

SYSTEMS AND FINANCIAL AUDIT OF ROBERTS INTERNATIONAL AIRPORT

VOLUME 1
EXECUTIVE REPORT

“This report was financed from the European Development Fund and is submitted by Ernst & Young for the consideration of the European Commission and the Government of Liberia. The views expressed in the report are those of the Consultant and do not necessarily reflect those of the European Commission or of the Government of Liberia”

TABLE OF CONTENTS

	LIST OF ACRONYMS	PAGE
1	INTRODUCTION	1
2	LEGAL AND CONTRACTUAL ENVIRONMENT	2
3	SYSTEMS AUDIT OF RIA	3
3.1	Organization chart	3
3.2	Procurement process	4
3.3	Cash Disbursement Process	6
3.4	Billing process	6
3.5	Collection process	7
3.6	Management Information Systems	7
3.7	Human Resources	8
3.8	Utilities, Facilities and Working Environment	9
3.9	Internal Audit	10
3.10	Overall Conclusion on the Systems and Controls in Place	10
4	FINANCIAL AUDIT OF RIA	12
4.1	Accuracy and Completeness of the Revenues	12
4.2	Existence and Justification of the Expenditures	12
4.3	Fixed Assets (and Investments made in the Period)	13
4.4	Collectibility of the Receivables	14
4.5	Shareholders' Equity	14
4.6	Other Accounting and Auditing Issues	15
4.7	Overall Conclusion on the Financial Statements	15
5	TAX COLLECTION AT THE FREEPORT OF MONROVIA	16
5.1	Applicable Regulation and Tariffs	16
5.2	Organization of the Tax Collection	16
5.3	Findings from our Substantive Tests	16
6	ASSESSMENT OF POTENTIAL REVENUE FLOWS WHICH COULD BE GENERATED IN FOLLOWING PERIODS	19
6.1	From the Activities of RIA	19
6.2	From the Tax Collection	19

7	RECOMMENDATIONS	21
7.1	Recommendations for Improvements at RIA	21
7.2	Recommendations for Improvements at the Level of the Ministry of Finance	25
8	CONCLUSION	26

LIST OF ACRONYMS

AWB	Airway bills
BoD	Board of Directors
BRA	Bureau of State Enterprises
CA	Chief Accountant
CoA	Chart of Accounts
CIF	Cost Insurance Freight
CPA	Comprehensive Peace Agreement
CPA	Certified Public Accountant
CSC	Cargo Service Charge
DGM	Deputy General Manager
DN	Delivery notes
EC	European Commission
ECOWAS	Economic Community of West African States
EU	European Union
FAR	Fixed assets register
FC	Financial Controller
FIR	Flight Information Region
FOB	Free on Board
FSCP	Financial statement close process
GAO	General Auditor's Office
GM	General Manager
GOL	Government of Liberia
GRN	Goods Received Note
GSA	Government Service Agency
GST	Goods and Services Tax
IA	Internal Audit
ICT	Information and communication technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INA	Interim National Assembly
LBDI	Liberia Bank for Development and Investment
LBR	Liberia

1. Introduction

We conducted a systems and financial audit of Roberts International Airport (RIA) in response to the Terms of Reference.

The systems audit covered a comprehensive review and assessment of the adequacy, efficiency and effectiveness (as the case may be) of RIA's legal framework, organizational structure, human resource capital, planning and budgetary control mechanisms, the internal sub-systems and working environment.

The financial audit was aimed at identifying and verifying the main financial flows and opening and closing balances of RIA for the years ended 31 December 2002 and 2003. The line items covered included: gross revenue, current expenditure, purchased goods process, transfers made, borrowing, interest and capital spending. Other areas covered were profit/loss balance, remitted profits, net change in financial assets, and composition of net financial balance, an indication of the legal basis for the various activities and transfer and an estimate of the potential revenue flows including customs revenue.

We noted that the composition of the management team has changed significantly with a totally new team since the introduction of the NTGL in October 2003. Most of the operational processes are in fairly good shape. Regarding the financial audit, we were unable to obtain reliable underlying records to support the financial statement assertions. Not even the accounting staff could explain the basis for certain amounts in the financial statements. The accounting staff explained that most of the entries were made by the external auditors: Monbo & Co, Chartered Accountants. Clearly, these problems constitute a limitation of the scope of the audit, as a result of which we are not able to express an opinion of the financial Statements of RIA.

This issue also raises concerns regarding the independence of the RIA's external auditors, as they seem to be involved in the preparation of the financial statements on which they have to express an opinion, in violation of basic rules of the International Federation of Accountants (IFAC).

2. Legal And Contractual Environment

- Our audit revealed that RIA was not established under any law or legislative instrument. The Airport was originally constructed by the United States (US) Government and was used as a base for the US Air Force. Later, under a lease agreement signed between the Liberian Government and the Pan American Airways in 1942, the parties agreed that the latter should establish aerial services for the transportation of mail, passengers, baggage and merchandise. The Liberian Government took full control over the management of the Airport from 1985.
- The current Minister for Transport, who is also the Chairman of the RIA Board, in August 2004, initiated a process which has led to the drafting of an Act for the RIA. This draft document was still under review at the time of our fieldwork. The Minister intimated that the Act when enacted into law will govern the administration and management of RIA.
- The weak regulatory framework as a result of the absence of a specific RIA Act means that issues like the objects and powers of the Airport, its relationship with Government, formation and composition of the Board of Directors, structure of management team, executive compensation, audits and financial reporting among others are left to the discretion of the national Government and its appointees at the RIA. As an illustration of this, we noted an instance of a hotel project under construction on the airport land even though the management of RIA did not properly give the developer access to the land (in the form of transfer of land title). We understood from some senior officers of RIA that the project was for the daughter of Former President Charles Taylor.

3. Review of Systems And Management Controls

As the time of the assignment, RIA is headed by a General Manager who reports to the Board of Directors. RIA is organized into the following five divisions: Administration, Financial Management, Internal Audit, Aircraft Maintenance/Handling and Airport Services. The General Manager oversees all the divisions, but is directly in charge of the Administration Division.

3.1 Organization chart

Although not formally documented, we observed that all financial and administrative powers of RIA are ultimately vested in the Board of Directors. Members of the Board were appointed by the Transitional Government in the spirit of the CPA i.e. ensuring that the various political factions were represented.

During the audit, we found that there were several versions of the organizational chart of RIA, but none of them practically depicts the existing structure. The situation could be attributed to the civil crisis that has seen different management teams at RIA over the years. For instance, during our examination, we noted that the Deputy General Manager (DGM) performs very limited administrative duties except for overseeing the Security Department of RIA. We gathered the DGM does not possess the requisite capability to handle technical aviation issues as they relate to the Aviation industry. We need to stress that there are several people who are virtual “square pegs in round holes” as a result of the political distribution of certain key positions in Government and SOEs.

Strengthened by the result of a special diagnostic audit conducted between February and April 2004 by a local firm of management consultants, Strategic Consulting Group, the existing management is already rethinking how best to redesign the organization structure for optimum realization of operational goals. The diagnostic audit was paid for from RIA’s internally generated funds. We reviewed the diagnostic audit report and noted that the findings and recommendations were appropriate and pertinent. The Consultants however did not set any time frame within which the recommendations should be implemented.

3.2 Procurement process

Absence of a Procurement Committee

RIA has a Purchasing Manager. She and the Financial Controller are the only persons who decide on all matters regarding procurement. There is the need for other persons to be involved in the procurement processes to expand the scope of internal checks. To bring transparency and accountability to the procurement process, the RIA would require a competent procurement committee to be headed by the Deputy General Manager. The other members should include the Financial Controller, the Purchasing Manager and the two Group Managers. All significant procurement requests (procurement of goods and services costing at least US\$500) should be addressed to the Procurement Committee who shall deliberate on such requisitions and initiate and monitor the purchasing process. The Internal Audit Division should subject the work of the Procurement Section to frequent audits over procurement procedures.

Stores Operation

The Stores Section operates under the supervision of the Purchasing Department in that the Purchasing Department procures to stock and also maintain the stock records. We recommend that the stock records should be kept by people other than the key people involved in procurement.

Procurements made by cash basis

RIA holds a lot of cash on hand and therefore makes significant amount of payments by cash. Also, in instances where cheques are written for purchases, these cheques are written in the name of the Purchasing Manager or for cash. The handling of actual physical cash exposes the corporation to the risk of fraud and robbery. Below is a list of selected cheques cashed or cash takings used to make payments by cash.

DATE	NAME	PV	Cheque Number	Fuel	Repairs and Maintenance
15/01/2003	Jessie Williams	3888	92250	1,095	
20/01/2003	Jessie Williams	3898	70159	1,143	450
03/02/2002	Jessie Williams	3981	70187	1,184	
13/02/2003	Jessie Williams	3995	70194	1,428	
21/02/2003	Jessie Williams	4071	00117008	1,000	
20/03/2003	Jessie Williams	4130	00117025	1,374	44
24/03/2003	Jessie Williams	4145	000137	1,070	
31/03/2003	Jessie Williams	4172	0011705	1,062	
29/08/2003	Jessie Williams	4769		5,600	
28/08/2003	Thomas Momoiyou	4765			1.000
26/08/2003	Jessie Williams	4748		3,553	
16/08/2003	Cash	4717		2,694	
22/08/2003	Cash	4742			2.000
23/08/2004	Jessie Williams	4744			1.445
26/08/2003	Jessie Williams	4749			1.505

Lack of Purchase Plan and Procedural Manual

RIA does not have a Procurement Policy Manual as a guide to the staff of the Purchasing Department on how to perform their duties.

Also, management does not prepare annual Purchase Plan as a component of the approved annual budget for management and control purposes. This resulted in a lot of unplanned procurements and created cash flow problems.

3.3 Cash Disbursement Process

Authorization of Petty Cash

We noted that petty cash payments are approved by either the Financial Controller or the General Manager. Executive time is lost as a result of this practice.

Payroll System

The practice at RIA is that huge sums of cash are withdrawn from banks in Monrovia to pay end of month payroll cost. This approach exposes the cash in transit and the people carrying it to the risk of robbery on the way between Monrovia and Robertsfield. In the short-term, this risk could be reduced if the bulk salaries are cashed from the Harbel branch (about two kilometers from RIA offices) of the LBDI bank instead of the Monrovia branch of the bank. Persons responsible for cashing salary cheques should be bonded and insured. Also, the cash in transit needs to be insured and the related costs treated as normal business expenses. We believe that, in the long-run, salaries of middle to senior level staff should be paid by direct transfer into their respective bank accounts.

3.4 Billing Process

Monitoring of storage charges

Cargo Services Department is not adequately monitored in connection with the billing and collection of storage charges. The current system whereby billing of cargo handling and collection are all handled by one person should be discouraged as any act of fraud could be effectively concealed thereby causing financial loss to the corporation.

Lack of Supporting Documents

Our review of Income revealed that airway bills supposedly to determine the invoiced amounts for cargo services rendered were not available for examination in most cases. We noted that most of the airlines including Ghana Airways, Bellview and Stagur Air did not submit airway bills supporting their cargo on a regular basis. The only exception was SN Brussels Airline. We made enquiries from some of the airlines and found that they had no tangible reasons for not submitting the airways bills. In addition to not leaving sufficient audit trail, this lapse could facilitate fraud. The Management of RIA should henceforth request that all airlines should support their cargo with adequate and duly authorized airway bills.

Lack of Control over the 50% Rebate

It was noted that the Ministry of Health had an arrangement for the Management of RIA to waive 50% of charges relating to all forms of cargo of “humanitarian goods or nature”. The RIA does not have any facility, mechanism or appropriate guidelines to determine whether goods received are actually for humanitarian purposes. We observed that this led to abuse of the existing system and could continue to be a potential drain on RIA if not checked. We recommend that Management should put in place appropriate controls to minimize the risk of abuse.

3.5 Collection Process

The Operations Department raises invoices and bills during times that the Accounts Department is closed. These transactions are mostly done in cash; the Operations Department keeps the cash and pays to the Cashier in the Accounts Department when the cash office is opened. Most of the receipts prepared for the Charter and Cargo flights that arrive at night are hardly collected by the consignees or the persons making payment. When a charter or cargo flight is expected at night, a cashier should be put on duty and persons independent of Operations Department and the cashier should inspect receipts before releasing the cargo to the owners. Also, the Internal Audit Section should subject this aspect of RIA’s activity to regular audits.

3.6 Management Information Systems

3.6.1. Accounting system

RIA runs basically a manual accounting system. There is no formal accounting policy and procedures manual to guide accounting personnel in recording transactions and prepare financial statements in conformity with generally accepted accounting principles. We noted instances where accounting policies were inconsistently applied. For example:

- Set off of accounts payable and receivable done incorrectly.
- Capital items acquired are expensed contrary to the accrual accounting applied.
- Donations of power by the Firestone Plantation Company are not included in the financial statements.
- No systematic approaches are applied in making provisions for bad and doubtful debts.

3.6.2 Planning and budgeting

The Budget process is handled principally by the Financial Controller and the Budget Officer with very limited inputs from line managers. The non involvement of these managers does not encourage them to take ownership of the budget and therefore strive to achieve the budgeted targets. There is also no Budget Committee to coordinate all the budgeting and budgetary control processes. We further observed RIA does not have a Budget Manual to serve as a guide for the preparers and users of the budget.

3.6.3 Management Reporting

We noted that there is no systematic internal/management reporting arrangement to provide information for corporate performance evaluation, control and decision making. For instance, the Financial Controller did not prepare management accounts, cash forecasts and aged accounts receivable analysis to be discussed at Management Team meetings. Apart from the Aircraft Handling Division, the situation with the other departments is not better.

3.7 Human Resources

We saw appointment letters of some of the senior staff and noted, based on random review of personnel files, that they have all signed the employment contract.

RIA has no Recruitment Plan resulting in arbitrary recruitment which has led to overstaffing of the Corporation. Staff on payroll stood at 387 as at October 2004. We must however admit that the problem of overstaffing was “forced” onto the present management as several of the employees had to be hired in line with the CPA – most of the personnel are sympathizers of the various warring factions. We also noted that the Base Safety (Security) Section appeared overstaffed with 94 personnel constituting approximately 25 % of the total staff population of the RIA. In order to accurately determine the extent of overstaffing, we suggest that the RIA commissions a professionally conducted job evaluation exercise.

3.7.1 Relevance of management roles and responsibilities

We have seen the job descriptions of the following departments: Internal Audit, Accounts, Personnel, Air Traffic Control, Metrological and Cargo.

3.7.2 Evaluation of adequacy of the quantity and quality of key personnel

The number of staff with the right competencies at RIA is also generally low and every effort should be made to enable staff whose services will continue to be needed undergo training. The Tower building (Air Traffic Control) that requires specialized competencies should be given top priority.

3.7.3 Training

We noted that training is not given the priority it deserves at RIA. An analysis of the Training needs of the various departments revealed that all the departments feel they need training in modern tools and techniques relevant to their various disciplines. The Flight Operations representatives and fleet service men would need urgent training as most of them have not had any training for a very long time. The Security Department has mostly ex-combatants who have had no formal training in security and urgent training would be very helpful. Management should immediately review the security situation in the context of the general national security environment and then if practicable lay off some of the security personnel. Thereafter, the remaining security personnel should undergo training in modern security techniques.

3.8 Utilities, facilities and working environment

3.8.1 Housing

RIA has some Housing Units that were destroyed during the war. Management is fixing these properties and we observed some members of staff had been allocated rooms in some of these renovated houses. At the time of our visit, the General Manager's bungalow and others were still under renovation.

3.8.2 Computers

Most of the departments do not have the basic tools to do their work. At the Cargo Section for example we noted they still use an old Olivetti typewriter. However, the Human Resource, Internal Audit, Budget and Operations Departments were recently allocated some assets bought by RIA. The General Manager revealed that it is his goal to get at least a computer for each department.

3.8.3 Limited office and warehouse space

Office space is also a major problem at RIA. The present Terminal Building was entirely for the Cargo Section. The general lack of space has made various Departments squeeze into the limited space available.

There is also a small area used as the warehouse, resulting in overcrowding in the storage area for the Air Carriers. For instance, because of the inadequate storage facilities, it becomes impracticable to shelve separately cargo belonging to passengers of different airlines.

3.8.4 Power

The RIA receives free electric power from the Firestone Plantation Company but we understand that this arrangement is not covered by any formal memorandum of understanding between the two parties. We understand that this condition would change if and when Firestone's production capacity goes up. The RIA Board should take immediate and appropriate steps to provide RIA with alternative sources of power in the form RIA procuring its own electric generator that can supply adequate uninterrupted power to all departments.

3.8.5 Computer Systems Used

The accounting system operated at RIA is basically manual with certain subsidiary records prepared using MS Excel spreadsheet. No accounting software is used.

3.9 Internal Audit

We believe the Internal Audit Section is understaffed. With the increase in the activities of RIA, we noted that the two persons manning the section are clearly inadequate. In the long-term, the target should be to boost the professional auditing capacity of the Internal Audit Section through intensive training possibly coupled with the recruitment of a professional accountant or a certified internal auditor.

3.10 Overall conclusion on the systems and controls in place

The general and administrative controls in place at RIA will require immediate and tangible improvements if they are to achieve the corporate goals and also contribute effectively to economic growth in Liberia. In particular, the Board and Management of the RIA should:

- Form a procurement committee to oversee all major procurements by the RIA; and the Internal Audit Department should subject the activities and documentation of the Procurement Committee and the Purchasing Department to monthly internal audit reviews.
- Management should discourage the practice of paying for procurement above say US\$250 by cash as a way of reducing the risks of loss of cash through defalcation and of robbery.
- In the short-term, personnel responsible for cashing salary cheques should be bonded and insured. Cash in transit should also be insured.
- Management should ensure that henceforth, all airlines using the Airport attach airway bills to support all cargo discharged.

- The Board of RIA should immediately institute appropriate mechanisms and guidelines to ensure that any cargo benefiting from the 50 % rebate is actually meant for humanitarian purposes.
- Management should commission an accounting firm to design an accounting procedures manual to guide the assembling, classification, recording and reporting of financial transactions.
- The Board of RIA should initiate a job evaluation process among others to rationalise staff levels and then ensure that those who will remain in the employment of RIA are adequately trained in their respective disciplines.

4. Financial Audit of Roberts International Airport

4.1 Accuracy and completeness of the Revenues

We are not in the position to confirm the accuracy of the revenues recorded because we did not obtain all the airway bills for the relevant periods. We saw airway bills of SN Brussels Airline but Ghana Airways, Bellview and Wessua Air had no adequate airway bills to facilitate any meaningful work.

We also noted that some individuals and companies including Non Governmental Organizations (NGO) had been granted exemptions and waivers. Most of these waivers did not appear to have been properly authorized by the Board as we could not see any documentary evidence justifying the exemptions, reductions and waivers. It looked more like the waivers were facilitated by the members of the current management team.

4.2 Existence and Justification of the Expenditures

4.2.1 Current Expenditures

Reclassifications to Suspense

Audit differences identified were reclassified into a suspense account by the external auditor, Monbo & Co. At the end of the 2003 year end exercise, the auditors netted off the debit and credit items taken into a suspense account and wrote off the balance to retained earnings. Most of the adjustments could not be explained by the Chief Accountant. The Auditors refused to furnish us with the details of these audit adjustments for review.

We informed the European Commission (EC) in Monrovia about the refusal of the External Auditors to co-operate with us at the debriefing meeting of 19 October 2004 with the Resident Advisor and other officers of the EC. At this meeting we gave to the representatives of the EC a copy of the refusal letter from the External Auditors.

Professional Fees

Included in the professional fees are two debit entries for US\$7,000 (ref V) and US\$12,950 (ref 8/11) and one credit balance of US\$10,912. The Chief Accountant explained that these were adjustments passed by the external auditors for RIA during the audit for the period ended 30 September 2003. The Chief Accountant could not provide sufficient explanation for this transaction and we could not ascertain the validity or the reasoning behind the adjustment.

Set off balances

We noted in one of the journal entries in June 2003 that the amount posted into the ledger was less than the actual cost. This was a transaction involving Exxon-Mobil where part of the cost of fuel and lubrication products had been set off against other revenue from Mobil. The net balance was then entered into the ledger thus reducing both other revenue and fuel expenses by the same amount. The Chief Accountant explained that they might have posted a lot more net balances into their ledger.

This practice of setting off revenue items against expenditure items and posting the net balances into the ledger leads to misleading information in the financial statements, not to mention the distortion of the audit trail.

Repairs and maintenance

A journal entry in June 2003 was also recorded for an amount of US\$28,706. Out of this amount, we could only trace and examine an invoice for US\$8,000 from a company called Pavillon Group LLC purportedly for supplying RIA with Foam Liquid Concretes AFFF. The invoice(s) and other supporting documents for the balance of US\$20,706 could not be located.

4.3 Fixed Assets (and Investments made in the period)

- Between 1999 and 2002 the Government of Liberia with a grant of approximately US\$6.00 million from the Taiwanese Government undertook significant additions to RIA's fixed assets consisting of:

	US\$'000
Renovation of airport building	571
Airport Equipment (including Metrological equipment)	1,161
Three Fire trucks	1,500
Communication equipment	107
Ramp equipment	797
Lighting equipment	200
Airport fence	1,651

At the time of our audit, we noted that one of the fire trucks had broken down and could not be repaired for lack of spare parts, and that the airport fences had been damaged in several places. We were also explained that the lighting equipment of the airport does not meet international standards.

- We noted during our review of the fixed assets schedule that the net book values for year 2002 did not agree with the opening balances in year 2003. Management could not provide a sound explanation for the discrepancies.
- From the schedules, the cost of motor vehicles and the associated accumulated depreciation did not look correct. For instance, the cost of motor vehicles in year 2002 was US\$47,410 and the accumulated depreciation was US\$502,821. Management could not provide any valid explanation for this.
- We also observed that the depreciation rates used for Lighting Equipment and Airport Operations Equipment in year 2003 were not consistent with the rates used in the prior year. This contravenes generally accepted accounting principles (GAAP).
- During our review we noted that assets disposed off during the year were not properly accounted for. The related cost and accumulated depreciation were not recorded on the fixed assets schedule, yet the schedule agreed to the financial statements. An adjusting journal entry was passed to remove them from the books.

The client was unable to provide the details of motor vehicles that were disposed off during the year. Our discussions with the Chief Accountant revealed that the figure was ascertained by deducting the actual cost of motor vehicles in existence from the book balance and the difference was regarded as disposal cost.

- The value of land included in the financial statements is figure estimated by the Management. The current management had no idea how the previous management came by that amount. Going forward, there is the need for RIA to commission professional appraisers to scientifically estimate the value of all airport lands and building to facilitate the preparation of a credible balance sheet.

4.4 Collectibility of the receivable

Management has no formal policy regarding provisioning for uncollectible debts. Ageing analysis for accounts receivable are not prepared. The basis of providing for bad and doubtful debts is therefore not systematic.

4.5 Shareholders' equity

Except the entries in the opening balances discussed above, there are no issues to report.

4.6 Other accounting and auditing issues

4.6.1 Other Liabilities

- **FIR balance entered twice**

Included on the 2003 trial balance separately is an amount of US\$25,055 payable to FIR (Flight Information Region). This figure has also been included in the accounts payable balance to arrive at the accounts payable figure shown on the trial balance.

- **Ageing of Accounts Payable balance**

About 90% of the accounts payable balances were more than two years old, some even date as far back as 1999. There are various reasons for this situation. For instance, because of the poor state of accounting, it is possible that these liabilities had been settled but the payments were not recorded.

4.7 Overall conclusion on the Financial Statements

Generally, the state of accounting and financial reporting is not satisfactory and given the level of misstatements, inconsistencies and management's inability to provide explanations regarding land and buildings, accounts receivable, accounts payable, cash and bank balances, and the opening balances of 2002, we are unable to and therefore do not express an opinion on the financial statements of Roberts International Airport for the years ended 31 December 2002 and 2003.

5. Tax Collection At The Roberts International Airport

5.1 Applicable Regulations and Tariffs

The Customs Revenue Code of 2000 and related amendments thereto outlines the regulations regarding the administration and collection of customs duties at the various ports of entry in the Republic of Liberia. The Code provides schedules of duties which shall be levied, collected, and paid on all goods imported into Liberia and upon all goods exported including goods re-exported as transshipment from Liberia.

5.1.1 Import Duties

Customs import duties are levied on, and paid by the importer in respect of goods listed in column 2 of schedule 1 of the Code when imported into Liberia at the rates specified in Column 4 of the Schedules of the same Code.

5.1.2 Export Duty

Schedule 3 provides that exports of goods shall be generally free of duty, except that a customs user fee of up to 2.5% shall be levied on all unprocessed exportable goods.

5.2 Organization of the Tax Collection

The Bureau of Customs and Excise Collectorate is located at the Roberts International Airport (RIA). It is headed by a Chief Collector responsible for the day to day management of the Custom functions at the Roberts International Airport. He has a Deputy who reports directly to him.

The Bureau of Customs and Excise (RIA) had a staff strength of 30 on its payroll as at the time of our visit in October 2004.

5.3 Findings from our Substantive Tests

We provide the key findings of our audit:

- We noted that **the cash book was not maintained properly.**

- **There should be adequate segregation of duties at Custom House - RIA**

We noted that duty charges levied on goods imported and exported by petty West African traders are paid in cash to the Cashier, who is also responsible for the recording of transactions in the cash book. Apart from the obvious absence of segregation of duties portrayed by the above practice, it also runs contrary to procedures established for collection of Customs duties, making it possible for Customs officials to handle cash.

- **Airway bills should cover all cargo that land at RIA**

We noted that the Customs House did not maintain records of Airway bills covering the cargo cleared at RIA. There is no effective system in place to ensure that airlines make available airway bills for cargo delivered on each flight.

- **Exemptions should be properly controlled and appropriately monitored**

The customs collections over the period January to September 2004 collated from the Bank Payment Slip of the Bureau of Customs totaled US\$295,016 while the waivers and exemption for the same period came to US\$1,073,763. This implied that the waivers and exemptions represented more than three-and-a-half times (364 %) of the amount actually collected and paid into Government coffers.

Review of the waivers and exemptions granted to various organizations for the period January to September 2004 revealed that out of the total waivers of US\$1,073,763.46 granted to 59 organizations, US\$306,751.54 (or 29 %) and US\$69,320.97 (or 6.5 %), which together came to approximately 35.5 percent were granted to two commercial organizations, Atlantic Wireless and Lone Star Communications respectively. Atlantic Wireless and Lone Star Communications are in fact private mobile telephone companies operated by Liberian businessmen and their partners. It is questionable as to whether they are entitled to such reduced levels of customs duties and taxes.

Further analysis indicates that Waivers granted exceeded Customs Collections for each of the months from January to September 2004.

- **Local Management should respond to review queries**

We noted that audit reports of the Inspection and Internal Audit Division of the Bureau of Revenue Audit and Inspection were not communicated to the Custom House – RIA. The Procedures and Terms of Reference of the Revenue Department, Ministry of Finance requires the publication of final audit reports by the Chief Auditor after review of the preliminary report by the Technical Committee.

- **Customs Personnel at all levels should be trained**

We noted that personnel at the Examination, Assessment and Accounts Units of Customs at RIA lack basic training in Customs procedures to enable them perform their functions effectively.

- **Provision of logistics to facilitate Customs operations**

We noted that Customs operations are adversely affected as a result of the absence of basic logistics to facilitate the work of Customs officials.

Basic logistics that are lacking include computers, uniforms, communication equipment and transportation facilities.

6. Assessment of Potential Revenue Flows Which Could Be Generated in Following Periods

6.1 From the activities of Roberts International Airport

Total recorded revenue of RIA for the years ended 31 December 2002 and 2003 were US\$1,036,114 and US\$2,018,549 respectively indicating a growth of approximately 95%. For the first two quarters of 2004, total revenue came to US\$1,224,974. Conservatively, we can estimate that total revenue for 2004 may be at least US\$2.4 million indicating that the scope exists for revenue to grow moderately to between US\$ 3 million and US\$ 5 million over the next three years.

It is important to note that the annual revenue can grow to an appreciable extent if the following steps among others are taken:

- Improve internal controls over revenue collection generally.
- Streamline the procedures for granting waivers and exemptions.
- Mobilize resources to renovate the infrastructure of RIA to enable the Airport to attract more airlines and other airport users.

Of course no matter the kind of measures management of RIA would implement, these will not yield any dividend if the security situation nationally does not improve significantly.

6.2 From the Tax Collection

Tax collection at RIA from January to September 2004 yielded approximately US\$295,017.11. Over the same period, exemptions and waivers from taxes were approximately US\$1,073,763.46 which did not end up in Government account. Thus, without these exemptions and waivers, the Government could have realized significantly more revenues. Some of these exemptions may be legitimate and cannot be removed, but some of the beneficiaries of exemptions are questionable.

Tax revenue at RIA can be increased significantly if concrete measures are taken to ensure transparency and accountability in the following areas:

- Internal controls over the assessment and collection processes should be improved and persons found to be abusing the systems should be severely punished. More specifically, airway bills should be systematically collected, and the segregation of duties should be improved in respect of the cash payments made by the petty West African traders.

- The procedures and criteria for granting exemptions should be reviewed to ensure that exemptions are only granted when appropriate. In addition, all significant exemptions and waivers should be approved by the National Legislative Assembly. For less significant exemptions, we recommend that the Ministry of Finance should develop clear and unambiguous criteria and guidelines that must be followed before one can qualify for waivers.

Generally, organizations that should be considered for waivers and exemptions should be those whose services or goods are pertinent and whose operations in Liberia bring significant actual or potential benefits to the Country and its people. Profit oriented companies like Lone Star Communications should not be allowed to benefit unduly from waivers and exemptions.

It is important to stress that efforts to increase revenue can yield significant positive results if in the first place the collection processes are reviewed to ensure improved and high degree of transparency and accountability. Secondly, the effort to ensure transparency and accountability will yield more results if there is a continued period of political stability.

7. Recommendations

7.1 Recommendations for Improvements at Roberts International Airport

We have identified several areas where a lot of measures will have to be taken to reposition RIA in a manner necessary for it to contribute sufficiently to the national economy.

We classify measures to be adopted as short-term and long-term:

- In the short-term there is the need to institute measures to ensure transparency and accountability and to eliminate or substantially reduce the financial and other leakages due to weaknesses in the internal control structure.
- There is also the need to develop a Corporate Plan for the RIA in the medium to long-term.

Short Term Improvements

Recommendation	Time Frame To Implement	Who to Implement
<p>a) Measures to Eliminate or Reduce Leakages in RIA</p> <p>Systems and controls are generally weak at RIA and may be abused to the detriment of the SOE. RIA as it stands will need a lot of financial, material and human resources to adequately position it to realize its intended objects. As a first step, appropriate systems are to be put in place and made more effective with reasonably sound controls and internal structures.</p>	<p>Immediately</p>	<p>Management and the Board of the RIA.</p>
<p>b) Building the capacities of Financial Controller and Head of Internal Audit</p>	<p>This should be achieved by the end of 2005</p>	<p>This should be championed by the Board of the RIA with</p>

These persons should be assisted through intensive training and development programmes to acquire modern technical, managerial and leadership knowledge and skills in their respective fields.

c) Strong Accounting and Other Systems

Immediately

financial assistance from International Development Partners Management and the Board of the RIA.

Management should design and implement solid systems, structures and controls to ensure that transactions are all adequately captured, classified and recorded to ensure the preparation of reliable (and auditable) financial reports. The systems should also be in a manner that will ensure that assets are safeguarded. For a start, the system should be largely manual as any attempt to go all out with computerization may not be successful since most of the existing personnel are not sufficiently used to computers. It may however be useful to use simple but separate legacy computerized systems as a way of preparing the staff for the medium-term. The separate systems may cover accounting, inventory, fixed assets, payroll, human resource management and billing.

d) Clarify Role of External Auditors

Immediately

The management and the Board of Directors of RIA.

The scope of the intervention of the external auditors should be clarified, in the sense that the preparation of the financial statements should be in the hands of the RIA management. The external auditor should not be allowed to make changes in the accounts that he has to audits, and on which he has to express an opinion, and the management should be properly informed of the details behind every adjustments proposed by the auditors.

e) Valuation of Property, Plant and Equipment

Immediately so that the report can be available for the construction of a

The Board of the RIA with financial assistance from International

RIA should commission professional fixed assets valuers to establish a fair value of the

land and other fixed assets to serve as a basis for preparing a credible opening balance sheet for RIA. If possible, we suggest this should be done early enough to be used for the balance sheet as of 1 January 2005.

credible balance sheet for the RIA

Development Partners (the latter could recruit and monitor the valuer)

f) Engage a Reputable Audit Firm

To be done by end of August 2005

The Board of the RIA, possibly with financial assistance from International Development Partners.

We recommend that an International Firm of Chartered Accountants be contracted for at least 3 years to audit the annual accounts of the RIA starting with the 2005 financial statements.

g) MOU with Firestone Plantation

Immediately

The management and the Board of Directors of RIA.

Though at the moment RIA is benefiting from free electric power supply from the Firestone Plantation, we recommend that management should ensure that this arrangement is covered by an MOU. The essence of the MOU is to ensure that at least there is an understanding regarding the circumstances under which the arrangement can be suspended or stopped, in order not to unexpectedly disrupt the operations of the RIA.

Medium to Long-Term Improvements

Issue/Recommendation	Time Frame To Implement	Who to Implement
<p>a) Develop a Corporate Plan</p> <p>To put RIA fully on the road to recovery, we propose that a Corporate Plan be developed to define institutional strengthening, process re-engineering, facilities and logistics that will be required to enable RIA to perform its roles and responsibilities effectively. The corporate plan should seamlessly integrate RIA’s vision, core functional processes, legal framework and responsibilities. The Corporate Plan when developed should guide the determination of targets for the Annual Budget. That is, the budget for each year should aim at achieving a specific milestone in the Corporate Plan.</p>	<p>The process should commence between June 2006 and October 2006 to be ready for implementation from year 2007.</p>	<p>The Management and Board of RIA with financial Support from GOL and International Development Partners</p>
<p>b) Appoint Competent Management Personnel</p> <p>Persons with the requisite expertise, knowledge and experience should be the ones to be appointed to the Board and Management. At least one member of the Board at any point in time should have technical knowledge about the aviation industry. It may also be beneficial to have a financial or accounting expert who would advise on financial matters as well as serve on the Finance Committee of the Board.</p> <p>The functions and responsibilities of the Board and the executives should be captured in the proposed RIA Act. For instance the Act should provide that all powers of RIA shall be vested in the board who inter alia shall have the following functions:</p> <ul style="list-style-type: none"> • Establish appropriate structures for 	<p>Immeadiately after coming into office of a new Government in 2006.</p>	<p>Government of Liberia</p>

the effective and efficient execution of the object of the RIA;

- Appoint and fix the remuneration of senior management personnel
- Take reasonable and timely actions on internal audit and other management reports generated internally.

7.2 Recommendations for Improvements at the level of the Ministry of Finance

Issue/Recommendation	Time Frame To Implement	Who to Implement
<p>Internal controls over the assessment and collection processes should be improved and persons found to be abusing the systems should be severely punished. More specifically, airway bills should be systematically collected, and the segregation of duties should be improved in respect of the cash payments made by the petty West African traders.</p>	<p>Immediately</p>	<p>Ministry of Finance</p>
<p>The procedures and criteria for granting exemptions should be reviewed to ensure that exemptions are only granted when appropriate. In addition, all significant exemptions and waivers should be approved by the National Legislative Assembly. For exemption of lesser amounts, there should be very specific criteria and guidelines that must be followed before one can qualify for exemptions and waivers.</p>	<p>Immediately</p>	<p>Ministry of Finance</p>

8. Conclusion

The assignment has evidenced that administrative and financial controls are generally very weak, as result of which we were unable to express an opinion on the financial statements covering the review period.

Clearly, to move the RIA forward will require significant injection of financial, material and human resources especially from key stakeholders including the Government of Liberia, and Development Partners. However, before any external support is even considered, the management and Board of the RIA should begin putting “their house in order” by among others focusing on the following areas of immediate importance:

- The RIA should put in place a new accounting system leading to the generation of a general ledger and financial statements, chart of accounts and accounting manual as a guide to all users of the system.
- The deliberation on and the enactment of the proposed RIA Act should be expedited to enable the organisation to meet the challenges of the future.
- The RIA should be audited annually and the audited accounts copied to the Bureau of State Enterprises and to the Government through the Ministry of Transport.
- There should be an appropriate organizational structure with clear job descriptions
- The Board of RIA should order a job evaluation process, among others to rationalise staff levels, and then ensure that those who will remain in the employment of RIA are adequately trained in their respective disciplines
- Planning, budgeting and budgetary control systems should be improved
- Management reporting should be improved and departments should generate timely reports for management planning, control and decision making.
- Cash collections should be banked intact. An arrangement could be made with a commercial bank to pick up daily collections for a fee.
- The Board of RIA should immediately institute appropriate mechanism and guidelines to ensure that any cargo benefiting from the 50 % rebate is actually meant for humanitarian purposes.

Roberts International Airport (RIA) could work towards achieving its long term goals and responsibilities if Management and the Government adopt measures to improve its key financial and administrative controls. Assistance would however be required from the International community at this point in time as even the Government is not in the position to provide any support.

Brussels, March 29, 2005

Ernst & Young Reviseurs d'Entreprises
Represented by

Jean-François Hubin
Partner