



**PRESENTATION BY THE AUDITOR GENERAL**

**TO**

**THE SOUTH SUDAN NATIONAL LEGISLATIVE ASSEMBLY**

**OF THE**

**AUDIT REPORTS ON THE ACCOUNTS OF THE**  
**GOVERNMENT OF SOUTHERN SUDAN**

**FOR THE YEARS 2005**

**AND**

**FOR THE YEAR 2006**

**1<sup>st</sup> November 2011**

Right Honourable Speaker.

Honourable Members.

Pursuant to Section 186 Article (8) of the Transitional Constitution of the Republic of South Sudan, 2011, read together with Section 195 Article (5) of the Interim Constitution of Southern Sudan, 2005; I hereby present to this August House the statutory Audit Report on the accounts of the Government of Southern Sudan for the fiscal year 2005.

## **Introduction**

Right Honourable Speaker.

Honourable Members.

This audit report comes five years late. When I was appointed to office in 2010, I was greatly tempted to avoid reporting on the accounts of the past years. There are many others who think that such a late report would have no value. But the vast majority of our people are unhappy with the state of

affairs in the Audit Chamber. They feel let down and even betrayed. To some, the Audit Chamber is either incompetent or closing its eyes for the benefit of those it is supposed to oversee. I feel obligated, on behalf of the Audit Chamber, to tender an apology to the President, the Assembly and our people for the lapse in the responsibility that had been entrusted to us.

The Chamber could argue in self defence and mitigation that they were constrained in their work by factors beyond their control. But today, we have chosen humility and plead for pardon by this August House. I pledge that this will never happen again, especially after our transition to the Republic of South Sudan.

I have chosen to submit this report because our people are entitled to know the challenges their government faced in 2005. It is also important for current and future governments to have a point of historical reference on matters of financial management and public audit. There is still room for correcting ourselves in light of the disclosures in this report.

The duty of the Auditor General is to submit a report to the President and the Legislative Assembly. If there are matters that need further follow-up, investigation or legal action, it is these two institutions to decide and implement them, jointly or severally. I wish to reiterate my recommendation in my activity report to the House on 20<sup>th</sup> April 2011, that the Legislative Assembly needs technical experts to assist the members and specialised committees to achieve their supervisory responsibilities over the Executive arm of government.

I shall read the opinion section of this report on the floor of the House. Individual members are invited to scrutinize the detailed discussion of the component parts of the report. After this ceremony, the audit report shall become a public document, available to all citizens and stake holders, including our development partners.

## **BACKGROUND**

Right Honourable Speaker.

Honourable Members.

The year ended 31 December 2005 saw Southern Sudan emerge from a prolonged period of conflict. The signing of the Comprehensive Peace Agreement in January 2005 marked the start of a transition from the administration of the Civil Authority of New Sudan and the South Sudan Coordination Council, to the Government of Southern Sudan (GOSS) in October 2005.

The GOSS Administration lacked the institutional capacity to drive the public service. There was no legal framework to underpin the administration of public service procedures. The Finance and Accounting Procedures Ordinance (1995) issued by the Republic of the Sudan, and the Manual for Public Service Procedures which were to be the guidelines in administration of the public service were not yet adopted in Southern Sudan.

The Government also lacked institutional and human capacity in financial management. As a result the Administration engaged an interim Project Accounting Agent to prepare the GOSS financial statements for the

Financial Year 2005. Financial accounting was centralised at the Ministry of Finance.

## **LEGAL BASIS**

Right Honourable Speaker.

Honourable Members.

The audit was conducted in compliance with Section 195 Articles 4 and 5 of the Interim Constitution of Southern Sudan which state:

Article (4): 'The Southern Sudan Audit Chamber shall assume auditing of the accounts of the Southern Sudan Executive, the Southern Sudan Legislative Assembly, the Judiciary of Southern Sudan and the accounts of states, local governments, independent commissions, public institutions and corporations and any other institutions as may be determined by law.'

Article (5): 'The Southern Sudan Auditor General shall present an annual report to the President of the Government of Southern Sudan and the Southern Sudan Legislative Assembly.'

## **RESPONSIBILITY**

Right Honourable Speaker.

Honourable Members.

I have audited the financial statements of the Government of Southern Sudan for the year ended 31st December 2005. These financial statements are the responsibility of the Ministry of Finance and Economic Planning. The Ministry of Finance and Economic Planning has the responsibility to ensure that internal control procedures relevant to the preparation and fair representation of the financial statements are being applied. These internal controls should also ensure that the financial statements are free from material misstatement, whether due to fraud or error. The Ministry of Finance and Economic Planning has the responsibility of selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances in compiling the financial statements.

My responsibility is to express an opinion whether the financial statements present a true and fair view of the financial position of the government on

31st December 2005 and the income and expenditure for the year then ended.

The audit did not cover all government Ministries, Agencies and Institutions due to resource constraints, among other reasons. My opinion on those financial statements is therefore an inference from what I believe was a representative sample of transactions.

I believe that my audit planning and testing provides a reasonable basis for my opinion.

## **SCOPE**

Right Honourable Speaker.

Honourable Members.

I conducted my audit in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) Standards. These standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. My audit included:



(a) Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

(b) Assessing the accounting principles used and significant estimates made.

(c) Examining to confirm that public funds are expended according to the budget.

(d) Evaluating the overall presentation of the financial statements.

## **SPAN OF AUDIT**

Right Honourable Speaker.

Honourable Members.

The audit covered the seven principal elements of the annual budget of the Government of Southern Sudan, which are:

(a) Oil Revenue

(b) Non-Oil Revenue

(c) Payroll Expenditure

(d) Operating Expenditure

(e) Capital expenditure

(f) Bank and Cash Accounts

(g) States' Accounts.

I have provided detailed reports on each of these components. But I wish to pronounce a few highlights as pointers to my opinion on the financial statements for the year 2005.

(a) Oil Revenue

The Government of National Unity Ministry of Finance and National Economy Petroleum Unit (PU) stated the amount of oil revenue transfers to the GOSS as US\$ 580,037,639 while the GOSS Financial statement recognises a receipt of US\$ 684,065,307. This discrepancy casts doubt on the accuracy of the amounts due to GOSS and the Oil Producing States.

The detailed report on oil revenue provides further information on 'creative' accounting. I have provided specific recommendations and the need for the

engagement of external independent experts in the oil industry to audit all aspects and operations of Sudan's oil sector from 9th January 2005 to 8th July 2011.

#### (b) Non-Oil Revenues

Section 184 (1) of the Interim Constitution of Southern Sudan, provides for the collection of non-oil revenue by the Government of Southern Sudan and the States. However, no evidence was obtained of the amounts of taxes raised and collected by the GOSS and by States, and the financial statements for the period do not include taxes generated by these jurisdictions, except for US\$ 31,172 payroll tax deductions remitted by the World Food Programme.

Non-Oil revenue due to the government of Southern Sudan from the government of National Unity, if any, was not reflected in the accounts of 2005.

#### (c) Payroll Expenditure

The records of service in respect of classified employees were not prepared and maintained for the entire year. Therefore it was impossible to verify the existence or legitimacy of many persons being paid from public funds.

#### (d)Capital Expenditure

Record indicated that GOSS acquired a property in Khartoum at a price of US\$ 3.5m of which US\$ 900,000 related to the refurbishment of the building. Auditors were not given the reasons for acquiring this property, and were therefore unable to establish if the property was acquired for bona fide GOSS activities.

Audit was unable to establish if adherence to the procurement regulations was followed in the purchase of this building as no tender documents or any associated documents were provided to auditors. Auditors did not see the Title Deed or any documents indicating ownership by GOSS. There was no documentary support to establish how the refurbishment cost was arrived at. There was no evidence to confirm that the payment was for a property.

#### (e)Bank Balances

Of the total of \$490,783,492 reported in the financial statements as year-end bank balances, the Sudanese banks holding Government of Southern Sudan bank accounts did not confirm the existence of \$429,196,359. Bank Statements and Cash Book balances were not reconciled any time in the year. There is a high risk that the 2005 financial statements are materially misstated for this item.

(g) Cash Balance

The Financial Statements do not report any cash balance in government vaults on December 31st 2005. This implies that cash drawn from bank accounts in the last days of the fiscal year were misplaced, misused and misappropriated.

The Ministry of Finance and the Bank of Southern Sudan should not have allowed the withdrawal of balances in the accounts of GOSS ministries, agencies and institutions at the end of the financial year. A circular to this effect should emanate from the minister.

The Ministry of Finance and Economic Planning should have conducted cash counts and Cash Book reconciliations in all GOSS ministries, agencies and institutions on the last working day of the fiscal year.

## OPINION

Right Honourable Speaker.

Honourable Members.

In my opinion, the financial statements of the Government of Southern Sudan for the year ended 31st December 2005, and the income and expenditure of the Government of Southern Sudan taken as a whole, do not present a true and fair financial position for the year then ended.

Right Honourable Speaker.

Honourable Members.

Pursuant to Section 186 (8) of the Transitional Constitution of the Republic of South Sudan, 2011, read together with Section 195 (5) of the Interim Constitution of Southern Sudan, 2005; I hereby present to this August House the statutory Audit Report on the accounts of the Government of Southern Sudan for the fiscal year 2006.

## INTRODUCTION

Right Honourable Speaker.

Honourable Members.

The year 2006 was the second year of the formation of the Government of Southern Sudan. The capacity constrain of 2005 continued in 2006. In a few areas, like record keeping, some improvements occurred. In other areas like compliance with regulations and respect for the integrity of the budget, things went way out of hand.

In 2006, the legal and institutional framework was in place. The Southern Sudan Legislative Assembly was functional. The Interim Constitution of Southern Sudan had defined the oversight authority of the Assembly and the fiscal responsibility of the executive. The Financial Accounting and Procurement Ordinance had been issued. There was a budget. Even so, I found no convincing evidence that these branches of government made effective use of these legal and regulatory institutions and instruments.

## **LEGAL BASIS FOR THE AUDIT**

Right Honourable Speaker.

Honourable Members.

My audit was conducted in compliance with the requirements of the Interim Constitution of Southern Sudan 2005 Article 195 (4) and (5) which state:

Article (4): 'The Southern Sudan Audit Chamber shall assume auditing of the accounts of the Southern Sudan Executive, the Southern Sudan Legislative Assembly, the Judiciary of Southern Sudan and the accounts of states, local governments, independent commissions, public institutions and corporations and any other institutions as may be determined by law.'

Article (5): 'The Southern Sudan Auditor General shall present an annual report to the President of the Government of Southern Sudan and the Southern Sudan Legislative Assembly.'



## **RESPONSIBILITY**

Right Honourable Speaker.

Honourable Members.

The financial statements under audit are the responsibility of the Ministry of Finance and Economic Planning. That Ministry is responsible for ensuring that internal control procedures relevant to the preparation and fair representation of the financial statements are being applied. These internal controls should also ensure that the financial statements are free from material misstatement, whether due to fraud or error. The Ministry of Finance and Economic Planning has the responsibility of selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances in compiling the financial statements.

My responsibility is to express an opinion whether the financial statements present a true and fair view of the financial position of the government on 31<sup>st</sup> December 2006 and the income and expenditure for the year then ended. I believe that my audit planning and testing provides a reasonable basis for my opinion.

## **SCOPE**

Right Honourable Speaker.

Honourable Members.

I conducted my audit in accordance with International Organisation of Supreme Audit Institutions Standards. These standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. My audit included:

1. Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
2. Assessing the accounting principles used and significant estimates made by management.
3. Examining to confirm whether public funds were expended according to the budget.

4. Evaluating the overall presentation of the financial statements for the year.

### **Span of Audit**

Right Honourable Speaker.

Honourable Members.

The audit covered seven specific areas and they are:

- a) Oil Revenue
- b) None-Oil Revenue
- c) Payroll Expenditure
- d) Operating Expenditure
- e) Procurement and Capital Expenditure
- f) Bank and Cash Accounts

I have provided detailed reports for each of these areas but I wish to pronounce a few highlights as pointers to my opinion on those Financial Statements.

### **Oil Revenue**

Oil revenue accounts do not adequately explain the legality of the application of US\$ 80,600,000 outstanding from GONU as at 31<sup>st</sup> December 2005. According to the GONU Ministry of Finance and National Economy, US\$12,000,000 was paid out for the construction of Awiel-Miriam road. The remaining US\$ 68,600,000 was also 'earmarked for road construction'. The Speaker of the Southern Sudan Legislative Assembly says the Assembly did not authorize this extra-budgetary appropriation. The Minister of Roads and Transport denies knowledge of these road projects.

### **Non-Oil Revenues**

Section 184 Article (1) of the Interim Constitution of Southern Sudan, provides for the collection of non-oil revenue by the Government of Southern Sudan.

However, no evidence was obtained of any taxes raised and collected by the GOSS. The financial statements for the period under audit do not include taxes generated under these jurisdictions.

Non-Oil revenue due to the government of Southern Sudan from the government of National Unity, if any, was not reflected in the accounts of 2006.

### **Payroll Expenditure**

Fifteen government institutions did not submit payrolls, nominal rolls, staff dossiers and other salary related records for audit despite numerous requests. These fifteen institutions accounted for 81 % (\$ 440,711,240) of the total payroll expenditure of \$ 543,417,067 for the year 2006.

The failure to provide these records for audit limited the scope of the audit. As a result, I was unable to verify if salaries and allowances were paid in accordance with employees grades, and if these payments were properly

authorised. The institutions are identified in the detailed payroll audit report *infra*.

### **Operating Expenditure**

A payment of \$2,177,226 was made to Hamco Limited for the transport of 40,000 bags of sorghum to the states of Warrap, Unity, Western Bahr el Ghazal and Northern Bahr el Ghazal. Further enquiries revealed that:

1. There was no signed contract between the GOSS and the transporters (Hamco Limited) to support this transaction; and
2. There were no supporting documents like invoices and delivery notes which could have provided evidence of delivery and billing for payment.

### **Capital Expenditure**

(a) Procurement procedure

More than 90% of the contracts in 2006 were awarded through single source procedures. I was advised that this was because the goods and services procured were for emergencies and in such circumstances the use of the single source mechanism was acceptable. It is highly unlikely that the high number of single source contracts qualified as 'emergencies' and it is more likely that its use was due to expediency.

Single sourcing procurement substantially increases the exposure to loss of public funds. Single source procurement by its very nature reduces competition and rarely provides value for money from the goods and services procured. Whilst acknowledging that there will be genuine emergencies requiring single source procurement these should be the exception rather than the rule.

#### (b) Motor Vehicles

In 2006, 1,609 vehicles and 363 bicycles were reported to have been purchased by GOSS. The total value of these purchases was \$122,558,551. However we were unable to establish any records of location, registration details, custodians and present condition of these vehicles. This lack of internal control and absence of asset records

makes it impossible to establish if any of these vehicles were in fact delivered and are being used for legitimate GOSS purposes.

(c) Road Works

The Financial Statements omitted a commitment on March 5<sup>th</sup> 2006 of US\$288,000,000 in the form of bank guarantee for road works in Northern Bahr el Ghazal State by Eyat Roads and Bridges. The loan was to be charged to the account of the government of Southern Sudan as follows:

A: For the first twelve calendar months an amount of \$ 60,000,000.

B: For the second twelve calendar months an amount of \$ 96,000,000.

C: For the third twelve calendar months the remaining amount.

The Speaker of the Southern Sudan Legislative Assembly says the Assembly did not authorize this extra-budgetary appropriation. The Minister of Roads and Transport denies knowledge of this road project.

According to this arrangement, the bank guarantee was liquidated in early 2009. It will be interesting to see if the accounts of 2008 and 2009 had any reflection of this extraordinary arrangement.



## **Bank and Cash Balances**

The 2006 financial statements at note 29, made the following disclosure:

‘An amount of US\$165,915,978.91 was noted as having been transferred to two bank accounts in BNP Paribas Private Bank Geneva during the first six months to 30 June 2006. The numbers of the accounts are 58076/6N (\$32,506,224) and 58076/25J (\$133,409,754). Of this amount, US\$ 157,484,255.76 was deposited back in July 2006 to the Bank of Sudan Khartoum Main Account number 6921/1182/1 leaving a balance of US\$ 7,431,722.35. This balance has not been recognized as an asset in the financial statements of 2006. The accounts in Geneva are not in the name of the Government of Southern Sudan. Audit was unable to establish the individuals or institutions in whose names these Geneva based bank accounts were opened and held. No explanation was provided why this money first went to Geneva based bank accounts before being partially returned to Sudan.

## **Performance Audit (Budget versus Actual)**

The following government units exceeded their approved budgets without legal authorization:

1. Ministry of Finance by 1968%. The monetary value of this variance is US\$ 106,481,812.00
2. Ministry of Environment, Wildlife Conservation and Tourism exceeded 682 %. The monetary value of this variance is US\$ 26, 134,034.00.
3. Local Government Board by 672%. The monetary value of this variance is US\$ 7,077,854.00.
4. Southern Sudan Relief Commission by 515%. The monetary value of this variance is US\$ 25,704,414.00.
5. Southern Sudan Human Rights Commission by 421%. The monetary value of this variance is US\$ 707,744.00.
6. Labour, Public Service and Human Resources by 413%. The monetary value of this variance US\$ 17,607,268.00.
7. Telecommunication and Postal Services by 324%. The monetary value of this variance is US\$ 5,815,049.00.

## **Conclusion**

Right Honourable Speaker.

Honourable Members.

Other cost centres like security, law enforcement, legislature, the presidency and the judiciary were not included in the audit sample of 2006. It is reasonable to infer from the representative sample that the government as a whole, did not respect its own Appropriation Act.

A pivotal hallmark of good governance is respect for the integrity of the budget. The main responsibility of the Ministry of Finance is the strict administration of the national budget. Fiscal indiscipline characterized public spending in 2006.

## **OPINION**

Right Honourable Speaker.

Honourable Members.

In my opinion, the financial statements of the Government of Southern Sudan on December 31st 2006, taken as a whole, do not present a true

and fair financial position and the income and expenditure of the Government of Southern Sudan for the year then ended.