



## Management Letter

### On the Financial Statement Audit of the National Oil Company of Liberia (NOCAL)

*For the Fiscal Periods 1 July 2019 to 30 June 2020*



**Promoting Accountability of Public Resources**

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

**Monrovia, Liberia**  
December 2022

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### **Acronyms Used**

<b>ABBREVIATION</b>	<b>MEANING</b>
ACCA	Association of Chartered Certified Accountant
AG	Auditor General
CFC	Certified Financial Consultant
CFIP	Certified Forensic Investigation Practitioner
CPA	Certified Public Accountant
GAC	General Auditing Commission
GOL	Government of Liberia
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
NOCAL	National Oil Company of Liberia
PFM Regulation	Public Financial Management Regulation
PPC Act	Public Procurement and Concession Act
RL	Republic of Liberia

April 17, 2023

Madam Saifuah-Mai Gray

**President/CEO**

National Oil Company of Liberia (NOCAL)

Ashmun and Randall Streets

Monrovia, Liberia

Dear Madam Gray:

**RE: Management Letter on the Financial Statement Audit of the National Oil Company of Liberia (NOCAL) for the Fiscal Period July 1, of 2019 to June 30, 2020**

## **INTRODUCTION**

The financial statements of the National Oil Company of Liberia (NOCAL) 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 the Engagement Terms of Reference.

The audit of the National Oil Company of Liberia (NOCAL) for the year July 1, of 2019 - June 30, 20 was 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 Management. Our responsibility is to express an opinion on these financial statements.

The audit findings which 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.

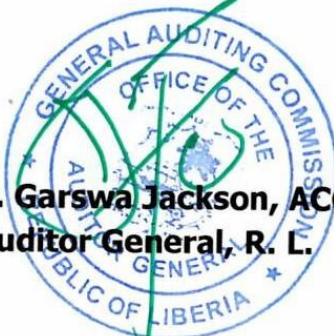
#### Key Management Personnel of NOCAL

Name	Rank	Period of service
Saifuah-Mai Gray	President/CEO	September 2018 to Present
Eric W. Daniels	Vice President / Finance & Administration	September 2018 to Present
Saah Mayah	Financial Controller	September 2018 to January 2022
Lester Tenny	Vice President / Technical Services	September 2018 to December 2021
Richmond Jallah	Asst. Finance Manager	September 2018 to September 2022
Mankarnue Dainese	Internal Auditor	September 2018 to Present

#### APPRECIATION

We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the National Oil Company of Liberia (NOCAL) during audit.

Yours Faithfully,

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

**Monrovia, Liberia**

December 2022

## 1 DETAILED FINDINGS AND RECOMMENDATIONS

### 1.1 Financial Issues

#### 1.1.1 Miscalculation of National Social Security Tax

##### Observation

- 1.1.1.1 Section 89.16(a) of the National Social Security and Welfare Corporation (NASSCORP) Act published February 13, 2017 states that "The contribution payable under this Act in respect of an employee shall comprise contribution payable by the employer (hereinafter referred to as the employer's contribution) and contribution payable by the employee (hereinafter referred to as the employee's contribution) and shall be paid to the Corporation. Contribution rate shall be total 10% of the total gross remuneration of each employee; 2% under the Employment Injury Scheme payable by the employer; 4% employer contribution and 4% employee contribution to be remitted by the employer".
- 1.1.1.2 Regulation T.1 (2) of the Public Financial Management (PFM) Act of 2009 states that, "Subject to any enactment, basic salary shall be used for computation of allowances, pensions, gratuities or any other entitlement of public servants except where the allowances have been incorporated into the salaries."
- 1.1.1.3 During the audit, we observed that Management understated the employees' contribution to NASSCORP by US\$15,416.24. NOCAL applied NASSCORP contribution rates on the basic salary instead of the total gross. **See Table 1 below for details.**

**Table 1: Miscalculation of NASSCORP tax**

Month	Auditor's Re-computation		NOCAL	Variance US\$ D=B-C
	Gross payroll US\$ A	Total Contribution (10% of gross salary) US\$ B=A*10%	NOCAL's Ledger amount US\$ C	
Jul.	78,725.00	7,872.50	6,448.76	1,423.74
Aug	74,675.00	7,467.50	6,157.50	1,310.00
Sep	78,725.00	7,872.50	6,532.50	1,340.00
Oct	75,750.00	7,575.00	6,257.50	1,317.50
Nov	73,050.00	7,305.00	6,017.50	1,287.50
Dec	73,050.00	7,305.00	6,017.50	1,287.50
Jan	70,300.00	7,030.00	5,742.50	1,287.50
Feb	70,300.00	7,030.00	5,742.50	1,287.50
Mar	70,300.00	7,030.00	5,742.50	1,287.50
Apr	69,350.00	6,935.00	5,742.50	1,192.50
May	69,400.00	6,940.00	5,742.50	1,197.50

Month	Auditor's Re-computation		NOCAL	Variance US\$ D=B-C
	Gross payroll US\$ A	Total Contribution (10% of gross salary) US\$ B=A*10%	NOCAL's Ledger amount US\$ C	
Jun	69,400.00	6,940.00	5,742.50	1,197.50
	<b>873,025.00</b>	<b>87,302.50</b>	<b>71,886.26</b>	<b>15,416.24</b>

### Risk

- 1.1.1.4 Social Security contribution due to NASSCORP and subsequently the financial statements may be misstated.
- 1.1.1.5 Potential retirees of NOCAL may be denied required pension benefits due to non-compliance with the regulation.

### Recommendation

- 1.1.1.6 Management should adjust the financial statements by the understated amount and resubmit same to the office of the Auditor General for subsequent validation.
- 1.1.1.7 Going forward, Management should ensure that social security contributions are computed on gross salaries inclusive of allowances.

### Management's Response

- 1.1.1.8 Management notes your recommendation and with cognizance of the NASSCORP Act of 2017 will adjust the financial statements with the stated variance of **USD 15,416.24** and will present a restated financial statement.

### Auditor General's Position

- 1.1.1.9 We acknowledge Management's acceptance of our findings and recommendations. However, Management should provide a comprehensive, adjusted and approved financial statements to the Office of the Auditor General for validation within 30 days upon issuance of the AG's Report to the National Legislature.

## 1.1.2 Non-remittance of NASSCORP Tax

### Observation

- 1.1.2.1 Section 89.16(h) of the NASSCORP Act published February 13, 2017 states that " the contribution payable in respect of each month shall ordinarily fall due on the last day of the month, and where an employee is employed for part of the month or is employed under two or more employers during the same month, the contributions shall fall due on such days as may be specified in the regulations.

- 1.1.2.2 During the audit, our recomputation of NASSCORP contribution amounted to US\$87,302.50 for the period under audit. No payment was made against this amount; however, the amount of US\$11,928.44, which was payment against 2018/2019 NASSCORP Payable of US\$34,714.60 was remitted to NASSCORP designated account. Hence, the unremittance balance of NASSCORP tax as at June 30, 2020 was **US\$110,088.66**. See **Table 2 below for details.**

**Table 2: Non-remittance of NASSCORP taxes**

Description	Total Contribution Per auditor's Re-performance US\$ A	NASSCORP payable balance US\$ B	Variance US\$ C=A-B
Opening balance, July 1, 2019	<b>34,714.60</b>	<b>20,550.78</b>	<b>14,163.82</b>
Addition, 2019/2020	87,302.50	71,886.26	15,416.24
Total NASSCORP for the year	<b>122,017.10</b>	<b>92,437.04</b>	<b>29,580.06</b>
Payment against prior year	(11,928.44)	(11,928.44)	-
<b>Total Outstanding Liability</b>	<b>110,088.66</b>	<b>80,508.60</b>	<b>29,580.06</b>

#### **Risk**

- 1.1.2.3 Employers' contribution due to NASSCORP and subsequently the financial statements may be misstated.
- 1.1.2.4 Potential retirees of NOCAL may be denied required pension benefits due to non-compliance with the regulation.

#### **Recommendation**

- 1.1.2.5 Management should adjust the financial statements by the understated amount and resubmit same to the office of the Auditor General for subsequent validation.
- 1.1.2.6 Management should ensure that social security contributions are remitted to NASSCORP in a timely manner.
- 1.1.2.7 Evidence of full remittance of social security contributions should be adequately documented and filed to facilitate future review.
- 1.1.2.8 A payment plan should be crafted and agreed between NOCAL and NASSCORP Management for full settlement of all arrears. Management should budget for and ensure full compliance to the terms of the agreed payment plan.

#### **Management's Response**

- 1.1.2.9 *Management has acknowledged your recommendation and is therefore in talks with the National Social security and Welfare Corporation to initiate a payment plan for the settlement of all arrears.*



### Auditor General's Position

1.1.2.10 We acknowledge Management's acceptance of our findings and recommendations. However, Management should provide a comprehensive, adjusted and approved financial statements to the Office of the Auditor General for validation within 30 days upon issuance of the AG's Report to the National Legislature.

### 1.1.3 Non-remittance of Employees' Withholding Tax

#### Observation

1.1.3.1 Section 905 (a) of the Revenue Code of Liberia (2000) as amended in 2011 states that "resident persons who make payments to resident natural persons pursuant to a contract of employment are required to withhold income tax on payments to employees according to the schedule in section 200. Withheld amounts are to be deducted from every payment due to an employee and to be paid over to the Government on a monthly basis, with payments due within ten (10) days of the last day of each month".

1.1.3.2 Furthermore, Section 51(a) of the Revenue Code of Liberia (2000) as amended in 2011 states that "a taxpayer who is late in filing a return is subject to the late filing penalty and may also be subject to the failure-to-file penalty".

1.1.3.3 During the audit, we observed that taxes withheld on salaries during the period amounted to US\$232,886.15; however, no remittance was made to the Liberia Revenue Authority (LRA).

1.1.3.4 In addition to amounts payable for the fiscal period under audit, there was an unpaid balance of US\$821,484.76 from prior years giving a total amount of 1,054,370.91 as withholding tax payable for the fiscal period 2019/2020. **See Table 3 below.**

**Table 3: Non-remittance of Withholding Tax**

Month	Total taxes Payable US\$ A	Amount Paid US\$ B	Withholding tax payable US\$ C=A-B
Jul.	21,824.35	-	21,824.35
Aug	19,614.50	-	19,614.50
Sep	20,839.41	-	20,839.41
Oct	20,167.19	-	20,167.19
Nov	19,301.89	-	19,301.89
Dec	19,201.89	-	19,201.89
Jan	18,559.14	-	18,559.14
Feb	18,584.53	-	18,584.53
Mar	18,620.90	-	18,620.90
Apr	18,165.35	-	18,165.35
May	18,178.50	-	18,178.50
Jun	19,828.50	-	19,828.50

Month	Total taxes Payable US\$ A	Amount Paid US\$ B	Withholding tax payable US\$ C=A-B
	<b>232,886.15</b>	-	<b>232,886.15</b>
Opening Balance	821,484.76	-	821,484.76
<b>Total</b>	<b>1,054,370.91</b>	-	<b>1,054,370.91</b>

### Risk

- 1.1.3.5 Failure to remit taxes withheld may deny GoL of much needed tax revenue.
- 1.1.3.6 Management may be in noncompliance with Section (905) J. of the Revenue Code of Liberia 2000, which may result into penalties for late payment and failure to pay. Please see Section 52 of the Revenue Code of Liberia as reference above.

### Recommendation

- 1.1.3.7 Management should provide substantive justification for non-remittance of withholding taxes amounting to US\$ 1,054,370.91.
- 1.1.3.8 Management 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 as amended in 2011.
- 1.1.3.9 A payment plan should be crafted and agreed between NOCAL and LRA Management for full settlement of all arrears. Management should budget for and ensure full compliance to the terms of the agreed payment plan.

### Management's Response

- 1.1.3.10 *Management has acknowledged your recommendation and is therefore negotiating with the Ministry of Finance and Development Planning and LRA management to initiate a payment plan for the settlement of all arrears.*

### Auditor General's Position

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

## 1.1.4 Overstatement of Salary Expense

### Observation

- 1.1.4.1 According to International Accounting Standards (IAS) 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognize:
- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
  - an expense when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

- 1.1.4.2 During the audit, we observed that Management reported the total amount US\$931,641.68 as salary expense; however, our re-computation of total salary amounted to US\$873,025 resulting into a variance of US\$58,616.68.
- 1.1.4.3 We also observed that the salary expense included gross salary and Employer's contribution of National Social Security and Welfare Corporation (NASSCORP) taxes. Employer's contribution, though calculated on the gross remuneration, does not form part of employees' earnings but is a separate expense of the entity. **See table 4 below for details.**

**Table 4: Overstatement of Salary expense**

Month	Gross payroll US\$ A	Ledger - Salary Expense US\$ B	Variance (payroll and ledger) US\$ C=A-B
July	78,725.00	83,560.76	4,835.76
August	74,675.00	79,269.50	4,594.50
September	78,725.00	84,468.25	5,743.25
October	75,750.00	80,504.50	4,754.50
November	73,050.00	78,025.08	4,975.08
December	73,050.00	77,885.58	4,835.58
January	70,300.00	74,645.50	4,345.50
February	70,300.00	74,645.50	4,345.50
March	70,300.00	77,400.51	7,100.51
April	69,350.00	72,845.50	3,495.50
May	69,400.00	73,745.50	4,345.50
June	69,400.00	74,645.50	5,245.50
<b>Total</b>	<b><u>873,025.00</u></b>	<b><u>931,641.68</u></b>	<b><u>58,616.68</u></b>

#### **Risk**

- 1.1.4.4 Salary expense may be misstated.
- 1.1.4.5 The financial statements may not be fairly presented.

#### **Recommendation**

- 1.1.4.6 Management should adjust salary expense by disaggregating employer's contribution from basic salary to facilitate fair presentation of the financial statements.
- 1.1.4.7 Going forward, Management should disaggregate Employer's NASSCORP contribution from salary expense in order to give a true and fair view of employee's total remuneration.

#### **Management's Response**

- 1.1.4.8 *Management notes your recommendation and will make the appropriate adjustment to a special expense account that will reflect a clearer view of Employer's NASSCORP*

contribution. Management will present a restated financial statement with the appropriate adjustments and anticipates that those statements will be presented prior to the issuance of the final report.

### Auditor General's Position

1.1.4.9 We acknowledge Management's acceptance of our findings and recommendations. However, Management should provide a comprehensive, adjusted and approved financial statements to the Office of the Auditor General for validation within 30 days upon issuance of the AG's Report to the National Legislature.

### 1.1.5 Overstatement of Net salary payable

#### Observation

1.1.5.1 According to IAS 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognize:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future

1.1.5.2 During the audit, we observed that Management reported net salary payable balance of US\$124,208.73; however, from our reperformance, net salary payable amounted to US\$113,041.50 thus resulting in a variance of US\$11,167.23. **See table 5 below for details.**

**Table 5: Overstatement of Net Salary Payable**

Month	Auditor's Recomputation Net Salary Payable US\$ A	Ledger Net Salary Payable US\$ B	Variance US\$ C=A-B
Jul.	54,592.00	55,128.00	(536.00)
Aug	51,242.18	51,766.18	(524.00)
Sep	49,956.13	50,492.13	(536.00)
Oct	48,889.76	49,416.76	(527.00)
Nov	45,685.48	46,200.48	(515.00)
Dec	51,542.15	52,057.15	(515.00)
Jan	51,128.23	51,643.23	(515.00)
Feb	49,852.84	50,367.84	(515.00)
Mar	49,846.85	50,361.85	(515.00)
Apr	49,164.82	49,679.32	(514.50)
May	49,196.19	49,671.52	(475.33)
Jun	44,192.33	49,671.52	(5,479.19)
	<b>595,288.96</b>	<b>606,455.98</b>	<b>(11,167.02)</b>
Opening Balance	98,389.60	98,389.60	-
Payments made	(580,637.06)	(580,637.06)	-

Month	Auditor's Recomputation Net Salary Payable US\$ A	Ledger Net Salary Payable US\$ B	Variance US\$ C=A-B
<b>Total</b>	<b>113,041.50</b>	<b>124,208.52</b>	<b>(11,167.02)</b>

### Risk

- 1.1.5.3 Net Salary Payable may be misstated.
- 1.1.5.4 The financial statements may not be fairly presented.

### Recommendation

- 1.1.5.5 Management should account for the variances in the account through the provision of adequate supporting documents.
- 1.1.5.6 Management should adjust the financial statements by the overstated amount and resubmit same to the office of the Auditor General for subsequent validation.
- 1.1.5.7 Documentation for transactions should be adequately documented and filed to facilitate future review.

### Management's Response

- 1.1.5.8 *Management notes your observation and recommendation. However, after re-examination of the signed payrolls and the net salary ledger, it was observed that a variance of **5,034.13** was detected instead of **11,167.02** ranging from April, May and June 2020. Please see attached payrolls and net salary ledger for the period under review and the re-stated financial statements will be submitted.*

### Auditor General's Position

- 1.1.5.9 We acknowledge Management's acceptance of our findings and recommendations.
- 1.1.5.10 However, the miscalculation of employees' contribution of 4% on basic instead of gross salary impacted the net salary payable by US\$6,167.02 and approved net salary per payroll for June 2020 was posted to the general ledger in excess of US\$5,000; hence the difference of US\$11,167.02.
- 1.1.5.11 Management should provide a comprehensive, adjusted and approved financial statements to the Office of the Auditor General for validation within 30 days upon issuance of the AG's Report to the National Legislature.

## 1.1.6 Non-Disclosure of Lease Rental

### Observation

- 1.1.6.1 According to International Financial Reporting Standards (IFRS) 16, leases are capitalized and presented on the Lessee's balance sheet as both assets, known as the right-of-use (ROU) assets and liabilities, unless subject to any of the exemptions prescribed by the standard which are short-term leases defined as having a term of 12 months or less at commencement and no option to purchase the leased asset and leases of low-value assets, defined as leases for which the underlying asset's fair value (when the asset is new) is generally less than \$5,000.
- 1.1.6.2 Within the notes to the financial statements, an entity is expected to present both qualitative and quantitative disclosures regarding their leasing activities for the respective reporting period(s) which include but are not limited to: the carrying amount of all ROU assets summarized by asset class as of the end of the reporting period; ROU asset depreciation expense by asset class for the reporting period.
- 1.1.6.3 During the period, NOCAL entered a lease agreement with the Episcopal Church of Liberia to lease the 3rd and 4th floors of the Episcopal church Plaza Building for the period June 1, 2019 to May 31, 2021 for the total amount of US\$81,000.
- 1.1.6.4 There was no evidence that NOCAL reported lease activities in the Statement of financial position as an asset and liability with corresponding depreciation expense for one month at the end of the reporting period, 30 June 2020.
- 1.1.6.5 There was no disclosure note on the lease activities for the reporting period.

### Risk

- 1.1.6.6 The lack of adequate disclosure of lease activities as required by the IFRS 16 is a violation of the standards and may lead to misstatement of asset (leases) and subsequently the financial statements.
- 1.1.6.7 The non-disclosure of lease activities in the notes to the financial statements may impair fair presentation, full disclosure and deny users of the financial statements information relevant for decision making.

### Recommendation

- 1.1.6.8 Management should adequately present on the face and notes to the financial statement lease activities/obligations that extend beyond a year as required by IFRS 16 to facilitate full disclosure of the financial statements.

### Management's Response

- 1.1.6.9 Management notes your observation and recommendation. The office building lease is for 12 months renewable yearly and payment is done in arrears. It important to note that

NOCAL did not pay the lease in advance but accrues lease expenses and liability monthly. The entity has no purchase option for such asset. Please refer to **IFRS-16:5, 6 & 8** as follows:

a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:  
i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset; and  
ii) leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

### Auditor General’s Position

- 1.1.6.10 We acknowledge Management’s assertion. However, the lease agreement was signed for two years (June 1, 2019 to May 31, 2021 for the total amount of US\$81,000) and not for 12 months as asserted by Management.
- 1.1.6.11 Therefore, we maintain our finding and recommendation. We will follow-up on the implementation of our recommendation during subsequent audit.

### 1.1.7 Payments without Adequate Supporting Documentation

#### Observation

- 1.1.7.1 Regulation P.9 (2) of the Public Finance Management (PFM) Act of 2009 states, “Payments except for statutory transfers and debt service shall be supported by invoices bills and other documents in addition to the payment vouchers”.
- 1.1.7.2 We observed during the conduct of the audit that from sampled payment vouchers, amounting to **US\$67,710.14** for various goods/services, there was no evidence of adequate supporting documentation such as payment vouchers and invoices to validate the transactions. **See Table 7 below for details.**

**Table 7: Payments without Adequate Supporting Documentation**

No.	Date	Amount
<b>Foreign Travels</b>		
1	7/1/2019	1,495.00
2	11/20/2019	865.00
3	10/18/2019	1,201.02
		<b>3,561.02</b>
<b>Supplies</b>		
4	4/6/2020	3,750.00
5	6/12/2020	6,178.00
		<b>9,928.00</b>
<b>Local Travel - Perdiem</b>		
6	7/18/2019	473.12

No.	Date	Amount
7	8/7/2019	1,192.00
8	8/7/2019	2,268.00
9	10/31/2019	526.00
10	2/7/2020	1,262.00
		<b>5,721.12</b>
11	12/19/2019	9,500.00
12	12/19/2019	9,000.00
13	12/19/2019	5,000.00
14	1/17/2020	5,750.00
15	2/13/2020	7,750.00
16	6/22/2020	7,500.00
17	6/24/2020	4,000.00
		<b>48,500.00</b>
	<b>Total</b>	<b>67,710.14</b>

### Risk

- 1.1.7.3 In the absence of adequate supporting documents, the validity, occurrence and accuracy of payments cannot be assured. This may lead to misappropriation of the entity's funds.
- 1.1.7.4 The absence of adequate supporting documentation for transactions may also lead to fraudulent financial management practices, through the processing and disbursement of illegitimate transactions.
- 1.1.7.5 Management may override the procurement processes by completing disbursement without utilizing the required procurement processes.

### Recommendation

- 1.1.7.6 Management should account for the transactions without supporting documents.
- 1.1.7.7 Going forward, Management should ensure all transactions are supported by the requisite supporting documents consistent with the financial management regulations.
- 1.1.7.8 Evidence of supporting documents for all transactions should be adequately documented and filed to facilitate future review.

### Management's Response

- 1.1.7.9 *Management notes your observation and recommendation. The supporting documents in question all refer to air tickets, per-diems and IT services. Please find attached supporting documents.*



### Auditor General's Position

- 1.1.7.10 We acknowledge Management's subsequent submission of supporting documents after our audit execution. Based on the review of document submitted, we have adjusted the amount to be accounted for by Management to US\$12,594.00 (US\$67,710.14-US\$55,116.14). **See below for details.**

#### Payments without Adequate Supporting Documentation

No.	Date	Amount
<b>Foreign Travels</b>		
1	7/1/2019	1,495.00
2	11/20/2019	865.00
		<b>2,360.00</b>
<b>Supplies</b>		
5	6/12/2020	6,178.00
		<b>6,178.00</b>
<b>Local Travel - Perdiem</b>		
8	8/7/2019	2,268.00
9	10/31/2019	526.00
10	2/7/2020	1,262.00
		<b>4,056.00</b>
		<b>12,594.00</b>

- 1.1.7.11 However, Management submission of documents after our review does not guarantee Management's effective control of document management.
- 1.1.7.12 Going forward, Management should ensure that documents requested for audit purposes are submitted in a timely manner.

### 1.1.8 Misstatement of Accounts Receivable

#### Observation

- 1.1.8.1 Regulation M12 (1) of the PFM Act of 2009 states that the Board of Directors of each enterprise governed by this Act shall ensure the efficient management of the financial resources of the enterprise including the collection and receipt of moneys due to that enterprise or institution.
- 1.1.8.2 During the audit, our examination of NOCAL financial records revealed that Accounts Receivable from Romanco had been reduced by US\$15,500.00; however, no adjustment to the provision for bad debt had been made. Provision for bad debt still stands at more than 100% (**US\$1,635,716**). **See Table 10 below for details.**

**Table 10 – Provision for Bad Debt**

Description	2020 US\$ A	2019 US\$ B	Variance US\$ C=A-B
European Hydrocarbon-LB-8	771,811	771,811	-
European Hydrocarbon-LB-9	763,605	763,605	-
Romanco	84,800	94,300	(9,500.00)
<b>Total Trade Receivables</b>	<b>1,620,216</b>	<b>1,629,716</b>	<b>- (9,500.00)</b>
Provisions for bad debt	(1,635,716.00)	(1,635,716.00)	-
<b>Net Receivables</b>	<b>(15,500.00)</b>	<b>(6,000.00)</b>	<b>(9,500.00)</b>

1.1.8.3 We also observed that the opening balance of staff loan at 1 July, 2019 was US\$4,900.00. However, our reperformance of the opening balance revealed that I July 2018 opening balance was understated by US\$749.58 which automatically affected the closing balance at June 30, 2019 and subsequently the opening balance at July 1, 2019.

1.1.8.4 Also, we observed that an adjustment of US\$1,189.98 was made to the staff loan account on June 30, 2020 without any evidence of adjustment made. **See Table 11 for details.**

#### **Risk**

1.1.8.5 Account Receivables and subsequently the financial statements may be misstated.

#### **Recommendation**

1.1.8.6 Management should adjust the account to correctly state the account receivable balance.

#### **Management's Response**

1.1.8.7 *A review of the bad debt provision account ledger showed that the Auditor's assertion is correct. The variance was due to the fact that the second journal entry that was required to adjust the provision account, wasn't done. Management notes the error and will make the appropriate adjusting entry to reflect the reconciled balance and restate the Financial Statement.*

#### **Auditor General's Position**

1.1.8.8 We acknowledge Management's acceptance of our findings and recommendations.

1.1.8.9 However, Management should provide a comprehensive, adjusted and approved financial statements to the Office of the Auditor General for validation within 30 days upon issuance of the AG's Report to the National Legislature.

## **1.2 Internal Control Related Issues**

### **1.2.1 Fixed Assets Discrepancies**

#### **Observation**

1.2.1.1 IAS 16 requires that the depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life. The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ

from previous estimates, any change is accounted for prospectively as a change in estimate under.”

1.2.1.2 Regulation V.1 (2a) of the Amended and Restatew PFM Act 2019 states: 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: (a) preventive mechanisms are in place to eliminate theft, losses, wastage and misuse;

1.2.1.3 During the audit, we observed the following irregularities associated with the fixed assets management system:

- There was no evidence of periodic physical verification of assets by Management
- The fixed assets register was not regularly updated.
- There was no evidence of movement of assets form
- Fixed assets within a given vicinity were not recorded in a fixed assets log as required by the PFM Act.

### **Risk**

1.2.1.4 Assets may be damaged or impaired but their values are still on the books.

1.2.1.5 Fixed assets may be removed from the entity’s premises without authorization, misappropriated and subjected to personal use or theft.

1.2.1.6 Fixed assets may be impaired missing or damaged without Management awareness.

1.2.1.7 The lack of asset movement log could make it difficult to keep track of assigned or transferred assets, which may lead to misuse, loss or theft of assets without being noticed.

1.2.1.8 Failure to properly account for fixed assets may lead to theft and misapplication of equipment/materials. This may result in the non-achievement of the entity’s objectives.

1.2.1.9 Fixed Assets not coded may be susceptible to theft or diverted to personal use.

### **Recommendation**

1.2.1.10 Management should expedite the following to facilitate effective fixed assets management:

- Management should ensure that the fixed assets register is updated in a timely manner to reflect all fixed assets of the entity.
- Management should conduct periodic fixed assets count and /or verification to determine the current condition and location of the assets. Evidence of physical verification should be adequately documented and filed to facilitate future review.
- Management should conduct periodic reconciliation and any variance identified adjusted in a timely manner.

- All fixed assets of the entity should be uniquely coded. The codes of the assets should be subsequently updated in the fixed assets register. Going forward, all fixed assets should be coded upon acquisition.
- Fixed assets within a particular vicinity should be clearly listed and displayed as required by the PFM Act.
- A movement of Asset Form should be filled and authorized before assets are moved from one location to another. The Fixed Asset Register should be updated to reflect the change in location of asset.

### **Management's Response**

- 1.2.1.11 *Management notes your observation and recommendation. For the period under review, there were no movement of fixed assets. Management will ensure periodic assets verification and register update.*

### **Auditor General's Position**

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

## **1.2.2 Procurement Irregularities**

### **Observation**

- 1.2.2.1 Section 55.1 (a, d) of the Public Procurement Commission (PPC) of 2005 as amended and restated in 2010 states that, "by means of the sole source procurement method is permitted only in the following circumstances: (a) When only one (1) supplier has the exclusive right to manufacture the goods, carry out the works or perform the services to be procured and no suitable alternative is available; (d) In cases of extreme urgency, provided that the circumstances which gave rise to the urgency were neither foreseeable by the Procuring Entity nor the result of dilatory conduct on its part;"
- 1.2.2.2 Section 55.3 of the PPCC Act as amended and restated in 2010 states that, "Use of sole source procurement on any of the grounds referred to in subsection (1) of this Section 55 shall be subject to prior approval by the Commission. When requesting approval of a sole source procurement, the Procuring Entity shall provide the Commission with a statement of facts and reasons justifying use of the requested method under the applicable provision of such subsection (1)".
- 1.2.2.3 During the audit, we observe the following irregularities associated with the procurement system:
- There was no evidence of periodic (quarterly and annual) procurement activities report submitted to PPCC.

- Management awarded contract totaling US\$ 21,804.80 to Liberia Telecommunication Corporation (LIBTELCO) without evidence of a renewed contractual terms and conditions mutually agreed upon.

### **Risk**

- 1.2.2.4 In the absence of a quarterly procurement report, Management may be in noncompliance with the PPC Act of 2005 as amended and restated in 2010.
- 1.2.2.5 The awardance of non-written contracts may lead to discretionary expenditure, waste and the non-achievement of value for money.
- 1.2.2.6 Management may not adequately account for its procurement activities and impair effective monitoring of its procurement activities by the PPCC.
- 1.2.2.7 The non-application of the requisite procurement method may impair the achievement of value for money and facilitate fraudulent procurement activities.

### **Recommendation**

- 1.2.2.8 Management should ensure that the requisite procurement methods are utilized for all procurement transactions to achieve value for money and ensure compliance to the PPC Act of 2005 as amended and restated in 2010.
- 1.2.2.9 Management should facilitate the preparation and submission of quarterly and annual procurement activities reports to the PPCC as required by the PPC Act of 2005 as amended and restated in 2010.

### **Management's Response**

- 1.2.2.10 *Management takes note of the observations and recommendations resulting from your audit and wishes to clarify your observation that "there was no evidence of periodic (quarterly and annual) procurement activities report to PPCC." During fiscal year 2019/2020, despite having our procurement plan approved, we did not conduct any procurement tendering activities. However, there were three special projects implemented. For these projects, there was a separate procurement plan approved by PPCC. We did submit report (contract award information) to PPCC. We have attached copies of the report submitted and pertaining documents for your review and records.*
- 1.2.2.11 *Management acknowledges your observation regarding contract being awarded to LIBTELCO without evidence of a renewed contractual terms and conditions. Management through the office of the General Counsel is concluding the review of the draft contract submitted by LIBTELCO. Your recommendation is expected to be speedily implemented in the next coming weeks*

### Auditor General's Position

1.2.2.12 We acknowledge Management's acceptance of our findings and recommendations. We will follow up on implementation of our recommendation during subsequent audit.

## 1.3 Governance Issues

### 1.3.1 Payment of Both Board and Sitting Fees

#### Observation

1.3.1.1 Number nine (9) under fiscal targets titled 'State Owned Enterprises (SOEs) Pay' of the Government of Liberia Annual Fiscal Outturn Report Fiscal July 1, 2017 – June 30, 2018 states that:

- Where board fees are paid to board members, there shall be no sitting fees;
- Cabinet Ministers occupying either statutory or appointed board positions on public corporations or autonomous agencies shall not be entitled to board or sitting fees;
- Boards are required to present proposal for Board fees to the President for approval;
- Commissions without oversight boards are required to submit compensation proposal of senior management for approval by the President; and
- In cases where board has performed exceptionally and bonus is being paid, such proposal should be made to the President for approval.

1.3.1.2 During the audit, we observed that board fees and sitting fees amounting to **US\$53,900** and **US\$6,900** respectively were paid to board members for the fiscal period ended June 30, 2020 under audit. **See Tables 7 below for details.**

**Table 7: Board and Sitting Fees**

No.	Description	Amount US\$
1	Board fees	53,900.00
2	Board Sitting fees	6,900.00
<b>Total</b>		<b>60,800.00</b>

#### Risk

1.3.1.3 Receiving double compensation is a violation of the Government fiscal rules and targets which could lead to misapplication of the entity's resources.

#### Recommendation

1.3.1.4 Management should provide justification for facilitating payments of both board fees and sitting fees.

- 1.3.1.5 Going forward, Management payment of Board fees should be in compliance with 2017/2018 fiscal rules.

**Management's Response**

- 1.3.1.6 *Management acknowledges and notes your recommendation with respect to Number nine (9) under fiscal targets titled: State Owned Enterprises (SOEs) pay- of the Government Annual Fiscal Outturn- Report. Management also wants to clarify that Cabinet Ministers sitting on its board, do not receive sitting or board fees.*

**Auditor General's Position**

- 1.3.1.7 We acknowledge Management's assertion. We will follow-up on the implementation of our recommendations during subsequent audit.

**1.3.2 Audit Committee**

**Observation**

- 1.3.2.1 Section 1(K.10) of the Public Financial Management Regulations of 2009 states "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."

- 1.3.2.2 It was observed during the audit that Management provided no evidence that a functional audit committee existed at the Institution to review internal controls, the scope of internal audit; internal audit plans and ensure that internal and external audit findings are evaluated and implemented.

**Risk**

- 1.3.2.3 Audit issues and lapses identified in the entity's internal control system may not be appropriately monitored and addressed due to the lack of audit committee.
- 1.3.2.4 Internal and external audit recommendations may not be monitored and implemented in a timely manner

**Recommendation**

- 1.3.2.5 Management should liaise with the relevant authority to establish a functional board of directors, including a functional audit committee. The audit committee should be functional evidenced by the documentation of periodic meetings minutes and activities reports.

**Management's Response**

- 1.3.2.6 *Management acknowledges your observation regarding the lack of evidence to support the existence of a functional audit committee as required by Section 1(K.10) of the PFM Regulation of 2009 which 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."*

- 1.3.2.7 *However, Management has taken significant steps in straightening the internal audit functions within the institution. Consistent with **Standard 1110- "Organizational Independence"** of the International Standards for the Professional Practice of Internal Auditing, management has ensured that the Internal audit functions within the institution is sufficiently independent and that these functions in implemented free of coercion.*
- 1.3.2.8 *The board is currently working on the establishment of its sub-committees. We note that your observation and recommendations would further emphasis the need to address the 'Governance Issues' raised in your draft report. You will be appropriately notified of the relevant details of the committee once the formulation is completed.*

**Auditor General's Position**

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



**PRIOR YEAR AUDIT MATTERS NOT IMPLEMENTED**

<b>PRIOR YEAR AUDIT MATTERS NOT IMPLEMENTED</b>				
<b>No.</b>	<b>Findings</b>	<b>Observation</b>	<b>Recommendations</b>	<b>Status of implementation</b>
1.	1.1.1 Settlement Agreements	There was no evidence that the remaining US\$20,568,467.94 owed by TGS NO PEC was paid to NOCAL	1.1.1.45-1.1.1.47	None
2.	1.7.1 Internal Audit	Paragraph 1.7.1.3	Management did not approve the charter, manual and code of ethics to strengthen the purpose, authority and responsibility of the internal auditing department.	Management indicated that it places high priority on having the working documents reviewed and approved by the Board of Directors. Copies will be forwarded to our offices for our attention and records.
3.	1.4.1 Corporate By-Laws corporate governance practices	Paragraph 1.4.1.1 to 1.4.1.4; Page 30 of Management Letter 2015 to 2017	Management's failure to make available new corporate by-law that conforms to current legal environment and sound corporate governance practices	Operations of the National Oil Company of Liberia (NOCAL) and the sector within which it operates are being governed by the Amended Petroleum Reform Law of 2019 and NOCAL Act of 2014.