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**EXECUTIVE COUNCIL**  
**Twenty-Seventy Ordinary Session**  
**7 – 12 June 2015**  
**Johannesburg, SOUTH AFRICA**

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**REPORT OF THE PRC SUB-COMMITTEE**  
**ON AUDIT MATTERS**

**REPORT OF THE 7<sup>th</sup> MEETING OF THE SUB-COMMITTEE  
ON AUDIT MATTERS**

**HELD ON 29 MAY 2015**

**I. INTRODUCTION**

1. The seventh meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on Friday, 29 May 2015, and started at 15:20pm.

**II. ATTENDANCE**

2. The meeting was chaired by H.E M. Sajo Jallow, the Ambassador of Republic of The Gambia and the Chairperson of the Sub-Committee on Audit Matters, and attended by representatives of the following Member States:

1. Burkina Faso
2. Chad
3. Democratic Republic of Congo
4. Congo
5. Gambia
6. Kenya
7. Mauritania
8. Mauritius
9. Namibia
10. Niger
11. South Sudan
12. Togo
13. Tunisia

**III. OPENING REMARKS**

3. The outgoing Chairperson of the Sub-Committee, H.E Lazare Makayat Safouesse the Ambassador of the Republic of Congo welcomed all members of the Sub-Committee and the staff members of AU Commission to the meeting. He reminded the members of the importance of the Sub-Committee to the PRC in addressing audit issues in areas of Administration, Financial and other matters. He thanked the members for support in the work of the Sub-Committee. He also thanked the Directorate of the Office of Internal Audit (OIA) for the assistance and cooperation accorded to him in facilitating his and the Sub-Committee's work.

4. The Outgoing Chairperson handed over the mantle of the Sub-Committee to the incoming Chairperson, H.E. M. Sajo Jallow, the Ambassador of The Republic of The Gambia and assured the members that the Sub-Committee is being handed over to able hands.

5. For his part, the incoming Chairperson, thanked and acknowledged the wonderful work performed by the outgoing Chairperson and the Office of Internal Audit over the years. He also emphasised the importance of auditing to the Union, especially in the areas of Financial and Administrative matters.

6. The Chairperson requested the Meeting to observe a minute of silence in remembrance of the immigrants who perished in the Mediterranean Sea.

#### IV. ADOPTION OF AGENDA

7. The Chairperson presented the agenda and it was adopted by the Sub-Committee as indicated below:

- a) Opening Remarks;
- b) Adoption of Agenda;
- c) Review of the Internal Audit Report on Budget Performance for the Year ended 31<sup>st</sup> December 2014;
- d) Any Other Business.

#### V. REVIEW AND CONSIDERATION OF THE BUDGET PERFORMANCE REPORT FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014.

##### a) PRESENTATION

8. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit to present the budget performance report.

9. The Director, thanked the members and made a presentation on the main findings of the budget performance report as shown below:

##### i) Overall Assessment

10. The Director explained that the overall rate of budget execution for the AUC against the approved budget was 52%; the execution rate for program budget was 34% while for operational budget was 90%.

Table 1: AUC Overall Budget Execution for the Year 2014

| Details            | Budget (US\$)         | Year 2014             |                                | Available Funds       | Execution Rate% Against Available Funds |
|--------------------|-----------------------|-----------------------|--------------------------------|-----------------------|---|
|                    |                       | Expenditure (US\$)    | Execution Rate% Against Budget |                       |   |
| Program Budget     | 218,576,722           | 74,246,821.57         | 34%                            | 104,305,785.96        | 71%                                     |
| Operational Budget | *101,066,727.20       | 90,683,481.91         | 90%                            | 90,683,481.91         | 90%                                     |
| <b>Total</b>       | <b>319,643,449.20</b> | <b>164,930,303.48</b> | <b>52%</b>                     | <b>194,989,267.87</b> | <b>85%</b>                              |

\* Includes US\$ 2.4 Million paid for preferential rate.

ii) Operational Budget Execution

**11.** The overall execution rate for the Commission's operational budget for the year 2014 was 89.73%. It was noted that US\$ 2,409,086.59 for preferential rates, which was not part of the original approved budget was added.

iii) Program Budget Execution

**12.** The total expenditure incurred on programs during the year was US\$74,246,821.57 which represented 34 % against approved budget, whilst it accounted for 71.18% against the available funds (US\$ 104,305,785.96).

*Low and Zero Budget Execution*

**13.** Forty five (45) budget lines were executed below 40% for a budget of US\$ 7.13 Million whilst one hundred and eighteen (118) budget line items for a budget of US\$ 4.96 Million had zero execution.

**14.** Some Program Managers stated that funds were reduced by some Partners while others stated that funds were availed late and therefore affecting the full implementation of the planned programmes and activities.

**15.** The OIA is of the view that, the risk of non-receipt of funds from Partners should be effectively addressed and that departments may need to strictly prioritize activities to ensure that implementation of programs is scaled up based on the available funding.

*Program Budget Line Items for Which no funds Were Released/Availed*

**16.** A total of US\$ 18 Million of the Program Budget represented by one hundred and ninety three (193) budget lines had not yet been received by the end of the year.

**17.** The Office of Internal Audit (OIA) recommends that departments should be engaging partners early on programmes so as not to delay implementation and that departments may need to strictly prioritize activities to ensure that implementation of programs is scaled up based on the available funding.

*High Programme Budget Execution (Over 100%)*

**18.** It was observed that eight (8) budget lines had expenditures above 100% of approved budget.

## iv) FINDINGS ON PROGRAMME OUTPUTS

*Assessment on Outputs*

**19.** Two hundred and nine (209) outputs were planned by the Commission for the year 2014. The review of the Annual Progress Reports (AMERT System) revealed that twenty three (23) outputs were achieved representing 11%; ninety one (91) outputs were started but not completed by the end of the year (partially achieved) representing 43.54% while fifty four (54) outputs representing 25.84% were not started. In addition, the status of forty one (41) outputs representing 19.64% could not be verified because the departments had not uploaded the relevant data in AMERT system.

**20.** The OIA is of the view that lack of complete information in AMERT hampers program performance assessment of the departments as appropriate.

*Other weaknesses*

**21.** The Office of Internal Audit also noted the following weaknesses in the Annual Progress Reports submitted by the departments:

- a) The AMERT reporting system allows reports to be uploaded even when all the fields are not completed. This may have caused the departments to enter some data on some outputs and left others blank, hence giving incomplete reports.
- b) The outputs and indicators are not weighted as per their significance to the program and output. This results in the outputs and indicators being considered as having the same significance which is unrealistic.
- c) The OIA also noted that the Monitoring and Evaluation of program implementation is weak due to lack of adequate staff. The monitoring and evaluation section is staffed with only one officer who cannot do much considering the large number of programs planned by the Commission.

*Challenges*

**22.** The major challenges cited by the departments in their annual reports include:

- a) Budget constraints, where most of the programs were not funded for especially by the Partners.
- b) Late release of funds, leading to delayed start of implementation of programs as shown by the large number of partially achieved outputs.
- c) Limited human capacity in some departments.

- d) Late and/or protracted procurements, which may have contributed to delayed implementation of programs.

*Internal Audit Recommendations*

**23.** The Office of Internal Audit recommends the following:

- a) The departments should have realistic project implementation plans taking cognizance of the available funds.
- b) The departments should plan program implementation activities in accordance with the available human capacity.
- c) The departments should also start their procurements early enough so as to adhere to the provisions of the procurement manual while delivering their targets on time.
- d) The AMERT system should be modified to prevent incomplete reports from being uploaded. This would force the departments to provide all the necessary information.
- e) SPPERM should ensure that when the departments submit their proposals, the outputs and indicators are weighted.
- f) An additional field should be put in AMERT System for outputs and achievements where the departments can select from a dropdown list, the percentage of achievement for the indicators and the outputs. This would make consolidation and evaluation easier, and enable identification of actual weights assigned per each output.

**b) DELIBERATIONS**

**24.** Following the presentation of the budget performance analysis for the year ended 31<sup>st</sup> December 2014; the Chairperson of the Sub-Committee thanked the Director for the brief and precise presentation and invited the Members to comment on the report presented.

**25.** The members made remarks/comments, observations and asked questions as summarised below:

- i) Members observed that the report highlights a number of pertinent issues especially on the budgeting and lack of funds against approved budget as well as late receipt of funds that ultimately affects programs implementation.
- ii) They emphasised that the budget should match the available funding, and pointed out that based on the audit report, the Member States funding are

more reliable than Partner funding. They further suggested that, decisions should be limited to the available funds.

- iii) They sought clarification on the timing of the audit report on budget performance and the implementation matrix of the audit recommendations that should have been made available for discussion prior to the budget consideration.
- iv) They expressed concerns on the inadequate staffing for the Monitoring and Evaluation (M&E) Unit of the SPPERM Directorate. They also sought to know whether the staff capacity referred to the inadequacy in terms of the numbers or competence of the staff, with regards to projects that have secured funds and were not executed.
- v) They stated that AMERT tool used by the M&E Unit should produce definite results and not partial results as reported.
- vi) Members also expressed concern on the partially achieved outputs and the outputs not achieved and sought explanations on why some departments did not upload data in the AMERT tool resulting in forty-one (41) outputs that were not analysed. Members also wanted to know whether all the users of AMERT are equally trained on the usage of the tool. They also sought to know if there will be a follow-up to ensure that the missing data is eventually updated.
- vii) Members noted that the programs on sovereignty of the continent were not funded by the Partners and sought explanations on how programs are planned. They observed that 118 budget lines did not have funding from the Partners and hence were not executed. They further stated that the audit report should indicate why Partners fail in honouring their pledges and whether the unimplemented programs could not be carried forward to the following years.
- viii) Members reiterated the point that Programs/Projects without secured funds should not be included in the Union's budget.
- ix) The members sought clarity on what was meant by "*partial*" implementation of programs and whether this could be expressed in percentage terms.
- x) Members sought an explanation as to why the US\$32Million released by the Partners towards the end of the year had not been carried forward.
- xi) The members also sought to know why the audit report had not dealt with the reserve funds and the funds received late that could not be carried forward to the following budgeting year.

- xii) Members indicated that, there are departments that don't account for the first tranches of funds received and the Partners withheld the subsequent tranches pending the implementation and accounting for the first tranches. This also affects programs implementation and the report did not mention that.
- xiii) Members requested that, quarterly reports should also be done and presented to the Sub-Committee for discussion so as to enable timely action on the delaying programs, and requested that the 2015 first and second quarter reports be made available for discussion in September 2015.
- xiv) They further explained that the alternative source of funding is spanning over five years period and it should eventually form a greater percentage of the program budget.
- xv) Members wanted clarification on the process of budget and programme execution from the time the Union's budget is approved by the Assembly and the point the Chairperson makes approval.
- xvi) Members also stated that there is need to empower the OIA to carry out its mandate and ensure that audit recommendations are implemented on time.

### **c) RESPONSE BY THE COMMISSION**

#### ***Office of Internal Audit (OIA)***

**26.** The Director of Internal Audit explained that, the audit process on Budget Execution and Performance is carried out when the concerned departments have completed their work and data availed to the OIA. However, she assured the members that the timeliness of the report will be improved upon with a view to make it available before the budget consideration.

**27.** The issue of implementation matrix of audit recommendations was discussed with the PBFA Directorate since they are responsible in coordinating the matter. The matrix is still work in progress and will be brought to the attention of the Sub-Committee when complete.

**28.** The outputs achieved were those started and completed during the year, while those partially completed were those that were started but not completed during the year and those going beyond the financial year. The two (i.e. the achieved outputs and the partially achieved outputs) combined account for more than 50% of the total 209 planned outputs by the Commission.

**29.** The Director also indicated that the department requires both resources and independence as an oversight function to enable it deliver on its mandate effectively.



***Programming Budgeting Finance & Accounting (PBFA)***

30. The PBFA representative agreed that, the inputs to the audit process should be made available early to enable timely auditing and reporting before the budget process starts.
31. On the low and zero execution, he explained that it was as a result of late receipt of funds and some programs were not funded at all by the Partners. Once funds are available, the concerned departments are informed.
32. He explained that the budget execution process starts by departments seeking approval from the Chairperson, and PBFA then provides the funds for implementation.
33. He explained that, this year's quarterly reports are not yet ready as the department is currently dealing with the Board of External Auditors for the year ended 31<sup>st</sup> December 2014. Once the external audit is done, the PBFA will prepare the first and second quarters' reports for the internal audit process to start.

***Strategic Planning, Monitoring, Evaluation and Resource Mobilization (SPPMERM)***

34. The representative of the SPPMERM indicated that the Commission is equally concerned about the partial and non-achieved programmes and the weaknesses of the AMERT tool. He explained that, there are improvements in reporting compared to what used to happen previously. However, the recommendations of the OIA will be used to address the weaknesses of the tool to improve reporting.
35. On late receipt and lack of funds from Partners, he explained that before the budget is submitted for consideration to the Policy Organs, bilateral meetings with the Partners are held and they indicate the activities/programmes they will fund. However, at the implementation stages, the Commission starts experiencing difficulties in receiving the entire pledged funds, hence the low and zero execution. Some of the unimplemented programs can be re-programmed and renegotiated with the partners for implementation in the subsequent years. He urged Member States to consider putting very essential projects under Member States funding as it is more reliable.
36. The inadequacy in the M&E Unit is as a result of insufficient staffing and not lack of competency. Some staff resigned and the recruitment process takes long. It is hoped that the lack of staff will be addressed during the on-going restructuring process.
37. The reporting in AMERT is compulsory and the SPPMERM Directorate follows up departments to upload their outputs. Since the inception of the Sub-Committee, the Commission has seen great improvements in the reporting of programs implementation.
38. AMERT is an in-house developed software and the users are trained regularly by requesting departments to send their new budget focal persons to be trained by the SPPMERM staff. Since it is an in-house developed software, it is easier to make

changes as necessary so as to address the concerns of the users including the recommendations made by the Internal Audit.

#### **d) CONCLUSION AND RECOMMENDATIONS**

**39.** The members of the Sub-Committee concluded the deliberations and recommended as follows:

- i) The Report of Internal Audit on budget performance including the matrix of audit recommendations should be presented to the Sub-Committee on Audit Matters before the sitting of the PRC Sub-Committee on Administration and Financial Matters to consider the AU budget.
- ii) Emphasise compliance with previous decisions that:-
  - a) Only programs that have secured funds from partners should be included in the Union's budget,
  - b) The Commission should ensure compliance with the signed Contribution Agreements entered with the Partners,
  - c) The Commission should submit first and second quarter reports for the year 2015 in September 2015, including the departments' performance;
  - d) The Departments of the Commission should prepare a detailed schedule of procurement plan. The status of execution of procurement plan should be presented by AHRM to the relevant PRC- Sub Committee;
  - e) The Department of AHRM should identify human resources needs to execute the programs that should be presented to the relevant PRC-Sub Committee every September of the year.
- iii) The Commission should upgrade the AMERT tool to ensure that monitoring, evaluation and audits can be undertaken with the required information and, at the appropriate time.
- iv) The Commission should be strengthened in order for the Division of Monitoring and Evaluation to function as appropriate in line with the on-going restructuring process.
- v) The Office of Internal Audit should name those departments that are not complying with reporting requirements on implementation of programs, as well as audit recommendations (Internal & External), and corrective measures taken as appropriate in the next report by September 2015.

- vi) The audit report on budget performance should include an update on the status of the reserve funds. Also, the audit report should include definitions of technical terms used (e.g. Partial achievements).

**e) Any Other Business**

- 40. There being no other business, the meeting was adjourned at 18:10PM.

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