Management Letter

On the Audit of the Liberia Maritime Authority Financial Statements

For the Period July 1, 2016 to June 30, 2017

Promoting Accountability of Public Resources

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

Monrovia, Liberia
February 2020
Management Letter On the 
Audit of the Liberia Maritime Authority Financial Statements 
For the Period July 1, 2016 to June 30, 2017

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# Acronyms/Abbreviations

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<tr>
<td>CGMA</td>
<td>Certified Governmental Management Accountant</td>
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<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
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<tr>
<td>DV</td>
<td>Disbursement Voucher</td>
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<td>FAR</td>
<td>Fixed Asset Register</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>GAC</td>
<td>General Auditing Commission</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GOL</td>
<td>Government of Liberia</td>
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<td>IA</td>
<td>Internal Audit</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>ISAs</td>
<td>International Standards on Auditing</td>
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<td>ISSAIIs</td>
<td>International Standards of Supreme Audit Institutions</td>
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<tr>
<td>LISCR LLC</td>
<td>Liberia International Ship &amp; Corporate Registry Limited Liability Corporation</td>
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<td>LIMA</td>
<td>Liberia Maritime Authority</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>PPCC</td>
<td>Public Procurement and Concession Commission</td>
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<td>PRC</td>
<td>Procurement Review Committee</td>
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<td>SOES</td>
<td>State-OwnedEnterprise</td>
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<td>DCFA</td>
<td>Deputy Commissioner for Financial Affairs</td>
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<td>US$</td>
<td>United States Dollar</td>
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<tr>
<td>U.S GAAP</td>
<td>United States Generally Accepted Accounting Principles</td>
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Hon. James Kollie, PhD  
Commissioner  
Liberia Maritime Authority  
21th Street Sinkor  
Monrovia, Liberia

February 18, 2020

Dear Hon. Kollie:

AUDITOR GENERAL’S REPORT ON THE FINANCIAL STATEMENTS AUDIT OF THE LIBERIA MARITIME AUTHORITY (LiMA) FOR THE PERIOD 1 JULY 2016 TO 30 JUNE 2017

The Financial Statements of the Liberia Maritime Authority (LiMA) were subject to audit by the Auditor General in terms of Section 2.1.3 of the General Auditing Commission (GAC) Act of 2014 as well as the Engagement Term of Reference. The Financial Audit was performed for the period July 1, 2016 - June 30, 2017.

INTRODUCTION
The audit of the Liberia Maritime Authority for the period 1 July 2016 - 30 June 2017 is being completed and the purpose of this letter is to bring to your attention the findings that were revealed during the audit.

AUDIT SCOPE AND DETERMINATION OF RESPONSIBILITY
The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation and reporting is achieved.

An audit involves:

- Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements;
- Assessment of the accounting principles used and significant estimates made by management; and
- Evaluation of the Financial Statement presentation.

An audit also includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the LiMA Management. Our responsibility is to express our opinion on these financial statements.

The audit findings which were identified during the course of the audit are included below.
**APPRECIATION**

We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Liberia Maritime Authority and other individuals and businesses who contributed to the success of this audit. The audit findings which were identified during the course of the audit are included below.

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**Monrovia, Liberia**

February 2020
1 DETAILED FINDINGS AND RECOMMENDATIONS

1.1 Financial Statement Issues

1.1.1 Provision & Contingent Liabilities

Observation
1.1.1.1 International Accounting Standards (IAS) 37 aims to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users understand the nature, timing and amount.

1.1.1.2 IAS 37 states that a provision should be recognized as a liability in the financial statements when: An entity has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.1.1.3 IAS 37 further states that contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or A present obligation that arises from past events but is not recognize because; It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or The amount of the obligation cannot be measured with sufficient reliability.

1.1.1.4 During the audit of the LiMA, we observed that LiMA’s Management did not recognize in its financial statements amounts from litigation cases finalized and agreed to be settled by LiMA. Also, we observed that there were pending cases against LiMA for which a possible obligation could arise that were to be disclosed in the notes to the financial statements in line with IAS 37.

Risk
1.1.1.5 The failure to recognize provisions for litigations agreed to be settled and disclosure of contingent liability in the notes to the financial statements may lead to understatements of LiMA’s present and possible future obligations.

Recommendation
1.1.1.6 Management should appropriately recognize all provisions and disclose in the footnotes to the financial statements contingent liabilities arising from pending litigations or possible obligations in line with IAS 37.

Management’s Comments
1.1.1.7 The Management takes note of the Auditor General’s observation and states that going forward said provisions would be made along with adequate disclosures in the notes to the financial statements.
Auditor General’s Position

1.1.1.8 The restated financial statements submitted by the management of LiMA included both provision for finalized cases in the financial statements and proper disclosure of pending litigations in the notes to the financial statements.

1.1.1.9 Although the LiMA Management has recorded the liability for withholding taxes on income, it is still not remitting these taxes to the LRA. This issue was raised during the previous audit and it is yet to be resolved by LiMA Management. This practice of not remitting income taxes to LRA could lead to penalties and other costs. Therefore, the LiMA should stop this practice and ensure that income taxes withheld are remitted to the LRA.

1.2 Governance & Operations Issues

1.2.1 Strategic and Operation Plan

Observation

1.2.1.1 Regulation D.19 (1)(b) of the PFM Act of 2009 entitled ‘Expenditure Estimates’ states that a head of a government entity shall "prepare a strategic plan which shall include a definition of the Government agency’s mission, goals, objectives, outputs and activities;

1.2.1.2 Regulation D.22 entitled ‘Budget Hearing’ further states that: (1) “On receipt of estimates from ministries and agencies, the Minister shall cause to be conducted budget hearings to review strategic plans and estimates of the government agencies concerned in order to ensure that these plans and estimates are in accordance with the Government’s macro-economic policy and fiscal framework. (2) Where necessary, the Minister may require a government ministry or agency to make adjustments to its strategic plans and estimates in order to fulfil the requirements of the Government’s macro-economic policy and fiscal framework.”

1.2.1.3 Section K.7 (5) entitled ‘Expenditure Tracking Units’ states that “Each affected budgetary agency shall prepare its own internal action plan to implement the recommendations and ensure that this is integrated within its strategic plan.

1.2.1.4 During the audit of the LiMA, we found that the LiMA did not have a strategic and operational plan for the period under audit.

Risk

1.2.1.5 The LiMA may not have a strategic direction in the absence of a strategic plan

1.2.1.6 The needed activities to undertake annually to meet strategic goals may not be achieved if they are not defined and documented in an annual operational plan.

1.2.1.7 Budgeting for annual operations may not adequately capture what the institution needs to move in the right direction.
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**Recommendation**

1.2.1.8 The LiMA Management should consider developing a long-term strategic plan to steer the operation of the entity in a strategic direction.

1.2.1.9 The LiMA should annually prepare operational plan that will define activities to meet the strategic goals and serve as a basis for budgeting.

**Management’s Comments**

1.2.1.10 The Management also notes the observation of the Auditor General stating an absence of a Strategic Plan for the audit period and herewith clarifies that its Strategic Plan covered the period 2009-2016. Realizing that 2017 was a transitional year, the Authority held strategic sessions to formulate a new strategic plan for the Authority for the next five (5) years; however, the new and current administration delivered its agenda, the Pro-Poor Agenda for Prosperity and Development (PAPD), in the 1st Quarter of FY 2018/19. Due to the aforementioned, the Authority had to reposition its Goals and Objectives to match the overarching goals and objectives of the PAPD; hence, a new plan has been finalized and will run up to FY2023. The Management is attaching its Multi-year Strategic Plan for 2009-2016, its annual work plan for FY2018/19 along with its newly developed Strategic Plan for the period covering 2019-2023.

**Auditor General’s Position**

1.2.1.11 We acknowledge LiMA Management’s acceptance of our findings and recommendation. We, however, advise that management institutes a process to ensure that a new strategic plan is in place before the existing one expires.

1.2.2 **Audit Committee**

**Observation**

1.2.2.1 Regulation K.10 of the PFM Act of 2009 entitled ‘Establishment of Audit Committee’ states that “A Head of government agency or government organization shall in consultation with the Internal Audit Governance Board establish and maintain an audit committee for the government agency or organization for which he/she is responsible.”

1.2.2.2 During the audit, we observed that LiMA Management did not have an audit committee to discuss internal audit reports or recommendations.

**Risk**

1.2.2.3 The effective oversight of an institution’s risk management system may not be assured in the absence of an Audit Committee.

**Recommendation**

1.2.2.4 LiMA Board should justify why there was not an audit committee in place to perform oversight responsibility of the internal audit department.
Management’s Comments

1.2.2.5 The Management takes note of the Auditor General’s observation regarding the absence of an Audit Committee and wishes to clarify that the Authority has strived to establish such committee. The Authority, after a careful review of the PFM regulation of 2010, noticed that K.12 of the regulation concerning the Committee Membership and Organization states that the Committee shall consist of three (3) or more persons appointed by the Internal Audit Governance Board. It also states that majority of the Committee members should not be full-time employees of a government agency and further states that, in the case of a State Owned Enterprise or Government Agency, as LiMA, at least one person should be outside of public service. Additionally, the Management observed that the Internal Audit Governance Board has not been setup to execute such function and that selecting persons outside of Government would impose additional financial burden on the Authority.

1.2.2.6 In view of the aforementioned, the Authority has setup an Audit Recommendation Implementation Committee (ARIC) headed by the Department of Administration and monitored by the Department of Internal Audit, which is staffed by the Internal Audit Agency (IAA). This committee is currently ensuring that all recommendations of both external and internal auditors are implemented and executed. This Committee reports to the Commissioner, who subsequently, reports the progress of the Committee to the Board of the Authority.

1.2.2.7 The Management is attaching a detailed updated tracker outlining the Authority’s internal and external audit recommendations along with the timeline for implementation and certification of implementation. The tracker attached to this response details the respective departments responsible to implement said recommendations.

Auditor General’s Position

1.2.2.8 We acknowledge LiMA Management’s assertion of the above raised issue; however, Per the PFM, the establishment of the internal audit governance board was intended to inform the audit committee structures at line ministries and agencies and not SOEs, as SOEs have an existing oversight structure through their board of directors. The ARIC structure established by management does not agree with the PFM. Therefore, management should ensure that an audit committee is established.

1.3 Internal Control Issues

1.3.1 Receipts and Invoices not pre-numbered or auto generated

Observation

1.3.1.1 Regulation O.10 of the PFM Act of 2009 entitled ‘Responsibility for Control of Receipts’ states, “A head of government agency shall be responsible for ensuring that a proper system exists for the safe custody, recording and proper use of all Government Agency
revenue receipts, licenses and other documents issued for the receipt of public moneys, in his Government Agency or office.”

1.3.1.2 Regulation O.7 of the PFM Act of 2009 entitled ‘Receipts Books to be Checked’ states “(1) on receipt of receipt books and before being entered in a register, all receipt books shall be checked by the officer-in-charge to ensure that they are correct and consecutively numbered. (2) The officer-in-charge shall write the following words on the inside front cover of each receipt book a certificate: “Examined by me this day and found to contain forms correctly numbered” followed by date, full name, signature and stamp.”

1.3.1.3 During the audit, we observed that LiMA’s Management issued receipts and invoices that were not pre-numbered and or auto generated. Furthermore, we noticed that the receipts were not procured from a third party/vendor and did not have counterfoil or duplicate copies as the receipts were prepared using Microsoft word.

**Risk**

1.3.1.4 The absence of proper systems and controls over invoices and receipts could lead to alteration of invoices & receipts.

**Recommendation**

1.3.1.5 Management should ensure that invoices and receipts issued are pre-numbered and system generated.

**Management’s Comments**

1.3.1.6 The Management takes note of the Auditor General’s observation and will ensure that with the new software being installed and customized to suit the needs of the Authority, said recommendation will be definitely implemented.

**Auditor General’s Position**

1.3.1.7 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

**1.3.2 IT Strategy Plan**

**Observation**

1.3.2.1 COBIT 4.1 (PO1.4) states that: organization should create a strategic plan that defines, in co-operation with relevant stakeholders, how IT goals will contribute to the enterprise’s strategic objectives and related costs and risks. It should include how IT will support IT-enabled investment programmes, IT services and IT assets. IT should define how the objectives will be met, the measurements to be used and the procedures to obtain formal sign-off from the stakeholders. The IT strategic plan should cover investment/operational budget, funding sources, sourcing strategy, acquisition strategy, and legal and regulatory
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requirements. The strategic plan should be sufficiently detailed to allow for the definition of tactical IT plans.

1.3.2.2 During conduct of the audit, it was noted that the IT department of LiMA was not governed by documented IT strategy, IT policies and procedures.

Risk

1.3.2.3 The absence of an IT strategy may result in the acquisition and use of unsuitable IT equipment and services.

Recommendation

1.3.2.4 We recommend that the management of LiMA create a strategic plan that supports its business requirements and ensures that IT spending remains within the approved IT strategic plan. The IT strategy should align with LiMA’s business objective.

Management’s Comments

1.3.2.5 The Management takes note of the Auditor General’s observation on the absence of a LiMA IT Strategic Plan and states that it will ensure that one is formulated.

Auditor General’s Position

1.3.2.6 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

1.3.3 IT Security Plan

Observation

1.3.3.1 DS5 of CoBit 4.1 states that “the need to maintain the integrity of information and protect IT assets requires a security management process, this process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents”.

1.3.3.2 During the conduct of the audit, it was observed that the LiMA had no evidence of an approved IT security policy. The security policy is meant to protect and maintain the integrity of information and where necessary provide for corrective actions for identified security weaknesses or incidents.

Risk

1.3.3.3 Failure to maintain an approved IT security policy increases the risk of damage to expensive and vital equipment that could lead to unauthorized disclosure, creation, alteration or deletion of data.
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Recommendation
1.3.3.4 The Management of LiMA should develop appropriate IT security policies and controls over the physical hardware, data processes, documentation and personnel.

Management’s Comments
1.3.3.5 The Management takes note of the Auditor General’s observation on the absence of the IT Security Plan at LiMA and will ensure that it is developed and implemented.

Auditor General’s Position
1.3.3.6 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

1.3.4 IT Strategic Committee

Observation
1.3.4.1 PO4.2, of CoBit4.1 states that "an organization that operates in an IT environment should establish an IT strategic Committee at top management level. This committee should ensure that IT governance, as part of enterprise governance, is adequately addressed. The purpose of the committee is to advise on strategic direction, and review major investments on behalf of top management”.

1.3.4.2 During the conduct of the audit, there was no evidence of an approved strategic committee to address issues that are centered on the operations of the IT control environment.

1.3.4.3 In addition, there was no evidence of a strategic committee meeting minutes to show that, the board met regularly to adequately address the strategic direction and review major investments in IT governance.

Risk
1.3.4.4 The failure of the board of LiMA to establish a strategic committee could result in IT governance not being adequately addressed.

Recommendation
1.3.4.5 We recommend that the board establishes a strategic committee to adequately address the IT governance issues which include formulating strategic direction and reviewing major investments that relate to enterprise governance.

Management’s Comments
1.3.4.6 The Management of LiMA takes note of the Auditor General’s observation on the absence of an IT Strategic Committee and will inform the Board of its obligation to facilitate the establishment of the Committee, as well, as ensuring its smooth operation.
Auditor General’s Position

1.3.4.7 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

1.3.5 IT Steering Committee

Observation

1.3.5.1 PO4.3 of COBIT 4.1 states that “management should establish an IT steering committee (or equivalent) composed of executive, business and IT management to:

- Determine prioritization of IT-enabled investment programs in line with the enterprise’s business strategy and priorities
- Track status of projects and resolve resource conflict
- Monitor service levels and service improvements

1.3.5.2 Contrary to the above, it was observed that the LiMA management did not establish an IT steering committee, which should encompass representation of all departments to address issues related to IT projects, and resolve conflicts for better improvement.

Risk

1.3.5.3 LiMA’s management failure to establish an IT steering Committee could result in the overall IT objectives will not being achieved.

Recommendation

1.3.5.4 We recommend that the management of LiMA should establish an IT steering committee that will enable the institution to achieve their IT objectives.

Management’s Comments

1.3.5.5 The Management of LiMA takes note of the Auditor General’s observation on the absence of an IT Steering Committee and will ensure the establishment of said Committee.

Auditor General’s Position

1.3.5.6 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

1.3.6 IT Business Continuity plan/disaster Recovery plan

Observation

1.3.6.1 According to DS4.2 of CoBit 4.1: IT Continuity Plans Develop IT continuity plans based on the framework and designed to reduce the impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential
business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

1.3.6.2 In addition, DS4.8 of CoBit 4.1: IT Services Recovery and Resumption Plan the actions to be taken for the period when IT is recovering and resuming services. This may include activation of backup sites, initiation of alternative processing, customer and stakeholder communication, and resumption procedures. Ensure that the business understands IT recovery times and the necessary technology investments to support business recovery and resumption needs.

1.3.6.3 During the review of audit documentation, it was observed that, there was no evidence that the management of LiMA developed and documented an IT business continuity plan to enable business to continue functioning, offering critical services, in the events of disruptions.

**Risk**

1.3.6.4 The absence of up-to-date business continuity plan could lead to IT system failure and credibility of data may not be maintained.

**Recommendation**

1.3.6.5 We recommend that the management of LiMA establish a business continuity plan. Moreover, it should be tested periodically and implemented to ensure that it continues to meet LiMA’s business objectives.

**Management’s Comments**

1.3.6.6 The Management takes note of the Auditor General’s observation on the absence of an IT Business Continuity Plan/Disaster Recovery Plan. Noting the importance of such plan, the Management will move swiftly in formulating one and ensure its approval and subsequent implementation.

**Auditor General’s Position**

1.3.6.7 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.

**1.3.7 Environmental Control**

**Observation**

1.3.7.1 DS12.4 of CoBit 4.1 states that “Protection against Environmental Factors Design and implement measures for protection against environmental factors. Install specialized equipment and devices to monitor and control the environment.”
1.3.7.2 Moreover, DS12.5 of CoBit 4.1 states that “Physical Facilities, Management should manage facilities, including power and communications equipment, in line with laws and regulations, technical and business requirements, vendor specifications, and health and safety guidelines.

1.3.7.3 During the conduct of the audit, it was observed that, the LiMA did not establish an appropriate control to monitor, regulate and minimize disaster. The equipment in the IT department were vulnerable as there existed no log to track movement during work and after hours. Moreover, fire alarm and suppression systems were not in place.

Risk

1.3.7.4 The absence of an approved environmental control policy may lead to the abuse of IT equipment and could cause IT infrastructure to be vulnerable to attacks.

Recommendation

1.3.7.5 The management of LiMA should establish an environmental control policy to protect IT Infrastructure and prevent unauthorized access to critical IT environment.

Management’s Comments

1.3.7.6 The Management takes note of the Auditor General’s observation of the absence of a policy to guide the IT Environmental Control of LiMA and commit to the formulation of said policy.

Auditor General’s Position

1.3.7.7 We acknowledge LiMA Management’s acceptance of our finding and recommendation. We will, however, make a follow up on the implementation of the assertions made by management.