	3,450	-
Satellite fees	55,000	-
Internet	51,805	38,248
Diesel and oil	107,200	43,594
Refreshment	189,962	-
Stationary	266,220	53,509
Meeting Supplies	-	4,559
Publications	500	-
Cleaning Supplies	4,243	993
Medical Supply	600,000	550,000
Maintenance and repair of equipment and heavy machineries	423,830	80,000
Maintenance and repairs of vehicles, boats and vessels	4,800	2,666
Maintenance of Vehicles	-	3,598
Maintenance contracts	8,198	7,532
	2,167,325	89,314

13 Rent

In 2023 Office rent expenses amounted \$328,163 compared to \$46,350 in 2022 and was funded through a grant from the RCRF III project account with the purpose of paying the Office Rent for the Civil Service Commission and the Auditor General's Office.

	<u>2023</u>	<u>2022</u>
	<u>USD</u>	<u>USD</u>
Auditor General's Office.	-	23,100
Civil Service Commission	-	23,250
Office Rent	214,490	
Vehicle rent	98,023	
Venue rent	7,750	
Other rents	7,900	4,900
TOTAL	<u>328,163</u>	<u>51,250</u>

14 Other Operating Expenses

Other operating expenses comprise of bank charges, staff training, advertising and marketing costs and consultation and non-consultancy service. The amount of other operating expenses totaled \$1,127,421 in 2023 compared to \$519,300 in 2022. Other operating expenses increased to \$608,121 in 2023.

15 Conflict Resolution

In FY2023, a sum of \$434,996 was spent on conflict resolution compared to \$300,000 in 2022. Conflict resolution expenses refer to costs that were incurred in solving conflicts and underpinning peaceful resolutions in Hirshabelle. The spending on conflict resolution increased in 2023 due to the recurrent conflict resolution conferences in many parts of the state. The Conflict resolution expenses were predominantly incurred by the Ministry of Reconciliation and Resettlement in solving recurrent conflicts within the Hirshabelle State of Somalia.

	<u>2023</u>	<u>2022</u>
	<u>USD</u>	<u>USD</u>
Conflict Resolution Expenses	434,996	300,000
TOTAL	<u>434,996</u>	<u>300,000</u>

16 Grants to other General Government units

Transfers to other government units refer to lower-level governments transfers to Jowhar, Beledwayne and Balcad Municipalities. These are the only active local governments in HSS that collect revenue and incurs expenditure. The Municipalities collect revenue from the public transport system and other mobile businesses within HSS. There is an informal agreement between the Ministry of Finance and Economic Development and the Municipalities specifying that all revenue collections shall be deposited into the TSA and request for incurring expenditures is made by the local government to the State. In the fiscal year 2023 a sum of \$1,829,979 were transferred to the Municipalities compared to \$1,198,451 in 2022. The offices of the local government operate their own standard procedures in managing this fund as stipulated in an agreement with the MoF.

	<u>2023</u>	<u>2022</u>
Grants to local level of government	<u>1,829,979</u>	<u>1,198,451</u>

17 Non-Financial Assets

Non-Financial Assets consist of costs that were incurred for building other than dwellings, machinery and equipment not elsewhere classified, and Information, computer, and telecom (ICT) equipment. In 2023 total amount of \$448,049 spent on non-financial assets in comparison to \$128,791 in the previous year. Following are the details:

	<u>2023</u>	<u>2022</u>
	<u>USD</u>	<u>USD</u>
Buildings other than dwellings	100,204	80,396
Machinery and Equipment not elsewhere classified	345,045	
Information, Computer and telecom (ICT) equipment	2,800	35,395
Office equipment, Furniture & fixtures	-	13,000
	<u>448,049</u>	<u>128,791</u>

19 Taxes

A total of \$13,451,246 tax collections were estimated to be raised in the 2023 financial year, however, the Actual revenue collected was \$3,893,782. The variance is 70% and it was mainly due to unrealistic revenue projections of 2023 Budget. These large variations are also due to the revenue checkpoints controlled by other agencies (Municipalities, Ministry of Interior, Ministry of Trade, Ministry of Public Works and across MDAs) and lack of political will and very weak revenue collection controls.

20 Grants

In 2023, total grants of \$ 11,349,140 were received against an annual estimate of \$17,944,544. These grants comprised grants from the Federal Government and grants from the international organization. Grants from Federal Government and International organizations were not received as estimated with the difference mainly due to an over optimistic estimate. Below is details of grants:

	2023			2022		
	USD			USD		
	Estimate	Actual	Variance	Estimate	Actual	Variance
Public Taxes on payroll and workforces	300,000	114,596	(185,404)	100,000	68,611	(31,389)
Private Payroll taxes on non-civil servants	1,220,000	349,954	(870,046)	1,920,000	223,396	(1,696,604)
Livestock products	-	-	-	1,967,796	130,000	(1,837,796)
Agriculture products	-	-	-	200,000	15,000	(185,000)
Fishing licenses fees	-	-	-	329,270	27,000	(302,270)
Business & Professional Licenses	-	-	-	200,100	120,000	(80,100)
International NGOs registration	-	-	-	9,864	-	(9,864)
Local NGO's Registraton	-	-	-	9,450	11,400	1,950
Local Companies Registration	-	-	-	7,890	-	(7,890)
Local passenger charge	145,509	770	(144,739)	-	1,260	1,260
Work permit taxes	-	-	-	9,856	-	(9,856)
Vehicle & Drivers Licences	-	-	-	19,450	-	(19,450)
Landing Fees	-	-	-	238,491	20,000	(218,491)
International Departure Tax	-	-	-	145,509	-	(145,509)
Property Tax	-	-	-	441,379	24,364	(417,015)
Turnover Tax	803,890	952,069	148,179	503,890	99,808	(404,082)
Fuel Tax	115,200	-	(115,200)	115,200	-	(115,200)
Electricity and electronic materials	59,870	-	(59,870)	59,870	-	(59,870)
Road User Tax	8,068,937	1,753,343	(6,315,594)	8,868,937	1,459,207	(7,409,730)
Customs duties - Tobacco	-	-	-	144,120	-	(144,120)
Customs duties - KHAT	1,080,000	399,175	(680,825)	482,855	190,000	(292,855)
Cigarate and tobacco product	216,461	-	(216,461)	72,341	-	(72,341)
Other tax collections from local governmen	1,000,000	323,875	(676,125)	-	93,621	93,621
Building	441,379	-	(441,379)	-	-	-
TOTAL	13,451,246	3,893,782	(9,557,464)	15,846,268	2,483,668	(13,362,600)

	<u>2023</u>	<u>2022</u>
Grants from international organizations	2,369,831	127,636
Grants from Federal Government	8,979,310	8,715,123
TOTAL	<u>11,349,140</u>	<u>8,842,759</u>

20.1 Grants from Federal Government

In 2023 Fiscal Year, total grant of \$15,839,451 from the Federal Government of Somalia was estimated; however, the actual grant received was \$8,979,310. The variance came as pledged flows from the Federal Government of Somalia were not received by the state. The total grants received in 2022 was \$8,715,123 against an estimate of \$13,894,437.

21 Other Revenue

	<u>2023</u>	<u>2022</u>
	<u>USD</u>	<u>USD</u>
Unconditional Budget Support	-	466,576
Budget Support	4,854,996	4,830,000
HSS Drought Allocation	-	400,000
MOE GPE Project	74,392	162,721
SURPII PROJECT	180,263	350,608
Health service deliver PBCS Project	618,955	457,667
RCRF111	1,972,650	204,755
DAMAL CAFIMAAD PROJECT	266,054	-
Barwaaqo Project	646,191	-
SEHCD PROJECT	265,809	-
GWR PROJECT	100,000	-
TOTAL	<u>8,979,310</u>	<u>8,715,123</u>

Other revenue collections of 2023 consist of sale of goods and services and other taxes. A total of \$2,824,487 was budgeted in the year of 2023 and actually a sum of \$133,264 was collected. The low collection in this category was due to state's fragility, political instability, and the low capacity to collect the revenues.

	2023			2022		
	USD			USD		
	Estimate	Actual	Variance	Estimate	Actual	Variance
Civil Servant Identification Fee	-	-	-	50,000	-	50,000
Birth Certificate Fee	500	-	500	500	-	500
Land certificate fees	221,965	-	221,965	221,965	-	221,965
Landing fees	238,491	-	-	-	-	-
Livestock fees	1,370,651	-	1,370,651	-	-	-
Agriculture fees.	200,000	-	200,000	-	-	-
Business and profession licenses	200,100	50,000	150,100	-	-	-
International NGO's registration	9,864	-	9,864	-	-	-
Local NGO's registrations.	9,450	12,600	(3,150)	-	-	-
Local company registrations	7,890	-	7,890	-	-	-
Education services fees	-	47,018	(47,018)	-	31,186	(31,186)
Fishing licenses fees	329,270	-	329,270	-	-	-
Election Registration Fee	-	7,000	(7,000)	-	775,000	(775,000)
Court filing fees	-	4,401	(4,401)	-	-	-
Visa fees	-	1,645	(1,645)	-	-	-
Driving licenses fee	19,450	-	19,450	-	-	-
Individual ID fees	50,000	-	50,000	-	-	-
Contract registration fees	2,000	-	2,000	-	-	-
Number Plate Registration	100,000	-	100,000	100,000	-	100,000
Logbook Registration	50,000	-	50,000	50,000	-	50,000
Fines/Penalties	5,000	-	5,000	5,000	-	5,000
Work permit taxes	9,856	10,600	(744)	-	-	-
TOTAL	2,824,487	133,264	2,453,477	427,465	806,186	(378,721)

22 Employee Compensation

In 2023 a total of \$6,563,160 was spent on employee compensation against a budget of \$15,438,604. There was underspending of \$8,875,444 (57% variance). This was mostly due to the States fragility and thus significant under collection of revenues. A total amount of \$8,513,698 was spent on employee compensation in 2022 which was higher the current year's spending on employees.

	2023			2022		
	USD			USD		
	Budget	Actual	Variance	Budget	Actual	Variance
Basic salaries for general Civil Service	1,507,555	886,323	621,232	1,366,458	823,849	542,609
Basic allowances for general Civil Service	200,000	-	200,000			
Contract employees	424,670	352,612	72,058	469,380	326,020	143,360
Temporary staff salary	47,834	27,740	20,094	232,679	13,560	219,119
Temporary staff allowances	955,226	399,416	555,810			
Security forces (Police, intel forces and prison)	4,062,293	1,819,585	2,242,708	7,268,135	4,240,498	3,027,637
Security sector allowances	273,200		273,200			
Legislature allowances	2,818,800	1,257,000	1,561,800	4,869,600	1,447,000	3,422,600
Political appointees salary	1,842,300	-	1,842,300			
Political appointees allowances	60,000	-	60,000			
Health workers salary	369,600	245,440	124,160			
Health workers allowances	10,000		10,000			
Teacher salary	514,800	494,400	20,400	564,352	507,952	56,400
Accommodation Allowance	-	-	-	39,100	39,100	-
Professional allowance	-	-	-	101,170	38,770	62,400
Transportation allowance	-	-	-	32,300	32,300	-
Other allowances	-	-	-	13,900	4,050	9,850
Regular Food Provision	1,713,642	1,080,644	632,998	650,000	500,000	150,000
Daily Meals	638,683	-	638,683	964,683	540,599	424,084
Grand Total	15,438,604	6,563,160	8,875,443	16,571,757	8,513,698	8,058,059

23 Use of Good and Services

The ability to spend is limited to the amount of revenue that was collected. In the case of goods and services, in 2023 a total of \$5,232,921 was spent on different goods and services against a budget of \$11,934,261. Last year total spending on goods and services was \$2,242,497. There is an

increase of \$2,990,423(133% increase). The variance distributed across the entities is mainly attributed to constraints in funds availability.

	2023			2022		
	USD			USD		
	Budget	Actual	Variance	Budget	Actual	Variance
Internal Travel	946,310	406,383	539,927	538,240	210,612	327,628
External Travel	403,141	97,812	305,329	294,817	32,856	261,961
Local conferences	983,202	667,820	315,382	392,011	339,163	52,846
Overseas Conferences	27,900	-	27,900	27,000	-	27,000
Accommodation	3,000	3,000	-	-	-	-
Water	402,976	342,966	60,010	56,204	23	56,181
Electricity	198,971	109,153	89,818	80,900	4,593	76,307
Refuse collection	3,450	3,450	-	-	-	-
Telephone fees	11,450	-	11,450	5,550	-	5,550
Mobile Phone Expenses	-	-	-	12,600	-	12,600
Internet	142,015	51,805	90,210	101,574	38,248	63,326
Satellite fees	60,000	55,000	-	-	-	-
Diesel and oil	459,300	107,200	352,100	335,000	43,594	291,406
Stationary	378,803	266,220	112,583	138,387	53,509	84,878
Books	-	-	-	9,406	-	9,406
Meeting Supplies	-	-	-	2,431,293	4,559	2,426,734
Publications	11,406	500	10,906	1,500	-	1,500
Refreshment	694,506	189,962	-	-	-	-
Cleaning Supplies	70,119	4,243	65,876	53,900	993	52,907
Cleaning Services	-	-	-	101,200	-	-
Medical Supply	616,350	600,000	16,350	1,850,000	550,000	1,300,000
Maintenance and repair of equipment and heavy machinery	547,388	423,830	123,558	107,500	-	107,500
Maintenance and repairs of furniture and fittings	10,360	-	10,360	8,926	2,666	6,260
Maintenance and repairs of vehicles, boats and vessels	453,200	4,800	448,400	443,600	3,538	440,062
Maintenance and repairs of building	80,000	-	80,000	80,000	80,000	-
Maintenance contracts	8,324	8,198	126	8,034	7,532	502
Vehicle Hire / car rental	-	-	-	10,000	-	10,000
Office Rent	182,316	214,490	(32,174)	182,316	51,250	131,066
Vehicle Rental	139,740	98,023	-	-	-	-
Venue Rent	10,050	7,750	-	-	-	-
Other Rent	300,000	7,900	292,100	300,000	-	300,000
Training Tuition fee	131,034	34,416	-	-	-	-
Consulting and professional fees	1,062,894	766,645	296,249	526,750	393,325	133,425
Audit Fees	20,000	-	20,000	20,000	-	20,000
Staff training and Development	-	-	-	581,470	68,502	512,968
Fee for Service Provided (non Consultancy Service)	1,419,530	319,207	1,100,324	199,916	52,333	147,583
Bank charges	18,020	134	17,886	24,770	140	24,630
Television and Newspaper Advertisements	26,550	7,020	19,530	27,200	5,000	22,200
Conflict Resolution Expenses	840,416	434,396	405,420	600,000	300,000	300,000
Contingency	388,809	-	388,809	388,809	-	388,809
Holding account	736,567	-	-	-	-	-
TOTAL	11,788,097	5,232,921	5,168,428	9,938,873	2,242,498	7,595,174

24 Grants to Other General Government Units

Grants to other General Government Units relates to transfers made to lower levels of Government of HSS. In the fiscal year 2023 a sum of \$1,829,979 were transferred to the Municipalities compared to \$1,198,451 in 2022. However, in 2022 an amount of \$4,800,400 was

budgeted for the Lower-level Governments of HSS and \$1,198,451 was actually transferred to the Middle Shabelle and Hiran Regions to facilitate their operations as well as provide key services to the Region. The lower-level municipalities of the Middle Shabelle and Hiran Regions operating under an informal agreement between the MoF and HSS Municipalities (see Note 10), operate their own standard procedures in managing funds as stipulated in the informal agreement with the MoF.

25 Non-Financial Assets

During the year, 19% of the non-financial assets budget was spent. Costs were mainly associated with the rehabilitation of Government institutions and equipment which was funded by the Federal Government.

26 Undrawn External Assistance

During the 2018 financial year, HSS became eligible to participate in the Recurrent Cost and Reform Financing (RCRF III) project. This project runs through to 30 June 2024 and is reviewable on an

	2023			2022		
	USD			USD		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
Information, computer, & telecom. (ICT) equipment	154,140	2,800	151,340	74,790	35,395	39,395
Machinery and Equipment not elsewhere classified	57,550	-	57,550	59,550	-	59,550
Buildings other than dwellings	1,099,626	100,204	999,422.44	80,396	80,396	0.01
Cars	470,000	345,045	124,955	50,000	-	50,000
Furniture & Fixture	124,700	-	124,700	81,502	13,000	68,502
Wells and water holes	398,000	-	398,000			
Total	2,304,016	448,049	1,457,967	346,237	128,791	217,447

annual basis. The RCRF III project is a multi-partner fund administered by the International Development Association (IDA), with funds flowing through the Federal Government of Somalia to HSS. The objective of the project is to support the recipient to provide a credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, eligible Federal Member States and Interim and Emerging Administration.

As specified in a binding agreement *Number TFOA0534 Dated 29 June 2015* between the Federal Government of Somalia (FGS), acting on behalf of all other existing & emerging states, and the International Development Association (IDA), the Hirshabelle State of Somalia, by virtue of a sub-agreement with FGS, has a current project which will last to 30 June 2024.

Undrawn External assistance in respect to the RCRF III project is contingent upon HSS meeting the threshold conditional requirements of the project. The RCRF III budget outlined in the Project Appraisal Document (PAD) does not identify the budgeted breakdown for HSS in particular the grant amount is subject to annual review and approval by the IDA.

As at the 31 December 2023, HSS had accessed a total of \$2,591,165 (\$1,459,909 in 2022) of the RCRF III project funds since becoming eligible. The variance resulted from a number of Civil Servants not being recruited as originally planned and some staff turnover during 2023 and 2022 fiscal years. It is expected that conditions will continue to be satisfied and the projects are anticipated to continue under the terms of agreement between the donor and HSS. There have been no instances of non-compliance with terms and conditions which can result in cancellation of external assistance grants.

		Year											
		2023		2022		2021		2020		2019		2018	
		1											
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
External Assistance		3,863,049	2,591,605	5,447,994	2,505,218	3,225,785	1,459,909	1,707,180	972,834	1,254,254	589,302	45,067	198,423

26 Statements of Operations.

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

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

5. Annex 2- Detailed Management Letter

Jamhuuriyadda Federaalka Soomaliya
Dowlad Goboleedka Hirshabelle
Xafiiska Hantidhowrka



جمهورية الصومال القيدالية
ولاية هيرشبييلي
مكتب المرجع العام

Federal Republic of Somalia
Hirshabele State
OFFICE AUDITOR GENERAL

Hirshabelle State of Somalia

Report to Ministry of Finance

For the year ended

31 December 2023

20 September, 2024

Minister,
Ministry of Finance,
Jowhar, Hirshabelle,
Somalia.

Dear Sir,

Report to the Minister for the year ended 31 December 2023

We have recently completed our audit of the Consolidated & Ministerial Financial Statements of the Hirshabelle State of Somalia for the year ended 31 December 2023 which we conducted in accordance with International Standards of Supreme Audit Institutions ("ISSAI"). Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit is conducted to enable us to form and express an opinion on the financial statements that have been prepared by Treasury, the Ministry of Finance with the oversight of the Hirshabelle Federal Member State Cabinet. The audit of the financial statements does not relieve the Ministry of its responsibilities. However, in accordance with our normal practice, we write to draw your attention to certain matters which we identified during our audit. Those issues are set out in the attached report.

The report includes your responses and comments which have been obtained through the co-ordination of the Ministry of Finance. We would like to thank the management and staff for their assistance and co-operation during the audit.

We would be pleased to provide any clarification that you may require on the issues raised in this report.

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Yours faithfully,

Marwa: Marian Mohamud Omar.

MARIAN



The Office of the Auditor General, Hirshabelle State of Somalia.

Glossary of terms

AMS	Asset Management System
BPM	Budget Preparation Module
CPA	Certified Public Accountants
CPO	Commitment Payment Order
CSC	Civil Service Commission
CV	Commitment Voucher
DN	Delivery Note
ERS	Enterprise Risk Services
FMIS	Financial Management Information System
FY	Financial Year
GRN	Goods Received Note
HR	Human Resource
HSS	Hirshabelle State of Somalia
ICT	Information, Communication and Technology
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standard
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
JV	Journal Voucher
LPO	Local Purchase Order
MDA	Ministry, Departments & Agencies
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
Mol	Ministry of Interior

OAG	Office of the Auditor General
PO	Purchase Order
POSA	Payment Order for Salaries and Allowances
PV	Payment Voucher
RCC	Revenue Collection Voucher
RMS	Revenue Management System
RV	Revenue Voucher
SAI	Supreme Audit Institution
SoD	Segregation of Duty
TOR	Terms of Reference
USD	United States Dollar

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1. Summary Performance Ratings on Areas Review

The table below presents a summary of the audit findings. In the table, we have provided summaries of each finding and a visual indicator of the assessed significance of each.

Control area	Risk key	Control weakness noted
2. Financial statement	High	2.1 Weaknesses noted on the financial statement
3. Cash and Bank	Medium	3.1 Weakness noted with regards to management of cash and bank balances
4. Revenue	Medium	4.1 Fluctuations in reported local revenue collection
	Medium	4.2 Other weaknesses on local revenue management
	Low	4.3 Variances between Revenues recorded in RMS and FMIS
5. Non payroll expenditure	High	5.1 Unsupported and partially supported payments
	Low	5.2 misclassification of expenses and other weakness in recording of payments
	High	5.3 weakness in procurement process
6. Payroll	Medium	6.1 operation of different payrolls and non preparation of monthly payroll reconciliations
7. Weakness under fixed assets management	High	3.1 Partially supported payments

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

Key to Summary

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

2. Financial Statements

2.1 Various weakness noted on the financial statements

Observation

Condition

Several inaccuracies were noted on the financial statement as follows;

1. Note 15 and 16 in the Consolidated fund statement of cash receipts and payments do not correspond to the correct notes to the financial statements.
In the consolidated fund statement of cash receipts and payments conflict resolution has no note, Note 15 relates to grants to other government units, while note 16 relates to miscellaneous other expenses. On the contrary in the notes to the financial statement; Note 15 relates to conflict resolution, note 16 relates to grants to other government units while there is no note that describes Miscellaneous other expenses.
2. Miscellaneous other expense totalling to \$510,100 does not have a note. Further, it was noted that the amount relates to lumpsum payments made to settle some state obligations incurred on various state activities. Details of the various state activities in which the payment relate to was not shown in the financial statement IPSAS requirement for an entity to present either on the face of the financial statement or on the notes, an analysis of expenses using a classified based on either the nature of the expenses or their function with the entity, whichever provides information that is reliable and more relevant has not been complied with.
3. Closing bank and cash balance for the state at the end of the year as per the financial statement and as per the trial balance generated from FMIS do not tally as follows'

Description	Amount in usd
As per the Financial statements	\$519,253
As per the Trial balance from FMIS	\$1,064,703
Variance	\$545,450

Further note 1.3 of the financial statement states cash and bank balances as \$1,071,925

4. We have noted variances for specific bank account balances as at the end of the year for the following bank accounts. The cash book and FMIS balances for the accounts and amounts declared for the same accounts under note 1.3 of the financial statement are as follows;

Account details	Amount as per FMIS	Amount as Financial statement	Variance
Minstry of health and social care of hirshabelle	103,843	114,866	11,023
MOHADM Hirshabelle	35,697	31,896	(3,801)
Resultant variance			7,222

Criteria

Section 1.3.26 of the cash basis IPSAS 2017 states that notes to the financial statements shall be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements shall be cross referenced to any related information in the notes.

Further section 1.3.27 Financial statements shall present information that is: Understandable; Relevant to the decision-making and accountability needs of users; A faithful representation of the cash receipts, cash payments and cash balances of the entity and the other information disclosed in the financial statements in that it is, Complete; Neutral; and Free from material error; Comparable; timely and Verifiable.

Cause

This may be attributed to capacity issues or negligence by the officers who were preparing the financial statement.

Effect

This affects both the accuracy and the reliability of the information provided to the users of the financial statement.

Recommendation

The financial statement to be ammended and all relevant corrective actions effected on the draft financial statement.

Significance

High

Responsible directorate

Director General

Management response

We have made amendment for the financial Statements; furthermore, We acknowledge the discrepancies in the financial statement notes. We will revise the financial statements to ensure consistency and accuracy, in compliance with IPSAS guidelines. A training program is being initiated to enhance staff capacity in preparing financial statements.

Further Auditor Comments

Kindly affect the ammendments and provide the revised financial statements.

3. Cash and Bank

3.1 Various weakness noted with regards to management of cash and bank

Observation

Condition

1. Weaknesses noted on cash and bank management are as follows'
 - a) Bank reconciliations lacked crucial details such as when it was prepared ,who prepared it, who reviewed it and who approved it.
 - b) Yearly bank confirmations and review of bank register at the end of the year were not conducted in contravention of section 8.1.e of the banking procedures manual
 - c) Bank reconconcialtions and statements for ministry of health and scocial account as well as that of MOHADM Hirshabelle account were not received as at the date of compiling this report.
 - d) Differences were noted in the details and number of bank accounts disclosed in the financial statement and the ones listed in final Trial balance from the FMIS. For example FMIS shows 21 accounts while the financial statement shows 22 bank accounts. Additionally there are inconsistencies in the way bank accounts are described in the financial statement and in the FMIS e.g there is an account with in the name of the minsitry of interior and local governance. The same account is described as wizaarada Gudaha in the FMIS.

Criteria

Sections 3.1.1 to sections 3.1.4 of regulation 5 on cash management and banking arrangements state as follows;

- a) The Treasury Single Account and any other bank accounts of the state are to be reconciled preferably daily or at a minimum weekly within 2 days after end of the week by the Treasury Department, Ministry of Finance using the states financial management information system (FMIS).
- b) Each reconciliation must be checked and approved by the Treasurer or designated senior officer.
- c) Bank reconciliations and supporting documents must be retained for management control and audit purposes, filed both in soft copy and hard copy format
- d) Details of bank accounts are to be recorded in the states financial management system allocating a unique code.
- e) The established bank account is recorded in the bank register which is maintained by the Treasury Department. This register records the details in regard to all bank accounts established and operated by the government as outlined in Instruction I, Bank Account Procedures Manual

Cause

Management override of controls

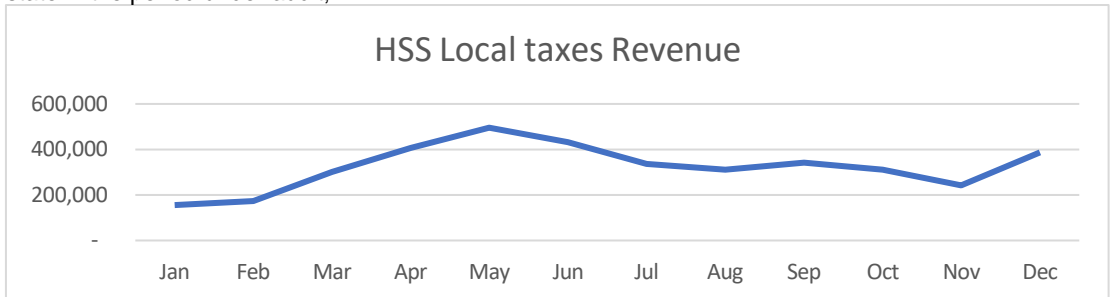
Effect

This may lead to non detection of errors on timely basis.

Recommendation
Closing bank balances as per the financial statement and the FMIS should be reconciled. Specific reconciliations should be done for accounts with specific variances and correct figures disclosed in the financial statement for each of the accounts. All other existing controls that are not followed should be implemented.
Significance
Medium
Responsible directorate
Treasury Director
Management response
We are currently reconciling the identified variances. Monthly bank reconciliations will be implemented to prevent future discrepancies. Additionally, we will ensure adherence to the banking procedures manual by introducing new internal controls.

4 Revenue

4.1 Fluctuations in reported local revenue collections

Observation																										
<p>Condition</p> <p>We have noted that revenue collections reported during the period under audit did not follow any logical pattern. Monthly revenues increased from \$150,000 at the beginning of the year to \$495,000 in May the same year. Revenues started to decline from June and reached as low as \$241,000 by November the same year. This is an indication that all revenues collected may not have been banked and recorded in the government Financial Management Information System. The Comprehensiveness pillar of the PFM act which states “All Hirshabelle State of Somalia revenues and expenditures shall be included in the Consolidated Budget, being recorded on a gross basis” has not been complied with. The following table shows revenue performance per month for the state in the period under audit;</p>																										
<div><p>HSS Local taxes Revenue</p><table><caption>HSS Local taxes Revenue (Estimated values from graph)</caption><thead><tr><th>Month</th><th>Revenue</th></tr></thead><tbody><tr><td>Jan</td><td>150,000</td></tr><tr><td>Feb</td><td>180,000</td></tr><tr><td>Mar</td><td>300,000</td></tr><tr><td>Apr</td><td>400,000</td></tr><tr><td>May</td><td>495,000</td></tr><tr><td>Jun</td><td>450,000</td></tr><tr><td>Jul</td><td>350,000</td></tr><tr><td>Aug</td><td>320,000</td></tr><tr><td>Sep</td><td>350,000</td></tr><tr><td>Oct</td><td>320,000</td></tr><tr><td>Nov</td><td>241,000</td></tr><tr><td>Dec</td><td>380,000</td></tr></tbody></table></div>	Month	Revenue	Jan	150,000	Feb	180,000	Mar	300,000	Apr	400,000	May	495,000	Jun	450,000	Jul	350,000	Aug	320,000	Sep	350,000	Oct	320,000	Nov	241,000	Dec	380,000
Month	Revenue																									
Jan	150,000																									
Feb	180,000																									
Mar	300,000																									
Apr	400,000																									
May	495,000																									
Jun	450,000																									
Jul	350,000																									
Aug	320,000																									
Sep	350,000																									
Oct	320,000																									
Nov	241,000																									
Dec	380,000																									
<p>Criteria</p> <p>The PFM Act of 2018 provides for the clear authorisation, collection of taxes, levies and charges and standards to be followed in the assessment and collection of taxes and other revenue as well as the roles, rights and obligations of the taxpayers and collecting authority.</p> <p>Further section 23(2) of the PFM act 2018 states that The Minister shall require, within thirty (30) working days following the submission of the Proposed Budget to Parliament, all ministries and heads of Spending Agencies, to prepare and submit to the Ministry, annual spending plans and timing of revenue inflows (in the case of revenue generating entities) broken down by month, which may be revised</p> <p>Cause</p> <p>Lack of clear monitoring and forecasting of revenues, non banking of all collections.</p> <p>Effect</p> <p>This may lead to misstatement of the financial statements as bonifide transactions may be left out of the financial statement. Unrecorded revenues may also be misappropriated.</p>																										
Recommendation																										
<p>All revenues collected should be reported and recorded in the books of accounts. There should be proper forecasting and monitoring of revenue performance . any deficiencies should be invetsigated and corrective actions instituted.</p>																										
Significance																										
<p>Medium</p>																										
Responsible directorate																										
<p>Revenue Director</p>																										
Management response																										
<p>Local revenue collections may fluctuate due to many reasons including changes in business activities that generate taxes and other revenues. All Hirshabelle State government revenues are regularly recorded in both revenue management and financial management information systems</p>																										

4.2 Other weaknesses on local revenue management

Observation
<p>Condition</p> <ol style="list-style-type: none"> Unsupported receipts; During our review of local revenues, we found out that all receipts were not supported with any relevant supporting documentations. The original receipt books whose copies were issued to the tax payers were not available for review. Similarly, we were not able to review the base amounts in which payroll deductions were based on. Although the transactions may have occurred we were unable to confirm whether they have been recorded at the correct amounts as well as whether they were recorded in the correct chart of accounts. Lack of reconciliations of various revenue recording documents; we have noted that no reconciliations were made between receipt books, daily collection registers, deposit slips, FMIS and RMS. Where proper reconciliations are not done, revenues could be misappropriated and errors may occur as well. These affect the accuracy, completeness and classification of the revenues collected from different form of taxes: <p>Criteria Section 30(7) of the PFM act 2018 states that Each minister or head of a budgetary institution or agency is responsible for the filing, maintenance and safekeeping of all documents related to public finance transactions, in a manner and for the length of time prescribed in accounting regulations under this Act. Additionally the PFM act 2018 requires financial transactions to be audited by MoF to ensure there was no irregularities and fraud and make correction in case of any improper transactions.</p> <p>Cause Management override of controls. Poor Records Management Practice.</p> <p>Effect This may lead to inaccurate recording and reporting of revenues, loss and misappropriation of revenues etc.</p>
Recommendation
All revenues should be supported with source documents, reconciliations between the various revenue documents should be done.
Significance
Medium
Responsible directorate
Revenue Director
Management response

4.3 Variances between revenues recorded under RMS and FMIS

Observation

Condition

We noted that there was variance between revenue recorded under the Revenue Management System (RMS) and Financial Management Information System (FMIS) for the various classes of revenues as shown in the table below. This may indicate inaccuracy and errors in the recording and completeness of the recorded revenue. This is attributed to lack of integration and interface between the two systems to enable the provision of reconciled reports when needed;

DESCRIPTION	FMIS	RMS	VARIANCE
Public Taxes on payroll and workforces	114,595.87	105,117	9,478.80
Private Payroll taxes on non-civil servants	349,953.63	358,216	(8,262.69)
Turnover tax	952,069.41	887,878	64,191.00
Local passenger charge	770.00	540	230.00
Road user taxes	1,753,343.30	2,143,823	(390,479.66)
Khat	399,175.00	401,975	(2,800.00)
Other tax collections from local government	323,874.66	-	323,874.66
Current grants in cash	2,369,830.73	-	2,369,830.73
Current grants in cash - From FGS	8,979,309.73	-	8,979,309.73
Visa fees	1,645.00	1,645	-
Work permit taxes	10,600.00	10,600	-
Business and profession licenses	50,000.00	50,000	-
Local NGO's registrations.	12,600.00	11,200	1,400.00
Education services fees	47,018.00	32,490	14,528.00
Election Registration Fee	7,000.00	7,000	-
Court filing fees	4,400.50	-	4,400.50
	15,376,185.83	4,010,485	11,365,701.07

We also noted that the following revenues have not been recorded in RMS; Court filing taxes, Other tax collections from local government as well as receipt from both donors and FGS

Additionally, we have noted that the descriptions of the local revenues recorded in FMIS and RMS differ as shown in the table below

Description of revenue in RMS	Description if same revenue in FMIS
Business Licences	Business and profession licenses
Registration	Local NGO's registrations.
political Registration	Election Registration Fee

Criteria

To achieve end to end consistency, an integration between RMS and FMIS is needed to support the revenue collection process and fraud and make correction in case of any improper transactions.

Cause

A fire incident burnt down all revenue records at the revenue collection centre as explained by the client

Effect

Lack of integration between the two systems leads to the inability to confirm the accuracy and completeness of revenue collected and recorded.

Recommendation

We recommend for the real time interface and regular (monthly or weekly) reconciliations between RMS and FMIS to enable MoF counter check the completeness and accuracy of revenue Collected and recorded in real time. We aslo recommed that the data in the two systems should mirror one another so that reconciliations should be easier.

Significance

Low

Responsible directorate

Revenue Director

Management response

Revenue data from FMIS are manually recorded in the RMS system and monthly revenue reconciliation between RMS and FMIS are conducted and monthly revenue report is prepared. However, the ongoing work of Bisan Enhancement will allow the real time integration between RMS and FMIS and this will solve the variance problems between the two systems

5. Non-payroll expenditure

5.1 Unsupported payments and partially supported payments

Observation

Expenditure testing analytics:

Details	Amount \$
Total non-payroll expenses population	8,021,051
Results:	
Total expenditure that is deemed unsupported	2,215,383
Total expenditure that is deemed partially supported	1,479,646
Total expenses with deficiencies	3,695,029
Overall expenditure	14,584,211
% age of overall expenditure that is unsupported	15%
%age of overall expenditure that is partially supported	10%
% age of expenses with deficiencies compared to overall expenses	25%

Condition

A sample based scrutiny of non-payroll expenditure revealed that 15% (US\$ 2,215,383) of the reviewed expenses lacked any kind of third-party documentations. The expenses were not supported with contracts/LPO, invoices, TORs, delivery notes, good received notes, inspection reports, certificates of work done, distribution lists, participant list, attendance registers, invitations, conference/meeting agenda/program of activities, activity reports, tickets, boarding passes, lease agreements, motor vehicle log sheets, fuel registers, Bill of quantities, stores ledger, requisitions, travel authorization forms etc. as applicable. Details of these expenses are found under **annex 1**

Additionally, we have noted that 10% (\$1,479,646) of reviewed expenses were supported with invoices in addition to the FMIS generated documents such as Payment vouchers, commitment vouchers and Bisan Cheques. There were no documentations to show whether the procurement process has been followed, whether goods have been delivered with the correct specifications and at correct quantities, services have been rendered or works have been performed to the expected standards. Similarly we could not confirm whether items have reached the intended and correct beneficiaries. Details of these expenses are found under **annex 2**

We have assessed these deficiencies as inherent and control risks attributed to weak capacity and fragile operational environment .

Criteria

Regulation 10 of the public financial management regulation of 2018 provides procedures in the financial documentation and retention. It requires sufficient documentation for expenditures and subsequent retention. Also, the public financial management regulations of March 2018 requires payments made via cheque or bank transfer using the treasury

single account. It requires prudence in documentation and management of financial transactions funded by the Hirshabelle State of Somalia.
In addition the Regulation stipulates that a package of complete documentation included support documents from time of original commitment through to receipt of goods and services terminating with a final payment.

Cause

As per our inquiry performance on the entity and its environment, interviews with the management team, insufficient documentation is due to:-

- Weak internal capacity; absence of clear understanding of the financial documentation
- Fragile internal control environment.

Effect

Weaknesses at one stage of the expenditure control cycle can undermine the integrity and credibility of the system as a whole and valuable resources could be wasted. In addition, expenditure that is not adequately supported may lead to the misstatement of the financial statements.

This has contributed to our modification of the audit opinion on the 2023 Financial statement.

Recommendation

To enhance compliance with PFM and treasury regulations, appropriate support documents should be maintained for all payments. No payments should be made by the Treasury Director unless adequate supporting documentation is presented.

Significance

High

Responsible directorate

Treasury- Directorate

Management response

We will ensure that all future payments are accompanied by complete and accurate documentation. This includes ensuring that procurement processes are documented with contracts, LPOs, invoices, and good-received notes, among others.

A compliance checklist will be developed and implemented to ensure that all required documents are attached before payments are approved.

Training will be provided to the relevant staff in the Treasury and procurement departments to enhance their understanding of financial documentation requirements. Furthermore, We take the observations seriously and are committed to implementing the necessary reforms to ensure that all payments are adequately supported by the required documentation. The actions outlined above will help to address the weaknesses in the current system, reduce inherent and control risks, and ensure compliance with both internal controls and PFM regulations.

5.2 Misclassification of expenses and other weaknesses in recording of payments

Observation

Condition

We have noted various instances where different expense transactions have been applied to incorrect expenditure codes and line items as shown in the table below;

expense description	amount	account charged to
Refreshments for training costs for CTC Q4	1,200	refuse collection
PPEs and stationary costs for IMAM training	180	electricity
Project Staff Cost For CTC Support July 2023	533	internal travel
Bags and Others Items for Cold Chain	5,466	internal travel
Stationary Cost for Supervision in Beledweien	250	internal travel
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from April to September (Six Months expenses)	3,000	refreshment
Stationary and office Materials from October to December (Three Months expenses)	1,500	refreshment
Stationary and office Materials from October to December (Three Months expenses)	1,500	refreshment
Stationary and office Materials from October to December (Three Months expenses)	1,500	refreshment
Stationary and office Materials from October to December (Three Months expenses)	1,500	refreshment
Stationary and office Materials from October to December (Three Months expenses)	1,500	refreshment
Q4 Operation costs MOH Offices	1,500	refreshment
Administration cost and Sanitary materials for CTC Support	1,600	refreshment
MAINTAINANCE AND COFFE	390	stationary
Refreshment & lunch in the Annual Work Plan (AWP) between UNICEF and MoHADM Hirshabelle	125	stationary
Refreshment & lunch in the Annual Work Plan (AWP) between UNICEF and MoHADM Hirshabelle	125	stationary
Refreshment & lunch in the Annual Work Plan (AWP) between UNDP and MoHADM Hirshabelle.	410	stationary
Facilitator	2,350	stationary
Exam makers for grade 8 examination	9,600	stationary
Exam makers for grade 8 examination	9,600	stationary
Car Hire Cost For Project and Supervision For PRIMS Project	1,375	stationary
	57,204	

Kindly note that this is not an exhaustive list of all misclassifications

This means that the monnies appropriated and allocated by parliament for specific purposes may not have been applied for the intended usage.

Consequently, these expenditures were not accounted for in accordance with Section 22 of the Public Finance Management Act 2018. Additionally, there was no evidence provided to demonstrate that the reallocation of funds between budget lines received the necessary approvals.

Further, we have noted that consultancy fees is described as salaries in the detailed ledger descriptions. We have also noted that some descriptions are in English for the same interns while others are in Somali.

Criteria

Section 5.6.1 of regulation 2 to the PFM act states ; The Account Segment codes are used to identify expenditure or revenue transactions according to the type of expenditure undertaken or revenue received. It also records assets and liabilities. The coding is

compliant with the Government Finance Statistics Manual 2014 (GFSM 2014) issued by the International Monetary Fund (IMF).

Cause

Weak internal control system

Effect

Funds may not be applied to intended usage.

Recommendation

Budget lines should be respected as approved by parliament. Where reallocations are made, the laid down procedure for reallocations should be followed and documented or reallocations should be taken care of at the final supplementary budget for the year.

Significance

Medium

Responsible directorate

Treasury- Directorate

Management response

All payment transactions of the state are recorded in the FMIS system following the unified charts of accounts of GFS classifications. Budget reallocations are made in accordance with the procedures required by PFM regulations.

5.3 Weaknesses in procurement process

Observation

Condition

From the review of the procure to pay process, we noted the below weaknesses and gaps that should be improved by the Ministry:

1. Single sourcing of suppliers without documented justification
2. Lack of quotations, bid documents and bid analysis.
3. Lack of listing to verify prequalification process for vendors and service providers.
4. Non establishment of procurement committee as required by HSS Procurement Policy & Procedures
5. No evidence of preparations and review of bid evaluations, recommendations of awards, award notifications, notifications of losing bidders and contracting process documentations

Criteria

Regulation No 8 of March 2018, of the Public Financial Management Act of 2018 requires effective procurement procedures and documents required for purchasing and sourcing from need identification, supplier prequalification, purchase order and contracts. It requires filing of the documentation involved in the procurement and financing.

Cause

As per our inquiry performance on the entity and its environment, interviews with the management team, weak procurement process is due to:-

- Line ministries have their own internal procurement function, hence each MDA performs its own procurement process. However they do not submit complete procurement documentation and decision making on purchasing process
- Weak internal capacity; absence of clear understanding of the financial documentation
- Fragile internal control environment
- Lack of adequate expenditure verification prior to the payment process.

Effect

Lack of adherence to set procurement procedures may lead to malpractices in the procurement process. In addition, the lack of application of competitive procurement procedures as stipulated in the Procurement Policy and Procedures Manual poses the risk of HSS not benefitting from value for money for the taxpayers and donor funds.

Our audit opinion has been modified on this account.

Recommendation

HSS Management should ensure that competitive process is applied when procuring for goods and services and retain the appropriate supporting documents to as evidence of the procurement procedures undertaken.

Significance

High

Responsible directorate

Procurement and Treasury Departments

Management response

We are committed to improving the procurement process and ensuring full compliance with the Public Financial Management Act (2018) and the HSS Procurement Policy. While there were instances of non-compliance, we have already made progress in implementing proper procurement processes for some procurements. We will build on this progress and ensure that all future procurement activities are fully compliant with the regulations.

We appreciate the observations and recommendations made in the audit, and we will continue to work towards improving procurement practices to ensure transparency, accountability, and value for money.

6. Payroll

6.1 Operation of different payrolls and the non-preparation of monthly payroll reconciliations

Observation

Condition

The examination of human resource records for Hirshabelle state as of December 31, 2023, revealed that the state was maintaining multiple payroll systems e.g. for civil servants, teachers, health workers, contract employees, temporary staff, security forces, legislature etc.

No written explanation was provided to justify why the state was operating different payroll systems and paying employee wages totalling \$ 6,563,160 without a unified payroll system as shown in table below;

Basic salaries for general Civil Service	886,323
Contract employees	352,612
Temporary staff allowances	399,416
Security forces (Police, intel forces and prison)	1,819,585
Legislature allowances	1,257,000
Teacher salary	494,400
Health workers salary	245,440
Temporary staff salary	27,740
Regular Food Provision	1,080,644
Wages and Salaries	6,563,160

Further we have noted that the state does not reconcile its payrolls on monthly basis so as to track errors as and when they occur.

Criteria

Operation of a single, centralized payroll system

Cause

Awareness gap on the risks of operating multiple disjointed payrolls

Effect

This may lead to Ghost workers, double payments etc..

Recommendation

We recommend the state to consider developing one payroll system for all its staff and officials in the different sectors. This will allow the state to get rid off double payments that may occur in the different payrolls, further the unified payroll should be reconciled on monthly basis to help detect errors and instute correction measures on timley basis.

Significance

Medium

Responsible directorate

Director General-MOF

Management response

We have the significance of operating a centralized payroll system and the importance of performing monthly payroll reconciliations to safeguard the integrity of our payroll management. The steps outlined above will be implemented to address the current gaps and improve payroll operations across the state. We are committed to ensuring transparency and accountability in our payroll systems moving forward.

7. Weaknesses under fixed assets management

Observation

Condition

From review of fixed assets of the state, we noted:

1. There is no fixed asset inventory listing or register indicating the assets owned by the State, their value, to whom the asset has been allocated and the condition of the asset.
2. The fixed assets are also not tagged (affixed with a label of a permanent nature) and given a unique identifying number as required under the Capital Asset Policy.
3. There was no evidence of periodic asset verification to confirm the condition or state of the assets and their existence.
4. We noted that the State does not utilise the Asset Management System (AMS) that assists the state to ensure efficient documentation of assets. In addition.

Fixed assets are critical wealth of the government. Fixed assets should be controlled through tracking and maintaining an organization's physical assets and equipment. Asset types include vehicles, computers, furniture and machinery.

Criteria

The PFM Law 2018, Regulation 9, Capital Asset Policy Section 2, states the Capital Asset Register will be maintained electronically, via a special module of the HHS FMIS or a stand-alone asset management module. The Capital Asset Register is maintained centrally for the whole government.

Cause

Lack of an asset inventory listing to guide the State.

Effect

Lack of a fixed assets register could lead to the difficulty in accounting of the assets as well as the susceptibility of the assets to theft or misplacement.

Recommendation

The State should come up with an asset register that includes all government property both movable and immovable. In addition, the State should utilise the Asset Management System for efficient and effective management of the assets.

Significance

High

Responsible directorate

Fixed Assets Officer/Treasury and Procurement

Management response

We are committed to addressing the weaknesses identified in the management of fixed assets. By establishing a fixed asset register, implementing asset tagging, conducting regular asset audits, and utilizing an AMS, we will strengthen the control and accountability of state-owned assets. We appreciate the auditors for their observations and will provide periodic updates on the progress of these initiatives.

8. follow-up on previous audit findings

In accordance with our commitment to continuous improvement and adherence to best practices, this section provides an update on the status of the corrective actions taken in response to the findings from our previous audit. It outlines the progress made, evaluates the effectiveness of the implemented measures, and identifies any remaining issues or areas requiring further attention. Our goal is to ensure transparency, enhance accountability, and foster a culture of continuous improvement within the organization

The follow-up process is critical in ensuring that all recommendations have been properly addressed and that improvements are both effective and sustainable. This review demonstrates our commitment to continuous improvement and adherence to established standards and practices.

The table below provides a summary of key issues raises in the prior year audit report and their status.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
2.1	Fluctuations of local revenue collection	Revenue forecasts will be done more accurately and tracked accordingly	Revenue Director	Not Implemented	Dec 2024
2.2	Poor documentation such as lack of regular donor and FGS reconciliation	This will be done	Treasury Director	Not Implemented	Dec 2024
3.1	Partially supported payments	Management will ensure that no payments are processed without the provision of complete and adequate supporting documents	Treasury Director	Not Implemented	Dec 2024
3.2	Procurement Guidelines Are Not Fully Applied	Management will adhere to the procurement guidelines applicable in GSS	Procurement Director	Not Implemented	Dec 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
5	Absence of the Asset Management System	Management will fully implement and utilize the asset management system and all other controls for safeguarding assets	Procurement Director	Not Implemented	Dec 2024