



Transitional Federal Government of Somalia (TFG)

Audit Investigative Financial Report 2010-2009

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ABBREVIATION AND ACRONYMS

PFMU	PUBLIC FINANCE MANAGEMENT UNIT
OAG	OFFICE OF THE ACCOUNTANT GENERAL
MoF	MINISTRY OF FINANCE
MoT	MINISTRY OF TELECOMMUNICATION

1. Executive Summary

This is an audit investigation report by the Public Finance Management Unit (PFMU) covering the accounting years of 2009 and 2010, and is characteristic of the following:

- i. Gross public financial mismanagement;
- ii. Large scale misappropriation of public funds;
- iii. Large scale misappropriations of donor funds (Arabian);
- iv. Unethical and unacceptable professional negligence;
- v. Financial intimidation at the Executive's office compromising transparent and accountability;
- vi. Concealment (under) collection of government budget revenue receipts;
- vii. Concealment (under) payment of outstanding government expenditure receipts.

The tabulation summary of the above public financial management deficiencies, is as reflected in tables 1 and 2.

Table-1: Revenue Budget Receipts 2009 – 2010

<i>Revenue Budget Receipts</i>				
Budget Year	PFMU	OAG	TFG Budget	Variation
2009	\$155,135,000	\$11,083,950	\$55,200,000	\$144,051,050
2010	156,802,428	21,976,274	22,080,000	134,826,154
Net Total	\$311,937,428	\$33,060,224	\$78,080,000	\$278,877,204

1.1 Revenue Budget Receipts

The public finances' investigation into the *actual* and *potential* accruable revenue receipts to the government for both the accounting years is about **US\$311,937,428** (*This figure could be higher if the following sectors were included: exports, sales tax on domestic production of goods and services, remittances, offshore fishing rights, passport and visas and business licenses*). The PFMU is computing the potential revenue that was accruable from all of these taxes. This and other sources shall no doubt increase the revenue submitted.

The contrast between the *potential* and the *verified and reconciled* figure by the Office of the Accountant and Auditor General (OAG) of about US\$33,060,224 is occasioning a revenue deficit of US\$278,877,204. The financial revenue deficit and in contrast with the Accountant and Auditor General's actual collection could have adequately funded the government's budget for the subsequent nine years (US\$278,877,204/ US\$31,206,906).

The TFG budget provision in 2009 was US\$55,200,000 and yet the OAG reports a revenue collection of only US\$11,083,950 and thereby representing a deficit of US\$44,116,050 (US\$11,083,950 – US\$55,200,000). This reflects a financial discrepancy of the budget

management. However, the revenues for 2010 were consistent, OAG revenue collection of US\$21,976,274 and TFG US\$22,080,000.

More detailed analysis of the revenue collection is found on the potential budget receipts as shown in figures-1 and 2

Table-2: Recurrent Expenditure Budget 2009 - 2010

<i>Recurrent Expenditure Budget</i>				
Budget Year	PFMU	OAG	TFG Budget	Variation
2009	\$155,150,000	\$11,070,309	-	\$144,079,691
2010	170,665,000	20,089,882	110,400,000	150,575,118
Net Total	\$325,815,000	\$31,160,191	110,400,000	\$294,654,809

The *potential* recurrent expenditure for the same period should have been US\$325,815,000 while the *verified and reconciled* one by the office of the accountant and Auditor General is about US\$31,160,191. Consequently, the shortfall deficit on the expenditure is US\$294,654,809. The recurrent budget provision by the TFG for the year of 2009 was nil, while year 2010 represent an expenditure of US\$110,400,000. This is a misrepresentation of budget as the government could not have operated without funds and at the same time the OAG reports an expenditure of US\$31,160,191 (US\$11,070,309 + US\$20,089,882). This is a further mismanagement of the budget in view of the financial discrepancies occasioned by the two offices US\$79,239,809 deficit (US\$31,160,191 – US\$110,400,000).

The PFMU attributes to the recurrent under expenditure as being public misappropriation of funds as this report would detail in the figure 1 and 2. Overall, the public financial mismanagement of the budget and by the government has had the following effects on the national economy:

- i. It slows down the country's development growth rate;
- ii. It opens financial avenues for funds misappropriation;
- iii. It intensifies and enhances corruption;
- iv. It scale down Bilateral donor partnership support;
- v. It affects the democratic structures of good governance;
- vi. It affects both the national and intentional public integrity ratings; and
- vii. It severely affects the private sectors' economic growth (engine for accelerated development).

1.2 Explanatory Notes to the budget 2010 – 2009

The revenue amounting to US\$311,937,428 was the total sum for the years 2010 – 2009. The breakdown of the amount consists of potential domestic revenue and bilateral assistance. According to PFMU investigation some of the receipts were either wholesomely misappropriated or not at all collected. This is illustrated as follows:

- i. Bilateral Assistance US\$75,600,000

The total bilateral assistance from the donors was \$75,600,000 where else the MoF accounted for only US\$2,875,000. The shortfall of US\$72,725,000 was not accounted for, hence the PFMU recommends for further investigation by a parliamentary committee. This is due to the fact that the donors who donated the amounts are on record and across reference confirmation is of necessity, if we have to uphold transparent and accountable management.

- ii. Potential Domestic Revenue US\$236,337,428

The breakdown for the potential domestic revenue collection for the two years is as shown in table 3 below.

Table- 3: potential domestic revenue collection for the two years

2009	US\$112,260,000
2010	US\$124,077,428
Total	US\$236,337,428

The PFMU investigating team was unable to account the shortfall deficit in view of the following:

- a. Direct misappropriation;
- b. Lack of financial disclosure;
- c. Collection laxity; and
- d. Professional incompetency.

In view of the above, the PFMU strongly recommends for forensic investigation of the following offices:

- e. Office of the President;
- f. Office of the Prime Minister;
- g. Ministry of Finance; and
- h. Ministry of Telecommunication

Table 4: The unaccounted funds

• Bilateral Assistance	US\$72,725,000	Stolen
• Potential Domestic Revenue	US\$236,337,428	Not collected

2. Background and Introduction Information

2.1 Background

I deliberately chose not, to expound the country's historical background information, as it is within the full knowledge and experience of the Honorable Members of this House. However, of inescapable necessity for attention, is two the decades of calendar years, the country underwent without any formal structures of administrative governance. This was after the demise of President Mohamed Siad Barre in 1991; the subsequent "clan warlords' governorship", and the effects of such one are as good as everyone's guess.

The Djibouti, Nairobi and Djibouti declarations of year 2000, 2004, and 2009 respectively, initiated some democratic governance structures, but the respective presidents voted in were either not focused or lacked technical capacities for their implementation. The then appointed finance ministers were neither effective in promoting and implementing financial management control systems. There was no end-year budget accounting reports and thereby enhancing transparent and accountable management. This severely affected the growth rate for the accelerated transitional government transformation and thereby creating accountability and transparency. It's against this background that this audit investigation report is being submitted to you.

2.2 Introduction

This audit investigation report is for two accounting years 2009 and 2010, and it was occasioned by the pressure and demand from the under listed stakeholders.

- i. The citizens of Somalia;
- ii. Honorable Members of Parliament; and
- iii. Global Development Partners

The demand for transparent and accountable management was no better illustrated than by H.E. George Marc André, the European Special Envoy for Somalia. His request to the Prime Minister Sharmarke to submit detailed reconciliations of the budget, for all the revenues and their respective corresponding disbursements, was intended to determine the levels of subsequent but transparent funding. The European Union is the main global contributor and their support is of significant necessity. Consequently, the public finance management unit was mandated to:

- i. Investigate all government revenue collections;
- ii. Examine and verify all government expenditures;
- iii. Examine and verify financial control systems;
- iv. Determine the government annual budget capacities;
- v. Investigate institutional funding levels from the government; and
- vi. Investigate the governments funding levels to institutions/department.

3. Audit Investigation Report 2009

For ease of clarity and financial analysis conceptualization, the Public Financial Management Unit, computed their audit findings into two sets of the annual budgets and for each of the accounting year periods. The *first* set is on the basis of the documentary evidence of records availed to them by the Office of the Accountant General and Auditor General, while the second one, is from the “spot checks” undertaken by potential investigation evaluation services. The government audited budget for the end of year 2009 is as shown in figure-1 below.

Figure-1: 2009 Financial Audited Statements (OAG)

REVENUE	
DOMESTIC REVENUE	
TAX REVENUE	
Customs Receipts (Mogadishu Port)	\$ 6,242,682
Airport Departure Tax (Aden Adde Airport)	351,920
KM.50 Airstrip	114,348
Levy on khat	-
Telecom Tax	-
Other Revenue	-
Hawala (Domestic Loan)	1,500,000
TOTAL DOMESTIC REVENUE	<u>\$ 8,208,950</u>
EXTERNAL ASSISTANCE	
Bilateral Assistance	2,875,000
Multilateral (co-managed with UNPOS)	----
Multilateral (co-managed with UNDP)	----
Multilateral (EU and Other)	----
TOTAL EXTERNAL ASSISTANCE (see below note)	<u>2,875,000</u>
TOTAL REVENUE	<u>\$ 11,083,950</u>
EXPENDITURE	
Recurrent Expenditure	
Office of the President	285,000
Office of the Prime Minister	216,000
Office of the Speaker - running costs	300,000
Parliament - Stipends for 550 MPs	2,640,000
Ministries (39)	1,404,000
National Security	6,143,309
Auditor & Accountant General	28,000
Central Bank	12,000
Constitutional Commissions & Bodies	42,000
Local Government	-
Contingencies	-
TOTAL RECURRENT EXPENDITURE	<u>11,070,309</u>
SURPLUS	<u>\$ 13,641</u>

3.1 Financial Discrepancy Highlights OAG Report

The financial accounting offset of the total domestic revenues, the external bilateral assistance (US\$11,083,950) against the recurrent expenditure (US\$11,070,309) was credit revenue of about US\$13,641. The arising financial discrepancy, is the surplus realization, but against the natural demand necessity of unsettled operational costs. The case studies are as follows:

3.1.1 Revenue Budget Receipts

The PFMU report confirms that the revenue budget receipts were grossly under budgeted. Both the domestic and external donor financial assistance support amounted to US\$11,083,950 as opposed to PFMU revenue receipts of about US\$112,260,000. For more comparative details see figure 2 which shows potential budget (PFMU) spot investigation. However, the recurrent expenditure is highlighted as shown below.

3.1.1.1 Office of the President

The annual budget (operational bill) for the office as extracted from the records of OAG was US\$95,000 per month. This translates into an annual expenditure of about US\$1,140,000 which implies that the staff was paid only for three months and thus confirming the figure of US\$285,000 in the budget (US\$95,000 x 3). The resultant is an expenditure deficit of US\$855,000 (US\$1,140,000 – US\$285,000) and yet the overall budget reflected a credit balance (US\$13,641). *Where did the rest of the annual allocation and amounting to US\$855,000 go?*

3.1.1.2 Office of the Prime Minister

Availed documentary evidence from OAG, confirmed the monthly payroll for the office was US\$72,000. This translates into an annual operational cost of about US\$864,000 and yet the amount actually spent for the year is only US\$216,000. This means the staff enjoyed the salary benefits for only three months (US\$72,000 x 3 = \$216,000). The resultant is an expenditure deficit of about US\$648,000 (US\$864,000 – US\$216,000). *Where did the US\$648,000 go?*

3.1.1.3 Office of the Speaker

The office was allocated an annual budget of (US\$75,000 per month x 12) US\$900,000, yet the staff were settled for only four months. This was in spite of the offices' active staff engagement of only two months. The four month payroll was about US\$300,000, and with a resultant under expenditure of US\$600,000. *Where did this money go?*

3.1.1.4 Members of Parliament

The 550 Honorable Members of Parliament¹ were paid by the TFG for only four months of the year 2009. This translates into US\$2,640,000 (550 x \$1,200 x 4) and yet the annual stipends amounted to US\$7,920,000 (550 x \$1,200 x 12). *Where did the underpayment deficit of US\$5,280,000 (\$7,920,000 - \$2,640,000) go?*

3.1.2 Under-expenditure

The above three main branch offices occasioned the below summarized outstanding operational bills. This is for only one year (2009) as shown in table 5 below.

Table 5: summarized outstanding operational bills

1. Office of the President	\$855,000
2. Office of the Prime Minister	648,000
3. Office of the Speaker	600,000
4. Parliament	5,280,00
Total	\$7,383,000

The above means that the sum of US\$7,383,000 was not spent, but saved somewhere. *Where did the underpayment deficit go?*

¹ The house of parliament is composed of four major clans and small minorities: Dir, Darood, Hawiye, Digil & Miriffle and others.

4.0 Potential Budget (PFMU)

Through the examination and verification of the spot check audit investigations the PFMU was able to reconstruct a more realistic budget for the same accounting year of 2009. The potential budget is based on facts and figures, and its summarized version is as follows:

Figure-2: Potential Budget (PFMU) Spots in Investigation

REVENUE	
DOMESTIC REVENUE	
TAX REVENUE	
Customs Receipts (Mogadishu Port)	\$ 24,000,000
Airport Departure Tax (Aden Adde Airport)	1,200,000
KM.50 Airstrip	960,000
Levy on Khat	37,500,000
Telecom Tax	48,600,000
Other Revenue	-
Hawala (Domestic Loans)	-
TOTAL DOMESTIC REVENUE	\$ 112,260,000
EXTERNAL ASSISTANCE	
Bilateral Assistance	42,875,000
Multilateral (co-managed with UNPOS)	----
Multilateral (co-managed with UNDP)	----
Multilateral (EU and Other)	----
TOTAL EXTERNAL ASSISTANCE (see below note)	42,875,000
TOTAL REVENUE	\$ 155,135,000
EXPENDITURE	
Recurrent Expenditure	
Office of the President	3,600,000
Office of the Prime Minister	6,000,000
Office of the Speaker - running costs	2,400,000
Parliament - Stipends for 550 MPs	16,500,000
Ministries (39)	46,800,000
National Security	62,400,000
Auditor & Accountant General	3,600,000
Central Bank	2,400,000
Constitutional Commissions & Bodies	4,800,000
Local Government	3,600,000
Contingencies	3,050,000
TOTAL RECURRENT EXPENDITURE	155,150,000
SURPLUS/DEFICT	\$ (15,000)

4.1 Revenue Budget Receipts

The combined domestic revenue receipts and the external budgetary support amounted to US\$155,135,000 (US\$112,260,000 + US\$42,875,000). The domestic revenue is broken-down as follows:

4.1.1 Customs Receipt (Mogadishu Port)

In 2009 the amount received from the port in customs was \$11,529,563 although a mere \$6,242,682 was reported (the difference of US\$5,286,881, was being collected on location, at the Port of Mogadishu). However, the PFMU audit investigation report confirms an actual potential collection of US\$24,000,000 (\$2,000,000/per month).

The under collected revenue budget receipts from the customs is US\$17,757,318 (US\$24,000,000 – US\$6, 242,682). This translates into a 26 percent loss of customs revenue.

4.1.2 Airport Departure Tax (Aden Adde Airport)

The statistical computation records by the PFMU, confirms the revenue realization from Aden Adde Airport to be US\$1,200,000 (\$100,000 x 12), while the Accountant General reported a meager sum of US\$351,920.

The under collected revenue budget receipts from the airport departure tax is US\$848,080 (US\$1,200,000 – US\$351,920). This translates into a revenue loss of 29 percent of the airport departure tax.

4.1.3 Levy on Khat

It should be noted that there are a number of revenues which are not adequately reported, the most important being the levy on Khat. This sector should be the second largest income generating source of revenue. A UN Monitoring Group Report states:

“Kenya alone earns more than \$250,000,000 a year from the export of Khat in Somalia. That would suggest another \$250,000,000 profit is generated insider Somalia at the various stages of distribution.” NGO Security Programme

In retrospect, the Minister of Finance with the knowledge of the TFG Executive Branch made an agreement in March 2009 with Kenyan government to tax exported Khat going to Somalia on Kenyan soil. Although the specifics of the deal are ambiguous, the public is aware that Finance Minister approved the collection of a Somali-based tax on foreign land. The Minister of Finance claimed a 10 percent tax cut but a source from the Ministry of Finance indicated that that the tax cut was more than 15 percent. This claim can be validated from the records of the Kenyan MoF.

In 2009, the TFG declared the amount of \$114,348 as revenue for the sector of Khat. The amount collected on Kenyan soil however, was roughly \$25,000,000 (10 percent out of the \$250,000,000). Internally the tax cut was 5 percent out of the \$250,000,000. Therefore,

there was \$12,500,000 collected with a grand total of \$37,500,000 which was purposely kept in the dark. This translates into a 100 percent loss of the Khat revenue. The Somali's Executive Branch and the MoF deliberately failed to leave any traces of this information on paper. *Based on the above findings, the PFMU strongly recommends that the Executive branch and MoF be subjected to a further forensic investigation so as to shed light on these colossal amounts of revenue loss. The House of Parliament should approve this turn of events.*

4.1.4 Telecommunication Tax

The Somali telecommunication industry is one of the leading industries in the continent. There are very few citizens who own landline, leaving the rest of population using wireless devices. Given there are 1.5 million cellular phone users for example, and that each user spends about \$30 per month on wireless essentials, this would equate to a \$540 million/year income generated by the sector only.

In 2009, telecom industry paid a minimum amount of money estimated at \$100,000/per month to the Minister of Telecommunication. However, this amount varied according to the needs of the Minister, the President, as well as the Executive Branch. Thus, Somalian Telecom Industry is currently not subjected to service tax, registration fees and other related charges. Given the actual state of Telecom Industry this sector could have potentially served the TFG as the number one source of revenue. However, the TFG has failed to exploit this sector for the following reasons:

- I. There is no fixed tax bracket for this sector which automatically leads to a grave loss of income for the TFG. For example, the TFG implements a mere 3 percent tax cut to the three main Telecom Companies (Nation, Telecom, Hormud), that would mean a total revenue of \$48,600,000, which could have made a significant difference in government revenue;
- II. The Executive Branch and the Minister of Telecommunication understand the potential of this sector and yet they opted to withdraw the current earnings for their own personal gain when it should have been deposited in the treasury. They informally settled on an agreement with these companies thus ensuring that at any given time, they can withdraw money at their own discretion.

This House of Parliament must subject the Executive Office and the Ministry of Telecommunication into further forensic interrogation as to what occasioned these colossal revenue loss of a 100 percent (the amount of US\$48,600,000).

Figure-3: Summarized 2009 Annual Budget Discrepancies

Annual Budget	PFMU	OAG	TFG Budget	Variations
Domestic Revenue				
Customs Receipts	\$24,000,000	\$6,242,682		\$17,757,318
Airport Departure	1,200,000	351,920		848,080
KM.50	960,000	114,348		845,652
Levy on Khat	37,500,000	-		37,500,000
Telecom Revenue	48,600,000	-		48,000,000
Other Revenue	-	-		-
Hawala (Domestic loans)	-	\$1,500,000		(\$1,500,00)
Sub-total Domestic Revenue	\$112,260,000	\$8,208,950		104,051,050
External Assistance				
Bilateral	42,875,000	\$2,875,000		40,000,000
Multilateral	-	-		-
Sub-total External Receipts	42,875,000	\$2,875,000		40,000,000
Total Revenue	\$155,135,000	\$11,083,950	\$55,200,000	\$144,051,050
Annual Budget				
Expenditure				
Office of the President	3,600,000	\$285,000		3,315,000
Office of the Prime Minister	6,000,000	216,000		5,784,000
Office of the Speaker	2,400,000	300,000		2,100,000
Parliament	16,500,000	2,640,000		13,860,000
Line Ministries (39)	46,800,000	1,404,000		45,396,000
National Security	62,400,000	6,143,309		56,256,691
Auditor/Accountant General	3,600,000	28,000		3,572,000
Central Bank	2,400,000	12,000		2,388,000
Constitutional Commissions & Bodies	4,800,000	42,000		4,758,000
Local Government	3,600,000	-		3,600,000
Contingencies	3,050,000	-		3,050,000
Total Recurrent Expenditure	\$155,150,000	\$11,070,309	-	\$144,079,691
Surplus/Loss	(\$15,000)	\$13,641		(\$28,641)

4.1.5 Revenue and Budget Analysis

The resultant difference of US\$144,051,050 (PFMU \$155,135,000 – OAG US\$11,083,950) was the shortfall revenue collections deficit by the TFG. The variation between OAG and TFG budget for 2009 is a deficit of US\$44,116,050 (US\$11,083,950 – US\$55,200,000), while recurrent expenditure shows nil but the office of the OAG reports a provision of US\$11,070,309. It is extremely difficult to fathom how the TFG government operated the entire year without budget provision.

The public financial management unit based their figures from the spot investigation sites as well as from the records availed by the OAG. The financial highlights are:

4.1.6 Bilateral Assistance

The OAG reported only a sum of US\$2,875,000 from the external assistance, while the actual and investigated vouched report by the PFMU, reflects the total receipts being US\$42,875,000. The difference between the two being US\$40,000,000 (\$42,875,000 – 2,875,000) was wholesomely misappropriated by the TFG. The occasioning factors towards this conclusion are:

- i. It was never reflected in the TFG budget;
- ii. It was neither reported by the OAG.

The breakdown of the assistance is as reflected in tables 6 and 7 below:

Table-6: Breakdown of the Bilateral Assistance

United States of America	\$500,000
United States of America	25,000
China	500,000
Libya	1,600,000
Rwanda	250,000
Total	\$2,875,000

The sum of US\$2,875,000 was reflected in the financial statement of the OAG and the PricewaterhouseCoopers report.

The breakdown of the US\$40,000,000 is as follows:

Table 7:

Country	Payment		Lump sum	Total
	No. Months	Amount		
Libya	10	2,000,000		20,000,000
Libya			2,000,000	2,000,000
Libya			1,000,000	1,000,000
Sudan	10	1,000,000		10,000,000
UAE			7,000,000	7,000,000
Total				\$ 40,000,000

These sum US\$40,000,000 was misappropriated by the TFG.

- In view of the above misappropriation, the parliament must subject the under-listed responsible offices for further investigation. The offices are:
 - Office of the President;
 - Office of the Prime Minister;
 - Ministry of Finance; and
 - Ministry of Telecommunication

4.2 Recurrent Expenditure Analysis

The resultant recurrent expenditure budget variation from the PFMU and OAG is about US\$144,079,691 (PFMU US\$155,150,000 – OAG US\$11,070,309). The synoptic summary budget analysis variation for the entire year is follows:

- i. The PFMU budgeted revenue receipts of US\$155,135,000 were adequate to fund all the government recurrent expenditures. The revenue was potentially available for collection by the TFG but, it failed to do so, without a convincing reason and on no apparent account.
- ii. The corresponding recurrent expenditure against the revenue was US\$155,150,000 and was adequate for all the government ministries and institutions for the entire accounting year.
- iii. The deficit arising there from is about (US\$15,000). PFMU US\$155,135,000 – US\$155,150,000).
- iv. The above amount was collectible and manageable if transparent and accountability management was enforced by the government. Donor's support of the equivalent would have been available in the context of the afore-going.

Table 8: 2009 TFG Budget Summary Overviews

Annual Budget	PFMU	OAG	TFG Budget	Variations
Total Revenue	\$155,135,000	\$11,083,950	\$55,200,000	\$144,051,050
Total Recurrent Expenditure	\$155,150,000	\$11,070,309	-	\$144,079,691

There are glaring financial budget disparities among the three reports. OAG reports must of necessity be closer to the TFG budget and vice versa. However, has reflected above the disparities are so large and thereby attracting further investigation. The PFMU budget report is isolated from either of the two but based on investigations, hence, its transparency in the management of the government financial affairs.

5. Audit Investigation Report 2010

Honorable Members, I do not need to go through the same detailed budget analysis for the accounting year 2010 as it is a replica of 2009; with your acceptance, I hereby submit a summarized variation format analysis of the Public Finance Management Unit investigations, with OAG report and the TFG budget provision.

5.1 Summarized Budget Analysis

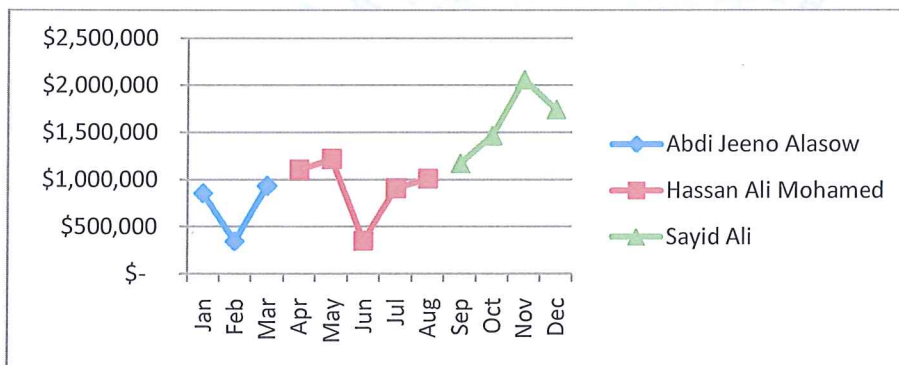
5.1.1 Revenue

The Public Financial Management Unit confirmed that the potential revenue over the accounting year to have been US\$156,802,428 while the OAG was US\$21,976,274. The resultant financial difference is US\$134,826,154 (US\$156,802,428 – US\$21,976,274). Although the bilateral assistance dropped to US\$32,725,000 up from US\$42,875,000 the difference being (US\$10,150,000) the locally generated revenue kept on increasing.

The major items of revenue are:

5.1.1.1 Customs

The budget revenue is potentially realizable from the Mogadishu Port. The port is a major ship route in the international trade. The graph below reflects the existing potential of the port vis-a-vis the personality occupying the office at the time. What is required for the port to remain financially afloat is to develop transparent and accountable structures of revenue management.



5.1.1.2 Levy on Khat

It should be noted that there are a number of revenues which are not adequately reported, the most important being the levy on Khat. This sector should be the second largest income generating source of revenue. A UN Monitoring Group Report states:

“Kenya alone earns more than \$250,000,000 a year from the export of Khat in Somalia. That would suggest another \$250,000,000 profit is generated insider Somalia at the various stages of distribution.” NGO Security Programme

In retrospect, the Minister of Finance with the knowledge of the TFG Executive Branch made an agreement in March 2009 with Kenyan government to tax exported Khat going to Somalia on Kenyan soil. Although the specifics of the deal are ambiguous, the public is aware that the MoF approved the collection of a Somali-based tax on foreign land. MoF claimed a 10 percent tax cut but a source from the Ministry of Finance indicated that the tax cut was 15 percent if not more. This claim can be validated through the records of the Kenyan MoF.

The amount collected on Kenyan soil however, was roughly \$25,000,000 (10 percent out of the \$250,000,000). Internally the tax cut was 5 percent out of the \$250,000,000. Therefore, there was \$12,500,000 collected with a grand total of \$37,500,000 in 2009 which was purposely kept in the dark. The same has been factored with a 6 percent growth and thereby translating into US\$39,750,000. The Somali's Executive Branch and the MoF deliberately failed to leave any traces of this information on paper.

5.1.1.3 Levy on Telecommunication

The Somali telecommunication industry is one of the leading industries in the continent. There are very few citizens who own landline, leaving the rest of population using wireless devices. Given there are 1.5 million of cellular phone users for example, that each user spends about \$30 per month on wireless essentials, this would equate to a \$540 million/year income generating by the sector only.

In 2009 and 2010, telecom industry paid a minimum amount of money estimated \$100,000/per month to the Minister of Telecommunication (MoT). However, this amount varied according to the needs of the Minister as well as the Executive Branch. Thus, Somalian Telecom Industry is currently not subjected to service tax, registration fees and other related charges. Given the actual state of Telecom Industry this sector could have potentially served the TFG as number one sources of revenue. However, the TFG has failed to exploit this sector for the following reasons:

1. There is no fixed tax bracket for this sector which automatically leads to a grave loss of income for the TFG. For example, given the TFG implements a mere 3 percent tax cut to the three main Telecom Companies (Nation, Telecom, Hormud), that would mean a total revenue of \$48,600,000 in 2009, which could have made a significant difference in government revenue. The same has been factored with a 5 percent growth and thereby translating into US\$51,030,000. The Somali's Executive Branch and the MoT deliberately failed to leave any traces of this information on paper.
2. The Executive Branch and the Minister of Telecommunication understand the potential of this sector they opted to withdraw the current earnings for their own personal gain when it should have been deposited in the treasury. They informally settled an agreement with these companies that ensures they can withdraw money at their own discretion at any given time.

In such a situation, the Telecom Companies are not to blame. The TFG is responsible for implementing rules and regulations that ensure the lawful and expected amounts of revenue enter the coffers of the TFG.

5.1.1.4 Bilateral Assistance

The bilateral assistance records presented by OAG are not comprehensive enough to identify the sources of receipts, the amount disbursed and utilized. These scanty details available are tabulated below.

The table-9 reflects total bilateral receipts of US\$6,515,900 while the PFMU confirmed a sum of US\$9,615,900. The shortfall of US\$3,100,000 was not accounted for and the OAG must be subjected to its utilization or otherwise. The sources of the difference are Sultanate of Oman US\$3,000,000 and Norway US\$100,000.

Table-9: Bilateral Assistance

1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter			Total	
Date	Amount	Source	Date	Amount	Source	Date	Amount	Source	Date	Amount	Source		
5-Jan-10	200,000	Unknown	15-Apr-10	100,000	Norway	26-Jul-10	100,000	Unknown	27-Oct-10	1,500,000	Unknown		
6-Jan-10	390,000	Unknown	20-Apr-10	3,000,000	Oman	18-Aug-10	267,000	UAE	31-Oct-10	650,000	Unknown		
6-Jan-10	197,900	Unknown	24-Jun-10	490,000	Unknown	23-Aug-10	50,000	UAE	15-Nov-10	150,000	Unknown		
13-Jan-10	800,000	Unknown				25-Aug-10	933,000	UAE	27-Nov-10	145,000	Unknown		
28-Feb-10	100,000	Unknown				4-Sep-10	100,000	Sudan					
3-Mar-10	300,000	Unknown				5-Sep-10	143,000	Sudan					
	\$ 1,987,900			\$490,000			\$ 1,593,000			\$ 2,445,000			\$ 6,515,900

Customs receipts, Khat and telecom revenue had a major impact growth. The revenue budget for the year 2010 between the OAG and the TFG budget provision are of relative consistency, the occasioning deficit of US\$103,726 (US\$21,976,274 – US\$22,080,000) is not of material significance. The detailed revenue and expenditure tabulation is as shown in the below budget of year 2010 in fig-4.

As reflected in the budget the office of OAG and TFG budget provision are in variation with the investigated and computed statistics by the PFMU. See the variations in the customs receipts, airport departure, KM.50 Airstrip, levy on Khat and Telecommunications. The variations are indicative of the fact that the OAG and TFG budget team were working in dependently of each other.

The OAG did not account for a bilateral assistance amounting to US\$3,000,000. The amount was from the Sultanate of Oman and US\$100,000 from Norway. There is documentary evidence for the transaction and as such OAG under the Ministry of Finance should be subjected for a further scrutiny by this House of Parliament.

5.1.2 Recurrent Expenditure

The recurrent budget by the TFG and OAG report reflects a substantial deficit from the potential revenues accruable for the same year. The TFG budget has a total expenditure sum of US\$110,400,000 against revenue receipts of US\$22,080,000 resulting into a deficit of US\$88,320,000. The OAG has revenue receipts of US\$21,976,274 against of expenditure sum of US\$20,089,882 resulting into a surplus of US\$1,886,392. The recurrent expenditure between the OAG and TFG budget for the year 2010 reflects a financial deficit of US\$90,310,118 (US\$20,089,882 – US\$110,400,000). The TFG government spent far below the budget allocated, and yet the operational costs across the government institutions were grossly underfunded. The most glaring financial expenditures are to be found in the following:

5.1.2.1 National Security

According to the office of the OAG, the national security expenditure was US\$13,882,788 while TFG spent only US\$9,000,374. The tabulation expenditure of the government is as shown in tables 10 and 11 below.

Table-10: National Security Quarterly Expenditure (April-June) 2010

Expenditure Category	Details	Unit Costs \$	Quantity	Amount \$/Quarterly
Wages & Salaries	Security forces & militia (monthly)	Not included		
Food allowances	Military quarterly subsistence	\$30	14,000	\$1,260,000
Food allowances	Police quarterly subsistence	\$30	4,500	405,000
Food allowances	Security	\$30	800	72,000
Food allowances	Guards & Wardens, etc	\$30	1,000	90,000
Medical allowances	Military + Police (quarterly costs)	Lump sum		796,420
Medical treatment in neighboring countries		Lump sum		1,428,600
Transport allowances	Quarterly vehicle spare parts, & misc.	\$165,660/month – lump sum		496,980
Air transport	Quarterly cost	Lump sum		200,000
Fuel-30 barrel per day	Quarterly cost	\$180	30	486,000
Grand Total				\$5,235,000

Table-11: National Security Quarterly Expenditure (October – December) 2010

Months	Expenditure Category	Details	Unit Costs	Quantity	Amounts
Oct-10	Fuel, Food & Maintenance		Not available		\$1,785,521
Nov-10	Fuel, Food & Maintenance		Not available		1,083,158
Dec-10	Fuel, Food & Maintenance		Not available		896,695
Grand Total					\$3,765,374

However, the difference between OAG audited figure of US\$13,882,788 and the government expenditure of US\$9,000,374, amounting to US\$4,882,414 was not accounted for. In spite of this, it was inconceivable how the government spent US\$9,000,374 and OAG audited sum of US\$13,882,788 while the security force were fully funded by both US and EU. However, the potential expenditure confirmed by the PFMU was US\$68,640,000. This amount was adequate to fund all the government operations and against the available revenue generated.

5.1.2.2 Members of Parliament

The OAG audited expenditure for MPs was US\$2,399,042 while PFMU financial investigation report revealed a sum of US\$2,578,200. The difference, amounting to US\$179,158 was not accounted for. Further financial discrepancies are to be found in the months of June and August, during which the MPs received stipends from both the UN and TFG funds. This amounted to US\$1,180,600 (US\$210,000 + US\$210,600 + US\$490,000 + US\$270,600). The months and amounts are highlighted in red as shown in below table-12 and 13.

Table-12: MPs stipends – donor’s contribution through UNDP

Month	No. of MPs	Monthly Stipends	Total Amounts	Released Date
May-10	409	\$600	\$245,400	July 15 th , 2010
June-10	350	\$600	\$210,000	August 26 th , 2010
July-10	380	\$600	\$228,000	September 2 ND , 2010
August-10	351	\$600	\$210,600	December 10 th , 2010
September-10	416	\$600	\$249,600	January 28 th , 2010
TOTAL			\$1,143,600	

Source: UNDP

Table-13: TFG contribution to the PMs

Month	No. of MPs	Monthly Stipends	Total Amounts
March-10	333	\$1,200	\$399,600
June-10	409	\$1,200	\$490,800
August-10	451	\$600	\$270,600
October-10	456	\$600	\$273,600
TOTAL			\$1,434,600

Source: Central Bank of Somalia (CBS)

In spite of above-mentioned financial discrepancies the PFMU reports and TFG budget are not of material variation as the difference between the two is only US\$7,350,000 (PFMU US\$18,150,000 – TFG budget provision US\$10,800,000) as compared with OAG audited budget expenditure. The difference between the OAG, PFMU and TFG budget provision is shown in table-14.

Table-14

PFMU	OAG	Difference
US\$18,150,000	US\$2,399,042	US\$15,750,958
TFG	OAG	
US\$10,8000	US\$2,399,042	US\$8,400,958

In view of the importance and significance of the Honorable Members duties of formulating legislative policies for the democratic governance of the country, more recurrent expenditure would have been ideal. This would no doubt promote their legislative duties more effectively and efficiently, hence the PFMU investigated budget provision of US\$18,150,000.

5.1.2.3 Integrity Institutions

With respect to MoF – Integrity Institutions relations and integrity institutions activity in the TFG has recently encountered a watershed. Tensions between MoF and integrity institutions mostly surface in the debate over accountability and transparency. For example, lack of understanding by the Minister of Finance, about the purpose of audits sometimes makes it difficult for auditors, in particular, to obtain appropriate audit evidence. Naturally, there is a fear of Auditors. The Minister of Finance thinks the work of Auditors is meant to “shed light on his illegal activities.” The MoF does everything to resist Auditors. Such resistance ranges from failing to cooperate with Auditors; refusing to grant Auditors free access to areas under audit; and refusing to provide supporting documents. The current posture of auditing in the TFG is rather fueling tensions between Auditors and the MoF as well as his permanent secretary, which resulted in both parties taking part in war of words.

The Central Bank is another integrity institution which is also wanting in terms of budgeting capacities. The Bank is the financial custodian of all the government revenues and charges a 2 percent commission on every deposit and yet it was grossly underfunded. In the entire 2010, central bank employees were paid their salaries for only three months (August, September and November) as shown in table 15.

Table 15: CBS Employee Salary for the month of August, September, and November 2010

Central Bank	Month of August, 2010			Month of September, 2010			Month of November, 2010		
	No. Personnel	Stipends	Total	No. Personnel	Stipends	Total	No. Personnel	Stipends	Total
Governor	1	\$150	\$150	1	\$44	\$44	1	\$44	\$44
Director General	1	150	150	1	44	44	1	44	44
Assistant Director General	4	150	600	4	44	176	4	44	176
Head of Section	5	150	750	5	44	220	5	44	220
Technical Officers	11	150	1,650	11	44	484	11	44	484
Clerks	27	150	4,050	27	44	1,188	27	44	1,188
English Teacher	1	300	300	1	300	300	1	300	300
Auxiliary	10	150	1,500	10	44	440	10	44	440
Auxiliary (Home)	1	150	150		44	-		44	-
Security	21	150	3,150	21	44	924	21	44	924
Sub-Total	82	\$ 1,650	\$12,450	81	\$696	\$3,820	81	\$696	\$3,820
									\$20,090

In view of the huge commission charged collections by the Central Bank it is in conceivable, how they fail to draw their monthly salaries. To this end, PFMU investigation report established that the amount which should have been allocated to the integrity institutions is US\$6,600,000. For the details see the budget breakdown on figure-3.

At present, all accounting is centralized within the Accountant General Office (AGO). Reporting to the Permanent Secretary of the Ministry of Finance is done on demand. This will remain appropriate until each ministry has staff with well trained numbers of accountants and internal audit personnel who could accurately provide reports to the Ministry of Finance and Accountant General Office. The quality of the reports will need improvement: they fairly capture all spending from line ministries and other government institutions but omit President, Speaker and Prime Ministers' personal spending.

In view of this, PFMU highly recommends to this House of Parliament to formulate legislative bills for separating and empowering the integrity institutions from the executive government.

5.1.2.4 Local Government

In 2009, the mayor's office was completely idle and dysfunctional; there were no reports of funding by the TFG for that year. At the end of July 2010 however, Prime Minister allocated \$50,000 to the mayor of Mogadishu but this amount was left undeclared by the Accountant General.

The months of October, November, and December was a period of uncertainty for the TFG due to internal rifts. During this period, the current MoF allocated \$1,500,000 to the local government, however, \$682, 504 was declared in the annual statement. MoF claimed that 15 percent of this amount came from the Port of Mogadishu income for the months of October, November and December. Given the \$50,000 received from the Prime Minister and

\$1,500,000 received by MoF this would have amounted to \$1,550,000. Now if we compare this amount to what was declared, there is a discrepancy deficit of US\$867,496. Where did this money go?

The PFMU factored a growth of 10 percent from the previous budget (US\$3,600,000) brings to the amount displayed in Annual Budget Discrepancies (\$3,960,000). This was the annual realistic budget had the internal and external revenues been equitably disbursed according to each sectors needs and requirements. The two budgets are irreconcilable and PFMU request this house to adapt their reports as it is based on facts and figures.

Figure-4: Summarized 2010 Annual Budget Discrepancies

Annual Budget	PFMU	OAG	TFG Budget	Variations
Domestic Revenue				
Customs Receipts	\$30,000,000	\$12,635,341	\$18,000,000	\$17,364,659
Airport Departure	1,800,000	430,165	1,200,000	1,369,835
KM.50 Airstrip	1,008,000	149,428	960,000	858,572
Levy on Khat	39,750,000	-	-	39,750,000
Telecom Revenue	51,030,000	-	-	51,030,000
Other Revenue	489,428	446,122	1,920,000	42,306
Hawala (Domestic loans)	-	1,799,318	-	(1,799,318)
Sub-total Domestic Revenue	\$124,077,428	15,460,374		108,617,054
External Assistance				
Bilateral	32,725,000	6,515,900	-	26,209,100
Multilateral	-	-	-	-
Sub-total External Receipts	32,725,000	6,515,900		26,209,100
Total Revenue	\$156,802,428	\$21,976,274	\$22,080,000	\$134,826,154
Expenditure				
Office of the President	3,960,000	\$1,381,327	2,472,000	2,578,673
Office of the Prime Minister	6,600,000	825,551	2,748,000	5,774,449
Office of the Speaker	2,640,000	380,000	-	2,260,000
Parliament	18,150,000	2,399,042	10,800,000	15,750,958
Line Ministries (39)	51,480,000	212,030	31,602,000	51,267,970
National Security	68,640,000	13,882,788	49,617,000	54,757,212
Auditor/Accountant General	3,960,000	14,000	828,000	3,946,000
Central Bank	2,640,000	6,000	-	2,634,000
Constitutional Commissions & Bodies	5,280,000	109,000	7,068,000	5,171,000
Repayments of Loans (Dhabshii)	-	132,640	-	(132,640)
Local Government	3,960,000	682,504	-	3,277,496
Contingencies ²	3,355,000	65,000	5,265,000	3,290,000
Total Recurrent Expenditure	\$170,665,000	\$20,089,882	\$110,400,000	\$150,575,118
Surplus/Loss	(13,862,572)	\$1,886,392	(88,320,000)	\$11,976,180

² The amount for ASWJ was included in the contingency item of the budget.

The breakdown for the drop in bilateral assistance and due to lack of transparent and accountability is as shown in table-16:

Table-16: Funding by the Arabian donors in 2010

Country	Payment		Lump sum	Total
	No. Months	Amount	Amount	
Libya	2	1,000,000		3,000,000
Sultanate of Oman			3,000,000	3,000,000
Sudan	11	1,000,000		11,000,000
Sudan			725,000	725,000
UAE	3	5,000,000		15,000,000
			Total	\$ 32,725,000

6. Recommendation

The Public Financial Management Unit recommendations on the investigation report are as follows:

- i. That parliament approves mid-term budget reviews (after every three months);
- ii. That the PMFU is transformed into a statutory but autonomous organization for effective and efficient monitoring of the budget;
- iii. That the PFMU gets direct budget from the MoF and reports to parliament;
- iv. That all the constitutional offices be adequately funded so as to occasion operational efficiency;
- v. That the current annual budget be adjusted to reflect the correct and real status;
- vi. That the three higher offices – office of the president, prime minister’s office and the office of the speaker be subjected to a constituted parliamentary committee for further interrogation;
- vii. That the integrity institutions be allocated relatively adequate budget funding; and
- viii. That the PFMU be constitutionally empowered to dialogue with donor countries for both cross-verification of funding levels.