



Management Letter

On The Financial Statement Audit of the Cheesmanburg Landfill Urban Sanitation Project (CLUS) Monrovia City Corporation (MCC)

For the Period July 2020 to June 2021



Promoting Accountability of Public Resources

**P. Garswa Jackson Sr. ACCA, CFIP, CFC
Auditor General, R. L.**

Monrovia, Liberia
December 2021

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December 31, 2021

Hon. Jefferson T. Kojjee
Monrovia City Mayor
Monrovia City Corporation (MCC)
1st Street, Sinkor
Monrovia, Liberia

Dear Hon. Kojjee:

Re: Management Letter on the Financial Statement Audit of the Cheesmanburg Landfill Urban Sanitation Project for the period July 1, 2020 to June 30, 2021.

The financial statements of the Cheesmanburg Landfill Urban Sanitation Project (CLUS) are 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 in accordance with the Term of Reference of the Project Financing Agreement.

Introduction

The audit of the Cheesmanburg Landfill Urban Sanitation Project (CLUS) for the period ended June 30, 2021 was completed; and the purpose of this letter is to bring to your attention the findings that were revealed during the 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 is achieved in the annual financial statements.

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.

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 Project Management. Our responsibility is to express our opinion on these financial statements.

The audit findings that were identified during the course of the audit are included below.
Thank you as we strive to promote accountability, transparency and good governance across the
Government of Liberia.

APPRECIATION

We would like to express our appreciation for the courtesy accorded and assistance rendered by the
staff of the CLUS Project Implementation Unit (PIU) of the Monrovia City Corporation (MCC) during
the audit.



**P. Garswa Jackson Sr. ACCA, CFIP, CFC
Auditor General, R. L.**

Monrovia, Liberia
December 2021

Acronyms/Abbreviations/Symbols

Acronyms/Abbreviations/Symbol	Meaning
A/C#	Account Number
AfDB	African Development Bank
AG	Auditor General
APA	Assistant Project Accountant
BEP	Bid Evaluation Penal
CBL	Central Bank of Liberia
CFE	Certified Fraud Examiner
CFIP	Certified Forensic Investigation Professional
CLUS	Cheesmanburg Landfill Urban Sanitation
CPA	Certified Public Accountant
GAC	General Auditing Commission
GOL	Government of Liberia
IDA	International Development Assistance
IPFMRP	Integrated Public Financial Management Reform Project
IPSAS	International Public Sector Accounting Standards
M & E	Monitoring and Evaluation
MSC	Ministerial Steering Committee
PFM Act	Public Finance Management Act
PFMU	Project Financial Management Unit
PPC Act	Public Procurement & Concession Act
PPCC	Public Procurement and Concession Commission
PSC	Project Steering Committee
PV	Payment Voucher
SPA	Senior Project Accountant
US\$	United States Dollar

1 DETAILED FINDINGS AND RECOMMENDATIONS

1.1.1 Unreconciled Cash Balances

Count 6.5.1 of the PFMU Financial Procedure Manual revised February 2020 states that, "All cash books shall be reconciled monthly to the bank statements within 10 working days of the month end. Differences arising there from shall be investigated and resolved promptly".

1.1.1.1 Also, count 6.5.3 states that, "The PFMU Manager shall ensure that all reconciliation differences are properly and promptly investigated with a view to regularize them. To this end, all bank reconciliation statement prepared by the Assistant Project Accountant (APA) shall be review by the Internal Auditor and approved by the Unit Head or Senior Accountant".

1.1.1.2 Our review of the Cheesmanburg Landfill Urban Sanitation (CLUS) Project bank reconciliation statement and financial statements shows a difference of **US\$ -12,917.30** between them . **Please see table 1 below.**

1.1.1.3 In addition, it was also observed that the CLUS project bank reconciliation statements show that, there were no names and titles/positions for the preparer, reviewer, and the person responsible to approve the bank reconciliation statements as indicated in count 6.5.3 above.

Table 1

Acct. No.	Closing Bal./ Recon. Statement (A) LRD\$	Rate of conversion in (B) US\$	Closing Bal./ Recon. Statement (C) USD\$	Cumulative Fund Bal. /Financial Statement (D) US\$	Variance (E=Total of C-Total of D)
USD 0011202584703			115,736.64	678,224	-
USD 001120258701			514,996.09	-	-
LRD 0010102584702	6,856,018.28	198.30	34,573.97		
Total	6,856,018.28		665,306.70	678,224.00	-12,917.30

Risk

1.1.1.4 The failure by the Management of the CLUS project to reconcile the bank balances to the cumulative fund balance could lead to misstatement of the financial position of the Project.

1.1.1.5 Moreover, the lack of the title of the preparer, reviewer, and the person responsible for approval of bank reconciliation statement could make it difficult to determine their level of experience and seniority of the preparer, reviewer and approval.

Recommendation

1.1.1.6 The Management should reconcile the bank closing balances to the cumulative fund balance and restate the adjusted cumulative fund balance in the financial statement.

- 1.1.1.7 Also, the Management should indicate the titles of the preparer, reviewer and approver of the bank reconciliation statement in line with the PFMU Financial Procedure Manual.

Management Response

- 1.1.1.8 *Relative to the unreconciled cash balances, we want to state that the balances referenced by the Auditor resulted from the use of two different rates used by the PFMU in generating the financial report on one hand and GAC for their computation on the other hand. That is, PFMU used an average rate of LD\$146.227 to convert the closing cash balance from Liberian Dollars to United States Dollar for reporting purposes. On the other hand, it appears GAC used a higher conversion rate (LD\$198.30) which resulted in the higher cash balance of US\$-12,312.161.*
- 1.1.1.9 *According to the PFMU Financial Procedures Manual, Bank Reconciliation Statements are prepared by Assistant Project Accountants, reviewed by Project Internal Auditors and Approved by either the PFMU Manager/Director or Senior Project Accountant/Deputy Director.*
- 1.1.1.10 *Please find the sections below:*
- a) *6.5.3 The PFMU Manager shall ensure that all reconciliation differences are properly and promptly investigated with a view to regularizing them. To this end, all Bank Reconciliation statements prepared by the APA shall be reviewed by the Internal Auditor and approved by the Unit Head or Senior Project Accountant.*
- b) *7.1.1 (f) The cash books shall be reconciled with the bank statements monthly and the bank reconciliation statements shall be reviewed and verified by the Project Internal Auditor and approved by the PFMU Manager or Senior Project Accountant;*
- 1.1.1.11 *The PFMU is in full compliance with sections 6.5.3 and 7.1.1(f) of the Financial Procedures Manual. From the foregoing, anyone, including GAC, reviewing Bank Reconciliation Statements (BRSs) from PFMU should know that BRSs are prepared by Accountants, reviewed by Auditors and approved by the Senior Project Accountant who happens to be the Deputy Director of PFMU. The risk stated by GAC in this instance is non – existent.*
- 1.1.1.12 *Moreover, GAC was provided signature specimen of Groups Accountants, Internal Auditors, Unit Head / Director - PFMU and Senior Project Accountant / Deputy Director – PFMU in relation to Payment voucher processing. The same signature specimen applies for Bank Reconciliation Statements.*

Auditor General's Position

- 1.1.1.13 1.1.2.1.3 Section 1.6.2 of the IPSAS Cash basis of accounting states that "Cash receipts and payments arising from transactions in a foreign currency shall be incorporated in the Statement of Receipts and Payments in an entity's presentation currency by applying to the foreign currency amount the spot exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments".

- 1.1.1.14 Additionally, Management response contradicts Section 1.6.3 of the IPSAS Cash Basis of accounting which states that; "Cash balances held in a foreign currency shall be translated using the closing rate" and Regulation O.27 of the PFM Act of 2009 which states that; "Where a government project receives from a donor an advance or a reimbursement of earlier expenditure, whether by way of grant or loan, the actual amount received shall be classified and brought to account in accordance with the government Chart of Accounts and where the amount is in foreign currency, it shall be brought to account at the equivalent in local currency at the official rate of exchange, as published by the Central Bank of Liberia, on the date of receipt".
- 1.1.1.15 Management's assertion does not address the issue raised. Going forward, management should ensure that the titles of the preparer, reviewer and approver are displayed on the Bank Reconciliation Statements. Therefore, the use of the average rate by management in translating foreign currency balance is not supported by the standards.

1.1.2 No Petty Cash expenditure report

- 1.1.2.1 Count 7.1.4.1 of the PFMU Financial Procedure Manual states that, "the PFMU shall maintain an imprest account at the implementing units to facilitate the purchase of minor items. The Project/ Program manager/ coordinator shall be responsible for the security, balancing and reimbursement of this imprest account. The amount of petty cash float at the implementing unit shall be determined by the implementing units and approved by the task team leader of the project or the AB in case of education pooled fund. The float shall be replenished when the cash till balance is at 50% of the imprest level. The imprest holder shall be a designated cashier at the implementing unit".
- 1.1.2.2 Based on interviews conducted with the Project coordinator and the Project Finance Officer, it was disclosed that the project receives US\$ 2,000.00 on a monthly basis for petty cash expenditure. Our review also uncovered that there was no petty cash expenditure report made on a monthly basis neither was there any petty cash replenish schedule was submitted.

Risk

- 1.1.2.3 The absence of a petty cash expenditure report may lead to mismanagement of petty cash funds. The existence of petty cash expenditure may not be assured in the absence of a petty cash report.

Recommendation

- 1.1.2.4 Going forward, the Management of the of the Cheesmanburg Landfill Urban Sanitation Project should keep adequate record of petty cash. An expenditure report on the usage of previous petty cash funds should be presented and reviewed before subsequent approval of petty cash request.

Management Response

- 1.1.2.5 *Again, we are appalled by the Auditor's misconstrued assertion that there was no petty cash expenditure report and replenishment schedule prepared for petty cash transactions during the period. We want to state categorically that all petty cash requests made were accompanied by the petty cash replenishment schedule and expenditure or utilization report in the format annexed to the PFMU Financial Procedures Manual. Each replenishment request made by the Petty Cash Custodian from the CLUSP always had these documents attached (i.e summary report which gives details of petty cash spent-vouchers, receipts plus payments- and the amount of petty cash on hand). We are herewith attaching a sample of the above-mentioned reports for the Auditor's reference. (See Exhibit 2 attached: Petty Cash Expenditure Report and Replenishment Schedule)*

Auditor General's Position

- 1.1.2.6 Management's assertions are not supported by adequate documentation. A sample exhibit is not a substitute for a full replenishment report. Furthermore, Management's provision of documents after our review, does not guarantee Management effective control of document management.
- 1.1.2.7 Going forward, the Project Management should ensure that requested documents for audit purpose are submitted in a timely manner.

1.1.3 Non-Disclosure of Foreign Currency Translation Difference and Rate

- 1.1.3.1 **Section 1.6.2** of the IPSAS Cash basis of 2017 states that, cash receipts and payments arising from transactions in a foreign currency shall be incorporated in the statement of receipts and payments in an entity's presentation currency by applying the spot rate to the foreign currency amount at the date of the receipt and payments.
- 1.1.3.2 **Section 1.6.3** further indicates that, Cash balances held in a foreign currency shall be translated using the closing rate.
- 1.1.3.3 **Section 1.6.5** also states that, "an entity shall disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period".

Observation

- 1.1.3.4 It was observed that the Management of CLUS Project did not indicate the rate of translation for **LD\$ 6,856,018.28** in the notes to the financial statement nor in the bank reconciliation statement.
- 1.1.3.5 Additionally, the management did not disclose the exchange difference as a reconciling item between opening and closing balances.
- 1.1.3.6 Moreover, the effect of exchange rate changes on cash held in the foreign currency is not reported in the statement of cash receipts and payments.

Risk

- 1.1.3.7 The lack of adequate disclosure of foreign currency translation as required by the IPSAS Cash Basis is a violation of the standards and may lead to misstatement of the financial position of the project.

Recommendation

- 1.1.3.8 The management of the Cheesmanburg Landfill Urban Sanitation (CLUS) Project should adequately present foreign currency translation as required by IPSAS Cash Basis to facilitate full disclosure of the financial statement.

Management Response

- 1.1.3.9 *Management wishes to state that there is no issue of disclosure of foreign currency translation here as the currencies (USD and LRD) are both legal tender in Liberia. In addition, the reporting currency for the project is expressed USD, which is a legal tender in Liberia. However, Management takes note of the recommendation on the non-disclosure of the spot rate at which balances were converted from LRD to USD.*

Auditor General's Position

- 1.1.3.10 Section 1.6.1 of the IPSAS Cash basis of 2017 states "The following terms are used in this Standard with the meanings specified:
- Closing rate is the spot exchange rate at the reporting date.
 - Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.
 - Exchange rate is the ratio of exchange for two currencies.
 - Foreign currency is a currency other than the presentation currency of the entity.
 - Presentation currency is the currency in which the financial statements are presented.
 - Spot exchange rate is the exchange rate for immediate delivery

Management is therefore advised to take note of the information provided above relative to the disclosure of foreign currency translation.

- 1.1.3.11 We acknowledge Management's acceptance of our finding and recommendation. We will make a follow-up during subsequent audit.

1.1.4 Payments made on the same voucher Number

- 1.1.1.1 Section A3 of the PFM Regulation states that "any public officer concerned with the conduct of financial matters of the Government of Liberia, or the receipt, custody and disbursement of public and trust moneys, or for the custody, care and use of government stores and inventories shall keep books of accounts and proper records of all transactions and shall produce the books of accounts and records of the transactions for inspection when called upon to do so by the Auditor- General, the Comptroller General, the relevant internal auditor or any officers authorized by them, by the Minister".

Observation

- 1.1.4.1 We observed during the audit execution that payments amounting to US\$ 6,421.98 was made to separate clients on different dates but was paid on the same voucher number- **CLUS/2021/009** as indicated in **Table 3 below**.

Table 3

Date	Payee	PV No.	Amt. in US\$
7/9/2020	United Motors	CLUS/2021/009	931.98.00
3/5/2021	GN Bank Staff salary	CLUS/2021/009	5,490.00
Total			6,421.98

- 1.1.4.2 Additionally, two separate payments of US\$ 4,680.00 and LD\$ 10,701,680.53 was paid on voucher number **CLUS/2021/011** to GN Bank for staff salary on March 31, 2021 and to Gboni Enterprise Incorporated for petroleum products on May 18, 2021.

Date	Payee	PV No.	Amt. in US\$
3/31/2021	GN Bank	CLUS/2021/011	4,680.00
Date	Payee	PV No.	Amt. in US\$
5/18/2021	Gboni Enterprise Inc.	CLUS/2021/011	10,701,680.53

Risk

- 1.1.4.3 Duplication of voucher number could lead to inappropriate financial reporting. This practice may also facilitate fraudulent financial management.

Recommendation

- 1.1.4.4 Management should ensure that all vouchers are serially numbered, dated and authorized during the processing of all transactions.

Management Response

- 1.1.4.5 *The assertion that payments were made on the same voucher number again demonstrates that the Auditor did not understand a lot of things about this project as well as our financial procedures here at the PFMU. Firstly, we will want to point to the Auditor that this project has three (3) accounts (IDA Grant-TF, GoL-USD and GoL-LRD); and thus, three (3) separate payment voucher systems are utilized for processing transactions from these three (3) separate accounts. The aforementioned payments were paid from these separate accounts and though, they coincidentally have the same voucher numbers, they were not paid on the same vouchers or duplicated as the Auditor insinuates. Specifically, the payment to United Motors for US\$931.98 was processed from the CLUSP-Trust Fund account while GN Bank staff salary for US\$5,490.00 was processed from the CLUSP-GoL-USD account. Also, the payment to Gboni Enterprise for LD\$10,701,680.53 was processed from the CLUSP-GoL-LRD account while the payment to GN Bank staff salary for US\$4,680.00 was processed from CLUSP-GoL-USD account. Additionally, separate Bank Reconciliations are prepared for each of these accounts and thus, this insinuation of them being duplicated is erroneous and has no iota of truth. (See Exhibit 4 attached: Individual Payment Vouchers).*

Auditor General's Position

- 1.1.4.6 Management's assertion "The aforementioned payments were paid from these separate accounts and though, they coincidentally have the same voucher numbers, they were not paid on the same vouchers or duplicated as the Auditor insinuates" Managements response confirms the duplication of voucher number in the system. To facilitate transparency and adequate record keeping, voucher numbers are encouraged to be sequentially and uniquely numbered.
- 1.1.4.7 On this basis we retain our findings and recommendation.

1.1.5 Third Party Payment

- 1.1.5.1 **B.28** of the PFM regulation states that "A payment shall be made only to the person or persons named on the payment voucher or to their representatives duly and legally authorized in writing to receive the payment".

Observation

- 1.1.5.2 Our review of documents shows that the management of CLUS made third party payment of US\$5,000.00 to Emma Smith, Communication Specialist of the CLUS Project for support to Covid-19 orientation. The review uncovers that of the said amount, US\$2,500.00 was paid to Hawa Catering Service for three (3) days service for 500 persons. Additionally, US\$1,155.00 was paid to Haven Printing Company Incorporated.

Risk

- 1.1.5.3 Paying cash to employee for subsequent disbursement to vendors may facilitate misappropriation of funds.
- 1.1.5.4 This practice may also lead to Management override of the procurement processes by completing disbursement without facilitating due procurement processes.

Recommendation

- 1.1.5.5 Mmanagement should initiate and complete all procurement processes as required by the PPCC and the Public Financial Management Act. All payments for goods and services procured by the project should be made directly to the vendor or its legally authorized representative.

Management Response

- 1.1.5.6 *The Project Management authorized this payment and PFMU honored this payment request because of the urgent nature of the program and due to delay in the roll-out of this activity caused by covid-19. Judging from the time it was going to take the PIU to generate invoices and quotations and then process the requests for these vendors, it would have caused a serious delay to the implementation of that particular activity. Moreover, the person authorized to make this payment, (PIU Communication Specialist), was charged with the fiduciary responsibility of the project to execute such task. The activity was successfully conducted and the PIU staff retired the amount received in its entirety.*

Auditor General's Position

- 1.1.5.7 The payments made in the name of the individual mentioned above, represent payments to participants for several activities.

- 1.1.5.8 The beneficiaries in question were service providers and each transaction should have prompted separate procurement activities consistent with section B28 of the PFM Regulations. Therefore, we maintain our findings and recommendation.