

**Consultancy Services on Interim  
Public Financial Management  
Support for Somalia Transitional  
Federal Government**

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## **List of Abbreviations**

CoA	Chart of Account
CBS	Central Bank of Somalia
COG	Centre of Government
ICT	Information and Communication Technology
FAPS	Financial and Accounting Procedures of the State
TFP	Transitional Federal Parliament
MOFP	Ministry of Finance and Planning
TSA	Treasury Single Account
TFC	Transitional Federal Charter
TFG	Transitional Federal Government
TFIs	Transitional Federal Institutions
OAG	Office of Auditor General
PFM	Public Financial Management

# 1 Executive Summary

## 1.1 Context

The Transitional Federal Government (TFG) of the Somali Republic is the internationally recognised Government of Somalia. It was established as one of the Transitional Federal Institutions (TFIs) of Government as defined in the Transitional Federal Charter (TFC) adopted in November 2004 by the Transitional Federal Parliament (TFP).

The appointment of a new Cabinet and its broad endorsement by the Parliament offers a new window of opportunity for peaceful resolution of the Somalia crisis. There is growing pressure for the TFG to act fast, establish itself on the ground, develop its institutional base and become operational. Public Financial Management (PFM) was a key priority outlined by the Prime Minister in his speech to Parliament on 7 January 2008. He noted that the first priority for Government is to generate income, improve the revenue collection systems and policies, and establish better management of Government resources.

The Prime Minister is looking forward to carry out swiftly the tasks below, planning and implementing them almost simultaneously:

- Review facilities where revenue collection takes place.
- Review, update laws / rules governing tax collection and ensure that it is in line with the current reality of the country and abroad ensuring that these are implemented properly.
- Strengthen the custody and use of public funds according to current Government rules in order to attain the confidence of the citizens.
- Strengthen the capacity of the public entities entrusted with the task of controlling public finances such as Auditor General and Public Accountant.
- Work towards re-establishing membership of the country in international financial institutions such as World Bank, International Monetary Fund (IMF) etc. to benefit from such expertise.

The improved management of public finances is thus a priority of the TFG.

During our review, we observed that the TFG did not have an operating budget in place. However, the TFG had developed its budget for the year 2008 with the help of consultants and was awaiting approval by the TFG Cabinet before its operationalisation. The process to be followed for budget preparation was not officially documented but was largely modelled around processes that existed before the war.

The main organs of government involved in managing public finance were the Central Bank, Ministry of Finance and Planning, Office of the Auditor General and the Office of Accountant General. However, these institutions lack both the financial resources and staff capacity required to establish the needed public financial management system for the TFG. There was a pre-war legislation in place covering accounting, reporting and auditing. However, there was no evidence of the operation of these arrangements.

Little information exists and there is lack of documentary evidence on the current quantity of revenue collected by the Somalia TFG. The lack of information on revenue collection was as a result of a number of revenue administration challenges faced by the Somalia TFG. We have highlighted these challenges in our main report. As a result, TFG officials noted with concern that the amount reported was below the current revenue collection potential, and there were concerns that much more revenue than reported was actually collected but not accounted for.

We have made a number of recommendations in the main body of the report. Some of these are of an immediate priority. As such, we have included an action plan, detailing those short term priority actions which need to be implemented in the next six months. The action plan serves as a tool to ensure that exact actions, responsibilities and time frame are allocated, and should be completed by the TFG.

## 1.2 Action plan

In the table below, we summarise our key recommendations for consideration by the TFG. The TFG should complete the action plan sections of the table:

Recommendation	Agreed (YES or NO)	If YES, action to be taken	If NO, reason why	Responsibility and Time frame
A PFM bill should be produced as a matter of urgency. In the main body of the report and associated appendices we have made suggestions as to the content and structure of such a bill				
A budget unit should be established at the MOFP to coordinate the budget preparation process				
Budget preparation procedures and guidelines should be established for use by spending/line ministries and other public sector agencies				
Proper authorisation of transactions: All transactions and activities related to revenue collection action should be properly authorised by appropriate staff of the revenue collection office/point.				
Segregation of duties: No one person should be in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of duties. For example, no one person should be allowed to handle related transactions such as the following from beginning to end: <ul style="list-style-type: none"> <li>– collecting revenues;</li> <li>– preparing the bank deposit;</li> <li>– approving the bank deposit;</li> <li>– make cash entries to the accounting</li> <li>– system’s journals and ledgers;</li> <li>– reconciling bank statements with internal</li> </ul>				

<b>Recommendation</b>	<b>Agreed (YES or NO)</b>	<b>If YES, action to be taken</b>	<b>If NO, reason why</b>	<b>Responsibility and Time frame</b>
records, and – preparing monthly report on collections.				
Use of pre numbered payment receipts: Receipts must be issued for all monies received. A copy of the receipt should be given to the persons making payments and a counterfoil or carbon copy retained in the receipt book for purposes of maintaining an audit trail.				
A separate receipt book should be maintained for each source of revenue.				
A cash receipt book should be maintained to record all monies received				
Receipts must be written in ink, not pencil, and only from numbered receipt book.				
Cash receipts must go directly to the cashier at the collection office/point. The person receiving the cash should sign the receipt book before issuing a receipt.				
Access to cash collected and stored in the safe should be restricted. Keys to the cash box and the safe should be given only to authorised individuals				
Cash received should be transferred to the custody of the Central Bank of Somalia at least on a daily basis.				
All documentation and books of accounts relating to revenue collections should be kept in a secure location.				
A PFM unit should be established to coordinate PFM reforms and support aggregate control, prioritisation, accountability and efficiency in management of TFG resources				

## **2 Budget Preparation and Execution**

### **2.1 Current budget preparation process**

The country does not have an operating budget in place. However, the TFG has developed its budget for the year 2008 with the help of consultants. This budget is awaiting approval by the TFG Cabinet before it becomes operationalised.

The process to be followed for budget preparation is not officially documented but is largely modelled around processes that existed before the war. The process is outlined below;

- The TFG executive organ discusses issues of the national budget and submits recommendations to the competent line ministries. The MOFP then issues a circular to all line ministries to prepare their budgets.
- Line ministries prepare proposed budgets according to their needs and challenges and submit the same to MOFP. The MOFP reviews all the proposed budgets from line ministries and consolidates them to one proposed Government budget.
- The proposed draft is submitted to the Cabinet for review, discussions and approval. After the Cabinet approval, the speaker then submits the budget to the Parliamentary Standing Committee for Economic and Finance issues;
- The Economic and Finance Committee reviews and discusses the proposed draft budget. The committee can propose rejection of the draft budget, recommend further amendments to be adjusted by the line ministries or approve the draft budget. The Economic and Finance Committee, then presents the budget to the plenary session of Parliament for discussion of both the proposed Government budget and any recommendations made by the economic and finance committee; and
- The plenary session may either reject or approve the draft budget.

### **2.2 Measures to improve budget preparation process**

In the following section, we recommend measures that may be adopted to enhance the budget preparation process:

#### **2.2.1 Budget preparation**

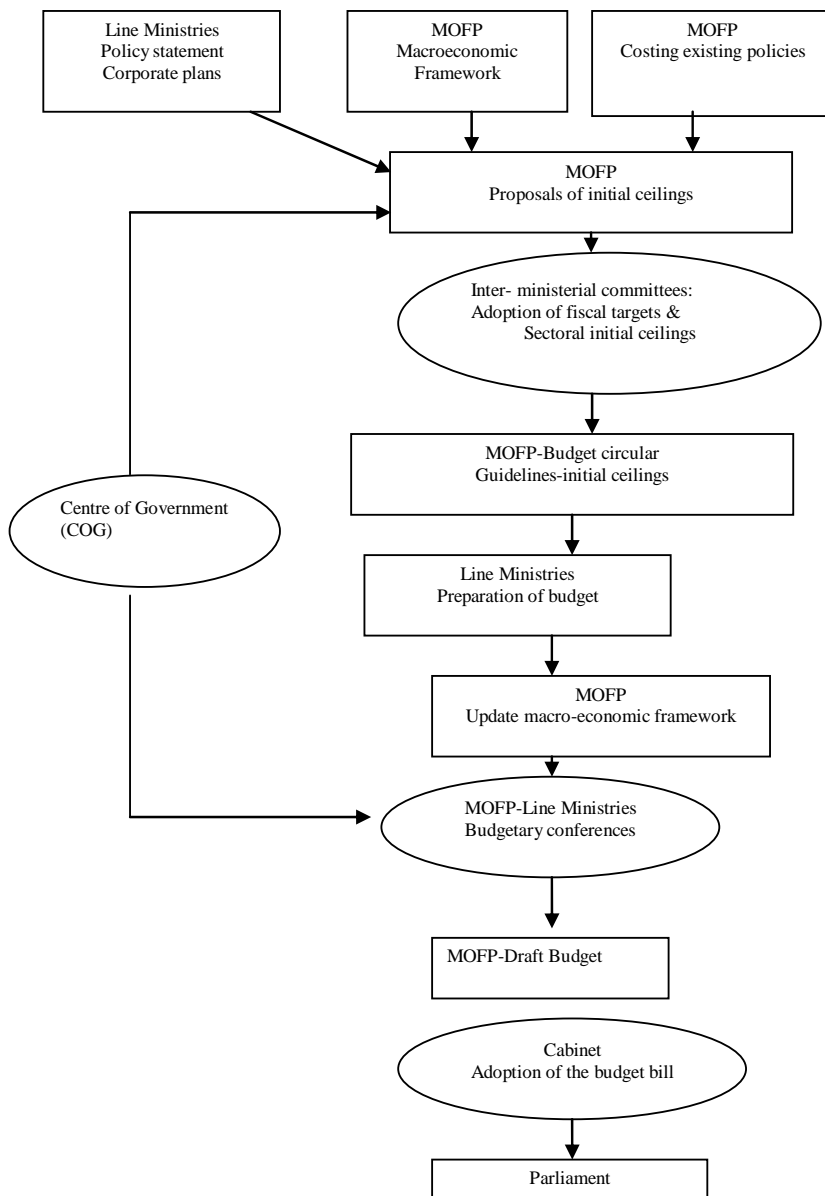
To improve budget preparation, the following short term measures may be applied:

- Establish institutional arrangements responsible for coordinating the budget preparation and execution. This can be done by establishing a budget office as a department of the MOFP. This unit will be vested with responsibility for coordinating the budget preparation process.
- Establish a core cadre of staff both in the budget office and line/spending ministries by recruitment of competent Somali nationals.



- Establish and document structured budget preparation procedures and detailed budget preparation guidelines for use by line ministries and other public spending agencies. Fig 1.1 below illustrates main steps in a typical budget preparation process in transitional countries.
- Build capacity and train of staff both at the budget office and line ministries. Staff will need to be trained on the use of the interim budget preparation procedures.
- Engage technical experts to work alongside the Somali staff in the initial stages of designing and implementing the interim revenue collection arrangements.

**Fig 1.1: Budget Preparation process**



## 2.2.2 Key activities in budget preparation process

In this section, we detail key activities that may be carried out in the budget preparation process:

- **Preparation of the initial ceilings:** This is the responsibility of the MOFP. The MOFP must coordinate with the centre of Government (COG) and the spending ministries.
- **Ministry of Finance Guidelines and Circulars:** The MOFP issues a budget circular to spending Ministries at the beginning of the budget preparation cycle. The budget circular should state clearly the Government fiscal targets and the policies proposed. It should also specify the guidelines of the sectoral budget, proforma documents with which spending agencies submit their budgeting requests to the MOF and deadlines for receipt of this information.
- **Examination of the budget submissions and negotiations with line ministries:** Once the requests of line ministries are received, the MOFP should review their conformity with overall Government policy legal requirements and compliance with the spending limits and take into account any changes in the macroeconomic environment since the beginning of the budget preparation cycle and discuss the submissions with officials of the spending ministries.
- **Budget Timetable:** Sufficient time needs to be allowed for line ministries to prepare their budgets and identify measures to comply with the ceilings. The optimal length of budget preparation cycle is difficult to establish and depends on the country context. In general, a budget preparation cycle that starts with the issuance of the budget circular about 6 months before the deadline of submission of the budget to the legislature is appropriate. The budget time table to clearly state timelines for each step of the budget preparation process.
- **Distribution of responsibilities in annual budget preparation:** The distribution of responsibilities of budget preparation should match the distribution of responsibilities within the Government. We suggest distribution of responsibilities as follows:
  - The Centre of Government (COG); (i.e. the Office of the Prime Minister or the Cabinet or some other group at the centre) is not directly involved in the practical aspects of budget preparation, but usually plays a key role in the budgetary process by ensuring that it is carried out according to the required procedure, arbitrating and smoothing over any conflicts that may appear among the institutional players and ensuring the participation of the relevant stakeholders;
  - The Cabinet: plays a key role of discussing budget options and approving the draft budget before it is submitted to parliament;
  - The MOFP: Has the leading role in budget preparation. It needs sufficient technical capacity to ensure that at every step both fiscal targets and policy objectives are taken into account. MOFP should:
    - Prepare fiscal budgets and strategic priorities among sectors;
    - Establish guidelines for preparing sector programs and line ministries requests;

- Scrutinise these requests and draft the budget.
- Line Ministries: are responsible and accountable for defining and implementing Government policies in their sector. Therefore they should be responsible for developing sectoral policies and sectoral budgets but within the framework established by Government. Line ministries are responsible for formulating guidelines for their subordinated agencies and scrutinises their draft budget.

### 2.2.3 Scope of the budget

The following minimum rules should be applied for coverage of the budget:

- Estimates of all revenues and expenditure are shown in the budget. Estimates of expenditures should be shown in gross terms in the budget, whatever the form of legislative authorisation for these expenditures. All expenditures and revenues should be classified on the basis of the same classification.
- Expenditures financed by external loans and grants: Expenditures financed from external sources (loans and grants) will be budgeted in the same way as other Government expenditures.
- Procedures put in place to authorise the contracting of loans and to control indebtedness. The Ministry of Finance will have the sole authority to contract for external loans and grant guarantees. The total amount amounts of loans that the TFG intend to contract over the fiscal year should be submitted for approval to parliament with the budget bill. The list of project loans will be annexed to the annual budget and will show their expected amount and financial terms, e.g. the expected repayment period and interest rate in the case of loans.

### 2.2.4 The legal and Institutional framework

Effective budget management begins with a clear distribution of responsibilities and duties within the Government, and between the different levels of Government, and a carefully balanced division of powers between the parliament and the executive branch of Government.

### 2.2.5 Distribution of responsibilities within the executive

This section details the responsibilities of the executive in the MOFP and the Line Ministries:

- **Authority of the MOFP:** Responsible for the custody and management of all public money. To be effective, the MOFP must be sufficiently empowered through the necessary legal and technical instruments and have staff with the required skills and training.
- **The cabinet and policy coordination:** it approves the main budget parameters and fiscal targets on the recommendation of the finance minister; sets priorities for spending; decides major policy issues; resolves budget disputes between the Minister of Finance and his ministerial colleagues; and approves the draft budget for submission to parliament.
- **Line Ministries:** are responsible for planning, managing and controlling their own budgets. They are accountable for defining and implementing Government policies in their sector. Therefore they should be responsible for developing sectoral policies and their sectoral

budgets as well, but within the framework of policies, regulations and procedures laid down by Government.

#### **2.2.6 Budget classification, presentation and programming**

Establishment of an expenditure classification system based on international standards that facilitates functional and economic analysis and fulfils the requirement for effective day to day administration of the budget

### **2.3 Current budget execution processes**

There is no budget currently being executed by the TFG as such there are no documented procedures for budget execution.

We understand that the resources that become available from domestic revenue collections and foreign sources are mostly used for security expenditure and that most spending occurs outside the TFG channels as there is no budget in place by the TFG.

Although It is envisaged that the current budget which is still in draft, will be executed using the pre war legislation, there is no evidence of the operation of these laws in current practice.

### **2.4 Measures to improve budget execution**

In the following section, we recommend measures that may be adopted to enhance the budget execution process.

#### **2.4.1 Budget execution systems**

The TFG should establish basic budget execution systems to be rolled out for the entire public sector. The essential features of the budget execution system should include the following:

- Internal controls systems that ensure probity, economy and efficiency in managing public funds, assets and liabilities.
- Systems for cash management.
- External and internal audit systems that are designed to verify that public expenditure management procedures achieve the necessary standards of legal compliance, efficiency and effectiveness.
- Accounting and monitoring systems.
- Establishment of internal controls systems and internal audit units within spending agencies.
- Developing of internal audit guidelines and manual to be used by the spending ministries.
- Enhance responsibilities of the MOFP for managing and controlling personnel expenditures.
- Establish staff ceilings together with specific spending limits for personnel including the development of robust payroll controls which is currently lacking.

#### **2.4.2 Procurement**

Although the TFG uses pre war legislation such as the Financial and Accounting Procedures of the state (FAPS) for its procurement operations, there was little or no evidence of their application in the current operations of the TFG. For example, bodies specified in the FAPS such as the Central Tender Board responsible for the regulation of procurement in Somalia are non existent.

We recommend the following measures to improve public procurement:

- Establish and build capacity of a department within the MOFP with overall responsibility for the design and implementation of public procurement policy. In addition, establish and develop the capacity of spending agencies in procurement.
- Develop procurement operating procedures, user guides and manuals for use by spending agencies and develop simple/abridged standard bidding documents.
- Design and implementation of national training programmes managed by the department of the MOFP.
- Hire a procurement and capacity building agent to work along side Somali nationals and transfer skills to procurement staff.

#### **2.4.3 Cash management**

Cash management is required for aggregate control of spending, efficient implementation of the budget, minimisation of the cost of Government borrowing and maximisation of the opportunity cost of resources. Cash planning must include:

- Preparing an annual budget implementation plan, which should be rolled over quarterly;
- Within this annual budget implementation plan, preparing monthly cash and borrowing plans;
- Weekly review of the implementation of the monthly cash plan and cash planning must be in line with budget forecasts;
- A centralisation of cash balances is required. This centralisation should be made through a Treasury Single Account (TSA). A TSA should have the following elements:
  - Daily centralisation of the cash balance and accounts opened under authorisation of the treasury.
  - Transactions recorded in these accounts according to a uniform classification system.

The Treasury must be responsible for supervising all Central Government bank accounts, regardless of the organisation of tax collection or expenditure payments.

## **3 Accounting, Reporting and Auditing**

### **3.1 Current accounting, reporting and auditing arrangements**

The main bodies involved in managing public finance in Somalia are the Central Bank, Ministry of Finance and Planning, Office of the Auditor General and the Office of Accountant General. These institutions lack both the financial resources and staff capacity required to establish the needed public financial management system for the TFG.

Although there is pre-war legislation covering accounting, reporting and auditing, there is no evidence of the operation of these arrangements. Interviews with officials of the above bodies and line ministries except for the MOFP and the Central Bank of Somalia revealed that there was little or no activity with regard to accounting, reporting and auditing at these institutions and line ministries.

### **3.2 Measures to improve accounting, reporting and auditing**

In the following section, we recommend measures that may be adopted to enhance accounting, reporting and auditing as follows:

#### **3.2.1 Accounting**

Accounting and reporting systems are crucial for budget management, financial accountability and policy making. Thus, to ensure compliance and proper use of public money, it is necessary to track the uses of budgetary appropriations at each stage of the expenditure cycle.

We recommend the following interim measures to strengthen accounting systems for the TFG:

- Capacity building and provision of physical resources to the above institutions especially the office of the Accountant General. There is need to offer training on computer skills, book keeping and accountancy and provision of physical resources like computers and photocopy machines necessary for accomplishing financial management tasks.
- The Accountant General Office should establish the following sections: cash office, bank reconciliations, vote book and data entry. The current operations of the office of the Accountant General are limited to expenditure and day to day accounting activities.
- Effective procedures for book keeping, systematic recording of transactions, adequate security and systematic comparison with banking statements should be developed.
- All expenditure and revenue transactions should be recorded in the accounts, according to the same methodology. This information should cover funds with earmarked revenues and foreign and domestic loans.
- A common set of expenditure classifications according to functional and economic categories. (this will involve developing a chart of accounts (COA) in line with the GFS coding).
- Development of clear and well documented accounting procedures.
- Establish a requirement for financial statements and reports to be produced regularly.

- Establish an adequate system for tracking the use of appropriations at each stage of the expenditure cycle.
- Asset registers should be set up and updated starting with agencies where the need is the most urgent.
- Establish accounting units in spending/line ministries, recruit competent staff and train them on the use of the accounting systems and procedures.
- Spending agencies should prepare their accounts for consolidation at the central level i.e. at the Treasury.

### **3.2.2 Financial reporting**

The purpose of a financial reporting system is to demonstrate how the Government has managed its financial resources – revenues and expenditure, assets and liabilities.

For managing budget execution, we recommend preparation of the following reports:

- Monthly reports on budget execution based on budget classification system: These reports specify initial appropriations, revision of appropriations and supplementary appropriations, amounts apportioned, commitments, expenditures at the verification stage and payments.
- Financial Reports: Regardless of the accounting system and the quality of the accounts and financial records, certain minimum reporting standards must be met. The objective should be to produce the following reports and to keep appropriate accounting books and ancillary registers;
  - Government Operations financial table: The Government should publish an analytical report on its consolidated financial operations. This report should consist of three tables showing the financial operations for (i) central Government (ii) local Governments and (iii) general Government
  - Summary report on the execution of the Government expenditure programme.
  - Report on borrowings and grants.
  - Statement of cash flows, tax expenditures and Statements of Physical Assets and investments for selected sectors/programmes.
- Line Ministries Reports: The reports to include major policy issues in the ministry or agency issues, goals and objectives of the ministry and measures undertaken to achieve these.

### **3.2.3 Auditing**

The function of external audit is currently supposed to be undertaken by the Office of the Auditor General. Although this office exists there is no evidence that it is carrying out the intended functions. Discussions with the TFG officials indicate that the Office of the Auditor General is not empowered and as a consequence has not conducted or produced an audit report since its establishment.

To strengthen the audit function of the TFG, we recommend that the OAG should:

- Have a solid, stable and applicable legal base that is laid down in the constitution and the laws, and complemented by regulations, rules and procedures.
- The Office should have the functional, organisational, operational and financial independence required to fulfil its tasks objectively and effectively.
- Have the powers and means, clearly stated in the constitution and the laws, to audit all public resources and operations, regardless of whether they are reflected in the national budget and regardless of who receives or manages these public resources and operations.
- Undertake full scope of Government external auditing, covering both regularity and performance audits. The Office should be able to report freely and without restriction on the results of its work. Reports should be submitted to the parliament and be made public.
- Develop and disseminate audit standards compliant to international standards. Audit standards should be applied on a consistent and reliable basis to the work of the OAG to ensure that audit work is of an acceptable quality of competence. The OAG should therefore develop audit manuals and detailed technical guides to help promote the practical use and achievement of the standards.
- Ensure that financial and human resources of the Office are used in the most efficient way to secure effective exercise of its mandate. The OAG will therefore need to develop and institute appropriate legal policies and measures to help guarantee that it is competently organised to deliver high quality and effective audit work.
- Develop the technical and professional proficiency of its staff through education and training. The audits should focus on the development of high quality, effective management (internal) control systems in audited entities.

#### **3.2.4 Audit coverage**

To meet the objectives of Government auditing, all revenues, expenses, assets and liabilities of the state sector must be effectively audited. The audit coverage must include the following:

- All public financial operations, regardless of whether and how they are reflected in the national budget, will be subject to audit. The Auditor General will be empowered to audit taxes extensively as possible, and in doing so, examine individual tax files.
- Enterprises established under private law will also be subject to audit by the Auditor General if the Government has a substantial participation in them – particularly where this is majority participation – or exercises a dominating influence.
- OAG will be empowered to audit the use of subsidies granted from public funds.



## 4 Revenue

### 4.1 Current revenue status

There was little information and documentary evidence on the current quantity of revenue collected by the Somalia TFG. The lack of information on revenue collection was as a result of a number of revenue administration challenges faced by the Somalia TFG. The main challenges that were identified by the TFG officials we engaged are as follows:

- Lack of a system for revenue collection.
  - Lack of a revenue administration service, inadequate documentation and maintenance of records and absence of a tax assessment system.
- Capacity challenges:
  - There is inadequate capacity in terms of human resources, financial and logistical support required for effective revenue administration.
- Inadequate security: there are risks of intimidation, threat and assassination of the tax collection officers.
- Lack of awareness on the part of the public and business community of the benefits of paying taxes.
- Allegations of corruption in the revenue collection service and importers/tax payers and lack of a system of monitoring and evaluation of revenue collected.

Discussions with TFG officials established that there were no predictable revenues that can sustain the budget. Potential revenue collection was estimated at US\$ 3,000,000 (US\$ 12,000,000 per annum). This amount related to following current main revenue sources;

- Duties and taxes levied at secure sea ports.
- Secure airports.
- Fees and levies by Local Government in areas under TFG control.

TFG officials raised genuine concerns that the amount reported was below the current revenue collection potential. In addition, there were concerns that much more revenue than reported was actually collected but these did not reach the TFG coffers due to the aforementioned challenges. The following were identified as potential future sources for revenue collection:

- Corporate tax on business establishments.
- Taxation of the communication sector.
- Property and income tax.

## 4.2 Measures to improve revenue administration

To improve revenue administration, the following measures are recommended:

- Engage and sensitise Members of Parliament, parliamentary committees, local authorities, civil society and the public on the need and urgency to implement new arrangements to support revenue reform efforts.
- Establish institutional arrangements for managing revenue collection. A revenue collection unit in the interim should be established as a department of the Ministry of Finance and Planning (MOFP). This unit should be vested with the sole authority and responsibility for revenue collection on behalf of the TFG. The institutional arrangements should be cascaded down to local authorities by establishing revenue collection units in local authorities under the TFG control. In addition, a core cadre of staff should be established in the revenue collection unit by recruitment of Somali nationals to be deployed at all revenue collection points under the TFG control.
- Establish basic revenue collection systems to be administered in all revenue collection points under the TFG control e.g. airports, ports. The revenue collection system should at a minimum include:
  - Design of basic tax assessment system, tax table, tax forms and tax payment receipts. Development of tax procedures manual and user guides. The manual should cover the ethics, principles and processes of the collection of taxes.
  - Institute time bound mechanisms for transferring collections to the Central Bank of Somalia account. This may take place either by having a system that obliges tax payers to pay directly into accounts controlled by the Treasury (possibly managed by a bank) or where the revenue unit maintains its own collection accounts, by frequent and full transfers from those accounts to Treasury controlled account.
  - Design of basic Monitoring and Evaluation system for revenue generation and collection.
- Build capacity and train revenue collection staff on the operation of revenue collection procedures, use and interpretation of the procedures manual, book keeping and record keeping.
- Revenue collection units should be provided with the necessary physical resources e.g. computers, security and financial resources necessary for smooth execution of their mandate.
- Engage revenue management experts to work alongside the Somali staff in the initial stages of designing and implementing the interim revenue collection arrangements.
- Provide appropriate security protection for revenue collection officers.

The following minimum controls may be implemented at the existing TFG revenue collection points:

- Proper authorisation of transactions: All transactions and activities related to revenue collection action should be properly authorised by appropriate staff of the revenue collection office/point.
- Segregation of duties: No one person should be in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of duties. For example, no one person should be allowed to handle related transactions such as the following from beginning to end:
  - collecting revenues;
  - preparing the bank deposit;
  - approving the bank deposit;
  - make cash entries to the accounting system's journals and ledgers;
  - reconciling bank statements with internal records, and
  - preparing monthly report on collections.
- Use of pre numbered payment receipts: Receipts must be issued for all monies received. A copy of the receipt should be given to the persons making payments and a counterfoil or carbon copy retained in the receipt book for purposes of maintaining an audit trail.
- A separate receipt book should be maintained for each source of revenue.
- A cash receipt book should be maintained to record all monies received.
- Receipts must be written in ink, not pencil, and only from numbered receipt book.
- Cash receipts must go directly to the cashier at the collection office/point. The person receiving the cash should sign the receipt book before issuing a receipt.
- Access to cash collected and stored in the safe should be restricted. Keys to the cash box and the safe should be given only to authorised individuals.
- Cash received should be transferred to the custody of the Central Bank of Somalia at least on a daily basis.
- All documentation and books of accounts relating to revenue collections should be kept in a secure location.

## **5 Key Cross – Cutting Features: Comprehensiveness and Transparency**

### **5.1 Current arrangements for comprehensiveness and transparency**

There was no evidence of existence of sophisticated arrangements to promote comprehensiveness and transparency in Government. This can be attributed to the fact the TFG is still at its infancy stages and is in the process of establishing basic Government systems, structures and institutions.

### **5.2 Measures to improve comprehensiveness and transparency**

In this section, we recommend measures that the TFG should consider to improve comprehensiveness and transparency in key cross cutting areas.

#### **5.2.1 Clarity of Roles and Responsibilities**

The government sector should be distinguished from the rest of the public sector, and economy. Policy and management roles within the public sector should be clear and publicly disclosed. The following areas should be clarified:

- The structure and functions of Government should be clearly specified. The responsibilities of different levels of Government, and of the executive branch, the legislative branch, and the judiciary, should be well defined.
- Clear mechanisms for the coordination and management of budgetary and extra budgetary activities should be established.
- Relations between the Government and non-governmental public sector agencies (i.e., the central bank, public financial institutions, and non financial public enterprises) should be based on clear arrangements.
- Government involvement in the private sector (e.g., through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a non-discriminatory way.
- There should be a clear legal and administrative framework for fiscal management where:
  - Any commitment or expenditure of public funds should be governed by comprehensive budget laws and openly available administrative rules.
  - Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.
  - Ethical standards of behaviour for public servants should be clear and well publicised.

#### **5.2.2 Public Availability of Information**

The public should be provided with full information on the past, current, and projected fiscal activity of Government. This should include the following:

- Budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extra budgetary activities of the central Government, and the consolidated fiscal position of the central Government should be published.
- Information comparable to that in the annual budget should be provided (when available) for the outturns of preceding fiscal years, together with forecasts of the main budget aggregates for two years following the budget.
- Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.
- Central government should publish full information on the level and composition of its debt and financial assets.
- A commitment should be made to the timely publication of fiscal information. The publication of fiscal information should be a legal obligation of the Government.

### **5.2.3 Open budget preparation, execution, and reporting**

- The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks. This should include the following:
  - A statement of fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget. Fiscal rules that have been adopted should be clearly specified.
  - The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget should be provided. New policies being introduced in the annual budget should be clearly described.
  - Major fiscal risks should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).
- Budget information should be presented in a way that facilitates policy analysis and promotes accountability:
  - Budget data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. Data on extra budgetary activities should be reported on the same basis.
  - A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.
  - The overall balance of the Government should be a standard summary indicator of the Government's fiscal position. It should be supplemented where appropriate by other

fiscal indicators for the general Government (e.g., the operational balance, the structural balance, or the primary balance).

- The public sector balance should be reported when non-governmental public sector agencies undertake significant quasi-fiscal activities.
- Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified:
  - There should be a comprehensive accounting system which provides a reliable basis for assessing payment arrears;
  - Procurement and employment regulations should be standardised and accessible to all interested parties;
  - Budget execution should be internally audited, and audit procedures should be open to review; and
  - The national tax administration should be legally protected from political direction and should report regularly to the public on its activities.
- There should be regular fiscal reporting to the legislature and the public. A mid-year report on budget developments should be presented to the legislature. More frequent (at least quarterly) reports should also be published. Final accounts should be presented to the legislature within a year of the end of the fiscal year.

#### **5.2.4 Assurances of integrity**

Fiscal data should meet accepted data quality standards as follows:

- Budget data should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments. The annual budget and final accounts should indicate the accounting basis (e.g., cash or accrual) and standards used in the compilation and presentation of budget data.
- Specific assurances should be provided as to the quality of fiscal data. In particular, it should be indicated whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources.
- Fiscal information should be subjected to independent scrutiny;
  - A national audit body or equivalent organisation, which is independent of the executive, should provide timely reports for the legislature and public on the financial integrity of Government accounts. Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions.
  - A national statistics agency should be provided with the institutional independence to verify the quality of fiscal data.

## 6 Public Financial Management Bill

### 6.1 Introduction

The Public Finance Management bill is one of the most important pieces of legislation needed by the TFG in Somalia. The bill promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

The key objectives of the bill may be summarised as being to:

- modernise the system of financial management in the public sector;
- enable public sector managers to manage, but at the same time be held more accountable;
- ensure timely provision of quality information; and
- eliminate waste and corruption in the use of public assets.

### 6.2 Contents of a PFM bill

The Somalia TFG has no documented PFM bill. In developing the PFM bill, we propose the TFG to include nine minimum sections as presented in the table below:

No	Section	Sub sections
1	General provisions.	<ul style="list-style-type: none"><li>• The basis.</li><li>• Definitions.</li><li>• Revenues and expenditures of state administrations.</li><li>• MOFP responsibilities and authorities.</li></ul>
2	Obligations	<ul style="list-style-type: none"><li>• Obligation of the authorities for state administrations.</li><li>• Obligation of the responsible authorities for financial affairs.</li><li>• Treasury responsibilities.</li></ul>
3	Public money or assets	<ul style="list-style-type: none"><li>• Public financial assets.</li><li>• Funds received and revenues.</li><li>• Prohibitions on receipt of public money.</li><li>• Deposit of revenues to bank.</li><li>• Payment and expenditure of public assets.</li></ul>

No	Section	Sub sections
4	Official bank account	<ul style="list-style-type: none"> <li>● Special funds.</li> <li>● Investment of public money.</li> <li>● Immunity of public money.</li> <li>● Opening bank accounts.</li> </ul>
5	Borrowings and lending by the state	<ul style="list-style-type: none"> <li>● Borrowings by the State.</li> <li>● Liquidity borrowing.</li> <li>● Long term commitments.</li> <li>● Guarantee of a loan.</li> <li>● Loans by the state.</li> <li>● Salaries.</li> <li>● Assistance of the state to municipalities.</li> <li>● Revenues and expenditure of municipalities.</li> <li>● Reporting.</li> <li>● Execution of orders.</li> </ul>
6	Budget preparation and approval	<ul style="list-style-type: none"> <li>● Preparation of budget.</li> <li>● Estimating and determining the revenues and expenditure.</li> <li>● Procedures for preparation and submission of budget proposals.</li> <li>● Contents of the Budget.</li> <li>● Preparation of financial statistics.</li> <li>● Appropriations adopted in the annual budget procedures.</li> <li>● Funding of appropriations.</li> <li>● Compliance with annual budget procedures.</li> </ul>



No	Section	Sub sections
7	Execution of appropriations	<ul style="list-style-type: none"> <li>● Appropriations.</li> <li>● Deliberation on the budget.</li> <li>● Preparing un-consolidated budget.</li> <li>● Temporary appropriations.</li> <li>● Revision of appropriations.</li> <li>● Lapse of appropriations.</li> <li>● Fees.</li> <li>● Adjusting appropriation for contingent expenditures.</li> <li>● Adjustments to the appropriations of the approved budget.</li> <li>● Expenditure of appropriations.</li> <li>● Revocation or amendments of allotments and expenditure.</li> <li>● Carry over for appropriations.</li> </ul>
8	Accounting and control of the budget.	<ul style="list-style-type: none"> <li>● Publication of the budget.</li> <li>● Classification of the budget records.</li> <li>● Progress reports on the budget.</li> <li>● Final report on the budget.</li> <li>● Independent audit.</li> <li>● Reporting to the national assembly.</li> <li>● Audit powers of the Ministry of Finance.</li> </ul>
9	Final provisions.	<ul style="list-style-type: none"> <li>● The responsibilities of the authorities and employees of state administrations.</li> <li>● Oversight of the budget.</li> </ul>

No	Section	Sub sections
		<ul style="list-style-type: none"> <li>● Exceptions.</li> <li>● Entry into force.</li> </ul>

We provide a detailed template of the contents of a PFM bill in Annex 1.

### 6.3 PFM Unit

There is no PFM unit within the MOFP of the TFG Somalia. Establishment of PFM Unit will ensure sound PFM to support aggregate control, prioritisation, accountability and efficiency in the management of public resources and delivery of services. All levels within the Somalia TFG need an efficient and sustainable financial management system that will provide relevant, accurate and reliable financial information to management at each of the decentralised levels in a timely and transparent manner. This will not only ensure that resources are utilised for intended purposes, but also to build public confidence. This is therefore an essential requirement for development partners to enable them to have confidence in Government that is necessary to underpin development assistance.

It is essential that budgetary processes are transparent and participatory to further strengthen public confidence and support. At present, there is lack of both financial and staff capacity to effectively establish the needed financial management system at the TFG.

To meet the above needs within the Somalia TFG, we propose a Public Financial Management Unit be established before the preparation of the PFM bill as part of a comprehensive program of institution building which includes:

- computerisation;
- software acquisition;
- accounting and training on financial management;
- procurement; and
- participatory budget preparation and monitoring systems.

The PFM unit will have the following four priorities to be addressed before implementation of the PFM bill:

No	Priority Areas	Activities
1	Establish sound and transparent public financial systems.	<ul style="list-style-type: none"> <li>● Recruit a financial management agent.</li> <li>● Conduct accounting training.</li> <li>● Prepare financial management policies and procedures.</li> </ul>

No	Priority Areas	Activities
		<ul style="list-style-type: none"> <li>● Build capacity of staff in areas of financial management.</li> <li>● Generate annual reports.</li> </ul>
2	Develop procurement capacity.	<ul style="list-style-type: none"> <li>● Develop, promote and support training and professional development of officials and persons engaged in public procurement.</li> <li>● Monitor overall functioning of the public procurement process and submit proposals for action to the Minister.</li> <li>● Plan and coordinate technical assistance in the field of public procurement.</li> <li>● Prepare operational manual and standard documents to be used in connection with public procurement.</li> </ul>
3	Establish participatory and transparent budget preparation at all levels.	Ensure functions and budget allocations are clarified at different levels of Government.
4	Ensure transparent monitoring of public financial management and procurement.	This will be carried out by active involvement of civil society, Non Governmental Organisations, private sector and the media.



## 6.4 Implementation of the TFG PFM Bill

Under this section, we include a detailed list of structures that are necessary for effective implementation of the TFG PFM bill. We provide detailed activities to be carried out within the MOFP.

Ministry	Department	Activities	Timelines
MOFP	Budgetary Unit	<p>Establish and strengthen a Budgetary Unit to be in a position to:</p> <ul style="list-style-type: none"> <li>• Coordinate the preparation and presentation to Parliament of Medium Term Expenditure Framework and Annual Estimates of expenditure.</li> <li>• Coordinate the budgetary process including documentation such as the Budget Framework Paper, Budget Speech Estimates, Supplementary Schedules and Financial Statements.</li> <li>• Coordinate the analysis, monitoring and evaluation of budget performance.</li> <li>• Review, evaluate, analyse and initiate formulation of policies of cross cutting budgetary issues including wages, district budgets, and domestic and external debt issues.</li> <li>• Enforce proper management control, monitoring and evaluation for efficient utilisation of budgetary resource.</li> <li>• Ensure that allocation of resources is consistent with Government policy priorities.</li> </ul>	
MOFP	Accountant General Unit	<p>The MOFP should strengthen the Accountant General's Office through technical assistance to:</p> <ul style="list-style-type: none"> <li>• Plan, develop, implement and formulate policies pertaining to accounting systems, procedures, rules and regulations;</li> <li>• Prepare the Ministry's development and recurrent expenditure estimates.</li> </ul>	

Ministry	Department	Activities	Timelines
		<ul style="list-style-type: none"> <li>● Ensure that the Ministry's resources are efficiently and rationally managed.</li> <li>● Maintain financial accounting records the Ministry.</li> <li>● Ensure proper utilisation and maintenance of office facilities.</li> <li>● Ensure recruitment, development and retention of an efficient and effective work force.</li> <li>● Direct, control and coordinate matters relating to ministries'/departments' accounting systems.</li> <li>● Monitor and evaluate accounting systems and utilisation of staff in ministries/departments and districts.</li> <li>● Liaise with the Central Bank of Somalia on matters relating to consolidated fund and ministries' bank accounts.</li> </ul>	
MOFP	Information and Communication Technology (ICT) Unit	<p>The MOFP to establish and strengthen the ICT Unit to:</p> <ul style="list-style-type: none"> <li>● Network and spearhead the equipping of the entire public sector with appropriate ICT facilities.</li> <li>● Ensure optimal operation/use of ICT through training and other capacity building interventions.</li> <li>● Develop and implement an appropriate ICT policy for the public sector.</li> <li>● Advise the Government on matters related to ICT.</li> <li>● Offer technical advice on the procurement of ICT equipment.</li> </ul>	

Ministry	Department	Activities	Timelines
MOFP	Internal Audit Unit	<p>The Internal Audit Unit should receive continuance technical assistance to enhance employees' skills. Responsibilities under the unit will be:</p> <ul style="list-style-type: none"> <li>● Review, appraise and report on extent to which Government assets and interests are accounted for and safeguarded in the operations of the spending agencies and identify weaknesses and make suggestions for their elimination.</li> <li>● Review, appraise and report on soundness, adequacy and application of internal controls.</li> <li>● Undertake special investigation on financial and operational anomalies of spending agencies.</li> </ul>	
MOFP	Auditor General	<p>The MOFP to establish and consistently support the Auditor General Office. This is an independent body with the following roles:</p> <ul style="list-style-type: none"> <li>● Audit of all Government Accounts.</li> <li>● Audit of Local Authorities Accounts.</li> <li>● Audit of State Corporations, Statutory Boards, and Courts.</li> <li>● Determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws.</li> </ul>	
MOFP	Public Procurement	<p>The MOFP to establish a procurement unit that will;</p> <ul style="list-style-type: none"> <li>● Monitor overall functioning of the public procurement process and submit proposals for action to the Minister.</li> <li>● Develop, promote and support training and professional development of officials and persons engaged in public procurement.</li> </ul>	

Ministry	Department	Activities	Timelines
		<ul style="list-style-type: none"> <li>● Plan and coordinate technical assistance in the field of public procurement.</li> <li>● Give instructions and on request, advice and assistance to procuring entities in undertaking procurement.</li> <li>● Organise and participate in the administrative review procedure.</li> <li>● Maintain and update at all times a list of procuring entities.</li> </ul>	
MOFP	Revenue Administration Unit	<p>The MOFP to establish this unit that will be responsible for revenue collection and report to the Minister on revenue collected. The unit will:</p> <ul style="list-style-type: none"> <li>● Administer and enforce written laws pertaining to assessment, collection and accounting of all revenues.</li> <li>● Advice on matters pertaining to administration and collection of revenue under written laws.</li> <li>● Enhance efficiency and effectiveness of tax administration.</li> <li>● Eliminate tax evasion by simplifying and streamlining procedures and improve tax payer service and education.</li> </ul>	



## **ANNEX 1: Contents of a Public Financial Management bill**

# 1 Section One: General Provision

## 1.1 The basis

This sub section provides the name of the Act and the date in which it will become into operational.

## 1.2 Definitions

This sub section defines major terms and concepts used through out the bill examples of terms that should be defined are:

- "Appropriations" means identification of maximum amount that may be made available during a fiscal year for expenditure by a budget organisation for a specified purpose or expenditure category.
- "Annual Budget Procedures" means the document that contains all appropriations and sources of expenditures of the State for a fiscal year.
- "Annual Budget Procedures" means the document that contains all appropriations and sources of expenditures of State for fiscal year.
- "Allotment form" means an official form issued by the Ministry of Finance authorising state administrations to make expenditures of the amount approved in accordance with appropriations.
- "Budget Committee" means a committee to assess and review the budget of the fiscal year chaired by the Minister of Finance and comprised of other Line Ministers.
- "Consolidated Fund" means all funds raised or received by the State.
- "Liquidity borrowing" means the contracting of short terms loans for a short period to finance temporary shortfalls in budget liquidity resulting from fluctuations of (unbalanced movements in) revenues and expenditures during the execution of the budget.
- "Official bank account" means the opening of a bank account by the Ministry of Finance for maintaining (and depositing) Government money in Somalia Bank.
- "Programme" is an activity or group of activities of a budget organisation intended to contribute to an identifiable set of public objectives.
- "Person" means a natural or legal person or both.
- "Special funds" means any funds granted to the State subject to conditions on how they may be spent or collected pursuant to financial Laws or other Laws for a specific objective.
- "State grant" means a financial assistance provided by the state to a natural or legal person, in accordance with law.

- “State administrations” means all administrations which are established within the framework of the Executive, the Legislative or the Judiciary inside or outside of Somalia, in accordance with law.

### **1.3 Revenues and expenditures of state administrations**

This sub section provides that all revenues and expenditures of state administrations will be presented on a gross basis.

### **1.4 Ministry of Finance responsibilities and authorities**

This MOFP is responsible for implementing the provisions of the Public Financial Management and details the duties and authorities of the MOFP. Some duties of the Ministry include:

- Setting the financial and public expenditure policy of Somalia.
- Reporting to the Government and the National Assembly on the implementation of the provisions of the PFM law.
- Proposing the adoption of regulations to the Government.
- Adopting procedures and rules for better implementation of the PFM law.
- Adopting procedures and rules, for (ensuring) better implementation of this law.

## **2 Section Two: Obligations**

### **2.1 Obligation of authorities for state administrations**

This sub section stipulates the duties and authority for state administrations which public money is spent under their supervision and control. Some of State Administrations obligations include:

- Ensure that all allocations of financial resources in the annual is consistent with approved programmes.
- Ensure realistic-ness of the estimates of revenue and expenditure of the state.
- Ensure compliance with all reporting responsibilities under the PFM bill.
- Report to the Government and National Assembly of TFG Somalia through the Ministry of Finance.
- Prepare documents and register assets and (prepare) control plans consistent with the directives of the Ministry of Finance.
- Ensure that the authorities for financial affairs will conduct the responsibilities set out in the PFM law.
- Ensure compliance with all reporting responsibilities under the Law.
- Organise and implement a regular debt collection plan for funds due to the State.

### **2.2 Obligation of the responsible authorities for financial affairs**

This sub section outlines the obligations of the state administrations. Some of the obligations include:

- Prepare, arrange and submit the draft budget to the Ministry of Finance.
- Submit reports of financial affairs in accordance with the PFM law, and the related regulations and rules.
- Ensure that the PFM Law is applied concerning expenditure commitments within the established budget allotments, regulation of the financial system and efficient.

### **2.3 Treasury responsibilities**

This sub section provides the relevant responsibilities of the treasury of the Ministry of Finance. Some responsibilities of the treasury include:

- Establish procedures and systems for proper and effective management of Government money and property.
- Establish accounting procedures and systems for the Government to properly account for Government money and property.

- Efficient management of the State's financial resources through a centralisation of budgetary revenues, efficient financial planning and timely management of budget expenditure.
- Manage the Consolidated Fund.
- Implement and manage the treasury bank accounts and payment procedures.
- Implement financial plans.
- Implement the budget and performing expenditure controls in accordance with revenue and expenditure plans and providing information pertaining to funds, assets and commitments, appropriations and allotments in accordance with the provisions of PFM law and other Treasury instructions.
- Maintain the Treasury General Ledger and recording transactions according to budget classification and accounting rules compliant with internationally accepted standards and principles.
- Manage cash assets.
- Provide regular reports on the implementation of the State's budget and other financial matters for the Ministry of Finance.
- Complete of the annual accounts of the financial operations of state including appropriation accounts and financial statements.
- Perform other responsibilities delegated in accordance with provisions of PFM law.

## **3 Section Three: Public Money or Assets**

### **3.1 Public financial assets**

This sub section provides the definition of public money as money in the custody or under the control of the state, or money or assets in the possession or under the control of any person acting for or on behalf of the State in receipt of the custody or control of the money.

### **3.2 Funds received and revenues**

This sub section lists funds and revenues (receipts) that become public assets upon receipt. Some examples of such revenues include among others:

- Taxes imposed by the State in accordance with the provisions of law.
- Fees imposed and collected by the State administrations in accordance with the provisions of law.
- Interest received by state administrations.
- Dividends or other payments from enterprises owned by the State.
- Proceeds received by State administrations from the sale or leasing of any property owned by the State.
- Royalties received by the State.
- Proceeds received from leasing or selling any rights controlled by the State administrations, including radio frequency rights, natural resource exploration or exploitation rights, and intellectual property rights.
- Grants and revenues received by the State.
- Debts due to the State.

### **3.3 Prohibitions on receipt of public money**

This sub section prohibits TFG staff from receiving public money and state owned property on behalf of Government unless authorised by law and by written instructions of the MOFP.

### **3.4 Deposit of revenues to bank**

This sub section provides that all revenues, public assets including the funds that become public money upon receipt must be deposited into the designated official bank account promptly.

### **3.5 Payment and expenditure of public assets and tax (expenditures)**

This sub section provides when revenue agencies may withdraw, make payments or commitments to pay public money; this must be made in conformity with the provisions of the TFG PFM bill. Expenditure can only occur after the Ministry of Finance has confirmed and issued in writing an expenditure authorisation through the allotment form for the fiscal year.

## **4 Section Four: Official Bank account**

### **4.1 Opening bank accounts**

This sub section gives the Minister of Finance authority to open one or more official bank accounts for receipts, custody, payment or transmission of public money.

### **4.2 Immunity of public money**

This sub section provides that public money and bank accounts can not be seized or expropriated by judiciary order in a preventive way. It also provides that any payment of public money can be done only upon a final judicial decision or sentence by an authorised court. It provides that a judicial payment order should be paid by the state administrations from allotments available in the budget of the fiscal year in priority to other payments.

### **4.3 Investment of public money**

This sub section will provide authority to Ministry of Finance a framework within which departments, public entities and constitutional institutions may invest public money in financial deposits and liquidation of such investments.

### **4.4 Special funds**

This section gives authority to the Ministry of Finance to open a separate ledger accounts for recording special funds. It also provides when money on this fund can be expended and receipts that should not be deposited in this account e.g., fees, fines and compensation of damages and charges related to decisions and proceedings of courts.

## **5 Section Five: Borrowings and Lending by the State**

### **5.1 Borrowings by the State**

This sub section provides restrictions on borrowings, guarantees and other commitments that bind a public entity. It also gives instances where Minister of Finance should make such borrowings and commitments can be done on behalf of the entity.

### **5.2 Liquidity borrowing**

This sub section provides that the annual budget procedures to provide the authority and conditions of any liquidity borrowing.

### **5.3 Long term commitments**

This sub section provides that minister of finance has to confirm any contract made by administrations of the state providing for payment of such commitment to be made by such administration after the end of the fiscal year.

### **5.4 Guarantee of a loan**

This sub section provides instances when the Ministry of Finance may issue a loan guarantee document.

### **5.5 Loans by the State**

This sub section provides for example;

- Instances when MOFP may make a loan to any administration or company.
- When the debt or part of debt is deemed to be unrecoverable in accordance with justifiable reasons.
- When the terms of loan can be changed.

### **5.6 Salaries**

This sub section provides details of salaries allotment by the Ministry of Finance. Some of the duties of the Ministry in regards to salaries are:

- The MOFP is responsible for issuing allotments for (making payments for) wages of civil and military employees of the state.
- The MOFP may make payments or transfer the salary of an employee to his/her bank account, upon verification of his/her identity, in accordance with the specified tables submitted by the state administrations.

### **5.7 Assistance of the state to municipalities**

This sub section provides instances when municipalities may receive assistance from the Government budget if there is a justifiable need exists.



Proposals for receiving such assistance should be submitted to the MOFP during the budget preparation process in order to be considered as part of the state budget.

### **5.8 Revenues and expenditure of municipalities**

This sub section provides the amount and manner for collecting the revenues of municipalities, limits on expenditure by municipalities, borrowings by municipalities from the state and the manner for collecting and guaranteeing it.

### **5.9 Reporting**

This sub section mandates municipalities to provide budget execution reports of a certain period(s) in a fiscal year as determined by law.

### **5.10 Execution of orders**

This sub section mandates municipalities to comply with directives issued by the Ministry of Finance for collection of revenues and processing expenditures.

## **6 Section Six: Budget Preparation and Approval**

### **6.1 Preparation of budget**

This sub section provides guidelines on preparation of the budget based on multi-year national development and security programs, economic framework, and other budget related issues for a number of coming years as determined by law.

### **6.2 Estimating and determining the revenues and expenditure**

This sub section mandates the Government to estimate and determine the amount of revenues available in and the overall ceiling for expenditures of the state for the next fiscal year on the basis of the National Economic Framework and Development Framework.

### **6.3 Procedures for preparation and submission of budget proposals**

The sub section provides all the necessary procedures for the preparation and submission of the budget proposals to the Minister of Finance. Examples of these procedures include:

- MOFP, each year, must issue to state administrations a procedures for preparation and requesting of budget and appropriations for the fiscal year.
- State administrations are responsible for the preparation of the budget submissions by the time specified.
- The budget of the judiciary to be prepared by the Supreme Court in consultation with the Government and must be presented to the National Assembly as part of the budget for the fiscal year.
- State administrations must submit finalised budgets submissions to the MOFP.

### **6.4 Contents of the budget**

This sub section provides the contents of the budget. The contents are:

- Budget overview information to include:
  - The objectives and priorities of the budget including important revenue and expenditure estimates.
  - An overview of the domestic and international (macro-) economic environment (in which the budget was prepared) and recommendations for short and medium term fiscal strategy.
  - The objectives and priorities of the budget including important revenue and expenditure estimates.
  - Identification of significant new spending proposals adopted and any significant savings from cancelled or reduced programmes.

- The budget deficit presented according to International Standard Methodologies as established by the International Monetary Fund.
- Details of how a budget deficit is to be financed or any budget surplus is to be invested.
- The National Development Budget plan.
- The estimated budget deficit or surplus of the previous fiscal year to be transferred forward to the new fiscal year.
- A revenue and expenditure plan to include among others:
  - Estimated total revenues and expenditures of the State.
  - Estimated special funds that will be received in the fiscal year.
  - Revenues and expenditure of local administrations.
  - Appropriations for each central unit (headquarters) of administrations in the fiscal year.
  - Appropriations of special funds in the fiscal year.
  - Appropriations for public grants.
  - Conditions attached to any appropriation.
  - Appropriations for payments of interest or amounts in the nature of interest on debt owed by the State and for repayment of debt principal.
  - An appropriation not exceeding say 3% (or as determined by law) of total programme expenditures for contingencies.
  - The estimated number of permanent and temporary State employees to be paid from appropriations in the fiscal year.
  - Estimates of anticipated expenditures for future fiscal year towards the cost of acquisitions that will commence in the new fiscal year.
  - Details of all projected user fee for the fiscal year.
  - Estimated cost in terms of forgone receipts of tax concessions provided in the Tax Law or other tax laws.
  - Other information considered necessary by the MOFP.
- Information concerning assets and liabilities to include for example:

- Details of the States’ investment strategy for public money to be invested in the fiscal year.
  - Details of any existing loans issued by the State and any loans the State intends to make during the new fiscal year.
  - Details of any changes made under the provisions of this law to loans in the previous fiscal year.
  - Details of any changes made under to the provisions of this law to loans in the previous fiscal year;
  - A limit on total guarantees and borrowings of the State.
  - Details of the estimated amount of contingent liabilities of the State that will rise to actual liabilities during the fiscal year.
  - Liabilities arising from Government pensions or similar arrangements.
- Draft Annual Budget Procedures.

## **6.5 Preparation of financial statistics**

This sub section provides the financial statistics such as revenues, expenditures and financing in the annual budget documentation that must be set out, organised in consistency with the Government Finance Statistics classification.

## **6.6 Appropriations adopted in the annual budget procedures**

This sub section provides the contents of appropriations in the Annual Budget Procedures. Some of the contents will include:

- The purpose of the appropriation.
- The amount of the appropriation provided by category as prescribed by the MOFP.

In the case of appropriations for the Ministry of Finance, The Annual Budget Procedures to contain the following information:

- Appropriations for granting loans.
- Making payment of amounts due with respect to debt of the State.
- Other payments the MOFP is required to make by this law or by decision of the Government.

## **6.7 Funding of appropriations**

This sub section provides sources of funds for funding the proposed appropriations. Examples of such sources include:

- Revenues estimated to be available in the Consolidated Fund of TFG.
- Expected revenues of grants committed by foreign Government or international organisations.
- Borrowings needed to finance the budget.
- Amounts in the treasury single account made available from improved cash management of public money.

### **6.8 Compliance with annual budget procedures**

This sub section provides that in an event of any contradiction with other laws, the provisions of the annual budget procedures will prevail.

## **7 Section Seven: Execution of Appropriations**

### **7.1 Appropriations**

This sub section provides procedures to be followed by the MOFP after receipt of budgetary submissions. Some of the procedures include;

- MOFP informs each state administration on approved appropriations at which point objections may be raised by the administrators.
- MOFP reviews such objections and provides solution to the objection.
- Proposed budget submitted for consideration by the budget committee for any objections made.
- The MOFP submits to the budget committee any objections submitted and the responses of the Ministry to the objections.

### **7.2 Deliberation on the budget**

This sub section provides that the budget committee may request the state administrations to provide further explanations during consideration of the proposed budget.

### **7.3 Preparing un-consolidated Budget**

This sub section provides guidance to the MOFP in preparation of the unconsolidated budget. Some of the amounts of the unconsolidated budget to include:

- Monetary amounts provided by International Organisation or Foreign Governments.
- Estimates of any aid in kind.

### **7.4 Temporary appropriations**

This sub section provides the budget to be used if the current years' budget is not approved before the commencement of the fiscal year. It also provides when such temporary appropriations lapse.

### **7.5 Revision of appropriations**

This sub section provides instances when the MOFP may revise the annual budget procedures. Examples of such instances include:

- Revenues or expenditures of the State for the fiscal year will be less or greater than those anticipated in the budget.
- Repealing or amending laws will have the effect of increasing or reducing revenues of the State for the fiscal year.

## **7.6 Lapse of appropriation**

This sub section provides when appropriation will lapse. For example, all appropriations for a fiscal year will lapse after the end of that fiscal year.

## **7.7 Fees**

This sub section provides where fees imposed in respect to bank account or investments of the State will be paid from.

## **7.8 Adjusting appropriation for contingent expenditures**

This sub section mandates the MOFP to propose to the President to change the purpose of part of a contingent expenditure appropriation of a State administration to a purpose that requires an urgent or unforeseen requirement.

## **7.9 Adjustments to the appropriations of the approved budget**

This sub section provides that the MOFP under request by a State administration in consultation with the Budget Committee may authorise the adjustment of the approved appropriations for that Ministry. Examples of conditions when such adjustment may be made:

- Where requested by a state administration, the MOFP, in consultation with the Budget Committee, may authorise the adjustment of the approved appropriations for that Ministry provided the adjustment does not exceed say 5% of the registered funds.
- Where an appropriation relates to a function of a state administration that is transferred to a different administration, the MOFP transfer the appropriation or part of the appropriation from the first administration to the second administration.
- Where an administration acquires assets or services from another administration, the amount charged for the acquisition will be treated as expenditure by the acquiring administration.
- Where the State is required to repay an amount that was included in public money upon receipt but to which the State had no beneficial right, an appropriation will be created for the MOFP for the amount to be repaid.

## **7.10 Expenditure of appropriations**

This sub section provides that the MOFP will issue an expenditure allotment notice to authorise state administrations to spend or to commit to spend appropriations or part of appropriations subject to availability of assets. Such allotments should specify the time period for and authorisation for expenditure.

## **7.11 Revocation or amendments of allotments and expenditure**

This sub section gives the Minister authority to revoke or amend an allotment form when for example:

- Expenditures have been made in an incorrect or unjustifiable manner.
- Required for the continuation of expenditures through out the fiscal year.

The Minister should immediately inform the Government in writing of such an action.

### **7.12 Carry over for appropriations**

This section provides that the MOFP may at the proposal of a State administration made before end of the fiscal year carry over amounts not expended from an appropriation to the following fiscal year.



## **8 Section Eight: Accounting and Control of the Budget**

### **8.1 Publication of the budget**

This sub section mandates the MOFP to publish the annual budget allotments and explanatory documents upon approval.

### **8.2 Classification of the budget records**

This sub section provides the MOFP to establish classification systems for budget and accounting records that will facilitate:

- Control of expenditures by state administrations.
- Permit analysis of expenditure by organisation, function, and economic category according to the Government Financial Statistics.

Some of the documents to be maintained by the MOFP are:

- Government income receipts.
- Appropriations and adjustments to appropriations of state administration.
- Appropriations made available to state administrations for expenditure by means of allotments.
- Documents for actual expenditures made and outstanding liabilities.

State administrators are mandated to maintain accounting records in accordance with MOFP instructions and provide copies of the accounting records to the MOFP when requested.

### **8.3 Progress reports on the budget**

This sub section mandates the MOFP to submit reports for example on quarterly basis to the president and publish the same. Some of the progress reports will include revenue and expenditure report and assets and liabilities information. The reports submitted should explain reasons for any missing information.

### **8.4 Final report on the budget**

This sub section provides the information to be published by the MOFP upon submission to the President and the Government. Examples of information to be submitted relate to:

- Final budget reconciliation report:
  - Budget overview information to include for example:
    - Tasks accomplished and the main plan for the new fiscal year.
    - An overview of important actual revenues and expenditures.

- Details of how a budget deficit was financed or how a surplus was invested.
  - Other information considered necessary by the MOFP.
- A revenue and expenditure report that includes among others:
- Actual revenues compared with projected revenues.
  - Actual special funds received during the fiscal year.
  - Actual expenditures from special funds appropriations.
  - Actual number of permanent and temporary State employees paid from appropriations in the fiscal year.
  - Actual payments of interest or amounts in the nature of interest on debt owed by the State and (for) repayment of debt principal.
  - Actual expenditures in respect of each appropriation category compared with the budget appropriation for that category, the actual expenditure for that category in the previous fiscal year, and details of additional appropriations under the PFM law.
  - Details of all recipients of public grants and the amount received.
  - Details of the contingency expenditures.
  - Details of all adjustments made to appropriations in the fiscal year.
  - Actual user fee receipts for the fiscal year.
  - Other information considered necessary by the MOFP.
- Assets and liabilities information to include:
- Details of investments of public money made during the fiscal year.
  - Details of any changes made to loans during the previous fiscal year.
  - Details of any loans made by the State during the fiscal year.
  - Details of any borrowings by the State during the fiscal year.
  - Details of differences in the amount of guarantees planned to be made and loans to be incurred by the State during the fiscal year and guarantees actually made and loans actually incurred.

- Details of difference between the estimated amount of contingent liabilities of the State that were expected to give rise to actual liabilities during the fiscal year and amount of contingent liabilities that actually gave rise to liabilities.
  - A full accounting of assets held by the State at the end of the fiscal year.
  - Other information considered necessary by the MOFP.
- A set of financial statements compiled according to the International Accounting Standards.

### **8.5 Independent audit**

This section provides the auditors:

- Right to acquire all information and explanation deemed necessary for auditing.
- Prepare an independent audit report within a certain period specified by law from the end of a fiscal year and submit it to the Government.

The Government is mandated in this section to submit the audit report to the National Assembly and make it publicly available.

### **8.6 Reporting to the national assembly**

This sub section mandates the Government on reporting to the National Assembly on decisions taken pursuant to the audit and control report.

### **8.7 Audit powers of the Ministry of Finance**

This sub section gives the MOFP powers to establish an Internal Audit administration and appoint auditors to audit the finance and accounting affairs of all State administrations. The auditor may require the relevant administrations to provide all information needed for auditing financial affairs.

## **9 Section Nine: Final Provisions**

### **9.1 The responsibilities of the authorities and employees of state administrations**

This sub section mandates authorities and other employees of state administrations to be responsible for control and effective use of allotted funds in the relevant administrations in accordance with the provisions of the law.

### **9.2 Oversight of the budget**

This sub section provides the MOFP with the responsibility for the organisation, management and implementation of the budget and responsibility of oversight of treasury.

### **9.3 Exceptions**

This sub section provides a list of any state owned companies and enterprises that are not subject to the PFM Law.

### **9.4 Entry into force**

This sub section provides date and signature when the PFM Law becomes effective and publication in the official gazette.

## **ANNEX 2: List of workshop attendants on 9 to 11 June 2008**

<b>No.</b>	<b>Name</b>	<b>Institution</b>
1	Mohamud Ali Hashi	Minister of Foreign & International Cooperation
2	Abdirahman Mohamed Warsame	Head of General Administration Office of the President
3	Yonis Yassin Hashi	Senior Advisor – Ministry of Finance & Planning
4	Abdirahman Mohamud Haji-Jama	Office of the President
5	Abdirizak Mohamed Abukar	Accountant General
6	Hared Hassan Ali	Ministry of Fisheries & Marine Resource
7	H.E Ali Mumin Ismail	Deputy Minister
8	Shariff M. Hassan	Director General – Central Bank
9	Abdullahi Mohamed Issa	Min. of Environment & Disaster Management
10	H.E Ambassador Mohammed	Ambassador to Kenya
11	Hon. Ahmed Hashi Mohamud	Member of Parliament
12	Hon. Mohamud Abdi Hassan	Member of Parliament