



HIRSHABELLE STATE OF SOMALIA

Public Financial Management Law 2018

Applicable from

31 March 2018

Regulation #6

Establishing Accounting & Reporting Standards

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1. Authority & Purpose

1.1. This regulation is issued pursuant to Part VII, Section 30 - 32 of the Public Financial Management Law, 2018 (PFM Act). This regulation is a “disallowable instrument” as defined in the PFM Act and in accordance with Section 7 is subject to a review period not to exceed ten (10) days by Parliament.

1.2. The purpose of this regulation is to establish a consistent basis of accounting and reporting for all Ministries, agencies and institutions of the Hirshabelle state of Somalia

1.3. The Minister shall formulate and prescribe a system of accounting and reporting in conformity with this Regulation, which must comply with the following: (1) Be uniform for every Government Agency, contain written standards and reporting that shall be subject to audit. (2) Produce accounts and detailed statements of funds collected, received, and expended for or on account of the public for any and every purpose whatsoever.. (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property. (4) Show all sources of public money and the amounts received from each source. (5) Maintain all receipts, vouchers, contracts, obligations, and other documents, or that may be required to be kept, to prove the validity of every transaction.

1.4. The Minister may from time to time make and enforce changes in the system and forms of accounting and reporting as necessary to conform to law and International Public Sector Accounting Standards (IPSAS). These changes will be issued as an *Instruction*.

1.5. This Instruction applies to all Government agencies of the Hirshabelle state of Somalia as defined in Section 1, Paragraph 3 of the PFM Law, 2018 that are funded from the consolidated fund.

1.6. All exceptions to compliance with these policies must have written approval of the Minister for Finance.

2. Definitions

“*in-kind*” means payment made in the form of goods and/or services, rather than cash

“*IPSAS*” means the International Public Sector Accounting Standards: Financial Reporting Under the

Cash Basis of Accounting, as issued by the IPSAS Board of the International Federation of Accountants.

3. Overview of Internal Controls

3.1. Internal controls are the policies and procedures used by Government agencies to ensure that their programs and functions operate efficiently and effectively in conformance with applicable laws and regulations. When recording and reporting on financial information of the Hirshabelle state of Somalia, key internal controls as outlined below (section 4) and in **Regulation #XX** must be adhered to.

3.2. One purpose of internal control is to ensure that financial reporting is accurate. It is also used to reduce the risk associated with fraud related to the operations of the Hirshabelle state of Somalia.

3.3. Internal control is essentially a check and balance system over the Hirshabelle state of Somalia operations. The foundation for a good internal control system starts with making sure that there are appropriate procedures in place to ensure that errors are detected and corrected and fraud is prevented.

4. Common Types of Control Procedures

Underpinning accurate and complete accounting and reporting is a system of key internal controls, as highlighted in section 3 above. Below is a summary of key internal control that must be in place to ensure accuracy and completeness of accounting and reporting.

4.1. *Access Controls:* Certain controls prevent access to assets by unauthorized persons. If controls to prevent unauthorized access to assets are not effective, assets may be lost or stolen. If effective control procedures are appropriately performed, shortages should be discovered in a timely manner. Restricting access to financial data within the FMIS also provides for a strong internal control.

4.2. *Reconciliation and Comparison of Assets with Records:* Reconciling and comparing assets with accounting records establish a system of independent verification, either through preparing an independent control document used to reconcile accounting records and assets or by directly comparing accounting records with related assets. Examples of these procedures include the reconciliation of physical inventory to accounting records and the preparation of a bank reconciliation.

4.3. *Analytical Reviews:* The purpose of analytical review is to evaluate summarized financial information by comparing it with expected results. Management personnel often perform analytical reviews to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budget to actual performance, with investigation of any significant or material variances as determined by the analyst. Often, analytical reviews may be used to monitor other underlying control procedures.

4.4. *Authorization and Approval:* Authorization and approval procedures prevent invalid transactions from occurring. Thus, this type of control typically involves authorization or approval of computerized and manual transactions. (e.g., requiring signatures of authorized individuals) or automated (e.g., password protected) authorizations for computer transactions.

4.5. *Reviews of Output:* Reviews of output should be performed by officers who have the knowledge and experience to identify errors. Such reviews could be performed in both computer and manual systems. These reviews check the validity and accuracy of output by comparing it in detail with expected budget and estimated results.

4.6. *Transactional Reviews:* Transactional reviews check the validity and accuracy of transaction processing by comparing it in detail with expected results. Reviews may include exception reports (usually computer-generated), which list items that failed to be processed because they did not meet specified criteria. Monitoring these types of control procedures involves reviews of results.

4.7. *General Computer Controls:* Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. Monitoring activities include observation, exception reporting and reviews of work performed. General computer controls include controls over computer operations; systems acquisition, development, and maintenance; information security; and information systems support

5. Accounting

5.1 Basis of Accounting

5.1.1. The Appropriated funds for the financial year are budgeted on a cash basis, therefore only actual cash receipts and cash expenditure during a financial year are recorded.

5.1.2. By virtue of Paragraph 5.1.1 of this Regulation, no public officer shall make an entry in the accounts of the Government which accrues the receipt of revenue or expenditure by the Hirshabelle state of Somalia.

5.1.3. All accounting of the Hirshabelle state of Somalia shall be recorded in the financial management information system (FMIS) managed by the Treasury Department, Ministry of Finance

5.1.4. All receipts and Payments shall be recorded and reported in the FMIS using the Government Financial Statistics (GFS) chart of accounts structure as outlined in Regulation #2, Establishing the Budget Classification Structure.

5.2 Accounting for Donor Funding

5.2.1. All donor funding received by the Hirshabelle state of Somalia whether in cash or in-kind is to be accounted for and recorded in the FMIS and comply with Hirshabelle state of Somalia processes in regard to receipt of funding and execution of spending.

5.2.2. Donor funding is assigned a unique project and fund code by the FMIS and is reported on separately to comply with donor reporting requirements.

5.2.3. Donor funding provided "in-kind" must be recorded in the FMIS. This "in kind" funding will be reported as "payments made on behalf of third party" and reported separately in the financial statements, in accordance with the requirements of the IPSAS reporting standard.

5.2.4. As required under Section 33 of the PFM Act, all donor funding not channeled through the budget must be disclosed to the Minister within 7 days of signing the agreement with the donor, using the required Form as issued by the Minister under an *Instruction*. This information is required to be accounted in the FMIS for to enable the Hirshabelle state of Somalia to record all costs associated with the operation of the Government and reporting in the financial statements

6. Reporting

6.1. Basis of Reporting

6.1.1. Government financial reporting is designed to demonstrate the accountability of each Government Agency over the resources in their care. Additionally, Ministries, agencies and institutions can use financial reporting in making economic, social, and political decisions and assess accountability primarily by:

- Comparing actual financial results with the legally adopted budget
- Assessing the entity's financial condition and results of its operations
- Assisting in determining compliance with finance-related laws, regulations and instructions
- Assisting in evaluating efficiency and effectiveness of services provided

6.1.2. Among the most important types of communication is the annual financial report, which presents the financial position, operating results, and cash flows for a particular accounting period. All governments develop their annual financial statement in accordance with accounting principles established by standard-setting authorities to provide consistency and comparability for users.

6.1.3. Consistency in financial reporting by governments is provided through accounting standards. All financial statements and reports submitted under section 31 and 32 of the Public Finance Management Law 2018 shall be prepared in accordance with International Public Sector Accounting Standards (IPSAS), Financial Reporting Under the Cash Basis of Accounting.

6.1.4. In addition to the requirements related to the financial statements and notes to financial statements outlined in IPSAS cash basis of accounting, Part 1, Hirshabelle state of Somalia are encouraged to include supplementary information to provide further detail in the financial statements. IPSAS cash basis of accounting, Part 2 includes encouraged additional disclosures and should be referred to when disclosing supplementary information.

6.1.5. In accordance with Section 3 of the PFM Act, the reporting period is from the 1 January to the 31 December.

6.2 Annual Reporting

6.2.1. Statements for annual financial statements are produced from the FMIS where all Hirshabelle state of Somalia financial information is recorded.

6.2.2. Notes to the financial statements are prepared to provide additional information to support these Statements. In accordance with IPSAS cash basis of accounting, Part 2, additional disclosure is encouraged to provide more details on the operations of the Hirshabelle state of Somalia. This information will be included as schedules or notes to the financial statements

6.2.3. The financial statement submitted for Audit in accordance with Section 32 (1) of the PFM Act shall include a Statement of Certification by the Minister outlining the basis of preparation and that the financial statements are materially accurate and fairly present the Government financial position for the period reported

6.3 Monthly Reporting

6.3.1. Each Agency /Entity that collects revenue is required to report on a Monthly basis to the Minister on all revenues, reporting on collections against estimates, providing details of any variances of 10% or more against estimates. Where the variance is an under-collection year to date, details as to whether the estimated revenue will be collected and any revisions that maybe required to the revenue forecasts.

6.3.2. Any variances in estimates needs to be updated in the Annual Revenue and Spending Plan¹ which is required to be reviewed and updated (where necessary) on a monthly basis in accordance with Section 23 (5) of the PFM Law 2018.

6.3.3. The layout for the Monthly revenue report is produced from the FMIS, reporting revenue collections against estimates at the six (6) digit account code level.

6.3.4. Where there is an over collection year to date, details as to whether the annual estimate is likely to be exceeded and outline any revisions required to the revenue forecasts

6.3.5. This report must be submitted to the Minister within 7 working days after month end

6.3.6. The Annual Revenue and Spending Plan is detailed in Regulation #3 and should be reviewed in line with the monthly revenue report.

6.4 Quarterly Reporting

6.4.1. Each Spending Agency /Entity is required to report on expenditure on a quarterly basis. The report will be the layout in accordance with IPSAS cash basis of accounting supported by a detailed report (to budgetary line item level). Statements should be accompanied by notes supporting any variances of 10% or more over or under budget year to date.

6.4.2. Any variances in budget forecast spending needs to be updated in the Annual Revenue and Spending Plan which is required to be reviewed and updated (where necessary) on a monthly basis

6.4.3. This report must be submitted to the Minister within 7 working days after quarterly end

¹ Issued each year: Instruction K

6.4.4. The consolidated quarterly report on revenue and expenditure required for submission to Parliament and general public in accordance with Section 31 (4) of the PFM Act, shall be prepared in accordance with IPSAS cash basis of accounting, reporting on the budget and estimates against actual collections and spending, supported by notes to the report outlining reasons for any variances in excess or under of 10% to the estimates and budget. Making the report available to the public shall include at a minimum publishing on the MoF website.

7.0 Entry into Force

7.1 This Regulation is deemed to have entered into force on date issued of **31/03/2018**

Mr. Mohamed Mohamud Abdulle
Minister of Finance and Economic Development
Hirshabelle State of Somalia

