**Executive Summary**

On August 5th, 2015 the forensic audit and review of the accounts of Guyana National Co-operative Bank/Guyana Co-operative Financial Services/Guyana National Co-operative Bank Property Holding Inc. commenced. The audit covers the period from 2004 through June 30th, 2015. Emphasis is placed on the following:

1. Review of the entity adherence to and fulfillment of principles of Corporate governance
2. Test system for any evidence of corporate malfeasance
3. Agreements entered into by the entity
4. Review and examine all books of accounts
5. Review all contracts entered by the entity
6. Review all material expenditure
7. Analyze bank statements and test bank reconciliation
8. Evaluate the Corporate culture in the execution of its functions
9. Test accounting system to ensure adherence to sound accounting practice
10. Analyze board minutes
11. Observe the operation of the company
12. Trace court matters of the company
13. Examine the archiving policy of the entity

The privatization and sale of the Guyana National Co-operative Bank to Republic Bank was completed in March 2003. In the privatization agreement National Bank of Industry and Commerce Limited(NBIC) acquired all of GNCB deposit accounts and its real branch properties as recorded in vesting Order 9 of 2003.. The loan portfolio accounts and all otherremaining bank properties notvestedtoNBIC were retained by GNCB under the same Order 9 0f 2003.The Order was recorded in the Official Gazette on March 15th, 2003. The property components that were retained by the bank were vested to GNCB PHI by vesting order No. 28 of 2003. At privatization, the bank principal debt balance due from borrowers wasapproximately $12billion. The Government contemplated the write off of the unserviceable non-performing debtportfolio and to eventually bring closure to the activities of the bank. The Management of GNCB took a conscious decision to continue servicing these loansand convinced the government that there were loans on the books that were serviceable. This new dynamic of continuing to service the active loans took effect in 2005 whenKeith Burrowes was appointed the General Manager of the bank. During the period from privatization to June 2015, the bank collected approximately $2 billion of outstanding loans and interest from clients.The investigation in the audit revealed that the bank was effective in servicing the loans through a combination of effective strategic planning and common sense approach, coupled with due diligence and hard work. There was effective management of the loan portfolio matched with an equally effective litigation policy that produced reasonable results. Borrowers were regularly visited by the bank and were encouraged to make payments on the loans at discounted values. Many borrowers were able to restructure their loans which give them the opportunity to recommence their repayment to the bank. The management took decisive action in order to maximize the collection of the debt.

The bank reclassified the loan portfolio into active and inactive categories. The criteria used for this classification was based principally on the bank’s ability to recover the maximum amount from the loan portfolio while at the same time reducing the cost that will have to be incurred in the process. In the process of reclassification, the bank identified over 400 non-performing loans with a value of approximately $5 billion. These accounts were transferred to the category of inactive loans.In 2007 the Government approved the liquidation of all unserviceable loans with principal value of less than $1 million.

The audit revealed that during the period from privatization to 2015, the number of active loans pursued by the bank was 366. During the audit, we evaluated all of loans presented to us. All loans above $10 million were thoroughly investigated. In the process of our investigationwe found the following discrepancies:

● Many loan files had missing pages – files were mildewedwith water damages. Indications are that the storage area of the files was flooded. These damaged files made it extremely difficult to trace the completion of transactions.

● Missing documents were a major concern. Many files had missing collateral documents.

● Many loans were not securitized.

● Reports in the files suggested that some collateral for loans were sold by the borrower without the knowledge of the bank. This may suggest that these collaterals were not registered with the court registry. However, the bank regularly reviewed the Official Gazette to monitor borrowers’ activities. The bank filed objection to the sale of borrowers’ assets when published in the Gazette.

● Some loans were approved by a personal guarantee from the borrower. Many of these loans were not recovered.

● There was no written write-off procedure for bad loans. However, the agency followed the Government approved restructure formula. The bank later adopted an agreement with the RPA to restructure some of the non-performing loans. This new agreement increased collections.

● There was no evidence that the Board of Directors met to evaluate and approve any loan write-off.

● Initially, there were no pre-numbered receipt vouchers. We could not verify if all loan repayments were deposited into the bank account. In 2004, there is a variance of over $15 million between collections and bank deposits.With the arrival of Keith Burrowes, the receipt vouchers were pre-numbered in 2005.

● Indications are that someloans were more aggressively sought after by the bank. These were the loans where the potential for recovery had a higher probability of collectionthan others.

● Documents in some files reported that the loan was paid in full butinterest continues to accrue.

● The institution was more self-managed with very little or no oversight from a Board of Directors.

**Corporate governance**:

The investigation revealed that GNCB management made professional business decisions. However, there was no evidence of the Board of Directors meeting. No minutes are available. The absence of the Board gave the management authority to make decisions that are generally reserved for the Board. Withthe absence of a functioning board, management made substantial investment decisions. **Many of these investment opportunities earned significant interest income for the bank. Interest of more than $150 million was earned from these investments between 2005 and 2012. Appendix**

**Corporate malfeasance:**

We did not find any evidence of corporate malfeasance, except for the difference of $15 million in loan collection and bank deposits in 2004. With the implementation of the pre-numbered receipt vouchers, all payments receipts from borrowers were deposited into the bank account. Investments were made to maximize the bank earnings. These investments were not approved by the Board of Directors. Three (3) investments amounting to $866 million is still outstanding. All efforts must be made to recover these funds. The staff worked as a unified unit with the sole objective of recovering all amounts owed to the bank. A new formula for loan repayment was initiated between the bank and the Guyana Rice Producers Association (RPA). This new proposal provides some incentive to the borrowers with a reduction of 25% of the outstanding principal and the waiver of three (3) installment payments. This proposal engineered the recovery of approximately $45 million in loan repayment.

**Expenses:**

Investigation revealed that the expenses incurred by GNCB were legitimate business expense. The major expense categories were employment cost and legal fees. Employment cost during the period 2004 to 2015 amounted to approximately $417 million while legal fees paid out for debt recovery amounted to approximately $46 million during the same period.

**Bank Balances:**

As at June 30th, 2015 the balances were as follows:

 Checking Account # 688-266-6 $3,390,845.94

 Checking Account # 132-012-6 $3,039,399.87

 Checking Account # 688-834-1 $3,526,145.25

**Investment accounts:**

Some of the investments substantially increased the bank revenue stream. However, three of these investments have not yet been repaid. Efforts are ongoing to recover these sums.

**See appendix.**

**Court matters:**

The bank initiated an aggressive approach to litigation of outstanding loan portfolio. Some of the matters pursued in the courts were discontinued due to brokered settlement agreements. Judgements of the courts were assiduously pursued and rigorously enforced. Assets of the litigants were identified where possible. Foreclosure judgements were effectively enforced in execution sale. Outstanding cases were withdrawn from the bail courts and refiled in the Commercial court. There was much success in this new approach as more judgements were received in the bank favour with less time and attorney fees. At the end of the audit, there are numerous outstanding matters before the courts.

**Current Employment:**

The entity has in its employ ten (11) personnel. The composition of the staff is as follows:

Management 4

Support 3

Security 4

The current average annual employment cost is approximately $9.6 million.

**Public Funds**

The Fiscal Management and Accountability Act 2003 provide the framework and guidance in the collection and disposal of public funds. Drawing Rights reported in Part V §32 says, “An official shall not do any of the following except as authorized by a valid drawing right

 (a) enter into a commitment to expend public moneys;

 (b) make a payment of public moneys”.

Public money is defined under Part VI §37(1) of the Act. It says, “All public moneys shall be classified as either

(a) received moneys;

(b) moneys in the Consolidated Fund, including any moneys in the Contingencies Fund;

(c) moneys in an Extra-budgetary Fund;

(d) drawn moneys; or

(e) moneys in a Deposit Fund”.

The creation and operation of the Deposit Fund is reported under §42 of the Act. This section states, “(1) The Minister may establish one or more Deposit Funds into which public moneys shall be paid pending repayment or payment for the purpose for which the moneys were deposited.

(2) On the establishment of a Deposit Fund, the Minister shall notify the National Assembly of the Deposit Fund and shall specify –

 (a) the source or sources of the moneys in the Deposit Fund;

(b) the purpose or purposes for which moneys may be expended from the Deposit Fund;

(c) the banking arrangements for the Deposit Fund; and

(d) the intended investment strategy for the moneys deposited in the Deposit Fund.

(3) Each Deposit Fund shall be managed and operated by the Ministry”.

All liability for loss of public funds is reported under §49. It states,

“(1) If a loss of public moneys should occur and, at the time of that loss, a Minister or official has caused or contributed to that loss through misconduct or through deliberate or serious disregard of reasonable standards of care, that Minister or official shall be personally liable to the Government for the amount of the loss.

(2) Where the misconduct or disregard of the person is not the sole cause of the loss referred to in subsection (1), the person shall be liable to pay only so much of the loss as is just and equitable having regard to the person’s share of the responsibility for the loss.

(3) If a loss of public moneys should occur and, at the time of that loss, a Minister or official had nominal custody of such moneys, that Minister or official shall be personally liable to the Government for the amount of the loss.

(4) For the purposes of subsection (3), a person has nominal custody of moneys where –

(a) the person holds the moneys by way of a petty cash advance, a change float, or other form of advance; or

(b) the person has received the moneys, but has not yet dealt with it as required by section 46. (5) A person’s liability under this section is not terminated or avoided upon that person ceasing to be a Minister or official”.

The Act permits the lending of public moneys. §64 states,

“(1) The Government may lend public moneys to any public entity or to any individual who is a citizen of Guyana.

(2) Public moneys to be loaned pursuant to subsection (1) shall be appropriated either in annual or amended appropriation legislation.

(3) Any loan of public moneys made pursuant to subsection (1) shall be evidenced by a loan agreement signed on behalf of the Government by the Minister.

(4) A loan agreement shall include –

(a) the term of the loan;

(b) the rate of interest applicable to the loan;

(c) the schedule of repayment; and

(d) a statement of the purpose for which the funds are being lent”.

Indications are that the Fiscal Management and Accountability Act 2003 were not adhered to in the execution of function of this agency. There was no functioning Board and the management was given political directives with little or no regard for the Act.

**GNCB-PHI**

The audit investigation revealed that properties disposed of were done in a manner that maximizes sales proceeds on behalf of the bank. Properties sold were by public tenders and/or through professional valuation.

**Receipt of proceeds of sale:**

Proceeds of sales were deposited into NICIL account at Republic bank.

**Expenses:**

Investigation revealed that all of the expenses incurred by PHI were legitimate business expense. The major expenses were capital gains tax to GRA, Property tax, Insurance premium, professional valuation, rates & taxes, and transfer fees.

**Balance of account:**

As at the end of June 30th 2015, the current account balance of amount due to GNCB-PHI was $368,043,315.

**Summary of sale:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Property # | Address | Sales price | Expenses | Net Proceeds |
| 2 of Order 28/2003 | High & Drysdale St. | $ 42,000,000 | $4,355,618 | $ 37,644,382 |
| 3 & 4 of Order 28/2003 | 1 & 2 North Road | $141,076,000 | $4,125,534 | $136,950,466 |
| 5 & 6 of Order 28/2003 | 126/127 Barrack St. | $156,000,000 | $5,238,743 | $150,761,257 |
| Sec. 2- 2 of 28/2003 | 204 Sec. L C/ville | $ 45,000,000 | $2,312,790 | $ 42,687,210 |
| Total |  |  |  | $368,043,315 |

**Recommendations:**

1. Under the authority of the provisions of the Fiscal Management and Accountability Act 2003, the Ministry of Finance should initiate legal proceedings against the principals and Dr. Ashni Singh, former Minister of Finance to recover the following outstanding loan amounts:
2. CASIQUE $581,665,180
3. GUYSUCO $270,000,000
4. Guyana Rice Producers Association $ 15,000,000

Total Principal $866,665,180

1. Transfer the active loans portfolio with a principal balance of approximately $7.5 billion to a debt recovery unit under the Ministry of Finance.
2. Cognizant of the specialized training of the staff at this agency, the Ministry of Finance should absorb the existing staff in the new debt recovery unit.
3. The cash management of the proceeds from debt recovery was not effectively invested between 2004 and April 2005. Large balances were kept in non-bearing interest account. During the period 2004 to April 2005, the average bank balance in the non-interest bearing account was $400 million. However, this changed with the appointment of Keith Burrowesas the General Manager. The bank aggressively pursued investment accounts to maximize its return.
4. A financial audit should be conducted on each loan file with a view to closure of some files. The findings and recommendation of the audit should be presented to a Board of Directors for approval and for submission to the Minister of Finance for Cabinet ratification, where necessary.
5. Currently the Small Business Bureau under the Ministry of Business is occupying a substantial part of the former GNCBSports Club. The GNCB staff is also housed in one section of the building. It is recommended that the proposed new debt recovery agency of the Ministry of Finance be located in the entire building. The building needs substantial general maintenance work.
6. NICIL has an amount of $368 million held in trust for GNCB. This amount represents net proceeds from the sale of GNCB-PHI assets. It is recommended that this fund be transferred to the Consolidated Funds without delay.
7. NICIL should be more aggressive in the sale of the other vested properties under its control.