SOUTHERN SUDAN AUDIT CHAMBER

# THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF SOUTHERN SUDAN

FOR THE FINANCIAL YEAR ENDED
31st DECEMBER 2005

TO
THE PRESIDENT OF THE GOVERNMENT
OF SOUTHERN SUDAN
AND
THE SOUTHERN SUDAN LEGISLATIVE ASSEMBLY

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# Introduction

This audit report comes five years late. When I was appointed to the office of Auditor General in 2010, I was greatly tempted to avoid reporting on the accounts of the past years. There are many in our midsts 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 chamber. They feel let down and even betrayed. To some, the audit chamber is either incompetent or closing the 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 officials 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 am making all out efforts to overtake the arrears which I inherited and keep the work in the Chamber current.

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 It is also important for current and future governments to have a point of historical reference on matters of financial management and public audit.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 the 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 earlier recommendation that the Legislative Assembly needs technical experts to assist the members and specialized committees to achieve their mandates.

I shall be presenting a separate Audit Report on the Financial transactions of the ten states in due course.

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.

**Ambassador Steven Wondu** **Date : May 2011**

Auditor General **JUBA**

Southern Sudan

# SOUTHERN SUDAN AUDIT CHAMBER

# AUDITOR GENERAL'S OPINION

# ON

# GOVERNMENT OF SOUTHERN SUDAN

# FINANACIAL STATEMENTS OF 2005

## AUDIT OPINION OF THE AUDITOR GENERAL
## SOUTHERN SUDAN
## FOR THE YEAR ENDED 2005

### BACKGROUND

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

The financial accounting was centralized at the Ministry of Finance. The Ministry lacked capacity in financial management. As a result the Administration engaged an interim Project Accounting Agent (PAA) to prepare the GoSS financial statements for the Financial Year (FY) 2005. These statements were prepared in 2007.

### LEGAL BASIS

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

Article 195 (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 195 (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**

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.

**SCOPE**

I conducted my audit in accordance with International Organization of Supreme Audit Institutions (INTOSAI) Auditing 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 allocated and expended according to the budget.

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

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

## SPAN OF AUDIT

The audit covered the six 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 and
(f) Bank and Cash 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 recognizes 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 manipulative 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

Section184 (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. The financial statements for the period do not include taxes except for US$ 31,172 payroll tax deductions remitted by the World Food Program.

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. It was stated that GoNU did not collect any non oil revenue.

### (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 salary 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 whether procurement regulations were 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.

### (e) Bank Balances

Of the total of US$ 493,612,342 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 US$ 429,196,359. Nile Commercial Bank did not confirm a balance of US$ 2,000,000 of the Government of Southern Sudan included in the financial statement of the year 2005. Bank Statements and Cask 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.

### (f) 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, in future financial years.

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

**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.**

Signed: Dated:

Ambassador Steven Wöndu

AUDITOR GENERAL

# STRICTLY CONFIDENTIAL

# 2nd DRAFT FINANCIAL STATEMENTS

# AT

# 31st DECEMBER 2005

**Outstanding matters**

1 Resolution by GoSS of suspense amounts – Note 12 and 13 – re: outstanding documentation and explanations.

2 Confirmation of allocation/coding of expenditure to various ministries by officials of the Ministry of Finance and Economic Planning and other line ministries and Government agencies;

3 Explanations from GoSS for US$ 104,027,668 difference between actual oil revenue transfers recorded in GoSS bank accounts to oil revenue cash transfers reported in the Petroleum Unit Oil Report for 2005 – Note 2 (c); and

4 Supporting documentation for direct expenditures– Note 2 (a).

# 2nd DRAFT FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31st DECEMBER 2005

**Confidentiality/Disclaimer clauses**

These draft financial statements are *strictly confidential* and are addressed solely to the Minister of Finance and Economic Planning (MoFEP), the Government of Southern Sudan (GoSS). KPMG cannot be held responsible for its unauthorised copying and distribution. Recipients are respectfully reminded that the financial statements contain sensitive information and should be kept secure at all times.

We have produced these financial statements specifically for the purposes stated in our engagement letter with the Government of Southern Sudan and its interpretation, use or application for other purposes imposes no obligations on KPMG.

KPMG is responsible for only the preparation of the Government of Southern Sudan accounts, on a cash basis in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting under the Cash Basis of Accounting" unless otherwise stated in the accounts. At no time is KPMG responsible for authorising any GoSS financial or operational transactions.

MoFEP, together with other GOSS Government ministries and agencies, is responsible for:

- Providing KPMG with all relevant information and accounting records;
- Budgetary monitoring and control, including managing, allocating and coding of budgeted expenditures, and provision of explanations for actual-to-budget variances to Parliament and stakeholders as appropriate; and
- Informing KPMG of all Government decisions and policy changes necessary for proper and effective execution of its accounting responsibilities.

The preparation of these financial statements is dependent on the completeness, accuracy and reliability of data received from a variety of sources. KPMG makes no warranty or claim as to the accuracy of the information on which this report is based and cannot be held responsible for any inaccuracies so arising.

**STATEMENT OF CASH RECEIPTS AND PAYMENTS**

**FOR THE YEAR ENDED 31st DECEMBER 2005**

| | Note | 2005<br>US$ |
|---|---|---|
| **RECEIPTS** | | |
| Net oil revenues | 2 | 684,065,307 |
| Bank interest | | 132,568 |
| Income taxes | 3 | 31,172 |
| Other receipts | 4 | 100,000 |
| Total receipts | | **684,329,047** |
| | | |
| **PAYMENTS** | | |
| ***Operations*** | | |
| Salaries and allowances | 5 | 14,454,336 |
| Travel and accommodation | 6 | 13,299,182 |
| Training and consultancies | | 969,924 |
| State hospitality costs | 7 | 6,971,323 |
| Presidential inauguration | 8 | 801,691 |
| Office of the President | 9 | 1,015,419 |
| Military uniforms and meals | 10 | 18,298,352 |
| Maintenance costs | | 2,133,948 |
| Supplies and consumables | | |
| *Telephone, faxes* | | *28,132* |
| *General office supplies* | | *5,842,860* |
| *Fuels and lubricants* | | *583,078* |
| *Other supplies and consumables* | | *149,746* |
| | | **64,547,991** |
| | | |
| ***Transfers*** | | |
| Grants to States | 11 | 94,219,793 |
| | | |
| ***Capital expenditure*** | | |
| Construction and repairs of Government and residential buildings | | 3,521,439 |
| Computers | | 13,504 |
| Communication equipment | | 296,514 |
| Generators | | 21,083 |
| Other | | 10,000 |
| | | **3,862,540** |

The notes on pages 5 to 9 form an integral part of these financial statements.

## STATEMENT OF CASH RECEIPTS AND PAYMENTS (CONT'D)

## FOR THE YEAR ENDED 31st DECEMBER 2005

| | Note | 2005<br>US$ |
|---|---|---|
| ***Other payments*** | | |
| Bank of Sudan and Byblos Bank suspense account | 12 | 15,564,463 |
| Bank charges and commissions | 13 | 4,045,811 |
| Foreign exchange losses | | 6,335,890 |
| Purchase of vehicles -due from CBTF | 14 | 2,110,981 |
| Other | | 29,236 |
| | | 28,086,381 |
| **Total payments** | | **190,716,705** |
| **Surplus for the year** | | **493,612,342** |
| **Represented by** | | |
| Cash balances at end of year | 15 | **493,612,342** |

The notes on pages 5 to 9 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31st DECEMBER 2005**

## 1. PRESENTATION OF THE FINANCIAL STATEMENTS

### (a) Basis of preparation

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) on a modified cash basis of accounting, except where stated otherwise. The modified cash basis comprises the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting, transactions and other events are recognised when cash is received or paid.

**[Under IPSASs third party expenditure on behalf of the Government (e.g. CBTF, MDTF) should be incorporated]**

### (b) Reporting entity

The financial statements are for the Government of Southern Sudan (GoSS).

### (c) Presentation currency

All amounts have been presented in these financial statements in US dollars, which is the functional currency of GoSS.

### (d) Revenue

Oil revenues are recognised upon receipt by GoSS of oil sale proceeds from the Government of National Unity and have not been grossed up for any expenditure deducted at source by the Federal Ministry of Finance and National Economy in Khartoum.

[This accounting treatment does not comply with Section 1.3.12 of the International Public Sector Accounting Standard – Financial Reporting Under the Cash Basis of Accounting updated in January 2006, which requires that total cash receipts should be reported on a gross basis.]

Non-oil revenues and local and foreign aid assistance are recognised in the financial records on a receipts basis.

[Any non-oil revenues and local and foreign aid assistance received directly by Government ministries and agencies have not been included in these financial statements]

**(e) Expenditure**

***Salaries, wages and other employee benefits***

Salaries, wages and other employee benefits comprise payments to GoSS employees and are recognised as an expense in the statement of receipts and payments upon payment.

***Goods and services***

Payments made for goods and services are recognised as an expense in the statement of receipts and payments on a payments basis. Expenses are classified as capital if goods and services are used on a capital project.

***Transfers and subsidies***

All transfers and subsidies to the States are recognised as expenses on a payments basis.

**(f) Assets**

***Cash and cash equivalents***

Cash and cash equivalents are carried in the statement of receipts and payments at cost, and for the purposes of the cash flow statement, comprise cash on hand, deposits held, and other short-term highly liquid investments.

***Receivables***

Receivables arising from cash payments that are recoverable from third parties, including loans advanced are shown in the disclosure notes to the financial statements.

***Inventory***

Inventories are written off upon purchase. Any amounts in hand at the reporting date are shown at cost in the disclosure notes to the financial statements.

**(g) Liabilities**

***Payables***

[Amounts payable are shown included in the disclosure notes.

**At 31 December 2005 this policy had not been effected.**]

***Accruals***

[Accruals representing goods and services that have been rendered to the Government, but for which no invoices have been presented by the suppliers at the reporting date are included as disclosure notes to the financial statements. **At 31st December 2005 this policy had not been effected.**]

***Contingent liabilities***

[Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the ministries and Government agencies. Contingent liabilities may also comprise present obligation that arise from past events but are not recognised either because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations or the amount of the obligations cannot be measured with sufficient reliability.]

[Contingent liabilities are included in the disclosure notes. **At 31 December 2005 this policy had not been effected.]**

***Commitments***

[Commitments represent goods and services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Commitments are not recognised in the statements of receipts and payments as liabilities or as expenditure rather are included in the disclosure notes to the financial statements. **At 31st December 2005 this policy had not been effected**]

## 2. OIL REVENUES

a) Oil revenues relate to cash amounts received by the Government of Southern Sudan transferred by the Government of National Unity on account of crude oil sale proceeds, net of direct expenditures deducted at source as reported in the Petroleum Unit's Oil Revenue Reports for 2005. The amounts do not include any direct transfers to the states.

b)

| | **US$** |
|---|---|
| **Gross oil revenue receipts** | 821,827,668 |
| Less: | |
| Direct expenditures by Federal Ministry of Finance | 116,262,361 |
| Bank fees on remittance of oil export revenues | 15,000,000 |
| Bank fees on transfers to GOSS account | 6,500,000 |
| | 137,762,361 |
| **Transfers to GOSS bank accounts per bank statements** | **684,065,307** |

b) According to the Petroleum Unit's Oil Report as at 31 December 2005, US$ 80.6 million relating to 2005 oil revenues was still outstanding from the Ministry of Finance and National Economy, Khartoum. In addition, an amount of US$ 18.59 million was due to Unity State with respect to the 2% oil share.

c) **Reconciliation of oil revenue transfers to GOSS**

| | **US$** |
|---|---|
| Actual transfers to GOSS bank accounts | 684,065,307 |
| Transfers to GOSS bank accounts per the Petroleum Unit | 580,037,639 |
| **Stabilization fund ?????** | |
| **[More details outstanding]** | **104,027,668** |

## 3. INCOME TAXES

The amount of US$ 31,172 relates to personal income taxes received from World Food Program (WFP) on account of their employees working in South Sudan.

## 4. OTHER RECEIPTS

The amount of US$ 100,000 relates to funds received from Ascom Group on 16 September 2005 for capacity building training.

**[Details on the nature of the transaction outstanding]**

## SALARIES AND ALLOWANCES

These relate mainly to payments to the Coordination Council during the months January 2005 to June 2006 and GoSS personnel following the signing of the CPA.

## 5. TRAVEL AND ACCOMODATION

These relate mainly to travel and accommodation costs incurred by officials of the Civil Authorities of New Sudan (CANS).

## 6. STATE HOSPITALITY COSTS

These relate to funeral costs incurred during the burial of the late First Vice-President of Sudan and President of Southern Sudan in August 2005.

## 7. PRESIDENTIAL INAUGURATION COSTS

The costs relate to preparation, travel, accommodation and other related costs incurred during the inauguration of the late Dr Garang and Lt. General Salva Kiir Mayardiit in July 2005 and August 2005 respectively.

## 8. OFFICE OF THE PRESIDENT

The costs relate to the setting up of the office of the First Vice-President of Sudan and President of Southern Sudan and related relocation costs.

## 9. MILITARY UNIFORMS AND MEALS

These relate to costs of purchasing uniforms and food for the Joint Integrated Unit of the SPLA.

## 10. GRANTS TO STATES

Grants to States comprise payments made by GOSS to various States expensed upon payment.

## 11. BANK OF SUDAN AND BYBLOS BANK SUSPENSE

The amounts relate to payments made as follows for which no details are currently available.

| | |
|---|---|
| Bank of Sudan | 12,259,931 |
| Byblos Bank (on account of SPLM Advance Team) | 3,304,532 |
| | **15,564,463** |

**[At the time of reporting, details on the nature of transactions and related supporting documentation for the above amounts were outstanding]**

## 12. BANK CHARGES AND COMMISSIONS

| | |
|---|---|
| Bank charges and commissions | **4,045,811** |

## 13. PURCHASE OF VEHICLES -DUE FROM CBTF

The amount of US$ 2,110,981 relates payments by GOSS on behalf of the Capacity Building Trust Fund (CBTF) for purchase of motor vehicles. The funds were refunded after 31 December 2005.

## 14. CASH BALANCES

Cash comprises balances with banks and investments in short-term money market instruments. Cash included in the statement of cash receipts and payments comprise the following amounts:

| | 2005<br>US$ |
|---|---|
| Stanbic Bank Nairobi US$ account | 29,415,673 |
| Stanbic Bank Nairobi Euro account | 30,447,207 |
| Stanbic Bank Nairobi Kenya Shilling account | 88,103 |
| Stanbic Bank Nairobi US$ LC Margin account | 2,465,000 |
| Bank of Sudan Khartoum US$ account | 254,769,927 |
| Bank of Sudan Khartoum Sudanese Dinar account | 17,906,573 |
| Omdurman National Bank Khartoum US$ account | 28,048,780 |
| Omdurman National Bank Khartoum US$ account | 10,060,211 |
| Omdurman National Bank Khartoum Dinar account | 80,000,000 |
| Bank of Khartoum Sudanese Dinar account | 19,644,715 |
| Bank of Sudan Juba Sudanese Dinar main account | 16,131,987 |
| Bank of Sudan Juba Sudanese Dinar MoF account | 2,193,651 |
| Bank of Sudan Juba Sudanese Dinar account | 440,515 |
| Nile Commercial Bank* | 2,000,000 |
| **Unexpended funds** | **493,612,342** |

**[* - Bank statement outstanding]**

## 15. AUTHORIZATION DATE

The financial statements were authorized

01-08-2008

on ______________________

Aggrey Tisa Sabuni

by ______________________

## CHAPTER - ONE

# OIL REVENUE

# CHAPTER - 1

## I. INTRODUCTION

### Background

The Comprehensive Peace Agreement (CPA) of January 2005 between the Government of the Republic of Sudan and the Sudan Peoples' Liberation Movement/Sudan Peoples Liberation Army provided a formula and mechanism for the distribution of oil (and other) revenue derived from Southern Sudan. With respect to oil, the net income (after paying investors and costs) was to be allocated to the Government of National Unity, the Government of Southern Sudan, the oil producing states, and the stabilization fund in accordance with the agreed ratios.

### Audit Objectives

(a) To verify whether oil revenue receipts were properly supported by prime documentation and in accordance with the legislative framework and provisions of the Comprehensive Peace Agreement on the sharing of wealth in the Republic of Sudan.

(b) To verify whether oil revenue, production and management processes for crude oil and the basic assumptions and information used in computing the various components of oil revenue for the year under audit were stated at the correct value and accurately recorded.

(c) To verify whether all oil revenue receipts, charges and dues to the sharing parties during the period were recorded.

(d) To verify whether oil revenue receipts, production quantities and charges against oil revenue were supported by relevant schedules.

(e) To verify whether revenues received in various bank accounts exist and related to the revenue received by GoSS during the year under audit.

(f) To examine whether the accounting for oil revenue complies with the accounting policies adopted by GoSS.

(g) To evaluate control mechanisms surrounding the management of production of crude oil, oil revenue and Oil Revenue Reserve Fund.

**Scope of the Audit**

The audit covered the following:

(a) Understanding of the oil flow production process.

(b) Establishment of the net adjusted production, cost recovery process and the parties' entitlements;

(c) Determination of the oil production forecasts and adjustments;

(d) Determination of the parameters for computation of the sale of the crude and the sharing of the proceeds thereof;

(e) Ascertainment of the recoverable costs and charges;

(f) An understanding and evaluation of petroleum sector regulations, strategies, policies and management framework.

(g) Transfers to the respective government accounts in the designated banks the oil revenue shares and the balances in the oil revenue reserve account

(h) Evaluate the internal controls and accounting policies in vogue

**Span of Audit**

To undertaking the oil revenue locus, the audit reviewed 11 key areas:

(a) Monitoring methods of oil production.

(b) Export sales and uptake of crude oil to local refineries.

(c) Oil revenue receipts documentation.

(d) Reconciliation of cash receipts.

(e) Oil revenue due to GoSS and balances in the Reserve Fund

(f) Deductions against oil revenue at the end of the financial year

(g) Evaluation of the Petroleum Unit Report.

(h) Application of Accounting Policies.

(i) Principles and guidelines for the management and development of the petroleum sector.

(j) Establishment of the National Petroleum Commission and the Joint Technical Committee.

(k) Appointment of Technical Experts and representatives of GoSS for the review of the existing contracts..

## 2. Findings

### Monitoring of oil production

The aggregate oil production during the year was estimated to be 100.2 million barrels. GoNU and GoSS entitlement during the year amounted to 69.7 million barrels equivalent to US$ 3.5 billion. The rest (30.5 million barrels) went to third parties.

The Oil Gathering Manifold (OGM) is the primary documentation used to record the quantities of crude oil pumped out of the wells. Audit was not able to verify this and assess the adequacy of the OGM. Despite repeated requests, this documentation was not availed to audit. In addition, Audit could not establish if there were any control activities such as the approvals of the joint oil field supervisory teams which include representatives of GoNU and the contracted oil companies to establish the accuracy of quantities recorded.

A review of the samples of the daily production summary reports (DPSR) jointly prepared by GoNU and the contracted oil companies' representatives showed that there was absence of control such as acknowledgment by the parties' supervisory representatives. These controls provide evidence and assurance that the parties to the sharing of crude oil are in agreement with the production quantities as well as ownership of the production process. Because of the absence of the OGM, Audit could not establish the completeness and accuracy of the DPSRs.

Calibration tests for loading and pipeline meters at the various production, storage and measurement facilities are supposed to be performed after every six months by independent firms selected through competitive bidding and after technical evaluation. The calibration process should be jointly witnessed by the Government Technical Personnel and the oil companies' representatives. However, Audit was denied the opportunity to review calibration reports and records of meter tests to establish if such processes have been independently conducted at the prescribed intervals..

All the underlying production and accounting records were jointly maintained by the National Government and contracted oil companies. There were no technical personnel to represent GoSS, an equal party with interests in the management of the oil resources and the resultant revenues. The absence of GoSS representatives seriously compromised the oil production monitoring mechanism. This does not safeguard the interests of GoSS and does not provide assurance on the fair presentation of the production and financial information relating to the primary national natural resource and the most significant national revenue source to GoSS, predominantly mentioned in the Wealth Sharing Agreement.

The determination of the net adjusted production involves the processing of the crude oil through the down and upstream processes. Various losses are experienced during these processes such as base sediments, water line and terminal losses due to shrinkage, weight loss and production used as fuel. During audit, we were not able to establish if such losses were recorded and approved by Process Engineers to ensure that they were within the expected ranges and if variances were large, reasons were sought for.

Audit was not able to evaluate the process and the documentation for the accounting for the oil in the pipeline network and reconciliation for over and under lifting experienced. These records, if they exist, were not made available to Audit.

**Implications**

In the absence of the primary documentation and information such as the OGM that should be used to initiate, record, and report production operations, the likelihood of the entire data of oil production being vitiated and rendered unreliable cannot be ruled out.. Because of the absence of the oil production primary data upon which the DPSRs are prepared, Audit was not able to establish the extent of accuracy and completeness of the production information processed through the system.

The lack of acknowledgment and approvals on the primary documentation of production processes indicates an absence of controls. Due to the absence of control activities, and exclusion of GoSS officials from significant vantage view points the sharing of crude production and revenues cannot be fair.

In addition, it is not possible to determine whether and how a specific control, individually or in combination with others, may prevent or correct a misstatement in the oil management processes and procedures. The adequacy of approvals and checks to activities such as the correction of incorrect production and financial information and how such information is passed on from one department to another and used as input in the computation of the oil revenue due to GoSS cannot be ascertained.

In the absence of the calibration reports, we were not able to establish if the Mining Department had facilitated an independent calibration of meter gauges at prescribed intervals. Due to this, we are not able state whether there was any non-compliance or deficiency and whether corrective measures were taken by GoNU subsequently.

Due to the absence of GoSS representatives in joint monitoring of the management of the crude oil, there is likelihood of the risk of subjectivity in the measurement of financial and production information. Such measurement information includes illustratively, pipeline losses, production forecasts, parameters used to compute tariffs, management fees and benchmark prices.

**Export sales and uptake to local refineries**

We examined the mechanism for the management of crude oil through the downstream process. This process includes measurement, uplifting of crude oil for processing in the local refineries and for export at the marine terminal.

We were not able to assess the downstream crude oil quantity reconciliation processes for variations caused by pipeline losses or under and over lifting by GoNU, by local refineries uptake or for exports by the contractors. This is due to the absence of documentation for measurement of crude oil between the pipeline service and delivery measurement points.

In addition, we could not verify the terms of the contract and the quantity of crude oil taken by the contractors as either cost oil or share of the profit oil.

The sale of crude oil for export is carried out through a bidding process. The National Tendering Committee (NTC) evaluates the tenders submitted by the oil buying companies. The evaluation is then submitted to the General Manager and/or the Deputy Under-Secretary for approval. Audit was not able to confirm the adequacy of this process as there was no access to the tender documentation. Audit was not able to establish whether the tender for export of crude oil was awarded to the best bidder. Audit could not match the quantities of crude allocated to the buying companies by the NTC to the actual crude exported.

Audit obtained the details of the quantities of crude oil loaded to vessels for export during the year and selected samples for verification. Audit was not able to trace the bills of lading and the payments credit advice to the analysis of the annual export sales report. We understand that the relevant bills of lading were held in archives but these were not made available to audit to corroborate the information on export sales.

The Ministry of Energy and Mining (Department of Refineries) issues instructions to the Greater Nile Company for the issue of quantities of crude oil to the refineries on a daily basis. The actual quantities of oil received by refineries from the Greater Nile Company are usually below or above the quantities authorized by the Refinery department. Marketing and Finance departments of Ministry of Energy and Mining and the Ministry of Finance and National Economy meet to agree on the reconciliation of the differences and determine the value to be paid by the refinery companies. Audit was not able to verify these reconciliation and payment agreements and other billing support documentation on the settlement of the crude oil uptake by the refineries as relevant documentation was not provided.

**Implications**

In the absence of the oil production data and financial information required for audit, Audit was not able to determine the accuracy and completeness of the information and controls on the primary processes and documentation used to initiate transactions. Because of this limitation, Audit was not able to establish whether the primary oil production and financial information, measurements and basic estimates of computing parameters, and settlement of dues by the contractors, buyers and refineries collectively, provide an appropriate basis to determine the final share of oil revenue due to GoSS.

**Oil revenue receipts**

Audit requested confirmation of transfers of oil revenue and Oil Revenue Stabilization Account (ORSA) receipts from the Bank of Sudan (BOS) to GoSS. Audit also reviewed the schedule of receipts in the Petroleum Unit Report and attempted to verify these receipts to the bank statements. Accordingly the following were noted

1. The Bank of Sudan provided the schedule of receipts remitted to GoSS Dollar account during the year under audit. BOS did not confirm the oil revenue receipts transferred to the Government of Southern Sudan, to the Oil Producing States and transfers from the Oil Revenue Stabilization Account (ORSA) to GoSS.

2. Audit was not provided with the transfer instructions or credit advice by BOS for receipts amounting to US$576,450,000 and SDD 26,669,570,867, (equivalent of US$ 107,615,307).

3. Audit was not provided with the amount deducted from oil revenue as contribution to ORSA. In the absence of the transfer instructions, Audit cannot confirm deductions of charges on the transfers as indicated by GoNU and the Bank of South Sudan (BOSS).

**Implications**

The lack of oil revenue transfer support documentation does not provide adequate grounds for the preparation of financial statements. The recorded transactions and account balances may be misstated. This may result in un-reconciled receipt transactions as the accounting function may not be able to match transactions at the bank to the revenue schedules in the PU report. Moreover, this may also affect the determination of oil revenue receivables.

The lack of cash transfer advice documentation, makes it not possible to determine if there were any bank charges and levies charged at the point of transfer. Such deductions may not have been captured in the account ledgers and financial statements. Therefore there is likelihood that the accuracy of the individual transactions in the account ledgers may not have been adequately ascertained. Transactions may not have been recorded or well classified. This affects the completeness of the account balances disclosed in the financial statements.

Due to the lack of information on ORSA, audit was not able to establish transfers to this account as well as the balance at the end of the financial period. In addition, audit was not able to establish the adequacy of the mechanisms of operation of this account.

**Remittances**

Oil revenue remittances captured by GoSS bank accounts are higher than the transfers disclosed in the PU report. Based on the financial statements for the year and the Petroleum Unit (PU) report audit noted a difference of US$ 104, 027,668. This is due to the fact that the receipts are not supported by any documentation to enable audit to identify and classify the receipts as either oil revenue or drawings from the ORSA.

**Implications**

The inconsistency is a reflection of a poor accounting system or a concealment of unauthorized cash transfers.

**Outstanding Revenue on December 31st 2005**

Audit requested confirmation of the oil revenue due to GoSS and the Oil Producing States as at the end of the financial year from the Ministry of Finance and National Economy and did not receive any response. Based on the PU report US$ 80.6 million and US$ 18.6 million were due to GoSS and Unity State respectively. The existence of the un-reconciled amount in the financial statements, the absence of the transfer advices and the impossibility of matching cash received at the bank with disclosures in the PU report, cast reservations on the accuracy of the amount calculated as due to GOSS and the Oil Producing State.

**Allocated Expenses to Go SS**

GoNU indicated that the incurred expenditure on behalf of GoSS in 2005 was US$ 194 million on salaries, bank charges, transfers to States, purchase of equipment and discretionary expenses for the Office of the President among other things. The amount was offset against the oil revenue due to GoSS. Of this, US$ 78 million is disputed by GoSS, as either not fully supported or irregularly expended. The GoSS Ministry of Finance and Economic Planning (MOFEP) have requested that this amount be paid to GoSS as part of the amount of oil revenue due from GoNU.

**Implications**

In the absence of any confirmation from GoNU, we are not able to establish US$ 78 million is due to GoSS

For the reason that there are un-reconciled items in the financial statements, the inability of the accounting function to classify receipts as oil revenue or drawings from the reserve funds and the disputed amounts recoverable by GoNU, there is likelihood that the balances disclosed in the PU report may not be accurate.

### Charges on oil revenue

Audit verified some of the manually generated credit advices issued by BOS and noted that bank charges on an individual transaction are as high as US$ 1 million. Due to the lack of funds transfer advices from BOS, audit was not able to establish the reasonableness of these charges. As per the financial statements, bank fees on remittance of oil export revenues and bank fees on transfers to GoSS amounted to US$ 15 million and US$ 6.5 million respectively It was not possible to establish the origin and breakdown of these bank fees. These charges were reportedly incurred by GoNU but information was not made available to audit.

### Implications

In the absence of the funds transfer notifications from BOS, the deductions made by GoNU and BOS from the share of the oil revenue due to GoSS cannot be validated In addition, it is not possible to establish the basis of the bank fees. Such deductions may not be reasonable or they may be unusual charges due to their nature and sizes. Due to the lack of information and inadequate supporting documentation, there is likelihood that the information disclosed in the financial statements may not be complete to reflect the true position of the oil revenue and charges deducted.

### Adequacy of the Petroleum Unit Report

Audit reviewed the Petroleum Unit report to establish the accuracy and completeness of the information on management of the crude oil. The PU report contains information on production quantities, revenue from the oil exports, uptake by the local refineries and the share of GoNU, GoSS and Oil Producing States. Audit attempted to determine the adequacy of this information as it is the principal accounting record for oil revenue. But audit noted that it was not possible to match various entries to the relevant accounts.

### Implications

Due to the inadequacies noted in the PU report, which is the principal accounting record, there is a likelihood of the risk of misstatement of the oil revenue account balance. The completeness and accuracy of the cash received and balances due cannot be ascertained.

The lack of sufficient information in the PU report may result in poor classification of receipts and resultant inadequate financial statements.

### Accounting policies

Audit reviewed the application of the accounting policies under the cash basis of the International Public Sector Accounting Standards adopted by GoSS in preparation of the financial statements. It was noted that US$ 116 million paid by GoNU on behalf of

GoSS was not disclosed as required under the IPSAS- cash basis. The oil revenue received during the year was reported as net. The Notes to the financial statements on the oil revenues do not adequately explain the sub classification of sources of funds and uses of total payments made by GoNU on behalf of GoSS. The standards require that total cash receipts and total cash payments, and each classification and sub-classification thereunder, should be reported on a gross basis.

**Implications**

Income and expenditure disclosed on the face of the receipts and expenses statement has been understated. The financial statements do not adequately disclose the nature and details of the direct expenditure incurred by GoNU on behalf of GoSS.

**Recommendation**

It is recommended that the information on the expenditure incurred by GoNU on behalf of GoSS should be disclosed separately in cash receipts and payments. This should show the total payments made by GoNU along with the sub-classification of the expenditure items disclosed in the cash receipt and payment statement.

**Principles and guidelines**

The parties to the Comprehensive Peace Agreement (CPA) were required through the National Petroleum Commission (NPC) to review the existing petroleum sector legislation in Sudan. This review was to enable NPC to harmonize the existing legislation with the requirements of wealth sharing modalities. It was also required to develop principles for the management and development of the petroleum sector during the CPA interim period. The review was not undertaken during the year under audit. We however understand that the NPC secretariat became operational in subsequent years and that progress has been made.

**Implications**

Policies to protect the national interests, interests of affected States, regions and populations due to the development of petroleum resources have not been formulated. In the absence of these policies, the full participation of the stakeholders in the management of the crude oil resources may not have been achieved.

Guidelines for the participation of the communities whose areas have been affected by the extraction of the oil minerals in negotiation of oil contracts have not been established during the year under audit. In addition, there are no policies for the implementation of compensation to the local communities for the acquisition of land for the development of the petroleum sector. In the absence of these two guidelines the compensation paid to the affected communities may not be equitable or no compensation was paid at all.

**The National Petroleum Commission and**

**The Joint Technical Committee**

Under the CPA, an independent National Petroleum Commission (NPC) was to be established after the adoption of the interim national constitution and formation of the Government of South Sudan (GoSS) and Government of National Unity (GoNU). Under this agreement, the NPC was tasked with the review of the current legislation in the petroleum sector to comply with the CPA wealth sharing modalities. The Commission was also required among other things, to formulate principles, polices and guidelines to manage the operations. On discussion, we learnt that the NPC was formed in subsequent year.

**Implications**

There is likelihood that no new policies and guidelines on negotiating and approving of the oil contracts for the development and exploration of the oil resources may have been formulated.

**Appointment of Technical Experts**

GOSS through the JTC was required to appoint representatives to have access to the existing oil contracts. The representatives were required to engage a team of Technical Experts to review the existing oil contracts. This was to enable GoSS and GoNU to determine those contracts that are deemed to have social and environmental problems. This review was to provide remedies or compensations to individuals whose rights have been violated by the oil contracts. It was noted that the review had not been done and no recommendations had been made to the JTC or NPC.

**Implications**

Since the review had not been carried out, there is likelihood of the lack of information on social materiality issues including environment. In the absence of this information, the extent to which the remedial measures to be undertaken by the government for the compensation of the affected societies and regions may not have been determined.

**General Recommendations**

This report is five years late. The remedial recommendations that should have been presented in 2006 are now redundant. Instead I am presenting recommendations that can be practically valuable to the President and the Assembly at this point in time:

1. The Government of Southern Sudan is advised to engage independent external experts in the oil industry to audit all aspects and activities of Sudan's oil sector from January 9th 2005 to July 8th 2011. The objectives of the audit should include, but not to be limited to the determination of:
    a) Oil production quantities;

b) Exported volume and turnover;

c) Locally refined crude volume and value;

d) Costs related to export operations;

e) Costs related to local processing and distribution;

f) Net profit oil for the year;

g) Distribution of the profit as per the wealth sharing protocol of the Comprehensive Peace Agreement (CPA);

h) Actual distribution effected by the Government of National Unity;

i) Amounts due to the Government of National Unity and the Government of Southern Sudan arising from the reconciliation of all the relevant accounts;

j) Any other matter the experts deem relevant to the engagement.

2. The Government of Southern Sudan is advised to engage external independent experts to conduct an environmental audit on the impact of oil exploration and production to:

(a) Assess any damage to the natural environment (water, flora, fauna, soil …).

(b) Assess losses incurred and damages suffered by humanity living in the oil fields and neighbouring areas.

(c) Estimate equitable compensation due to humanity living in the oil fields and neighbouring areas.

(d) Apportion responsibility for compensation between the oil companies and governments.

(e) Recommend environment friendly policies and legislation for the future.

3. The technical experts should be engaged to assist the Government of Southern Sudan to review the existing oil contracts in their entirety including provisions relating to environmental protection and submit reports in the shortest possible time frame

# CHAPTER - TWO

# NON-OIL REVENUES

# CHAPTER - 2

**BACKGROUND**

There are two categories of non-oil revenue for the Government of Southern Sudan.

1. The share of taxes, tariffs, and duties collected by or on behalf of the Government of National Unity in Southern Sudan as provided by Section 7.3 of the Wealth Sharing Agreement of the Comprehensive Peace Agreement (CPA).
2. Revenue collected by the Government of Southern Sudan as provided by Section 184 of the Interim Constitution of Southern Sudan 2005,

**Audit Objectives**

(a) To verify completeness in recording of non-oil revenues;

(b) To verify whether all non-oil revenue stated at the correct value, supported by appropriate documentation and properly recorded by the various collecting agencies;

(c) To verify whether all non-oil revenue collected was in full compliance with the legislative framework of the Government of Southern Sudan; and

(d) To verify whether all non-oil revenues were calculated and distributed in accordance with the provisions of the Non-Oil Revenue Wealth Sharing Agreement.

**Scope of the Audit**

The audit scope covered financial and regularity examination of the non-oil revenue calculation, collection, and sharing in FY 2005. Non-oil revenues for the ten states in Southern Sudan for FY 2005 have been covered and reported separately under the State Audit Reports. The audit focused upon financial statements prepared by the interim Project Accounting Agent (PAA) and signed by the Ministry of Finance and Economic Planning (MOFEP)

**Finding**

The financial statements of GoNU and GoSS for FY 2005 did not show any non-oil revenue.

**Implications**

1. The Government of National Unity did not collect any non-oil revenue in Southern Sudan.
2. The Government of Southern Sudan did not collect any non-oil revenue in 2005 as per records but in practice sales tax and customs duties were collected.

**Recommendation**

We recommend that the GoNU and GoSS should initiate actions and establish systems for the formal implementation of the WSA to enable the GoSS to discharge its legal and constitutional responsibilities and duties. We further recommend that GoSS should exhibit its share of revenue received from the pooled account, and accordingly adjust the financial statement for the period under audit.

**Non-oil revenue collection under the Interim Constitution**

The Interim Constitution of Southern Sudan, section184 (1) provides for the collection of non-oil revenue by the Government of Southern Sudan from service charges, income from enterprises and projects of GoSS, grants in aid and foreign assistance, taxes and levies on small and medium scale enterprises and excise duties

Government of Southern Sudan did collect sales tax and customs duties but auditors did not find records of taxes, duties and tariffs collected by the GoSS and by States.

**Implication**

Non-Oil Revenues were collected by GoSS and the States but due to ineffective internal controls and absence of documentation fraud was committed and GoSS and the States were deprived of the non oil revenues.

**Recommendations**

1. The Ministry of Finance and Economic Planning should ensure that adequate systems are implemented to record and accurately disclose these revenue streams.
2. States should record and disclose all non-oil revenues levied and collected.

**Roles and Responsibilities**

The audit revealed that the roles and responsibilities for collection and accountal of non-oil revenues are not generally well defined, and disseminated to the various operational levels.

**Implication**

This failure heightens the risk of misappropriation of public funds and needs to be corrected with proper segregation and supervision of duties and responsibilities

**Recommendation**

1. MOFEP should establish and oversee a control structure that clearly defined roles and segregation of duties. MoFEP should also, assess the needs and requirements for internal controls in revenue collection and remittance, and build up the accountability framework for non-oil revenue administration at all operational levels (GoSS & States).
2. Adequate operating policies, procedures and systems need to be provided to collectors and administrators along with prescribed receipts and accounting templates for day to day work.
3. MOFEP in conjunction with State level MOFEP should develop an implementation plan for the non-oil revenue collections and expenditure.

**Registration of receipts and other forms issued**

During the course of the audit, Auditors noted that no records were maintained of receipt forms distributed to revenue collectors at the various outstations.

**Implication**

1. Collection and accountal of GoSS non-oil revenue was bound to suffer and government invited the risk of being defrauded
2 The risk of loss of revenue was heightened due to absence of controls.

**Recommendation**

1. MOFEP issue official non-oil revenue receipts, other forms and registration books to the States and other departments in order for them to issue to revenue collectors.
2. The directorates for non-oil revenue should take all practicable steps to ensure that all monies are accounted from the respective collectors.
3. There should be a supervisory function established that sends inspectors to the collection stations regularly to ensure that a system of internal control is in place to safeguard the non-oil revenue collections and the use of receipts, and other forms and registration books.
4. GoSS and States should exercise adequate controls over pre-numbered receipts and other forms, with an adequate audit trail of receipts, as well as used and voided forms.

## CHAPTER - THREE

# PAYROLL EXPENDITURE

# CHAPTER - 3

**Audit Objectives**

(a) To verify completeness in recording of payroll costs in the year of audit;

(b) To verify whether all payroll expenditure is stated at the correct value, supported by appropriate documentation and accurately recorded.

(c) To verify whether all payroll expenditure is made in accordance with the legislative authority of the Government of Southern Sudan; and

(d) To verify whether employees existed and were only paid for the time worked.

**Scope of the Audit**

The audit scope covered financial and regularity audit of the central payroll transactions of GoSS for FY 2005. Pay roll transactions for the ten states for FY 2005 in Southern Sudan have been covered and reported separately under the State Audit Reports. The audit focused upon financial statements prepared by the interim Project Accounting Agent (PAA) and signed by the Ministry of Finance and Economic Planning (MOFEP).

**Findings**

**Nominal Rolls**

Of the total payroll cost of US$ 14,454,336, the amount of US$ 1,930,310 was paid arbitrarily without records of service. Establishment Form 10 (Nominal Roll) was not prepared as prescribed by Section 271 of the Financial Accounting Procedures Ordinance (FAPO). As a result audit was unable to verify if salaries and allowances were paid according to employees' grades and whether these were duly authorized. The following had no nominal rolls.

| | **Ministry** | **Payroll Costs US $** |
|---|---|---|
| 1 | Ministry of Wildlife Conservation and Tourism | 95,565 |
| 2 | Ministry of Agriculture and Animal Resources | 115,267 |
| 3 | Ministry Of Commerce and Supply | 743,867 |
| 4 | Ministry Of Health | 132,190 |

| | | |
|---|---|---|
| 5 | Ministry of Culture and Information | 60,738 |
| 6 | Ministry of Public Service | 110,469 |
| 7 | Secretariat General | 189,224 |
| 8 | Ministry of Local Government & Public Security | 115,162 |
| 9 | Ministry of Education | 120,407 |
| 10 | South Sudan TV and Radio | 247,421 |
| | **Total** | **1,930,310** |

**Implication**

Without the comprehensive use of the Nominal Roll there is increased risk that salaries were paid to non-existent employees.

**Recommendation**

1. All Ministries and agencies should comply with the public service procedures requiring them to prepare Nominal Rolls as provided by FAPO Section 271.
2. The Ministry of Labour should ensure that a copy of each ministry's Nominal Roll is submitted to them for approval and recording.
3. Prior to payment of salaries, the pay sheets should be reconciled with the Nominal Roll to ensure accuracy in computation, and that payments are not made to fictitious employees,

**Salary Transfers**

MOFEP transferred excess money for salaries over and above that requested by Ministries and Departments. The excess cash transferred was not accounted for or returned to the MOFEP.

**Implication**

There is a risk that excess salaries transferred to the ministries may have been expropriated. MOFEP failed to comply with FAPO by excess transfers without documented justification.

**Recommendations**

All payment orders and transfers from MOFEP to individual government units should be based on the net salaries of that particular unit. The paying government units should prepare their pay sheets according to the approved Nominal Roll.

The Ministry of Labour Public Service and Human Resource Development should check and approve monthly Pay Sheets prior to payment orders being executed by MOFEP.

**Unpaid Salaries**

Audit noted recurring names of employees who did not collect salaries for several months. It could not be established whether the unclaimed salaries were subsequently paid or returned to MoFEP.

**Implication**

There is the risk of employees who have long left the service or been seconded to other units being included in the pay sheet and receiving salaries. It is also possible that former employees who have died or retired were still in the pay sheet and 'receiving' salaries.

**Recommendation**

The pay sheet should be reconciled every month. Names of employees no longer in service should be removed while employees not collecting their salaries for more than 30 days should be investigated to ascertain if they are still in active service.

**Unexplained Cash Payments by the Ministry of Finance and Economic Planning**

Of the US$ 14,454,336 included in the government financial statements as payroll costs, payments of US$ 173,459 were unexplained cash payments direct to individuals. These were posted directly to the Salary Ledger and were not captured in any unit Pay Sheets. Supporting vouchers for this expenditure were not signed and in some instances were completely missing.

Auditors also noted that these allowances were unilaterally paid and not as prescribed i.e. based on employee grades. This did not comply with the FAPO which stipulates that all payroll expenses be authorised through the Nominal Roll and a Pay Sheet prepared and approved prior to payment. These payments were as follows (names withheld):

| Date | Voucher no. | Voucher details | Amount SDD | Amount US$ | Remarks |
|---|---|---|---|---|---|
| 6/6/2005 | Chq 1129 | (Cash withdrawal) | 6,262,848 | 25,459 | No support for this payment |
| 7/6/2005 | Chq 1130 | (Cash withdrawal) | 3,388,000 | 13,772 | No support for this payment |
| 3/6/2005 | Chq 1125 | (Cash withdrawal) | 70,000 | 285 | No support for this payment |
| 4/10/2005 | P.V. 216839 | Allowances | 250,000 | 1,016 | Voucher not signed by the payee |
| 4/10/2005 | P.V. 216836 | Allowance | 450,000 | 1,829 | duplicate signatures |
| 4/10/2005 | P.V. 216836 | Allowance | 300,000 | 1,220 | Voucher not signed by the payee |
| 4/10/2005 | P.V. 216836 | Expenses | 2,500,000 | 10,162 | Voucher not signed by the payee |
| 4/10/2005 | P.V. 216836 | Per diems | 600,000 | 2,439 | Voucher not signed by the payee |
| 6/2/2005 | Chq 721 | Incentives | 1,785,000 | 7,256 | No details or narrations of payee |
| 6/2/2005 | Chq 782 | Malakal medical institute | 500,000 | 2,033 | These are not payroll costs |
| 19/2/2005 | Chq 790 | (Cash withdrawal) | 10,000,000 | 40,650 | No support for this payment |
| 1/4/2005 | Chq 1027 | (Cash withdrawal) | 1,420,000 | 5,772 | No support for this payment |
| 5/4/2005 | Chq 1031 | (Cash withdrawal) | 2,360,000 | 9,593 | No support for this payment |
| 5/4/2005 | Chq 1032 | (Cash withdrawal) | 6,007,021 | 24,419 | No support for this payment |
| 7/4/2005 | Chq 1036 | (Cash withdrawal) | 1,000,000 | 4,065 | No support for this payment |
| 12/4/2005 | Chq 1043 | Cash withdrawal | 1,250 000 | 5,081 | No support for this payment |
| 29/4/2005 | Chq 1080 | (Cash withdrawal) | 4,528,121 | 18,407 | No support for this payment |
| | | **TOTAL** | **42,670,990** | **173,459** | |

## Implication

Without supporting evidence it is possible that these payments were not for the benefit of GOSS.

**Recommendation**

1. Unless the legitimacy of these payments can be proven, government should recover the money.
2. Payroll payments that bypass parts of the payroll system should be avoided. If there are legitimate reasons for such payments, then these should be made in accordance with financial regulations, adequately supported and explained, and authorized at a senior level. Such payments should be well narrated in the financial statements.

**Duplicate Payee Signatures**

Duplication of payee signatures on allowances listings was noted.

**Implication**

Duplication of payee signatures implies that fraudulent payments were made during the year, either to non-existent employees, or that individuals other than those due for payment for their services received the public funds.

**Recommendation**

Instances of duplication of the payee signatures should be investigated and explained. If necessary, disciplinary action should be taken. Misappropriated funds should be recovered.

**Limitation of Audit Scope**

The following government departments failed to provide their payroll records for audit.

Consequently payroll expenditure amounting to US$ 1,202,256 was not audited and the scope of our audit was limited in this regard. This represents over 8% of the GoSS centralised payroll payments recorded in FY 2005.

| **Ministry, Department or Agencies (MDA)** | **US$** |
|---|---:|
| Ministry of Housing and Physical Planning | 102,528 |
| Ministry of Legal Affairs and Constitutional | 126,684 |

| | |
|---|---|
| Development | |
| Ministry of Finance And Economic Planning | 141,744 |
| Secretariat General | 187,176 |
| Ministry Of Local Government & Public Security | 100,500 |
| Peace and Political Mobilisation | 71,748 |
| Ministry Of Tourism and Environment | 101,400 |
| Sudan Relief and Rehabilitation Commission | 81,216 |
| Selection Commission | 35,244 |
| Southern Sudan Legislative Assembly (Constitutional post holders) | 254,016 |
| **Total** | **1,202,256** |

**Implication**

This failure to produce payroll records results in limitation of scope of the Auditors' work. Auditors were unable to ascertain whether these ministries and institutions channeled public finances to the intended purposes.

As a result of the material limitation of scope, it was not possible to determine whether US$ 14,454,336 recorded as payroll expenses was accurate and whether these funds were used for legitimate GoSS expenditure. There is a risk that part of this total was lost or misappropriated.

The Ministries, Departments and Agencies did not comply with the provision of the FAPO on the filing and retrieval of government records and documents.

**Recommendation**

All documents and records whether in paper form or electronic form must be filed.

All GoSS institutions should ensure that:

1. All documentation is archived for the period stipulated in the financial regulations
2. Record keeping follows standards set out by legislation.

**Pension Remittances**

The MOFEP did not maintain records of the pension contributions and remittances made to the National Pension Fund in FY 2005. As a result we were unable to establish the total pension contributions made for the year. Further the NPF did not provide records of pension contributions for audit purposes despite several requests. Auditors were therefore unable to verify if employees' and Government pension contributions were remitted to the National Pension Fund.

**Implication**

Employees could lose out on investment income if the MOFEP does not remit the employer contribution to the NPF. Also employees may not be paid their pension as they fall due upon retirement.

**Recommendation**

The NPF should provide to audit all statements of contributions and the Fund balance. All members contributing to the NPF should be issued with an annual statement account showing the employee/ employer contributions.

**Allowances**

Auditors observed that allowances paid to employees varied from ministry to ministry.

**Implication**

Some allowances may be irregular and de facto misappropriation of GoSS funds.

**Recommendation**

1. Each government institution should submit their monthly pay sheets to the Ministry of Labour.Public Service and Human Resources for scrutiny before they are passed to the MOFEP as a control mechanism for preventing unauthorized payment of allowances.
2. Personal allowances payable to GoSS employees should be in accordance with the schedule in the Public Service Manual. Other allowances that may be payable must be authorised by a separate circular issued by Ministry of Public Service and in accordance with financial regulations.

**Personnel Files**

In all the ministries audited it was noted that employee's personnel files were not updated. Documents related to updates, observed to be missing from files included:

| | |
|---|---|
| letters of appointments; | termination; |
| new postings; | retirement; |
| promotions; | training; and |
| disciplinary record; | leave of absence records. |

Although the personnel files had service history sheet, Auditors noted that some employees who had attained the compulsory retirement age were still in service.

**Implication**

Issues relating to promotion, discipline, leave of absence, termination, retirements and trainings were not captured in the personnel dossier. This weakness renders the process of performance appraisal and staff evaluation inconsistent. Further it is possible that public funds would be lost as a result of wrongful classification and remuneration of public officials due to failure to update personnel files.

**Recommendation**

The Directorate of Establishment should comply with public service procedures manual by updating the personnel files and conducting regular staff performance appraisals.

## CHAPTER - FOUR

# OPERATING EXPENDITURE

# CHAPTER - 4

**Audit Objectives**

1. To verify completeness in recording of operating costs;
2. To verify whether all operating expenditure is stated at the correct value, supported by appropriate documentation and properly recorded.
3. To verify whether all operating expenditure is made in accordance with the legislative framework of the Government of Southern Sudan.

**Scope**

The audit scope covered financial and regularity audit of the Operating Expenditure of GOSS for FY 2005. Operating Expenditure for the ten states for FY 2005 in Southern Sudan have been covered and reported separately under the State Audit Reports. The audit focused upon financial statements prepared by the interim Project Accounting Agent (PAA) and signed by the Ministry of Finance and Economic Planning (MOFEP)

**Finding**

**Unsubstantiated Expenditure by the Ministry of Finance and Economic Planning**

Auditors noted several material items of expenditure posted as Direct Expenses in respect of accommodation, discretionary expenses, travel costs and fuel, amounting to SDD 623,448,030 (US$ 2,534,341) with no supporting documents (Table below). The Financial and Accounting Procedures Ordinance (FAPO) Section 56 and 57 require that all payments be supported by duly approved documentation.:

| Serial # | Particulars/Items | Month | Amount SDD | Amount US$ |
|---|---|---|---:|---:|
| 01 | Accommodation | February | 43,000,000 | 174,796 |
| 02 | Discretionary expenses | March | 10,000,000 | 40,650 |
| 03 | Accommodation | April | 86,000,000 | 349,594 |
| 04 | Accommodation | June | 86,000,000 | 349,594 |

| | | | | |
|---|---|---|---|---|
| 05 | Accommodation, Travel cost & Discretionary expenses | July | 173,421,750 | 704,966 |
| 06 | Travel cost & Accommodation | August | 119,700,000 | 486,586 |
| 07 | Accommodation & Discretionary expenses | October | 88,811,250 | 361,021 |
| 08 | Fuel | November | 16,515,030 | 67,134 |
| **Total** | | | **623,448,030** | **2,534,341** |

**Implication**

1. In the absence of supporting documentation, it is not possible for Auditors to verify the use to which these funds were applied regardless of which accounts they were posted to and how they are reflected in the financial statements.
2. The authenticity and regularity of the expenditure cannot be established. In the absence of the supporting documents and some of the expenditure may not necessarily have been for bona fide purposes of the GoSS.

It is noted however that most SPLM, SPLA, Civil Authority and returning Diaspora resided in hotels at the expense of the government.

**Recommendations**

1. MOFEP must ensure that all expenditure is supported by adequate documentation to prove its legitimacy and provide evidence. All materially significant expenditure should be paid by cheques as provided in. FAPO Chapter 386, Section (1) which states:

"No expenditure shall be charged against the budget except those approved, provided that payments shall be by cheque".

**Excess Value Added Tax (VAT)**

In 2005, the SPLM Advance Team in Southern Sudan acquired 17 vehicles for SDD 150,218,090 (US$ 610,642) inclusive of 10% VAT. Though the original invoice included VAT, the supplier requested for additional VAT amounting to SDD 7,703,900 (US$ 31,366) resulting in an over-payment.

This erroneous request for payment was approved by the Undersecretary, MOFEP and Cheque #64 was processed. The table below show the overpaid VAT (SDD):

| **Type of vehicle.** | **No** | **Unit price per vehicle SDD** | **Total Value SDD** | **Total VAT Paid SDD** | **Revised VAT SDD** | **Overpaid VAT SDD** |
|---|---|---|---|---|---|---|
| Toyota Camry petrol | 1 | 6,085,000 | 6,085,000 | 608,500 | 908,909 | 300,409 |
| Toyota Hilux 4WD | 1 | 5,850,000 | 5,850,000 | 585,000 | 890,909 | 305,909 |
| Toyota L/Cruiser pickup | 6 | 7,460,000 | 44,760,000 | 4,476,000 | 7,036,363 | 2,560,363 |
| Toyota L/Cruiser hard Top | 6 | 7,895,000 | 47,370,000 | 4,737,000 | 7,401,818 | 2,664,818 |
| Toyota L/Cruiser GX-R | 3 | 10,822,300 | 32,466,900 | 3,246,690 | 5,119,090 | 1,872,400 |
| **Total** | **17** | | **136,531,900** | **13,653,190** | **21,357,090** | **7,703,900** |

**Implication**

GoSS funds of SDD 7,703,900 have been lost due to internal control failures in the processing of payments at MOFEP. Failure to note such a large overpayment and take corrective action indicates the absence of even fundamental internal financial controls for the period subject to audit. There is the risk that similar overpayments have been passed by the MOFEP with or without their knowledge.

**Recommendation**

MOFEP should recover the overpaid VAT of SDD 7,703,900 (US$ 31,366) and subject such payments to greater scrutiny to ensure that overpayments do not recur.

### Suspense Account

For the period of audit, missing vouchers amounted to SDD 644,576,000, (US$ 2,620,227). Of these transactions SDD 108,558,850 (US$ 441,296) as detailed below could not be allocated, and were posted to a Suspense Account which had not been cleared at the year end:

| Serial # | Date | Cheque # | Payee | Amount SDD |
|---|---:|---:|---|---:|
| 1 | 1/12/2005 | 03 | Known | 6,271,200 |
| 2 | 1/12/2005 | 04 | Known | 10,000,000 |
| 3 | 2/12/2005 | 05 | Known | 1,952,900 |
| 4 | 7/12/2005 | 08 | Known | 16,500,000 |
| 5 | 7/12/2005 | 09 | Known | 1,152,000 |
| 6 | 13/12/2005 | 13 | Known | 4,450,000 |
| 7 | 21/12/2005 | 15 | Known | 2,982,750 |
| 8 | 22/12/2005 | 20 | Known | 50,250,000 |
| 9 | 23/12/2005 | 27 | Not identified | 15,000,000 |
| | | | **Total** | **108,558,850** |

### Implication

The nature of these payments is uncertain. As such there is a risk that they are not legitimate GoSS expenditure and could represent misappropriations. If these are legitimate expenditure, the relevant accounts to which they should have been posted have been understated by the same amount.

### Recommendation

In future, MOFEP should ensure that use of Suspense Accounts is minimized, and when items of expenditure are necessarily posted to Suspense Accounts, this is a temporary response and items are  cleared from the account on a regular basis, prior to year end.

**Payment of bills incurred by SPLM**

**Findings**

(i) Audit noted that SDD 22,237,500 SDD (US$ 90,396), incurred by SPLM during the inauguration of GoNU, was approved for payment by both the Undersecretary and the Director of Accounts at MOFEP. This payment was via Cheque# 38 which was received by the Director of Accounts who had initially authorized the payment. No documentation was provided to audit to explain the end use of SDD 22,237,500 or the ultimate beneficiaries. The person authorizing the payment received the cheque. The cheque had been written as payable to the same individual who authorised the payment.

(ii) According to FAPO Section 386, (1) "No expenditures shall be charged against the budget except those approved, provided that payment shall be by cheques or payment order supported with bona fide vouchers". In audit, we noted several instances where payments were reportedly made for the inauguration of GoNU without supporting documents. (table below):

| S/no | Particulars/ Items | Payee | Amounts SDD | Date of Cheques | Cheque # |
|---|---|---|---|---|---|
| 1. | Tee shirts | Known | 16,000,000 | 07/07/2005 | 84 |
| 2. | Accommodation in Green Village Hotel | Manager Green Village Hotel | 20,000,000 | 16/07/2005 | 49 |
| 3. | Transport and communication | Known | 28,575,000 | 10/07/2005 | 000015 |
| 4 | Hotels for teams | Known | 6,125,000 | 11/07/2005 | 000019 |
| 5. | Two charter flights | Known | 30,000,000 | 17/07/2005 | 51 |
| | **Total** | | **100,700,000** | **( 409,350)** | |

(iii) Audit noted that US$ 9,822,358 or SDD 2,416,300,068 was paid for army uniforms (SPLA JIU Member) without complying with FAPO section 56 and 57 which requires that all payments must be supported by duly approved documentation. We could find no documentation to support this payment or the receipt of uniforms.

(iv) Further US$ 1,689,090 was paid to Nile Credit Management Ltd. from the budget of the Ceasefire Joint Military Commission without following accounting procedures contained in FAPO Section 309 (1). The total amount paid out of this budget without documentation was US$ 11,511,448.

**Implications**

1. These payments constituted HIGH risk of misappropriation. Failure to control the issuance and maintenance and proper custody of cheques and proper documentation to evidence payments increases the risk of misappropriation of public money.
2. Failure to follow the laid down procurement procedures may lead to acquisition of goods and services at prices higher than those prevailing in the market and this would lead to unwarranted loss of public funds.

**Recommendations**

1. The practice of civil servants writing government cheques payable to government employees or themselves must be stopped immediately. If there are legitimate reasons for Drawer and Beneficiary of Cheques being the same, there must be strict compliance with all the Financial Regulations.
2. The transactions listed above constitute HIGH RISK and should be investigated immediately by an independent authority and appropriate explanations sought, and if necessary sanctions taken.
3. Ministry of Finance and Economic Planning should follow the procurement procedures as stated by FAPO section 56 which requires that purchases and contracts may be conducted through public or limited tender. FAPO Section 57 also requires that, Government organs resort to public tender to procure goods, services, or to execute works.

## CHAPTER - FIVE

# CAPITAL EXPENDITURE

# CHAPTER - 5

**BACKGROUND**

In 2004-05 the World Bank, Government of Sudan and the Sudan People's Liberation Movement carried out a Joint Assessment Mission (JAM) to identify post conflict development needs of Southern Sudan. The primary outcome of the assessment was a 'Framework for Sustained Peace, Development and Poverty Reduction' produced in March 2005. The JAM highlighted the non-existence of public procurement hitherto and identified it as a critical need. It was noted by the JAM that the facility of public procurement had not come about in the war years in the absence of development expenditure requiring the procurement of goods, works and services. The sustained war blotted out such a need for decades But in the post conflict era when developmental efforts have to be ushered in the need for procurement expertise came to the fore..

From its inception the SPLM administration lacked the institutional framework and capacity to support procurement activities. Thus GoSS was confronted by the following critical limitations with regards to procurement:

1. Lack of procurement capacity;
2. Absence of functional postal and telecommunications services;
3. Lack of physical infrastructure;
4. Limited media (for instance, to advertise);
5. Lack of local suppliers in the private sector;
6. Poorly developed insurance, banking and financial services sector; and
7. Absence of a supporting regulatory environment

The Financial and Accounting Procedures Ordinance (FAPO), 1995, issued by the Republic of Sudan was to be applied by GoSS before the introduction of the Interim Public Procurement and Disposal Regulations (IPPDR) based on Section 226 (5) of the Interim Constitution of Southern Sudan that '…all current laws shall remain in force unless new actions are taken in accordance with this Constitution…'

The FAPO stipulates the manner and the thresholds to be used in the procurement of goods and services as:

1. Public tender.
2. Limited tender.
3. Direct contracts.
4. Direct bids.

The FAPO states that Heads of Unit may issue approvals to purchase and contract within the financial ceiling specified by the Minister of Finance yearly for every type of purchase.

There are specified conditions under which each type of procurement procedure can be used, for example, limited tenders can only be used in cases of emergency and recourse to direct contracts is allowed only where competition is inhibited. It is therefore apparent that if these regulations had been adhered to the procurement activities conducted in 2005 would have been credible and transparent.

Whilst we are aware that the procurement systems and environment of FY 2005 may no longer persist at the date of this audit report, it may still be appropriate to highlight the deficiencies in procurement practices of that period that were observed in audit for the benefit of future.

**Audit Objectives**

1. To verify completeness in recording of procurement costs;
2. To verify whether all procurement expenditure is stated at the correct value, supported by appropriate documentation and accurately recorded.
3. To verify whether all procurement expenditure is made in accordance with the legislative framework of the Government of Southern Sudan; and
4. To verify whether assets procured existed physically and were being applied for the correct purposes.

**Scope of the Audit**

The audit scope covered financial and regularity audit of the procurement expenditure of GOSS for 2005. Procurement expenditure for the ten states in South Sudan for 2005 have been covered and reported separately under the State Audit Reports.

The audit focused upon financial statements prepared by the interim Project Accounting Agent (PAA) and signed by the Ministry of Finance and Economic Planning (MOFEP).

**Finding**

**Procurement System**

Auditors noted that GoSS procurement was conducted in an ad hoc manner across ministries without reference to the MOFEP except at the point when contracts were being entered into. It was observed that procurement was not implemented in an efficient manner, often with procurement being conducted in a number of different departments within a single ministry.

It was also observed that capacity was severely constrained with regard to the following critical procurement activities:

1. Knowledge on preparation of Tender Specifications;
2. Development of standardized bidding documents;
3. Evaluation of bids;
4. Contract negotiations; and
5. Contract management.

Record keeping was found to be poor or non-existent in the MOFEP.

**Implications**

In the absence of complete records it will not be possible to certify that procurement was economical, efficient and resulted in the purchase of the required goods or services. Neither will it be possible to certify that the procurements complied with the extant legislation nor will it be possible to certify that there was no fraudulent payment

**Recommendations**

The Public Procurement Unit should ensure that all ministry personnel responsible for procurement are made aware of the provisions of the Interim Public Procurement and Disposal Regulation (IPPDR) especially in relation to maintenance of records.

**Khartoum 'Property'**

**Finding**

A capital payment entry indicated that GoSS acquired a building in Khartoum for a price of US$ 3.5m of which US$ 900,000 related to the refurbishment. Reasons for acquiring this property were not given. Audit was not able to establish whether the property was acquired for bona fide GoSS activities.

Auditors were unable to establish adherence to the procurement regulations as tender and associated documents were not provided to Auditors. Auditors did not see the Title Deed of the property indicating ownership by GOSS. There was no documentary support for the refurbishment expenditure.

**Implication**

Auditors concluded that the procurement regulations were flouted and the absence of documents increased the doubt that Value-For-Money, spent did not accrue to GoSS. In sum the purchase does not represent legitimate GoSS expenditure.

**Recommendation**

It is recommended that procurement regulations should be adhered to in all cases and a clear audit trail be established regarding the authorisation, tendering, and payment for transactions as laid down in the FAPO Regulations..

**Procurement System**

**Finding**

The Capital Expenditure in the FY 2005 was US$ 3,852,540, representing 2% of the total payments of US$ 190,716,705 made during the year. Following is the breakdown of the components of capital expenditure for 2005:

| Capital Expenditure Item | US $ |
|---|---:|
| Construction & Repairs of Buildings | 3,521,439 |
| Computers | 13,504 |
| Communication Equipment | 296,514 |
| Generators | 21,083 |
| Others | 10,000 |
| Total | 3,862,540 |

Audit was unable to verify the completeness of the Capital Expenditure appearing in the financial statements of FY 2005 due to limitation of scope imposed by the unavailability of supporting documents.

There is a significant possibility that the value of Capital Expenditure was much higher. And some expenditure recorded as recurrent costs were actually capital expenditure However the lack of supporting documents precluded detailed checking of both the recurrent and capital expenditure.

It was also observed that the significant efflux of time between the date of expenditure and the date when the audit was conducted imposed certain restrictions on the auditor's ability to verify capital items. This constraint was compounded by loss of institutional memory as documents were not available and officials who were responsible for the procurements in 2005 have since left the service of GOSS.

We however reviewed the limited documentation in respect of the following items which was made available to us:

| Date | Commitments | EV. Number | US $ |
|---|---|---|---|
| 21/ 2/05 | Communication equipment | 747-JV 1171 | 296,514 |
| 21/2/05 | Computers | 747-JV 1171 | 13,505 |
| 21/2/05 | Generators | 747-JV 1171 | 21,083 |

The following deficiencies were noted in the procurement of the above items:-

1. There was no evidence of any tenders having been invited for the acquisition of the communication equipment, or the sourcing of quotations for the lower valued purchases as is required by procurement regulations;
2. We did not see any evidence of the physical receipt of the items, or invoices relating to the payments made.
3. Internal Controls could not be verified relating to the initiation; segregation of incompatible duties; and approval of the above procurement transactions.

**Implication**

1. Failure to obtain value-for-money in the use of public funds in terms of obtaining goods for the best value, and effective management of projects;
2. Increased risk that procurements were not for legitimate GoSS expenditure;
3. Procurement procedures are not co-ordinated in terms of priorities and budgetary constraints;
4. Tenders were awarded with flawed evaluation processes;
5. Contracts were poorly constructed; and
6. The procurement function lost credibility in the eyes of potential future suppliers and the general public.

**Recommendations**

It is recommended that internal control procedures envisaged in the Procurement Regulations be instituted as a matter of urgency in order to obtain assurance that only valid, transparent, and bona fide procurements are carried out.

**Assets Record**

It was observed that assets acquired during the period were not recorded in an Assets Register. It was further observed that assets were not tagged for ease of identification.

An inventory of assets was not conducted at the end of the period.

**Implication**

Assets could be easily transferred to individual ownership by officials.

**Recommendation**

1. An Assets Register should be established showing required details such as the asset type and description, date when acquired, acquisition cost, location, internal asset number/reference and Officer responsible for the asset.
2. Policies regarding the custody of assets should be formulated in order to avoid abuse.

## CHAPTER - SIX

# BANK AND CASH BALANCES

# CHAPTER - 6

**Audit Objectives**

1. To verify completeness in recording the bank and cash transactions.
2. To verify whether all bank and cash transactions were stated at the correct value, supported by appropriate documentation and properly recorded.
3. To verify whether all bank and cash transactions were in full compliance with the legislative framework of the Government of Southern Sudan.

**Scope of the Audit**

The audit scope covered financial and regularity audit of the bank and cash transactions of GoSS for FY 2005. Bank and cash transactions for the ten states for FY 2005 in Southern Sudan have been covered and reported separately under the State Audit Reports. The audit focused upon financial statements prepared by the interim Project Accounting Agent (PAA) and signed by the Ministry of Finance and Economic Planning (MOFEP).

**Findings**

**Confirmation of Bank Balances**

Stanbic Bank Nairobi had confirmed the balance in account number 0240080087601 as US$ 28,586,828 whereas the financial statements indicated this as US$ 29,415,673 resulting in a difference of US$ 825,845. Despite our repeated requests Ministry of Finance and Economic Development (MOFEP) declined to give any explanation.

It was noted that bank confirmations were also not received from Sudanese based banks despite our sending confirmation requests initially in August and subsequently in October 2009.

**Implication**

A significant amount of public funds amounting to US$ 429,196,359 out of total bank and cash balances of US$ 493,612,342 could not be independently confirmed by the Sudanese banks implying that we were unable to get the required assurance that bank balances are not materially misstated.

**Recommendation**

MOFEP should follow up with the concerned banks in order to obtain the confirmations. We also recommend that the difference of US$ 4825,845 with Stanbic Bank Nairobi be investigated and properly accounted for in the ledger.

Similarly, confirmation of bank balance of US$ 429,196,359 be obtained from Sudanese banks.

**Cash Counts**

No cash on hand was shown in the financial statement for FY 2005. There must have been some unused cash with the cashiers on the last working day of the financial year. There was no evidence that all cash on hand was deposited into the banks before the year end.

We are unable to determine whether cash counts were made on the last working day and how they were treated in the books of accounts.

**Implication**

Failure to conduct a cash count at year end makes it impossible to state whether public funds on hand were correctly accounted for or not.

**Recommendation**

Cash counts must be made regularly during the year and that a mandatory cash count and reconciliation be performed at year end.

**Bank Reconciliation Statements**

Monthly bank reconciliation statements were not prepared for any of the GoSS bank accounts in the year under review. As a result I could not confirm that bank balances were free from any error and irregularity.

The financial statements included a balance of US$ 2 million in Nile Commercial Bank. The balance however does not appear in the ledger. Despite our requests, Nile Commercial Bank declined to confirm the existence of this account.

**Implication**

In the absence of regular bank reconciliations, it is difficult to establish whether bank balances reflected in the financial statements are correctly stated. Bank and cash balances are liquid assets which are highly susceptible to fraud and therefore instances of forced balancing and lack of bank statements may be pointers to fraud.

**Recommendation**

Monthly Bank reconciliation statements should be prepared for all bank accounts, and be signed for evidencing review by senior management.

The existence of the Nile Commercial Bank account should be investigated and appropriate action taken.

**Journal Vouchers**

Journal Vouchers are used to rectify and reorganize transactions in the books of records. The entries could include transfers and those transactions which were erroneously entered in expenditure/revenue accounts. Such vouchers are expected to be closely controlled. It is noteworthy that all Journal Vouchers selected by audit were not signed by the preparer or the approver. The journal entries also lacked sufficient narrations and breakdowns.

**Implication**

Alterations could be made in the accounts without being approved and therefore the possibility of incorporating wrong amounts could be very high.

**Recommendation**

Journal Vouchers should be properly supported with relevant documents and sufficiently narrated with appropriate breakdown. They should always be signed by the preparer and by the designated authorizing approver. The latter improves internal control by segregation of duties and ensures that the rectified or reorganised expenditure is legitimate.

**Used cheque stubs and correspondence files**

Audit asked for all used cheque stubs which was not made available. This limited the scope of audit as we could not validate the transactions in the bank accounts.

**Implication**

Auditors could not check the accuracy of the transactions and whether cancelled checks were correctly treated in the books of records.

**Recommendation**

All cheque stubs should be archived and produced to audit on demand.