



Ministry of Finance Development

# PUBLIC FINANCIAL MANAGEMENT

Handbook

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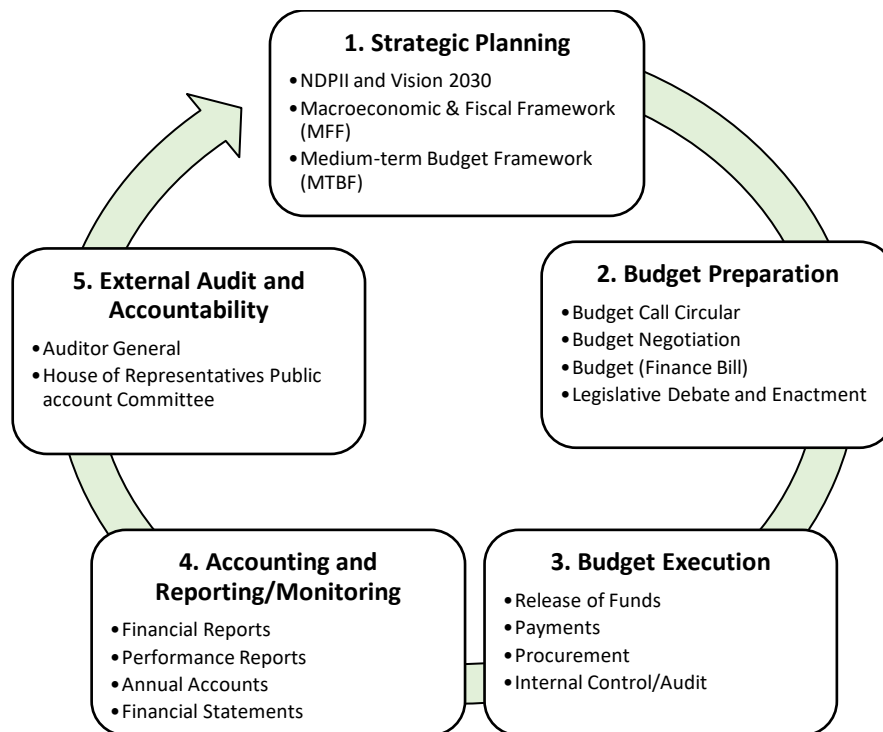
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# 1. PFM Overview

As custodians of the Public’s money, the Ministry of Finance Development (MoFD) in Somaliland is mandated to formulate sound economic and fiscal policies and to efficiently mobilize internal and external financial resources for public expenditure. According to Somaliland’s Constitution, “the procedures for the preparation, implementation, accounting and Auditing of the National Budget shall be determined by law”—namely by the Public Financial Management Act 75/2016 and the Financial and Accounting Procedures of the State.

Public Financial Management (PFM) relates to the process by which the government manages financial flows. It also has to do with the results/implications of those flows on the country as a whole (e.g. promoting growth, reducing inequality, etc.). Sound PFM systems should promote decision-making, they should promote the fiscal health of the government, they should ensure that resources are efficiently raised and used to address the needs of the citizens. More specifically, sound PFM systems are characterized as those that promote: *prudent fiscal decisions, credible budgets, reliable and efficient resource flows and transactions, and institutionalized accountability*. Figure 1 below shows typical stages of a PFM cycle with several stages occurring simultaneously. For example, the preparation of next year’s budget coincides with the execution of this year’s budget.

Figure 1: Stages of the PFM cycle



## 2. Strategic Planning

The strategic phase of the PFM cycle is intended to ensure that policy directives inform the government’s budget decisions. It involves translating the government’s broad policy objectives found in the National Development Plan II and Vision 2030 into financial targets given expected conditions in the economy. It involves forecasting key macroeconomic variables such as GDP, Investment, trade, inflation, exchange rate, the government’s resource envelop, etc. Macroeconomic projections cover the next fiscal year and also provide an outlook for the medium-term (e.g. the next three years). Moreover, projections account for both upside and downside scenarios to ensure credibility of the budget (i.e. revenue collection and actual spending should reflect revenue forecasts and budget promises), and the government’s ability to respond to unexpected spending needs. The output from this stage include:

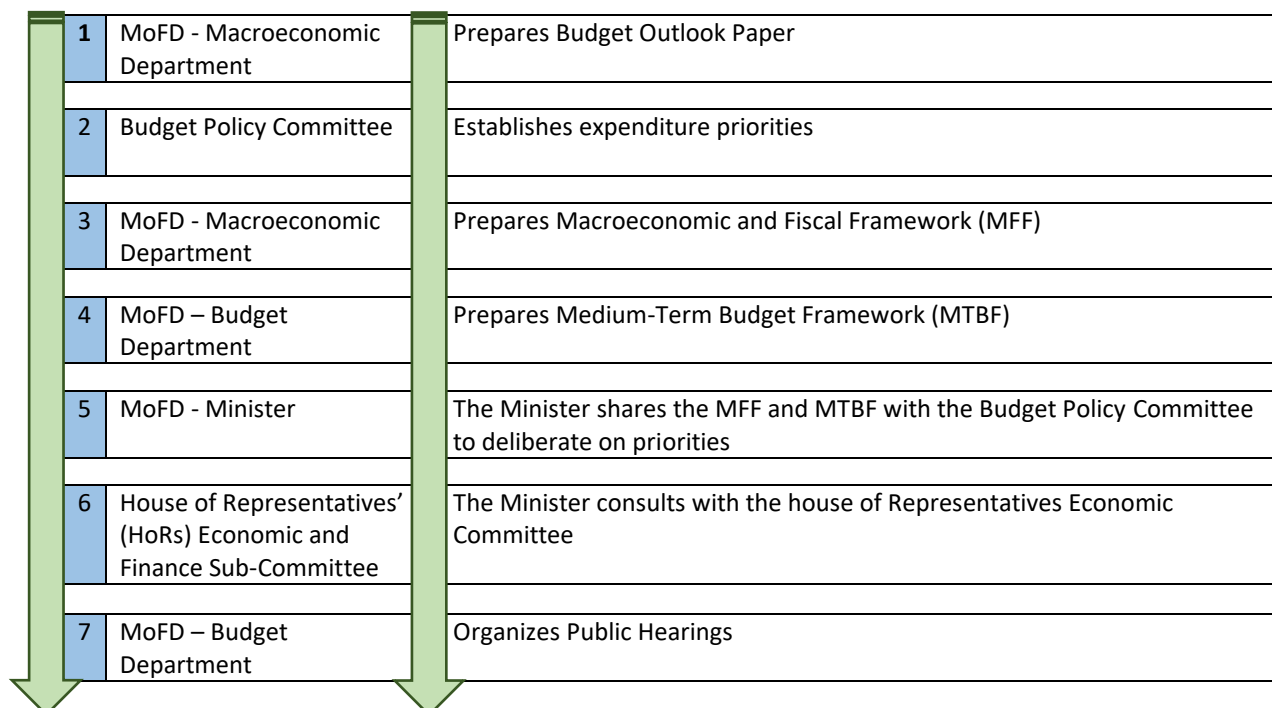
- Budget Outlook paper (BoP)
- Macroeconomic & Fiscal Policy framework (MFF)
- Medium-Term Budget Framework (MTBF).

Successful planning should include all relevant stakeholders to ensure sound policies that are grounded in the NDPII, vision 2030 and that address Somaliland’s pressing needs and long-term goals are formulated. The Ministry of Finance and the Ministry of Planning and National Development play a leading role in this phase. Representatives from both institutions are part of the Budget Policy Committee.

## 3. Budget Preparation

The budget preparation process consists of a series of stages as the following diagram shows:

**Figure 2:** Budget preparation process



8	MoFD - Minister	The MoFD sets indicative expenditure ceilings
9	MDAs	Prepare and submit their budgets to the MoFD
10	MoFD – Budget Department	Negotiates with MDAs
11	MoFD – Budget Department	Prepare and submit the Budget to Cabinet
12	MoFD – Minister and Budget Department	Presents Budget approved by Cabinet to Parliament
13	HoRs’ Economic and Finance Sub-Committee	Discusses with MoFD issues of concern which reflect the Parliament’s reaction to the submitted Budget
14	HoRs	Votes to approve the Budget
15	Chairman of HoRs	Issues a letter of Approval
16	President	Authorizes Budget execution
17	MoFD - Minister	Invites MDAs to spend the approved Budget
18	MDAs	Execute the Budget
19	MoFD – Accountant General	Prepares the government’s annual financial statements
20	Auditor General	Audits the Budget Financial Statements

### 3.1. Budget Outlook Paper (BoP)

The Budget Outlook Paper serves to inform the Budget Policy Committee’s (BPC) discussions on key decisions for the budget for the next fiscal year and the medium-term. The current PFMA Act does not call for the production of a Budget Outlook paper; however, it is seen as an invaluable document in the preparation of the Budget. It provides a contextual framework upon which policies that reflect current economic and social developments are taken. Work on the BoP usually starts in February with the aim of submitting the final version to the Budget Policy committee on the **15th of May**. The BoP presents:

- a. A macroeconomic and fiscal review of the past fiscal year relative to expected outcomes, government policies and targets
- b. A forecast of key macroeconomic variables
- c. A revised revenue forecast for the current year

- d. Potential policy options that the Budget Policy committee could consider

### 3.2. Macroeconomic and Fiscal Framework (MFF)

The Macroeconomic and Fiscal Framework is one of the documents that the Ministry of Finance has to produce every year according to the PFMA Act. The MFF's main objective is to lay out the government's fiscal and monetary policies for the medium-term. It incorporates the Budget Policy Committee's policies following their consideration of the Budget Outlook paper. The framework also provides an outlook of key macro-fiscal indicators for the next three years (e.g. revenue, total expenditure, GDP, Trade, inflation, exchange rate, investment, etc.). The MFF is an expanded and up-to date version of the Budget Outlook paper. Work on the MFF starts as soon as the BoP is submitted to the Budget Policy Committee and is submitted to the Cabinet on the **30th of June** as per the PFMA Act. It presents:

- a. A very brief macroeconomic and fiscal review of the past fiscal year relative to expected outcomes, government policies and targets
- b. An updated forecast of key macroeconomic variables based on up-to-date data
- c. Revised revenue forecasts for the current year, the next year and the medium-term
- d. The Government's fiscal and monetary policies, objectives and targets for the coming fiscal year and medium-term

### 3.3. Medium-term Budget Framework (MTBF)

The Medium-term Budget Framework provides indicative expenditure estimates for each MDA for the coming fiscal year and the medium-term. These estimates are based on the fiscal and monetary policies, targets, priorities and projections outlined in the Macroeconomic and Fiscal Framework. The MTBF provides the size of the government budget and ceilings for recurrent expenditures for each MDA. The ceilings are intended to ensure that eventual budget proposals from MDAs are realistic, justified and adhere to the government's policies and targets. The Budget & Planning department is responsible for this document. The MTBF is submitted to the Cabinet on the **30th of June** as per the PFMA Act and presents:

- a. Expenditure priorities
- b. The total size of the government's Budget
- c. indicative ceilings for recurrent expenditure for each MDA
- d. assumptions and costing that went into the estimates

### 3.4. Public Hearing

The public hearing allows the MoFD to directly share with the public the government's financial plans and intended development priorities for the next fiscal year and medium-term. The MoFD reflects on past fiscal year budgets and government priorities, provides the baseline assumptions informing estimates and priorities. The public hearing is also a way for the MoFD to get direct feedback from Somaliland's citizens in order to ensure their pressing needs are addressed.

### 3.5. Consultation with the Parliamentary Economic Sub-Committee

The MoFD submits the MFF and MTBF to the Parliament, more specifically to the Economic Sub-Committee. This allows the MoFD to ensure that the planned macro-fiscal objectives, priorities and initial estimates are approved by the Parliament on behalf of their constituency.

### 3.6. Budget Circular

The Budget circular provides detailed instructions to MDAs about their indicative spending ceilings, how to prepare their budgets in a way that is consistent with macroeconomic objectives and the resource envelope. It outlines the assumptions that went into the forecasting of macroeconomic variables (i.e. price levels, exchange rate, revenue and expenditure etc.) and the decisions that guided the ceilings adopted on wages and other spend categories. The budget circular is sent out to MDAs on the **30<sup>th</sup> of July** according to the PFMA Act.

### 3.7. Budget Preparation and Submission by MDAs

Once MDAs receive the Budget Circular from the MoFD, they start preparing their budgets in accordance with the instructions and guidelines issued. MDAs have until **August 30<sup>th</sup>** to prepare and submit their budget proposals to the MoFD.

Throughout this process, the MoFD's Budget department and IT Department respond to requests for clarification from MDAs and provide them with technical support regarding ceilings, IFMIS and filling the Budget submission templates.

### 3.8. Budget Negotiations

Following receipt of all budget submissions by MDAs, budget negotiations take place. Representatives of each MDA (i.e. Minister and accounting officials) sit down with the Finance Minister and the Budget department to discuss each ministry's budget proposal. This is the time when MDAs explain their proposals, the assumptions that guided their estimates (e.g. costing methodology) and justify deviations from the ceilings set by the MoFD.

The Ministry of Finance's role in the negotiations is to scrutinize each MDA's budget proposal by making sure that costings and estimates are consistent and are within the ceilings. Moreover, the MoFD ensures that the budget proposals are consistent with the government's priorities, objectives and resource envelope for the coming year and the medium-term.

### 3.9. Budget Presentation to Cabinet

Following the negotiations, the Budget department drafts the central government's budget ensuring that all decisions made during and after the budget negotiations have been addressed. The MoFD then submits the first draft to the Cabinet for review and approval.

### 3.10. Budget Presentation to Parliament

Following approval from the Cabinet, the MoFD's Budget department consolidates the central government's budget with the budgets of all public institutions and external bodies (i.e. Local governments, public enterprises, autonomous agencies and donor funds). The comprehensive Budget reflects revenue and expenditure plans for the following year at details consistent with the type of budgeting system being used (e.g. line budgeting, program budgets, performance budgeting). The Minister of Finance submits the consolidated budget to Parliament on the **1<sup>st</sup> of October** as per the PFMA Act.

### 3.11. President and Minister of Finance Budget signature

Once the Parliament votes to approve the National Budget, the Chairman issues a letter advising of their decision. The President and the Minister of Finance then sign the approved budget indicating a general consensus for government agencies to implement it in the corresponding fiscal year.

### 3.12. Budget Execution Circular

At the beginning of each fiscal year, the Minister of Finance—through the budget execution circular—instructs MDAs to start executing the Parliament approved budget.

## 4. Role of Stakeholders in the Process

### 4.1. Role of the Budget Policy Committee (BPC)

The Budget Policy Committee's role is to deliberate on and approve the government's macroeconomic policy and expenditure priorities in the coming year and medium-term. They also need to approve the MFF and MTBF before they go to the Council of Ministers and House of representatives.

- i. The BPC deliberates on policy decisions based on the forecast of macroeconomic indicators and initial expenditure ceilings. The Committee's decisions are:
  - The size of the recurrent expenditure
  - The size of the capital expenditure
  - The size of the contingency reserve
  - The total government expenditure
  - Fiscal and Monetary policies and targets
  - The expenditure priorities

### 4.2. Role of the Minister of Finance

The Minister of Finance leads the formulation and implementation of sound macroeconomic and fiscal policies for the government of Somaliland to catalyze sustainable growth. In other words, he is responsible for the implementation of the PFM systems. During the strategic planning phase and the budget preparation phase, the minister:



- i. Presents the Budget Outlook paper, MFF and MTBF to the Budget Policy Committee for review and recommendations
- ii. Chairs the BPC's meetings and ensures clear macro-fiscal policies, objectives and targets are identified for the next fiscal year and the medium-term
- iii. Shares the BoP, MFF and MTBF with the Council of Ministers and the Economic and Finance Committee of HoR for feedback
- iv. Consults the Parliamentary Economic Sub-Committee
- v. Signs and circulates the Budget Circular to all MDAs ensuring that the Parliament's feedback on the MFF and MTBF have been addressed
- vi. Chairs the budget negotiations between the MoFD and MDAs. This task can sometimes be delegated to the Vice Minister when the Minister is unavailable.
- vii. Submits and presents the first draft of the budget bill to the Cabinet/Council of Ministers
- viii. Submits and presents a Cabinet approved Budget bill to the Parliament
- ix. The Minister responds to requests for clarification or amendments from the parliament during their deliberation on the Consolidated Budget
- x. Issues a circular to all MDAs at the start of the fiscal year advising them to execute the Parliament approved budget—once the President has signed the Parliament approved budget
- xi. Ensures overall adherence to the Parliament approved budget, policy priorities, objectives and targets
- xii. The Minister also leads the drafting of any supplementary budget deemed necessary during the fiscal year

### 4.3. Role of Ministers of MDAs

The role of Ministers of the various MDAs in the strategic planning and budget preparation phase is as follows:

- i. Contribute to the BPC discussions if part of the Committee
- ii. Evaluate the macro-fiscal policies, objectives, targets and indicative expenditure estimates in the MFF and MTBF throughout the cabinet/Council of Ministers' meetings
- iii. Lead the preparation of their respective budgets and ensure adherence to approved policies and expenditure plans.
- iv. Deliberate on the first draft of the Budget Bill when the Minister of Finance submits it to the Cabinet/Council of Ministers.

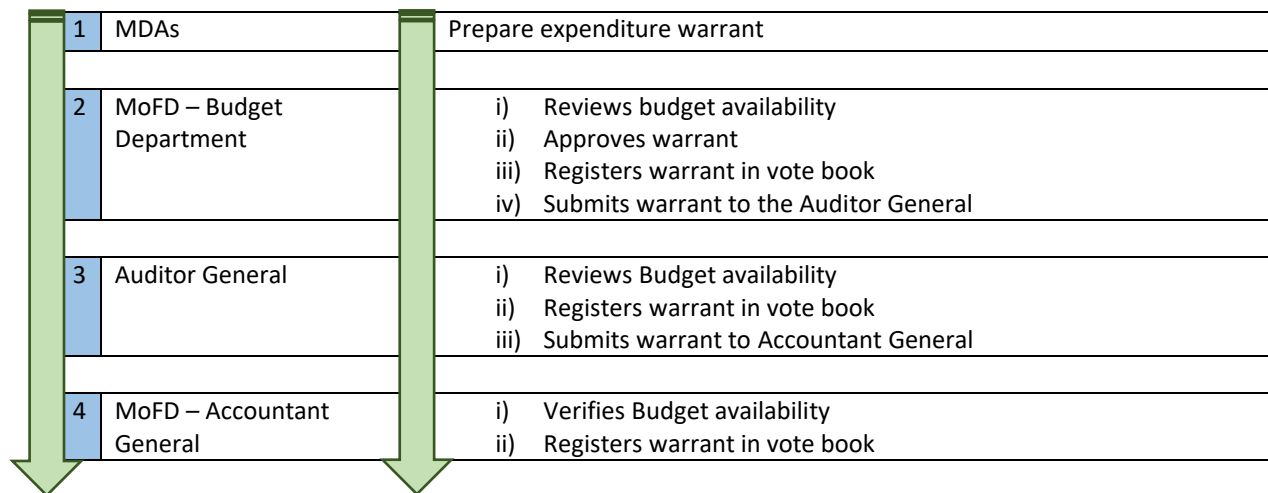
## 5. Budget Execution

The Budget execution phase is simply the set of processes by which revenue raising measures<sup>1</sup> and expenditure plans laid out in the National Budget are realized.

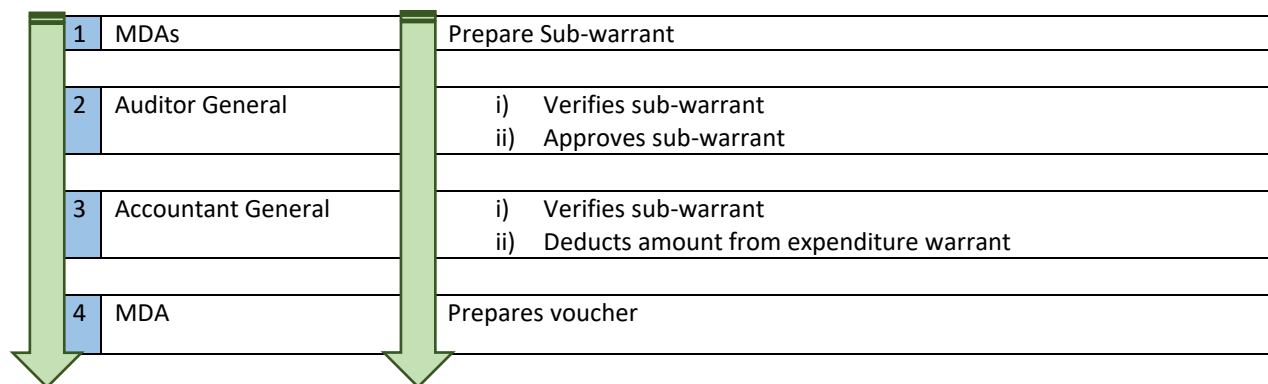
### 5.1. Payment process

The payment process is the process through which funds raised (e.g. by customs, IRD) are transferred to those budgeted to deliver goods & services to the public. There are several steps and stakeholders involved in this process. It starts with the preparation of warrants, which can either be *expenditure warrants, imprest warrants, virement warrants, departmental warrants or reduction warrants* and ends with the preparation of vouchers by MDAs, the issuance of cheques by the Accountant General and the subsequent withdrawal of funds at the Bank of Somaliland by creditors as illustrated below:

**Figure 3: Quarterly Expenditure Warrant Process**

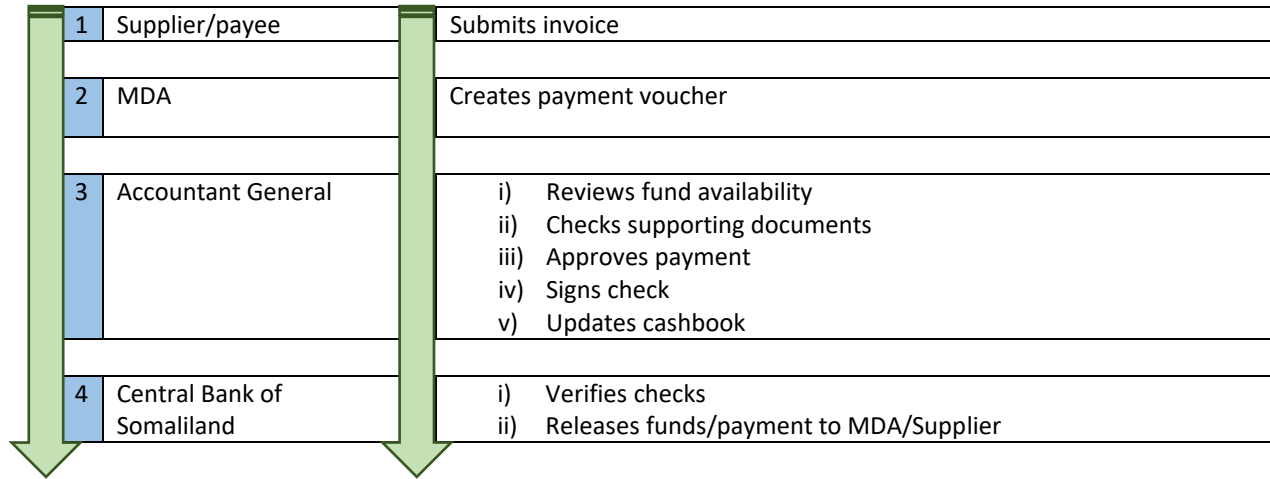


**Figure 4: Department Warrant Process**

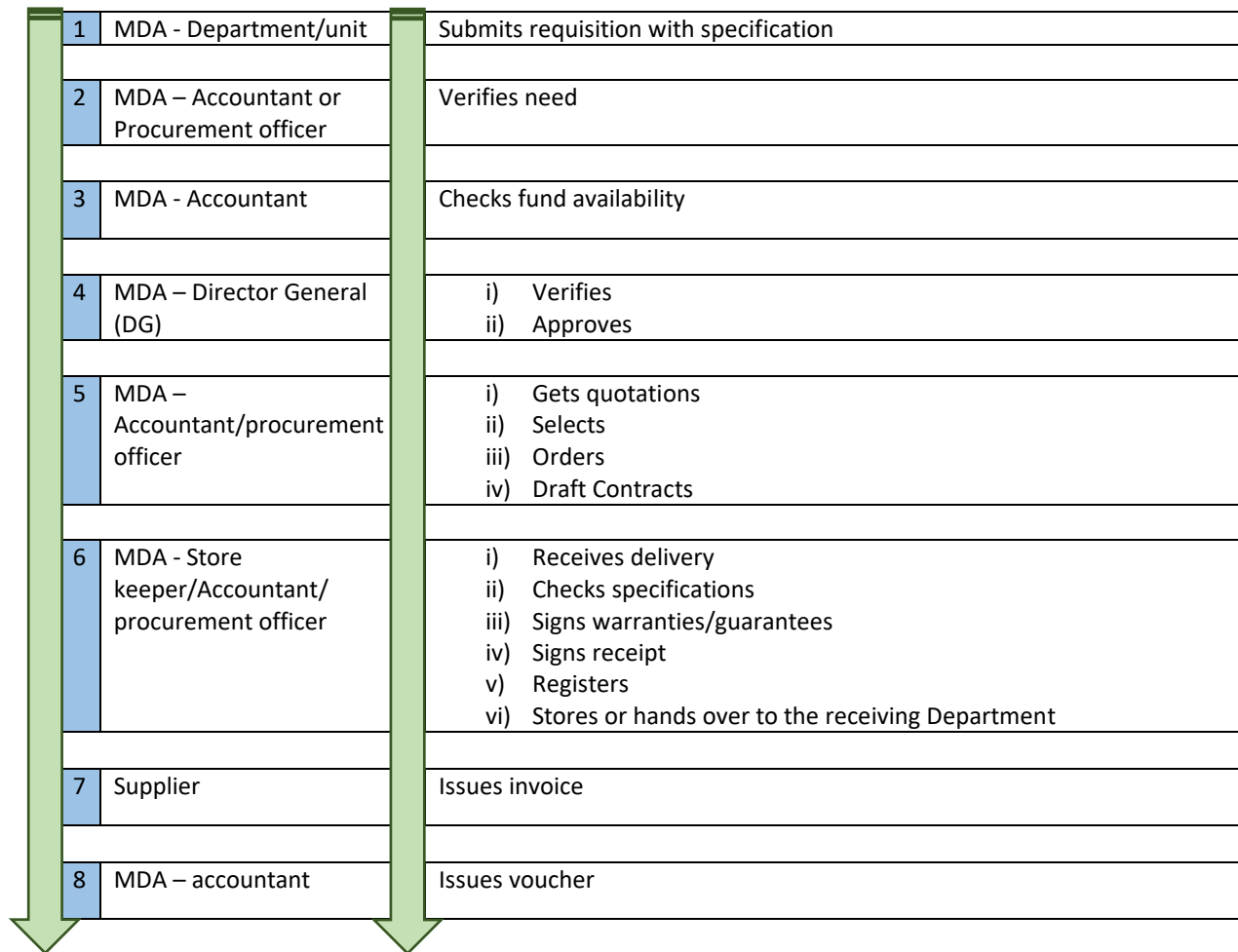


<sup>1</sup> Revenues in Somaliland are raised by the MoFD's custom department and Inland revenue department and by a number of other line ministries.

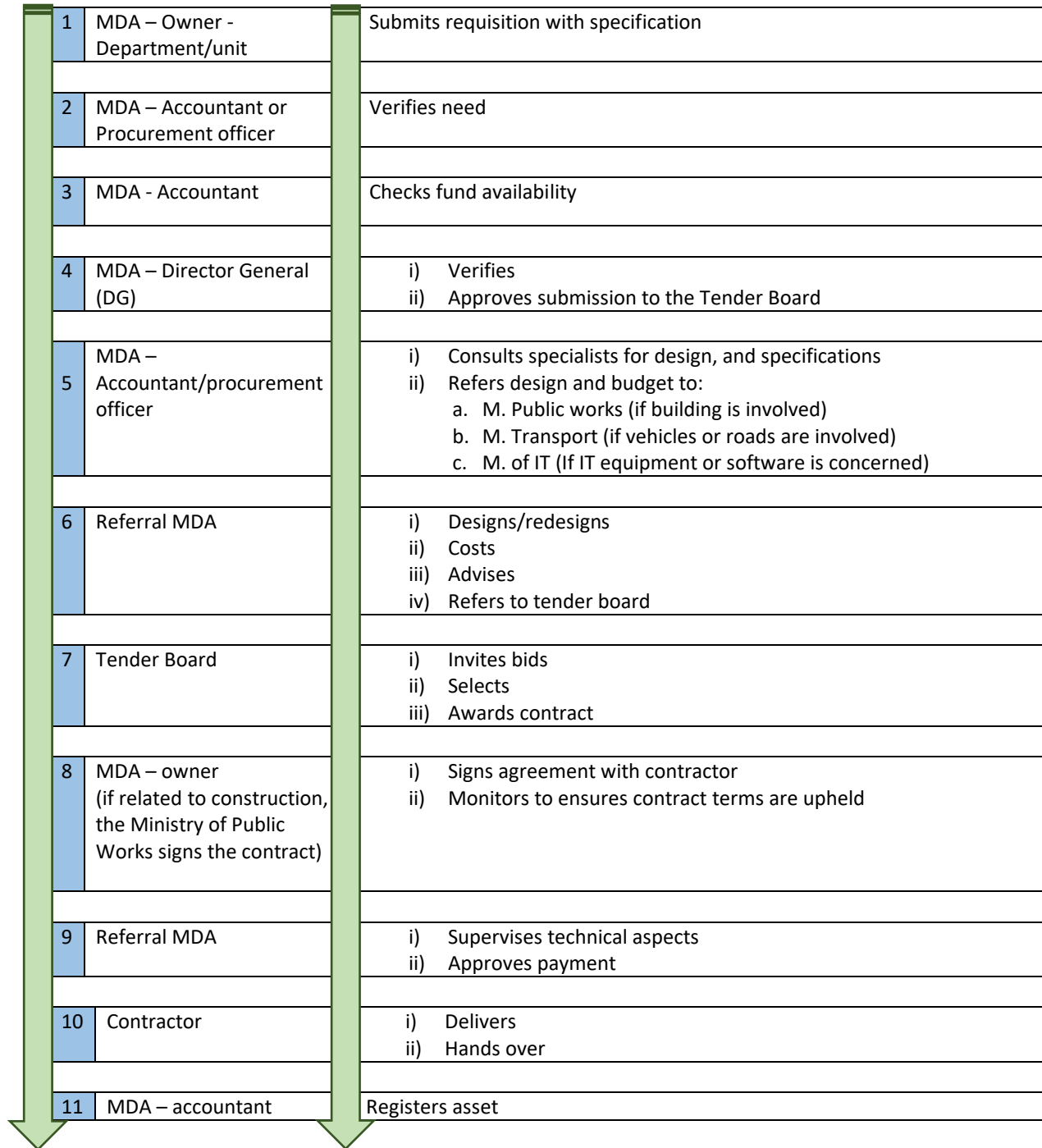
**Figure 5: Payment Process**



**Figure 6: Procurement Process – under \$5,000**



**Figure 7: Procurement Process – Over \$5,000**



5.1.1. Expenditure Warrants

The preparation and approval of warrants represent the first step in allowing funds to be made available to MDAs. It allows funds to move from the vote book of accounting officers, into the cash books.

Expenditure warrants are prepared and processed per quarter and represent the financial resources that an agency has available for a given quarter to cover its planned expenses.

#### Steps in processing expenditure warrants

- i) Accounting officers in each MDA prepare expenditure warrants through IFMIS at the start of each quarter. They also prepare a hard copy which needs to be signed by their respective Minister.
- ii) Both the hard copy and soft copy on IFMIS are then submitted to the MoFD's Budget & Planning department.
- iii) Submitted expenditure warrants are registered in the registrar book by the department's secretary.
- iv) Once registered, the warrants are distributed to the vote book controllers who then check each warrant's amount against the allocation for the corresponding sub-heads/expenditure lines.
- v) Following the verification by the vote book controllers, the warrants are sent to the Director who will approve them on the IFMIS system. This task is often delegated to the Deputy Director in cases when the Budget Director is occupied.
- vi) Once the warrants are approved on IFMIS by the Director, the hard copies of the warrants are signed and stamped by the Budget Director.
- vii) Once the warrants have been signed off by the Budget Director, the Secretary compiles all the signed warrants and prepares a submission letter (listing all warrants and respective amounts, dates and covering period).
- viii) After that, the warrants and the submission letter are submitted to the Auditor General for review.
- ix) Once the Auditor General finalizes the warrant review, the warrants are sent to the Accountant General for final verification.
- x) If the Accountant General gets the expenditure warrants, MDAs will be able to prepare their monthly vouchers and eventually have the Accountant General issue cheques.

#### 5.1.2. Imprest warrants

Imprest warrants allow MDAs to request an advance on their budget to cover urgent expenses. Imprest warrants are issued against specific expenditure lines that occur once or periodically during the fiscal year (e.g. travel allowances, national exam expenses, etc.). Imprest warrants are prepared and processed in the same way as expenditure warrants.

Imprest warrants that lead to the eventual use of cheques to cover expenses such as those related to official travel of government Staff (e.g. accommodation, food) must be accounted for at the end of the activity. If unable to account for the expenses, the full amounts must be returned within 30 days after the activity has ended.

### 5.1.3. Virement

Virement allow MDAs to request funds to be transferred from one sub-head (spending line) to another. This usually arises when there is shortage of funds from one sub-head and an excess amount in another. This also arises when a few spending needs have not been budgeted for during the budget preparation phase. There are however a few conditions to this. Virement requests cannot be made to transfer funds from capital spending lines to recurrent spending lines. On the other hand, virements can be made from recurrent spending lines to capital spending lines. In addition to this, virements can only be made on or after the month of **July** except under unprecedented circumstances.

#### Steps in processing virement

Steps in the virement process more or less follow the same process as that of expenditure warrants. While expenditure warrants, once approved, enable MDAs to prepare vouchers, approved virements enable MDAs to prepare expenditure warrants for the virements made.

- i) Accounting officers identify virement needs and prepare virement requests which their respective Minister signs.
- ii) The virement requests are submitted to the Minister of Finance for approval, which subsequently prompts the Budget & Planning department to prepare the virement warrants that correspond to the requests.
- iii) The prepared virement warrants are approved by the budget Director and signed by the Minister of Finance before being sent to the Auditor general and then to the Accountant General for final approval.
- iv) Once the Accountant General gets the virement warrants, Accounting officers at MDAs then prepare expenditure warrants for the approved virement.
- v) These expenditure warrants then follow the same process outlined earlier.

### 5.1.4. Reduction warrants

Reduction warrants allow MDAs to request funds to be transferred from one spending line to another once expenditure warrants have been approved. Reduction warrants basically allow MDAs to transfer funds from their cash book—following approval of their expenditure warrants—back into the vote books.

Once reduction warrants are approved, MDAs prepare and submit a virement and then expenditure warrants. Similar to virements, reduction warrants can only be made on or after **July**.

#### 5.1.5. Departmental or Sub-Warrants

Departmental or Sub warrants are expenditure warrants prepared by an MDA for a dependent agency or entity funded by that MDA. These warrants are usually prepared for departments that are located outside of Hargeisa (e.g. the MoFD's IRD department in Berbera). Sub-warrants are prepared monthly and follow a slightly different process than expenditure warrants.

#### Steps in processing Sub-Warrants

- i) Accounting officers in MDAs prepare sub-warrants
- ii) The Sub-warrants are submitted directly to the Auditor General for review and approval
- iii) Following approval by the Auditor General, the warrants are sent to the Accountant General.
- iv) The Accountant General reviews the Sub-warrants and deducts the stated amounts from the corresponding MDAs' expenditure warrants prior to approval.
- v) The Accountant General then sends a copy of the approved sub-warrants to the respective departments prompting them to prepare their vouchers.

#### 5.1.6. Vouchers and Payment Cheques

Once warrants have been processed and approved by all stakeholders, the next step is to prepare vouchers in order for the Accountant General to issue payment cheques. Vouchers are prepared monthly and allow MDAs to withdraw the funds they have available in their cash book. Approval of vouchers at the Ministry level is delegated to the Director General (DG).

The DGs are responsible for the day-to-day operations of their respective institutions. They ensure adherence to the Parliament approved Budget (i.e. vote controllers) and approve all the vouchers pertaining to their institutions expenses. They inform the minister or chairman about any payments related to their institution (e.g. development projects, capital expenditure, newly recruited staff, etc.).

#### Steps to process vouchers

- i) Accounting officers at Ministries and departments prepare monthly vouchers according to their financial needs.
- ii) The vouchers prepared are submitted to the Director General who reviews and signs off on them.

- iii) The Accounting officers send the vouchers directly to the Accountant general who will—among other things—review them against the balance in the MDAs’ cash book.
- iv) Once the Accountant General verifies the vouchers, he will issue a cheque corresponding to the amount requested.
- v) MDAs/Creditors will then have to take the payment cheques to the Central Bank of Somaliland to withdraw the funds.

#### 5.1.7. Procurement Process

The purchase of goods and services by government agencies follow a set of procurement processes and rules to ensure efficiency in the use of public funds (i.e. value for money) and effectiveness in service delivery (i.e. timeliness of delivery). The National Tender Board Commission determines these procurement rules and procedures in Somaliland. It structures how MDAs tender their requirements (e.g. for purchases, consultant services, etc.), how bids are competitively assessed and how contracts are awarded. While the National Tender Board Commission sets rules and procedures, it is the procurement officers in spending agencies who implement those rules and do the actual procurement.

#### Procurement steps

- i. MDAs identify their procurement needs and Procurement officers prepare:
  - Schedule of requirements
  - Technical specifications
  - Cost estimates by scanning the market
- ii. If cost estimates exceed 5,000 US Dollars, MDAs submit the details of the items to be procured to the referral agency (MDA) like the Ministry of public works which review the designs and specification and draw up bill of quantities for the Tender Board. Otherwise, the procurement process is entirely managed by the MDAs.
- iii. Procurement needs and related documentations are made public prompting the receipt of bids, expression of interest, quotations, CVs, etc.
- iv. If cost estimates exceed 5,000 US dollars, the Tender Board vets applicants and their proposals. Otherwise, Procurements officers evaluates submissions against specifications, compare quotations, identify qualified suppliers/firms, etc.
- v. The most suitable bidder that meets all qualifications and offers the best value for money is invited for negotiations.



- vi. Procurement officers prepare and review draft contract agreements for goods & services except for construction.
- vii. For construction services and costs exceeding 5,000 US Dollars, the Ministry of Public Works prepare the contracts after contract awarded.
- viii. The Minister/Director General sign the contracts
- ix. Any cost that is more than the budgeted amount (i.e. Parliament approved Budget) will be ineligible.
- x. In the event of unplanned emergency procurement needs (e.g. arising as a result of a disaster) that requires MDAs to borrow funds from the Central Bank of Somaliland, their respective Minister or Chairman will have to negotiate with and get approval from the Minister of Finance.

## 6. Accounting and Reporting/Monitoring

Accounting and reporting/monitoring processes allow the government to keep records of financial flows. They capture both cash flows and non-cash commitments. These processes ensure that only approved expenditures are incurred. The Budget classifications used in accounting should ideally match those used in reporting in order to easily and clearly show whether actual revenue and spending is consistent with the approved Budget.

Accounting officers at each public institution are required to follow the government's accounting procedures and need to produce periodic reports to track the execution of their budgets. Financial reports are usually produced monthly, quarterly, and annually. Quarterly and annual reports tend to be more comprehensive. Typical financial reports include:

1. Revenue reports
2. Expenditure reports
3. Report on government projects

In addition to these reports, the Accountant General prepares the financial statements of the government. These financial statements need to be ready within the first three months after the end of the fiscal year and need to be shared with the Minister of Finance and submitted to the Auditor General.

## 7. External Audit and Accountability

The external audit process concludes each budget cycle. In Somaliland, the Auditor General fulfils the role of the external auditor by assessing whether the financial activities of the government during the year were consistent with the Parliament approved Budget.

The annual financial statements prepared by the Accountant General are shared with the Minister of Finance and the Auditor General within four months after the end of the fiscal Year (i.e. before the end of

April). The Auditor General then has until the end of **June** to complete auditing the government’s financial activities. The outcome of the audit along with the financial statements are shared with the Minister of Finance, the Public Finance Committee of the Parliament and with the internal auditor of the MoFD.

### 8. MDA dos and don’ts

Figure 8: MDA dos and don’ts

