Management Letter

Liberia Accelerated Electricity Expansion Project (LACEEP)

For the period July 1, 2014 to June 30, 2015

Monrovia, Liberia
December, 2015
Draft Management Letter
Liberia Accelerated Electricity Expansion Project (LACEEP)
For the period July 1, 2014 to June 30, 2015

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# ACRONYMS USED

<table>
<thead>
<tr>
<th>Acronyms/Abbreviations/Symbol</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFP</td>
<td>Audit Focal Person</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor General</td>
</tr>
<tr>
<td>CA</td>
<td>Credit Agreement</td>
</tr>
<tr>
<td>CGMA</td>
<td>Chartered Global Management Accountant</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>DMA</td>
<td>Deputy Minister for Administration</td>
</tr>
<tr>
<td>FS</td>
<td>Financial Statements</td>
</tr>
<tr>
<td>GOL</td>
<td>Government of Liberia</td>
</tr>
<tr>
<td>HFO</td>
<td>Heavy Fuel Oil</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction And Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFR</td>
<td>Interim Financial Reports</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standard of Auditing</td>
</tr>
<tr>
<td>ISSAI</td>
<td>International Standards of Supreme Audit Institutions</td>
</tr>
<tr>
<td>LACEEP</td>
<td>Liberia Accelerated Electricity Expansion Project</td>
</tr>
<tr>
<td>LEC</td>
<td>Liberia Electricity Corporation</td>
</tr>
<tr>
<td>MLME</td>
<td>Ministry of Lands Mines &amp; Energy</td>
</tr>
<tr>
<td>PA</td>
<td>Payment Advice</td>
</tr>
<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
</tr>
<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
</tr>
<tr>
<td>PIM</td>
<td>Project Implementation Manual</td>
</tr>
<tr>
<td>PMT</td>
<td>Project Management team</td>
</tr>
<tr>
<td>QPR</td>
<td>Quarterly Progress Report</td>
</tr>
<tr>
<td>SC</td>
<td>Special Committee</td>
</tr>
<tr>
<td>SOE</td>
<td>Statement of Expenditures</td>
</tr>
<tr>
<td>T&amp;D</td>
<td>Transmission and Distribution</td>
</tr>
<tr>
<td>TOR</td>
<td>Term of Reference</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>LRA</td>
<td>Liberia Revenue Authority</td>
</tr>
</tbody>
</table>
Dear Mr. Sharpe:

**Re: Management Letter:** Liberia Accelerated Electricity Expansion Project (LACEEP) for the Period July 1, 2014 to June 30, 2015.

The Audit of the Liberia Accelerated Electricity Expansion Project (LACEEP) Financial Statements for the fiscal year ended June 30, 2015 are subject to audit by the Auditor General (AG) consistent with Auditor General’s mandate as provided for under section 2.1.3 (b) (i) of the GAC Act of 2014, and the Audit Engagement Terms of Reference (ToR).

**INTRODUCTION**

The audit of Liberia Accelerated Electricity Expansion Project (LACEEP), for the period ended June 30, 2015 has been completed and the purpose of this letter is to bring to your attention the findings that were revealed during the course of the audit.

The Project Financial Statements (PFS) are prepared in line with the requirements of the International Public Sector Accounting Standards (IPSAS) Cash Basis of Accounting and the World Bank reporting requirements.

**SCOPE AND DETERMINATION OF RESPONSIBILITY**

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that we plan and perform the audit so as to obtain reasonable assurance whether the LACEEP Financial Statements and related records are free of material misstatements due to errors or fraud and whether they comply with ethical requirements.

An audit includes:

- 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 overall financial statement presentation.

The audit also include 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.

Management
The Financial Statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Project Management Teams. Our responsibility is to express an opinion on these Financial Statements.

Appreciation
We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Liberia Accelerated Electricity Expansion Project (LACEEP) during the audit.

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

Monrovia, Liberia
December, 2015
1 DETAILED FINDINGS AND RECOMMENDATIONS

1.1 Financial Issues

1.1.1 Withholding taxes

Observation

1.1.1.1 Section 806.e (Payments for Services Rendered) of the 2011 Amended Revenue Code of Liberia states that. "A payor who makes a payment to a nonresident for Liberian-source services rendered is required to withhold tax at the rate of 15 percent of the amount of the payment if payment is of a sort that, if made to a resident, would be includible in gross income under Section 201, including Board fees, management fees, commissions, and the like)".

1.1.1.2 Section 905.f (Payments for Services Rendered) of the 2011 Amended Revenue Code of Liberia states that. "(a) If a payor makes a payment to a resident for services rendered, and the services are not the subject of a contract of employment, the payor is required to withhold tax at the rate of 10 percent of the amount of the payment”.

1.1.1.3 During the audit, it was observed the that a total amount of US$157,500.00 was paid to two Consultants for services rendered to the project without deducting the withholding taxes as required by the 2011 Amended Revenue Code of Liberia. See table below for detail

<table>
<thead>
<tr>
<th>Consultant</th>
<th>Payment description</th>
<th>Taxable income/payment to consultants US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manuel Asidi Maoni</td>
<td>Professional fees for procurement services rendered to the project.</td>
<td>31,500.00</td>
</tr>
<tr>
<td>Fuseini A. Abu</td>
<td>Professional fees for procurement services rendered to the project.</td>
<td>126,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>157,500.00</strong></td>
</tr>
</tbody>
</table>

Risk

1.1.1.4 Payment to Consultants without the required withholding tax deduction is a breach of the 2011 Amended Revenue Code of Liberia and could deprive the Government of Liberia of much needed revenue.

Recommendation

1.1.1.5 The Management of LACEEP should ensure that the required withholding taxes along with its penalties for late payment are paid to the Liberia Revenue Authority (LRA).
1.1.1.6 The Management LACEEP going forward, should ensure that the required withholding taxes are deducted and subsequently paid where necessary to the Liberia Revenue Authority.

Management Response

1.1.1.7 The issues raised regarding lapses in enforcing the payment of withholding taxes are acknowledged. The Audit has clearly pointed out the relevant sections of the 2011 Amended Revenue Code of Liberia and the Project will be obliged to comply with the required provisions. However, the recommendation for retroactive payment along with penalties might be something that will be difficult. One of the individuals, the Procurement Specialist for the LEC no longer works with the entity. The second individual is still with the Project at MLME, but because this was not brought to his attention during the negotiation of his contract means that we may not be in the position to require retroactive payment but will ensure compliance for the remaining months on his contract. In the future payments of withholding taxes for individuals in this position will be clarified and implemented.

Auditor General’s Position

1.1.1.8 We acknowledge LACEEP Management’s acceptance of our recommendations. However, the GAC is not statutory authority to waive the Government of Liberia taxes. Therefore, we maintain our recommendations.

1.2 Administrative Issues

1.2.1 Duplicated payments

Observation

1.2.1.1 Regulation P.9.1 of the Public Financial Management (PFM) Act of 2010 (Payment Vouchers) states that “All disbursements or payments of public moneys shall be properly supported by pre numbered payment vouchers”.

1.2.1.2 During the audit it was observed that the Management of LACEEP (MLME) posted two transactions with it duplicated payment voucher number. Further analysis of the voucher showed that LACEEP did not use a pre numbered voucher system but rather numbered the voucher from Macro Soft Word. See table below for details

<table>
<thead>
<tr>
<th>Date</th>
<th>Payee</th>
<th>Voucher #</th>
<th>Check #</th>
<th>Amount US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 20, 2015</td>
<td>K. Jlayteh Sayor ET AL</td>
<td>0028</td>
<td>00000533</td>
<td>12,760.00</td>
</tr>
<tr>
<td>April 21, 2015</td>
<td>L’ Aphies Travel &amp; Tour</td>
<td>0028</td>
<td>00000526</td>
<td>3,535.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td><strong>16,295.00</strong></td>
</tr>
</tbody>
</table>
Risk

1.2.1.3 Failure to use a pre-numbered voucher system could lead to double posting thereby overstating or understating the accounts.

Recommendation

1.2.1.4 The LACEEP Management should ensure that a pre-numbered payment voucher system is instituted for the project.

Management response

1.2.1.5 Management acknowledges that the vouchers were not been pre-numbered and will ensure that all future project payment vouchers will be pre-numbered.

Auditor General’s Position

1.2.1.6 We acknowledge LACEEP Management’s acceptance of our recommendation. However, we will make a follow-up on the implementation of the audit recommendation.

1.2.2 Annual Work Plans

Observation

1.2.2.1 Section 7.1.2 of Project Implementation Manual states that” Annual Work Plans shall be prepared by the Project Management Team not later than March 31 of each year during the project implementation, and furnish to the World Bank, for its approval, an annual work plan, each said plan to include: (i) the project activities to be carried out during the twelve months immediately following the presentation of each said plan”.

1.2.2.2 During the conduct of the audit, it was observed that the Management of LACEEP (MLME and LEC) did not prepare annual work plans as required by the provision of the Project implementation Manual (PIM).

Risk

1.2.2.3 Non preparation of Annual Work Plan to guide the project implementation may lead to non-achievement of the project’s objectives.

Recommendation

1.2.2.4 The Management of LACEEP should ensure that the Annual Work Plans are prepared to guide the implementation of the project.

1.2.2.5 Going forward the Management of LACEEP should adhere to the provisions of the PIM.

Management Response

1.2.2.6 The Development of Annual Work Plans as highlighted in the Project Implementation Manual by March 31 of each year was not possible for the period under review due to the absence of a full project management team at the MLME and LEC. Recruitment of
the team at MLME was not completed until July 2015, while recruitment of all of the available positions within the Project Management Team at LEC is still ongoing. Currently the LEC just have the Project Coordinator and the Finance Officer in place. Notwithstanding the above, the PMTs at both LEC and MLME have worked closely with the varying contractors in agreeing project activity implementation plans and scheduling, against which the Supervising Consultants and other members of the project management team have routinely followed and reported on the results of the project to the World Bank. Additionally, the Project Management Team at the MLME also works with the World Bank team in agreeing semiannual budgets from which activities of the project are financed. For example the current budget for project for the period October 2015 to March 2016 was agreed and this what the team is using to finance the components of the project under the management of the MLME.

1.2.2.7 Having said the above, the Project Management team is committed to begin development of annual work plans and also budgets for presentation and agreement with the World Bank by March 31, 2016.

Auditor General’s Position

1.2.2.8 We acknowledge LACEEP Management’s acceptance of our recommendations. However, we will make a follow-up on the implementation of the audit recommendations.

1.2.3 Project Reports

Observation

1.2.3.1 Section 3.2.1 (Project Coordination) of the Project Implementation Manual states that “the MLME Project Coordinator (PC) shall provide the overall coordination of the LACEEP Project including preparation of the regular progress reports. It will be the responsibility of each agency Project Coordinator to ensure that the requirements of the Project Implementation Manual are implemented”.

1.2.3.2 Section 7.1.3 Of the Project Implementation Manual also states that “the MLME and LEC should monitor and evaluate the progress of the project and prepare Project Reports in accordance with the provisions of the standard conditions of the Grant Agreement, and on the basis of monitoring indicators agreed with the World Bank as per Annex I PAD. Each project report shall cover the period of one (1) calendar commencing from the Effective Date and shall be furnish to the World Bank one (1) month after the end of the period covered by such report. The report contains the progress made during the reporting quarter, physical progress on the output, monitoring indicator report, procurement status, environment and social safe guards update, field back and lesson learned and a sample shown in Annex two (2) of PIM”.

1.2.3.3 During the conduct of the audit, there was no evidence to show that the Management of LACEEP did monitor and evaluate the progress of the project and prepare Project
Draft Management Letter  
Liberia Accelerated Electricity Expansion Project (LACEEP)  
For the period July 1, 2014 to June 30, 2015

Reports in accordance with the provisions of the standard conditions of the Grant Agreement, and on the basis of monitoring indicators agreed with the World Bank.

Risk

1.2.3.4 In the absence of these reports, it could be challenging to determine the actual status of the Project.

Recommendation

1.2.3.5 The LACEEP Management (MLME and LEC) should ensure that regular progress reports are compiled and submitted on a timely basis.

1.2.3.6 Going forward, LACEEP Management should ensure that the provisions of the Project Implementation Manual are adhered to unconditionally.

Management Response

1.2.3.7 As indicated earlier, the Project Management Teams at LEC and MLME were only put into motion effective July 2015. Although there was a skeletal management team prior to the July 2015, yet there were very minimal activities being implemented. Contracts for all of the varying contractors on the project all commenced after the period of the audit. However, the skeletal Management team did prepare monthly reports for the World Bank.

1.2.3.8 Going forward, the Project Management Teams at MLME and LEC are ensuring full compliance with the dictates of the Project Implementation Manual. The Project Coordinator at LEC does work closely with his LEC counterpart in the generation and preparation of Monthly and Quarterly reports that are routinely shared with the World Bank. In addition to the above, Project Supervising Consultants are also generating periodic monthly reports on the work of the contractors which basically informs the Project Management Teams of critical progress and or lapses associated with the implementation of the project. In consultation, collective remedial actions are normally taken by MLME and LEC PMTs to address critical lapses with potential to adversely impact the project. Similar, there regular coordination meetings that provides the opportunity for the contractors and the PMT to interface and discuss project progress. All of the above are ways and means in which the implementation of the projects are monitored and also feedbacks and challenges addressed and result feedback to stakeholders, including LEC and MLME Senior Management Teams and also with the World Bank.

Auditor General’s Position

1.2.3.9 We acknowledge LACEEP Management’s acceptance of our recommendations. However, we will make a follow-up on the implementation of the audit recommendations.
1.2.4 Trainings

Observation

1.2.4.1 Section 6.15.2 of the LACEEP Project Implementation Manual states that “A workshop and Training plan shall be included as part of the Procurement plan. However, although the workshop and Training Plan would be approved at the time of approval of the Procurement Plan, individual Workshop and Training Activities need No Objection just before carrying out such activities”.

1.2.4.2 During the of conduct audit, it was observed that the LACEEP Management did not prepare any workshop or training plan, even though the Management of LACEEP facilitated the payments of both local and international trainings for some of its staff.

Risk

1.2.4.3 Training needs may not be addressed in the absence of a training and workshop plan.

Recommendation

1.2.4.4 The LACEEP Management should develop training and workshop plan and such plan should be incorporated into the procurement plan as per the PIM.

Management Response

1.2.4.5 All critical expenditure on the project, including those expended trainings must be authorized by the World Bank before monies are expended. Part of this process also includes updating of procurement plans. Again, as indicated inter alia, the Current Project Management Team cannot confirm if there was compliance with requisite provisions in the PIM prior to the putting in place of the current Project Management Team.

Auditor General’s Position

1.2.4.6 We acknowledge LACEEP Management’s acceptance of our recommendation. However, we will make a follow-up on the implementation of the audit recommendation.

1.2.5 Procurement Specialist fails to adhere to contract agreements

Observation

1.2.5.1 Annex B: (Consultant’s Reporting Obligations and Time Schedule) states that “The Procurement Specialist shall submit the following periodic progress reports, apart from reports required for each procurement transaction. All documents/reports will be issued in English, submitted on both hard and electronic copies

- Monthly progress reports: the Consultant should prepare monthly concise reports with the relevant information on progress, and comments any issues to be clarified with the donor partners.
• Quarterly report: The Consultant should prepare quarterly reports with the relevant information on progress, achievements, bottlenecks, issues and suggestions;

• Draft Final Report: Before the end of assignment, the Procurement Specialist shall submit a draft final report detailing all procurement activities of the project, planned and achieved. The report will outline achievements and issues and lessons learnt; the final updated Procurement plan shall be an annex of this report; the draft report must be submitted for comments from the LEC, who may share the report with financiers for their comments;

• Final Report: The final report must incorporate comments from LEC”.

1.2.5.2 During the audit, there was no evidence that the various Procurement Specialist Reports as mentioned above were prepared and submitted to the World Bank.

Risk
1.2.5.3 The status of the project’s activities may not be ascertained in the absence of the preparation of these reports.

Recommendation
1.2.5.4 The Management of LACEEP should ensure that the provisions of the Procurement contract are adhered to at all times.

1.2.5.5 Going forward, the LACEEP Management should ensure that all provisions of the contracts initiated by the project are adhered to unconditionally.

Management Response
1.2.5.6 The Audit covers the period from July 1 2014 to June 30 2015. The MLME’s assignment as Procurement Specialist is from May 1 2015 to April 30 2016, thus the Audit only covers two months of the MLME’s Procurement Specialist assignment.

1.2.5.7 While the Terms of Reference for the Procurement Specialist requires him to prepare quarterly reports in addition to adhoc and monthly reports. The TORs of the Procurement Specialist requires him to report to the Project Coordinator/Deputy Minister for Administration at MLME and not directly to the World Bank. His reports forms a part of the general report that is submitted to the Bank on a quarterly basis. The Procurement Specialist’s ToRs indicate that MLME may share the reports with the World Bank, not that the Procurement Specialist will share or submit the reports to the World Bank.

Auditor General’s Position
1.2.5.8 We acknowledge LACEEP Management’s acceptance of our recommendations. However, we will make a follow-up on the implementation of the audit
recommendations.

1.3 Internal Control Issues

1.3.1 Internal Audit

Observation

1.3.1.1 Section 5.3 (Internal control & internal Auditing) of the LACEEP Project Implementation Manual states that “The project will utilize LEC and MLME’s internal audit unit to conduct periodic internal control reviews to ensure compliance with project financing agreements and the PAD. The internal audit units will adopt a risk-based internal audit approach for all their reviews. They will prepare quarterly internal audit reports which will be shared with their management and copy of the reports will be furnished to the IDA. LEC’s financial management manual has laid down internal control procedures and processes that will guide the processing of accounting and reporting functions. The MLME will follow the newly developed GoL financial manual for processing transactions”.

1.3.1.2 During the conduct of the audit, there was no evidence that the Internal Audit Units of LEC and MLME did conduct internal control reviews of the project.

Risk

1.3.1.3 The effectiveness of internal controls of project cannot be assured in the absence of an assessment of the internal controls by the Internal Auditors.

Recommendation

1.3.1.4 The LACEEP Management should ensure that the Internal Audit Unit conducts the periodic assessment of the project’s internal controls.

Management Response

1.3.1.5 The expenditure and procurement framework of the project at the MLME are subjected to internal audit review arrangements as those agreed under the Government of Liberia Financial Management procurement rules. The Ministry’s Internal Audit Division which is been controlled by the internal Audit Agency(IAA) review’s and clears all financial and procurement transactions just as they would with regular MLME transactions. They do generate reports generally on audit issues for the Minister’s attention and this is inclusive of the LACEEP transaction. There are no requirements for a stand-alone LACEEP audit.

Auditor General’s Position

1.3.1.6 The assertion by the LACEEP Management is not backed by any documentary evidence. The PIM of the LACEEP requires a review of the project’s internal controls and said reviews should be shared with the IDA. Therefore we maintain our recommendation.
1.3.2 Fixed Assets

Observation

1.3.2.1 Regulation V.1.2.a of the Public Financial Management Act of 2010 (Responsibility of Assets Management) states that “The Head of Government Agency must take full responsibility of assets assigned to him by the General Services Agency and ensure that proper control systems exist for assets and that: Preventive mechanisms are in place to eliminate theft, losses, wastage and misuse”.

1.3.2.2 During the physical verification exercise of fixed assets, it was observed that some of the assets were not coded. See table below for details

Table #3 Fixed Asset not Coded

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Location</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Office Safe</td>
<td>MLME Financial Management Consultant office</td>
<td>One (1)</td>
</tr>
<tr>
<td>2.</td>
<td>Semi Executive Chairs</td>
<td>MLME Procurement Specialist others</td>
<td>Five (5)</td>
</tr>
<tr>
<td>3.</td>
<td>Semi Executive Desks</td>
<td>MLME Financial Management Consultant office and other staff</td>
<td>Six (6)</td>
</tr>
<tr>
<td>4.</td>
<td>Office Chairs</td>
<td>MLME Junior Engineers and others</td>
<td>Thirteen (13)</td>
</tr>
</tbody>
</table>

Risk

1.3.2.3 Assets not coded may be susceptible to theft.

Recommendation

1.3.2.4 The LACEEP Management should ensure that all fixed assets are coded.

Management Response

1.3.2.5 The Project Management Team concurs with the observations of the Audit team and will ensure that all other fixed assets are coded.

Auditor General’s Position

1.3.2.6 We acknowledge LACEEP Management’s acceptance of our recommendation. However, we will make a follow-up on the implementation of the audit recommendation.