



Promoting Accountability of Public Resources

AUDITOR GENERAL'S REPORT

On the Liberia Innovation Fund for Entrepreneurs Project

For the period June 2014 to
September 2015



February 2016

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Auditor General, RL

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ACRONYMS USED

Acronyms/Abbreviations/Symbol	Meaning
AG	Auditor General
CBL	Central Bank of Liberia
CGMA	Chartered Global Management Accountant
CPA	Certified Public Accountant
CVF	Counterpart Value Fund
FAP	Fundamental Auditing Principles
GAC	General Auditing Commission
GoL	Government of Liberia
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
LBDI	Liberia Bank for Development & Investment
LD	Liberian Dollars
LIFE	Liberia Innovation Fund for Entrepreneurs
MoIC	Ministry of Commerce & Industry
MoU	Memorandum of Understanding
MSC	Ministerial Steering Committee
MSME	Micro-Small Medium Enterprise
PFM Act	Public Financial Management
PV	Payment Voucher
ToR	Term of Reference
USD	United States Dollars

Compliance Report on the Liberia Innovation Fund for Entrepreneurs (LIFE) Project of the Ministry of Commerce and Industry for the period June 30, 2014 to November 30, 2015.

We have audited the activities and financial transactions of the Liberia Innovation Fund for Entrepreneurs (LIFE) Project of the Ministry of Commerce and Industry compliance with relevant laws and regulations for the period ended November 30, 2015 consistent with the Auditor General's mandate as provided for in Section 2.1.3 of the General Auditing Commission (GAC) Act of 2014 as well as the Audit Engagement Terms of Reference (ToR)

1.1 Management's Responsibility

This audit was conducted on the basis or understanding that the Management of the LIFE Fund Project of the Ministry of Commerce and Industry has the responsibility to establish and maintain internal controls necessary to:

- Enable it undertake its contracts award, goods delivery, projects execution, evaluation and reporting in an effective and efficient manner as well as the preparation of documentation on the procurement/projects that are free from material misstatements whether due to fraud or error and in compliance with authorities that govern them;
- Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected; and
- To provide us with access to the following:
 - All information of which the Ministry of Commerce and Industry Management is aware of that is relevant to its contracts award, goods delivery, projects execution, evaluation and reporting as well as their related documentation;
 - Any additional information that we may request from Management for the purposes of the review; and
 - Unrestricted access to persons within the Ministry from whom we determine it necessary to obtain review evidence.

1.2 Auditor's Responsibility

Our responsibility is to independently express a conclusion on the financial records of the LIFE Fund Project based on our audit. Our work was conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI), Fundamental Auditing Principles (FAP) and Guidelines for Compliance Audit (GCA). Those principles

require that we comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance as to whether the use of the LIFE Funds Project are in compliance, in all material respects, with stated laws and regulations.

An audit involves performing procedures to obtain sufficient appropriate evidence to support our conclusion. The procedures performed depend on the auditor's professional judgment, including assessing the risk of material non-compliance, whether due to fraud or error. The audit procedures performed are those we believe are appropriate in the circumstances. We believe that the audit evidence gathered is sufficient and appropriate to provide the basis for our conclusion.

1.3 Basis for the Qualified Conclusion

During the conduct of the audit, it was observed that the LIFE Fund Project Management had made no disbursements/expenditures relating to the objectives of the LIFE Fund despite the approved implementation period of 12 months (June 2014 to July 2015) had lapsed.

It was also observed that for a period of at least 3 months, the project bank account remained unfunded resulting in the project bank account being overdrawn for that period, a contravention of the PFM regulations. Further, it was observed that MOCI/LIFE Fund Project Management did not perform reconciliations of the project bank accounts for the period under audit.

1.4 Qualified Conclusion

Based on the audit work performed, we found that, except for the instances of non-compliance noted in the Basis for the Qualified Conclusion Paragraph above, MoCI/LIFE Funds Project is in compliance, in all material respects, with applicable laws, regulations, policies, and procedures.


Yusador S. Gaye, CPA, CGMA
Auditor General, R.L.

Monrovia, Liberia
February 2016

2 BACKGROUND

2.1 Background of the LIFE Project

In 2008, immediately preceding the global financial meltdown, economies experienced an intermittent upsurge in the prices of cash crops, particularly rice, Liberia's major staple. Cognizant of the political and economic importance of rice and the need to ensure food security for Liberia, President Ellen Johnson engaged in bilateral consultation with the Government of Japan and requested Food Aid Assistance. The Japanese Commodity Grants Monetization and Counterpart Value Funding Projects derived from these bilateral consultations.

The primary purpose of the Japanese Commodity Grants Monetization and Counterpart Value Funding program is to aid socio-economic development programs in Liberia. Funding for projects are derived from two funds sources, Food Aid (rice) and Non-Project Grant (petroleum). The primary activities of the monetization programs are the purchase and subsequent sale, at a discount, of commodities (i.e. rice and petroleum). In essence the commodities are converted (i.e. monetized) to liquidity/money. The proceeds from the monetization program are initially deposited at the Central Bank of Liberia then subsequently deploy into the Liberian economy to fund approved socio-economic development projects.

The Ministry of Commerce and Industry/Liberia Innovation Fund for Entrepreneurs (LIFE) Project came into existence through the project financed with the Counterpart value funds deposited into the Central Bank of Liberia under the Japanese Non-profit Grant Aid for the years 2011 to 2012.

The aim of the Liberia Innovation Fund for Entrepreneurs project of the Ministry of Commerce and Industry is to set up a Private Sector Investment Fund (PSIF). This will allow the Government to encourage Micro-Small and Medium Sized Enterprises (MSMEs) and entrepreneurs to overcome financial constraints and grow key sectors of the economy aligned with MSME Policy execution.

2.2 Management Personnel

For the periods under audit, MoCI/LIFE Fund Project had the following management personnel who handled the administrative and financial affairs of the project:

Table 1: Key Personnel

No	Name	Position	Tenure
1	Hon.Miata Beysolow	Minister	2008 to 2013
2	Hon. Axel M. Addy	Minister	2013 to Present
3	Hon. Andrew G. Paygar	Deputy Minister for Small Business Adm.	2015 to Present
4	Hon. Daniel Dean	Asst. Minister for Administration	2013 to Present
5	Mr. Filiman S. Sanyon	Comptroller	2008 to Present
6	Steve Flahn Paye	Coordinator for Japanese Funding Project	2008 to Present

2.3 Audit Objectives

The main objective of the audit is to gather sufficient appropriate audit evidence to conclude whether the activities and financial information of the MoCI/LIFE Fund Project for the period June 2014 to September 2015 are in compliance, in all material respects with policies, procedures, applicable laws, regulations, and are free of material errors.

2.4 Audit Methodology

The audit was conducted in accordance with International Organization of Supreme Audit Institutions (INTOSAI), Fundamental Auditing Principles and Guidelines for Compliance Audit. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial information provided by the Ministry of Commerce & Industry LIFE Project management is in compliance, in all material respects with policies, procedures, applicable laws, regulations, and are free of material errors. In furtherance of this, we undertook audit procedures as would enable us to attain the above objectives.

Our audit also took cognizance of the requirements under the Auditor General's mandate as spelt out under Sections 2.1.9 of the GAC Act of 2014. Our audit approach included observation, inquiries, inspections, re-performance, confirmation, and analytical procedures on areas we considered as high risk.

While the audit was not directed at reporting the following, we have reported on the below issues which came to our attention during the course of the audit:

- Non- effective performance of the program - relates to management's responsibility to undertake activities in a non-effective and non-efficient manner.
- Non-delivery of goods and services – relates to management's non-exercise of responsibility to ensure that all goods and services procured are delivered.
- Instances of non-compliance with applicable laws and regulations - relates to management's non-exercise of responsibility to use resources, and fulfill accountability requirements, in accordance with applicable agreements, laws and regulations governing contracts award, goods and service delivery, projects execution, evaluation and reporting.
- Waste – relates to management's non-exercise of responsibility to obtain and apply resources in an economical manner, without any public money being wasted.
- Instances of abuse- relates to management's non- exercise of responsibility to meet the expectations of the National Legislature and the public as they relate to appropriate standards of behavior.

2.5 Limitation of Responsibility

We reviewed the systems and management controls operated by the Ministry of Commerce and Industry LIFE Fund Project only to the extent we considered necessary for the effective conduct of this audit. As a result, our review may not have detected all weaknesses that existed or all improvements that could be made.

3 DETAILED FINDINGS AND RECOMMENDATIONS

3.1 Financial Issues

3.1.1 Unfunded Bank Account and Overdraft Charges

Observation

- 3.1.1.1 Section R.3 (1) of the Public Financial Management Regulation of 2009 stipulates that "when ordering the opening of a bank account for a Ministry of Government Agency, the Comptroller-General under instruction from the Minister, shall communicate to the bank and the head of government agency, the conditions under which the account will be operated, shall include among others,
- (a) Prohibition of overdraft on the bank account.

- 3.1.1.2 It was observed during the conduct of the audit that primary bank accounts of the LIFE fund project were overdrawn resulting in the LIFE project incurring overdraft charges for a period of time as described below:

- 3.1.1.3 We noted from the review of the LIFE project account (LRD00121322280704) that for the period June 30, 2014 to September 18, 2014, the account was not funded. As a result of periodic bank maintenance fees, daily overdraft charges amounting to \$LD206.51 were incurred on the overdrawn balances until the account was funded on September 18.

- 3.1.1.4 It was observed from the review of the LIFE project account (USD00121322280703) that for the period June 30, 2014 to September 25, 2015, the account was not funded. As a result of periodic bank maintenance fees, daily overdraft charges amounting to \$USD133.21 were incurred on the overdrawn balances. The account has not been funded since it was opened in June 2014.

- 3.1.1.5 Also, a review of the primary bank accounts opened at LBDI for the period under audit also revealed that the LIFE fund project incurred periodic account maintenance fees/bank charges amounting to LRD\$29,400 and US\$450 on accounts LRD00121322280704 and USD00121322280703 respectively.

Risk

- 3.1.1.6 Failure to fund and service bank account timely could lead to unexpected bank charges to the account holder, creating a negative balance or leaving insufficient funds for a subsequent debit from the same account.

Recommendation

- 3.1.1.7 Management should provide substantive justification for running an overdraft on the Project's accounts. In addition, the LIFE Project Management should review bank

account opening procedures to minimize potential charges related to bank account maintenance.

Management Response

- 3.1.1.8 *A payment voucher was raised by MOCI on June 25, 2014 and sent to MFDP for final signature. Due to government payment processes and procedures the check was finally deposited three (3) months after the account was initially opened. The service charges (overdraft referred to in section 1.1.1 was incurred during the three month period when processing of the initial check for deposit was ongoing. The Project Management will ensure the opening of future accounts in accordance with the banking procedures to avoid potential service charge (overdraft) bank charges.*

Auditor General's Position

- 3.1.1.9 Management attributed the untimely deposit on government processes and procedures without detailing the nature of the processes and procedures. It is evident that on 25 June 2014, CBL check #0050438 was issued to management in favor of the LIFE Fund project, five days before the opening of the project account. Management's assertion is not supported by evidence; therefore, we maintain our recommendation.

3.1.2 Bank Reconciliation

Observation

- 3.1.2.1 The PFM Regulations of 2010 Part R, R.3(6) requires that, "the balance of every bank account as shown in a bank statement shall be reconciled with the corresponding cashbook balance at least once every month; and the reconciliation statement shall be filed or recorded in the cash book or the reference to the date and number thereof."
- 3.1.2.2 It was observed during the conduct of the audit that the LIFE Project Management did not perform any bank reconciliations for the entire period under audit.

Risk

- 3.1.2.3 Failure to prepare bank reconciliations could lead to untimely detection of errors, omissions or undetected loss in the financial processes of the project.

Recommendation

- 3.1.2.4 The LIFE Project Management should ensure that all bank reconciliation statements are prepared on time, signed by designated staff, reviewed and approved by a superior officer on a monthly basis.

Management Response

- 3.1.2.5 *The Ministry of Commerce and Industry takes note of your observation at 1.1.2.4 and has put in place a process for the monthly reconciliation with a designated staff to review and approve.*

Auditor General's Position

- 3.1.2.6 We acknowledge Management's acceptance of our finding. However, we will make a follow-up on the implementation of the audit recommendation.

3.2 Compliance Issues

3.2.1 Unexpended Project Funds

Observation

- 3.2.1.1 Part-H, H.4 of the PFM Regulation of 2009 requires that, "at the end of each financial year, and after the books of accounts of a government agency have been closed, the accounting officer must surrender to the Comptroller General any unexpended voted money, for re-depositing into the Consolidated Fund (Special Project Account) opened at the Central Bank of Liberia".

- 3.2.1.2 It was observed from review of bank statements that the management team of LIFE fund project still maintained all bank accounts opened at LBDI when in fact the approved implementation period for the project was one (1) year, i.e. from June 2014 to May 2015.

- 3.2.1.3 The Management of the LIFE Project did not provide any documentation citing reason (s) for the un-discharged of the approved project; neither did management provide a formal communication granting management the right to retain the accounts beyond the life of the project.

Risk

- 3.2.1.4 The management team's failure to submit unexpended money to the special project account at the CBL could lead to the project fund not being used for the intended purpose.

Recommendation

- 3.2.1.5 The unexpended fund should be returned to the Special Project Account established at the CBL until the project team is ready for full implementation of the project to avoid unnecessary bank charges and other costs.

Management Response

- 3.2.1.6 *The project has been fully developed and implementation will commence in March 2016 and as such transfer of funds at this stage in the project life will pose serious project management implementation challenges.*

Auditor General's Position

- 3.2.1.7 Management provided no evidence to support its assertion that the project has been fully developed and it will be implemented March 2016. Therefore, we maintain our

recommendation

3.2.2 Monitoring of the LIFE Fund Project

Observation

- 3.2.2.1 Section 2.3.2 of the Japanese Commodity Grants monetization program & funding Projects Document states that, "the Ministerial Steering Committee (MSC) will meet quarterly for updates on the Japanese Commodity Grants and CVF projects implementation. Decision thereof will inform preparation for the Joint Steering Committee meeting with Government of Japan semi-annually". Also stated in part of this document, the coordinating and the Monitoring and Evaluation Units will be funded through a 5% surcharge on all Japanese Projects approved by the Government of Japan under the Counterpart Fund. The units will be embedded in both ministries.
- 3.2.2.2 A review of the documents made available to the audit team revealed that there were no evidence of a quarterly meeting being held by the Ministerial Steering Committee (MSC) to determine the viability of the LIFE fund project since its approval.
- 3.2.2.3 It was also observed from the examination that the 'coordinating and Monitoring and Evaluation Units on approved projects by the Government of Japan under the CVF did not provide report stating the status of the LIFE fund project to inform decision for the preparation for the Joint Steering Committee meeting with the Government of Japan semi-annually. Henceforth, it is impracticable to place reliance on the effectiveness and efficiency on the oversight of the Ministerial Steering committee and Coordinating and Monitoring and Evaluation.

Risk

- 3.2.2.4 The Ministerial Steering Committee not meeting quarterly for updates on the projects implementation could lead to not meeting the project objectives.

Recommendation

- 3.2.2.5 A strict adherence of the project document should be instituted for the effective and efficient monitoring on the part of the Ministerial Steering Committee to meet the project objective.

Management Response

- 3.2.2.6 *We note your recommendation on 1.2.2.5; the Ministry will institute an effective and efficient monitoring regime through the Ministerial Steering Committee.*

Auditor General's Position

- 3.2.2.7 We acknowledge Management's acceptance of our recommendation. However, it is the responsibility of the Ministerial Steering Committee (MSC) to institute effective internal control and ensure that the IECI Project like all other Japanese funded Projects is adequately monitored by the appropriate authorities to mitigate the risks of non-

achievement of project's objectives. In the absence of an approved project guidelines, the MSC has the responsibility to implement project in line with the PFM Act of 2009, Amended and Restated PPC Act of 2010 and other regulatory frameworks.

- 3.2.2.8 The MSC should ensure that the Japanese Commodity Grants Management Guide is finalized and that regular monitoring of all Japanese funded projects is carried out by the requisite authorities.

3.2.3 Project Implementation

Observation

- 3.2.3.1 According to Regulation A.20 (2-5) of the PFM Regulations requires that:
- Any person required to perform any function or duty either under Public Finance Management Act, 2009 or under the PFM regulations, who fails to perform that function or duty within the time required, is in breach of financial discipline under this regulation.
 - Disciplinary action for misconduct, omission or non-performance shall be taken against any officer contravening any instruction specified in sub regulation A20 (1). On the recommendations of the Minister of Finance or the Auditor General.
- 3.2.3.2 Our examination of Payment Voucher (PV) and Central Bank of Liberia (CBL) check dated June 25, 2014 indicated that the Project Management received an amount of L\$58,187,500.00 for opening an account in favor of LIFE Fund Project. This initiative was intended for the project management team to carry out a full scale utilization of the project fund to identify those Liberian entrepreneurs with the skills necessary to innovate new ideas and businesses with great potential to increase their local market share while improving their access to the international market.
- 3.2.3.3 It was observed that the management team did not perform that function or duty within the one year implementing period as stated in the application form for the project financed with the counterpart fund deposited under the Japanese Non-Pro Grant Aid. The Management did not provide any authorized documentation stating reason (s) for not implementing the project up to the time of compiling this management letter.
- 3.2.3.4 Additionally, the monetization program and funding projects management guide provided by management was a draft document.
- Risk**
- 3.2.3.5 Non-compliance with the project terms could lead to project objective not been met timely.

Recommendation

- 3.2.3.6 The Project Management should henceforth ensure the effective and efficient implementation of the LIFE Fund project for the development and of the economy.
- 3.2.3.7 The Project Management should provide substantive justification for not operating the project with an approved Monetization Program & Funding Projects Management Guide

Management Response

- 3.2.3.8 *As stated in 1.2.1 the project is scheduled for implementation in March 2016. The Ministry of Commerce and Industry commits itself to ensuring the formalization of the Draft Monetization Guide before the project implementation begins.*

Auditor General's Position

- 3.2.3.9 We acknowledge Management's acceptance of our recommendation. However, we will make a follow-up on the implementation of the recommendation.

4 ACKNOWLEDGEMENT

- 4.1 We acknowledge the cooperation and assistance provided to the GAC Audit Team by the staff of the Ministry of Commerce and Industry and other individuals as well as institutions. The efforts and commitment of GAC staff in conducting this audit are also gratefully acknowledged


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Monrovia, Liberia
February 2016