Management Letter

Liberia Accelerated Electricity Expansion Project (LACEEP)

For the period July 1, 2016 to June 30, 2017

Promoting Accountability of Public Resources

Yusador S. Gaye, CPA, CGMA
Auditor General, R. L.

Monrovia, Liberia
December, 2017
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<td>AFP</td>
<td>Audit Focal Person</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor General</td>
</tr>
<tr>
<td>CA</td>
<td>Credit Agreement</td>
</tr>
<tr>
<td>CGMA</td>
<td>Chartered Global Management Accountant</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organization</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>CHEC</td>
<td>China Harbour Engineering Co. Ltd</td>
</tr>
<tr>
<td>DMA</td>
<td>Deputy Minister for Administration</td>
</tr>
<tr>
<td>FSs</td>
<td>Financial Statements</td>
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<tr>
<td>GOL</td>
<td>Government of Liberia</td>
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<tr>
<td>HFO</td>
<td>Heavy Fuel Oil</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction And Development</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFRs</td>
<td>Interim Financial Reports</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards of Auditing</td>
</tr>
<tr>
<td>ISSAI</td>
<td>International Standards of Supreme Audit Institutions</td>
</tr>
<tr>
<td>LACEEP</td>
<td>Liberia Accelerated Electricity Expansion Project</td>
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<tr>
<td>LEC</td>
<td>Liberia Electricity Corporation</td>
</tr>
<tr>
<td>MLME</td>
<td>Ministry of Lands Mines &amp; Energy</td>
</tr>
<tr>
<td>MBH</td>
<td>JV of MBH Power Pvt. Limited &amp; Shreem Electric Limited</td>
</tr>
<tr>
<td>PA</td>
<td>Payment Advice</td>
</tr>
<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
</tr>
<tr>
<td>PIM</td>
<td>Project Implementation Manual</td>
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<tr>
<td>PMT</td>
<td>Project Management Team</td>
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<td>QPR</td>
<td>Quarterly Progress Report</td>
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<tr>
<td>SC</td>
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<tr>
<td>SOE</td>
<td>Statement of Expenditures</td>
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<td>T&amp;D</td>
<td>Transmission and Distribution</td>
</tr>
<tr>
<td>TOR</td>
<td>Term of Reference</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
December 30, 2017

Mr. Jenkins O. Atuanya
Deputy Minister for Administration
Ministry of Lands Mines & Energy
Audit Focal Person (AFP)
Monrovia, Liberia

Dear Mr. Atuanya:

**Management Letter on the audit of Liberia Accelerated Electricity Expansion Project (LACEEP) for the Period July 1, 2016 to June 30, 2017.**

The Audit of the Liberia Accelerated Electricity Expansion Project (LACEEP) Financial Statements for the fiscal period ended June 30, 2017 are subject to audit by the Auditor General (AG) consistent with the Auditor General’s mandate as provided for under section 2.1.3 of the GAC Act of 2014 and the Audit Engagement Terms of Reference (ToR).

**INTRODUCTION**

The audit of the Liberia Accelerated Electricity Expansion Project (LACEEP) for the fiscal period ended June 30, 2017 has been completed and the purpose of this letter is to bring to your attention the findings that were revealed during the course of the audit.

**SCOPE AND DETERMINATION OF RESPONSIBILITY**

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), as promulgated by International Organization of Supreme Audit Institutions (INTOSAI). These standards require that we plan and perform the audit so as to obtain reasonable assurance whether the Liberia Accelerated Electricity Expansion Project (LACEEP) Financial Statements and related records are free of material misstatements due to errors or fraud and whether they comply with ethical requirements.

An audit includes:

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

The audit will also include an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.
Management Letter Liberia Accelerated
Electricity Expansion Project (LACEEP)
For the period July 1, 2016 to June 30, 2017

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Project Management Teams. 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.

APPRECIATION
We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Liberia Accelerated Electricity Expansion Project (LACEEP).

Yours Faithfully,

Yusador S. Gaye, CPA, CGMA
Auditor General, R. L.
1 PRIOR YEAR AUDIT MATTERS NOT IMPLEMENTED

<table>
<thead>
<tr>
<th>NO</th>
<th>Sources of the Findings (Management Letter)</th>
<th>Particulars of paragraph</th>
<th>Prior year issues not implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Establishment of a Petty Cash</td>
<td>Paragraph 1.1.2.1-1.1.2.6</td>
<td>There was no evidence that LACEEP Management established a Petty Cash fund.</td>
</tr>
<tr>
<td>2.</td>
<td>Internal Controls Assessment</td>
<td>Paragraph 1.4.1.2-1.4.15</td>
<td>There was no evidence that the LACEEP Internal Auditor conducted periodic internal control reviews of the Project's activities.</td>
</tr>
</tbody>
</table>
2 DETAILED FINDINGS AND RECOMMENDATIONS

2.1 Financial Issues

2.1.1 Cashbook

Observation

2.1.1.1 Regulation R.3 (6) of the Public Financial Management (PFM) Act of 2009 (Bank Accounts for Ministries and Government Agencies) states that “The balance of every bank account as shown in a bank statement shall be reconciled with the corresponding cashbook balance at least once every month; and the reconciliation statement shall be filed or recorded in the cashbook or the reference to the date and number thereof”.

2.1.1.2 During the conduct of the audit, we observed that the closing cashbook balance for fiscal period 2015/2016 did not agree with the opening cashbook balance for fiscal period 2016/2017. See table # 1 below for details:

<table>
<thead>
<tr>
<th>Closing balance</th>
<th>Opening balance</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>590,580.58</td>
<td>601,011.15</td>
<td>10,430.57</td>
</tr>
</tbody>
</table>

Risk

2.1.1.3 Disagreement in the opening balances could lead to the unfair presentation in all material respects of the financial statements of LACEEP.

Recommendation

2.1.1.4 The LACEEP Management should adjust its book to reflect the correct opening balances.

Management’s Response:

2.1.1.5 This is noted. The following adjustment has been made to the cash book:

- Opening Balance: $590,580.58
- Prior period adjustment: $10,430.57
- Adjusted Opening Balance: $601,011.15

2.1.1.6 * This is the result of an erroneous double entry that has been reversed in the current Fiscal Year 2016/2017.

Auditor General’s Position

2.1.1.7 We acknowledged LACEEP Management’s acceptance of our recommendation. However, we didn’t observe a reversal that reflects the prior period adjustment.
2.1.2 Establishment of a Petty Cash

Observation
2.1.2.1 Regulation B.34 of the Public Financial Management (PFM) Act of 2009 states that: "the authorized cash balance for any office shall be determined according to: (a) the needs of public business; (b) the availability of banking facilities in relation to the working hours of the office; (c) the availability of safe accommodation and seniority of key-holders; and (d) the general security of the building in which the safe is located".

2.1.2.2 During the conduct of the audit, we observed that the LACEEP Management at both LEC and MLME did not establish a petty cash fund even though the total amount was expended as petty cash US$ 112,682.24.

Risk
2.1.2.3 The non-establishment of a petty cash fund could lead to inconvenience and create cost for writing checks and signing for small amount for expenditure.

2.1.2.4 Also exceeding the reasonable requirements for a petty cash could lead to wasteful expenditure.

Recommendation
2.1.2.5 The LACEEP Management should establish a petty cash fund.

2.1.2.6 The LACEEP Management should provide substantive justification for not establishing a petty cash fund.

Management's Response:
2.1.2.7 This issue was raised in our last audit of the project and the recommendation was accepted with the promise to adhere to the recommendation. The project has now established a petty cash float of USD4, 000.00 for small amount of expenditures.

Auditor General's Position
2.1.2.8 We acknowledge LACEEP Management's acceptance of our recommendation. However, generally petty cash is a small amount that is held on to hand to be used for items that it is not sensible to write a check. In establishing a $4,000.00 petty cash cap, a policy should be developed that aligns with the system that is employed in managing the LACEEP Project. We will make a follow-up on the implementation of the recommendation on subsequent audit.
2.2 Administrative Issues

2.2.1 Project Reports (Scope of Work)

Observation

2.2.1.1 Page 5 paragraph (3) and (5) states that “Ensure timely and efficient implementation of projects in conformity with the approved designed and specification in close collaboration with the Ministry of Lands, Mines and energy and other involved government agencies”.

2.2.1.2 “Prepared monthly progress report of the WB-finance projects based on the operational manual including the progress all aspects. Monitor and report regularly on the status/progress of work, cost schedule, anticipated challenges and risk facing the project as well as the evolution of any contractual issues”.

2.2.1.3 During the conduct of the audit, the Project Coordinator of LACEEP/LEC could not provide to the audit team progress reports for the project.

2.2.1.4 This issue was raised in the previous audit report but was not addressed in the current year.

Risk

2.2.1.5 In the absence of progress reports, it could be challenging to validate the actual status of the Project.

Recommendation

2.2.1.6 Project Coordinator of LACEEP/LEC should provide regular progress reports.

Management’s Response:

2.2.1.7 Prior to the demise of the project coordinator of the projects (LESEP, GPOBA, & LACEEP), quarterly progress reports were done and consolidated with MLME and sent to the bank, unfortunately this has not been the case due to the void that has been created. Management is in negotiation with the WB to ensure a new coordinator is recruited. We shall endeavor to have the requirement addressed during the next fiscal period.

Auditor General’s Position

2.2.1.8 The assertion made by the LACEEP Management does not address the issues raised by the GAC. Therefore, we maintained our recommendation.
2.3 Compliance issues

2.3.1 Travels

Observation

2.3.1.1 Count 31 of the GOL’s revised travel ordinance 2016/2017 on Foreign Travel states that “Upon return from abroad, officials are required to submit to the Financial Regulations Unit of the Ministry of Finance and Development Planning, a Travel Settlement Form as per Annexure II and copy of certificates for workshops, seminars, etc., receipts for accommodation and incidental expenses within 14 days from the date of return from tour or before date of next journey, whichever is earlier. In very exceptional cases where the second tour is performed immediately after return from the first tour; the second advance may be granted with the specific written approval of the official concerned, explaining the reasons thereof.”

2.3.1.2 It was observed during the conduct of the audit that the LACEEP Management at MLIME made payments to several employees amounting to US$17,237.88 (Seven Thousand Two Hundred Thirty-Seven United States Dollars & Eighty-Eight Cents) for daily subsistence and incidental allowances for foreign travel without evidence that these allowances were retired and/or accounted for. See table #2 below for details:

Table #2: Foreign Travel

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Payee</th>
<th>Description</th>
<th>Voucher No.</th>
<th>Check No.</th>
<th>Amount US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jun. 8, 2017</td>
<td>Exodus T Saye, Jr. et al</td>
<td>Foreign Travel to Nigeria</td>
<td>357</td>
<td>000000703,000000704, 000000705</td>
<td>7,225.00</td>
</tr>
<tr>
<td>2</td>
<td>May 23, 2017</td>
<td>Ousman Dukuly et al</td>
<td>Foreign Travel to South Africa</td>
<td>351</td>
<td>000000693, 00000694, 00000695</td>
<td>10,012.88</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>US$17,237.88</td>
</tr>
</tbody>
</table>

Risk

2.3.1.3 Failure to retire allowances undermines the accountability of public resources.

2.3.1.4 The authenticity of the travels could be in doubt in the absence of a retirement.

Recommendation

2.3.1.5 Going forward, the LACEEP Management should ensure that foreign travel per diem allowances are retired and/or accounted for.

2.3.1.6 LACEEP Management should provide substantive justification for non-retirement of the daily subsistence and incidental allowances.
Management’s Response

2.3.1.7 Noted: Management have asked the two employees to fully retire their travel. They have consented and are providing all sources documentation to that effect. This will be forwarded to the GAC before the end of the Audit.

Auditor General’s Position

2.3.1.8 We acknowledge Management acceptance of our recommendation, however, we will make a follow-up on the implementation of our recommendation.

2.4 Internal Controls Issues

2.4.1 Internal Control Assessment

Observation

2.4.1.1 Section 5.3 of the LACEEP Project Implementation Manual stipulates that “The project will utilize LEC and MLME’s internal audit unit to conduct periodic internal control reviews to ensure compliance with project financing agreements and the PAD. The internal audit units will adopt a risk-based internal audit approach for all their reviews. They will prepare quarterly internal audit reports which will be shared with their management and copy of the reports will be furnished to the IDA. LEC’s financial management manual has laid down internal control procedures and processes that will guide the processing of accounting and reporting functions. The MLME will follow the newly developed GoL financial manual for processing transactions”.

2.4.1.2 During the audit, there was no evidence that the LACEEP Internal Auditor conducted periodic internal control reviews of the Project’s activities.

2.4.1.3 This issue was also reported during the previous audit but it has not been addressed.

Risk

2.4.1.4 The effectiveness of the Project’s internal control would be in doubt in the absence of a documented review by the LACEEP Internal Auditor.

Recommendation

2.4.1.5 The LACEEP Project Management should ensure that the Internal Auditor conduct a review on the Project’s activities.

Management’s Response

2.4.1.6 This is noted. LEC management will ensure that post review of the project financial activities will be done in the next fiscal year (2017/18).
Auditor General’s Position

2.4.1.7 We acknowledge Management acceptance of our recommendation, however, we will make a follow-up on the implementation of our recommendation.

2.4.2 JV of MBH Power Pvt Ltd & Shreem Electric Ltd Contract

Observation

2.4.2.1 Component 1: Extension of electricity transmission and distribution systems Lot 1 - 66/22kV Substation in Paynesville, Supply and Installation of 66kV Paynesville-Kakata Transmission Lines and 66/33kV Substation in Kakata.

2.4.2.2 Contract No. 1 of JV of MBH Power Pvt. Limited valued at US$6,987,676.98 for a period of eighteen (18) months beginning at April 28, 2015 for the supply and installation of 66kv Paynesville-Kakata transmission line and 66/33 kv substation in Kakata requires the contractor to design, manufacture including associated purchases and/or subcontracting, install and complete the facilities in accordance with the contract. When completed, the facilities should be fit for the purposes for which they are intended as defined in the contract.

2.4.2.3 Contract No.2 of JV of MBH Power Pvt. Limited valued at US$1,244,003.28 for the Extension of Paynesville substation requires that the contractor conducts the following:

1. One Box Gantry to be dismantled alone with the line DS, CT & CB are directly connected to Transformer 1; 10MVA Transformer.

2. Modification (Rearrangement) of existing equipment to the existing line bay, supply and install 4 Gantry structure,

3. Supply and install one complete bay equipment for Transformer (T1), supply and install one complete bay equipment to be used as tie bay, Section (B)

4. Clear the land and prepare embankment for the extension (proposed yard-section B), prepare a new earth mat for section B and tie it to that of the existing at section A, cable trench for section B and link it to that of the existing at section A,

5. supply and install 3 box type Gantry structure c/w bus bars, supply and install complete line bay equipment for Congo town Line 1, supply and

6. install battery charger and bank c/w auxiliary equipment (capacity for the whole station), if necessary extend the control room building to take the battery charger and bank, supply and install 2 sets of 66kv PTs (a set for each section) and extend fence wall to cover section B.
2.4.2.4 During the field visit on JV of MBH Power Pvt. Limited and Shreem Electric Limited project sites, for the Supply and Installation of 66kV Paynesville-Kakata Transmission Lines and 66/33kV Substation in Kakata, we observed that all the works are incomplete. According to the MBH Management Team, works at both Paynesville substation and Kakata substation are on-going. See table #3 below for details:

<table>
<thead>
<tr>
<th>Table #3</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Start date</td>
<td>End date</td>
<td>Status</td>
</tr>
<tr>
<td>April 28,2015</td>
<td>October 28,2016</td>
<td>On-going</td>
</tr>
</tbody>
</table>

**Risk**

2.4.2.5 Delay in the completion of the contracts deliverables by JV of MBH Power Pvt. Limited and Shreem Electric Limited could lead to the untimely achievement of the Project’s objective.

2.4.2.6 The LACEEP Management should provide substantive justification for the delays in the completion of the Kakata substations.

**Recommendation**

2.4.2.7 The LACEEP Management should ensure that the contract completion by JV of MBH Power Pvt. Limited and Shreem Electric Limited meets all the contracts requirements before turning over the facilities.

**Management’s Response**

2.4.2.8 The LEC project team along with management will ensure that the contractor meets all of the requirements enshrined in the contract before commissioning of the facilities and completion certificate awarded accordingly.

**Auditor General’s Position**

2.4.2.9 The GAC will make a follow-up on the implementation of assertion made by the LACEEP Management.
Observation

2.4.2.10 Zhongmei Engineering Group Limited & Jiangxi Thermal Power (JTPCC) contract valued at US$9,939,799.40 for a period of eighteen (18) months beginning at April 28, 2015 for the supply and installation of Distribution Networks and customer connection for the Electrification of Communities in the Economic Corridor Paynesville-Kakata

2.4.2.11 Lot 2 – Supply and installation of Distribution Networks and Customer Connections in Economic Corridor Paynesville-Kakata

2.4.2.12 Lot 3 – Supply and installation of Distribution Networks and Customer Connections in Communities around Paynesville and Selected Large users
2.4.2.13 During the field visit on Zhongmei Engineering Group Limited & Jiangi Thermal Power (JTPCC) works implementation, we observed that the planting of wood poles stops at Mount Barclay under Lot 2. In addition, Lot 3 stops at Tovia instead of Weala Public school. The distribution networks on the Bong Mines road stops at Sackiegbormah town. Further, the distribution networks, transformer installation and customer connections in communities around Paynesville, lower Johnsonville Township, Fendel Community and all other communities are ongoing. See table 4 for details:

Table #4

<table>
<thead>
<tr>
<th>Start date</th>
<th>End date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 28,2015</td>
<td>October 28,2016</td>
<td>On-going</td>
</tr>
</tbody>
</table>

Risk

2.4.2.14 Delays in the completion of the contract deliverables by Zhongmei Engineering Group Limited & Jiangi Thermal Power (JTPCC) could lead to the untimely achievement of the Project’s objective.

Recommendation

2.4.2.15 The LACEEP Management should provide justification for the delay in the contract completion by Zhongmei Engineering Group Limited & Jiangi Thermal Power (JTPCC)

2.4.2.16 The LACEEP Management should ensure that the present contract is completed timely.

Management’s Response:

2.4.2.17 The delays in the contract completion was largely due to the resettlement of land owners who wanted RAP package before poles or towels be erected and lines strung. Additionally, due to unforeseen circumstances including clearing of right-of-ways, which were not envisioned during contract negotiations, became a problem during the implementation of the project. However, the LEC project team was swift in resolving the bottlenecks and the project is well on course. The LEC will ensure that the outstanding tasks will be completed within a reasonable timeframe that reflects the time loss as a result of the unforeseen circumstances stated above.

Auditor General’s Position

2.4.2.18 We acknowledge the assertion made by LACEEP Management, however, we will make a follow-up on the implementation of our recommendation.

2.4.3 China Harbor Engineering Company (CHEC) Contract

Observation

2.4.3.1 Component 2: Construction of facilities for off-loading, transport, and storage of heavy fuel oil (HFO) and support for optimization of HFO procurement (estimated cost: US$ 11 million)
2.4.3.2 Detailed Scope of Work (Demolition of the Old LEC Tanks and Pipeline, Removal of Debris, Cleaning and Preparation of Site and Construction of New Facilities for HFO Handling and Storage for LEC Power Plants at Bushrod Island) of the Contract agreement between Ministry of Lands, Mines AND Energy (MLME) and China Harbor Engineering Company (CHEC) requires the following:

1. Activity 1 - the construction of two new 10,000-cubic-meters- capacity HFO storage tanks designated HFO Tank 01 AND HFO Tank 02;

2. Activity 2 – the construction of a 1000 m³ diesel storage tank;

3. Activity 3 - A 1.8km pipeline for transport of HFO from the Bong Mines Pier to the tank farm at LEC Bushrod Island Compound;

4. Activity 4 - Several ancillary but critical systems including the fire protection and environmental Oil/Water Separator system;

5. Activity 5 – Construction of a new water storage tank for the fire protection system.
Section 2.1 paragraph (1) (2) of the Project Implementation Manual states that "The main objective of the LACEEP is to increase access to electricity and strengthen institutional capacity in the electricity sector. To achieve this objective, the LACEEP focuses on three of the most pressing issues for the implementation of the government's ambitious plans to expand electricity services in Liberia by 2030. The first component supports the expansion of the transmission and distribution grid. The second components will create some of the conditions to shift from diesel to HFO-based thermal generation, needed for the country to effectively benefit from the price differential of the two fuels on the international market. Finally, the third component focuses on the strengthening capacity within the government to lead the development of the electricity sector."
2.4.3.4 During the conduct of audit, we observed that all activities under Component 2 have been completed and turn over to the Government of Liberia since September 2017. Since the completion of the HFO, Management of LEC has not been able to utilize the facilities thereby leaving from diesel to HFO.

Risk
2.4.3.5 The Management of LEC should give reason why the HFO and other tanks built by CHEC are not being utilized.

Recommendation
2.4.3.6 The Management of LEC should make maximum use of all the tanks built by CHEC.

Management’s Response
2.4.3.7 This is noted. LEC management will ensure that the tanks are fully utilized upon completion. As it stands, the World Bank is currently funding the construction of a pipeline to transport fuel from vessels at the Freeport directly to these tanks. When completed, the tanks will then be ready for full operations.

Auditor General’s Position
2.4.3.8 Our understanding is that the tanks have been completed and can be used manually in its current state, that is, heavy fuel oil can be transported via the tanker trucks to the tank. Therefore, the LEC Management should begin to use the tank manually so as to safe cost.