



MOF/OM/1536/19

October 11, 2019

The Auditor General
The Federal Republic of Somalia
Mogadishu, Somalia

Management Response to the Auditor General's Report on the FGS Accounts for the financial year ended 2018.

We have seen and reviewed your Audit Report that has been issued in connection with the statutory audit of the annual financial statements of the Federal Government of Somalia (FGS) for the financial year ended December 31, 2018. We wish to congratulate you on the conclusion of the Annual Audit Report on Government accounts.

We have gone through the audit report which was unfortunately issued and published without prior discussion with management, and this clearly is not in line with the auditing standards that have been referred to in your report. We note a number of grave errors contained in the report which we believe could have been avoided if only a draft report had been availed to us and discussed prior to publication. The purpose of this note is, therefore, to provide some clarifications and responses to a number of erroneous issues in the audit report as discussed below:

1. Variances in the accounting of external assistance

It is indicated in the report that external assistance to the FGS was understated by \$18,386,732. It is important to note that, following an agreement with the IMF under SMP IV program, guidelines were prepared and cleared on the basis of which a "Fiscal Buffer" was established to enable government to sustain critical expenditures and avoid arrears in the face of volatile revenues. Accordingly, some of the external assistance funds have been kept, intentionally, in our corresponding Bank account (not an offshore bank as erroneously referred to in the Audit report) maintained at Ziraat Bank in Istanbul, Turkey. We would like to make the following clarifications on each of the items in the Audit Report:

1.1 EU Grants

The record in the Central Bank of Somalia (CBS) shows the amount of \$12,011,954 USD for the TSA while the figure in the Auditor General's report is **\$13,266,667**. We stand by the amount reported by the CBS as the correct amount. The variance of \$1,254,713 between the amount reported by CBS and Auditor General's report was received from UNOPS and disbursed, in total, to the Somali Police Force, the intended beneficiary of this fund. (See attachments 1 and 2 for more details).

1.2 KSA Grant

CBS records also show a balance, by the end of 2018, of **\$14,060,000**, while the Auditor General reported the balance of **\$13,929,132**. The difference is that the Auditor failed to account for the amount of **\$130,868** and inaccurately reported the KSA grant as only \$20,000,000 rather than the full amount which was \$20,130,868 (See tables 1 and 2 for comparison).

1.3 UNOPS

CBS records show a zero balance in the UNOPS account by the end of the year, 2018 (see table 2). On the contrary, the Auditor General's report shows a balance of **\$719,451**. The onus is on the Auditor General to provide further clarifications on the sources of this error.

Balances Reported by the AUDITOR GENERAL as @ 31 Dec 2018 Table 1

Donor	Amount received 1	Amount to TSA 2	Balance 3
EU	17,004,816	(13,266,667)	<u>3,738,149</u>
KSA	20,000,000.00	(6,070,868)	<u>13,929,132</u>
UNOPS	1,254,743.00	(535,292)	<u>719,451</u>
	<u>38,259,559</u>	<u>(19,872,827)</u>	<u>18,386,732</u>

BALANCES AS PER CBS FOR DECEMBER 31, 2019 See attachment 3

Donor	Amount Received	Amount to TSA	Balance (ZIRAAT BANK)
EU	17,056,485.00	12,011,954.40	3 <u>5,044,530.60</u>
KSA	20,130,868.00	6,070,868.00	<u>14,060,000.00</u>
UNOPS	1,254,713.00	1,254,713.00	<u>0</u>

1.4 External Assistance received in cash.

The audit report indicates that the external assistance from Turkey in the amount \$20 million for the year ended 31 December 2018 was received in cash and deposited into the TSA and recorded into the FMIS. The gracious grant for budget support from Turkey of \$2.5 million per month materializes

under an annual discussion and agreement between the two brotherly countries. The transfer, up to the year 2018, was done by cash transfers through the Turkish Embassy in Mogadishu. The cash was transferred from the Embassy directly to the TSA at CBS. This practice has now ceased. All transfers from Turkey and other external assistance are remitted through the government corresponding bank in Istanbul, Turkey to the TSA at the CBS.

1.5 Project Funds and Expenditures

The Auditor General reports that the World Bank financed projects do not prepare separate financial statements. This is inaccurate. To the contrary, all World Bank financed projects are not only included in the annual government budgets but also prepare and submit quarterly and annual financial statements as required by the Financing Agreements signed between FGS and the World Bank. These projects are audited by the office of the Auditor-General itself (see attachments 4 and 5 as samples of audited and unaudited Financial statements for World Bank projects for 2017 and 2018).

1.6 External assistance from the World Bank not reconciled

The Auditor General's report indicates that disbursement amounts of World Bank Projects have not been reconciled, which alludes to the existence of a difference between the disbursement figures of the World Bank records and those of the Ministry. However, the fact remains that when the audit staff raised this question with staff of the Ministry of Finance, reconciliation tables were provided to them (See table 3 below). Columns 2 and 4, respectively, show perfectly reconciled figures of the FGS and the Client Connection of the World Bank. We are not sure how the Auditor General's figures in column 3 of table 3 have been derived.

Table 3 FGS and World Bank Client Connection and Auditor-General report comparison

	PROJECT NAME 1	AMOUNT RECEIVED in FGS Accounts 2	Auditor-General Report 3	World Bank Client Connection 4
1	RCRF TF A6971	\$30,380,323.47	\$27,702,647.4	\$30,380,323.47
2	RCRF TF A050334	\$3,180,290.44	\$1,362,044.28	\$3,180,290.44
3	CIP TF A0415	\$2,004,045.82	\$1,968,787.01	\$ 2,004,045.82
4	CIP TF A5472	\$1,531,071.91	5,200,348.65	\$ 1,531,071.91
5	SUIPP TF A1754	\$100,975.25	299,952.51	\$ 100,975.25
6	SURP TF	\$300,000.00		\$300,000.00
7	ICT TF A7699	\$2,632,814.40	1,446,407.40	\$ 2,632,814.40
8	SCORE TF A1688	\$803,487.50	786,549.50	\$ 803,487.50
9	SCORE TF A8094	\$931,388.24	398,741.25	\$ 931,388.24
10	SFF TF A1715	\$2,480,925.08	\$1,583,291.24	\$2,480,925.08
11	SFF TF A4904	\$2,532,672.46	\$100,000.00	\$2,532,672.46
12	PFM TF A0388	\$2,178,059.88	\$2,232,215.20	\$2,178,059.88
	WALP			
	TOTAL	\$49,056,054.45	\$43,080,984.44	\$49,056,054.45

2. Ministries, Departments and Agencies collecting and using revenues

It has been reported that there were some government Ministries, Departments and Agencies (MDAs) that collected revenues amounting to a total \$1,350,400 and used them at source. MDAs used to collect revenues on services delivered with the understanding that they all collected revenues and transferred it to the Ministry of Finance Accounts. However, following the decision of the Cabinet, all revenues are now collected by the Ministry of Finance and deposited directly into the TSA without delays.

2 Concluding remarks

3.1 We have noticed that the Management Letter accompanying the audit report is markedly different from the one earlier shared with the Accountant General. Moreover, the publication of the Management Letter is inconsistent with the international standards of auditing issued by the International Federation of Accountants (IFAC).

3.2 According to the international Auditing rules, it is the responsibility of the Auditor to consult clients on the intended Auditor's opinion and request more information from the management to explain any variances noted during the audit process in compliance with the provision of the International Standards of Auditing (ISA).

3.3 The audit report first came to the attention of the client (Ministry of Finance) after its publication without prior communication on audit findings which is contrary to the ISA requirements and overall general good practice.


3.4 It is curious to note two unsigned letters, one from the Accountant General and one from the Minister of Finance, included in the Auditor General's 2018 published report, as pages 3 and 4. It can be assumed that these unsigned letters were intended for the Ministry of Finance Management to review the audit findings, make comments, if any, and, eventually, sign them. It is not clear as to the value of including unsigned letters in the published Audit Report.

3.5 We welcome the report and respect the independence of the Auditor General with the defined mandates under the law of the Federal Government of Somalia. The Ministry is fully committed to strengthening Good Governance in the management of public resources. There are indeed rules and regulations that guide everyone's activities within the financial sector.

It is, therefore, necessary to have further clarifications on the source of the figures used in the Auditor General's report.

I trust that you will find the above comments and clarifications useful.

Yours Sincerely,


Dr. Abdirahman D. Beileh
The Minister



Ministry of Finance-Shangani District
Mogadishu, Somalia
P.O. Box 106

CC Governor of Central Bank of Somalia
CC Office of the Prime Minister
CC Office of the President

attestations

01/12/18

Je = 1-12-

Modulo F. 35

ORIGINAL

Republica Somala - Somali dem. Republic

DISTANTA DI VERSAMENTO E RIMESSA

Paying and Remittance Slip

BANKIGA DHEXE EE SOOMAALIYEED
 DEYNTA XOGHEYNTA GIUD & MAAMUSKA
 WAA LA DIIWAAN GELIYAY

DIIWAAN NO. 8971
 TAARIKH 1-12-18
 SAXIIX

TO: BANGIGA DHEXE EE SOOMALAIYEED

Vogllate receive la soma di (in lettere)

Please receive the sum of (in words)-

(Lex boqol labatan iyo todoba kun sadax boqol kontan iyo lex Doolar iyo Kontan senti Kaliya)

costituita come segue:

made up as follows:

	No.	Ammontare
Biglieti di banca da: 1000	-----	-----
	-----	-----
	-----	-----
	-----	-----

Assegni, ecc Cheques, etc
Dettaglio a tergo

Sub - total: \$627,356.50

Detailed overleaf
Imputazione - dettaglio a tergo

Totale/Total: \$627,356.50

Allocation - detailed overleaf

Mottivo della rimessa
Reason for remittance

Data - Date: 1/12/2018
Ll Funzionario operante la rimessa
Remittng Officer

recevuto l'importo di cui sopra
Received the Above amount

Data - Date: 1/12/2018 ----- Cassiere ----- Cashier

B. C. → 9,410.35

BANKIGA DHEXE EE SOOMAALIYA

01 DEC 2018

La Fuliyey

Attachment

5



FEDERAL GOVERNMENT OF SOMALIA

MINISTRY OF FINANCE

Public Financial Management Capacity Strengthening Project
(P141575) Phase II

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

Table of Contents

1. STATEMENT OF PROJECT MANAGEMENT'S RESPONSIBILITIES	3
2. Auditors' Opinion	4
3. Funding summary	5
4. FINANCIAL STATEMENTS.....	6
4.1 STATEMENT OF RECEIPTS AND PAYMENTS	6
4.2 STATEMENT OF FINANCIAL POSITION	7
5. STATEMENT OF BUDGET COMPARISON WITH ACTUALS.....	8
6. SOURCES AND USES OF FUNDS STATEMENT BY SUB -COMPONENTS (ACTIVITIES).....	9
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED).....	14
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED).....	16

Attachment 3

CENTRAL BANK OF SOMALIA



البنك المركزي الصومالي

BANKIGA DHEXE EE SOOMAALIYA

Ref. _____

Date: 11th October 2019

To: Ministry of Finance

RE: REQUEST FOR CONFIRMATION OF BALANCE

The following are the balances held at CBS as at 31st of December 2018.

BALANCES AS PER CBS as at DECEMBER 31, 2018

Donor's Name	Amount Received	Amount to TSA	Balance (ZIRA BANK)
EU	17,056,485.00	12,011,954.40	5,044,530.60
KSA	20,130,868.00	6,070,868.00	14,060,000.00
UNOPS	1,254,713.00	1,254,713.00	0

Finance department

Mohamed Abdullahi Muse
Deputy Director



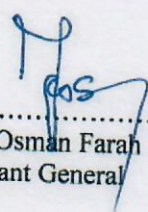
1. STATEMENT OF PROJECT MANAGEMENT'S RESPONSIBILITIES

The Project Management is responsible to ascertain that the progress report and financial statements of the Project for the period ended December 31, 2018 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies set out in Note 3 to the financial statements. In preparing these financial statements, the Project Management is required to select suitable accounting policies and then apply them consistently in conformity with Cash Basis International Public-Sector Accounting Standard (Cash Basis IPSAS) and the requirements of Financial and Accounting procedure of the State, 1961 as amended.

The Project Management is responsible for ensuring that proper accounting records are kept which enable the financial statements to be prepared in compliance with the basis of preparation and accounting policies set out in Note 3 to the financial statements as well as in accordance with the terms of the financing agreement for the State and Multi Partner Fund Grant Agreement Number TFA 0388 between the Federal Republic of Somalia and the International Development Association. The Project Management is also responsible for safeguarding the assets of the Project, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Project Management assumes the responsibility to provide, and has provided, the Auditor General with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, necessary for the audit.

Signed on behalf of the Project Management:


.....
Fatuma Osman Farah
Accountant General



Attachment

10/10/2018

JE: 18/10

Modulo F. 35

ORIGINAL

Republica Somala - Somali dem. Republic

DISTANTA DI VERSAMENTO E RIMESSA
Paying and Remittance Slip

TO: BANGIGA DHEXE EE SOOMALAIYEED

Vogliate receive la soma di (in lettere)

Please receive the sum of (in words)-

(Lex boqol labatan iyo todoba kun sadax boqol kontan iyo lex Doolar iyo kontan senti Kaliya)

costituita come segue:
made up as follows:

	No.	Ammontare
Biglietti di banca da: 1000	-----	-----
	-----	-----
	-----	-----
	-----	-----

Assegni, ecc Cheques, etc
Dettaglio a tergo

Sub - total: **\$627,356.50**

Detailed overleaf
Imputazione - dettaglio a tergo

Totale/Total: **\$627,356.50**

Allocation - detailed overleaf

Motivo della rimessa
Reason for remittance

Data - Date: **10/10/2018**
Il Funzionario operante la rimessa
Remitting Officer

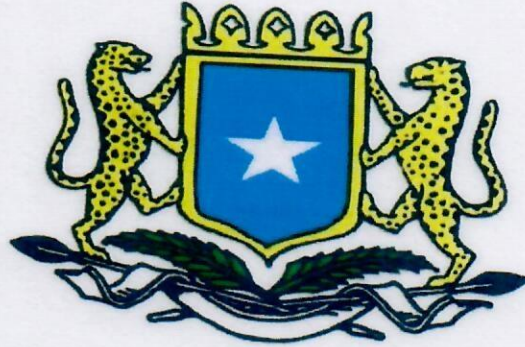
ricevuto l'importo di cui sopra
Received the Above amount
Data - Date: **10/10/2018**

----- Cassiere ----- Cashier



B-A 9.410.25

Attachment (4)



**THE FEDERAL GOVERNMENT OF SOMALIA
MINISTRY OF FINANCE**

**RECURRENT COST AND REFORM FINANCING
PROJECT (P154875) PHASE II**

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31st, 2017

Auditors Opinion

Report of the Auditor General

To: The Project Management

Opinion

We have audited the accompanying financial statements of the project titled "Recurrent Cost & Reform Financing (RCRF) Project – Phase II (P154875, TF0A0534) – FGS funded by the International Development Association (IDA)" which comprise the statement of receipts and payments for the year then ended and notes thereto "the financial Statements" as set out on pages 8 to 18. The financial statements have been prepared by the project management in accordance with the accounting described in the note 8 to the financial statements.

In our opinion, the accompanying financial statements presents fairly the cash receipts and payments of the project during the year ended 31 December 2017 in accordance with the cash basis of the International Federation of Accountants and in accordance with the accounting policies described in note 8 to the financial statements and comply with the related grant agreement.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the International Development Association (IDA) and an independent constitutional body established by the Federal Government of Somalia (FGS) in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Somalia, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw your attention to Note 8 of this Report, which describes the basis for accounting. The Financial Report is prepared to assist the Federal Government of Somalia (FGS) comply with the specific Financial Reporting requirements of the International Development Association (IDA). As a result, the Financial Report may not be suitable for any other purpose.

Our report is intended solely for the information, distribution and use of the International Development Association (IDA) and the Federal Government of Somalia (FGS).

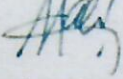
Other Information

The management is responsible for the other information. Other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

- Conclude on the appropriateness of the managements' 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 project'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 statements 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 the project 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.

Mohamed M. Ali 
Auditor General
Federal Government of Somalia (FGS)



Villa Somalia
Mogadishu

Date ..28/06/18.....

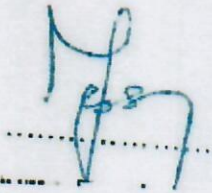
II. STATEMENT OF PROJECT MANAGEMENT'S RESPONSIBILITIES

The Project Management is responsible to ascertain that the progress report and financial statements of the Project for the period ended Dec 31, 2017 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies set out in Note 3 to the financial statements. In preparing these financial statements, the Project Management is required to select suitable accounting policies and then apply them consistently in conformity with Cash Basis International Public-Sector Accounting Standard (Cash Basis IPSAS) and the requirements of Financial and Accounting procedure of the State, 1961 as amended.

The Project Management is responsible for ensuring that proper accounting records are kept which enable the financial statements to be prepared in compliance with the basis of preparation and accounting policies set out in Note 3 to the financial statements as well as in accordance with the terms of the financing agreement for the Multi Partner Fund Grant Agreement Number TF0A0534 between the Federal Republic of Somalia and the International Development Association. The Project Management is also responsible for safeguarding the assets of the Project, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Project Management assumes the responsibility to provide, and has provided, the Auditor General with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, necessary for the audit.

Signed on behalf of the Project Management:



Fatuma Farah,
Accountant General

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 of this other information: we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the 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 financial reporting provisions of Schedule 2 of the Grant agreement between International Development Association (IDA) and the Federal Government of Somalia (FGS) 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 project'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 the project, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project Implementation Unit's financial reporting process.

Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members.