

GENERAL AUDITING COMMISSION



2007 ANNUAL REPORT (1 January 2007-31 December 2007) (Unaudited)

Submitted To:

Her Excellency Madam Ellen Johnson Sirleaf
President, Republic of Liberia

John S. Morlu, II
Auditor General, R.L.

Monrovia, Liberia
28 January 2007

GAC/OAG/014/JSM/AG/EJS/EM/'08

January 31, 2008

Madam Ellen Johnson Sirleaf
President of the Republic of Liberia
Capitol Hill
Monrovia, Liberia

Madam President:

I present my compliments and submit the Annual Report of the General Auditing Commission (GAC) covering the fiscal period January 1 – December 31, 2007.

In keeping with my drive to promote transparency, accountability and financial probity, the Office of the Auditor General has from time to time kept the Office of the President abreast about progress, constraints and challenges of the GAC.

In further recognition of this goal, the General Auditing Commission furnished the Office of the President the Report Card of the GAC on 21st November 2007.

Madam President, I would like to officially invite you to the General Auditing Commission to have an on-site knowledge of the GAC at work.

Madam President, please accept my sentiments of the highest esteem, again.

Sincerely,

John S. Morlu, II
Auditor General, R.L.



TABLE OF CONTENTS

	PAGE
Message from the Auditor General	1
Introduction	2
Financial Matters	3
Budget Matter	3
European Union Sponsored Technical Assistants	4
Task completed during Period under review:	
• The GAC Law	4
• Renovation	4
• The National Budget	5
• On Reforming GAC	5
• Training	6
Audits	8
• Statutory Audits	8
• Statutory Forensic Audits	8
Setting Auditing Standards	8
Foreign Initiatives	9
Audit Materials, Documents and Forms	9
Constraints—on legal requirements	11
Looking Into the Future	12
Appendix:	13
➤ A - Comparative Figures	13
➤ B – Blue Print	Encl.
➤ C – Brown Book	Encl.
➤ D – Audit Manual	Encl.

Message from Auditor General:

The Honorable Members of the National Legislature:

It is my pleasure to submit to you the annual administrative report for the General Auditing Commission. I wish to thank the President of Liberia, the members of the National Legislature, and the European Commission for the support they have given to the General Auditing Commission since my incumbency.

The Year 2007 has been very challenging for the General Auditing Commission and the Office of the Auditor General. We came into office in May 2007 and our focus since taking over has been to build a credible supreme audit institution, a GAC that will measure up to international best practice, and perform to the expectations of the Liberian people and our international partners.

Some of the major successes of the GAC during the year 2007 include the following:

- The GAC went through some restructuring program and 107 auditors 20 support staff were employed and have gone through our in-house training.
- The GAC has adopted the INTOSAI Code of Ethics and Auditing Standards which is localized to the Liberian situation.
- For the first time in the history of the Government of Liberia, the GAC has developed an audit manual.
- We have commenced the audits of the accounts of the Government of Liberia as well as several forensic audits.

The GAC however, still faces a number of challenges. For instance, the building currently housing the GAC is in need of extensive renovations. We are in need of funds to enable us carry out as many statutory audits as possible. We are also still in dire need of vehicles to reach the far flung areas where the projects are being undertaken.

The GAC has begun to coordinate efforts with other government agencies to improve public financial management. I anticipate increased coordination in the future, as we all share similar goals.

I believe, with your continuous support, the GAC will continue to grow in capacity and professionalism for the benefit of our country, as we collectively seek to enhance accountability, transparency and fiscal probity.

Sincerely,

John S. Morlu II
Auditor General of the Republic of Liberia

Signed this day 28 January 2007 in the City of Monrovia

General Auditing Commission (GAC)

The Bureau of Audits was created by an Act of the National Legislature of 1956. The Act was amended by the Executive Law of 1972 under Chapter 53, Sections 1-10, making it an Independent Agency within the Executive Branch of Government. It was renamed the General Auditing Office in the 1972 Legislation. This Act was repealed and a new Act approved in June 2005, granted it the status of Autonomous Commission of Government amendable to the Legislative Branch of the Government of Liberia. The General Auditing Commission is also created in Article 89 of the 1986 Constitution as an autonomous commission of the Government of Liberia.

The Commission is headed by the Auditor General of the Republic of Liberia, who is the officer of the Government principally responsible for conducting comprehensive post audits, special financial investigations, reconciliation's and analyses, and continuous audits on a routine basis.

Office of the Auditor General (OAG)

From January 2007 to May 2007, there was an Acting Auditor General. The former Auditor General was transferred to a new position in Government in November 2006.

The Government of Liberia and GEMAP through the European Union sponsored a competitive process to recruit an Auditor General. The new Auditor General was recruited amongst an applicant pool of Liberians and non-Liberians. President Ellen Johnson Sirleaf nominated John Morlu as the new Auditor General on January 5, 2007. After hearings, the new Auditor General was confirmed in his functions by the Plenary of the Liberian Senate in February 2007.

Auditor General John Morlu returned to Liberia on 27th April 2007 and assumed office in May 2007, two months to the end of the fiscal year. The Auditor General focused his initial efforts on meeting with various stakeholders to determine how best to build a competent and credible General Auditing Commission. He also participated in the review and analysis of the draft National Budget.

Financial Management

According to Section 53.11 of the Executive Law of 1972, “The Auditor General shall be responsible for the income and expenditure accounts of the General-Auditing Office.” In an effort to strengthen the General Auditing Commission, the Auditor General has initiated several reforms in the areas of financial management. The Auditor General has recruited a competent staff in the Accounting and Finance Section of the GAC and drafted an Accounting Policy and Procedure for better financial management.

Budget Matters

In 2006/2007, fiscal year, the General Auditing Commission received an appropriation of US\$481,000. Under the new leadership, between 1 May 2007 and 30 June 2007, the General Auditing Commission expended US\$10,001 on operations and US\$25,000 on renovation of the top floor of the Old Executive Mansion. The Ministry of Finance published its Fiscal Outturn for 2006/2007, showing that the General Auditing Commission over spent its budget by US\$49,000. The Auditor General has formally brought to the attention of the Minister of Finance that the GAC did not spend US\$142,000 of its fiscal year 2006/2007 appropriation, and could not have exceeded its budget.

The financial performance of the General Auditing Commission will be assured for the period ending June 30, 2007 once the Transactional Audit of the Fiscal Outturn, which began on 26 November 2007, is completed.

In May 2007, the General Auditing Commission submitted its annual budget to the National Legislature seeking US\$6.8 million for personnel and operational costs for assumed growth in staffing, international manpower assistance, equipment, participation in international organizations and professional training. Additionally, GAC requested a one-time funding for reform efforts of US\$100,000 and US\$600,000 for the renovation of the Old Executive Mansion to accommodate the assumed growth in manpower.

The Government of Liberia through the National Legislature provided US\$1.6 million for the fiscal year 2007/2008, limiting GAC ability to under take major projects, thus severely constraining operational costs. So far, the GAC has innovatively reprogrammed its budget to continue gradual renovation of the Old Executive Mansion, to accommodate many of its newly recruited staff.

European Union has contributed US\$457,000 toward infrastructure and training costs for the GAC.

Auditing is an expensive venture requiring a whole lot of competent man-hours. Future funding levels should take into account the following comparative figures. An appendix at the end of this document does a comparative analysis of cost if audits of Government agencies are outsourced. **(See Appendix A)**

European Union Sponsored Technical Assistants

The European Union has provided a great deal of technical assistants during the year. The following high profile individuals assisted in reforming the GAC:

- **Ron Mwambwa:** Former Deputy Auditor General of Zambia. Mr. Mwambwa arrived in Liberia in January 2007. He has provided oversight of the EU project and worked closely with the new Auditor General to develop audit documents including INTOSAI Code of Ethics and Auditing Standards, audit manual, various implementation guidelines, to name a few.
- **Susan Larsen:** Experienced legal expert with the Courts of Audits in Australia. Mrs. Larsen arrived in Liberia in January 2007. She drafted a world class legal act to replace the Chapter 53 of the Executive Law of 1972. Draft presented to the President in May 2007. Mrs. Larsen also prepared the GAC Code of Conduct, Brochure, and trained GAC staff on ethical and legal issues.
- **Musa Saine:** Senior Auditor of the Gambia National Audit Office. Mr. Saine arrived in Liberia in January 2007. He prepared a training manual. Unfortunately for the GAC, this capable expert had to take position in New York with the United National Development Project (UNDP).
- **Wilfred Davies:** A highly experienced Member of the Board of External Auditors of the African Union and third in command at the Gambia National Audit Office. Mr. Davies arrived in January 2007. He is the training expert, who has labored to train all of the GAC auditors, plus internal auditors from the Ministry of State, and financial crimes investigators from the Ministry of National Security.
- **Mr. Breffni Kelly:** An experienced human resource expert. Mr. Kelly arrived in Liberia in September 2007. He has worked closely with the EU Team Leader and the Auditor General to develop various HR documents and forms.

Additionally, Mr. Chris Gabelle, the former EU Governance Advisor provided invaluable service to the GAC and the Office of the Auditor General. He brought to bear his direct governance expertise in shaping a credible and independent General Auditing Commission.

Tasks Completed During Period under Review

The GAC Law:

The new draft law of the General Auditing Commission to bring it up to international standards (1977 LIMA Declaration, in particular) was completed through the assistance of an European Union sponsored legal expert, with extensive experience with supreme audit institutions across the world. 10 copies of the draft act were presented to the President in May 2007.

Renovation:

The GAC embarked on finding an office space. Instead of renting, GAC decided to ask the President to allow usage of the Old Executive Mansion. The old Executive Mansion has enough

space to house staff and conduct training seminars for GAC and other financial and auditing staff of the Government of Liberia. The Commission has completed renovation of two floors of the residential portion of the Old Executive Mansion, costing about US\$50,000.

The National Budget

The Office of the Auditor General produced a 99 page dossier of the draft National Budget of Liberia that critically examined the budget. This budget debate generated additional revenue of US\$16.8 million that brought the National Budget to about US\$200 million.

Additionally, the GAC intervention in the budget debate also led to an increased awareness of the National Budget and could serve as a benchmark for future improvements in the National Budget preparation and presentation.

On Reforming GAC:

There was no structure in place when the new Auditor General arrived. In using the help of external professionals, sponsored by the European Union and selected staff, the new Auditor General began the tedious work of reforming an important accountability and transparent institution. For the most part, the institution had existed only in name. The new AG put together a Blue Print (**Appendix B**) to serve as the main guiding principle and strategy in building a capable and professional General Auditing Commission.



A major part of the reform efforts was a competitive recruitment of a new GAC staff. The Auditor General sought and received permission from the Government of Liberia to carry on the reform agenda. The Civil Service Agency provided US\$122,000 to the GAC for the restructuring process.

The process began in August 2007 with an objective test administered in Monrovia and Bong County, for all qualified Liberians wishing to join the GAC. Test takers were required to pre-register and received an ID number, which was required for test date. Diminishing bias, during the administering of the exam, the exams were administered by a different set of people both in Monrovia and Gbarnga, marked by another group, and grades tabulated by another group. Until the time for marking, the exams were kept in a secure location at the office of the European Union. It is important to note that through out the process, the Civil Service Agency was represented.



Below are statistical breakdown of the competitive recruitment and placement process:

	Applicants	
Registered for exam	1,400	
Sat for the exam	998	
Successful	256	Audits
Successful	85	Administration

Total Successful	341	
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First Round of Completed Interview	220	
Successful	107	Auditors
Successful	20	Administrators
Total	127	

During the interview, the GAC established a **9-Member Interview Panel** comprising Liberians and non-Liberian professionals. The Civil Service Agency had assigned one of its members to monitor the entire process, which was conducted professionally and fairly.

The total current manpower strength is 147 staff, of which 107 are auditors and forensic auditors.

The successful restructuring of the General Auditing Commission is credited for raising the profile of the institution. Today, the General Auditing Commission is gaining credibility in Liberia and abroad.

On Training

An important aspect of building capacity is training staff of the General Auditing Commission which is therefore prioritized by this Management. In the first instance, the General Auditing Commission has begun to actively participate in training and other activities sponsored by the International Organization of Supreme Audit Organization (INTOSAI) and the English-speaking African Supreme Audit Institutions (AFROSAI-E), as depicted by the picture below.



In June 2007, GAC sponsored a team comprising five (5) auditors to attend the AFROSAI-E training workshop in Accra, Ghana (see picture above). GAC also sent another auditor to South Africa in December 2007 to participate in a needs assessment workshop sponsored by AFROSAI-E and INTOSAI.

The European Union sponsored Technical Team has conducted two batches of training sections broken into morning and afternoon sections. These training sections were rigorous, intensive and in-depth. Upon completion, the auditors were immediately deployed on various audit assignments.

Internal auditors and financial crime investigators from a few agencies of government including the Ministry of State and Ministry of National Security have benefited from the GAC offered training programs. These non-GAC training participants from other government institutions have benefited at no cost to their respective institutions. The overall goal is to leverage the costs across various government institutions, thereby creating a value for money situation.

Below is a breakdown of the training:

	Dates Started	Number of Auditors
First Batch	19 November 2007	82
Section Batch	10 December 2007	31
Third Batch	TBA	TBA

Audits

The Commission has started three major audits. This is the first time the General Auditing Commission is auditing the fiscal accounts of the Republic of Liberia, at least, in the last 25 years. The Auditor General developed a Risk Index to prioritize audits and enhance value for money, statutory audits and audits earmarked for debt relief-HIPC requirements.

The Auditor General has commissioned several audits. Below is the breakdown of commissioned audits:

Statutory Audits:

1. Fiscal Outturn of the Republic of Liberia for periods 2005/2006 and 2006/2007. Started 26 November 2007
2. National Social Security and Welfare Corporation (NASSCORP) for periods 2005/2006 and 2006/2007. Started 3 December 2007.
3. Ministry of Finance for periods 2005/2006 and 2006/2007. Started 5 December 2007.

Statutory Forensic Audits (Special Financial Investigations: All started 27 December 2007

1. County Development Fund for periods 2005/2006 and 2006/2007
2. Maritime Investment in Inmersat for periods 2003-2007
3. Fees Collected by the National Elections Commission for 2005 General and Presidential Elections
4. Intellectual Property Systems for periods 2005/2006/2006/2006 and July 2007-December 2007
5. US\$4 million grant from South Africa to the National Transitional Government of Liberia (NTGL)
6. Special audits on selected vouchers and payments

Setting Auditing Standards

Auditing is a scientific and time-tested means to ensure accountability, transparency and fiscal probity. In order to provide assurance on public financial and program management, audit organizations and auditors must adhere to strict professional code of ethics and auditing standards. The Republic of Liberia did not have an auditing standard prior to the arrival of the new Auditor General.

Therefore, as a first step in ensuring quality audits, the Commission formally adopted and localized the INTOSAI Code of Ethics and Auditing Standards. This code of ethics and auditing standards has been named the **Brown Book (Appendix C)**. All auditors of government agencies

and government organizations as defined in Chapter 53, Section 53.1 of the Executive of 1972 are required to adhere to this Brown Book. All audit work will be measured against the Code of Ethics and Auditing Standard (The Brown Book). GAC auditors have been trained on the Code of Ethics and Auditing Standards.

Additionally, the Commission, in conjunction with the European Union sponsored Technical Team, developed an Audit Manual (**Appendix D**) to be used as a step-by step guide for auditors. This important manual of audit is again, the first of its kind developed in Liberia.

Training manual and other implementation guidelines have also been developed or adopted by the Auditor General through the assistance of the European Union sponsored Technical Team, which includes a former Deputy Auditor General.

Foreign Initiatives:

In addition to increasing GAC participation in international bodies like the INTOSAI and AFROSAI-E, the Office of the Auditor General has established relationships with other credible audit institutions. In the conduct of the audits in Liberia, the Auditor General has secured the assistance to provide the following auditors from various supreme audit institutions. Below is a breakdown:

- Ghana Audit Service: 10 auditors plus the Auditor General and the Deputy Auditor General for Audits;
- India Audit Office: 4 auditors have been earmarked;
- Zambia Audit Office: 2 auditors.

Additional commitments for auditors is being sought from other supreme audit institutions to assist the GAC produce high quality audits, at a minimal cost.

Audit Materials, Documents and Forms:

Below are a list of audit materials, documents and forms that have been developed since May 2007:

Audit Materials—Developed and Completed	Comment
GAC Legislation	Design to bring laws up to LIMA Declaration. Submitted to President on 8 May 2007. Widely distributed.
INTOSAI Code of Ethics and Auditing Standards	Adopted and localized into a 92 page document. First time, Liberia has formally adopted and localized a code of ethics and auditing standards. As a means of further localization, we have named this Code and Standard as The Brown Book .
Auditing Manual	Professionally developed an Auditing Manual. This is again the first time in Liberia.
Training Manual	Developed a training manual. This is again

	the first time in Liberia.
Quality Control Manual	Adopted and localized from AFROSAI-E.
INTOSAI Implementation Guidelines	Guidelines for the implementation of the Code of Ethics and Auditing Standards. Adopted by AG in totality.
FORMS—Developed and Completed	Comment
FORM 1: Application Form	Standard employment application to facilitate background checks.
FORM 2: Conflict of Interest	Full disclosure consistent with INTOSAI Code of Ethics and Auditing Standard, General Standard 2.
FORM 3A: Confidentiality Agreement. (GAC & Employees)	Consistent with the Executive Law of 1972, Chapter 53, Section 53.5.
FORM 3B Confidentiality Agreement (GAC & Contractor)	Consistent with the Executive Law of 1972, Chapter 53, Section 53.5.
FORM 4: Asset Declaration	Consistent with Liberia government's position of accountability, transparency and probity through disclosure of assets.
FORM 5: Authorization of Transfer & Promotion	For internal use in order to keep track of when an employee is being promoted or transferred.
FORM 6: Authorization & Consent.	Employees and contractors consent to background checks and referencing.
FORM 7: Weekly Timesheet	Ensure that employees are paid for time worked, as well as track employees' activity to time reporting.
FORM 8A/B: Leave Application/Cancellation	Ensure proper monitoring of leave
FORM 9: Daily Attendance Record	Ensure proper monitoring of employee daily work hours
FORM 10A/B-Annual Performance Appraisal	Management by objective-performance evaluation
DOCUMENTS—Developed and Completed	Comment
DOCUMENT 1: Human Resource Policy	Standard HR Policy consistent with law to guide employee behavior. All employees expected to read and sign.
DOCUMENT 2: Code of Conduct	In addition to the Code of Ethics and Auditing Standards to guide the performance of auditors and financial investigators, this Code of Conduct applies to all GAC employees, including auditors and administrative staff.
DOCUMENT 3: Job Descriptions	Enables employees to know their obligations, particularly what is expected from them.

DOCUMENT 4: Training Program	Two year training program of courses covering various audit areas.
DOCUMENT 5: Annual Work Plan	Through risk basing the audits, an annual plan template to schedule time of activities during the year.
DOCUMENT 6: Recruitment Process	Outlines what to do from start to finish for recruitment.
DOCUMENT 7: Instrument of Delegation	Confers Auditor General authority to persons or positions within GAC.
DOCUMENT 8: Performance Management	Outlines what performance management is about.

Constraints—on legal requirements:

Section 53.6 : Audit Certificate, states "The Auditor General shall examine and certify in accordance with the outcome of his examination any statement that the Minister of Finance or other head of a Government agency or Government organization may present for **Audit Certificate.**"

Not a single government agency presented to the Office of the Auditor General an Annual Report for Audit Certificates as required by law and by international standards and best practices. The General Auditing Commission and the Office of the Auditor General have informally seen a few annual reports by various agencies. It is hard to see how the National Legislature can assure the information contained in various annual reports submitted to it, is accurate and correct without an audit certificate.

Additionally, the Office of the Auditor General cannot meet the requirements of Section 53.7 of the Executive Law of 1972 since it has not received any annual report or financial report from the Minister of Finance and other agencies of Liberia.

Section 53.7 : Annual Report of the Auditor-General, reads, "The annual report of the Auditor General to the Legislature on the activities of the General Auditing Office and on the results of his audits, shall call attention to the following:

- (a) "Any officer or employee who has willfully or negligently failed to collect or receive monies belonging to the Government;
- (b) "Any public monies not duly accounted for and paid into an authorized depository;
- (c) "Any appropriation that was exceeded or applied to a purpose or in manner not authorized by law;
- (d) "Any deficiency or loss through the fraud, default or mistake of any person; and
- (e) "Inadequate or ineffective internal control of public monies and assets. When appropriate, the report shall also include recommendations for executive action or legislation deemed necessary to improve the receipt, custody, accounting and disbursement of public monies

Since the Auditor General did not receive annual reports from agencies of government for Audit Certificate, it cannot exercise the legal requirement as listed in bullet A-E of the Section 53.7 of the Executive Law of 1972.

Therefore, it is recommended that the National Legislature seeks to reform the GAC law and pass it into a financial regulations act to provide overall management guidelines for the Government of Liberia including establishing clear reporting parameters for all government institutions.

Looking Into the Future:

The Management of the General Auditing Commission and the Office of the Auditor General will continue the capacity building efforts at the GAC. The Auditor General will continue to conduct the audits of government agencies and government organizations, which have commenced with the commissioning of three (audits) and six (6) forensic audits with a time frame for completion set for April/June 2008.

The Auditor General will request supplementary funding to augment its limited US\$81,000 audit budget for the smooth operation of the GAC audit programs. The Auditor General has reprogrammed the GAC 2007/2008 budget by taking funds away from foreign travel, rental and lease as well as other important line items and transferred into office renovation and audits.

The GAC will need additional funding for foreign auditors and additional renovation for adequate office space. At present, local auditors in the field are not receiving field allowances as set in the domestic travel ordinance due to limited funds and budgetary constraints. The GAC will need additional funding to take care of this lapse.

The GAC in its reconstruction drive is studying and contemplating the establishment of four regional offices. The establishment of these regional offices will strengthen the audit oversight function of the General Auditing Commission.

The possible locations of these Regional Offices are:

1. Gbarnga- Bong County
2. Buchanan- Grand Bassa County
3. Harper- Maryland County
4. Tubmanburg- Bomi

These regional offices will oversee audit functions with the mandate of the Auditor General in the various parts of the country.

Appendix A

COMPARATIVE FIGURES

WHAT IT WOULD COST IF OUTSOURCED TO A COMPETENT AND CREDIBLE AUDIT FIRM

Comparative Analysis (Prior Audits)

EU Sponsored Audits	Amounts in U.S Dollars	
NPA	\$	179,125
RIA	\$	179,125
BMA	\$	395,715
FDA	\$	142,042
LPRC	\$	426,150
CBL	\$	512,698
Total	\$	1,834,855

Domestic Debt Audit

KPMG	\$400,000
Additional Forensic Auditors	\$200,000
Total cost of domestic debt audit	\$600,000

Source: European Commission and MoF

The domestic debt audit is equivalent to five audits under the AG proposal. The payroll audit during the interim government, a non-quality audit, cost US\$250,000. Audit is an expensive venture. AG proposal produces the highest level of **quality audits** at a lowest and reasonable cost. Indeed, GAC is the least cost option, representing 25 percent of cost of outsourcing to a reputable firm.

Looking at the costs for the prior audits, building the capacity of the GAC is the lasting and cost effective option over the long term, especially as the demand for accountability, transparency and probity is ever increasing. It would be cost prohibitive to outsource the audits of, say Ministry of Finance, an institution with no evidence of prior quality audits. The risk of materiality (rm) is just too high.

INTERNATIONAL FIRM--KPMG

KPMG	Daily Rate (USD)*	Days	Monthly (USD)
Audit Manager	850	30	25,500
Auditor	620	30	18,600
Associate Auditor	500	30	15,000
* Excluding airfare			

Source: David O. Carew, formerly Managing Partner and now Minister of Finance in Sierra Leone

LOCAL FIRM

	Local Firms (Voscon)			
Type of Auditor	Hourly Rate (USD)	Hours	Days	Monthly
Audit Manager	\$50.00	8	30	\$12,000
Audit Supervisor	\$40.00	8	30	\$9,600
Senior Auditor	\$35.00	8	30	\$8,400

Source: Voscon

This is a Liberian firm. This cost is also prohibitively high. Again, best option is training GAC auditors for cost efficiency. Indeed, there is a need to build local capacity, but cost too high for a professional practice that did not even have an adopted auditing standard.

The overall statutory budget for the General Auditing Commission for fiscal period 2007/2008 is US\$81,000 to audit all government agencies and government organizations as defined in section 53.1 of the Executive. It is nearly impossible for any Auditor General to be able to carry out its statutory mandates with only US\$81,000.