

**THE 2007/2008 DRAFT NATIONAL BUDGET, R. L.  
REVIEW, ANALYSIS AND RECOMMENDATIONS**

PREPARED BY:

**OFFICE OF THE AUDITOR GENERAL, REPUBLIC OF  
LIBERIA  
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**7 JUNE 2007**

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**AUDITOR GENERAL'S REVIEW, ANALYSIS AND RECOMMENDATIONS**  
FISCAL 2007/2008 DRAFT NATIONAL BUDGET  
7 JUNE 2007

### NATIONAL BUDGET SUBMISSION

Hon. Gbenimah B. Slopadoe (Grand Kru, District 1) intervened to ensure that the Bureau of the Budget, Republic of Liberia, deliver a copy of the National Budget to the Auditor General for review, analysis and recommendations to the members of the National Legislature and the President. General Auditing Commission received a copy of the National Budget on May 26, 2007.

The draft National Budget is for the benefit of the Liberian people, so government should seek to maximize its distribution for effective public participation.

### AUDITOR GENERAL'S PRIOR RECOMMENDATION

The Auditor General, in the General Auditing Commission's Fiscal 2007/2008 budget submission to the National Legislature on March 22, 2007, made two recommendations:

- Fiscal Year 2007/2008 is named the *Revenue Accountability Year*, wherein every penny belonging to the Liberian people is identified and included in the National Budget of Liberia. In Liberia, the Nation has had the tendency of debating who gets what in the National Budget, but has paid minimal attention to the Revenue portion of the budget. Essentially, everyone is better off, the more funds that can be identified and included in the National Budget of Liberia. Overall guiding principle: What Revenue is outside of the National Budget, and why?
- The draft National Budget be audited by the General Auditing Commission, consistent with the recommendations contained in the December 2006 *UN Panel of Experts Report*. **The Open Budget Index**, the international ranking agency of national budgets, also recommends an auditor's opinion. As a first step, the revenue portion is evaluated critically. After all, the expenditure portion depends on the revenue portion of the Budget. The more the National Legislature and the administration maximize the revenue portion of the Budget, the more there is to spend on **national** priority programs and activities for the Liberian people, such as more money for civil servants salaries.

The above recommendations were intended to provide reasonable assurance that the Nation's revenue is not under budgeted, creating a significant risk



exposure of misappropriation or the spending of national funds not appropriated by the Legislature (leakages). Other factors for under budgeting revenues also reflect management's desire to show high levels of excess revenues performance in the back end, and a lack of competent manpower to forecast revenues accurately; revenue forecasting usually requires high level understanding of financial modeling.

In a cash basis economy, precision and completeness in the measurement and budgeting of national revenues are highly prized.

An audit of the National Budget could have also discovered instances where sufficient disclosures are not made to facilitate competent assessment by the National Legislature, and eventual monitoring, evaluation and auditing.

The Auditor General recommended a supplementary budget appropriation to facilitate the recruitment of competent manpower to audit the draft National Budget. That was not done. But as an institution that is committed to assisting the National Legislature in providing genuine and effective oversight, the Auditor General has recruited the assistance, on a pro bono basis, of a team of professional Liberians to indentify the various revenue sources.

Despite lack of sufficient funding to hire qualified manpower, the Auditor General Commission has reviewed the National Budget and the followings are observations and guidance for how the National Legislature can evaluate the Fiscal 2007/2008 National Budget. It is not an audit but the Office of Auditor General's best professional opinion, consistent with best international practices.

**Overall, the draft National Budget does not meet the minimal test of completeness and fair disclosure. It is not auditable. It is not accountable. It is not transparent. It does not measure the true financial position of the Republic of Liberia. It is lacking substantive information.**

Until the information below is provided, approving this draft National Budget in its current form will be a dereliction of the duties of the National Legislature, because it would undermine the true economic interest of the Liberian people. The revenue figures are aggregated, lacking details, assumptions, tables, and schedules.

The Nation cannot afford to carry forward the contents of a flaw draft National Budget just to meet a deadline. Again, the information requested below should be provided to allow the National Legislature to evaluate Fiscal Year 2007/2008 draft National Budget:

## BUDGET PERFORMANCE REPORT—MISSING IN DRAFT NATIONAL BUDGET

- Open Budget Index (the national budgets rating institution) recommends “Performance Report.”
- A Budget Performance Report for 2006/2007 should be included in the draft National Budget.

## OBSERVATIONS ON THE NATIONAL BUDGET: REVENUE SECTION FAILS MINIMAL TEST OF DISCLOSURE

- Budget’s pages not numbered.
- No table of contents is provided.
- There are no explanatory notes; there is no executive summary for the draft National Budget.
- There are just too many spelling errors in the draft National Budget, with Liberia misspelled as “Libesria” (see second last page of budget) and Company for “Company” (see last page). Charges equaled “Charages,” etc.
- Budget does not indicate whether figures are in Liberian dollars or U.S. Dollars.
- What is the exchange rate, if stated in US Dollars?
- There are approximately 360 pages (counted individually) of the draft National Budget.
- **360 pages reflect a virtually purposeless listing of Expenditure and a mere 3 pages for the Revenue portion.**
- Expenditure portion of the Budget is, somewhat, an improvement over the prior years; it shows measurable program objectives, lists major activities, and some institutions are linked to pillars of interim poverty reduction strategy.
- High priority items do not reflect critical policy statements and poverty reduction pillars such as national security, fighting corruption, employment (the economy), rural development, among others; there is disconnect between policy statements and budget commitments.
- Expenditure portion also described succinctly the functions of each government institution receiving funds.



- However, actual expenditures for past period are still not reported; many agencies and their internal units don't even bother to reveal their full time employment, although boxes are indicated.
- Revenue portion of budget (3 pages only) is an Executive Summary, with aggregate numbers.
- Revenue equaled to expenditure; the more revenue the likelihood on more spending on programs.
- Revenue portion lacks details, including assumptions, tables, schedules, etc.; macro economic analysis that informs projections not provided.
- Revenue portion fails the minimal test of financial disclosures, making it reasonably impossible for the National Legislature to evaluate the Budget.
- The World Bank, IMF and UNDP that have many advisors in the country, as well as private think tanks such as the Open Budget Index organization agree that governments must inform all elements of society on budget contents and that the budget process must be participatory. This budget fails to meet these minimal requirements
- Budgets are driven by assumptions, and without assumptions, how can legislators evaluate the draft National Budget? Without civil society participation, how can the budget claim to reflect the priority goals of the citizens?
- Revenue Budget cannot be evaluated given the information provided; it is an executive summary.
- There is no detailed comparative year over year analysis.
- Budget performance report should be included in the National Budget as foreword to the 2007/2008 budget figures, so that the public can read both together to make an informed decision as to how to participate in the budget discussions in the National Legislature.

**MAJOR FINANCIAL OBSERVATION---FLAWS IDENTIFIED---NO "OPENING BALANCE" FOR YEAR END SURPLUS:**

- IMF informed Auditor General on May 22, 2007 that the current cash balance of the Government of Liberia at the Central Bank of Liberia was US\$47 million.
- There is no line in the Revenue Portion of the Budget for "Open Balance" (carry forward amount from surplus funds).
- Projection for end of year balance of funds MUST serve as a first step in analysis of the Fiscal 2007/2008 National Budget. Where is the projected yearend surplus?
- What is the value of vouchers unpaid and outstanding? How has that number been treated to give the surplus?
- How are projected bank account balances at line ministries, commissions and agencies treated in the draft National Budget?
- UN Panel of Experts identified similar flaws in budgeting and reporting during this administration's first, Recast Budget.
- Getting the Opening Balance is important to avoid corruption through leakages.
- If not reflected, it could give room for extra budgetary spending or corruption.
- There is expectation of supplementary budget in September 2007 to deal with yearend surplus funds...but projection should be made and included in the 2007/2008 budget to be appropriated by the National Legislature.
- What happens to the funds leftover in various institutions' bank accounts as of June 30, 2007?
- Funds in individual institutions' accounts should form part of the yearend surplus funds, as "consolidated open balance."
- Open balances (carry forward) are a basic, fundamental principle of any accounting and financial management system.

## TAX LAWS AND CUSTOM CODE REFORMS

- Liberia is still operating under the Finance and Tax Laws of December 2000 (a.k.a., Revenue Code of Liberia Act of 2000).
- The Finance and Tax Laws contained discretionary powers by the Minister of Finance and Deputy Minister of Finance for Revenue to waive taxes.
- The custom code grants discretionary powers to the Minister and Deputy Minister of Finance to grant exemptions, duty free privileges and special releases.
- These discretionary powers have led to abuse by government functionaries as reflected in a Ministry of Finance internal audit report.
- The Finance and Tax Laws of 2000 and the custom code could reasonably be considered as outdated, not reflecting current day realities of international commerce, business investment and the state of the economy.
- Is the custom code consistent with the Vienna Convention on Custom (best international practices), and the recommendations of the World Customs Organization?
- How can the Liberian people and their international partners be assured of the fact that the revenue figures in the draft National Budget reflect the true economic performance of the nation, when the tax laws and custom code encourages discretionary decision making. The Finance and Tax Laws are also not current?
- Does the 2007/2008 draft National Budget assumed partial or comprehensive tax and custom reforms during the fiscal year?
- The Tax laws and custom code are the two major economic policy of any nation.
- How can the Legislature pass another budget (two consecutive fiscal periods) under former President Charles Taylor's economic policy?

## FINANCE AND TAX LAWS OF 2000—MINISTRY OF FINANCE FAILS TO MEET REPORTING REQUIREMENTS

### Phase-Out of Tax Concessions and Investment Incentives (3f)—Minister Reports in 60 days

- “Beginning with the first year the Code is effective, the Minister (of Finance) shall report annually the amount of revenue forgone as a result of concessions and investment incentive contracts having a tax reduction effect. The Minister’s report shall be presented to the Legislature within 60 days of the end of each calendar year after the effective date, and shall be made a public document. The report shall not disclose confidential information of any taxpayer, as defined in Section 54” (page iii, Revenue Code of Liberia Act 2000).
- Minister of Finance should prepare report and present to the National Legislature prior to the passage of the National Budget; this would enable lawmakers to evaluate the tax revenues more accurately.

### Part I: General Provisions—Amounts Stated In Dollars (Section 6)—Liberia Dollars Only

- “Dollar amounts stated in this code are in Liberian dollars, and taxation books of account are to be kept in Liberian dollars and are to be assessed in Liberian dollars, but may be paid in either Liberian or U.S. dollars. If payment is made in U.S. Dollars, the amount due in Liberian dollars is to be translated into U.S. dollars at the market rate of exchange published by the Central Bank in effect on the day payment is made. The term “Liberian dollar” refers to money authorized and duly issued by the Liberian Monetary Authority as defined in the law authorizing the Central Bank...” (page 2, Revenue Code of Liberia Act 2000).
- Taxes and import duties represent a significant portion of the estimated revenues in the draft National Budget, so draft National Budget must be stated clearly in what currency amounts are reported.

### Subchapter B—Tax Administration and Procedure—Public Reports (Section 57)—Enforcement Regimes

- The Minister is required to make public an annual report on the enforcement of this code and revenues collected. The report shall include information showing the amount of tax revenues from each sector of the economy under each type of tax. The report shall also contain information forgone as a result of concessions or investment incentives

having a tax effect. The Deputy Minister shall provide the Minister with information within the purview of the Ministry as is necessary for the preparation of this report" (Page 12, Revenue Code of Liberia Act 2000).

- The Minister of Finance should provide this report prior to the National Legislature reviewing and passing the National Budget. This report clearly indicates the discretionary powers of granting and giving waivers and reductions.

#### **DUPLICATED FUNCTIONS WITHIN MINISTRY OF STATE---TWO BUDGETS, ONE FUNCTION?**

- Financial Management (code: 5-1-02-02)—US\$300,557
- Finance, Economic and Legal Affairs (Code: 5-1-02-09)—US\$318,008
- Word for word of program descriptions, measurable program objectives and list of important activities.
- Why two budgets for same functions? See pages 32 and 39 of manual count.

#### **PUBLIC CORPORATIONS, COMMISSIONS AND AUTONOMOUS AGENCIES CLASSIFICATION**

- Difficulty to determine what is a commission, a public corporation or an autonomous agency.
- Maritime, for example, is listed as a public corporation. Is BMA a Public Corporation like RIA?
- Are the Union on Disabled, Anti-corruption, Liberia Reconstruction and Development Committee, Veteran Bureau, etc, Commissions?

## POOR PRESENTATION OF GOVERNMENT INSTITUTIONS

- How institutions are presented in the draft National Budget is arguably confusing to follow.
- Sectoral and Regional Planning is not a separate entity. It is part of the Ministry of Planning and Economic Affairs. It appears like a separate entity in the draft National Budget.
- Is the Ministry of State Without Portfolio a separate and legal entity? It is listed in the middle of the Ministry of State's presentation. Is the Ministry of State Without Portfolio a proper Ministry or an Office within the Ministry of State?
- Several blank pages in the draft National Budget—why?

## PUBLIC REVENUE TRACKING: THE SPECIAL CASE CUSTOMS & TAXES

### 1. Top Ten Imports –Products—Rates of Custom Duties Applied

	Imports	Annualized Revenue 2006/2007	Imports	Projected Revenue 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				



2. Top Ten Exports –Products—Rates Custom Duties/Excise Applied

	Exports	Annualized Revenue 2006/2007	Exports	Projected Revenue 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

3. Top Ten Importers —Custom Duties Payable

	Importers	Annualized Revenue 2006/2007	Importers	Projected Revenue 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

4. Top Ten Exporters —Custom Duties/Excise Payable

	Exporters	Annualized Revenue 2006/2007	Exporters	Projected Revenue 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

5a. Revenue Collection Analysis-Custom Duties

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Cash Basis Collection		
2	Invoice Basis Collection		
3	Accruals		
4	Reverse Accruals		
5	Prepayments		
6	Others		

5b. Revenue Collection Analysis—Custom Duties

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Straight Forward Collections		
2	Reimbursable Exemptions		
3	Fines and Penalties		

5c. Points of Entry of goods—Custom Duties/Excises

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Land Boundaries		
2	Airports		
3	Pipelines (do we have implications for Liberia?)		
4	Sea Ports		

6a. Revenue Program Analysis—Custom Duties

Category	Annualized Dollar Value 2006/2007	Percent of GDP (% of total)	Projected Dollar Value 2007/2008	Percent of GDP (% of total)
Exemptions				
Duty Free Privileges				
Special Releases				

6b. Revenue Program Analysis—Custom Duties—Tax Exemptions

Category	Annualized Dollar Value 2006/2007	Percent of custom revenues (% of total)	Projected Dollar Value 2007/2008	Percent of custom revenues (% of total)
Imports				
Exports				

6c. Top Ten Groups/Categories Receiving Exemptions—Custom Duties

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

6d. Top Ten Groupings/Categories Receiving Duty Free Privileges—Custom Duties

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

6e. Top Ten Grouping Receiving Special Releases—Custom Duties

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

6f. Top Ten Products Receiving Exemptions—Custom Duties

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

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6g. Top Ten Products Receiving Duty Free Privileges—Custom Duties

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

6h. Top Ten Products Receiving Special Releases (Customs)

	Name of Group	Annualized Dollar Value 2006/2007	Name of Group	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

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## 7. General Questions

- Who provided revenue numbers for the draft National Budget? What information about the process or formula is available? That information is necessary for participation for monitoring and evaluation!
- Were the numbers validated? Is there an audit trail to determine process of validation?
- Is there a draft revenue validation team at the Ministry of Finance or the Bureau of the Budget?
- Is there a financial forecasting system? Or was it done manually?
- In the Custom Revenue Column, does it include any fines and penalties?
- In the Custom Revenue Column, does it include any trans-shipment revenue?

### 8a. Protection of Supply Chain Mechanism (Customs)

- How is the Ministry of Finance protecting the supply chain?
- Is it consistent with the World Customs Organization's standard and practice?

**8b. Top Ten New Administrative Fines Levied (Customs)**

	Type of Fees Levied	Annualized Dollar Value 2006/2007	Type of Fees Levied	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

**8c. Top Ten Products Affected By New Administrative Fines—Customs**

	Products affected	Annualized Dollar Value 2006/2007	Products affected	Projected Dollar Value 2007/2008
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

**8d. Custom Revenue Collection Analysis—Currency—Liberian Dollars vs. U.S. Dollars**

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Liberian Dollars		
2	U.S. Dollars		

**PUBLIC REVENUE TRACKING: DISCRETIONARY TAXING THE PUBLIC AND REVENUE COLLECTIONS**

(See revenue analysis sheet for more supplemental information)

**9a. Discretionary Taxing Decision**

	<b>Category</b>	<b>Annualized Dollar Value 2005/2006</b>	<b>Annualized Dollar Value 2006/2007</b>	<b>Projected Dollar Value 2007/2008</b>
1	Tax Waivers			
2	Tax reductions			

The Tax Code of 2000, in violation of the Constitution, empowers non-elected officials to waive tax; what is needed to avoid the ills of this system is for the Legislature to recover this responsibility illegally conferred on the ministers.

**9b. Top 20 Beneficiaries of Tax Waivers**

	<b>Business/Person Name</b>	<b>Annualized Dollar Value 2005/2006</b>	<b>Business/Person Name</b>	<b>Annualized Dollar Value 2006/2007</b>
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

**9c. Top 20 Beneficiaries of Tax Reductions**

	Business/Person Name	Annualized Dollar Value 2005/2006	Business/Person Name	Annualized Dollar Value 2006/2007
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

**9d. Tax Revenue Collection Analysis-Taxes**

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Cash Basis Collection		
2	Invoice Basis Collection		
3	Accruals		
4	Reverse Accruals		
5	Prepayments		
6	Others		

9e. Tax Revenue Collection Analysis—Taxes

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Straight Forward Collections		
2	Reimbursable Exemptions		
3	Fines and Penalties		

9f. Tax Revenue Collection Analysis—Currency—Liberian Dollars vs. U.S. Dollars

	Category	Annualized Revenue 2006/2007	Projected Revenue 2007/2008
1	Liberian Dollars		
2	U.S. Dollars		

9g. Tax Revenue Collection Analysis—Exchange Rate

	Category	Annualized Exchange Rate 2006/2007	Projected Annual Rate 2007/2008
1	Average Exchange Rate		

9h. Tax Revenue Collection Analysis—Taxes Cases

	Category	Annualized Tax Cases 2006/2007	Projected Tax Cases 2007/2008
1	Board of Tax Appeals		
2	Liberia Tax Court		

Section 60, Revenue Code of Liberia Act 2000 created an independent 7-member Board of Tax Appeals (page 13).

## 10. SANCTION LIFTING IMPACT—INCREMENTAL REVENUES

1. Revenue Generated from the lifting of UN Sanctions—what is the value to the Liberian people of the UN lifting the sanctions?
2. Also useful information would include total projected employment in these sectors/industries that are no longer under UN sanctions; also, expected taxes on employees' earnings.

### 10a. Incremental Diamond and Timber Revenue

(July 1 2007 through June 30 2008)

	<b>Natural Resources</b>	<b>Projected Dollar Value 2007/2008</b>
1	Diamond	
2	Timber	

### 10b. Revenue from other commodities

(July 1 2007 through June 30 2008)

<b>Category</b>	<b>Projected Dollar Value 2007/2008</b>
Palm Oil	
Gold	
Cocoa	
Coffee	
Fisheries	
Rubber Plantations	