

Management Letter

On the Financial Statements Audit of the Public Sector Modernization Project (PSMP)

For the period July 1, 2020 to June 30, 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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ACRONYMS USED

Acronyms/Abbreviations/Symbol	Meaning
ACCA	Association of Chartered Certified Accountants
AFP	Audit Focal Person
AG	Auditor General
CFC	Certified Financial Consultant
CFIP	Certified Financial Investigation Professional
CPA	Certified Public Accountant
CSA	Civil Service Agency
DG	Director General
DLIs	Disbursement Linked indicators
EEPs	Expenditure Eligible Programs
FS	Financial Statements
GoL	Government of Liberia
GC	Governance Commission
PSMP	Liberia Institute of Public Administration
IFR	Interim Financial Reports
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
MIA	Ministry of Internal Affairs
MoE	Ministry of Education
MoH	Ministry of Health
MoJ	Ministry of Justice
N/A	Not Applicable
PCO	Project Coordination Office
PFMU	Public of Financial Management Unit
PIM	Project Implementation Manual
POC	Project Oversight Committee
POSC	Project Oversight –Sub Committee
PSMP	Public Sector Modernization Project
QPR	Quarterly Progress Report
Qty	Quantity
SOE	Statement of Expenditures
TA	Technical Assistance
TAS	Technical Administrative Service
ToR	Term of Reference
USD	United States Dollars

Hon. James Thompson
Director General Civil
Service Agency Carey
Street Monrovia, Liberia

December 31, 2021

Dear Hon. Thompson:

RE: DRAFT MANAGEMENT LETTER ON THE FINANCIAL STATEMENT AUDIT OF THE PUBLIC SECTOR MODERNIZATION PROJECT (PSMP) FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

The Audit of the Financial Statements of the Public Sector Modernization Project (PSMP) for the period July 1, 2020 to June 30, 2021 was commissioned by the Auditor-General (AG) under AG's mandate as provided for in Section 2.1.3 of the GAC Act of 2014 as well as the Audit Engagement Terms of Reference (ToR).

INTRODUCTION

The audit of the Public Sector Modernization Project for the year ended for July 1, 2020 - 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.

The audit will 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.

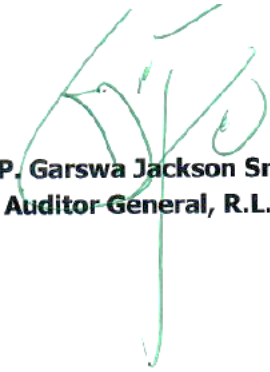
The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Accounting Officer. Our responsibility is to express our opinion on these financial statements.

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 Project during the audit.

Thank you as we strive to promote accountability, transparency and good governance across the Government of Liberia.


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

Monrovia, Liberia
December 2021

1 DETAILED FINDINGS AND RECOMMENDATIONS

1.1 Financial Issues

1.1.1 Non-Remittance of Withholding Tax Observation

1.1.1.1 Section 806(e) of Revenue Code of Liberia Act of 2000 as amended in 2011 requires a tax payer who makes any payment to a non-resident for services rendered to withhold tax at the rate of 15% of the amount of the payment. Also, Section 905(e) required a payer to hold at the rate of 10% of the amount of payment for services rendered by residents.

1.1.1.2 Additionally, Section 1021. (b) of Revenue Code Title 36 Liberian Code of Laws Revise (b) Amount of Tax. The amount of the services tax is 7 per cent of the taxable amount of the supply.

1.1.1.3 Section 52(a) of the same code requires a taxpayer to pay the correct tax liability on or before the payment due date. If a taxpayer does not pay by that date (determined with regard to any granted extension of time to make payment) the amount shown as tax liability on the taxpayer's return, a penalty is imposed. If the delay in payment is for not more than a month, the penalty is 5% of the amount of tax shown.

1.1.1.1 During the audit, it was observed that the Management of PSMP withheld taxes without evidence of remittance to LRA. **See Annexure 1 for details.**

Risk

1.1.1.4 Failure to remit taxes withheld, may deny GoL of much needed tax revenue.

1.1.1.5 Management of the PFMU may be in noncompliance with Section (905) J. of the Revenue Code of Liberia 2000, which may result in penalties for late payment and failure to pay. Please see Section 52 of the Revenue Code of Liberia as reference above.

1.1.1.6 Non-remittance of withholding taxes may lead to overstatement of the cash book and subsequently the financial statements.

Recommendation

1.1.1.7 The Management of PFMU should facilitate full remittance of withholding taxes to the LRA in keeping with Section 905 (J) of the Revenue Code of Liberia Act of 2000.

1.1.1.8 The Management of PFMU should adjust the cash book by the total value of the non-remitted withholding taxes and restate the financial statements with the adjusted cash balance.

Management's Response

1.1.1.9 *PFMU has worked and continue to engage with the stakeholders on this GOL flag receipt issue for tax payment. The LRA has indicated that the PFMU is not regarded as one of her Collectorates that can issue flag receipt. The issuance of flag receipts will have to go through various approvals levels and in their wisdom, the PFMU cannot issue a flag receipt for the reasons given above.*

1.1.1.10 *Notwithstanding, LRA has encouraged PFMU to ensure that tax payments are made on behalf of consultants and vendors to the General Revenue account either via the LRA tax remittance forms or via the issuance of checks which will be evidenced / captured by their system and the consultant or vendor can later claim their tax credit from the LRA system.*

Auditor General's Position

1.1.1.11 Management's assertions are not supported by Section 806 (e) and Section 905 (j) of the Revenue Code of Liberia Act of 2000 Amended in 2011. Therefore, we maintain our finding and recommendations.

1.2 Compliance Issues

1.1.2 No Quarterly Review Reports Observation

1.2.1.1 Section 150 (Pg. 59) of the International Development Association Project Appraisal document states, "A quarterly review of DLIs will be undertaken by an independent verifier (IV) competitively recruited for this role to assess each report, verify the accomplishment of DLIs and make necessary proposals for disbursement. Payment is made for compliance with DLIs at the end of each fiscal quarter (which also corresponds to the GoL fiscal quarter)."

1.1.2.1 During the audit, the Management of PSMP did not provide copies of the quarterly review reports of Disbursement Linked Indicators done by an independent verifier as stipulated in the Project Appraiser Document.

Risk

1.1.2.2 In the absence of independent verification report for DLIs, the achievement of project deliverables may not be assured and or achieved.

Recommendation

1.1.2.3 The Management of PSMP should ensure that reports from independent verification activities are adequately documented and filed to fascinate future review.

1.1.2.4 Management should ensure that proper coordination, monitoring and evaluation of independent verification activities are implemented during the execution of the project.

Management's Response

1.1.2.5 *The contract and Reports are available. It was predicated on the completion of the Third*

Party's Reports that the World Bank through the TTL, Mr. Smile and the Regional Africa Office in Kenya disbursed the full DLIs/PBCs to the Government of Liberia in June of 2021. PFMU did pay the Third Party (Subah Belleh) based on the Reports. **See Exhibit I.**

Auditor General's Position

1.1.2.6 Management did not submit the quarterly review reports of Disbursement Linked Indicators when initially requested. It is important to note that 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 Project Oversight Sub-Committees Observation

1.2.2.1 Section 11.4, Paragraph 6, of the Project Implementation Manual States, "Project Oversight Sub Committee will appropriately report on its actions and activities relating to its delegated functions to the POC at its quarterly meetings or any other appropriate meetings."

1.1.3.1 During the conduct of the audit, it was observed that Management did not provide evidence of Project Oversight Sub Committee meeting minutes and quarterly reports.

Risk

1.1.3.2 The absence of Project Oversight Sub Committee meeting minutes and quarterly reports may cast doubt over the strategic oversight activities of the committee.

1.1.3.3 Project risks may not be identified managed and or mitigated in a timely manner.

Recommendations

1.1.3.4 The Management of PSMP should conduct periodic meetings of the Project Oversight Sub Committee meeting minutes and quarterly reports to ensure that the functions and objectives of the committee are achieved.

1.1.3.5 Minutes for meeting and strategic activities of the Project oversight Sub Committee should be adequately documented and filed to facilitates future review.

Management's Response

- 1.1.3.6 *Since the inception of this project, the CSA management did not see it feasible to have a POC subcommittee alongside the Technical Working Group (TWG), Internal Reform Committee (IRC) and the Project Oversight Committee (POC) working teams. These three levels which represent the technical level, ministry level and high level(policy) were enough to run the project and that adding a sub-committee would have brought another layer of bureaucracy which in the wisdom of the POC, unnecessary. This was carefully documented in project documents and shared with partners. **See Exhibit II***

Auditor General's Position

- 1.1.3.7 Management's response is not supported by an approved amendment to the PIM. Therefore, we maintain our finding and recommendation.

1.1.4 Project Oversight Committee Observation

- 1.2.3.1 Section 5.0 Paragraph 2 Page 19, of the project implementation Manuel states, "Project Oversight Committees (POC) will provide overall policy coordination with respect to implementation of the reform program. The committee will monitor bottlenecks in the implementation process and ensure alignment of reforms with overall government program as outlined in the agenda for transformation
- 1.1.4.1 The POC will comprise Director General of the Civil Service Agency (Chair), Director General of Liberia Institute of Public Administration (PSMP), the Chairman of the Governance Commission, the Minister of Finance and the ministers of the participating ministries with the change teams. The representative of participating development partners will also be part of the POC. The Committee will meet quarterly and submit progress report to the president and participating development partners."
- 1.1.4.2 During the conduct of the audit, the Management of PSMP did not provide copies of the quarterly progress reports of the Project Oversight Committee.
- 1.1.4.3 Additionally, there is no evidence of quarterly meeting being headed by the POC.
- Risk**
- 1.1.4.4 The absence of Project Oversight Committee meeting minutes and quarterly reports may cast doubt over the strategic oversight activities of the committee.
- 1.1.4.5 Project risks may not be identified managed and or mitigated in a timely manner.
- Recommendations**
- 1.1.4.6 The Management of PSMP should conduct periodic meetings of the Project Oversight Committee to ensure that the functions and objectives of the committee are achieved.
- 1.1.4.7 Minutes for meeting and strategic activities of the project Oversight Committee should be adequately documented and filed to facilitates future review.

Management's Response

- 1.1.4.8 *During the period under review, the project Oversight Committee meetings were hampered by the delayed restructuring, political transition, delay in PSMP's fund transfer and covid-19. In 2020 during the restructuring implementation stalled. Only pipeline activities were being implemented on a small scale and the POC did not have a key high level agenda item. Moreover, as the year came to an end, there was a change of head at the GC and LIPA which required time for adjustments before POC meetings can resume. Remember that the GC and LIPA are member of the Tripod and it is chaired by the Head of CSA. In 2020 to 2021 however, COVID-19 made face-to-face meeting difficult. Instead of a normal POC meeting, the POC team comprising of the CSA, GC, LIPA, participating MACs and partners held a number of formal and informal meetings including Virtual Review Mission (May 26-June 3, 2020) to get update on the status of the project. See Exhibit II & III*

Auditor General's Position

- 1.2.3.2 Management's assertion does not adequately address the audit findings. Therefore, we maintain our findings and recommendations.

2 PSMP Audit PRIOR YEAR AUDIT RECOMMENDATIONS				
NO	Findings	Observation	Recommendation	Status of implementation
1	1.1.1 Withholding Tax	1.1.1.3 During the audit, it was observed that the PSMP Management deducted withholding income taxes without evidence of remitting it to the LRA. See Annexure 1 for details.	1.1.1.5 The PSMP Management should provide substantive justification for failing to remit taxes withheld from Consultants to the LRA.	Not Implemented
2	1.1.2 Undelivered Activities	1.1.2.3 It was observed during the audit, that the PSMP Management did not implement the below milestones: • Field visit/validation for Performance Management System • One Employee One file (Exercise Update)	1.1.2.5 The PSMP Management should provide substantive justification for not implemented activities budgeted for.	Implemented

3 ANNEXURE

Annexure 1: Withholding Taxes

Transaction Date	Transaction Reference	Description	Description	Description	Base Amount
21-Jun-21	2021/087	15% tax for Geo Data:GRA	CSA & MAC HR Office Employees	Consultant Services	1,984.35
17-Jun-21	2021/085	10%tax Wintop Catering	Org design model & methodology	Operating Costs	873.00
17-Jun-21	2021/085	2%tax Saksouk Shopping	Org design model & methodology	Operating Costs	7.00
17-Jun-21	2021/085	2%tax Saksouk Shopping	Org design model & methodology	Operating Costs	47.66
17-Jun-21	2021/085	2%tax Super Petroluem	Org design model & methodology	Operating Costs	14.04
11-Nov-20	2021/027	2%tax: United Offices Sup	General Operations	Goods	600.00
18-Nov-20	2021/029	2% tax for fuel G.R. A	General Operations	Operating Costs	118.00
22-Apr-21	2021/041D	Tax fr Subah-Belleh:GRA	General Operations	Consultant Services	1,676.00
27-Apr-21	2021/044	2%tax fr fuel:GRA	General Operations	Operating Costs	120.44
27-Apr-21	2021/044B	Tax fr Super Petro:GRA	General Operations	Operating Costs	212.40
1-May-21	2021/048	10%tax fr Angel Hill:GRA	General Operations	Operating Costs	1,279.80
24-May-21	2021/059	Tax fr Secure tools:GRA	General Operations	Operating Costs	799.58
15-Jun-21	2021/073	10% tax Subah Belleh GRA	General Operations	Consultant Services	1,258.00
17-Jun-21	2021/084	10% tax BRAC: GRA	General Operations	Consultant Services	1,387.20
17-Jun-21	2021/085	10%tax Wintop Catering	General Operations	Operating Costs	591.00
17-Jun-21	2021/085	2%tax Saksouk Shopping	General Operations	Operating Costs	11.18
17-Jun-21	2021/085	4%tax New Technology	General Operations	Operating Costs	72.00
23-Jun-21	2021/093	10%tax Royal Style Car	General Operations	Operating Costs	1,813.00
23-Jun-21	2021/093	4%tax Angel HillTop	General Operations	Operating Costs	174.24
23-Jun-21	2021/093	4%tax Excellent Communica	General Operations	Operating Costs	20.48
23-Jun-21	2021/093	4%tax Supreme Media	General Operations	Operating Costs	24.80
25-Jun-21	2021/102	2%tax Super Petroleum	General Operations	Operating Costs	15.00
25-Jun-21	2021/102	2%tax United Office Suppl	General Operations	Operating Costs	359.30

*Management Letter on the Audit of the
Public Sector Modernization Project (PSMP) Financial Statements
For the period July 1, 2020 to June 30, 2021*

Transaction Date	Transaction Reference	Description	Description	Description	Base Amount
25-Jun-21	2021/102	4%tax Robert Printing	General Operations	Operating Costs	171.32
25-Jun-21	2021/102	42%tax Saksouk Shopping	General Operations	Operating Costs	14.10
TOTAL					13,643.89