Program Management Unit (PMU)

Implemented by the
Ministry of Agriculture (MOA)

Through
Smallholder Tree Crops Revitalization Support (STCRSP) Project

Management Letter

For the year ended June 30, 2017

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March 13, 2018

To the Program Management Unit (PMU)
STCRSP Project

Dear Sirs:

Management Letter

For the year ended June 30, 2017

In the course of our audit of the Financial Statements of the project, “Smallholder Tree Crops Revitalization Support (STCRSP) Project implemented by the Program Management Unit (PMU) of the Ministry of Agriculture for the year ended June 30, 2017,” certain matters affecting the project’s systems of accounting and internal controls came to our notice. We bring these to your attention and encourage you to devise ways by which they can be remedied where possible, as a way of strengthening the overall system of operational controls at the Entity. Each of the points raised in this letter is followed by recommendation(s) for your evaluation regarding the extent to which you may desire to incorporate them as acceptable solutions while taking duly into account the cost that the suggested solutions may necessarily entail.

Our audit procedures for the project concentrated principally on evaluating those systems of accounting and internal controls operating at the Smallholder Tree Crops Revitalization Support (STCRSP) Project, upon which we relied for the purpose of determining our audit procedures in so far as operations of the project in question is concerned. Accordingly, our audit may not have identified, and the comments in this letter may not be a comprehensive record of all the weaknesses that may exist at the PMU and in particular, the project to which this engagement relates. Furthermore, our work should not be relied upon exclusively to discover all defalcations or similar irregularities, although their disclosure, if they do exist on a pervasive basis, is likely to result from the audit tests we undertake.

The responsibility for the maintenance of an adequate system of internal controls as well as for the prevention and detection of irregularities rests with the Management of the STCRSP Project. However, our audit was planned so that we could have a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities, if any.

We take this opportunity to thank you for the cooperation we received from you and members of your staff during the course of our audit. If you require any further information or explanation in relation to the matters referred to in this letter, please do not hesitate to contact us.

It has been a pleasure being of service to the Program Management Unit (PMU) in particular and the Ministry of Agriculture in general.

Yours truly,

PKF - Liberia
Accountants & business advisers

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STCRSP Project

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1.0 Systems review

1.1.1 We examined the accounting records and internal controls which underlie the Statements of Receipts and Payments of the Smallholder Tree Crops Revitalization Support (STCRSP) Project regarding the operation of the project mentioned above for the period ended June 30, 2017. The purpose of the review was to determine the adequacy of the controls for the operations of the project and to enable us test for compliance therewith as well as other specific guidelines provided in the Project Document.

Our audit procedures pertain only to the project activities covered by this engagement and for the periods specifically indicated and not the overall operations of the PMU or the Ministry of Agriculture.

2.0 Distribution Reports for Farming Tools

According to the Financial Procedure Manual, within three working days following return from mission, staff members are required to prepare a back-to-office or mission report to be submitted to the Project Coordinator and PMU Director along with their travel expense claims. After review, the report is returned to the traveler for action and/or filing in the appropriate record files. A copy is sent to the M&E Officer for consideration.

During our Audit we have observed that the below listed items totaling amount US$190,904.60 were purchased by the STCRSP/WB and the M&E Officer. There have been no indication of adherence to the distribution processes as required under contract. Requested for distribution reports but the management is yet to provide the report. Furthermore, to say, there is also no indication of receipt of farming tool by farmers. In the case where farmer sign upon receipt of their farming material from STCRSP. Below is the list of suppliers from whom material were acquired for onward distribution to farmers:

- Agricultural Inputs (SOCODEVI)
- Agricultural Inputs Supplies (SRC)
- Agricultural Inputs (SOCODEVI)
- Agricultural Inputs (COCOA FARMERS)
- Agricultural Inputs/ Supplies

In the absence of a report that can be validated, it is possible that the farming tools were not delivered to all the STCRSP farmers thereby the project not getting value for money.
STCRSP Project

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2.1 Recommendation

STCRSP management should ensure that the M&E Officer and those responsible for distribution provide distribution reports with evidence of recipients' names, signatures, contact numbers and the village for validation to authenticate the distribution going forward.

2.3 Management's Response:

The PCU has requested the distribution reports from our implementing partners (SOCODEVI & SRC). Same is done with our M&E Officer who supervised the distribution on behalf of the PCU.

3.0 Inventory report

As part of our audit procedures, we conducted a physical count of inventory items in the storeroom of STCRSP. During our count, we observed discrepancies between the physical count and reported balances in the inventory log book. Further investigation and scrutiny of the records proved clearly, that inventory items were not logged in when procured and logged out when issued to department or other functionaries or sectors of the Project. Because of the discrepancies in the records huge variances were observed between the physical count and the records maintained by the Project.

In the absence of a proper and updated log book, the following are likely to occur:

✓ Goods claimed delivered could be understated;
✓ Goods could be diverted to personnel use;
✓ Value for money could be not measure in this regard.

3.1 Recommendation:

That the Project Management Unit (PMU) institute measure(s) whereby inventory items can continuously be counted and reconciled with records. Secondly, a senior level person should review a sample of inventory items against the relevant records at least every three months. Adequate internal control system in place that safeguard and keep accurate records of inventory or stock when procured and issued.

3.2 Management's Response:

The PCU take note of the recommendation and will enforce the policies (internal control) already in place effectively.
STCRSP Project
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4.0 Budget VS Actual and analysis of variances, and Reporting

We requested but have not received budget vs actual variance for variance between budget and actual performance. This document which is very essential gives explanation of variances between budgeted and actual of activities level over or under spent during the Project period. With this, users become aware of what drives an activity line. The document also guides the Programme Management Unit (PMU) and Project Coordination Unit (PCU) in making decision for the following year. In the absence of this very essential analysis, donor, partners and the very Project Coordination Unit may encounter difficulty in making projection for the following year.

4.1 Recommendations:

We recommend that Program Management Unit (PMU) should ensure that the Project Coordination Unit (PCU) provide analysis of variances arising from the budget against the actual actual activities.

4.2 Management’s Response:

The PCU has embarked on this requirement. Going forward, our financial office will ensure that the variance analysis narration is attached to each quarter report.

5.0 Project accounting software (TOMPRO)

Section 10.3.1 of PMU Operations Manual on accounting systems provides that PMU/PCU /PIU should use the TOMPRO accounting software to record, process, and report financial transactions and data. The software was design so as to help the PMU/PCU/PIU minimize the margin of errors in the preparation and fair presentation of financial statements.

It was observed that the required Project accounting software system (TOMPRO) had not been used by the project coordination unit (PCU) that was recommended by the World Bank. Instead, the Project accountant prepared monthly financial reports through Excel Spreadsheets, a micro soft office. Excel is susceptible to manipulation, therefore financial information is unlikely to be reliable.

Deviation from said recommended software, and guidelines does not only cause obstruction in achieving the Project’s objective but also brings expenditure data into question and ridicule.
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5.1 Recommendation:
Program Management Unit (PMU) should ensure that its Project Coordination Unit (PCU) –STCRCP uses the approved accounting software –TOMPRO. This we believe will provide credible and reliable financial information to users and donors of the Project fund.

5.2 Management’s Response:
Recommendation acknowledged. The Project Coordination Unit is currently implementing the recommendation by recording all of the financial data from the inception of the project. This process is expected to be completed on or before May 1, 2018.

6.0 Procurement/purchase procedures
We noted that payment request or memorandum were circularized prior to the invoicing of the supplier. For example; purchase of 130 pieces of Diamond small scale at unit price of US$120 totaling US$ 13,000 from Building Materials Center (BMC) on Payment; payment instruction of STCRSP sent sooner than credit invoice from vendor. Payment Instruction date was June 23, 2016 why credit invoice carried June 24, 2016.

Also, it was observed that there were a number of transactions/ expenditures which were processed unauthorized. Some of these transactions are detailed below in table:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Ref #</th>
<th>Amount $US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug.25, 2016</td>
<td>Payment for Toyota Hilux Pick-up</td>
<td>1176</td>
<td>30,950</td>
</tr>
<tr>
<td>Aug.25, 2016</td>
<td>Payment of Consultant fee for training for Data Clerk</td>
<td>1162</td>
<td>19,985</td>
</tr>
<tr>
<td>Aug. 26, 2016</td>
<td>Payment of High breed cocoa seeding</td>
<td>1170</td>
<td>20,522.44</td>
</tr>
<tr>
<td>Aug. 17, 2016</td>
<td>Payment of PCU staff salary for the month of Sept, 2016</td>
<td>1214</td>
<td>25063.37</td>
</tr>
<tr>
<td>Dec. 24, 2016</td>
<td>Payment of office stationery &amp; supplies</td>
<td>1356</td>
<td>21,000</td>
</tr>
</tbody>
</table>

The relevance of the internal control over the processing of payment is to ensure that goods or materials paid for are indeed delivered in full and there are no shortage(s) of receipts. This breach of policy even though not frequently observed, needs valuable attention to prevent reoccurrence.
6.1 Recommendations

STCRSP should ensure that policies are adhered to. This is of good practice and best that the bidding process be allowed in contemporary competitions among vendors which encourages factors such as cost and quality.

6.2 Management's Response:

The PCU take note of the recommendation and will enforce the policies effectively on the approval of the payment vouchers. On the other hand, the issue of the date in relation to the purchase of the 130 pieces of Diamond small scale from Building Material Center could be due to error when the date was recorded by the vendor or our staff.