مصرف ليبيا المركزي

CENTRAL BANK OF LIBYA

Responses of the Central Bank of Libya to the report of the Audit Bureau for 2021

Introduction:

- The Libyan Audit Bureauhas shown failure in its basic duties concerning the approval of the budgets of State institutions, including the Central Bank of Libya's, which have not been approved since 2011 to 2021, although Article 11 of the Audit Bureau Act expressly stipulates that: "The Head of Audit Bureau shall submit an annual report on the final account of the State for the year that has passed, simplifying his financial observations and the differences in no later than four months after receipt of final accounts". Notwithstanding the commitment of the Central Bank of Libya to transmit its annual budgets to the Audit Bureau in a timely manner in accordance with the Law of the Audit Bureau and Banking Law, the most recent was the 2021 budget, formally transmitted by the Central Bank of Libya to the Audit Bureau on 09/03/2022. However, the last budget of the Central Bank of Libya approved by the Audit Bureau was the budget of the year 2010.

- The Libyan Audit Bureauused this aforementioned failure to direct subjective and unprofessional accusations and criticism to the Bank, as will be apparent from the detailed response. The Libyan Audit Bureau's report for 2021 included a set of points and observations considered as fallacies that would contribute to misleading public opinion. This report should be the result of a systematic audit by the Audit Bureau and an assessment of the Libyan Central Bank performance and compliance. The Bureau then makes observations and receives and discusses the Bank's responses, in accordance with Law No. (19) of 2013 on the reorganization of the Audit Bureau, pursuant to paragraph (1) of the article (62) of the executive Regulations of Law (19) of 2013, on periodic reports prepared and submitted by the Bureau, which stipulate: "Annual report on the results of its work containing its observations and recommendations on its systematic audits and assessment of performance and compliance for the past year...""". This report was not based on the final auditing for 2021 prepared by the Central Bank of Libya and formally handed over to the Bureau on 09/03/2022. Instead, the Audit Bureau published its report without heeding the responses of the Central Bank of Libya's departments, which had submitted these to the Bureau and had called for a meeting to discuss. The same procedure has been adopted in the past years.

- The report violated the preparation controls stipulated in Article (63) of the Executive Regulations of Law No. (19) of 2013, including for example the following paragraphs:

  - Paragraph (4) Drafting reports should be properly streamlined, the report's content easy to understand and free from ambiguity or confusion, contain only information supported by the necessary evidence, and be independent, objective, impartial and constructive

- Paragraph (9) Taking into account that performance reports should be constructive when criticizing the entity, focusing not only on the past, but also mentioning future remedial activities in the form of conclusions and recommendations.
- Paragraph (10) observations and deficiencies should be formulated in such a way as to encourage correction and to avoid negative reactions by the party being criticized.

- Reality reveals by tracking the Auditors' repeated observations over the past years that the report of the Libyan Audit Bureau often came –as seen in the detailed responses - on the contrary of objectivity in most of its observations, without giving priority or attention to the responses of the reporting departments, which was incompatible with the context of the oversight work, and did not adhere to international auditing standards, including the International Standards of Supreme Audit Institutions (ISSAI) (INTOSAI), which makes its report contrary to professional standards and to internationally and locally recognized norms in the field of oversight and auditing.

- Although the Central Bank of Libya welcomed cooperation with the Audit Bureau's teams, and regular communication between the Central Bank departments with the Audit Bureau committees and teams, providing them with all the information, data and reports required, the Audit Bureau still accuses the Central Bank of being selective and blocking many reports and key information to understand the true financial situation of the bank, which is an accusation that is absolutely not true, where the Audit bureau teams and committees had received all information and data presented to them as requested by the respective Audit Bureau teams from the relevant departments of the Central Bank. That said, the Audit Bureau report showed weakness in the basis of the financial analysis of the figures and data, in terms of liquidity ratio, risks, profitability ratios, analysis of investment instruments used, rate of return on investment, financing structure, capital and credit, etc., making the observations of the Bureau's report an inaccurate indicator of the performance of the Central Bank of Libya's departments.

- Although the departments of the Central Bank of Libya referred responses to the Audit Bureau before the issuance of this report, the Central Bank of Libya is, for the public interest, committed to providing the necessary clarifications to the competent authorities, the local public opinion, and the international parties and institutions regarding the observations in the Libyan Audit Bureau's report for the year 2021.This response will include a narration of the Audit Bureau observations followed by the response of the Central Bank of Libya.

<u>General observations and responses:</u>

First: Central Bank of Libya dividend distribution

The failure of the Central Bank of Libya to supply public treasury revenues for issuance fees and dividends in 2021, as stipulated in articles 28 and 40 of the Banks Act No. 1 of 2005, as amended by Act No. 46 of 2012. (p17)

The response

The Audit Bureau is directly responsible for not supplying the public treasury revenues addressed in its observation, due to unfulfilling its legally stipulated role by approving the Bank's budgets in an annual basis, which the Central Bank of Libya has regularly forwarded, most recently the final account for 2021 referred by the Central Bank on 09/03/2021. Noting that the last approved budget of the Central Bank was the 2010 budget, a delay of 11 years, which is detrimental to the Central Bank's reputation and relationship with external and local parties, and disrupts the right of the Public Treasury to receive its revenues as stipulated by law,Article 40 of the Banking Act No. 1 of 2005, as amended, stipulates: "Profits arising from the issuance of cash shall be distributed at the end of each financial year by 80% to the General Treasury and 20% to the Bank, after deducting all expenses, approved by the auditors,...". Despite the fact that over the past years the Central Bank of Libya has transferred part of its profits to the public treasury to support the public budget.

Second: “tracking the bank accounts managed by the Ministry, it revealed the existence of (29) bank accounts opened by the Central Bank of Libya with (zero) balances and have not been closed to date, despite the issuance of a letter from Mr. / Director of the Treasury Department at the Ministry of Finance addressed to Mr. / Director of the Department of Banking Operations at the Central Bank of Libya regarding the closure of those bank accounts.

The response

- An unacceptable observation, as the Audit Office did not indicate the date of preparation of the Treasury Director's letter dated 10/11/2021, which is undoubtedly a period not sufficient to examine the technical nature of these accounts and know their legal status in order to make a decision.
- The Bureau's report ignored the fact that a committee had been set up, comprising members of the Central Bank of Libya, the Ministry of Finance and the Audit Bureau. Two meetings had been held in 2022. The Committee includes the following members:
    - Mr. Ashraf Almokhtar Aburas Director of Banking Operations
    - Mr. Amer Mohammed AlZaitouni Assistant Director of Banking Operations
    - Mr. AlMabrouk Salem AlQamati Head of Current Accounts Department

- Mr. Zakaria Omar Banouka Head of Followup and Statistics Department
- Mr. Ahmed Fawzi Abu Al Qassim Head of Revenue Department at the Treasury Department
- Mr. Tarek Masoud AlKikli Head of Treasury Accounts Department
- Mr. Abdul Wahid Mohamed Milad Accounts Management
- Mr. Zuhair Khamis AlZayani Member of the Audit Bureau

Both meetings examined the status of these accounts legally and technically, and work is under way to present a final position on these accounts in preparation for the closure of these accounts before the end of 2022.

Third: the report states, "The Bank's continued selectivity and failure to provide the audit committees mandated by the Audit Bureau with all the documentation and data they require. The committees were not provided with many important reports and information necessary to ascertain the true financial status of the Bank, which constitutes an obvious deviation from the most important requirements for transparency and disclosure."

The response

- The Audit Bureau repeats this accusation in most of its reports on recent years without providing any examples or evidence of the validity of its claim.
- On the basis of the Bureau's claim that the Central Bank did not cooperate and did not provide information to the Audit Committees mandated by the Bureau, how could the Bureau prepare about 70 pages in its report relating to the Central Bank and the banking sector?
- The Audit Bureau report included many observations based on anonymous false information, for example, the report based its claim "the failure of the Central Bank of Libya to encourage commercial banks to create an actual vision to activate the electronic trading services as a strategic alternative to traditional methods of money circulation" on a variety of incorrect data or figures, as follows:

  - The Payments Department of the Central Bank of Libya (CBL) - the authority responsible for electronic payment systems and services - has not received any request from the Audit Bureau committees to provide them with any data, statistics or information about electronic payment.
  - The report claimed: "The Department of Electronic Payment Systems at the Central Bank of Libya lacks reports on the performance indicators of some electronic payment companies, namely Tafani, Meza and Daleel Libya." (p. 87). While In fact, The Payments Department has comprehensive semi-annual reports of all performance indicators through which it follows the performance of those companies and the development of their services. One of the reports referred to the license granted to Daleel Libya Company to practice the activity. However, a

full year after the license was granted without the company starting its activity, this license was withdrawn in compliance with the regulations.

  - The report stated that the total manual cheques processed increased and amounted to LYD 9,586,404,428, an increase of 238% from 2020, while in fact the total amount of the manual cheques processed decreased in 2021, with LYD 1,743,085,615,921, while it was LYD 2,502,409,629,669, a decrease of 28% in 2021.

- On the other hand, shall this observation of the Audit Bureau be deemed as an acknowledgment of the lack of evidence in its annual report for the year 2021 and calling into question the systematic audit that the Bureau shall conduct to evaluate the performance of state institutions?! In accordance with article (62), paragraphs 1 and 4, of the Executive Regulations of the Bureau Act, which require that the Bureau's report be based on a systematic audit and that its information be supported by evidence. In view of its claim that the Central Bank's departments are uncooperative and refrain from providing many important reports and information necessary to ascertain the true financial status of the Bank, how could the Audit Bureau issue its report?

  How did it achieve its systematic audit and compliance assessment?

  How did the Audit Bureau manage to provide the necessary evidence for the conclusions it issued regarding the performance of the Central Bank?
- By reference to the departments and units of the Central Bank of Libya in this observation, all confirmed their submission of the required data and documents at the request of the Audit Bureau Task Forces. Some of these data were submitted more than once, at the repeated request of the Audit Bureau task forces.
- The claim of the Audit Bureau report that the Central Bank of Libya was not cooperating with the audit committees mandated by the Audit Bureau can be refuted as follows:

  First, from the outset, the Central Bank of Libya expressed its full willingness to cooperate with the Bureau Working Group and provide all required data. At the instructions of the Governor of the Central Bank of Libya, the Director of the Internal Audit Department was assigned to coordinate between the Bureau's Audit Group and the departments of the Central Bank, which was necessitated by organizational issues for the success of the cooperation process with the Bureau's Group.

  Second, on the basis of the Governor's directives, the Director of the Audit Department immediately addressed the relevant departments in order to facilitate the audit procedures of the working group appointed by the Audit Bureau. The Director of the Audit Department also handled all requests referred by the Bureau Committee for provision and delivery to the Bureau Group.

Fourth, Operations of the Central Bank of Libya

Through follow-up with the Department of Banking Operations at the Central Bank of Libya regarding the payment orders issued by the Treasury Department and received from the bank and not implemented, the following was found

1. **642 payment orders not executed until 03/01/2022 for the first term account, worth 2,573,487,220 dinars.**

The response:

The Department of Banking Operations received these orders from the Treasury Department, Ministry of Finance on 30/12/2021, which represents the salaries of the administrative body for the month of 12/2021. Due to the delay of the Treasury Department, Ministry of Finance in referring these salaries to the Bank, It was agreed with the Director of the Treasury Department and in the presence of Mr. / Director of the General Department of Service Sector Oversight at the Audit Bureau to accept and pass these orders at the beginning of the fiscal year 2022 Considering them as instruments on the way, knowing that the Department of Banking Operations received the salaries of the administrative body for November 2021 on 29/12/2021 for the number of (700) payment orders completed during the days of 30-31/12/2021. They were completed in record time despite coinciding with the annual closures, noting that the salaries of the month of December were fully completed at home and abroad for the administrative apparatus of the state before the end of work on 13/01/2022.

2. **145 payment orders not executed until 03/01/2022 in the amount of 107,892,230 dinars represented in the account of chapter I external transfers of a number of embassies, despite the bank's receipt of the orders dated 30/12/2021.**

The response:

The aforementioned payment orders pertaining the salaries of Libyan embassies and consulates abroad for the months of November and December 2021 were received on December 30, 2021 and agreed to be passed at the beginning of the fiscal year 2022 as mentioned earlier, as well as the number of (144) payment orders for the salaries of embassies for the month of October 2021 were received on 29/12/2021 and implemented during the days of 30-31 December 2021 and these orders were implemented in conjunction with the implementation of the salaries of the administrative body of the aforementioned state.

3. **32 payment orders that were not implemented until 03/01/2022 of second item account: External transfers - contributions, in the amount of 154,707,216 dinars.**

The Response:

The mentioned payment orders were received on the date of 30/12/2021 at the expense of external remittances and were agreed to be passed at the beginning of the 2022 fiscal year, as previously stated and actually implemented on the date of 06/01/2022.

More than 200 payment orders of Chapters II and III and external transfers received on 30/12/2021 and implemented on 30-31 December 2021.

4. **59 payment orders were returned to the treasury on 31/12/2021, which happens to be a Friday, in the amount of 47,858,112 without disclosing the reason behind this action.**

Response:

The payment orders in question were returned to the treasury department at the ministry of finance accompanied by a letter (reference number 324) from the director of Banking Operations to the director of the Treasury Department at the ministry of finance on 31/12/2021 as per the request of the acting minister of finance. Noting that Friday is a working day at the Central Bank of Libya, we are extremely surprised by the remark that this action was taken without stating the ensuing reason(s) behind it as our above-mentioned letter was very clear in that respect.

5. **The existence of accounts designated for the processing of past budgets that remain active (Outside the budget) while the Central Bank of Libya manages them solely and without the knowledge of the ministry of finance.**

Response:

This is an erroneous remark at best as this relates to the ministry of finance account with the Central Bank of Libya (101.190.127) (Chapter II) where the Loans and Contributions department deducts the dues of the People's Investment Deposit Agreement entered into by the ministry of finance.

6. **The lack of proper follow-ups by the CBL for the payment orders which are often delayed without being returned to the ministry. Some of those mentioned are still suspended in undisclosed private accounts.**

***Response*:**

All payment orders are processed immediately upon reception. Delays in processing are usually due to mandated due diligence that takes place to ensure the integrity of the process. Any suspension of such payment orders ensues as a result of not being able to verify them by the Compliance Unit and the Financial Information Unit due to time constraints at the end of the fiscal year and instead of returning them and subjecting the ordering entities to unwarranted losses to their rights, the Banking Operations department at the CBL suspends them temporarily until the conclusion of the verification and due diligence process.

Responses to the remarks mentioned in chapter three of the Audit Bureau report - "Central Bank of Libya":

Governance, monitoring and internal controls:

1- **The continued absence of the role of the board of directors as stipulated by article 5 of banking law number 1 / 2005 which if implemented in accordance to the laws and general accepted principals and standards of central banking management will surely reflect positively on institutional goals of price and currency value stability.**

Response:

- This is an extremely unrealistic remark in lieu of the ongoing armed conflict and political divide that has been besetting the nation and all of its institutions which is evident to all since the start of the political divide in 2014. The board of directors has met at the end of 2020 and the beginning of 2021 to treat the exchange rate issue as well as the dwindling of the commercial banks' balances at their CBL accounts. These meetings resulted in a host of discissions that were taken to treat these issues. The CBL continues to closely follow-up and monitor these matters which have seen tremendous improvements since. These activities fall within the main mandate of the bank and are not predicated on board meetings or the lack thereof.
- This remark has completely ignored the tremendous effort that the CBL has put forward in insisting on an independent international audit of all activities and accounts of the Central Bank both in Tripoli and Albaida. It was the result of this audit that initiated "project unity" with the aim of uniting the CBL through the creation of 5 working teams (public debt, foreign currency, Payments and Settlements systems and operations.) In addition, a higher committee with representative from both sides was established that includes the governor, his deputy and the Delloite company whom played an oversite role in this project.
- It is worth mentioning that the Libyan Audit Bureau had a similar stance in their 2017 report on the previous year where they reported the following in the 5th chapter titled "the impact of the divide on the economic and financial welfare" (pages 42-44):
    - All efforts to control the ongoing crises will not yield the desired results in presence of multiple governments and multiple monetary authorities.

- The Libyan Audit Bureau in its 2016 report further professed to the real reasons to the crisis being "this financial crisis that is negatively impacting the nation and its citizens is a direct result of the following points which are ranked in terms of importance:
  1. The existence of parallel governments and parallel monetary authorities both assuming the same roles.
  2. The closure of the ports and oil fields.
  3. The rampant corruption that's plaguing society.
  4. Dwindling security situation.
- In addition, the Libyan Audit Bureau sited in its 2016 report that "the real reason behind the liquidity crisis is the loss of trust amongst the general population which led to the belief that this crisis will not be over anytime soon. This led to the population to hold their cash in hand and not deposit it back into the financial system. That coupled with the parallel spending of multiple governments led to an increase in the local money supply leading to an increase in foreign currency being held instead of the local currency ultimately causing an insatiable demand for foreign currency. This unrealistic demand and the inability of the Central Bank to keep up with it caused the prices of foreign currency to sky rocket in the parallel market.
- The Libyan Audit Bureau in the same report stated that it will not be possible to treat such issues under the current situation "in order to treat such issues there needs to be only one government and a singular monetary authority so that adequate policies and procedures can be put in place to achieve multiple objectives in a synchronous fashion."

* They further assured the ineffectiveness of the pursuit of any solutions in light of the current situation by saying "as per the current status and the continuity of this divide, no reform efforts will yield any desirable results."

2- The board of director's failure to activate the higher Monetary Policy Committee established pursuant to decree number 63 for the year 2011 with respect to the national and international monetary developments and the study of their impact on the national economy.

Response:

* We have noticed that this is a repeated remark from 2020 and we have already addressed this issue in the past. Despite the reorganization of the Monetary Policy Committee and the great effort that went into activating it, the committee still faces many challenges for the same previously mentioned reasons. This remark confesses to the monetary policy instruments being incapacitated which implies the inability to directly affect money supply and losing the ability to damage its instruments in the process. This was also affirmed in the Libyan Audit Bureau 2017 report "The incapacitation of most monetary policy instruments, the absence of any financial policies and the lack of harmony between the policies of the government and the CBL …" (pages 81-82). In this case it is clear that this is not an issue of

whether the CBL is utilizing monetary policy instruments properly or not, it rather is an issue of the instruments being incapacitated anyhow so they could not be used to begin with.

- It is also evident that the passing of law number (1) for the year 2013 with respect to the restricting of interest rate-based trade has directly impacted the incapacitation of the monetary policy instruments. The CBL has given both its technical opinion as well sharia-compliant opinion in the matter several times asking to phase the law in overtime as the shock of the sudden transfer would be too great for the financial system to bare and will ultimately become incapacitated. The CBL also explained then that it is sincerely working on incorporating a comprehensive sharia compliant financial system that is based on proven methods and the best practices in the area of Islamic Banking; but despite the CBL being the primary authority on this matter its opinion went unheeded.
- The sudden abolishment of all traditional banking instruments such as the Re-discount price and both debited and credited interest rates has brought the commercial banking activities in the national market came to a screeching halt because they were no longer able to provide banking services in accordance with this law. The inability of the CBL to use the available monetary policy instruments was not the culprit. The primary reason that effected the money supply was rather the loose monetary police that was adopted during 2013-2017.
- As for the creation of new monetary policy instruments it would require the approval of the board of directors which is not available due to the existing divide, as was repeatedly mentioned in the Libyan Audit Bureau 2016-2017 report.

3- The Internal Audit department issues no quarterly or bi-yearly reports on its activities in evaluating the integrity and effectiveness of the internal control systems. The bulk of its activities is focused on the monitoring of daily activities without highlighting discovered weaknesses, risk factors or recommendations for mitigation strategies (Page 72).

Response:

- The Internal Audit department is continually evaluating internal control systems in such a manner as to ensure their integrity and effectiveness in controlling the inherent risks of all financial and administrative activates through the ongoing monitoring of all bank activities including SWIFT operations through presiding over numerous specialized committees\task forces established pursuant to governor decree number (172) for the year 2014 concerning the ongoing monitoring of all payment systems including the core systems (CBS).
- In light of the COVID-19 epidemic that has negatively impacted the health and wellbeing of the world at large during 2020-2021.
- The Central Bank of Libya, as all other national institutions, and as per the recommendations of the Libyan Committee on disease control with respect to the implementation of protective measures which included the reduction of employees present on the job by adopting a temporary shift system, which was a major contributing factor to the Internal Audit department not being able to carry out its job adequately and without impediment.

4- **The inability of the Compliance Monitoring Unit to provide any added value as we noticed many untreated violations that passed without being reported as well as not having a specific yearly plan that outlines its goals and tasks as well as not putting adequate evaluation standards and criteria in place that enables it to properly assess the effectiveness of these control systems.**

Response:

- The Compliance Unit at Central Bank of Libya, contrary to what has been mentioned in Libyan Audit Bureau 2021 report, has published the compliance manual after being approved back in 2018 and currently the work is ongoing on the second publication. This manual was widely distributed inside the CBL as well the industry at large. It outlines all compliance relevant policies procedures (I.e., compliance and AML policies and procedures, code of conduct, control systems guide......etc.) A copy of this manual was submitted to the Libyan Audit Bureau three times in the past so find the claim of not having such documents highly puzzling.
- Added to these claims is that the Compliance Unit not being adequately positioned within the CBL to assume its roles and responsibilities within the institutional Enterprise-Wide Risk Management Framework (ERM) which is grossly inaccurate. The CU at the CBL is enjoys full and unlimited access to all information required and is often serves as a supporting element to the various departments. It is also a member of many oversite- committees and is actively monitoring all transactions and banking activities to ensure proper national and international compliance to all relevant laws and regulations. This is all supported by a strict tone from the top.
- Furthermore, the Compliance Unit works on spreading awareness internally and throughout the industry through working very closely with all employees as well as upper management to ensure the integrity of the Compliance culture.

5- **The weakness of CBL mechanisms with respect to liquidity and the provision of alternative payment methods through increasing access to automatic teller services and debt as well credit cards.**

Response:

- Most issues with the commercial banks are related to the increase in public debt in the eastern region of the country which has reached 71 billion dollars to date as a result of parallel spending during the period from 2014-2020. That coupled with the Albayda branch adopting a parallel core banking and settlement systems led to the accumulation of tremendous commercial banks balances at the Albayda branch which reached 48 billion Dinars as of January 2021.
- The commercial banks have been unable to utilize these balances in their transactions involving foreign currencies and in the settlement of electronic checks through the national payment and settlement systems. This ultimately led to a decline in commercial banking deposits at the CBL violating minimum reserve requirements.

- The CBL has put forward an initiative in 2020 that would provide a zero percent loan based on the strength of their deposits at the Albayda branch which was presented to the banks and discussed with the UN mission to Libya.
- At the end of 2020 the CBL board of directors convened and a technical committee was appointed to study and analyze the reasons behind the commercial banks dwindling deposits with the CBL. It was also tasked with finding appropriate solutions to this situation.
- This committee set a host of standards to set and distribute bank loans proceeds amongst the commercial banks as well as study the ways in which banks can benefit from these loans. In this regard the committee reviewed the various exposed accounts at the Albayda branch which reached 48.4 billion Dinars in January 2021 and in the amount of 16 billion Dinars in Tripoli.
- The loan amount was set at %20 of the total deposits at the Albayda branch in the amount of 10 billion Dinar to be disbursed in two instalments to insure repayment after the reunification of the CBL. Furthermore, the committee set clear standards with respect to the deposit percentages at the Albayda branch as well as set loan payment shares in accordance to this percentage. All subsequent payments were made on these bases.
- At the same time the CBL has adopted the strategic development of payment systems since 2013. The goals of this initiative were the achievement of financial stability that are predicated on the principals of security and effectiveness of the various payment methods in addition to availing adequate payments systems that satisfy current and future payment needs in support of the national economy. Examples such systems include The Real Tine Gross Settlement (RTGS) and the Automatic Clearing House (ACH) which have been implemented and accordingly updated with full industry participation. These systems have been regularly updated and developed and more on this in the section concerning the improvement of electronic systems.

6- **The failure of the CBL in managing damaged currency paper notes in its own vault as well as the vaults of the commercial banks and their disposal in order to curtail the risks paper currency misuse (page 76).**

Response:

- The CBL has taken all of the necessary actions needed to dispose of expired and damaged paper currency in late 2021 and early 2022 in all of its vaults in Tripoli, Gharyan and Misratah. The total amount for which a certificate of destruction was issued was 811,5202,000 dinars.

7- **CBL local and international contributions.**

- **The lack of 2021 reports by the Loans and contributions department for the contributions of the local banks which was evident. These were supposed prepared regularly so that they can be evaluated in terms of performance and intended benefits.**
- **The CBL has neglected to pay the coupon premium for its contribution investment in UNICREDIT Bank for the past three years (2018,2019,2020) due to the continued losses**

posted. This caused the bond and share prices to decline in the Italian as well as The European markets as well as a notable increase in defaulted loans. These are all indicators of increased risks that the CBL is exposed to in case it continues with this investment.

- **on 30/6/2021 the Loans and Contributions department at the CBL noted in their report that UNICREDIT has been facing many challenges in terms of profitability which reflected negatively on its share value in the past few years. This was especially highlighted after conducting stress tests on the European market at large. The result of this test ranked this bank as the 5th weakest bank in a sample group of 51 banks tested which inevitably forced share prices to plummet.**
- **The Arab Insurance Group in Q3 of 2021 recorded losses of 3.2 million dollars in comparison with the same period of the financial year 2020 which reached 10.9 million dollars, which concludes to a heightened risk with this contribution.**

  (Page 77-78).

Response:

- Since its inception, the Loans and Contributions unit has been working on following and updating files related to each contribution separately. Each files contains the latest developments on the contribution and its quarterly financials. Access to these files had been provided to the committee members of the Audit Bureau as well as copies of the financial statements for these contributions during 2021.
- With regards to international contributions, a portion is contributions in the IMF, AMF and Arab Investment and Export Credit Guarantee Corporation, which are all sovereign investment and are managed according to the policies of these institutions. The bank has made the remaining contributions in order to own such contributions. The loans and contributions unit in accordance with its mandate monitors and manages such contributions in terms of its activities and results and provides periodic reports to the executive management.
- As for what the report described as the low market value of the shares of the Arab Banking Corporation of Bahrain (ABC). The shares of (ABC) are not primarily traded in the market, and that its financial position and its approved annual budgets published on the corporation’s website clearly show the strength of the corporation’s financial position and the extent of its stability. There is no effect of the low market value, and its realization of a net profit of about 90 million dollars during the year 2021, despite the conditions of the Covid-19 pandemic and its repercussions.
- With regard to the contribution of the Arab Insurance Group, the note mentioned in the Bureau's report is incorrect and inaccurate in various ways, as there is confusion in the years, as the Arab Insurance Group achieved profits during the third quarter of 2021 amounting to 6.0 million dollars.
- No dividends were paid on the Unicredit bond for the year 2018 due to the fact that the terms and conditions of the bond and the payment of dividends were not met, as the bank's net profits were not sufficient to pay the coupons.

- The provision for the decline in foreign contributions for the year 2021 has been increased because of the investment risks in UniCredit Italy, where the increase was increased by 10.400 billion dinars, and the unit seeks to increase it as a result of the risks arising from investment in general in contributions based on the conditions and challenges that play in the global economy. Most of the investments are directed according to the determinants and guidelines set out in the investment policy and the guide to its implementation, with the presence of some exceptions imposed by market conditions, such as the residency of interest in the eurozone in the negative region for years, as well as the high risks of the Libyan state from the point of view of counterparts, which made them reluctant to deal with the Central Bank of Libya. The number of banks dealing with it decreased from one hundred and seven banks to thirty-four only, including joint stock banks owned by the Central Bank of Libya, either directly or indirectly through the Libyan Foreign Bank.

8- The lack of clarity in the bank's vision and objectives in the investment policies in foreign contributions, and there are no performance standards on the basis of which the evaluation is based on evaluating the conditions of these contributions and the extent to which they achieve the strategies and objectives. (p. 78)

Response:

- The bank's external contributions include its contribution to the International Monetary Fund, the Arab Monetary Fund, and the Arab Investment Guarantee Corporation, all of which are sovereign contributions, which are managed in accordance with the policies adopted by those institutions.
- There are contributions to the Central Bank of Libya that the bank acquired for the purpose of ownership, as they were transferred from the Ministry of Finance, and it began to create allotments to meet any decrease in their values.
- The Central Bank, according to the laws of its establishment, is not considered an investment entity that undertakes investment.
- The Contributions and Loans Unit, in accordance with its terms of reference, monitors and manages these contributions in terms of their activity and results, and periodically transmits reports on them to the Governor's office, and to the Ministry of Finance regarding loans granted from the Ministry's assets.

9- The Central Bank of Libya owns a number of private loans and deposits that do not achieve profitable returns, but were of a political nature, and despite the outdated maturity date for the value of some of these deposits, which exceeded 20 years, the Central Bank did not take any action regarding legal accountability and prosecution of these countries...". (p. 80)

Response:

- The Contributions and Loans Unit has been working since its establishment to follow up and update special files for each contribution or loan separately. Whether those loans granted from the assets of the Central Bank of Libya or those granted from the assets of the Ministry of Finance and managed by the Central Bank, provided that the file of each contribution or loan includes the latest developments on the contribution, and the financial position for each quarter the financial statements of these contributions during the year 2021.
- As part of its role, the unit follows up on the conditions of these loans, and from that the unit has done the following:
  1) Demanding two deposits from Syria, where the draft memorandum of understanding concluded between the Libyan and the Syrian sides was presented to the Central Bank of Libya to make any comments or suggestions in this regard. When the matter was presented to the bank's board of directors in its meeting held on May 11, 2008, they agreed to settle the two deposits according to the mechanism contained in the draft memorandum of understanding, provided that the Ministry of Finance pays the principal amount of the two deposits, as the second article of the memorandum of understanding stipulates exempting the Syrian side from paying the total value of the interest due on the two deposits. The third and fourth articles of the memorandum stated that the original two deposits shall be kept and their value shall be deposited in the account of the Ministry of Finance by the Central Bank of Syria in which the value of the two deposits shall be deposited. Based on the deposit settlement agreement signed in 2008, we are asking the Libyan Ministry of Finance as the authority authorized to recover the two deposits in accordance with the agreement, and the Governor of the Central Bank of Libya has repeatedly asked the Ministry of Finance, but to no avail to date, and in the context of settling the two deposits. The Central Bank is in contact with the Ministry of Finance and is committed to recovering the amount of the two deposits.
  2) Continuous claim for the Guyana deposit, where the unit periodically and continuously renews the claim for the Guyanese side, and there is communication with the Ministry of Finance of Guyana via e-mail, and the last claim was on 03/04/2022 and the claims are sent through the SWIFT system and they are not sent randomly but rather It is sent according to what is stipulated in the grant agreement. It is sent after the interest maturity date every six months 25/03-25/09. There is also a communication with the bank with the Libyan Ministry of Foreign Affairs, which in turn communicates with the Chargé d'Affairs of the Embassy of Brazil to follow up on the issue of debt and demand settlement of debts. A meeting was held between the Ministry of Finance, the Ministry of Foreign Affairs and the Central Bank of Libya on 13/02/2022 to discuss and study the debts owed by the Republic of Guyana, and the table shown below shows the dates of sending claims, not the last claim on 28/09/2021.

Claim's Ref. No.	Claim's sent date
19/AGR22/18020	**03/04/2022**
19/AGR22/17896	**10/02/2022**
19/AGR21/17802	**29/12/2021**
19/AGR21/17768	**16/12/2021**
19/AGR21/17699	**28/09/2021**
19/AGR21/17551	**15/06/2021**
19/AGR21/17385	**08/02/2021**

3) The unit's follow-up to Russia's deposit, despite the settlement of the deposit under the Libyan-Russian economic, commercial, and financial relations agreement signed between the two sides on 17/04/2008 and obligating the Ministry of Finance to pay the value of the deposit to the Central Bank. The bank's demand to the Ministry of Finance continues, and there are ongoing claims to the Ministry, and it is ongoing. Work is also ongoing on activating the technical committee for the sectors, and there are correspondences between the bank and the Ministry of Finance, in particular, to implement the terms of the agreement and recover the value of the deposit to the bank from the Ministry of Finance, the last of which was addressed to the Minister of Finance by the Governor on 16/03/2022.
4) Legal measures have also been taken regarding the Cuban loan by referring it to the Cases Department according to the bank's legal department suggestion in addition to the approval of the Governor. The Contributions Unit is awaiting the response of the Ministry of Foreign Affairs, in particular, to preserve the political relations between the two countries, according to their testimony. The bank communicates with the Ministry of Foreign Affairs on a permanent basis regarding all loans and deposits since the Ministry of Foreign Affairs is the channel of diplomatic communication with countries. The unit prepares claims and sends them to the Cuban Bank. As previously mentioned, claims are not sent randomly, but based on what is stipulated in the agreement, i.e. after the interest accrual date every six months in every 30/06 - 31/12, and the table shown below shows the dates of claims sent whic were prepared by the Contributions and Loans Unit in year 2021.

Claim's Ref. No.	Claim's sent date
19/AGR22/17884	**02/02/2022**
19/AGR21/17801	**29/12/2021**
19/AGR21/17563	**20/06/2021**
19/AGR21/17376	**01/02/2021**

10- Through the data received regarding the uses of the interest-free loan "Qard Hassan", we state the following:

A. No evidence was submitted to the committee that the commercial banks are obligated by the authorizations to deduct the value of the loan from their accounts with the Central Bank branch - Al-Bayda, and that the uses of the loan are according to the purposes mentioned in the decision.

B. The Alejma'a Alarabi Bank and Al-Waha Bank did not use the loan in the amount of 27,800,000 dinars and 75,600,000 dinars, respectively, which confirms that the loan was granted without studying and determining the need to achieve the main goal, which is to cover the deficit in the accounts of commercial banks at the Central Bank.

C. The failure of the Bank of Commerce and Development to use the second installment of the loan amounting to 7,567,000 dinars, and the first installment to the Sahara Bank amounting to 119,300,000 dinars, and he did not provide the reasons for not using these payments.

D. Based on the text of Article (59) of Law No. (1) of 2005, regarding banks, the Central Bank deducts penal fines for deficit days in the mandatory reserve at a rate not less than thirty parts of 1% for each day and by studying the position on penalties for the year 2021. It was transferred to the account of the Depositors' Money Guarantee Fund. It was also found that the bank was limited to imposing fines on four private banks only.

The following statement clarifies a position on the fines imposed on banks in return for the inability to maintain the required mandatory reserve until 9/2021:

Bank name	days of incapacity	value of fine (LYD)
Yaqeen	68	2,025,456
Nuran	56	2,164,590
First Gulf Libyan Bank	3	527,004
Libyan Islamic Bank	32	1,174,765
Total	159	5,891,815

4- Knowing that most of the banks were exposed to a deficit in the mandatory reserves, which indicates that the Banking Supervision and Monetary Department did not review the weekly data related to the mandatory reserves of other banks, including the Jumhouria - Sahara - North Africa.

- The emergence of many banks with balances whose balances for the mandatory reserve exceeded 100% of the determined percentage of their deposit liabilities after excluding the value of the loan, and their accounts did not show a deficit.

- The actual balances of commercial banks and their ability to settle the loan have not been shown in light of the absence of the actual balance in the Al-Bayda branch." (p. 82)

Response:

- As a result of the exacerbation of the phenomenon of public debt in the eastern region, which reached 71 billion dinars due to the phenomenon of parallel spending during the period 2014-2020, and the establishment of a parallel banking and clearing system at the parallel al-Bayda Central Bank, this situation was reflected in the accumulation of large balances of banks with the Bank of al-Bayda that exceeded 48.4 billion dinars in January 2021 and the inability of banks to utilize it in their banking operations related to foreign currency, especially after the unification of the exchange rate at the beginning of January 2021, as well as the inability to utilize it in clearing electronic checks through the national payment system.
- This situation led to a decline in bank balances with the Central Bank of Tripoli below the level of the mandatory reserve for some banks and the inability of some of them to meet the needs of their clients of foreign currency and the increase in the number of rejected checks between banks via the clearing system, where the total deposits of banks with the Central Bank of Libya Tripoli reached the level of 16 billion dinars in January 2021 with varying bank balances among them.
- Through the periodic follow-up of the Central Bank of Libya to the development of bank balances, the Central Bank of Libya presented in mid-2020 an initiative to reduce the repercussions of this problem for providing an interest-free loan "Qard Hassan" to banks on the strength basis of their balances with the Bank of Al-Bayda. The topic was presented to commercial banks in the meeting held on August 17, 2020 and discussed the axes of the initiative with the United Nations Support Mission in Libya.
- After the meeting of the Board of Directors of the Central Bank of Libya at the end of 2020 and the assignment of a joint technical committee specialized in studying exchange rate options, it was entrusted with a study of the decline in the balances of commercial banks with the Central Bank of Libya - Tripoli, and the development of possible solutions within the framework of the initiative presented by the Central Bank of Libya.
- The Technical Committee set a set of criteria for determining and distributing the value of loan payments to banks. The Committee also identified the banks that can benefit from the value of the loans. In that respect, the Committee reviewed the statements of bank accounts with Al Bayda Bank, which amounted in January 2021 to 48.4 billion dinars, and in Tripoli 16 billion dinars.
- The Committee set the value of the loan at 20% of the total bank deposits with the Bank of Al-Bayda at a value of 10 billion dinars in two installments to ensure payment after the unification of the Central Bank of Libya. The Technical Committee also set the standard for the percentage of deposits of each bank out of its total deposits with Al-Bayda Bank, and the share of each bank in the loan payments is determined by the equivalent of this percentage, and the successive payments were distributed on this basis.

- On February 1, 2021, the first payment of 5 billion dinars was granted, and the second payment was given on April 19, 2021.
- Due to the high volume of demand for foreign exchange during the year 2021 after the unification of the exchange rate, the Central Bank of Libya was keen to stabilize the exchange rate and support bank balances to meet the needs of its clients of foreign currencies and reduce the percentage of rejected checks through the clearing system. At the beginning of August, the Technical Committee took the initiative to submit a proposal granting a third installment of 10 billion dinars to the concerned banks. On August 10, 2021, the Central Bank began granting the third installment, bringing the total loans to nearly 20 billion dinars, and 40% of bank deposits with the Al-Bayda Bank, which amounted to 51 billion dinars. This shows the banks' ability to repay the value of the loans granted to it.

11- Domestic electronic payment services.

- **The Central Bank of Libya's Electronic Payment Systems Department lacks reports on performance indicators for some payment companies, which are Tafani, Miza, and Daleel Libya.**
- **The absence of follow-up reports for electronic payment systems and service providers, as well as activity and performance reports in the electronic payments department of the Central Bank of Libya.**
- **Commercial banks continue to deal with the manual system in collecting certified checks despite setting 26/8/2021 by the Central Bank as the last date for dealing with the manual system, and its increase during 2021 by 283% than it was in 2020.**

Response:

- The strategy of the Central Bank of Libya to develop the electronic payments market revolves around a set of strategic objectives, the most important of which is the follow-up and development of electronic payment systems and services and the development of regulations and standards to legalize and regulate them. Also, the stimulating the electronic payments market through partnership with the private sector in pursue of creating competition and payment for the development of electronic banking services and products. In this regard, the Central Bank of Libya granted a set of licenses to private sector companies with a range of services such as processing direct and prepaid debit cards and electronic wallets.
- Contrary to what was stated in the Audit Bureau's report note, through the previous procedures, a remarkable development was observed in the number of utilized cards and electronic wallets, the widespread of points of sale POSs with a wider geographical area, and the annual increase in the volume of use over the past years. Among the most important steps taken by the Central Bank to follow up and develop electronic services in the Libyan banking market are as follows:
    - Circulating the regulations for electronic payment systems approved by the National Payments Council in the year 2020.

- Establishment of a section to supervise and monitor payment systems to perform its supervisory and control role over electronic payment companies. The section regularly issues a comprehensive report every six months, contrary to what was stated in the note of the Bureau's report.
- In cooperation with the national distributor operator, a new platform was launched at the beginning of this year and linked to banks, which contributed to an increase in the number of points of sale and direct debit cards.
- Launching a project to develop electronic payment services through the national distributor to complete the connection of all commercial banks and electronic payment companies and launch the e-commerce platform and the national digital wallet.

- As for Libya Guide Company, which was mentioned in the Audit Bureau's report among the companies licensed by the Central Bank of Libya, the license granted to that company has been withdrawn due to the passage of a whole year since it was granted the license which did not commence its activity according to the plan presented by the company itself, which was granted Licensing on that basis, which is within the framework of the supervisory role exercised by the Central Bank of Libya.
- The following data and tables show, in numbers, the development of electronic payment indicators in the Libyan banking market:

❖ Electronic Checks Clearing.

- The total number of checks on electronic clearing for the year 2021 (3,377,762), representing 95%.
- The total number of checks on the manual clearing system (191,921), representing 5%.
- Checks accepted on the electronic clearing system (2,676,195), at a rate of 79.23%.
- Checks rejected on the electronic clearing system (701,567) at a rate of 20.77%.
- General indicators compared to previous years:

No. of Branches	No. of Accepted Operations	The Accepted Transaction value	Year
286	724,274	13,21,720,309.764	2016
312	1,495,167	21,772,241,353.277	2017
486	2,825,992	40,923,754,513.414	2018
538	3,828,132	62,254,409,505.930	2019
550	2,690,958	49,832,531,985.260	2020

603	2,676,195	47,401,183,502.327	2021

- With regard to Dalil Libya Company that was mentioned in the Audit Bureau report. Dalil Libya was among the companies licensed by the Central Bank of Libya to provide electronic payment services; the license granted to the company has been withdrawn, due to the passage of a whole year without activating its activities. This decision was made according to the framework of the supervisory role exercised by the Central Bank of Libya.

- **The tables and charts below exhibit in numeric terms the evolution of electronic payment indicators in the Libyan Banking market.**

❖ **Electronic Cheques Clearing**

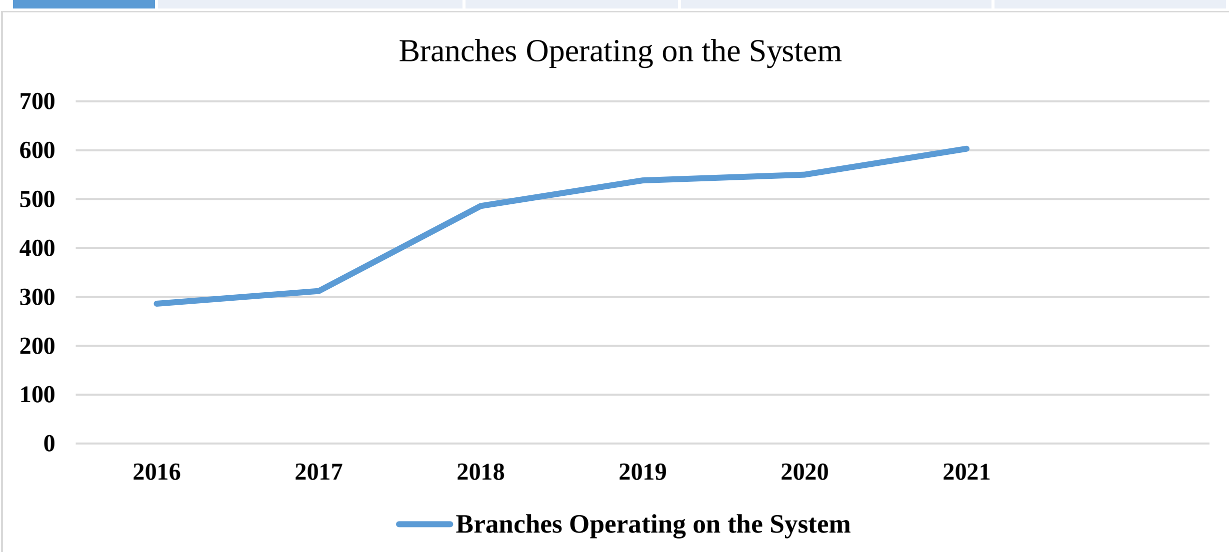
  - The total number of cheques executed on the electronic clearing in 2021 (3,377,762), representing 95%.
  - The total number of cheques executed on manual clearing (191,921), representing 5%.
  - Cheques accepted on electronic clearing (2,676,195), at a rate of 79.23%.
  - Cheques rejected on electronic clearing (701,567), at a rate of 20.77%.

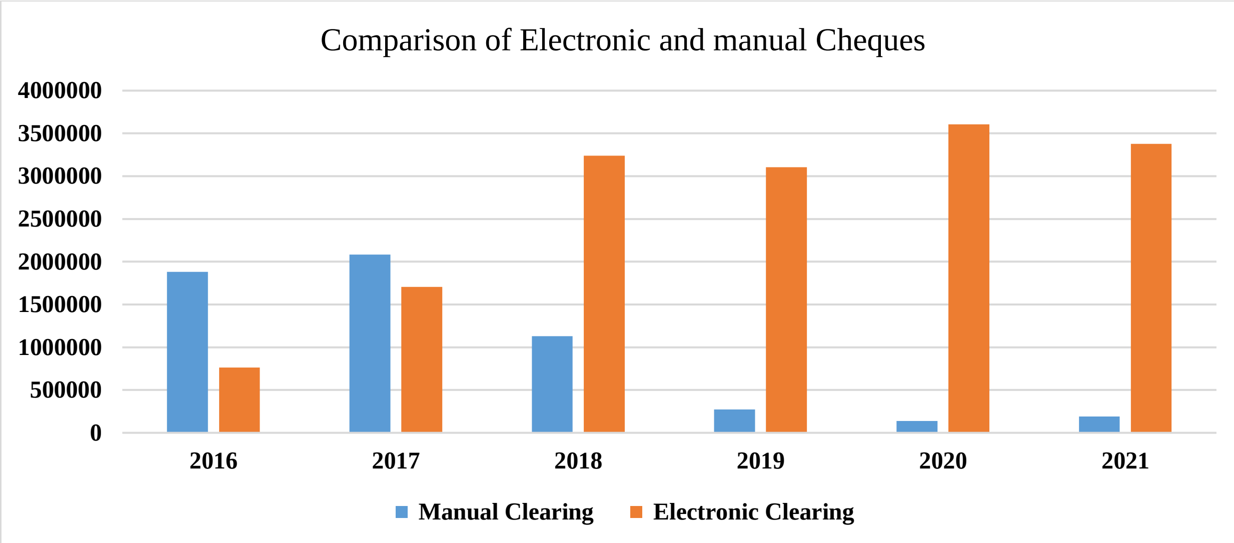
- **General Indicators compared with previous years**

Years	Value of Acceptable Transaction	The Number of Accepted Operations	Number of Branches
2016	13,21,720,309.764	724,274	286
2017	21,772,241,353.277	1,495,167	312
2018	40,923,754,513.414	2,825,992	486
2019	62,254,409,505.930	3,828,132	538

2020	49,832,531,985.260	2,690,958	550
2021	47,401,183,502.327	2,676,195	603

Years	Number of Cheques in the Manual House	Percentage	Number of Cheques in the Electronic House	Percentage (%)
2016	1882999	60%	761776	40%
2017	2084396	%55	1706126	%45
2018	1130971	%26	3238648	%74
2019	272423	8%	3103434	92%
2020	266700	6.8	3607200	%93.20
2021	191921	5%	3377762	95%

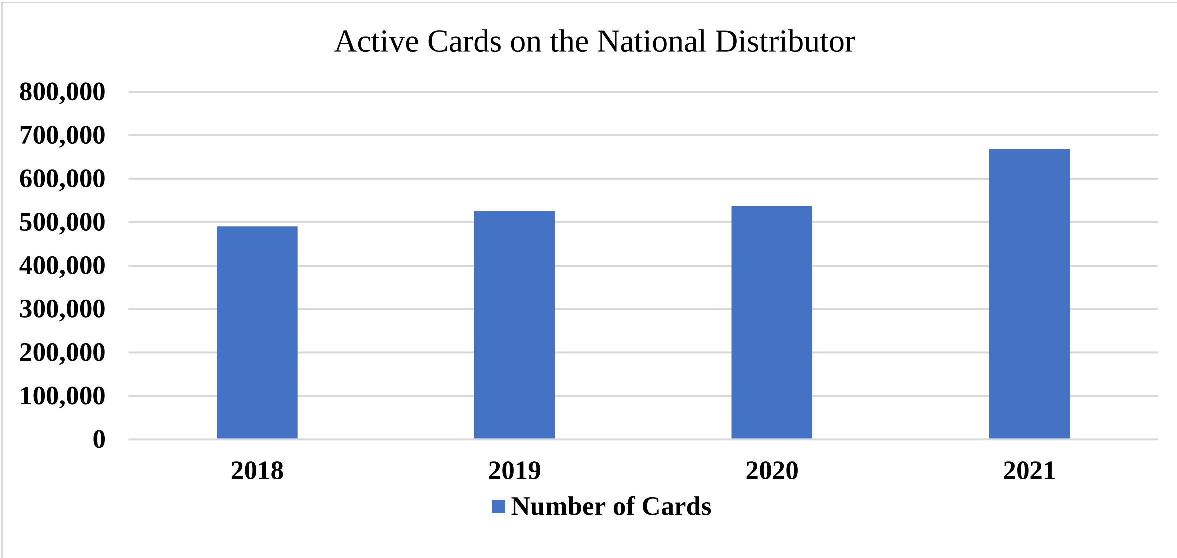


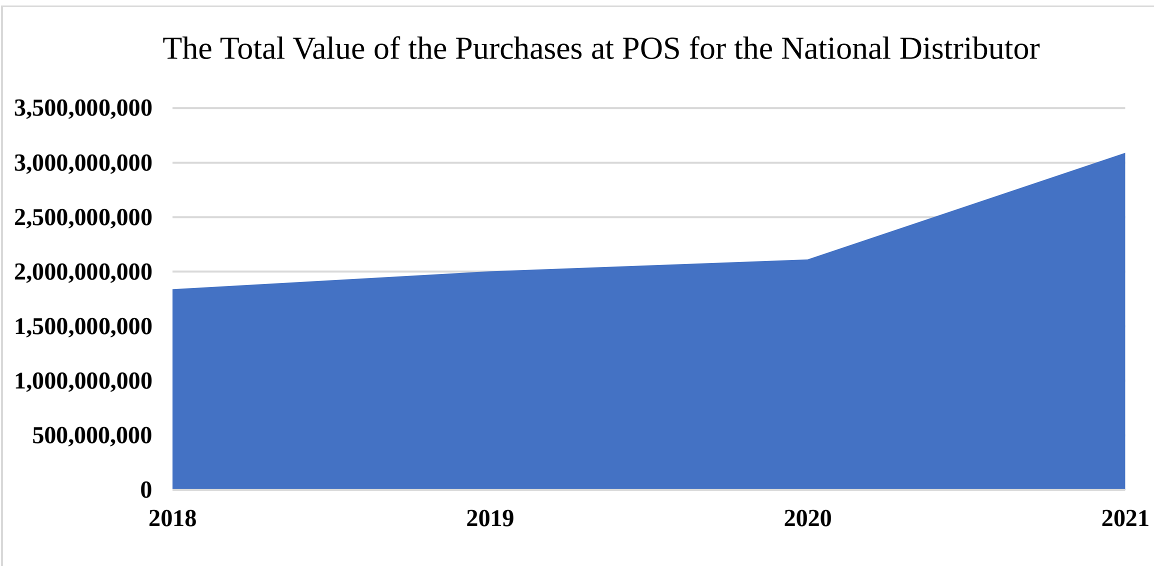


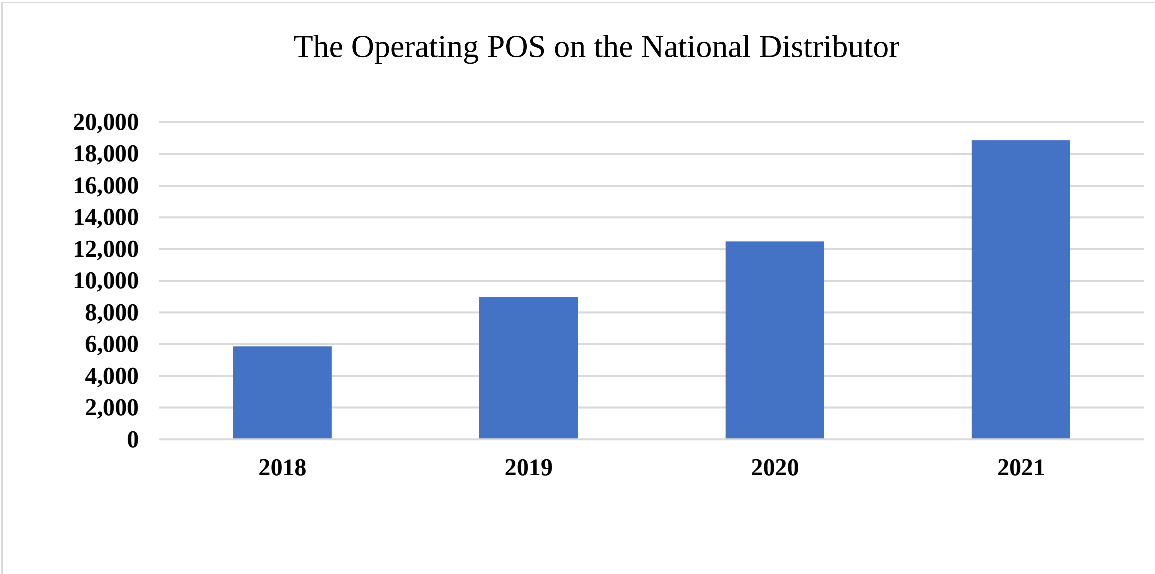
❖ **Indications of Electronic Payment through the National Distributor**

- The number of active cards increased by 20%.
- The number of points of sale increased by 34%.
- The trading volume on POS increased by 32%.

Year	2018	2019	2020	2021
Active cards	490,286	525,407	537,210	668,382
The number of POS devices	5,864	8,994	12,448	18,855
The number of POS transactions	14,763,711	12,978,690	15,748,817	20,927,723
Value of transaction	1,840,048,610	2,003,507.34	2,113,455,118	3,090,164,187.18


Active Cards on the National Distributor
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
2018
2019
2020
2021
Number of Cards


The Total Value of the Purchases at POS for the National Distributor
3,500,000,000
3,000,000,000
2,500,000,000
2,000,000,000
1,500,000,000
1,000,000,000
500,000,000
0
2018
2019
2020
2021

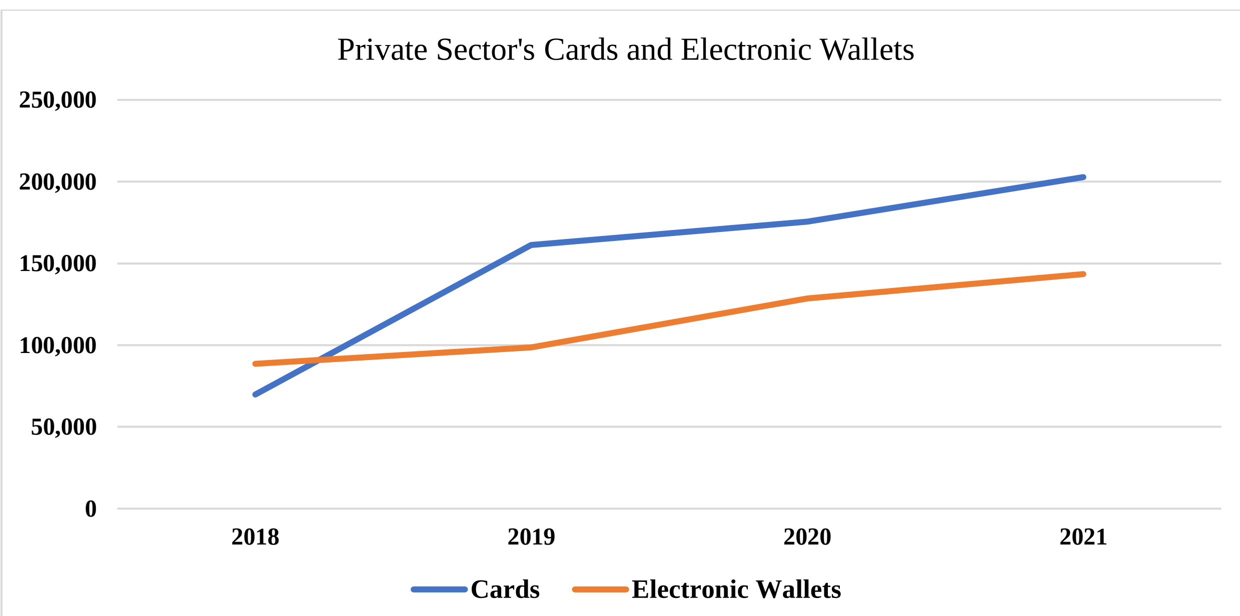


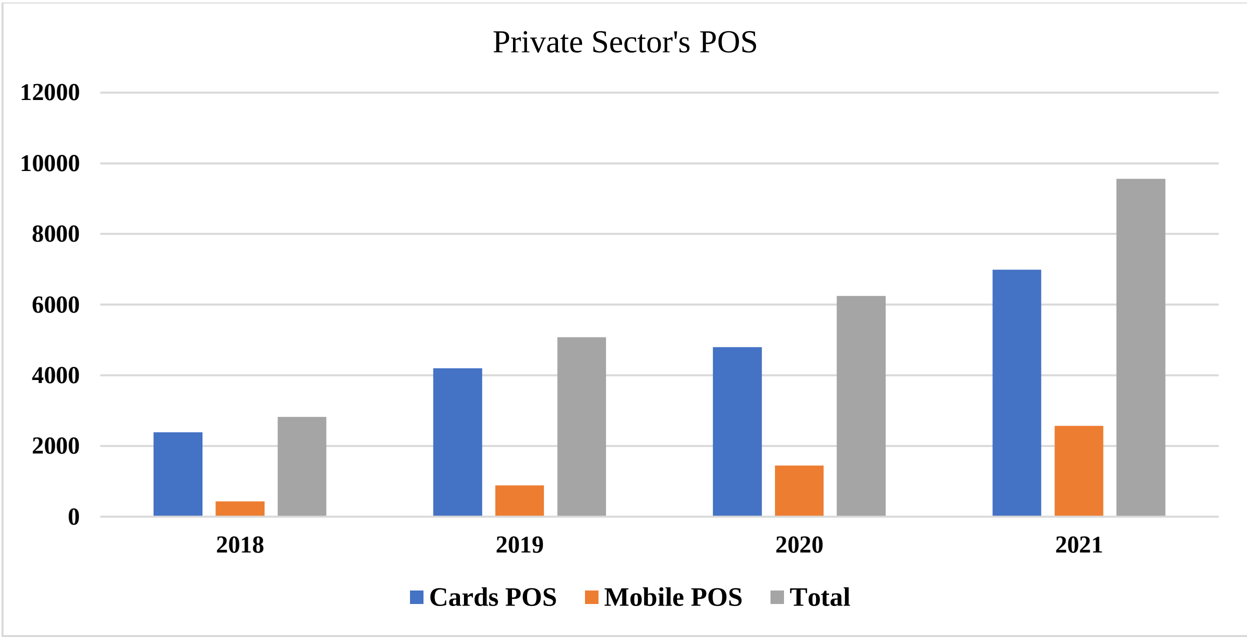
❖ **Indicators of Electronic Payment through Private Sector Companies**

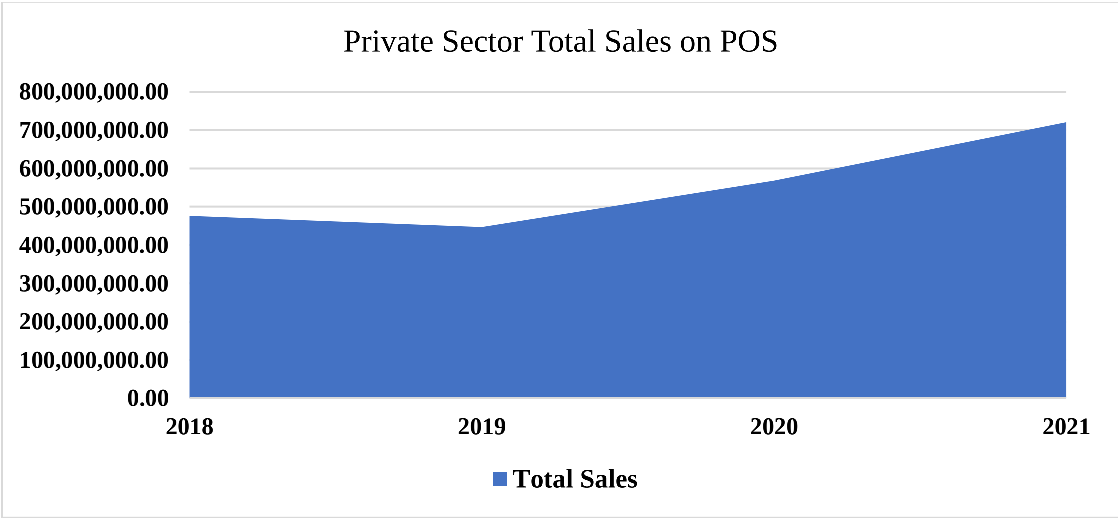
- The number of active cards increased by 14%.
- The number of electronic wallets increased by 10%.
- The number of POS increased by 35%.
- The trading volume by POS increased by 21%.

	Year	2018	2019	2020	2021
Cards or wallets issued by banks	Tadawal	69,810	161,100	174,966	201,689
	Tafane	-	131	569	1,076
	Almadar	88,595	98,643	128,499	135,929
	Meza	-	-	83	7518
The Number of	Tadawal	2392	4,194	4,778	6964
	Tafane		5	21	29

POS Devices	Almadar	431	883	1328	1,783
	Meza	-	-	123	789
The Number of Transactions on POS	Tadawal	3,401,254	4,434,266	4,182,051	3,989,187
	Tafane	-	103	4045	3774
	Almadar	1,654,970	939,517	776,138	1,123,542
	Meza	-	-	103	6,655
Value of Transaction	Tadawal	**289,666,676.30**	**363,912,016.71**	**495,653,482.47**	**635,903,533.11**
	Tafane	**-**	**8,304.20**	**517,435.98**	**1,019,114.00**
	Almadar	**186,072,039.50**	**83,250,962.26**	**71,625,795.62**	**80,845,880.81**
	Meza	-	-	**33,174**	**2,859,539**




Private Sector's POS
12000
10000
8000
6000
4000
2000
0
2018
2019
2020
2021
Cards POS
Mobile POS
Total


Private Sector Total Sales on POS
800,000,000.00
700,000,000.00
600,000,000.00
500,000,000.00
400,000,000.00
300,000,000.00
200,000,000.00
100,000,000.00
0.00
2018
2019
2020
2021
Total Sales

❖ **Combined Indicators for 2021**

Type of Service	2021	Increase in Percentage
Number of active local cards	871,147	**%18**
Number of electronic wallets	143,447	**%10**
Number of POS for local cards	25,848	**%33**
Number of POS for electronic wallets	2,572	**%44**
Total value of transactions on POS for local cards	3,810,792,254.10	**%31.50**
Total value of transactions on electronic wallets POS	83,705,419.81	**%14.40**

- As for licensed companies: which are Tadawul – Tafani, Miza, Al-Madar Al-Jadeed, and Masarat. There is an electronic window at the Supervision and Control Division of the payment systems for each of the above-mentioned companies' systems, their activities are monitored, and each company periodically issues reports.
- The ratio of the number of activated cards to the total number of cards issued does not reflect the real usages of the cards; Where there are a number of expired issued cards, Also, there are a number of issued cards disposed of for various technical reasons. The Department of Payments and Settlements relies on the number of active cards on the national distributor. Which, according to the attached electronic payment report, indicates the following:
    - The number of active cards increased by 20%.
    - The number of points of sale increased by 34%.
    - The trading volume on POS increased by 32%.
- As was mentioned earlier, the National switch and all electronic payment companies licensed by the Central Bank of Libya; provide an electronic window for the Supervision and Control Division to follow up and extract all sorts of reports.
- As for manual cheques, electronic cheques are accepted in the manual clearing house for two reasons only. The first is that if the branches are not connected to the system, there are currently ten bank branches only that are not connected to the system. The second reason is that if there is a technical issue related to communications.
- At the end of the year 2021, the percentage of electronic clearing represented 95% of the total clearing, as indicated in the attached report.

- In general, the number of cheques passed on manual clearing decreased by 28% in 2020, compared to that of 2021.
- The Central Bank of Libya has adopted best practices to ensure the electronic processing of cheques in terms of system availability and developing, training banks employees, obligating the banks to link their branches to the system, and work in accordance with the regulatory rules and procedures manual for the cheques clearing system issued by the Central Bank of Libya, which regulates the work of transacting cheques electronically through the electronic cheques clearing system
- In addition to all the measures and procedures taken by the Central Bank of Libya, the imposition of fines, as indicated in the procedure's manual, had a clear impact on the decrease in the number of returned cheques in general, especially the certified cheques.

12- Central Bank Main Building Maintenance and Renovation Project

Through the examination and review, it was found that the bank had contracted for the maintenance of the Central Bank of Libya's main building. Project name: restoration and maintenance of the bank's main building. The International Executing Company for Joint Engineering Consultations. Contract value: 13,385,499 Euros. The exchange rate when signing the contract was 1,745 LYD to the Euro. Contract date 13/04/2010 payment method extracts, to be paid 60% in Euros and 40% in Dinars, and the following was noted:

1- **The bank did not refer the documents related to the payment of extracts to the Audit Bureau, which is a violation of Article (2) of Law No. (24) of 2013, amended by Law No. (19) of 2013, regarding the reorganization of the Audit Bureau.**
2- **Lack of a clear vision from the bank before inviting the companies and offering the tender about the project works, on the basis of which a brochure for the works items is drawn up in the form of table of quantities, and a determination of specifications and conditions according to the technical principles.**
3- **The failure of the executing company to provide a clear timetable showing the implementation stages of the project, as well as the absence of an emergency plan to confront any crises for the project, considering that the executing company is a specialized foreign company, which led to the exaggeration in extending the period of implementation of the works, through the executing company requesting extensions in 4 stages, the actual total period becomes 40 months, and the reasons for the delay in the implementation of the project's work were under the pretext of the events that the**

country is going through from time to time, and there is the main reason which is the lack of clarity in the details of the assay items submitted by the company through which the implementation stages and the actually executed quantities can be followed up.

4- The bank management directs letters regarding new and urgent works to approve the offers by the executing company without specifying the details of the work, the quantities to be implemented and the method of payment.

Response:

- Contracting method and bid acceptance procedures:
  - In 9/2009, a committee was assigned by the Governor to undertake the liaison and search for international companies specialized in the field of maintenance and alteration of archaeological buildings. The committee conducted a field visit to (3) companies in Italy and Ireland.
  - Based on the minutes of the thirteenth meeting of the Bank's Tenders and Contracts Committee for the year 2009, it was recommended to accept the offer of (Project Management Intertekno, which merged with a Libyan company, hence, the name of the executing company became (International Joint Consulting and Engineering Company (ICEC)), The offer was at an amount of (13,385,500 million Euros), This was the lowest price, the best and the most comprehensive; based on the technical opinion submitted by the Babel Engineering Consulting Office. The selection was made based on the principles and criteria set by the aforementioned office, in coordination with the bank's advisor for technical affairs, where the committee received (3) offers from international companies that were officially invited, and after a trade-off, the aforementioned company's offer was awarded as the lowest price offer, and the Bank's Board of Directors Resolution No. (38) for the year 2009 was issued to contract with ICEC.
- Failure to refer the extracts to the Audit Bureau as stipulated in Law No. (24) of 2013 Article (2) amended by Law No. (19) of 2013: -
  - By reviewing all files and documents from 2010 to 2015, we did not find evidence of referring the (4) financial extracts to the Audit Bureau, and no documents related to this contract were requested during the previous years from the committees assigned by the Bureau to review the bank's performance. Accordingly, there were no audit either accompanying or subsequent to this contract, considering that the value of the extracts that were disbursed and received amounted of (11,774,589.68 million Euros) out of the total value of the contract concluded. The payment of the extracts to the company has been suspended since 2015, that is due to the fact that it has not accomplished many works and implementations delays.

- Failure to conceptualize and measure works, specifications and table of quantities prior to inviting companies.
    - ➢ According to the letter of Director of the General Administration of Contracts Oversight and Payments Review, with what is so-called the General People's Committee of the Inspection and People's Oversight Apparatus, dated 30/12/2009 with reference number 09-25/11735, which included the same notes referred to above. At that time, the Director of Administrative Affairs Department was assigned to respond to this note according to his letter dated 21/02/2010, saying that a preliminary study for the project had been prepared by a specialized consulting office for the purpose of diagnosing the architectural and engineering problems afflicting the building, with an argument for the inability of local consulting offices on the preparation of the works' estimation and its accessories (determining the initial cost of the project - preparing the table of quantities and technical specifications). Given that the building is of an archaeological and historical architectural nature; the matter was approved by the Director of the General Department of Contracts Control and Payment Review by the so-called Committee of The General People's Authority of the People's Inspection and Oversight Authority at that time (No. 3030-22) dated 23/07/2010. Then the implementation of the works started with the condition that the bank prepares an assay for the project according to the offer submitted by the company. On 01/04/2010, the Director of the Administrative Affairs Department issued an official letter to the company regarding submitting an assay for the project's work according to the offer submitted by them, unless the company submitted it from the reality of our archived files and the number (11) files.

    - ➢ In 2015, a working team was formed from the bank entrusted with the tasks of following up on the project and improving its conditions, as this team prepared a business assay due to the lack of clarity in the details and parameters of the offer submitted by the company. Hence, for the purpose of following up on the project according to sound foundations to facilitate the process of detecting deviations and identifying the achieved and unachieved works. Indeed, the team succeeded in its tasks, and it identified the unfinished business by the company.

- Issuance of assignments to the executing company related to new and urgent works, without specifying the details of the work and the quantities to be implemented, nor mentioning the method of payment:
    - ➢ We inform you that there were no assignments have been issued for new works to the executing company, and that these works fall within the strength of the

contract, which the company did not implement in the first place. On 01/06/2021 a meeting was held with the company that included bank officials and the project manager assigned by the company, based on the request made from the company with its willingness to resume and complete its work in accordance with the scope of the contract concluded. Accordingly, it was agreed to give the company an opportunity to carry out its unimplemented and unfinished business; according to the results of the business assay that was prepared by the bank's team and referred to above. It was conditioned on the company not to carry out the work referred to above only after submitting the technical specifications of the materials that will be used, until they are approved by the bank, after being technically approved by the bank's specialists.

In Summary: The works that the Audit Bureau report mentioned as up-to-date topics, are works that were carried out on the strength of the first contract, and some of them have already been implemented according to the agreed mechanism. But we were surprised that the company stopped carrying out these works about three months from the date of this letter.

End of Report