



THE FEDERAL GOVERNMENT OF SOMALIA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The Federal Government of Somalia
Financial Statements for the Year Ended 31` December 2012
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Statement of Responsibilities by Accountant General

The Financial statements set out from page 17 to page 28 have been prepared in accordance with provisions of the Financial and Accounting procedure of the State, 1961 as amended and to mirror the requirements of the Cash Basis International Public Sector Accounting Standard (Cash Basis IPSAS) as much as is practicable.

In accordance with Article 26 of the Financial and Accounting procedure of the State, 1961 as amended, the Minister of Finance shall prepare the annual accounts and shall have the accounts submitted to the Magistrate of Accounts for audit in accordance with Article 90 of the Constitution, not later than the 30th of April of the year following that to which the said Annual Accounts relate. Article 27 of the Financial and Accounting procedure of the State, 1961 as amended further provides that “the annual accounts approved by the council of Ministers and accompanied by a report of the Minister and a report of the Magistrate of Accounts on his audit shall be presented to the National Assembly for approval not later than 30th June following year to which the accounts relate”.

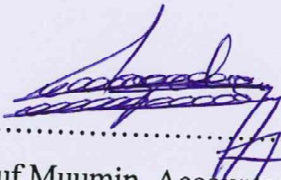
Article 7 of the Regulations for the Accounts of the State, 1962 as amended delegates the duty of preparing the financial statements prescribed by Article 26 of the Financial and Accounting Procedure of the State, 1961 as amended to the Accountant General. It provides that “as part of his duties, the Accountant General shall prepare the final accounts of the state in accordance with article 26 of the Financial and Accounting Procedure of the state.

In accordance with Article 30 of the Financial and Accounting procedure of the State, 1961 as amended, the responsibility for managing the accounts of the state, advising Secretaries of State on the accounting systems for their Ministries, exercising supervision over the management of cash and stores, the handling of public money, securities, stamps and other moveable property of the State rests on the Accountant General.

Accordingly, as Accountant General of the Federal Republic of Somalia, I am pleased to submit the required financial statements for the fiscal year ending December 31st 2012, in compliance with the law. I have provided, and will continue to provide all the information

and explanations as may be required in connection with these financial statements. To the best of my knowledge and belief, these financial statements agree with the books of accounts, which have been properly kept.

I accept responsibility for the integrity of these financial statements, the financial information they contain and their compliance with the provisions of Financial and Accounting procedure of the State and the Regulations therefrom.



Ahmed Yusuf Muumin, Accountant General



27/6/2013

Date

Report of the Minister of Finance and Planning

Article 25 of the Financial and Accounting procedure of the State, 1961 requires that annual accounts are prepared and that “the Annual Accounts shall contain such accounts, data and information as may be necessary to show the results of the management of the budget, a comparison between the estimated and the actual revenues and expenditures and any other information prescribed in the Regulations”. These accounts are herein presented for the period covering the fiscal year from January 1st 2012 to December 31st 2012.

This report provides an overview of the budget for 2012 and identifies the main issues arising from its execution, including the following:

- A statement of the objectives of the government, and policy priorities;
- A review of performance for the 2011 fiscal year; and
- A review of performance for the 2012 fiscal year

A statement of the objectives of the government, and policy priorities

Over the past two decades Transitional Federal Governments have come and gone with little or no success in establishing and sustaining key public institutions. Audited financial statements prepared in standard form have not been presented to Parliament in recent years. This is the first full year Federal Government of Somalia financial statements that have used the Cash Basis International Public Sector Accounting Standard (Cash Basis IPSAS) as a guide.

The Government of H.E. President Hassan Sheikh Mohamud inherited a country whose economy was in shambles with a broken civil service and a dysfunctional public financial management system bereft of any real controls such as credible internal and external audit functions. Since the 10th September 2012 the Government through its policy strategy on the “Foundations of New Beginning” has clearly set the path to meet the needs and aspirations of the Somali people. This strategy revolves around six “Pillars”, which shed light on Government’s priority to alleviate the suffering of the citizens and lay strong foundations for building reliable and effective public institutions. This government is poised to ensure that

taxpayers and Development Partners resources will be used effectively and efficiently, and transparently accounted for.

I am pleased to present these financial statements for the 2012 fiscal year as a demonstration of Government's resolve to entrench transparency, accountability and good governance. These financial statements will be audited by the independent Auditor General, and the report of the Auditor General will be submitted to Parliament and published for the benefit of the generality of the people of Somalia.

The Government's central objectives for the next four-year period of the new administration are to:

- a) firmly establish a stable and secure environment across liberated and to be liberated areas, which is conducive for peace, security and economic recovery;
- b) establish responsible institutions of security, justice, human rights and governance;
- c) rebuild institutional capacities and provide opportunities for young people who are the greatest assets of the Republic of Somalia; and
- d) be on a path toward rapid, inclusive and sustainable growth and development of the Somali society.

The Government program is structured in a six-pillar framework, with implementation of reforms and programs under each pillar being pursued simultaneously, the pillars are:

- i. Supremacy of the Law and Good Governance
- ii. Economic recovery
- iii. Peace Building – Social reconciliation
- iv. Service delivery
- v. International relations, and
- vi. Unit and integrity of the country.

The sections that follow highlight the specific priorities of government for the 2013 fiscal year under the six pillar framework. The Government's key targeted priorities are mutually reinforcing as progress in one area facilitates progress in others. Indeed, progress in reforming public financial management enhances the Government's ability to focus resources on improving the nation's security, economic recovery and delivery of basic services.

Pillar 1: Supremacy of the Law and Good Governance

The purpose of this pillar's policies is to ease and eliminate the plight of the people by creating an enabling environment whereby citizens control the government through transparent and accountable policies.

Security: It is the priority of government to strengthen security without which other objectives of government would not be achieved. Government is working to strengthen the capacity of the relevant institutions by providing them with high quality training and needed security equipment as well as pursuing reconciliation and inclusion of all the stakeholders in the peace process.

Judiciary: Government is making efforts to strengthen the effectiveness and integrity of legal and judicial institutions; expand access to Justice and enhance the protection and promotion of human rights under the laws of Somalia, so citizens can trust and support the state.

Good Governance: The goal of the Government is to build and operate efficient and effective institutions and systems, in partnership with citizens, Government will uphold inclusive and democratic principles and accountability in order to strengthen peace and stability. Government is making efforts to increase citizens' participation and ownership of government policy formulation and implementation as a way of laying the foundation for accountable and efficient local and regional governance structures to facilitate the formation of states and regions across the country.

As part of achieving good governance, Government is focused on putting in place public administration systems and processes that have been absent or dormant after more than two decades of conflict and mismanagement. Government is making progress in improvements in public financial management of which these financial statements is a key part. Government has recently announced and is in the process of rolling out a PFM reform action plan to cover the next four years as part of reform activities under pillar 1 of the six –pillar framework adopted by government.

Pillar 2: Economic Recovery

Somalia has suffered prolonged insecurity and total destruction of public assets, such as economic and social infrastructure. This included devastation of all forms of public institutions, public utilities, such as power supplies, water and sanitation facilities. Most of the social infrastructures: schools, hospitals and related facilities were damaged or destroyed. The continued insecurity contributed to impoverishing the population, displaced large numbers of the citizens and endangered the survival of millions of Somalis, particularly in the face of a severe drought in 2011. To revive the economy of Somalia and trigger economic recovery Government is initiating steps to:

- reconstruct a solid national economy that operates under international economic best practices and based on the principles of free market and private ownership;
- Rehabilitate key economic infrastructure, such as public buildings, ports, airports, roads, irrigation canals energy and water facilities.

Pillar 3: Peace building – Social Reconciliation

In peace building, Government is working to improve and establish dialogue that facilitates social reconciliation at the local and national levels; and empower traditional leaders to smooth the progress of healing process of the past misdeeds. Government will endeavor to facilitate social reconciliation at the local, state, and national levels.

Pillar 4: Services Delivery

Government is focused on improving access to quality and adequate social services to all members of the Somali society. Government has made significant interventions to improve the capacity of the social sector ministries to provide support for children, women and other vulnerable members of the society. Government's focus will include but not necessarily limited to the rehabilitation of schools, health facilities and other social services infrastructure. Also, an effective and lean structure of civil servants will be rebuilt with well trained and adequately remunerated personnel to run and operate government services.

Pillar 5: Building Collaborative Relations and Positive National Image

Government is committed to build positive diplomatic and economic relations with neighboring countries and the rest of the world. Our key focus is to create an environment where bilateral and multilateral parties join efforts to support the recovery and reconstruction of Somalia; institutionalizing relations with the Somali Diasporas so that they can effectively participate in the reconstruction and development of the country; and build a solid diplomatic relations that is based on partnership and development that promote positive and frank partnership among nations.

Pillar 6: Unity and integrity of Somalia

Government will keep the country safeguarded and united through peaceful means and reconciliation through dialogue among all stakeholders at all levels of the Somali society, we will focus on reconciliation and trust building. We will pursue ceaselessly the negotiations to heal the past and clear outstanding obstacles so that a new beginning is made possible for brighter future for all Somalis.

Improving Public Financial Management

Government recognizes the importance of improving public financial management in order to meet the goals set out in its program and is mobilizing both financial and human resources needed to establish and reform the public financial management system. As well as improving the day-to-day management of public finances, these reforms are designed to ensure that domestic and donor resources are channeled to Government expenditure programs and projects that meet the needs of the Somali people, as embodied in the approved Government program.

Review of 2011 fiscal year

H.E. Sharif Sheik Ahmed was in charge of the Government during the 2011 fiscal year. The Government then had limited sources to generate revenue to pay for regular state functions, like maintaining peace and social order and providing for essential economic and social services; this was mainly because of the lack of institutional capacity and the conflict affected economy of the country. The only sources of state receipts were from customs duties levied

on goods imported from overseas through Mogadishu Sea and airports and some contributions from a few services rendering companies; telecommunication, and money transfer companies, and big hotels.

A total of US\$35.1 million was collected as domestic revenue compared to the budget of US\$29.9 million. This shows that revenue collected exceeded the budget, an indication of weak revenue forecasting. US\$20.3 million was received as external assistance controlled by the FGS against the budget of US\$68.6 million; clearly, this was far lower than anticipated. Ultimately the total receipts of US\$55.4 million controlled by the FGS fell below the estimated amount of US\$98.5 million in the budget. This translates to a shortfall of about 43.8%. This situation clearly calls for improvements in revenue management to close the gap between budgeted revenues and actual revenues. As a result of the revenue shortfall, there was no expenditure for the development activities. About 70% of the recurrent expenditure under the control of the FGS of US\$55.4 million was spent on Administration and General services whilst the remaining 30% was used to cover security and contingency expenses. The clear picture emerging from the performance of 2011 is the urgent need for reforms in revenue management.

Review of 2012 fiscal year

The revenue collection outturn and practices is a good base for forecasting state revenue. Based on the information available for 2012, the performance of revenue collection has been abysmal. The proposed revenue targets contained in the 2012 budget could not be achieved to the extent envisaged by the 2012 budget, largely because the 2012 budget did not go through thorough scrutiny. It for example did not receive Parliamentary approval, except for the last quarter Mini-budget formulated by the new Government which was approved by Parliament. Revenues for 2012 took a nose dive from the 2011 figures. Domestic revenue was US\$30.1 million and external assistance controlled by the FGS was US\$4.9 million representing only 85.8% and 24.1% of the 2011 figures respectively. A clear disappointing performance, given that performance for 2011 was not the best. As a result of the revenue shortfall, 2012 actual expenditure controlled by the FGS was 36.7% below that of 2011.

When the Mini Budget for 2012 is added to the original budget of 2012, the situation is still not any different. The table below compares the total budget for 2012 including the mini budget with the actual outturn for 2012 including receipts and payments controlled by external third parties.

Table 1: Comparison of Total Budget for 2012 with Actual Outturn for 2012

	FINAL BUDGET	ACTUAL OUTTURN	BUDGET VARIANCE	PERCENTAG E VARIANCE
RECEIPTS	US\$	US\$	US\$	%
Tax Revenue	47,113,000	25,287,082	(21,825,918)	-46.33%
Non Tax Revenue	8,402,000	4,877,652	(3,524,348)	-41.95%
Total Domestic Revenue	55,515,000	30,164,734	(25,350,266)	-45.66%
Bilateral Sources	52,000,000	16,835,541	(35,164,459)	-67.62%
Multilateral Sources	6,000,000	473,015	(5,526,985)	-92.12%
Interest on funds from external assistance	-	126,836	126,836	100%
Total External Assistance	58,000,000	17,435,392	(40,564,608)	-69.94%
Total Revenue	113,515,000	47,600,126	(65,914,874)	-58.07%
Recurrent Expenses				
Administration and General Services	98,661,000	21,201,953	77,459,047	78.51%
Economic Services	7,528,860	3,790,522	3,738,338	49.65%
Social Services	4,438,685	1,280,757	3,157,928	71.15%
Security and Contingency	4,200,000	22,317,431	(18,117,431)	-431.37%
Total Recurrent Expenditure	114,828,545	48,590,663	66,237,882	57.68%
Capital Expenditure				
Administration and General Services	12,400,000	-	12,400,000	100.00%
Economic Services	19,900,000	-	19,900,000	100.00%
Social Services	16,000,000	-	16,000,000	100.00%
Total Capital Expenditure	48,300,000	-	48,300,000	100.00%
Total Expenditure	163,128,545	48,590,663	114,537,882	70.21%
Surplus/ (Deficit)	(49,613,545)	(990,537)	48,623,008	98.00%

From table 1 above, all revenue lines registered negative variances from the budget as a result of which not all planned expenditure could be undertaken.

Government is urgently focused on maintaining macroeconomic stability by aligning public expenditure to Government program objectives. Government will do this by broadening the

tax base through policy reforms, and modernization of tax and customs administration. The current tax administration in Somalia is weak and has several deficiencies. One of the most striking characteristics of the Somali tax system is its excessive reliance on customs duties from the few actively functioning and accessible ports and airports. Over 85 percent of the total Government revenue consists of taxes on imports. In contrast, direct taxes on income, including income from private enterprises, account for less than 3 percent as there are a limited number of qualified personnel working for the Government. This imbalance is the result of structural and administrative deficiencies of the tax system.

Another shortcoming of the tax system is its nature of being specific rather than ad-valorem. Specific import duties range from zero for some food items to over US\$1,000 on imported vehicles and some luxurious items. The specific nature of the tax system on the one hand reduces the problem of under-invoicing, but on the other hand is not responsive to inflationary pressures, thus adversely affecting the real value of tax collections.

The customs valuation of imports is one of the weakest areas of Somalia's tax system. Since the collapse of the Somali state in 1991, value-based customs duties are not applied. Imports duties are collected based on the size of the container and not the value of its contents.

Government is committed to improving the administrative efficiency of the tax system to bring about structural changes in the system of taxation, which would help diversify the tax base. Currently the revenue administration collects revenue from both international trade and domestic economic activities. There are lots of untapped revenue as well as unregistered taxpayers. Examples include: bringing the services sector and domestically produced goods in to the tax net i.e. telecommunication companies, money transfer companies, construction companies, utilities and small scale industry. Also, important is enforcing and professionally assessing and collecting income tax from big importers and exporters, hotels, airlines, and professional services providers. Furthermore, landlords who do not pay rental income tax and presumptive tax on small businesses mostly in the informal sector have to be brought into the tax collection system.

With the leadership of our president, H.E. President Hassan Sheikh Mohamud, we have made some preliminary progress on PFM such as the passing of the budget by parliament; the mapping of private property for taxation assessment; a government declaration of zero tolerance for corruption. At the decision of my government we have completed a public financial management self-assessment led by my Ministry with quality assurance from the World Bank and support from the UK in order to understand our strengths, weaknesses, challenges, and eventually outline a common strategy that provides for short-term and long-term improvements and actions for public financial reform in our system. The self-assessment targeted customs, inland, budget, procurement and national asset, central bank, auditor and accountant general's offices, Ministries of telecommunication, ports, transport, and interior, and social services.

The PFM reform strategy and action plan has been presented to donor partners and we are working hard with donors to coordinate funding for the reform strategy and action plan.

As part of the '*New Deal*' in engaging in fragile states, the Government-owned PFM reform strategy provides "one vision, one plan" to form a *compact* that will be used in ensuring harmonization and donor coordination, reducing duplication, fragmentation and programme proliferation".



H. E. Mohamoud Hassan Suleiman, Minister of Finance and Planning



Date

Report of the Auditor General

Report on the Financial Statements for the Year Ended 31 December 2012

Chapter IV, Article 27 of the Financial and Accounting Procedure of the State of 29 December 1961, as amended, provides that annual accounts approved by the council of Ministers and accompanied by a report of the Ministers and a report of the Magistrate of Accounts on his audit shall be presented to the National Assembly for approval not later than 30 June following year to which the annual accounts relate.

We have audited the accompanying financial statements of the Federal Government of Somalia which comprise the Statement of Receipts and Payments for the year ended 31 December 2012, Statement of Budget Comparison with Actuals for year ended 31 December 2012 and a summary of significant accounting policies and other explanatory information. The financial statements for the year ended 31 December 2012 include the transactions for the mini-budget for October to December 2012.

The Minister of Finance & National Planning Responsibility for the Financial Statements

The Minister of Finance & National Planning is responsible for the preparation and fair presentation of these financial statements in accordance with Chapter IV, Article 26 of the Financial and Accounting Procedure of State of 29 December 1961, as amended, and for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor General's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Article 32 of the Financial and Accounting Procedure of State of 29 December 1961, as amended, Article 10 of the Law of the Magistrate of Account of 14 April 1972 and International Standards of Supreme Audit Institutions.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph below, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

i) Opening balances

Opening bank balances and accumulated deficit/surplus for the year ended 31 December 2012 were not audited as this is the first year the Federal Government of Somalia is preparing the financial statements. Accordingly, the accumulated reserves from previous years have been assumed to equal the net financial assets.

ii) Comparative information

The comparative financial statements were not audited, and are based on the information available to the Accountant General, excluding receipts and payments controlled by third parties. Where comparative figures were unavailable, they have been excluded in these financial statements. We have not reviewed the comparative information and do not express an opinion on the same.

iii) Banking transactions and balances not included in the books of account – Account XS/lr 800

Banking transactions for the year ended 31 December 2012 and bank balances as at 31 December 2012 for the bank account number X/S lr 800 have not been incorporated in the books of account of the State. At 31 December 2012, this bank account had a balance of US\$ 1,071,000. On account of failure to incorporate the banking transactions and bank balance for this account in the books of account, we were unable to ascertain the extent of incompleteness of the financial statements as currently presented.

iv) Banking transactions and balance not incorporated in the books of account – Dahabshiil Bank

Revenue from visas and passports issued in Mogadishu and foreign missions is collected through Dahabshiil Bank. The Bank occasionally transfers the revenue collected to the State's Treasury Account. However, there are no bank statements or records from Dahabshiil Bank showing the amounts collected, the amounts remitted and balances from these transactions. In absence of bank statements and records from Dahabshiil Bank, we were unable to ascertain if all revenue and bank balance relating to this account was properly recorded and included in the financial statements for the year ended 31 December 2012.

v) Revenue recognition net of allocations to government institutions

Revenue during the year was recognized net of allocations to government institutions as follows; 15% of revenue collected from Mogadishu Sea Port allocated to Benadir Regional Authority, 1% of all revenue collected allocated to a fund for reconstruction of the Development Bank of Somalia effective 12 August 2012, and 2% of all revenue collected allocated to Central Bank of Somalia. A total of US\$ 4,842,488.06 was allocated to these institutions and thus not recognized in the financial statements. Consequently, the financial statements do not reflect all the revenues collected by the Federal Government of Somalia during the year.

vi) Unreconciled difference between the revenue recognized in the cashbook and the financial statements

Revenue recognized in the cashbook differs from the revenue recognized in the revenue summary. No reconciliation has been done to establish the cause of the variance for corrective action. Receipts recorded in the cashbook for the year total to US\$ 39,643,067 while gross revenue recorded in the monthly revenue summary is US\$ 39,986,847 thus unreconciled difference of US\$ 343,780.

vii) Unreconciled difference between the receipts recognized in the cashbook and the bank statements

Chapter II, Article 11 of the Financial and Accounting Procedure of the State stipulates that the revenue collected should be banked intact into the public treasury. In the circumstance, revenue recorded in the cashbook should be in agreement with total receipts in the bank statements. We however noted that revenue recorded in the cash book for the year was US\$ 39,643,067 while total receipts deposited into the public treasury account was US\$ 39,737,320, thus unreconciled difference US\$ 94,253 which has not been reconciled.

viii) External Assistance grants with no grant agreements

During the year ended 31 December 2012, the Federal Government of Somalia received external assistance grants totalling US\$ 17,435,392 from various bilateral and multilateral sources, including US\$ 4,593,246 from undisclosed sources. We understand there are no grant agreements in place for a number of these funds and in the circumstance, we were unable to establish the completeness and the specific purpose of these grants.

ix) Transactions not incorporated in the books of account (Benadir Regional Authority, allocations to Central Bank of Somalia and Fund for Reconstruction of the Development Bank of Somalia)

The financial statements have not included the financial transactions relating Benadir Regional Authority which received 15% of revenue collected from Mogadishu Sea Port , US\$ 1,130,054.73 grants from Danish International Development Agency (DANIDA) and other direct receipts. The revenue allocations to Central Bank of Somalia as well as the fund for reconstruction of the Development Bank of Somalia are also excluded from the financial statements. In the circumstance, the financial statements as stated do not reflect all the financial transactions for the Federal Government of Somalia.

x) Banking transactions and balance not included in the financial statements - XS/lr 788

During the year ended 31 December 2012, the Financial Management Agent sent a total of US\$ 961,000 from South Sudan funds to the Federal Government of Somalia for the government running costs. These funds were sent through the Central Bank of Somalia and deposited into account XS/lr788 net of transfer costs. Transactions in this bank account amounting to US\$ 941,941.19 as well as balance of US\$ 41.19 at year end have not been included in the financial statements.

xi) Unrecorded salary arrears

During the year ended 31 December 2012, the Federal Government of Somalia was unable to meet salary obligations in some months due to financial constraints. The salary obligation was not accrued in the financial statements at 31 December 2012. However, subsequent to year end, the salary arrears amounting to US\$ 1,530,055 was paid to the honourable members of parliament and other government employees.

xii) Unreconciled difference between payments as per cashbook and payments as per bank statements

Financial and Accounting Procedure of the State of 29 December 1961, Chapter X, Article 91, section 3 stipulates that the bank account as shown in the bank statements should be reconciled with the cash book balance on a monthly basis. Due to capacity constraints at the Accountant General's office, bank reconciliations were not done during the year. Consequently, we noted unreconciled difference of US\$ 175,488.27 in payments recorded in cashbook and that recorded in bank statements.

xiii) Expenditure with no supporting vouchers – travel advances

Article 88 of the Financial and Accounting Procedure of the State stipulates that when a state officer first draws an imprest, the paying officer shall account for this advance as an imprest/advance until the vouchers are obtained to be recognized as expenditure. However, we noted that travel advances were expensed without supporting vouchers throughout the year.

xiv) Expenditure vouchers for external assistance grants

External assistance grants are sent by the financial management agent to specific departments/programs that are funded by the bilateral and multilateral donors, However, these departments/programs do not send fund accountability statements including supporting documents to the accountant general for recording purpose. In the circumstance, we were unable to carry out specific audit procedures for these grants which we considered necessary for the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

.....*Omar Mohamed Muhudin*.....

28/6/2013

Omar Mohamed Muhudin
Auditor General



**THE FEDERAL GOVERNMENT OF SOMALIA
STATEMENT OF RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	NOTES	Receipts and payments controlled by FGS		Receipts and payments controlled by external third parties
		2012 US\$	2011 US\$	2012 US\$
RECEIPTS				
Tax Revenue	2	25,287,082	18,324,095	-
Non-Tax Revenue	3	4,877,652	16,840,465	-
Total Domestic Revenue		30,164,734	35,164,560	-
External Assistance	4			
Bilateral Assistance		4,905,586	20,318,437	11,929,955
Multilateral Assistance		-	-	473,015
Interest on funds from external assistance		-	-	126,836
Total Receipts		35,070,320	55,482,997	12,529,806
PAYMENTS				
Administration and General Services		17,393,427	38,910,021	3,808,526
Economic Services		2,360,467	-	1,430,055
Social Services		724,660	-	556,097
Security and Contingency		14,610,831	16,526,007	7,706,600
Total Recurrent Expenditure	5	35,089,385	55,436,028	13,501,278
Surplus/Deficit		(19,065)	46,969	(971,472)
Opening Cash and Bank Balances	6(a) & (b)	74,039	27,070	14,230,554
Closing Cash and Bank Balances	6(a), (b) & 7	54,974	74,039	13,259,081

THE FEDERAL GOVERNMENT OF SOMALIA
STATEMENT OF BUDGET COMPARISON WITH ACTUALS
FOR THE YEAR ENDED DECEMBER 31ST 2012

	ORIGINAL BUDGET	Mini Budget	FINAL BUDGET	ACTUAL OUTTURN	BUDGET VARIANCE	PERCENTAGE VARIANCE
	US\$	US\$	US\$	US\$	US\$	%
RECEIPTS						
Tax Revenue	37,100,000	10,013,000	47,113,000	25,287,082	(21,825,918)	-46.33%
Non Tax Revenue	7,200,000	1,202,000	8,402,000	4,877,652	(3,524,348)	-41.95%
Total Domestic Revenue	44,300,000	11,215,000	55,515,000	30,164,734	(25,350,266)	-45.66%
Bilateral Sources	42,000,000	10,000,000	52,000,000	16,835,541	(35,164,459)	-67.62%
Multilateral Sources	6,000,000	-	6,000,000	473,015	(5,526,985)	-92.12%
Interest on funds from external assistance	-	-	-	126,836	126,836	
Total External Assistance	48,000,000	10,000,000	58,000,000	17,435,392	(40,564,608)	-69.94%
Total Revenue	92,300,000	21,215,000	113,515,000	47,600,126	(65,914,874)	-58.07%
Recurrent Expenses						
Administration and General Services	66,000,000	32,661,000	98,661,000	21,201,953	77,459,047	78.51%
Economic Services	4,900,000	2,628,860	7,528,860	3,790,522	3,738,338	49.65%
Social Services	3,300,000	1,138,685	4,438,685	1,280,757	3,157,928	71.15%
Security and Contingency	2,200,000	2,000,000	4,200,000	22,317,431	(18,117,431)	-431.37%
Total Recurrent Expenditure	76,400,000	38,428,545	114,828,545	48,590,663	66,237,882	57.68%
Capital Expenditure						
Administration and General Services	12,400,000	-	12,400,000	-	12,400,000	100.00%
Economic Services	19,900,000	-	19,900,000	-	19,900,000	100.00%
Social Services	16,000,000	-	16,000,000	-	16,000,000	100.00%
Total Capital Expenditure	48,300,000	-	48,300,000	-	48,300,000	100.00%
Total Expenditure	124,700,000	38,428,545	163,128,545	48,590,663	114,537,882	70.21%
Surplus/ (Deficit)	(32,400,000)	(17,213,545)	(49,613,545)	(990,537)	48,623,008	98.00%

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: General Information and Accounting Policies

(i) General Information

The principal address of the reporting entity is:

Ministry of Finance and Planning

Villa Somalia

Mogadishu

Somalia

(ii) Accounting Policies

These are the specific principles, bases, conventions, rules and practices adopted by the Federal Government of the Republic of Somalia in preparing and presenting the financial statements. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all transactions unless otherwise stated. The following specific policies have been used.

(a) Basis of preparation of the accounts

These financial statements have been prepared in accordance with the requirements of the Financial and Accounting procedure of the State, 1961 and Regulations for the Accounts of the State, 1962. The Cash Basis International Public Sector Accounting Standard (Cash Basis IPSAS): Financial Reporting under the Cash Basis of Accounting was used as a guide.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The accounting policies adopted have been consistently used throughout.

(b) Reporting entity

The financial statements are for the Federal Government of the Republic of Somalia. The transactions captured are only those that are controlled by the reporting entity and those controlled by PwC for and on behalf of the FGS.

(c) Reporting currency and translation of foreign currencies

The functional currency is the United States dollar and the reporting currency is also the United States dollar, which is accepted as legal tender in the Republic of Somalia. Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates.

(d) Reporting Period

The reporting period for these financial statements is the 2012 fiscal year of the Government, which runs from January 1, 2012 to December 31, 2012.

(e) Payments by Third Parties

The Government of Somalia also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of grants managed by PwC on behalf of the FGS. The payments made by the third parties do not constitute cash receipts or payments managed by the Ministry of Finance even though the Government do benefit from such payments. These are disclosed under the column *Receipts and Payments controlled by external third parties* in the Statement of Cash Receipts and Payments and other financial statements. These have also been included in the actual outturn in the statement of Budget Comparison with actuals.

(f) Receipts

Receipts represent cash received by the FGS during the financial year and comprise: Tax Revenue, Non-Tax Revenue, and External Assistance. These Receipts are recognized and included in the financial statements only when received as cash by the FGS or on behalf of the FGS.

(g) Payments

Payments represent outlays of cash made by the FGS or other agencies for and on behalf of the FGS. Payments include only recurrent expenditure and have been classified functionally to comprise the following: Administration and General Services, Economic Services, Social Services, and Security and Contingencies. There was no capital expenditure during the period under review. In general, all payments are recognised and included in the financial statements when cash is paid out.

(h) Property, Plant and Equipment (non-current assets)

Property, plant and equipment principally comprises land, buildings, plant, vehicles, equipment, and any other capital assets controlled by the Federal Government of Somalia. Under the government's cash basis of accounting, purchases of property, plant and equipment would be expensed fully in the year of purchase. There was however no purchases of property, plant and equipment during the period under review.

(i) Comparative figures for previous period

The comparative figures for 2011 have been shown in the statement of Receipts and Payments of Cash only in respect of Receipts and Payments controlled by FGS. There are no comparatives for Receipts and payments controlled by external third parties because of lack of such data. The comparatives could also not be shown for all the analyzed items in the notes because of lack of detailed data for 2011.

Note 2: Tax Revenue

Tax revenues arise from both direct and indirect taxes levied by the FGS and consist of the following:

	2012	2011
Tax Revenue	US\$	US\$
Inland Revenue (direct and indirect)		
Office of Tasa Affair (Inland Revenue)	243,267	-
Ministry of Livestock	1,235	-
Telecommunications	1,123,417	-
All Hawala Co.	317,520	-
Central bank Staff Taxes	5,551	2,106
Staff Taxes	466,254	-
Customs Revenue		
Mogadishu Sea Port	22,209,534	16,830,381
Mogadishu Airport	920,304	811,608
Levy on Chat	-	680,000
Total Tax Revenue	25,287,082	18,324,095

Note 3: Non Tax Revenue

Non Tax revenue represents other domestic revenues collected by the FGS other than from taxes. These comprises of the following:

	2012	2011
Non Tax Revenue	US\$	US\$
Civil Aviation	584,918	643,358
SOMFISH	392	-
Turyare Co.	4,900	-
ADCO	1,550,360	-
Ministry of Transportation	334,535	151,891
Ministry of Commerce	32,193	23,800
Ministry of Education	3,548	13,240
Mogadishu Regional Court	38,392	2,969
Immigration Department	1,352,400	935,000
Ministry of Foreign Affair	4,729	6,310
Chamber of Commerce	661,500	-
Ministry of petroleum	4,802	-
OPR	1,742	-
SKA	155,398	77,882
OPM	117,600	800,000
Office of the President	29,400	-
Solicitor General	843	-
OTA	-	45,788
Refunds	-	178,527
Court fines Smuggled Illegal Money)	-	3,700,000
unknown income	-	10,261,700
Total Non-Tax Revenue	4,877,652	16,840,465

Note 4: External Assistance

External Assistance is grants received from the donor community that are not repayable in future. The amounts under the Receipts and Payments controlled by the FGS are recognised only when received by and are under the control of the FGS. The amount captured in the financial statements for 2012 is from the Government of Qatar and an undisclosed country. Those for 2011 shown in the statement of receipts and payment are from Iraq, Algeria, China and the Emirates. The amounts under Receipts and Payment controlled by external third parties are recognised only when received on behalf of the FGS by PricewaterhouseCoopers. The amounts were received by PwC on behalf of the FGS from the United States of America, South Sudan, African Development Bank, UNSOA and UNPOS. The amount of external assistance received in 2012 consists of the following:

	Controlled by FGS	Controlled by External Third Parties
	US\$	US\$
Bilateral Sources		
United States of America	-	10,930,000
Qatar	312,340	-
South Sudan	-	999,955
Other countries	4,593,246	-
Multilateral Sources		
African Development Bank	-	399,975
UNSOA	-	29,285
UNPOS	-	43,755
Interest on funds from external Assistance	-	126,836
Total external Assistance	4,905,586	12,529,806

Note 5 (a): Recurrent Expenditure controlled by the FGS

Economic / Sectors	Administration and General Services US\$	Economic Services US\$	Social Services US\$	Security and Contingency US\$	Totals US\$	%
Compensation to employees	7,287,950	1,636,000	687,660	-	9,611,610	27.39%
Office Supplies and Materials	738,112	8,000	5,000	-	751,112	2.14%
Fuel and Lubricant	652,300	8,667	5,000	-	665,967	1.90%
Rent	145,167	7,000	5,000	-	157,167	0.45%
Travelling Expenses	99,500	1,000	15,000	14,610,831	14,726,331	41.97%
Utilities	562,244	589,000	7,000	-	1,158,244	3.30%
Catering expenses	7,908,154	110,800	-	-	8,018,954	22.85%
Totals	17,393,427	2,360,467	724,660	14,610,831	35,089,385	100.00%
%	49.57%	6.73%	2.07%	41.64%	100.00%	

Note 5(a) shows that close to 70% of recurrent expenditure controlled by the FGS are committed to the payment of employee compensation, stipends and travelling expenses. Over 91% of total recurrent expenditure is for the administration and general services and security sectors. The economic and social sectors receive less than 9% of recurrent expenditure controlled by the FGS. These are worrying trends that need to be addressed if growth and development is to be realised.

Note 5 (b): Recurrent Expenditure controlled by External Third Parties

Economic / Sectors	Administration and General Services	Economic Services	Social Services	Security and Contingency	Totals	%
	US\$	US\$	US\$	US\$	US\$	
Compensation to employees	2,876,356	-	468,101	7,706,600	11,051,057	81.85%
Utilities	52,730	-	-	-	52,730	0.39%
Fees and Charges	879,441	-	-	-	879,441	6.51%
Mogadishu Facilities Rehabilitation project (DANIDA)	-	1,130,055	-	-	1,130,055	8.37%
Mogadishu Media House Project	-	-	28,114	-	28,114	0.21%
HESPI	-	300,000	-	-	300,000	2.22%
Digital Satellite Service fees	-	-	59,883	-	59,883	0.44%
Totals	3,808,526	1,430,055	556,097	7,706,600	13,501,278	100.00%
%	28.21%	10.59%	4.12%	57.08%	100.00%	

Note 5(b) shows that about 57% of recurrent expenditure controlled by external third parties is committed to the payment of stipends primarily for security forces. About 28% of total recurrent expenditure is for the administration and general services sector and about 57% for security. The economic and social sectors combined receive about 15% only of total recurrent expenditure under the control of external third parties.

Note 6(a): Analysis of opening and Closing Cash and Bank Balances for 2011

ITEMS OF CASH BALANCES CONTROLLED BY THE FGS	01/10/2012	Changes during year	12/31/2012
	US\$	US\$	US\$
Central Bank State Treasury Account	27,070	46,969	74,039
Bank Balance	27,070	46,969	74,039

Note 6(b): Analysis of opening and Closing Cash and Bank Balances for 2012 controlled by the FGS

ITEMS OF CASH BALANCES CONTROLLED BY THE FGS	01/10/2012	Changes during year	12/31/2012
	US\$	US\$	US\$
Central Bank State Treasury Account	74,039	(19,065)	54,974
Bank Balance	74,039	(19,065)	54,974

In 2012, a total amount of US\$1,000,000 was received from the Government of Qatar out of which US\$687,660 is carried forward into 2013. This amount is however not held in the main treasury account at the Central Bank of Somalia. The 2013 financial statements will account for this amount.

Note 7: Analysis of opening and Closing Cash and Bank Balances controlled by External Third Parties

As at December 31, 2012 the cash and bank balances controlled by external Parties comprised of the following:

ITEMS OF CASH BALANCES CONTROLLED BY PWC	12/31/2012
	US\$
Standard Chartered Bank of Kenya Account	554,529
Chase Bank Account	7,983,117
Diamond Trust Bank Account	4,808,424
Bank Balance	13,346,070
Receivables	14,957
Payables	(101,946)
Net Bank Balances	13,259,081

Part of the funds in the closing balance of US\$13,259,081 above was financed from various sources which remained unspent as at December 31, 2012. The details of the sources of these funds are:

Sources	US\$
Chinese Government	8,732
US Government	8,559,242
Libya Government	893
African Development Bank (AfDB)	366,187
UNSOA	18,120
DANIDA	105,380
Spanish Funds	4,070,467
Somali Airline Escrow Account Funds	65
South Sudan	515
Interest received	129,479
Net Bank Balance	13,259,081

Note 8: Budget comparison with actual outturn

The actual domestic revenue outturn fell short of the budget by 45.7% while actual external assistance outturn was about 70% below budget. The target for tax revenue was missed by a significant margin of 46.33% whilst non-tax revenue recorded a deficit of 41.95%. These disparities point to challenges in revenue forecasting, planning and budget formulation, as well as revenue management.

With respect to expenditure, actual expenditure for all the functions fell far below what was budgeted. Total actual expenditure under the control of the FGS was 6% below the budgeted expenditure which itself exceeded the budgeted revenue creating a financing gap of over US\$49.6 million. This can be explained mainly by the significant revenue shortfalls. Not only did government fail to finance the budget deficit, the revenue budgeted could not all be raised. This again brings to the fore, the critical need to step up revenue mobilization mechanisms to increase the revenue base of the government.

Note 9: Authorization Date

The financial statements were authorized for publication on 04/04/13 by H. E. Mohamoud Hassan Suleiman, Minister of Finance and Planning.