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Assessing the Financial Accountability of the Somali Federal Government Organizations

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Abstract

Building robust financial accountability system is an essential step in making the Federal government of Somalia (FGS) a more effective institution that is able to deliver basic public services to the people of Somalia. The purpose of this study is to assess the financial accountability in the FGS. The study collected data from six federal institutions employing questionnaires. Seventy civil servants participated in the study. The Data were analyzed using descriptive statistics of mean and standard deviation. The study found that the system of financial accountability in the FGS is improving. The study recommends to the FGS to upgrade internal controls and financial reporting systems, publish significant budget information in a regular and timely manner to the public; promote public participation in the budget process and strength the auditor general to carry out its functions effectively.

Keywords: Accountability, Financial matters, Federal government, Somalia

1. Introduction

Accountability is a broad term that reflects a range of understandings rather than a single paradigm. There are indeed many different approaches and definitions of accountability but this study adopts the definition of Curtin & Nollkaemper, (2005). They referred accountability as a process in which an actor explains conduct and gives information to others, in which a judgement or assessment of that conduct is rendered on the basis of prior established rules or principles and in which it may be possible for some form of sanction to be imposed on the actor .

The presence of sound public financial accountability has several indicators. For one, a country is likely to manifest public financial accountability if its legislative committees and audit committees provide for its citizens crucial oversight of the country's public finances. Another indicator is the existence of budgeting and accounting systems that promote performance and that capture public organizations' economic transactions accurately and in a timely way. A country may be publicly accountable financially if it maintains internal control and performance reporting systems that check the bad recordkeeping and noncompliance with rules and regulations (Sahgal & Chakrapani, 2000).

Legislatures play a critical role in the management of public finances. As part of their budget decision-making responsibilities, legislatures approve the national budget and subsequently provide oversight as the executive implements the budget (International Budget Partnership, 2012). Auditing is a crucial component of most modernist conceptions of accountability since it legitimates the information on which formal, financial accountability rests (Gendron, Cooper, & Townley, 2001). The fundamental role of an auditor is to provide independent assurance to external users that a financial report of an entity is accurate and reliable.

Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Financial reporting is used in assessing accountability by comparing actual financial results with the legally adopted budget, assessing financial condition and result of operations, assisting in determining compliance with financial laws and assisting in evaluating efficiency and effectiveness (Wilson, Reck, & Kattelus, 2010).

Budget is a plan of financial operation embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them. In a much more general sense, budgets may be regarded as devices to aid management in operating an organization more effectively. Governments build budgets to demonstrate compliance with laws and to communicate performance effectiveness (Wilson, Reck, & Kattelus, 2010).

Internal control is at the heart of accountability for a nation's resources and how effectively government uses

them. It serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. Internal control provides reasonable assurance that an organizations' objectives are achieved through effective and efficient operations, reliable financial reporting and compliance with laws and regulations (United States Government Accountability Office, 2005).

This study assesses the financial accountability in the federal government of Somalia. Financial accountability requires governments to justify the raising of public resources and the purposes for which they are used (Wilson, Reck, & Kattelus, 2010).

The federal government of Somalia relies on external sources of funding with widespread misuse of public resources (Chene, 2012). Somalia has consistently ranked among the world's most corrupt countries in Transparency International's Corruption Perceptions Index, since the country was first introduced in the ranking in 2007. In 2013, Somalia scored eight; highly corrupt (Transparency International, 2013).

Public financial management self-assessment report made by the ministry of finance and planning (2013) revealed weak parliamentary oversight over public financial management functions, lack of comprehensive reporting on the use of state resources and the absence of a truly independent auditor general (Federal Republic of Somalia, 2013).

The remainder of the paper is organized as follows. In the next section, we briefly describe public financial management reforms by Mohamud's administration in the first year of his governance (2012-2013). Section 3 describes the methodology of the study and section 4 the results of our assessment of the six agencies' financial accountability. Section 5 discusses the extent to which the results are consistent with the claim of public financial management reforms by the current government. We conclude by emphasizing the main contributions of the research.

2. Public Financial Management Reforms

The current federal government of Somalia inherited corruption that became a system of governance from the transitional federal governments (United Nations Monitoring Group on Somalia and Eritrea, 2013). However, President Mohamud's administration has clearly prioritized public financial management reform as one of the top three priorities of his government (FTI Consulting, Inc; Shulman, Rogers, Gandal, Pordy & Ecker, P.A. , 2013). President Mohamud's administration prepared 2012 mini-budget for the fourth quarter of 2012 and 2013 annual budget and obtained parliamentary approval. These budgets were the second legally adopted budgets in 10 years of transitional governments (FTI Consulting, Inc; Shulman, Rogers, Gandal, Pordy & Ecker, P.A. , 2013).

The federal government of Somalia with the help of government of Norway developed a temporary multi-donor trust fund called special financing facility (SFF). This facility will make up the shortfall of 2013 budget (Central Bank of Somalia, 2013).

The federal government of Somalia modernized salary payment system with the purchase of biometric payroll system. Civil servants were enrolled to the new system and their salaries were paid from the SFF account in the central bank of Somalia (Central Bank of Somalia, 2013).

The federal government of Somalia (2013) advertised positions of auditor and accountant general in the newspapers for their first time and proposed that the supreme audit institution of Somalia should follow auditing standards issued by International Organization of Supreme Audit Institutions (INTOSAI).

The FGS were alleged corruption by the United Nations Monitoring Group on Somalia and Eritrea on 12 July 2013 report. The FGS retained and appointed an investigative team consisting of attorneys and forensic accountants to deliver its findings and recommendations in this Response. The investigative team found that the Monitoring Group Report is so factually inaccurate and inexplicably biased that it likely breaches multiple investigative fact-finding standards established by the United Nations General Assembly.

3. Methodology

The sample size of the study contains 75 respondents. The study collected data from the Central Bank, Immigration and Nationalization Authority, Ministry of Finance and Planning, Mogadishu Sea Port, Office of Parliament and State House because they were alleged corruption.

To select the respondents, the researchers used judgmental sampling techniques of non-probability sampling because the researchers cannot obtain the list of the selected agencies' employees. Therefore, data were collected from those people who are conveniently available and willing to co-operate.

The researchers collected primary data using questionnaires. The first section of the questionnaire identifies the demographic characteristics of the respondents. The second section assesses the financial accountability in six federal agencies employing Likert scales. A five point Likert scales ranging from "strongly disagree" to "strongly agree" were used to assess the respondents' agreement towards statements. The researchers distributed 75

questionnaires to those agencies using hand delivery method and ensuring voluntary nature of participation, five questionnaires were not returned and the response rate was 93%. The researchers analyzed the quantitative data using descriptive statistics of frequency, cross tabulation, mean, mode, median and standard deviation.

4. Findings

4.1. Demographic Characteristics of the respondents

The table 2 below shows demographic characteristics of the respondents.

Gender: More than 75% of the respondents are male and 24% are female. Hence, women employment is low in Somalia.

Age: 19% of the respondents are at the age of 15-25, 36% of the respondents are at the age 26-40, 44% of the respondents are at the age of 41-60, which is the age of the majority of the respondents and 1% of them are above 60.

Education: 30% of the respondents hold post-secondary diploma, 56% of them hold bachelor degree, which is the majority, and master and PhD holders are 12% and 1% respectively.

Employer: 16% of the respondents are statehouse employees, 14% are office of the parliament employees, 23% are Ministry of Finance and Planning employees, which is where the majority of the respondents are employing, 21% are Central Bank employees, 19% are Mogadishu Sea Port employees and 7% are Immigration and Nationalization Authority employees.

Title: The majority of the respondents (62%) hold financial positions, 14% hold audit positions and 24% hold other positions.

Experience: 19% of the respondents had less than one-year of experience, 30% of the respondents had 1-3 years of experience, 36% had 3-7 years of experience and 36% had more than 7 years of experience.

Table 2: Characteristics of the respondents

| <i>Profile of the respondents</i> | <i>Frequency</i> | <i>Percent</i> | <i>Cumulative Percent</i> |
|---|------------------|----------------|---------------------------|
| Gender | | | |
| Male | 53 | 75.7 | 75.7 |
| Female | 17 | 24.3 | 100.0 |
| Age | | | |
| 15-25 years | 13 | 18.6 | 18.6 |
| 26-40 years | 25 | 35.7 | 54.3 |
| 41-60 years | 31 | 44.3 | 98.6 |
| Above 60 years | 1 | 1.4 | 100.0 |
| Education | | | |
| Post secondary diploma | 21 | 30.0 | 30.0 |
| Bachelor | 39 | 55.7 | 85.7 |
| Master | 9 | 12.9 | 98.6 |
| PhD | 1 | 1.4 | 100.0 |
| Employer | | | |
| State House (Office of the presidency) | 11 | 15.7 | 15.7 |
| Office of the parliament | 10 | 14.3 | 30.0 |
| Ministry of Finance and Planning | 16 | 22.9 | 52.9 |
| Central Bank | 15 | 21.4 | 74.3 |
| Mogadishu Sea Port | 13 | 18.6 | 92.9 |
| Immigration and Nationalization Authority | 5 | 7.1 | 100.0 |
| Title | | | |
| Financial position | 43 | 61.4 | 61.4 |
| Audit position | 10 | 14.3 | 75.7 |
| Other | 17 | 24.3 | 100.0 |
| Experience | | | |
| Less than one year | 13 | 18.6 | 18.6 |
| 1-3 years | 21 | 30.0 | 48.6 |
| 3-7 years | 25 | 35.7 | 84.3 |
| More than 7 years | 11 | 15.7 | 100.0 |

4.2. Size of the Selected Agencies

According to cross tabulation analysis in the table below, Immigration and Nationalization Authority is a small agency employing 10-49 employees, Office of the Presidency, Office of the Parliament and Central Bank are medium institutions employing 50-249 employees and Ministry of Finance and Planning and Mogadishu Sea Port are large institutions employing more than 250 employees.

| <i>Small (10-49 employees)</i> | <i>Medium (50-249 employees)</i> | <i>Large (250+ employees)</i> |
|---|--|--|
| Immigration and Nationalization Authority | Central Bank Office of the Parliament Office of the Presidency | Mogadishu Sea port Ministry of finance and Planning |

4.3. Financial Accountability Dimensions

The first objective of the study is to examine internal financial control in the federal institutions. The study found that systems of segregation of duties, documentation, authorization, physical control and record keeping exist in the selected federal agencies. In addition, the federal agencies have internal auditors who verify their accounting records.

Table 4: Descriptive Statistics of Internal Control

| <i>No</i> | <i>Statements</i> | <i>Mean</i> | <i>Std. Deviation</i> | <i>Interpretation</i> |
|----------------------|---|-------------|-----------------------|-----------------------|
| 1 | The accounting personnel of this agency are separate from purchasing and cashier duties. | 3.84 | 1.125 | Good |
| 2 | All economic events of this agency are supported by adequate documentation. | 3.91 | .974 | Good |
| 3 | High-ranking officials authorize all expenditures of this agency. | 4.04 | .939 | Good |
| 4 | Assets of this agency are physically protected. | 3.96 | 1.083 | Good |
| 5 | This agency maintains its accounting records those are reasonable detail and fairly reflect the transactions. | 4.10 | .764 | Good |
| 6 | This agency has an internal auditor who verifies the accounting records. | 3.96 | .955 | Good |
| Overall Score | | 3.97 | .529 | Good |

The second objective is to examine budget practices of the selected federal institutions of Somalia. The study found that the selected federal institutions utilize their legally adopted budgets. They raise financial resources and expend in compliance with the budget and other financial laws. They use the budget as control device by preparing budget to actual comparison statements and taking corrective actions if variance exists.

Table 5: Descriptive Statistics of Budgeting

| <i>No</i> | <i>Statements</i> | <i>Mean</i> | <i>Std. Deviation</i> | <i>Interpretation</i> |
|----------------------|---|-------------|-----------------------|-----------------------|
| 7 | This agency has a budget that approved by legislative branch. | 3.96 | .875 | Good |
| 8 | This agency raises financial resources and expends in compliance with budget and other financial laws. | 3.76 | 1.122 | Good |
| 9 | This agency compares its actual financial results to a legally adopted budget and takes corrective action if variance exists. | 4.04 | .908 | Good |
| 10 | This agency prepares budget-to-actual comparison statement. | 3.99 | .970 | Good |
| Overall Score | | 3.94 | .551 | Good |

The third objective of the study is to assess the accounting and financial reporting in the federal institutions of Somalia. The study revealed that the federal institutions follow accounting and financial reporting procedures approved by the Accountant General of Somalia and prepare reliable and timely financial statements those are publicly accessible.

Table 6: Descriptive Statistics of Financial Reporting

| <i>No</i> | <i>Statements</i> | <i>Mean</i> | <i>Std. Deviation</i> | <i>Interpretation</i> |
|----------------------|---|-------------|-----------------------|-----------------------|
| 11 | This agency follows accounting and financial reporting procedures approved by the accountant general. | 3.93 | 1.026 | Good |
| 12 | This agency prepares financial statements about its assets, liabilities, expenditures and revenues. | 3.94 | .991 | Good |
| 13 | The financial statements of this agency are reliable and timely presented for accountability. | 3.93 | 1.040 | Good |
| 14 | This agency publishes its financial statements and it is publicly accessible. | 3.91 | 1.018 | Good |
| Overall Score | | 3.93 | .608 | Good |

The fourth objective of the study is to identify the existence of external financial audit and oversight on the selected federal institutions of Somalia. The study found that the financial statements of the surveyed institutions are audited by Auditor General of Somalia, an independent Supreme Audit Institution. The Federal Parliament of Somalia also asks these agencies to justify how they raise and use the public resources to provide public services. In addition, sanctions are imposed on the actors when misuse of public resources is found.

Table 7: Descriptive Statistics of Financial Audit and Oversight

| <i>No</i> | <i>Statements</i> | <i>Mean</i> | <i>Std. Deviation</i> | <i>Interpretation</i> |
|----------------------|---|-------------|-----------------------|-----------------------|
| 15 | The financial statements of this agency are audited by an independent Supreme Audit Institution. | 3.90 | 1.052 | Good |
| 16 | The legislative branch asks this agency to justify how public resources is raised and used to provide services. | 3.81 | .967 | Good |
| 17 | Sanctions are imposed on the actors in the case of misusing public resources for private gain. | 3.60 | 1.172 | Good |
| Overall Score | | 3.77 | .739 | Good |

5. Discussion

This study assesses the financial accountability in the federal government of Somalia by analyzing four dimensions of financial accountability. The study found that the financial accountability system in the FGS that protects the country against corruption is improving.

This finding confirms the investigative team's conclusion that there is a functional Public Financial Management (PFM) system in place rooted in law and procedure including a system of internal controls and that, the federal government has taken meaningful action to improve the capacity of PFM institutions of government.

The study differs in its scope and time the 2013 self-assessment report that revealed a weak PFM system. The scope of our study was limited to six federal institutions and studied the first year of the FGS (2012-2013) while confirms some of the findings of the self-assessment report.

The self-assessment report found that an internal audit unit has been set up recently but is not yet fully operational and at present is only attempting vouching of transactions; the Accountant General does not prepare annual financial statements for audit instead simple receipts and payments schedules are prepared but are not made available to the public. In addition, the external auditing function is currently weak while parliament does not receive audit reports and therefore there are no debates on audit findings on budget execution.

Our result was subject to limitations: Firstly, this survey reflected the opinions of the selected federal agencies employees. It did not investigate the reality of their assertions. Secondly, this survey did not study the functions of the auditor general and parliamentary sub-committee for financial oversight on public Institutions. We will study their authorities and responsibilities when the financial year ends (2014). However, this study concludes that the current FGS has made considerable improvements in establishing financial accountability system that can protect the country against corruption.

6. Conclusion

The purpose of this study is to assess the financial accountability in the FGS. The study found that the system of

financial accountability in the current FGS is improving. The study recommends to the FGS to upgrade internal controls and financial reporting systems; publish significant budget information in a regular and timely manner to the public; promote public participation in the budget process and strength the parliamentary committee for finance and planning and auditor general to carry out their functions effectively. The study also suggests to the civil society organizations and donor agencies to play a more active role in promoting transparency and financial accountability in Somalia.

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