



Management Letter

On the Financial Statement Audit of the Liberia Urban Water Supply Project (LUWSP)

For the Period Ended December 31, 2022



Promoting Accountability of Public Resources

Monrovia, Liberia
June 2023

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

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ACRONYMS USED

Acronyms	Meaning
ACCA	Association of Chartered Certified Accountant
AFS	Audited Financial Statements
AG	Auditor General
CFIP	Certified Forensic Investigation Professional
CFC	Certified Forensic Accountant
CV	Curriculum Vitae
FAR	Fixed Assets Register
FC	Financial Controller
GAC	General Auditing Commission
GL	General Ledger
GOL	Government of Liberia
IAA	Internal Audit Agency
IAU	Internal Audit Unit
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
LUWSP	Liberia Urban Water Supply Project
LWSC	Liberia Water and Sewer Corporation
M&E	Monitoring and Evaluation
MD	Managing Director
NRW	Non- revenue Water
PDO	Project Development Objective
PFM	Public Finance Management
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PIUD	Project Implementation Unit Director
SMT	Senior Management Team
TOR	Terms of Reference

June 29, 2023

Hon. Alphonso Gaye
Managing Director

Liberia Urban Water Supply Project (LUWSP)
Monrovia, Liberia

Dear Hon. Gaye:

Re: DRAFT Management Letter on the Financial Statement Audit of the Liberia Urban Water Supply Project (LUWSP) for the fiscal period January 1, 2022 to December 31, 2022.

The financial statements of the Liberia Urban Water Supply Project (LUWSP) for the period January 1, 2022 to December 31, 2022 are subject to audit by the Auditor General in terms of Section 2.1.3 of the New General Auditing Commission (GAC) Act of 2014.

Introduction

The audit of the LUWSP financial statements for the period ended 31 December 2022 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). Those 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 financial statements.

And audit includes:

- Examination on a test basis of evidence supporting the amount and disclosures in the financial statements.
- Assessment of the accounting principles used and significant estimates made by management.
- Evaluation of the overall financial statement presentation.

The audit also included an examination, on a test basis, of evidence support compliance in all material respect with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matter mentioned in this Management 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.

*Management Letter on the Financial Statement Audit of the
Liberia Urban Water Supply Project (LUWSP)
for the Fiscal Period Ended January 1, 2022- December 31, 2022*

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 accorded and assistance rendered by the staff of the LUWSP Project Implementation Unit (PIU) of the Liberia Urban Water Supply Project (LUWSP).


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

Monrovia, Liberia
June 2023



1 DETAILED FINDINGS AND RECOMMENDATIONS

1.1 Non-Achievement of Project Deliverables

Observation

1.1.1.1 Section 2.2 of the LUWSP Project implantation manual States" The objective of the project is to increase access to piped water supply services in the project area in Monrovia and improve the operational efficiency of LWSC. To Achieve this objective, the project will provide a credit of US\$ 30,000,000 to fund two project components: Component 1 supports the rehabilitation and extension of priority infrastructure of the LWSC water distribution network; Component 2 supports institutional capacity-building to strengthen LWSC's management and operational team, with a particular focus on reducing Non-Revenue Water (NRW).

1.1.1.2 During the audit, we observed that project activity component outlined in the Details Annual Work Plan and Budget for the LUWSP project were not implemented during the period under audit. **See table 1 below for detail:**

Table 1: Non-implementation of project programs

	Budgeted	Actuals	(\$ Diff.	(%) Diff.
(COMPONENT 1-Infrastructure improvements)				
1.1 Rehabilitation and extension of Monrovia piped water distribution system (Construction of a ground reservoir and connecting it to the existing water distribution network and Express Lines from Fish Market to Newport Street booster station)	6,134,831.63	5,670,578.81	464,252.82	8%
1.2 (Feasibility studies, detailed engineering designs, supervision and associated rehabilitation works for 36' main waterline)	289,092.94	283,493.42	5,599.52	2%
	-	-	-	-
Total (COMPONENT 1-Infrastructure improvements)	6,423,924.57	5,954,072.23	469,852.34	7.3%
2.0 (COMPONENT 2- Capacity Building to the LWSC)				
2.1 (Capacity Building to LWSC)	748,398.50	531,129.88	217,268.62	29%
2.3 (Project Implementation Unit)	741,016.11	686,434.85	54,581.26	7.3%
Total (COMPONENT 2- Capacity Building-LWSC)	1,489,414.61	1,217,564.73	271,849.88	18.2%
TOTAL	7,913,339.18	7,171,636.96	741,702.22	9.3%

Risk

- 1.1.1.3 Failure to implement project activities may lead to non-achievement of the project objectives.
- 1.1.1.4 Untimely achievement of project deliverable may lead to additional expenditure (fixed costs) of the project.
- 1.1.1.5 Project objective may not be achieved in the absence of effective project implementation and coordination.
- 1.1.1.6 The absence of effective monitoring and evaluation during the project may impair the achievement of value for money and the implementation of project deliverables.

Recommendation

- 1.1.1.7 Management should provide justification for not completing approved project deliverables in a timely manner.
- 1.1.1.8 Management should ensure that deliverables are implemented in line with project workplan.
- 1.1.1.9 Management should facilitate adequate coordination, monitoring and evaluation of project activities to ensure project deliverables are implemented in a timely manner.

Management's Response

- 1.1.1.10 *The Liberia Urban Water Supply project has two components (component one and Component two).*
- 1.1.1.11 *Component 1 of the project has an unspent balance of 7.3%. This is because the supervision consultant did not submit the invoices for work done between October and December 2022 to be processed for payment. However, the invoices were submitted in January 2023.*
- 1.1.1.12 *Component 2 of the project has an unspent balance of 45%. This was also because of the below reasons: Activity 2.1. LWSC was not able to fully utilize the training plan approved by the bank in 2022. Activity 2. For improved customer care service, the consultant did not submit the third and fourth milestone payment during the period of the audit. The invoices were submitted, processed and paid in January 2023.*

Auditor General's Position

- 1.1.1.13 We acknowledge Management's assertions. However, adequate coordination, monitoring and evaluation of project activities may have mitigated the challenges Management detailed above. Therefore, we maintain our findings and recommendations. We will follow-up on the implementation of our recommendations during subsequent audit.

1.2 Project Governance Structure

Observation

- 1.2.1.1 Section 2.7 of the Project Implementation Manual States" the Steering Committee will preside over matters of governance and provide oversight on the coordination of the various stakeholder interests within the program.
- 1.2.1.2 During the audit, there was no evidence that the Steering Committee was functional as a policy making and oversight body of the LUWSP. We obtained no evidence of the following:
- Meeting minutes of the Committee.
 - Steering Committee approval for major decisions taken by LUWSP Management
 - Steering Committee deliberation on any matter involving the LUWSP.

Risk

- 1.2.1.3 Management should liaise with the relevant authorities of the Steering Committee to ensure that the steering committee is made functional.
- 1.2.1.4 The Steering Committee should be made functional evidence of the conduct of periodic meetings, approval of major decisions of Management, deliberation on any matter involving the project and documentation of meeting minutes and periodic activities reports.
- 1.2.1.5 Evidence of minutes of meetings and periodic activities reports should be adequately documented and filed to facilitate future review.

Management's Responses

- 1.2.1.6 *The Steering Committee has been constituted and reconstituted several times. The last reconstitution did not follow the requirement of the PIM as it was composed of heads of entities. The Bank was informed and consented to the final iteration. The PIU did not believe this composition is sustainable as the workload would not allow the effective operation of the committee. The PIU recommends that the composition reverts to requirements of the PIM. A communication has been prepared to communicate the suggestion to the new Managing Director.*

Auditor General's Position

- 1.2.1.7 We acknowledge Management's assertions and subsequent acceptance of our findings and recommendations. We will follow-up on the implementation of our recommendations during subsequent audit.

1.3 Database and Profile of Suppliers, Consultants and Contractors

- 1.3.1.1 Section 29 (5 j to K) of the PPC Act of 2005 as amended and restated in 2010 requires the procurement unit to maintain a database of all suppliers, contractors and consultants as well as the maintenance of a profile of the past performance of suppliers, contractors and consultants with respect to their performance of contracts awarded under the PPC Act.

1.3.1.2 During the audit, we observed no evidence of database of suppliers, consultants as well as the maintenance of a profile of the past performance of suppliers, contractors and consultants that was developed by the Management as stipulated in the PPC Act of 2005 as amended and restated in 2010.

Risk

1.3.1.3 In the absence of a complete database for suppliers, contractors and consultants as well as profiles for past performance may lead to awarding contract to non- performing supplier, contractor or consultant thus impairing the achievement of value for money.

Recommendation

1.3.1.4 Management should develop and operationalize a comprehensive database containing information relating to suppliers, contractors and consultants as well as information on past performance to efficiently inform subsequent procurement activities.

Management's Response

1.3.1.5 *The project, through its procurement Director has established Database and Profile of Suppliers, Consultants and Contractors as well as the maintenance of a profile of the past performance of suppliers, contractors and consultants with respect to their performance of contracts. See attached*

Auditor General's Position

1.3.1.6 We acknowledge Management's subsequent development and submission of the supplier's database for our validation after the audit execution. Management should facilitate periodic update of the supplier's database to adequately informed future procurement activities.

1.4 IAA Compliance review and Clearance.

Observation

1.4.1.1 Section 3.1.4 of the LUWSP Project Implementation Manual Payment Procedures for Project Expenditures The LWSC-PIU is responsible for ensuring that project funds are applied with due regard to economy, efficiency and effectiveness for the purpose intended The PIU will apply the cash basis accounting principle for recording and accounting for the project transactions. Accounting for the project will be based on International Public Sector Accounting Standards (IPSAS), consistent with the IDA and Liberian PFM law.

1.4.1.2 More detailed payment procedures are given below, but in general, before a payment request process is initiated, the PIU will ensure that:

- Requests for payment shall be made by the user department and authorized by the MD;
- Expenditures to be incurred must be eligible for Financing under the project;
- Payments shall only made against expenditure commitments that have received a "No Objections" by IDA, if required;



- No payment requests shall be processed until it has been authorized by the PIU Director or his/her designate;
- Payments shall be made only against available Budget under each expenditure category/component;
- The payment is prepared with all supporting documents including the approved purchase order, copy of contract, invoice including the goods/services Received Note or, the Certification of Valuation for Works;
- Approved report shall be forwarded to the Internal Audit Agency Unit at LWSC for review and clearance.
- Upon clearance by IAA the entire document shall be forwarded to the Management Director for his/her approval
- Under no circumstances should project expenditure be incurred for ineligible purposes.

1.4.1.3 During the audit, we observed the following from the processing of IAA pre- compliance review and clearance: **See Table 2 Below:**

Table 2 1.4 IAA Compliance review and Clearance

No.	Description	Voucher #	Amount
1.	Payment to DSA and fuel oil to Felix S. F. Okai, Finance Assistant for the Liberia Urban Water Supply Project for staff who will travel to Ganta for two days (Friday and Saturday) to visit Angeline K. Mussa, Janitor who has been sick since the beginning of February 2022.	2022 /1485	
2.	Payment to Felix S. D. Okai, Finance Assistant for Liberia Urban Water Supply Project to replenish Petty cash for PIU operations	2021/1373	1,950.00
			460.35

Risk

1.4.1.4 Noncompliance with the approved Project Implementation Manual, may lead to the disbursement of illegitimate expenditures. Processing of illegitimate expenditures may lead to misappropriation of project funds.

Recommendation

1.4.1.5 Management should facilitate full compliance with the Project Implementation Manual. All transactions should be approved by the IAA consistent with Section 3.1.4 of the approved PIM.



Management's Response

- 1.4.1.6 *The internal auditor shall work within a well-defined framework of programs and reporting requirements. Importantly, the internal auditing function shall compliment the work of the external auditor, to the extent to which the external can place reliance of the internal audit reports. The internal audit program for each year should be developed by the internal auditor and discussed with the FME and the PIU Director and finalized thereafter. The Internal Audit Team will carry out risk-based internal audit for the project.*
- 1.4.1.7 *Pre-audit activities shall be carried, over a limited time period, for only project activities assessed as high risk. However, such risk shall be mitigated within 6 months and the post-audit discontinued.*
- 1.4.1.8 *A request was made to the Managing Director of the Liberia Water and Sewer Corporation on March 24, 2022 to visit an ailing staff member who has been sick since the beginning of February 2022. The request was approved by the Managing Director. The entire documentation was prepared and taken to Mr. Baba Dolley, Director, IAU LWSC for review and clearance. Mr. Dolley advised us to use the Government of Liberia per diem rates which we did. He also advised us to pay 80% of the DSA and reserve the remaining 20% to be paid after the team has returned and submitted report. We also agreed to comply. After three keeping the document for days, Mr. Dolley sent the document to the Managing Director's office for signature without attaching a clearance memo. The document was signed by the Managing Director*

Auditor General's Position

- 1.4.1.9 We acknowledge Management's assertion. However, with the non-provision of an approved clearance memo the review and subsequent clearance of the above transactions with noted regularities cannot be assured. We maintain our finding and recommendation. We will follow up on the implementation of our recommendation during subsequent audit.

Status of Previous Year Audit Recommendation

Paragraph No.	Source of finding	Status of Implementation	Description of Finding
Paragraph 1.1.1	GAC Management Letter FY June 30, 2021	Not Implemented	Non-Achievement of Project Deliverables
Paragraph 1.1.1.1	GAC Management Letter FY 2019/2020	Not Implemented	Lack of full Accountability for Fuel procured by the Bank. (Covid -19 Emergency Support to LWSC
Paragraph 1.2.8	GAC Management Letter 2019/2020	Implemented	Fixed Asset (Project Vehicle) not coded since it was Purchase Dec 15, 2018
Paragraph 6.2	Internal Audit Agency 3rd & 4th quarters final Audit Report FY 2019/2020	Implemented	Lack of full Accountability for Chemical Supplied to LWSC by the PIU

