

Explanation of Audit Report

1.1.10.12 During the audit, we observed the following irregularities associated with the General Reserved Account:

- **The LRD component of the General Reserved Account had been in overrun balance of LR\$18,066,187,961.20 since January 2018.**

Explanation:

What the Auditor General means is that this account was overdrawn by the amount stated above and the overdrawn amount has not been repaid since January 2018. An account is overdrawn when the bank pays the account holder more than the amount the account holder has in his or her account. Normally there must be an agreement between the account holder and the bank for the overdraft and the stipulated financing cost. But again, the general reserve account is not an account held by a customer of the CBL so to have it overdrawn is a cause for concern. That account should only be in negative if CBL made huge losses that are in excess of accumulated general reserves from previous periods.

- **Three entries totaling US\$110,837,196.49 not traceable to the operating income/loss of the bank was back-valued for December 31, 2020 posted to the General Reserved US\$ Account on November 18, 2021. These transactions increased the General Reserved US\$ Account from \$41,623,870.91 as of October 20, 2021 to US\$152,461,067.40 as at November 18, 2021. We observed no evidence of supporting documents for the back valued transactions.**

Explanation:

What the Auditor General means is that CBL recognized profit that increased its General Reserved Account by US\$110,837,196.49 without actually making profit because this amount was not recorded in the statement of profit or loss. General Reserved Account is normally increased in one of four different ways:

1. Through profit – excess of income over expenses
2. Equity investment by new or existing owners
3. Settlement of debt at amount less than market value
4. Revaluation of assets at amount above market value.

Now if this US\$110,837,196.49 was not profit, then was it any of the others or combination of the others.

- **The back-valued transactions were made in excess of the maximum back-valued period allowed by the system. We observed no evidence of authorization of the transactions.**

Explanation:

What the Auditor General means is that CBL has a policy which is effected through its information system that transactions can be back-valued backward to a maximum time limit but this US\$110,837,196.49 back-valuation was done beyond that maximum allowable time period. Normally for accounting purposes these are termed as unusual transactions and depending on their significance, must be approved by high level authority or management or board. In this case, that was not done.

1.1.10.12 The values quoted from Temenos 24 which depict an incomplete detail of all transactions impacting the general reserve. Transactions shown in Table 9 were reclassified due to wrong posting of the conversion of IMF Special Drawing Rights (SDR) related to on-lend budget support from 2014-2016. These balances were reversed from the general reserve account as a result of the 2020 external audit recommendation.

Explanation:

CBL's explanation of the Auditor General's finding is that the transactions were external audit recommended adjustments to the general reserve account and these came about as a result of wrong posting of conversion of IMF Special Drawing Rights (SDR). They were therefore reclassified. CBL also stated that the reason why the reversals were made in 2021 instead of 2020 was because the 2020 audit was delayed. This explanation is bad and is wrong accounting. Adjustments to financial statements and account balances must be made in the period to which they relate. This is the Matching Principle, which simply states that revenues and expenses must be recognized and recorded in the period to which they relate.

1.1.10.13 Management's assertion did not adequately address the issues raised. Management did not make available supporting documents for the back-valued transactions, evidence of recommendations for reversals by external auditors, journal vouchers detailing initial and reversed entries, and access to the Great Plain Software. Therefore, we maintain our findings and recommendations. We will follow up on the implementation of our recommendations during subsequent audit.

Explanation:

What the Auditor General means is that the explanation provided by CBL in its management's response is not adequate to address the issues raised because CBL did not provide evidence to support the reversals it purportedly made as a result of external audit recommendations. What normally happens is that external audit will provide

schedule of entries and explanations for adjustments, and these must be agreed and authorized by management before they are made into the accounting system.

I believe the Auditor General's position is not made strong enough because transactions of this significance are likely used to cook the books especially when they were not authorized and approved by top management, and they were not made in the period to which they relate.