

PUNTLAND STATE OF SOMALIA

LOCAL GOVERNMENT FINANCE POLICY



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List of Abbreviations

AIE	Authority to Incur Expenditure
AIMS	Accounting & Information Management Systems
BC	Budget Classification
BIMS	Billing Information Management Systems
COA	Chart of Accounts
DAF	Director of Administration and Finance
DF	Director Finance
FIS	Financial Information System
FMIS	Financial Management Information System
ICT	Information and Communication Technology
IIA	Institute of Internal Auditors
IPPF	International Professional Practice Framework
IPSAS	International Public Sector Accounting Standards
IST	In-Service Training
LG	Local Government
LGPFM	Local Government Public Financial Management
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
OSR	Own Source Revenue
PEM	Public Expenditure Management
PFA	Public Financial Administration
PFM	Public Financial Management
PLGFP	Puntland Local Government Finance Policy
PPE	Property Plant and Equipment

Executive Summary

The objective of the Puntland Local Government Finance Policy (PLGFP) is to provide a clear guide for financially sustainable delivery of public services by District Councils within Puntland State of Somalia (“Puntland”) and to facilitate the strengthening of District finance in order to achieve the goals of sustainable financing, greater accountability, trust in Local Government (LG) administration, and good governance. The production of PLGFP and its implementation is part of initiative to improve Public Financial Management (PFM) in Puntland, while progress has been made in recent past; there are considerable gaps in the process and content.

The purpose of the PLGFP is to propose three types of PFM policies for Local Government: strategic; cross-cutting; and financial sub-systems. A LG financial system has three roles to perform: control, management, and planning. The first and most important role is to ensure control and thus the stewardship of public money.

This PLGFP ensures that PFM in Puntland is consistent across the different tiers of Government. Such consistency is essential for national financial management and facilitating the development and revision of the financial components over time.

A public finance system raises and spends public money under legal auspices. A foundation of a public finance system is a legal framework that ensures that revenues and funds are legally treated and that there is adequate oversight. This PLGFP forms a basis for revising existing laws, regulations and producing of accounting and audit manuals and procedures among others.

District Councils are self-accounting units, the Secretary of the Local Government being the accounting officer, reporting to the Mayor and the Council. The District budget is the overall instrument for the management and planning of the activities of a District Council. The District Budget shall be developed carefully under the guidance of the Executive Committee and with a focus on outputs, that is, the provision of services such as education, health, water, sewage, solid waste management, street lighting, market and urban/rural development.

The District income (revenue) shall comprise Own Source Revenue (OSR), Central Government transfers, donor grants and loans. District Councils shall maintain double entry bookkeeping with cash basis of accounting system and shall apply IPSASs (cash basis) guidelines. The Secretary of the Local Government shall establish sufficient internal controls through the Director of Administration and Finance (DAF) and establish an Internal Audit Department, to minimise financial/fiduciary risks

District Councils may own/control physical assets (land, buildings, infrastructure, vehicles and equipment) and investments which are managed on behalf of local taxpayers and citizens. The Secretary of the Local Government shall ensure good management practices of District Council’s assets and investments which is critical for the quality and sustainability of local service delivery.

1. Introduction

1.0.1 The purpose of the PLGFP is to propose three types of PFM policies for Districts: strategic; cross-cutting; and financial sub-systems. Ten financial subsystems are covered: (1) budgeting; (2) disbursements; (3) accounting/financial reporting; (4) internal audit; (5) financial information systems; (6) asset management; (7) procurement; (8) revenue; (9) credit control; and (10) debt management. The PLGFP focuses on the three types of policies needed to improve PFM at the District level. The focus is not on detailed procedures for each of the financial sub-systems which will require the development of comprehensive and detailed procedural manuals that will be addressed once there is agreement on policy. For the practice of PFM to be effective and efficient, government staff require procedural manuals that explain in detail the specific actions they need to take and the official forms required to exercise and document transactions.

1.0.2 The objectives of PLGFP are to:

- a) Provide a clear guide for financially sustainable delivery of public services by Local Councils within Puntland; and
- b) to facilitate the strengthening of District finance in order to achieve the goals of sustainable financing, greater accountability, trust in LGs' administration, and good governance

1.0.3 PLGFP may result into among others:

- a) Revision of some LG's financial laws and regulations;
- c) Formulation of new LG's Laws and regulations; and
- d) Producing of detailed LG's financial management procedures and guides.

1.1 Weaknesses of Puntland Financial Sub-systems

1.2.1 A public financial system is made up of financial sub-systems such as budgeting and accounting and each requires four components: (1) a legal framework; (2) comprehensive procedures; (3) automation if appropriate; and (4) adequate numbers of staff with adequate training. The gap analysis of Local Government PFM completed in June 2015 found significant deficiencies in the four components of many of the financial sub-systems.¹ The most significant deficiency was the lack of a comprehensive and well developed financial system in the Central Government which could provide the basis, with necessary modification, for the District financial system. A second critical deficiency found was the absence of procedure manuals and forms for the financial sub-systems. The absence of procedure manuals means that training materials are for the most part not relevant to

¹ KPMG, "Development of District Finance Policies and Procedures for Puntland - Final version." June 2015.

promote the consistent practice execution of the financial sub-systems. The absence of procedure manuals also means there are no clear and specific requirements for the development of a financial information system. In summary, there is not an adequate functioning financial system in place at District levels.

- 1.2.2 The development of a comprehensive public financial system takes time. The most time consuming task is the development of detailed procedures which in turn define the information requirements of an automated system and are the basis of the training materials. Procedure manuals must be comprehensive and our experience demonstrates these can often be a hundred pages or more in length.

2. Strategic Policies for Financial Management

- 2.0.1 The strategic policies are the first order policies that need to be implemented for the PFM reform to rapidly proceed in an orderly manner and produce a coherent financial system. Four strategic policies must be agreed to:

- a) Devolution and de-concentration of the financial function to Local Government;
- b) The purpose of the financial reform;
- c) Consistency of financial systems across the tiers of Government; and
- d) Principles of the financial reform.

2.1 Devolution, de-concentration and decentralization

- 2.1.1 Puntland is pursuing a policy of decentralization² that currently is a mixture of de-concentration and devolution. Devolution has significant costs for it requires the establishment of duplicate administrative systems at the Local Government tier. The costs are justified if local management improves service delivery as services are tailored to local needs and if local management promotes accountability. Our experience has shown that financial management is most effective if discretion is given to the lowest level while still ensuring control. Should financial management be devolved to Local Government rather than continue to be de-concentrated and managed by the Central Government? Financial management at the Central Government is overloaded creating inefficient financial management at that tier. The centralisation of key financial sub-systems - budget in the Ministry of Finance and disbursements in the Accountant General's Office - has caused delays and significant inefficiencies for line ministries of the Central Government. Delay in disbursements disrupts implementation of work plans, increases the costs of services that suppliers will charge government, and significantly impacts the performance of staff when salaries are delayed. Having tight control on disbursement may be viewed as one, if not, the key means of ensuring control but its value is significantly reduced in the absence of the most crucial control - internal audit.

² The overall set-up of the local government in Puntland is defined by the Constitution of the Puntland State of Somalia of December 2009, refer to sections of article 120 (Decentralization of Regional and District Administrations)

2.1.2 The need to devolve financial management is proposed as a recommendation in the Government’s policy on decentralization.³ The Government’s policy points out that this devolution is needed to address the weakness of the current system:

“[The] de facto dichotomy of service delivery in Puntland, with identical functions being planned and implemented by Districts as well as sector ministries. The reasons for this dichotomy of service delivery are a combination of contradictory laws, policies and regulations at sector level vis-à-vis law No. 7; lack of clear reporting and planning procedures between district and central level; as well of lack of clarity among implementing government institutions on regulations and practices; as well as the need to undertake service delivery based on an inclusive planning process.”⁴

2.1.3 The Decentralization policy document goes on to offer a recommendation, not policy, that: The core management functions as identified in the functional assessment study are identified as: (1) Policy making; (2) Strategic planning; (3) Budgeting; (4) Execution; and (5) Regulatory oversight and compliance. There is a need to clearly define the different roles of the central and local levels for the main core management functions identified above.

These core functions can be subdivided in some manner to present a clearer definition of the role of the Central ministries and the Local Government. A possible division of these roles is presented below in terms of primary and secondary responsibility.⁵

Table 1 Assignment of Core Management Functions and Responsibility⁶

Function	Primary Responsibility	Secondary Responsibility
Policy Making	Central Ministries	Local Government
Strategic Planning	Central Ministries	Local Government
Budgeting	Local Government	Central Ministries
Execution	Local Government	Central Ministries
Regulatory Oversight and Compliance	Central Ministries	Local Government

2.1.4 The recommendation of the Puntland Decentralization Policy to assign primary responsibility for budgeting and execution should be a policy not a recommendation. This policy document presents how this transfer of responsibility can be achieved by budgeting, accounting and disbursement. It

³ Puntland Decentralization Policy: 2013-2020.

⁴ Puntland Decentralization Policy: 2013-2020.

⁵ Puntland Decentralization Policy: 2013-2020.

⁶ Puntland Decentralization Policy: 2013-2020.

should be noted that the Puntland Decentralization Policy uses the term “primary responsibility” and not the term “devolution” which means that the finance function would not be fully devolved as the Central Government would still have a “secondary responsibility” for financial management. A key policy question therefore needs to be decided which specifies what is meant by primary and secondary responsibility. The terms primary and secondary are too vague and financial management requires clear definitions of responsibility. In the sections below on budgeting, disbursement and accounting, the primary responsibility of District Councils is specified.

- 2.1.5 A means of promoting devolved financial management to District Councils would be to adopt a policy of self-accounting. Self-accounting would require District Councils to fully manage their budgets and accounts and prepare financial statements for District decision makers. Recognizing that Local Councils have limited capacities in financial management, self-accounting could be carried out by concentrating scarce District finance staff in a finance pool established in each District Department of Administration and Finance. The finance pool could begin with one or two tasks (accounting, budgeting and internal audit) and could be expanded to cover procurement. In terms of District disbursements, a treasury single account could be established at the branch office of the Puntland Central Bank with payment authorised by the finance pool which would through vote books, commitment books, and cash books—that there was budgetary provision and cash available to make payments. The specific policies needed to promote self-accounting in District Councils are further presented below in select financial sub-systems (budgeting, accounting, disbursements and internal audit).
- 2.1.6 Financial management reforms take years. Given Puntland’s policy of decentralization, it needs a vision of how to evolve from de-concentration to devolution in financial management in District Councils. Puntland’s strategy of PFM reform should not be done in isolation from the much larger government policy of decentralization. PFM reform should support not drive the decentralization process.
- 2.1.7 Financial devolution will not be done overnight just as PFM reform will not be done overnight. Expanding the discretion of District Councils in financial management should be done on a pilot basis starting with the most capable District Councils, learning the lessons of the pilot and then gradually rolling out the reform.
- 2.1.8 As a first step in assigning discretion in financial management to strengthen financial management where spending occurs, the Central Government should consider expanding the role of line ministries in managing key financial functions. This in turn will inform the policy of making District Councils self-accounting units. As a first step, the Central Government needs to promote better financial management in its spending line ministries by giving them greater discretion in financial management. Understanding the importance and the requirements of promoting discretion in financial management at the central level should then lead to promoting discretion in District Councils.

2.1.9 The key conclusion from several recent assessments of the status of PFM in Puntland is that the first and fundamental role of a public financial system—control—is not well established. The finding that there “*is no internal audit in Puntland*”⁷ makes very clear that the overriding strategic policy that must be urgently pursued is the establishment of adequate financial control. Internal audit needs to be well established at all tiers of Government and would need to be established and well-functioning at the District level as a precondition for self-accounting. By building strong control at the District level followed by greater discretion in financial management in District Councils, finances would be far better controlled and used than the current de-concentrated system. Devolution of the financial function can bring better financial control and more effective and efficient financial management.

2.2 The Purpose of the Financial Reform

2.2.1 A public financial system has three roles to perform: control, management, and planning. The first and most important role is to ensure control and thus the stewardship of public money. Control is needed from the macro level (a sustainable budget of expenditures and revenues) to the micro level (does a specific procurement have budgetary provision). The gap analysis of Puntland LG financial systems clearly demonstrates that the country lacks a good PFM system. The gap analysis also found that there were inadequate numbers of staff and staff had limited skills. It is therefore recommended that the Puntland Government gradually adopts initiatives to improve the PFM system.

2.3 Consistency of Financial Systems across the Tiers of Government

2.3.1 PFM in Puntland needs to be consistent across the different tiers of Government. Such consistency is essential for national financial management and facilitating the development and revision of the financial components over time. Building different financial systems for different tiers cost time, money and requires clarity. One of the biggest cost in reforming and sustaining a financial system is the training of staff and by having one system, there would be significant economies of scale to the delivery of in-service training. While there are some differences in the requirements of the financial systems at the Central and Local Government tiers, these are minor and could be accommodated with one system.

2.3.2 To promote consistency across the tiers of Government requires that reform and maintenance of the PFM systems be well coordinated based on two policies.

2.3.3 *Policy #1: A PFM steering committee chaired by a senior official of the Ministry of Interior, Local Government and Rural Development be formed that includes senior officials from the Ministry of*

⁷ Article 10 (Departments of Local Governments) of Law No. 7/2003, laws of the District Council of Puntland state of Somalia, provides for all district departments and their functions except for Internal Audit Function.

Finance and senior officials from select District Councils. The committee shall meet quarterly to review the progress of reform as well as issues arising from on-going maintenance of the PFM systems at both levels. The Steering Committee will be responsible for proposing policy on PFM for all tiers of Government. The steering committee will be informed by a technical committee on PFM.

- 2.3.4 *Policy #2: A technical committee chaired by a senior official from the Ministry of Finance will be formed that includes finance officials from the Ministry of Finance, Ministry of Interior, Local Government and Rural Development and finance officials from select District Councils that cover all financial sub-systems. The technical committee will advise the PFM Steering Committee and meet as often as matters arise.*

2.4 Principles of the Financial Reform

- 2.4.1 The recent assessment of Puntland found that the reform has been slow, has fragmented funding, has lacked coordination, has different designs and approaches, is focused on short term activities and not on outcomes and has been externally driven. These deficiencies can be quickly magnified when applying a reform in a decentralized Government which has different capacities at different tiers and thus requires two and three speeds of reform. In summary, the reform process has lacked coherence and international experience shows that is one if not the most important necessary condition for a financial reform to succeed. Coherence of a financial reform requires that three tasks be effectively managed: scope (a clear strategy, clear Government ownership, selectivity); schedule (adequate time scales and thorough development); and budget (adequate funding).

- 2.4.2 **Scope.** The most important task of managing a reform is the management of its scope. Regarding scope, this policy paper has recommended two clear strategic policies—devolution (in stages) of financial management to District Councils and a focus on external control (Public Financial Administration). To manage scope means that Government needs to own and direct the reform not external funders. Effective management of scope requires that Government be selective in its reform efforts—no Government can adequately reform all financial sub-systems at once as needs also to devote scarce manpower and resources to day-to-day operations. The first order task that the Puntland Government, at all tiers, must address is the weakness of control. While all of the 10 financial sub-systems covered in this document are important, the government must concentrate on a set of first order sub-systems that are crucial to control and have little or inadequate policy and procedures. The first order sub-systems recommended are: (1) budget; (2) disbursement; (3) internal control (internal audit and inspection); (4) accounting/financial reporting; and (5) revenue. Several second order sub-systems (credit, debt, asset management and procurement) have some if not considerable policy documents guiding their execution with the exception of the area of Information Communication Technology/Financial Information System (ICT/FIS) which has virtually no policies. The management of the finance function in terms of delegation is covered by some policies while ethics

has little coverage. Again, the Government cannot aggressively reform all sub-systems at once and difficult choices have to be made where to allocate scarce staff and funding resources. Also, some second order sub-systems such as ICT/FIS require the development of first order sub-systems (budgets and accounts and their systems of Budget Classification and Charts of Accounts).

2.4.3 **Schedule.** The Government and its development partners have to recognize that public financial reforms take a long time. International experience has shown that there are few, if any, shortcuts and when shortcuts are taken the quality of the reform suffers if not fails altogether. Experience shows that it takes 12 to 15 years to implement a public financial reform (6 to 9 years to implement a Financial Information System (FIS) reform).⁸ If the reform is to produce a quality financial system, then Government and funders alike need to accept that “quick wins” may not in the end lead to a good system. A strategy going forward that is prioritized and reforms first order sub-systems (builds PFA sub-systems) will embed a lasting system that need not be continually revisited and reformed by short term initiatives.

⁸ Swedish International Development Agency, *Public Financial Management in Development Co-Operation: A Handbook for SIDA Staff*. Stockholm, 2007, p. 93. The World Bank estimates that it takes 6 to 7 years to implement an FIS project given the high failure rates of FIS projects in Africa, the Bank does not see their 2003 study that found it took 7 to 9 years. See, Cem Dener, Joanna Watkins, William Dorotinsky, “Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn’t.” World Bank. 2011.

3 Cross-cutting Financial Policies

3.0.1 A financial system is composed of sub-systems for example budgeting and accounting, and all sub-systems need to have four supportive components: (1) a legal framework; (2) comprehensive procedures; (3) automation where appropriate; and (4) adequate staff with adequate in-service training. These four components crosscut the financial sub-systems and policies are needed to ensure that these are in place.

3.1 Legal Policies

3.1.1 A public finance system raises and spends public money under legal auspices. A foundation of a public finance system is a legal framework that ensures that revenues and funds are legally treated and that there is adequate oversight. A legal framework would include an array of legal acts, typically comprising budget law which in turn would authorize the promulgation of financial regulations which in turn would be elaborated by financial directives issued by the public body (typically a Ministry of Finance) that has been delegated to issue directives and guidance to public bodies on financial management.

3.2 Procedural Policies

3.2.1 Policies are not procedures. This document was prepared without procedure manuals for key sub-systems especially budgeting and accounting. The proper preparation of procedure manuals requires that key policy decisions be made. In the sections below those present select financial sub-systems, the key policy decisions are presented which will guide the development of procedures. Once policies are made and procedure manuals written, these will serve as the basis of the requirements for the ICT/FIS and the basis of the training manuals.

3.2.2 Some of the most important cross cutting procedures needed to move the financial reform forward is a clear system of Budget Classification (BC) and chart of accounts (COA). The BC and COA are the basis upon which budgets, disbursements, accounts, and financial statistics are compiled and the architecture of the financial information system. The BC and COA with some exceptions due to differing functions should be largely consistent between the tiers of government.

3.3 Financial Information System Policies

3.3.1 At District level there are computer applications: AIMS (Accounting and Information Management System) combined with BIMS (Billing Information Management System). At Central Government level, the piloting of Financial Management Information System (FMIS) may soon start.

3.3.2 The following policies should guide the Financial Information System (FIS) at district level.

- 3.3.3 *Policy #1: Districts should use the same Chart of Accounts as Central Government issued by Accountant General since in a near future both Local and Central Government will be using the same FMIS.*
- 3.3.4 *Policy #2: If separate applications are to be used at the Central and District level then they must be made compatible (have the capacity to share data--upload and download data) and approved by Accountant General.*
- 3.3.5 *Policy #3: Future development of the selected FIS should be driven by clear user requirements specified by the Government technical financial reform team approved by the Accountant General.*

3.4 In-Service Training Policies

- 3.4.1 Effective and efficient performance of a public financial system requires adequate staff and very well trained. Government should establish a permanent In-Service Training (IST) facility and offer continuous training for different levels of officials: senior decision makers, middle-level officials, and staff directly responsible for operating the financial sub-systems. A permanent facility is needed to ensure that turnover of finance staff is addressed by new recruits promptly trained. Training should cover the legal responsibilities as well as the details of the procedures and eventually, the use of an FIS. Training materials should be relevant and based on comprehensive procedure manuals. It takes time to develop training materials and train the trainers of training but international experience has shown that one, if not the most important factor, in the effectiveness of a government financial system is the proper training of staff. IST is also one of the most expensive components of a financial reform and needs to be adequately funded. The temptation to cut costs in training has proven in other country contexts to be short sighted. By harmonizing the procedures of all tiers of Government, an IST can be developed which has economies of scale and is cost effective. A virtue of adopting a strategy of adopting a basic financial system first—Public Financial Administration (PFA) — then the more sophisticated Public Financial Management (PFM) so that in-service training will be more accessible to staff with limited educational backgrounds.

To promote the rapid increase of staff trained in PFM and especially fill the crucial gap in internal control training of staff should be guided by the following policies:

- 3.4.2 *Policy #1: An In-Service Training (IST) facility shall be established with a first priority of training of District finance staff (and Central Government staff given availability of training slots).*
- 3.4.3 *Policy #2: The first substantive priority of IST should be internal audit.*
- 3.4.4 *Policy #3: Professional training and certification should wait until existing posts are adequately staffed.*

3.5 District Council's Relationship with Central Government Ministries/Departments

3.5.1 *Policy #1: District Councils shall enjoy cordial relationship⁹ with Central Government Ministries and departments of:*

- a) Supervision and guidance support from the Ministry of Interior, Local Government and Rural Development;*
- b) Transfer of conditional and non-conditional funds from Ministry of Finance;*
- c) Provision and or approval of Chart of Accounts by the Accountant General; and*
- d) Audit of District Accounts by the Auditor General.*

3.5.2 *Policy #2: District Councils shall comply with:*

- a) Ministry of Interior, Local Government and Rural Development's guidance and instructions in accordance with the existing relevant laws and regulations;*
- b) Ministry of Finance reporting requirements on conditional funds and donor funds, if needed;*
- c) Statutory requirement to submit accounts for audit to the Auditor General; and*
- d) Accountant General's instructions on Chart of Accounts application.*

⁹ Refer to Article 24 of Law No.7/2003

4 District Financial Management System

4.0.1 The objectives of District financial management system are to:

- plan its budget to meet national and local priorities;
- promote the stewardship of public money;
- adhere to legal requirements;
- ensure that funds are used for their intended purposes in an efficient and economical way;
- ensure that funds are available and to execute the budget;
- enable the preparation of accurate and timely financial reports;
- safeguard the District Council's assets; and
- adhere to an authoritative financial calendar.

4.1 The Organisation of the District Finance Function

4.1.1 The District finance function is based on its structure (the organisations for the administration of public money) and how authority is assigned to officials for public money.

4.1.2 *Policy #1: District Councils shall be self-accounting units, the Secretary of the Local Government¹⁰ being the accounting officer, reporting to the Mayor and District Council.*

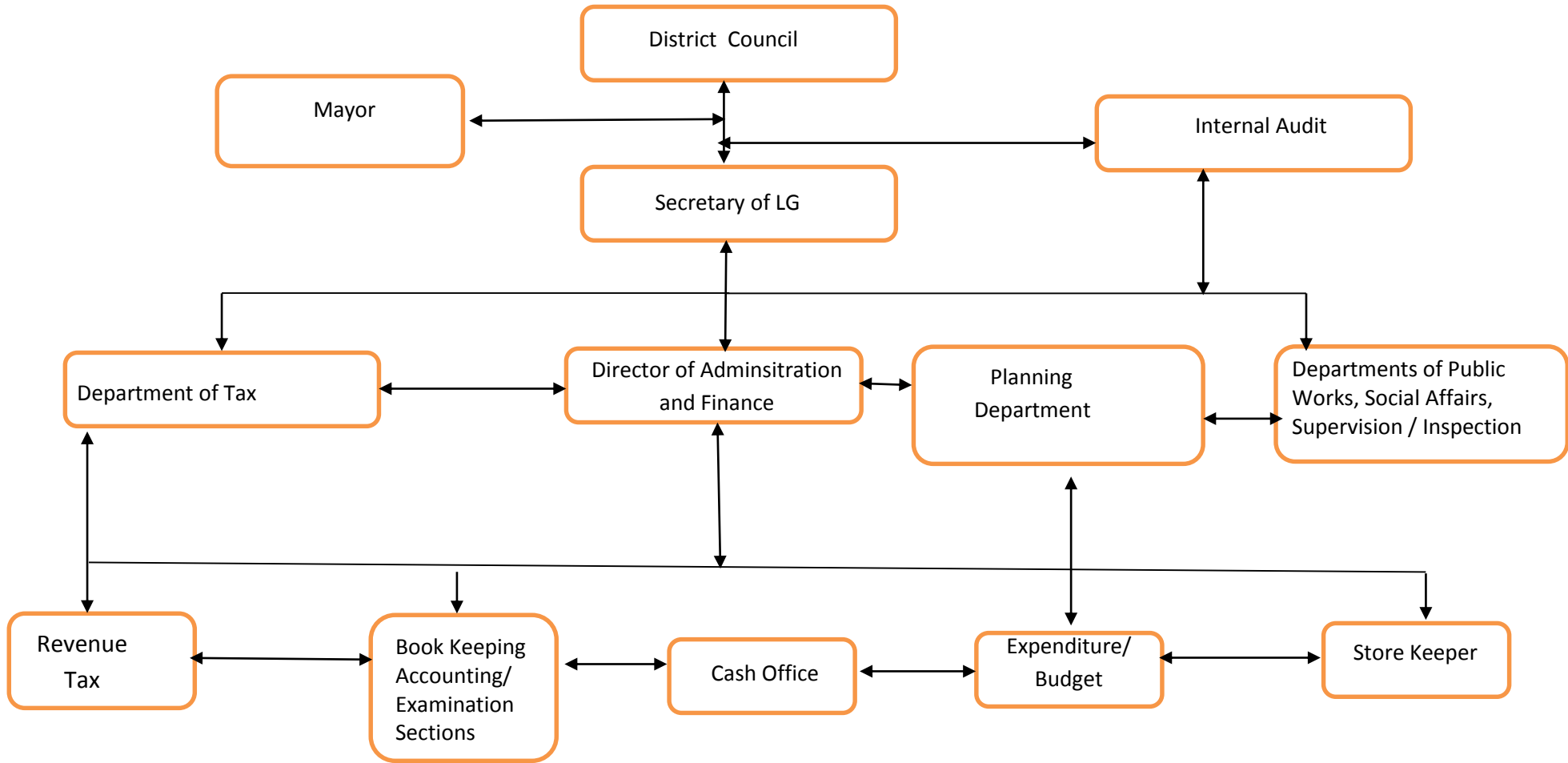
4.1.3 *Policy #2: District Councils have authority to produce their development plans and approve their own budgets, guided by the Ministry of Interior, Local Government and Rural Development and the Accountant General while recognising national priorities.*

The structure of the District finance function is presented in the following organogram:

¹⁰ *The Secretary of the Local Government* is, according to Article 30 and 31 of Law No.7/2003, the designated District accounting officer reporting to the District Mayor and the Council, responsible for the day-to-day financial management through the Director of Administration and Finance (DAF), administration and finance department.

Figure 1

DISTRICT FINANCE MANAGEMENT ORGANISATIONAL CHART



4.1.4 *Policy #3: The Department of Finance shall be responsible for budgets and accounting among others. The department is responsible for ensuring proper maintenance of accounting records and preparation of financial reports for the district's expenditure and receipts, and Central Government transfers. The department is responsible for the preparation of the District budget.*

4.1.5 The Department of Finance functions among others are:

- a) Control and management of District Councils' expenditure as well as assets and liabilities;
- b) Receipt, control and accounting of all District Council's income including development partners funding;
- c) Maintenance of proper books of account and records of revenue, receipts and other funds;
- d) Preparation of annual accounts;
- e) Expenditure forecasts and monitoring, prioritisation of projects and activities for the purpose of financial allocations in the budget;
- f) Oversight of commitment of funds and expenditure trends;
- g) Budget preparation, monitoring and reporting;
- h) Financial management and control of voted funds;
- i) Producing cash flow budgets and statements; and
- j) Ensuring effective cash management.

4.1.6 *Policy #4: The Secretary of the Local Government through the Director of Administration and Finance (DAF) shall put in place efficient financial management controls with a clear chain of command and the segregation of responsibilities for handling key Local Government Public Financial Management (LGPFM) tasks. The DAF should provide for a District finance function that would allow for an efficient allocation of tasks to members of staff within the department. The DAF is a service department to other District departments/sections/units. All financial management issues and financial systems are its responsibility. The LGPFM function at each District should on a day-to-day basis be managed under the overall direction of the Secretary of the Local Government through the DAF. The DAF shall be assisted by other finance officers as appropriate but may include: Director of Revenue; Accountant; Cashier; Assistant Accountants/Data Entry Clerks; and Revenue Collectors.*

4.2 Delegation of Authority for Public Money Management

Delegation of authority for public money management will be guided by the following policies:

- 4.2.1 *Policy #1: Public money shall be all sources of District revenues including Central Government transfers and donor grants as clearly defined in the District annual approved budget.*
- 4.2.2 *Policy #2: The Secretary of the Local Government who is responsible for District public money shall issue to the department heads a written Authority to Incur Expenditure (AIE) which will authorise the ceiling and use of funds. The AIE holder shall account to the Secretary of the Local Government.*

3 District Council Budgeting and Expenditure Planning

5.0.1 Budget is an annual plan of how District income and all monies received from other sources will be spent in accordance with District goals and priorities. Budgets are therefore monetary quantifications of District plans and as such, are derived from the long-term plans of the District Council.

5.1 District Budget and work plans

5.1.1 The District Local Executive Committee¹¹ (the Mayor, Deputy Mayor and Secretary of the Local Government) has the responsibility to prepare and execute the District budget.

5.1.2 *Policy #1: The Executive may appoint heads of departments as members of the budget ad-hoc preparation committee to handle the technical issues of drafting and consolidating the District draft departmental Budget Estimates and work plans.*

5.1.3 *Policy #2: Every District department shall have a duty to draft its departmental annual budget estimates under the guidance of the DAF.*

5.1.4 *Policy #3: District Council heads of departments under the supervision of the Secretary of the Local Government shall produce annual costed work and procurement plans for the Council's approval.*

5.2 District Budget Policies

District budget process should be guided by the following policies:

5.2.1 *Policy #1: The budget shall be comprehensive, all public (District) money to be spent in a fiscal year shall be included in the budget for that fiscal year.*

5.2.2 *Policy #2: Use of a clear budget classification of Chart¹² of Accounts codes consistent across all tiers of Government.*

5.2.3 *Policy #3: To apply a line item departmental budget format¹³.*

5.2.4 *Policy #4: The District departments, section, units and projects to be the cost centres in the budget.*

5.2.5 *Policy #5: Costing of the budget using the departmental annual work and procurement plans.*

¹¹ According Article 33 and 34 of Law No.7/2003,

¹² Chart of Accounts issued by Accountant General, applicable to all Local Governments

¹³ Detailed budget formats to be presented in the procedure manual.

- 5.2.6 *Policy #6: Budget funds annual allocation guided and linked to the five year District's development plan, three year rolling plan, and annual budget circular call document from Ministry of Interior, Local Government and Rural Development.*
- 5.2.7 *Policy #7: Budget preparation, execution and reporting to be guided by an authoritative financial calendar¹⁴ which links planning and budgeting.*
- 5.2.8 *Policy #8: Departmental vote book control should be established which records outturn and commitments.*
- 5.2.9 *Policy #9: The budget provides a realistic description of the District's capacity to execute activities and projects considering its human resources, the possibilities and its ambitions for generation of local revenues and the support from the central government.*
- 5.2.10 *Policy #10: Use of all available information, for example, the developments in the District's revenues and expenditure management in the current and recent years, expected raises in expenditures because of increases in prices of inputs and salaries, information on/expectations for Central Government grants, consequences of the District Councils and Central Government's new initiatives, expected demographic development and urban development.*
- 5.2.11 *Policy #11: All District revenues and expenditure are included in the budget including receivable donor funding, loans and Central Government transfers.*
- 5.2.12 *Policy #12: Output focused - The budget focuses on the delivery and development of District services.*
- 5.2.13 *Policy #13: Balanced - A balance exists between all expenditures and all revenues including loans and savings from earlier years.*
- 5.2.14 *Policy #14: Participative - The citizens have a real say on the budget's preparation and are able to express their views in the budget process.*
- 5.2.15 *Policy #15: Democratic - The District Council has an active role in the preparation and in particular in the prioritisation between different activities.*
- 5.2.16 *Policy #16: Bottom-up process - District Council create the budget from below by presenting their budget needs within an overall District framework. The departments/sections/units heads present their needs to the District Council management. Based on analyses and discussions, adjustments take place to ensure that allocations are appropriate, in this way ownership is created among all heads of departments/sections/units.*

¹⁴ Budget calendar to be presented in the procedure manual.

5.3 Format of District Budget

- 5.3.1 The format of District budget may be line item or any other method approved by Accountant General. “Line item” refers to the one-line entries for each revenue and expenditure item such as salaries in a budget document. A line-item budget is cash based. Most Government institutions use a line item budget because it focuses on control of cash in aggregate (total expenditure balanced against total revenues), by the Council (the legal authority).
- 5.3.2 *Policy #1: District budget shall be cash-based (not in a constant or adjusted basis or an accrual basis) presented in Somali Shillings.*
- 5.3.3 *Policy #2: The budget shall be departmental organised, in two parts; recurrent and development.*
- 5.3.4 *Policy #3: The Execution of the budget shall be done while observing the appropriate rules regarding supplementary budgets and virement. A budget is a plan of revenues and expenditure typically for one fiscal year. During the course of a year there may be events that require the budget plan to be altered. These events may include additional revenues (a new donor supports the District or an existing donor provides additional funding) and/or unforeseen events—outbreaks of disease may require substantial changes in expenditure. The District control over public/District money is the approval by the Local Council which is the legal District authority to spend. Should events require, a supplemental approval may be required¹⁵*

5.4 District Medium Term Expenditure Plan

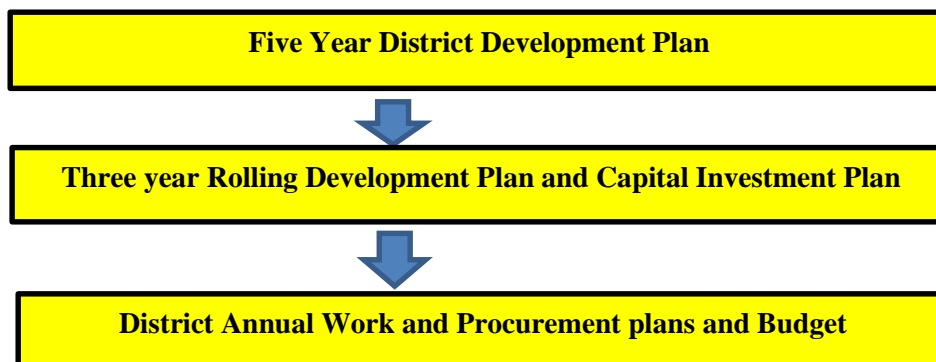
- 5.4.1 District Planning shall be guided by the document entitled, Public Expenditure Management (PEM) Guidelines (October 2011) which outlines a three-part comprehensive planning process: long-term (five-year) District development plan; three-year rolling development plan and capital investment plan; and a District annual work plan and budget. This document goes into considerable detail on how to make the planning process participative. This planning process will feed into the development of a District level Medium-Term Expenditure Framework (MTEF).

¹⁵ The current requirement that there will be no adjustment in the first six months of the year should be revisited, The rules of virement should be reviewed in consultation with specialists in the key sectors to see what required adjustments in recent budget years.

Five policies will guide the drafting of MTEF:

- 5.4.2 *Policy #1: The Ministry of Finance shall provide Local Councils with indicative envelopes (not ceilings) during the planning cycle for the upcoming fiscal year and two outer fiscal years.*
- 5.4.3 *Policy #2: The Ministry of Finance shall provide Local Councils with estimates of external assistance for the upcoming fiscal year and two outer years.*
- 5.4.4 *Policy #3: The District DAF shall prepare an estimate of District revenue for the upcoming fiscal year and two outer years.*
- 5.4.5 *Policy #4: The DAF shall provide key service departments with indicative planning figures for the upcoming fiscal year and two outer years.*
- 5.4.6 *Policy #5: District departments shall prepare expenditure plans for the upcoming fiscal year and two outer years based on service cost drivers, unit costs and key performance targets.*
- 5.4.7 *Policy #6: The District budget is the overall instrument for the management and planning of the activities of a District Council. It shall be developed¹⁶ carefully and with a focus on outputs, that is, the provision of services such as water, sewage, solid waste management, street lighting, market and urban development.*

Figure 2: District planning/budgeting process



5.5 The Structure of District Annual Budget

- 5.5.0 *Policy #1: The District annual budget shall consist two parts, the Current and Capital budgets. The Current budget consists of revenue and expenditure sections while the Capital budget consists of capital revenue and expenditure as illustrated in figure 2 below.*

¹⁶ The District budget/planning process is also be guided by Article 33 of Law number 7/2003 on the Laws of the District Councils of the Puntland State of Somalia

Figure 3: District budget

Current budget	Section A: Revenue	Section B: Expenditure
	<ul style="list-style-type: none"> • Own Revenues Sources: taxes, fees, licenses, permits, user charges, fines and penalties. • Transfers from central government for current budget • Loans for emergencies • Surplus carried forward 	<ul style="list-style-type: none"> • Payroll • Operations and maintenance • Service delivery • Deficit carried forward (if any) • Operating surplus (if any) transferred to Capital revenue
Capital budget	Section C: Capital revenues	Section D: Capital expenses
	<ul style="list-style-type: none"> • Surplus from current budget • Transfers from central government for capital budget • Sale of Assets • Grants for capital budget • Loans for emergencies for capital investments. 	<ul style="list-style-type: none"> • Civil works • Investments in Services • Purchase of Assets e.g. property, land etc. • Repayment of loan principal

5.5.1 *Policy #2: A District budget is a public document; therefore it is a good practice that it should be made conveniently available to communities, extracts of the key budgets shall be posted on public notice boards or other public places and/or the media (radio and newspapers)*

5.6 The District Budget Classification and Chart of Accounts

5.6.1 The significant weakness of the budget in the Districts of Puntland is failure to apply Budget Classification (BC) and Chart of Accounts (COA). The Chart of Accounts is the ‘what of the budget’ (revenues, expenditures and transfers). The Budget Classification is the ‘where’ (jurisdiction), the ‘who’ (public bodies and their internal hierarchy that are assigned a budget), and the ‘purpose’ (function and sub-function of expenditure). The BC and COA are the frameworks that organise not only the budget but also the systems that execute the budget: disbursements; accounts; the financial information system; and, ultimately, national statistics. Establishing and applying a good COA and BC system goes a long way toward getting the basics working. Once a BC and COA are put in place, they should not be changed unless there are compelling reasons. Changing a BC-COA is not simply introducing a new set of codes, it is about changing how Government is organised and how day-to-day finances are run. Given the fundamental role of the BC-COA, they take time to develop for it requires extensive consultation with Government

- officials at all levels to incorporate and if need be, redesign, how Government is organised and operates.
- 5.6.2 The COA is the items of expenditure and revenue in the budget. Item codes are used for three purposes: to describe the purpose of the expenditure, to show whether expenditure is capital or recurrent, and to identify the source of financing (domestic and foreign).
- 5.6.3 There are many different users of budget information. These include national planners, sectorial planners, economists, donors, lenders, Non-Governmental Organisations (NGOs), civil society groups as well as officials of Government finance agencies and line agencies. The information needs of these users vary significantly. The BC therefore promotes budget administration and analysis. The first order task of the BC is to ensure proper budget administration which requires a decision as to hierarchy of categories that are to be developed by the agencies that are assigned a budget, for example, Ministry of Health. There can be categories for programmes, sub-agencies, sub-programmes, projects, items of expenditure and sources of finance. To promote budget analysis the BC should map to the most recent International Monetary Fund (IMF) formats for Government Finance Statistics Manual.
- 5.6.4 In developing a BC it is recommended that the following 8 principles be followed:
- a) Principle #1: Categories and codes should have a clear purpose.
 - b) Principle #2: Categories and codes should make budgets and accounts easy to understand.
 - c) Principle #3: Categories and codes should be consistent between years.
 - d) Principle #4: Categories and codes should bring together the coding of the capital and current through using standardized codes.
 - e) Principle #5: Categories should map the organizational structure to the budget.
 - f) Principle #6: Capital and recurrent expenditures should be linked by cost centres.
 - g) Principle #7: Categories and codes should link the budget, disbursement and accounts systems.
 - h) Principle #8: Once codes are agreed, they cannot be changed without directives from Central and District finance agencies.
- 5.6.5 Establishing cost centres. Following Principle #6 means that recurrent and capital budgets can be linked in terms of cost centres. A cost centre is the location of the budget and of the responsibility for the use of that budget. There is no separate code or classification for cost centres. A cost centre is a “floating classification” meaning it can be found at any level of the organisational structure of a public agency. A cost centre for example could be a public agency, a programme, a sub-agency, a sub-programme or a project.
- 5.6.6 A cost centre budget is created by standardising the BC and COA for both the recurrent and capital budgets. By using the same COA and BC for both recurrent and capital spending, the total spending for a particular activity, for example, construction of a new school can be easily

seen. A cost centre budget allows planners and decision makers to make more informed analysis and decisions as they compare costs of alternative spending priorities. A cost centre establishes accountability for each cost centre, which should be defined in terms of responsibility for component budget lines. By bringing the recurrent and capital inputs together in a cost centre, it would then be possible to begin specifying performance - outputs.

- 5.6.7 The BC and COA should with only essential variations, be standardised at all levels of the Government. Standardisation has many benefits: promotes economic and financial planning, permits a standardised financial information systems, and promotes consistency and economies of scale in in-service training.
- 5.6.8 A COA is a list of account names together with their codes, which are used in Public Financial Management (PFM). To aid District Councils to implement modern PFM practices and to ensure comparability of financial information, District Councils shall apply a uniform classification and COA to prepare and execute their budgets, maintain accounting records and for financial reporting. The COA to be used by District Councils shall be issued and can only be revised by the Ministry of Finance – Accountant General’s Office. The budget shall be prepared using the uniform classification and COA to specify the items and their codes. Uniformity will result if the budget, the accounting records, and the annual financial statements all follow a similar system of classification of items.

6. District Accounting

6.0.1 The primary purpose of a Government accounting system is not only to provide control but also to produce information. The information must be timely, accurate and without bias. There are a variety of uses for accounting information. Information in the form of financial reports is prepared for internal purposes to help management within Government to make decisions. Management decisions that are aided by finance reports include: assessment of fiscal responsibility, assessment of goal achievement, and evaluation of future needs. Information in the form of financial statements is produced for external purposes to hold Government accountable for stewardship over public resources and evaluate consequences of Government decisions. The major external users of financial statements are legislators, donors, lenders and the public. Transparency in Government requires with full and fair disclosure of financial information.

6.1 District Accounting Policies

6.1.1 The Districts Councils are currently using single-entry bookkeeping with a cash basis of accounting. It is recommended that double-entry bookkeeping be introduced and a cash basis of accounting be retained. There are four basis of accounting (see Box 1.1). As with budgeting, the accounting system should be consistent at all tiers of government which means that in deciding on which basis to use, the weakest tier—the District Councils—should govern the decision. In future if the Accountant General believes that District Councils have the capacity to adopt double entry bookkeeping then it should also adopt a modified cash basis of accounting.

6.1.2 *Policy #1: District Councils shall maintain double entry bookkeeping with cash basis of accounting system, apply IPSASs (cash basis) guidelines and in future plan to adopt a modified cash basis of accounting.*

Box 1.1

The Four Basis of Accounting

Cash-based accounting. Cash accounting measures the flow of cash resources. It recognizes transactions and events only when cash is paid or received. Financial statements produced under the cash basis of accounting cover cash receipts, cash disbursement, and opening and closing cash balances. There are international standards (IPSAS) for cash accounting but so far there is no consensus on a clear definition.*

Modified cash-based accounting. Modified cash accounting records transactions and events that have occurred by year-end and are normally expected to result in a cash receipt or disbursement within a specific period after year-end. Therefore, the accounting period includes a “complementary period or grace period” for payments such as thirty or sixty days after the close of the fiscal year. Payments over the complementary period that are related to transactions of the previous fiscal year incurred during the fiscal year are reported as expenditure of this previous fiscal year. Financial statements produced under the cash basis of accounting cover cash receipts plus receivables within a specified interval from the end of the period (the complementary period) and cash disbursements plus payables within a specified interval from the end of the period (the complementary period). There are no IPSAS* standards for modified cash accounting.

Modified accrual-based accounting. Modified accrual-based accounting is sometimes called “expenditure basis” accounting. It records transactions and events when they occur, irrespective of when cash is paid or received. There is no deferral of costs that will be consumed in future periods. Physical assets that will provide services in the future are “written off” (or “expensed”) in the period acquired. Financial statements produced under a modified accrual accounting system cover revenues, expenditures, financial assets, liabilities, and net financial resources. There are no IPSAS* standards for modified cash accounting.

Full accrual-based accounting: Full accrual-based accounting records transactions and events when they occur, irrespective of when cash is paid or received. Revenues reflect the amounts that came due during the year, whether collected or not. Expenses reflect the amount of goods and services consumed during the year, whether or not they are paid for in that period. The costs of assets are deferred and recognized when the assets are used to provide service. An overriding principle of full accrual accounting is the matching principle, whereby expenses are recorded in the same period as the related revenues are recognized. Financial statements produced in a full accrual accounting system cover revenues; expenses (including depreciation); assets (financial and physical); liabilities; and net assets. There are IPSAS* standards for full accrual accounting, but debate is ongoing.

Source: adapted from Salvatore Schiavo-Campo and Daniel Tommasi. 1999. *Managing*

Government Expenditure. Manila. Asian Development Bank, pp. 226-7.

6.2 District Financial Reporting

- 6.2.1 It is the responsibility of the Secretary of the Local Government¹⁷ to prepare the final (annual) accounts and the financial reports. With the adoption of a modified cash basis of accounting, District Councils will produce four financial statements quarterly and annually as follows:
- 6.2.2 *Policy #1: A statement of financial performance (revenue less expenses) showing an operating balance.*
- 6.2.3 *Policy #2: A statement of financial position (showing current liabilities, current assets and fund balance).*
- 6.2.4 *Policy #3: A statement of cash flows (net cash flows from operations, net cash flows from investing activities if any, net movement of cash, opening cash balance and closing cash balance).*
- 6.2.5 *Policy #4: A statement of activities (Government and business and total Government activities).*

6.3 Internal Controls

- 6.3.1 *Policy #1: The Secretary of the Local Government shall establish sufficient internal controls through the DAF to minimise financial/fiduciary risks; such controls shall include but not limited to:*
- a) Approval and control of documents;*
 - b) Reconciliation statements;*
 - c) Checks on arithmetical accuracy of records;*
 - d) Comparison of internal with external data;*
 - e) Maintenance and review of control accounts;*
 - f) Pre-numbering of payment orders;*
 - g) Quality controls;*
 - h) Personnel procedures for recruiting and retaining employees;*
 - i) Performance statistics that check to ensure operations are running smoothly;*
 - j) Stated conflict of interest policy; and*
 - k) Annual leave and job rotation.*

¹⁷ In accordance with, Article 39 of Law number 7/2003 on the Laws of the District Councils of the Puntland State of Somalia

6.4 Expenditure Management

- 6.4.1 *Policy #1: The Secretary of the Local Government responsibility to ensuring that funds are allocated and used to achieve agreed priorities and that information is available to enable District Councils to plan and monitor the performance of their programmes and the impact of the expenditures.*
- 6.4.2 *Policy #2: An effective District expenditure management system should include three elements:*
- (a) Milestones - It is necessary to plan for future expenditure with clear and measurable milestones to monitor actual performance;*
 - (b) Spending control - It is necessary to control expenditure so that actual spending is consistent with the District annual budget evaluation; and*
 - (c) District expenditure must be monitored and evaluated to ensure that they are in fact conforming to agreed-on plans.*
- 6.4.3 *Policy #3: District payment systems should incorporate internal control procedures, such as requiring multiple signatures for payment authorisations and checks. However, care must be taken not to include so many checks and balances that payments are unnecessarily delayed.*
- 6.4.4 *Policy #4: Controls over cash should be categorised in the five main areas of control:*
- a) Segregation of duties, for example, adequate segregation of duties should exist between cash receipts, disbursement, deposit, recording, and reconciliation;*
 - b) Authorisation of transactions;*
 - c) Restricted access to assets and records;*
 - d) Adequate documentation of transactions; and*
 - e) Independent checks on performance, for example, deposit slips should be reconciled to the bank statement, mainly using monthly bank reconciliations.*
- 6.4.5 *Policy #5: All payments to be made by cheques, any exceptions to be approved by the District Executive Committee. All cash, cheques and stamps, received by the officers to be deposited in a cashbox, safe or strong room. It is the responsibility of the Accounting Officer to ensure that safes and cash boxes are in good order and that the cash boxes are secured to a table or that they are built into a wall or floor. The keys of all strong rooms and safes, shall be safeguarded by the officers to whom, they have been issued.*

6.5 District Bank Accounts Management

6.5.1 *Policy #1: The Secretary of the Local Government should have effective internal controls over bank accounts to ensure that:*

- a) banking arrangements and facilities are appropriate and adequate;*
- b) all banking transactions are bona fide, accurate and authorised whenever necessary;*
- c) overdraft facilities are authorised and correctly operated within the limits defined by the District management;*
- d) funds transfer affecting banking transactions are valid, in the best interest of the District Council, and authorised;*
- e) potential staff malpractice and fraud are minimised;*
- f) all income cash is banked without delay;*
- g) banking charges are effectively monitored and minimized; and*
- h) No bank account should be opened in a District name without the specific resolution of the Council.*

6.6 District Financial Reporting

6.6.1 *Policy #1: District Councils should produce annual financial reports to be audited by the Auditor General. District final accounts reports should be ready within three months after the end of each financial year. The statement of receipts and expenditures is a key part of a comprehensive annual financial report, which reports on total revenues and total expenses.*

6.6.2 *Policy #2: The DAF shall present to the Secretary of the Local Government a monthly and quarterly financial/budget performance report that shall then be discussed in the management staff meetings, by the Executive Committee and copied to Ministry of Interior, Local Government and Rural Development, Accountant General and Auditor General. The usefulness of financial reports diminishes if they are not made available to users within a reasonable period after the reporting date. The DAF must be in position to issue its monthly, quarterly and annual reports timely; the monthly and quarterly reports shall be issued within 15 days after the end of the month/quarter.*

6.7 Finance records management

- 6.7.1 *Policy #1: The Secretary of the Local Government should ensure that District Council's financial records and books of account must be managed properly so that they can be used efficiently, economically and effectively. The management of financial records involves planning, organising, directing and controlling the records function within finance department functions. Financial records are a valuable property and must be managed from the time they are created or received up to the time they are destroyed.*
- 6.7.2 *Policy #2: District Council should have a records officer to ensure the appropriate management of financial records.*

7. Payroll Management

- 7.0.1 *Policy #1: The Secretary of the Local Government through the Human Resource officer should establish a District¹⁸ staff roll showing details of all staff employed, including name, position, department, grade and staff number.*
- 7.0.2 *Policy #2: The Secretary of the Local Government shall annually present the current District Staff Roll to the Council for approval.*
- 7.0.3 *Policy #3: The Staff Roll to be is a tool which is derived from the organisational structure and which enables staff to identify whether the current staffing structure is affordable, and whether positions need to be created or abolished.*
- 7.0.4 *Policy #4: The Human Resources Officer is responsible for the preparation and updating of the Staff Roll*
- 7.0.5 *Policy #5: DAF has the overall responsibility for payment of salaries to all District Council employees and:*
- a) Ensures that appropriate and timely payments are made to staff for work they have done. This includes authorising timesheets/overtime and leave applications;*
 - b) Advise HR Officer of significant events which affect staff salaries and payments;*
 - c) Is responsible to provide information about staff events to payroll, to ensure correct payment processing. This includes any changes to standing data about employees, such as family details, if such data affects the payment of salaries; and*
 - d) Has responsibility to issue timely payments and make any required adjustments based on information received from the HR Officer.*

7.1 Payroll controls

- 7.1.1 *Policy #1: The DAF should ensure that:*
- a) all payroll transactions are properly authorised;*
 - b) recorded payroll transactions are valid;*
 - c) only valid employees are paid and at the correct and authorised rate;*
 - d) the calculation of all payments and deductions are correct and in accordance with relevant taxation and other regulations and requirements;*

¹⁸ Refer to Human Resource Management for Local Governments (*HRM 4: HR BUDGETING AND PAYROLL MANAGEMENT*), PARTICIPANT BOOK (DRAFT), October 2014

- e) all deductions are correctly disbursed;*
- f) assets being both cash and data are safeguarded from loss or theft;*
- g) unauthorised access to the payroll system and data is prevented;*
- h) all payroll transactions are accurately reflected in the accounting system; and*
- i) Regular and accurate management and statutory information is produced.*

7.1.2 Policy #2: The internal audit department to ensure the following control activities applicable in payroll management:

- 1) segregation of duties between Human Resource (HR) and payroll function;*
- 2) all employees should have personnel files;*
- 3) authorisation procedures should be followed during hiring, termination, overtime, benefits and other related HR procedures;*
- 4) any changes in employment status of employees should be communicated to the HR department;*
- 5) security and prompt banking of unclaimed salaries;*
- 6) preparation and authorisation of salary cheques and bank transfers list;*
- 7) comparison of cheques and bank transfer with payroll;*
- 8) agreement of gross earnings and total tax deducted with tax returns;*
- 9) all joiners, leavers, changes to salaries and deductions are reported promptly to payroll department and changes are updated to the payroll master file promptly; and*
- 10) payroll budget is reviewed by management.*

8. District Revenue

- 8.0.1 The District tax/revenue department under the supervision of the Secretary of the Local Government has the duty to collect Council's Own Source Revenue¹⁹ (OSR).
- 8.0.2 *Policy #1: The District income (revenue) shall comprise OSR, Central Government transfers, donor grants (conditional and non-conditional) and loans.*
- 8.0.3 *Policy #2: The services that District Councils provide should be clearly linked to the revenue sources needed to finance them;*
- 8.0.4 *Policy #3: Services should be financed by their beneficiaries "the general benefit principle"- directly or indirectly.*
- 8.0.5 *Policy #4: The Secretary of the Local Government should put in place a strong system of local revenue collection and accountability and allocate sufficient time for revenue budget process. District external and internal audits should focus on revenue performance in addition to expenditure.*
- 8.0.6 *Policy #5: All revenues foreign exchange cash receipts should be converted to Somali shillings using the prevailing Central Bank rates.*
- 8.0.7 *Policy #6: Central Government and donor conditional transfers to District Councils shall be managed, recorded and accounted for strictly accordingly.*

8.1 District Revenue Planning

- 8.1.1 Revenue planning is crucial for District Councils, as it provide the means to assess whether the District Council will be able to meet expenses, that is, the operating budget and the provision of services. Capital expenditure planning (included in the capital budget) is carried out in response to the needs for expansion and rehabilitation of infrastructure and service coverage. The planning of other capital revenue for the financing of multi-year development plans depends on:
- a) any surplus balance in the operating budget;
 - b) capital grants; and
 - c) Long-term funding for District Council investment.

¹⁹ According to article No. 32 to 42 of Law number 7/2003 on the Laws of the District Councils of the Puntland State of Somalia.

8.2 Revenue Budget Execution/Collection

- 8.2.1 *Policy #1: The Secretary of the Local Government should ensure that each financial year the District's OSR collections are equal or greater than the forecast amounts.*
- 8.2.2 *Policy #2: The first step of revenue collection is the identification of tax payers from which the District Council expects to receive funds and this should be followed by carrying out enumeration, registration, assessment and billing/invoicing, recording in the debtors register. Annual enumeration of OSR shall be carried out by enumeration committee appointed by the Secretary of the Local Government from Council staff members. The Secretary of the Local Government should appoint assessment committee members from District Council staff members who shall use the enumeration lists for setting tariffs/taxation rates for consideration by the Council and subsequently be submitted to the Ministry of Interior, Local Government and Rural Development for approval.*
- 8.2.3 *Policy #3: The Secretary of the Local Government should ensure that:*
- a) All amounts due to the District Council are properly identified, billed and collected;*
 - b) All collected amounts are banked promptly and in the proper bank accounts;*
 - c) All amounts collected and banked are properly recorded in District Council's books of account;*
 - d) There are proper controls against fraudulent activities, for example, using fake receipt books.*
- 8.2.4 *Policy #4: The Secretary of the Local Government through the Director of Tax should ensure that the following control activities of District revenue collection²⁰ are observed;*
- a) Separation of recording, collection and banking duties;*
 - b) All monies collected must be remitted to the District Council cashier for safe custody each day before closure of office;*
 - c) Revenue collected must be kept under locked box;*
 - d) District Council cashier must issue receipt for the money deposited by revenue collectors, and to ensure prompt banking of the amounts deposited;*

²⁰ District OSR collection process is guided by Article 32 to 42 of Law number 7/2003 on the Laws of the District Councils of the Puntland State of Somalia.

- e) *Each revenue collector must issue a receipt (with the District Council name) to the payer for money received;*
- f) *Each revenue collector to keep an updated cash register, to record individual receipts showing serial number, date, amount received and name of payer; and*
- g) *There should be frequent checks on receipt books issued to revenue collectors.*

The above control activities are not exhaustive. Controls need to be adoptive to situations prevailing at a particular District Council.

8.3 Debt Management and Credit Control

8.3.1 District Councils get income from various sources collected differently through cash, cheque, money orders and bank transfers. Money owed to the District Council represents an asset that is idle, as it denies the District Council the opportunity of using the money to provide services promptly. It is therefore important to minimise debtors by following up the collection of debts in a timely, systematic and vigorous manner. Any debt not collected is a serious matter and represents a loss to the District Council.

8.3.2 *Policy #1: District Councils may decide to engage a specialist debt collection agency or to manage using its own staff and resources. They may use the legal system to contact debtors and pursue enforcement. Collection costs incurred in this process may be recovered in full from the debtor.*

8.4 Debt Write-Off

8.4.1 After all avenues of debt collection have been exhausted or if it is established that it would not be economically viable to pursue a debt, the Secretary of the Local Government may consider to write-off the debt.

8.4.2 *Policy #1: The Secretary of the Local Government shall present to the Council a request of debts to be write-off, the request should contain details of the debt and reasons to justify a write-off. It is the duty of the Council to make a decision. The writing-off, of a District Council debt does not constitute a satisfactory settlement of the debt. All sanctions imposed for overdue debts apply equally to debts previously written-off in the District Council's books of account.*

8.5 District Council's Fund Borrowing

- 8.5.1 A situation may arise which may require District Councils to borrow funds, like an emergency, natural disaster or security issue.
- 8.5.2 *Policy #1: District Councils should only borrow funds from recognised institutions/organisations, registered and regulated by the Puntland Central Bank.*
- 8.5.3 *Policy #2: The Secretary of the Local Government may borrow funds from either a bank or any institution approved by the Central Bank of any amount less than 10% of districts OSR. If more than 10% then the approval of the Council must be obtained.*
- 8.5.4 *Policy #3: Borrowed funds should be repaid preferably within the next financial year, if not should not exceed four years.*
- 8.5.5 *Policy #4: Loan repayment schedule should be approved by the Local Council*
- 8.5.6 *Policy #5: The borrowed funds shall be managed in accordance with the existing district financial laws and procedures, the Council shall pass supplementary budget/expenditure for the borrowed funds.*

9. Procurement

9.0.1 District Councils have authority to carry out procurement²¹ of goods, worked and services in accordance with their procurement plans and approved budgets.

9.0.2 *Policy #1: The Secretary of the Local Government should ensure that the District Council procurement system is/has:*

- a) *As transparent as possible – it must not only be seen to be transparent by seemingly applying the public procurement laws, it must in fact be transparent;*
- b) *Competitive – all bidders that satisfy the District requirement shall be given equal opportunity to participate in public procurement processes; and*
- c) *Open avenues for addressing grievances – this allows dissatisfied bidders to be able to put forward their grievances, be heard, and their complaints addressed. This is an important measure against corrupt practices in public procurements.*

9.0.3 *Policy #2: The District Council's procurement/tender committee shall be responsible for:*

- a) *Planning for procurement;*
- b) *Preparation of tender documents;*
- c) *Opening and evaluation of bids; and*
- d) *Awarding of contracts.*

9.0.4 *Policy #3: The District Council's procurement guiding criteria shall be value for money, the procurement process requires District Council's procurement committees to evaluate the costs and benefits of the available options, so that it obtains the maximum benefit from works, goods and services it acquires within the resources available. The best value for money is not always the cheapest. To achieve value for money, the District Council requires staff involved in a procurement process to encourage competition between potential suppliers, follow the procedures, apply the criteria and make judgments.*

9.0.5 *Policy #4: District council's procurement committee should observe the following key tenets of value for money procurement:*

- a) ***Economy*** - *District Council staff to use its resources carefully, to save money, time or effort;*
- b) ***Efficiency*** - *District Council staff to select best options that will result in optimal outputs and impacts at the least cost of money, time or effort;*

²¹ Refer to Article 43 and 44 of Law No.7/2003,

- c) **Effectiveness** - District Council staff to select options that deliver a better service or higher quality outputs and impacts, and minimise risks;
- d) **Transparency** - Contract procedures must be transparent and contract opportunities should generally be publicised;
- e) **Impartiality** - Procurement procedures must treat potential service providers fairly and in a non-discriminatory manner. All candidates should have equal access; receive equal treatment with common rules and deadlines;
- f) **Clarity** - the standards and duties relating to a procurement process must be clear, to ensure certainty and to avoid confusion;
- g) **Threshold** - the procurement value will pre-determine which procurement procedure to use;
- h) **Criteria** - Standards for evaluating tenders and awarding contracts will be articulated before tenders are received and the criteria and any weighting made available to potential bidders;
- i) **Responsibilities** - The duties of budget holders and evaluating committees will be clearly documented; and
- j) **Legality** - all procurement should be in accordance with procurement laws.

9.0.6 *Policy #5: The Secretary of the Local Government should ensure that only District budget approved goods, works and services are procured.*

9.1 Disposing-off District Council Assets

District Councils should plan to dispose-off assets/equipment not being used.

9.1.0 *Policy #1: District Councils should follow the following steps before disposal of District Council assets:*

Step #1: Apply for disposal of asset by user department/section/unit to contact committee;

Step #2: Approval to dispose-off asset by contract committee;

Step #3: Selection of method of disposal;

Step #4: Advertising;

Step #5: Sale of asset; and

Step #6: Asset write-off.

9.1.1 *Policy #2: District Council may dispose-off assets using the following methods:*

- a) *Direct sale by the authorised District Council office either internally or externally;*
- b) *Sale by auction; or*
- c) *Disposal by either scrapping or dumping where the asset has little or no resale value.*

9.1.2 *Policy #3: The Secretary of the Local Government should follow the following procedures for writing off District Council assets:*

- 1) The head of a department to request the contract committee in writing to write off of a District Council asset;*
- 2) A bimonthly list of District Council assets to be recommended for writes off by the contract committee which is submitted by the Secretary of the Local Government to the Council for approval. The approved list is kept in administration and finance department.*
- 3) After the disposal of an asset, the financial transactions on disposal of assets should be posted to the general ledger.*

10. Internal Audit

- 10.0.1 Internal auditing is a continuous independent, objective assurance and consulting activity designed to add value and improve the operations of a District Council. The job of an internal auditor is to evaluate the effectiveness of the fiduciary risk management procedures, controls and governance process within a District Council and then advise its management and the Council on areas to improve and new risk management procedures to introduce.
- 10.0.2 *Policy #1: Every District Council should establish an Internal Audit department to handle the internal audit function.*
- 10.0.3 *Policy #2: District internal audit should perform the following key functions:*
- a) Assessment of the efficiency and effectiveness with which the operations of the District Council are conducted;*
 - b) Assessment and providing reasonable assurance about the reliability of District Council financial reporting;*
 - c) Providing assurance on procedures in place to deter fraud as well as to investigate fraud;*
 - d) Assessment of and providing assurance about the procedures in place for safeguarding District assets;*
 - e) Measuring and providing assurance about District Council's compliance with the laws and regulations; and*
 - f) Advising on the proper usage of the Chart of Accounts and appropriate utilisation of headings and sub-headings.*
- 10.0.4 *Policy #3: The Secretary of the Local Government has the responsibility to establishing the District internal controls.*
- 10.0.5 *Policy #4: District internal audit should be independent, shall produce quarterly audit reports, for submission to the Council through the Secretary of the Local Government. Copies of the report shall be submitted to the Minister of Interior, Local Government and Rural Development, Auditor General, Accountant General and the Mayor among others.*
- 10.0.6 *Policy #5: District Council internal auditors shall report to Secretary of the Local Government for day to day administrative issues and their posts shall be advertised and recruited competitively.*
- 10.0.7 *Policy #6: Internal audit should produce internal audit charter, strategic and annual internal audit plan.*
- 10.0.8 *Policy #7: District internal audit should observe the Institute of Internal Auditors (IIA) Code of Ethics and the IIA's Standards.*

10.0.9 *Policy #8: District Internal Auditors to perform their duties in accordance with International Professional Practice Framework (IPPF) issued by the Institute of Internal Auditors (IIA).*

10.0.10 *Policy #9: Internal auditing should be conducted within in the Puntland legal and cultural environments.*

11. District Audit Committee

11.0.1 An Audit Committee is an independent oversight body of an institution designed to improve the institution's overall governance framework.

11.0.2 Policy #1: Every District Council shall have an Audit Committee.

11.0.3 Policy #2: The District Mayor shall have responsibility to appoint members of the Audit Committee.

11.0.4 Policy #3: The Audit Committee shall be composed of members who have appropriate skills and experience in District Council financial management.

11.0.5 Policy #4: Members of the Audit Committee shall range from a minimum of three (3), and maximum of seven (7), members depending on the District Council size and complexity.

11.0.6 Policy #5: The District Audit Committee does not have executive powers but shall play an advisory role and generally helps in achieving the following:

- a) Improved accountability;*
- b) Strengthening the control environment; and*
- c) Supporting the Secretary of the Local Government to fulfil his/her stewardship, leadership and control responsibilities.*

11.0.7 Policy# 6: The Executive Committee is responsible and accountable for establishing Audit Committee.

11.0.8 Policy #7: The Audit Committee must have terms of reference (Audit Committee charter) that clearly spell out the membership, authority and duties.

11.0.9 Policy #9: The Audit Committee shall have responsibility to:

- a) Determine whether a sound and effective approach has been followed in managing a District Councils' major risks including those associated with individual projects, programme implementation, and activities;*
- b) Assess the impact of District Council's enterprise risk management framework on its control environment and insurance arrangements;*
- c) Determine whether a sound and effective approach has been followed in establishing the District Council's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested; and*
- d) Review the District' fraud control arrangements and satisfy itself that the District Council has appropriate processes or systems in place to capture and effectively investigate fraud-related information.*

12. District Asset Management

- 12.0.1 District Councils may control large portfolios of physical assets (land, buildings, infrastructure, vehicles and equipment), which usually contain the majority of a District Council's wealth and which the District Councils manage on behalf of local taxpayers and citizens.
- 12.0.2 *Policy #1: The Secretary of the Local Government should ensure good management practices of assets which is critical for the quality and sustainability of local service delivery.*
- 12.0.3 *Policy #2: The Secretary of the Local Government is responsible for asset management. The Secretary of the Local Government should put in place asset inventories/register, use transparent procedures for allocating assets for District Council use, The Secretary of the Local Government should:*
- a) *align or classify assets according to their role in the delivery of District Council services;*
 - b) *establishing a depreciation fund for funding asset replacement;*
 - c) *monitor key indicators, for example, asset-related costs and revenues; and*
 - d) *introduce life-cycle management for infrastructure and buildings, starting from planning operating and maintenance expenses for existing and new capital assets.*
- 12.0.4 *Policy #3: The purchase of fixed assets shall be in accordance with the District Council procurement laws. All purchases of fixed shall be within the approved budget. Each fixed asset shall be assigned and marked/engraved with an identification number immediately it is acquired.*
- 12.0.5 *Policy #4: Valuation of District Council fixed assets should generally be based on accepted accounting principles, the council should observe mainly IPSAS 17 - Property Plant and Equipment (PPE) and IPSAS 16 - Investment Property.*
- 12.0.6 *Policy #5: A District Council may choose between the straight line method and diminishing balance method as its depreciation method. The selection of the method must reflect the pattern in which the asset's service potential/ benefits are expected to be consumed by the District Council. The estimated useful life should consider capacity, wear and tear, technology changes, and changes in product demand, contractual or legal limits. It is worth noting that depreciation method, residual value and useful life should be reviewed annually.*
- 12.0.7 *Policy #6: The Secretary of the Local Government must that ensure fixed assets should be properly maintained, ideally through an organised system of planned preventative maintenance. This will provide for scheduled maintenance before an asset breaks down or deteriorates badly. Reasonable maintenance budgets must be provided in District Council budgets*

every year, and maintenance activities must be diligently carried out. Maintenance registers, aligned to or part of the fixed asset register, will facilitate the process.

12.1 District Store Management

12.1.1 A District Council may procure goods such as stationery and other materials to be used by several departments on various activities.

12.1.2 Policy #1: The Secretary of the Local Government should control the ordering, storage, issuance and usage of stores materials through an individual responsible for store-keeping, but the procurement of stores shall be conducted in accordance with the procurement guidelines. An efficient flow of materials can be achieved through strict use of the work and procurement plans.

13. District Investments

- 13.0.1 A District Council may have properties for the purpose of earning rent or capital appreciation aimed to increase own source income. In some cases the properties may partly be used for administrative service purposes. The classification of an asset as investment property is dependent on the purpose of construction or purchase and whether the assets is expected to generate cash flows from rent and or from capital appreciation. Investment property is expected to generate cash flows, largely independently of the other assets held by the Council.
- 13.0.2 The objective of District Investment policy is to provide criteria for District Investment and management of District Investment Funds, District Investment Policy should always be consistent with the District Council's objectives and with the long term District Council development plans.
- 13.0.3 *Policy #1: District Council should approve the creation of an Investment Fund, specifying the fund amount and preferred investment options and where to bank the funds.*
- 13.0.4 *Policy #2: The District Investment Funds are to be principally held in property and bonds, however, money may be available from time to time for internal borrowing or be deposited in a bank account while awaiting re-investment. All Invested property is to be wholly owned by the District Council and be capable of sustaining returns to council. District Council Investments should aim at maximising return on capital investment, income from the invested fund is used to provide District Council services.*
- 13.0.5 *Policy #3: For each investment option/project the Council should approve. Specific policies related to invested fund management are shown below.*
- 13.0.6 *Policy #4: All profit, rental income and interest earned on any invested fund or funds deposited in a bank account or invested in internal borrowing will be recorded as District Council income, and used to contribute District Council's service delivery.*
- 13.0.7 *Policy #5: Property investment (purchase or sale) or bonds decisions should be made taking into account the following factors:*
- a) *Need to provide a financial return consistent with market value returns;*
 - b) *The financial worthiness of investment;*
 - c) *The potential to provide future value growth; and*
 - d) *Investment within District Council boundaries.*
- 13.0.8 *Policy #6: The Secretary of the Local Government shall be in control of all District Council's investments, to ensure the safety of principal, while managing liquidity requirements of debt*

service and other District Council financial obligations, providing the highest investment return using authorised investment instruments, and promoting District Council economic development and service delivery.

13.1 Recognition of Investment Property

13.1.1 District investment property shall be measured and recorded in accounts initially at its cost and subsequently at either cost or revalued amount or if constructed at the cost of construction when it is complete.

13.2 De-recognition of Investment Property

13.2.1 Investment property shall be removed from account books/records on disposal or when it is permanently withdrawn from use and no future economic benefits or service potential are expected from it or donated. Any gains or losses arising from the retirement or disposal of investment property shall be recognised in financial statements of the District Council.

Annex 1: Glossary

Accounting Officer /Secretary of the Local Government	The most senior official responsible for the management of the administration of the local government of the district as appointed by the Minister of Interior, Local Government and Rural Development and approved by the District Council.
Budget	Budget is an annual plan of how the district income and all monies received from other sources will be spent in accordance with district goals and priorities District/District
Central Government	The central government of Puntland State of Somalia.
Constitution	Means the Constitution of the Republic of Puntland.
Department	Means a functional or sectorial administrative area of the District Council for which a senior officer is responsible as a Director e.g. Department of Finance.
Local Council	A council with elected members by the local population which administers the local Authority.
District	Part of a region with a concentrated population and with a demarcated/specific borders
Expenditure	Refers to the different ways in which funds are allocated and spent from the district's budget.
Head	Means head of sections and departments which the local government establishes.
HR Officer	The most senior person responsible for HR management, other than a Director.
District Investment	District property for the purpose of earning rent or capital appreciation aimed to increase own source income
Payroll	This is the weekly, monthly or regular printing of the total District Council payroll for review by the Director, Finance and Administration and the Secretary of the Local Government.
Recurrent	An amount spent on costs that are ongoing, that is, they occur every year, for example, salaries.
Revenue	Money coming in to a government from sources such as taxes.
Organisational Structure	Consists of functions, sectors or programs, for which activities and tasks are designed and allocated, under the District Council's supervision hierarchy and which are directed towards the achievement of the District Council's policy goals.
The Mayor	The head of the District Local Authority
Region	Part of the Puntland State of Somalia composed of one or more district
Law/rule	A resolution made within the framework of the law

Annex 2: Proposed PLGFP Implementation plan

Key Activity	Action(s)	Responsibility	Period	Expected Outcome
1. Presentations /Sensitisation of PLGFP	Organise and facilitate national workshop, selected participants from local and central governments.	UN-Habitat, Ministry of Interior, Local Government and Rural Development, Consultant	October/ November 2015	Participant Understands of the contents of PLGFP document.
2. Adoption of PLGFP	Review final draft PLGFP document	Ministry of Interior, Local Government and Rural Development, Districts	October/ November 2015	Adopted PLGFP
3. Producing detailed procedures on key topics for immediate implementation	Drafting procedures of selected key PFM topics, Stakeholder consultations and document review.	UN-Habitat, Consultant	November/ December 2015	Procedure document for selected PFM key topics
4. Piloting implementation of PLGFP and Procedure document in two selected Local Governments	(1) Application of charter of accounts codes in budgeting and accounting of selected LGs (using national charter of Accounts issued by Accountant General) (2) application of double entry bookkeeping (3) Establishment of Internal Audit and Planning functions	UN-Habitat, Ministry of Interior, Local Government and Rural Development, Accountant General - Ministry of Finance, Local Governments, selected consultant	2016 and 2017	(1) Selected LGs able to produce budget estimates containing charter of accounts codes (2) Established Internal Audit and Planning functions (3) application of double entry accounting

Key Activity	Action(s)	Responsibility	Period	Expected Outcome
5. LGs Financial and Accounting Regulations	Producing LGs Financial and Accounting Regulations	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	LGs Financial and Accounting Regulations
6. LGs Accounting Manual	Producing LGs Accounting Manual	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	LGs Accounting Manual
7. Revision of Laws	Revising law No.7/2003 in cooperating Internal Audit function among many others.	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	law No.7/2003 revised
8. LGs Internal Audit Manual	Producing LGs Internal Audit Manual	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	LGs Internal Audit Manual produced
9. LGs Accounts Committee Manual	Producing LGs Accounts Committee Manual	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	LGs Accounts Committee Manual produced
10. LGs Procurement Regulations and Manual	Producing LGs Procurement Regulations and Manual	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	LGs Procurement Regulations and Manual produced.

Key Activity	Action(s)	Responsibility	Period	Expected Outcome
11. Establishment of LGs Audit Committees	Establishment of LGs Audit Committees	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2016/17	Established of LGs Audit Committees
12. Rolling Implementation of PLGFP to all LGs	Applying the two LGs piloting experience, to roll out PLGFP to all LGs applying the various regulation and manuals developed	Ministry of Interior, Local Government and Rural Development, Ministry of Finance, LGs, UN- Habitant Selected Consultant	2018/2028	PLGFP implementation

Annex 3: Documents Reviewed

- Constitution of the Puntland State of Somalia of December 2009
- The Public Procurement Act, 2011
- The National Audit Act, 2011
- Law No. 7/2003, laws of the District Council of Puntland State of Somalia,
- Puntland Decentralization Policy: 2013-2020, November 2013
- Public Expenditure Management Guidelines to be Used by District Puntland State of Somalia Municipal Finance Policy Proposed Roadmap and Milestones, 2010
- Human Resource Manual For Local Governments Puntland State, 2004
- District Councils' Budgeting And Accounting Systems Regulations, 2012
- Assessment report, Status of Automation of Municipal finance system in Gardo, Bosaso and Garowe, 2013
- Public Expenditure Management Guidelines, Local Governments, Ministry of Interior Puntland, 2011