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Addis Ababa, ETHIOPIA

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REPORT OF THE SUB-COMMITTEE ON AUDIT MATTERS

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PRC SUB-COMMITTEE ON AUDIT MATTERS

27 October 2016

ADDIS ABABA, ETHIOPIA

Audit S/Cttee/Rpt(X)
Original: English

**REPORT OF THE 10th MEETING OF THE
SUB-COMMITTEE ON AUDIT MATTERS**

REPORT OF THE 10th MEETING OF THE SUB-COMMITTEE ON AUDIT MATTERS

HELD ON 27th OCTOBER 2016

I. INTRODUCTION

1. The tenth meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on Tuesday, 27th October 2016. The meeting started at 10:20 hrs.

II. ATTENDANCE

2. The meeting was chaired by H.E. Mr. Mass Axi Gye, Ambassador of The Gambia and attended by representatives of the following Member States:

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

III. OPENING REMARKS

3. The Chairperson opened the meeting and welcomed all the members in attendance. He proceeded by inviting the members to the adoption of agenda.

IV. ADOPTION OF AGENDA

4. The Chairperson presented the agenda which was adopted by the Sub-Committee as below:

1. Opening Remarks;
2. Adoption of Agenda;
3. Consideration of The Internal Audit Report on General and Reserve Funds for the period January 2009 to December 2015
4. Any Other Business (AOB).

V. CONSIDERATION OF THE INTERNAL AUDIT REPORT ON GENERAL AND RESERVE FUNDS FOR THE PERIOD JANUARY 2009 TO DECEMBER 2015

a) PRESENTATION

5. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the Internal Audit Report on General and Reserve Funds for the period January 2009 to December 2015.

6. The Director thanked the Chairperson and members, and made the presentation. The presentation indicated the key findings of the review (*NB: Copy of the audit report {revised} is annexed to this report*). The key findings included the following:

- Expenditures charged to the General Fund without budget and approval from the Policy Organs
- Ineligible Expenditures and Co-financing charged to the General Fund without approval from the Policy Organs
- Long outstanding balances written off without approval from the Policy Organs
- Missing supporting documents
- Posting errors

7. The Director, OIA concluded that there were improvements in the year 2015 since the above findings were not observed in the year 2015. She also noted that these improvements were attributed to IPSAS implementation and compliance to the requirements of IPSAS.

b) DELIBERATIONS

8. Following the presentation of the Internal Audit Report on General and Reserve Funds for the period January 2009 to December 2015; the Chairperson invited the Members for deliberations after expressing appreciation for the good quality of the report.

9. The deliberations of the members are summarised below:

- i) Members requested explanation on whether the expenditure incurred without the approval of the Policy Organs was on legitimate activities properly supported by adequate documents.
- ii) Members also wanted to know how findings like expenditures without budget, missing documents and posting errors were not reported by the Board of External Auditors and why the audit covering the period from 2009 was not conducted in time by the Office of Internal Audit.

- iii) Members requested for further analysis of the General and Reserve Fund balances as an annex to the report and put clarification on the issue of expenditures made without approval noting they were legitimate expenses as appropriate.
- iv) Members requested to know whether the Commission received the goods and services relating to the long outstanding advances given to the suppliers reported as written-off.
- v) Members also wanted to know if separate bank accounts were maintained for each fund.
- vi) Members expressed their concern on the integrity issues and enquired on how the staff involved would be made accountable.
- vii) Members sought to know what does special fund mean and how it is used.
- viii) Members also wanted to know why there were no similar findings noted in 2015 and what can be done to make sure that it will not happen again.

c) RESPONSE BY THE COMMISSION

10. The Director of OIA responded that the expenditures made from General Fund without the approval of the Policy Organs and the Accounting Officer were mainly for payments related to previous financial years after the accounts were closed, expenditure line items whose budget for the financial year exhausted or not budgeted for. Otherwise, the expenses in question were legitimate with supporting documents.

11. The Director of OIA also explained that this audit was a consolidated review done on the basis of the request from the Policy Organs and the scope commenced from 2009 in line with the year of implementation of SAP. Otherwise, audits conducted by the Office of Internal Audit like SAP data validations and Budget Execution noted similar findings.

12. On the amendment of the report, the Director OIA informed the members that, the necessary amendment will be done considering the suggestion of members.

13. The Director, PBFA explained that separate bank accounts are now opened for the funds and reconciliations of the bank accounts and the accounting records is underway.

14. Regarding enforcing accountability on staff responsible for the irregularities, the Director of PBFA noted that it can be done in principle but detailed investigation is required to establish the causes and staff involved.

15. The Director, PBFA also explained that the objectives of the Board of External Auditors is to provide opinion of the Financial Statement as a whole and some transactions may not be material enough compared to the magnitude of the total balances.

16. On the definition of Special Fund, the Director PBFA stated that according to Article 27 of the Financial Rules and Regulations the fund is established by the Accounting Officer for specific purposes for the furtherance of the objectives of the Union based on the decisions of the Policy Organs. Examples include special funds for Peace, Women and Gender, emergency and maintenance.

17. On the improvement of the control system from 2015, the Director of PBFA explained that the implementation of IPSAS and compliance with the requirements of new Financial Rules and Regulations enabled not to make expenditures from the General Fund.

d) CONCLUSION OF THE SUB COMMITTEE

18. The members concluded the deliberations and recommended as follows:-

- i) The AU Commission should provide the missing documents for OIA review and the OIA need to amend the audit report accordingly as well as take into consideration the suggestions of Members of the Sub-committee.
- ii) The AU Commission (PBFA) should address the issues raised by the Internal Audit Report on General and Reserve Funds for the period January 2009 to December 2015 and implement the recommendations accordingly.
- iii) The OIA should conduct the audit of General and Special Funds every year and report to Sub-Committee on Audit Matters accordingly.

VI. ANY OTHER BUSINESS (A.O.B)

19. There being no other business, the meeting was adjourned at 12:25 hours.

Audit S/Cttee/Rpt(X)
Annex

**INTERNAL AUDIT REPORT ON
GENERAL AND RESERVE FUNDS
FOR THE PERIOD JANUARY 2009 TO DECEMBER 2015**



INTERNAL AUDIT REPORT ON GENERAL AND RESERVE FUNDS FOR THE PERIOD JANUARY 2009 TO DECEMBER 2015

**African Union Commission
Office of Internal Audit
November 2016**



PRE-STUDY MEMO

*Execution Audit of the Directorate of Strategic Policy
Planning, Monitoring & Evaluation and Resource
Mobilization (SPPMERM)*

OFFICE OF INTERNAL AUDIT (OIA)
AFRICAN UNION COMMISSION

May, 2013

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1. EXECUTIVE SUMMARY

1. The purpose of this report is to provide the findings and recommendations on the audit of the General and Reserve Funds for the period between January 2009 and December 2015. The review was carried out as part of the approved Internal Audit Work Plan for the year 2016 as well as the decision EX.CL/Dec.899 (XXVIII), which mandated the Office of Internal Audit (OIA) to audit the Reserve Funds of the Union.
2. The main objectives for the audit of the General and Reserve Funds were to ensure that the accounting and presentation of the funds were in accordance with the AU Financial Rules and Regulations (AU FRR), and other relevant decisions made by the Policy Organs.
3. The General Fund as stipulated under Article 23 of the AU Financial Rules and Regulations (FRR) was established for expenditures using annual contributions paid by Member States, advances from Working Capital Fund and transfers from the Reserve Fund.
4. As per Article 25 of the Financial Rules and Regulations, the Reserve Fund was established to record any unutilized funds or surplus. The purpose of this fund is to cater for urgent or unforeseen expenses as per the decisions of the Permanent Representatives Committee (PRC).
5. The OIA review of the General and Reserve Fund revealed that the following expenditures and transactions were made from the General/Reserve Fund without the approval of the Policy Organs and the Accounting Officer.
 - a) Various prior year expenditures with a total amount of USD 5,593,127 for the years 2009 to 2014 as detailed under **Annex II**. These expenditures were made either after the yearly accounts were closed, the budget for the financial year exhausted or not budgeted for. Otherwise, they represent the recurring activities of the Commission with supporting documents.
 - b) Expenditures amounting to USD 4,648,287 made ineligible expenses by Partners, mainly from EC 55 Million Support Program for the years 2007 to 2013 and AMISOM VIII were charged to General Fund. Similarly, the AUC share of EC 55 Million Support Program (8.33% of the total contribution) amounting to USD 6,040,778 was not budgeted for and charged to the General Fund in 2014 as shown under **Annex III**.
 - c) Long outstanding advances paid to suppliers amounting to USD 344,037 and long outstanding receivable balances of USD 23,530 from 2005 to 2008 were written off to General Fund account without proper investigation and approval by the Accounting Officer as shown under **Annex IV**.
 - d) Supporting documents were either missing or incomplete for prior year expenditures charged to General Fund amounting to USD 439,762 and credit adjustments described as 'un-liquidated obligations' amounting to USD 2,272,755 as noted under **Annex V**.
6. On the other hand, the Reserve Fund did not show the unutilized funds or surplus, which effectively should represent cash and cash equivalents (cash on hand, cash at bank and short term

investments) related to Member States funds in line with the definitions and context of Article 25 of the AU Financial Rules and Regulations.

7. The review of the cash and cash equivalents (cash on hand, cash at bank and short term investments) related to Member States funds for the year ended 31 December 2014 and 31 December 2015 shows USD 13, 347,000 and USD 18,090,000 respectively. The details are shown in this report on the table under **Section 3.4**.

8. The OIA review shows that most of the key findings on the General Fund transactions were occurred during the audit period of 2009 to 2014 and it is commendable to note that there were no similar findings in the year 2015. This improvement is attributed, among others, to the implementation of IPSAS and compliance with its requirements.

9. Given the significance of the findings, it was recommended that:

- a) PBFA should ensure the improvement noted in 2015 on the treatment of expenditures strengthened in compliance with the requirements of the AU Financial Rules and Regulations.
- b) PBFA should make available the missing or incomplete supporting documents for prior year expenditures charged to the General Fund amounting to USD 439,762 and credit adjustments described as 'un-liquidated obligations' amounting to USD 2,272,755 for OIA review.
- c) PBFA should ensure that the Reserve Fund should only show the unutilized funds or surplus, which effectively represent cash and cash equivalents related to Member States funds whilst the General Fund to show all other transactions.
- d) PBFA should table to the Policy Organs for consideration and decision all the amounts that were charged to the General and Reserve Fund without approval from Policy Organs.

10. In conclusion, the OIA review shows that the overall operation of the General Fund transactions still require further improvement to ensure that what occurred during 2009 to 2014 will not be repeated. On the other hand, although the reviewed transactions (2009-2014) did not have approval from the Policy Organs, but these transaction were basically legitimate and some of them were recurring activities of the Commission.

_____//_____

2. INTRODUCTION

2.1 Background

11. The review of Reserve Fund was carried out as part of the approved Internal Audit Work Plan for the year 2016 as well as the decision EX.CL/Dec.899 (XXVIII), which mandated the Office of Internal Audit (OIA) to audit the Reserve Funds of the Union.

12. The audit was conducted in accordance with Article 3 and 4 of the African Union Internal Audit Regulations adopted by the Executive Council on decision EX.CL/720(XXI) i of July 2012. According to Article 4, the Office of Internal Audit (OIA) is required, among other things, to review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information and make specific recommendations about required improvements for consideration by the Chairperson and the PRC.

2.2 Audit Scope

13. The review focused on the period from 1 January 2009 to 31 December 2015. The audit tests were done on sample basis taking into account material transactions in order to adequately evaluate the design and proper functioning of the internal control system.

2.3 Audit Objectives

14. The main objectives for the audit of the General and Reserve Funds were to ensure that:
- a) The accounting and presentation of the General and Reserve fund was in accordance with the AU Financial Rules and Regulations (AU FRR), and other relevant decisions made by the Policy Organs;
 - b) To determine whether a sound system of internal control system is maintained over the accounting and presentation of the General and Reserve Funds so as to achieve organizational objectives;
 - c) The yearly closing balance of the fund reported agrees with the ledger balance in the system; and
 - d) Significant variances are identified and reported.

3. ESTABLISHMENT AND operations of funds

3.1 General Fund

15. The use of the General Fund was stipulated under the old AU Financial Rules and Regulations (FRR) which was applied up to 31 December 2013, and under the new Financial Rules and Regulations applied from 1 January 2014. Under Article 17 of the old FRR, the General Fund was established for the purpose of accounting for the expenditure of the Union using categories of accounts for annual contributions paid by Member States and advances from the Working Capital Fund. Similarly, under

Article 23 of the new FRR, the fund was established for expenditures using annual contributions paid by Member States, advances from Working Capital Fund and transfers from the Reserve Fund.

3.2 Working Capital Fund

16. As per Article 18 of the old FRR, the Working Capital Fund was established out of the excess of income over expenditure. It was also used as a Reserve Fund, as there was no specific Reserve Fund established. In this regard, Article 24 of the old FRR states that *'The Working Capital Fund shall be replenished by the excess of income over actual expenditure for a particular financial period, in other words, the difference between the actual income and expenditure obtained after recovery of the advances of the General Fund in previous financial years.'*

17. Under Article 24 of the FRR, this fund is established out of the Reserve Fund of the Union. The purposes of this fund are to provide advances necessary to meet commitment pending receipt of contributions and to provide advances necessary to meet commitment and unforeseen or extraordinary expenses arising from implementation of resolutions and decisions adopted by the Executive Council or the Assembly. The proportion and ceiling of this fund balance shall not be less than one (1) month requirement of the operational budget of the Union.

3.3 Reserve Fund

18. As per Article 25 of the Financial Rules and Regulations, the Reserve Fund was established to record any unutilized funds or surplus. The purpose of this fund is to cater for urgent or unforeseen expenses as per decisions of the PRC.

3.4 Special Fund

19. The FRR defines Special Fund as *'resources with related accounts held by the African Union and available only for specific purposes.'* Article 27 states that the Accounting Officer may establish special funds for specific purposes for the furtherance of the objectives of the Union and requires the purpose and limits to be clearly defined.

3.5 Fund Movement and Balances

20. The year end balances as at 31 December of the General Fund, Working Capital fund, Special Fund, Reserve Fund, Capital Reserves as well as Cash and Bank balances are shown on the table below whilst the detail movement of funds is described under **Annex VII**. The definitions of these fund balances under the old and the new AU FRR are shown under **Annex I**.

| Year | General Fund | Working Capital Fund | Special Fund | Reserve Fund | Capital Reserves | Cash and Bank* |
|------|--------------|----------------------|--------------|--------------|------------------|----------------|
| 2009 | 63,797,000 | 5,000,000 | 28,316,000 | 0 | 39,256,000 | *** |

| | | | | | | |
|------|------------|-----------|-------------|-------------|------------|------------|
| 2010 | 55,608,000 | 5,000,000 | 30,404,000 | 0 | 44,903,000 | *** |
| 2011 | 61,288,000 | 5,000,000 | 46,051,000 | 0 | 43,303,000 | *** |
| 2012 | 33,775,000 | 5,000,000 | 71,971,000 | 0 | 44,280,000 | 18,122,000 |
| 2013 | 0 | 5,000,000 | 64,279,000 | 32,847,000 | 49,344,000 | 33,476,000 |
| 2014 | 0 | 5,000,000 | 134,084,000 | 335,596,000 | 0 | 13,347,000 |
| 2015 | 0 | 0** | 134,187,000 | 316,071,000 | 0 | 18,090,000 |

*Cash, cash at bank and short term investments represented under General / Reserve Fund (related to Member States Fund).

**The working Capital Fund shows zero balance as at 31 December 2015 as the balance was borrowed in December 2015 as per Article 24 (4) of the AU Financial Rules and Regulations and fully refunded in February 2016.

***The cash and bank balances related to Member States Funds was not separately presented in the Financial Statements, only the total cash and bank balances were disclosed.

4. Findings and recommendations on general and RESERVE FUND transactions

4.1 EXPENDITURES WITHOUT BUDGET AND APPROVAL

21. Article 31 (1) of the AU Financial Rules and Regulations (FRR) states that *'The appropriations approved by the Assembly shall constitute authorization for the Union to incur commitment and make payments for the purposes for which the appropriations were voted and up to the amounts so voted.'* Similarly, Article 30(1) of the FRR stipulates that *'All appropriations shall be available to meet commitment of the Union for the financial year to which they relate.'* Furthermore, Article 59 (c) and (h) also state that *'Effecting payments without proper authorization'* and *'Effecting expense in excess of authorized funds, or without availability of funds'* constitute irregularity in the context of the FRR.

22. In this regard, it was noted that various prior year expenditures with a total amount of USD 5,593,127 for the years 2009 to 2014 were made from General Fund without the approval of the Policy Organs and the Accounting Officer. These expenditures were mainly for payments related to previous financial years after the accounts were closed, expenditure line items whose budget for the financial year exhausted or not budgeted for. For instance, USD 1,250,000 was paid from General Fund being the preferential rate for the salary of Geneva Office in 2014 where the approved operational budget was exhausted and no evidence of approval under supplementary budget. Refer **Annex II** for the details.

23. However, it was further noted that these expenditures represent the recurring activities of the Commission with supporting documents.

4.2 INELIGIBLE EXPENDITURES AND CO-FINANCING ON PARTNERS FUNDS

24. The review also noted that expenditures amounting to USD 4,648,287 declared ineligible by Partners, mainly from EC 55 Million Support Program for the years 2007 to 2013 and AMISOM VIII were charged to General Fund without the approval of the Policy Organs and the Accounting Officer. Similarly, the AUC share of EC 55 Million Support Program (8.33% of the total contribution) amounting to USD 6,040,778 was not budgeted for and charged to the General Fund without the approval of the Policy Organs. Refer **Annex III** for the details.

4.3 LONG OUTSTANDING BALANCES WRITTEN OFF

25. Article 65 of the old FRR (applicable until end of 2013) stipulates that *'The Accounting Officer may after full investigation and after consultation with the PRC, authorize the writing off of losses of cash, stores and other assets.'* In this regard, it was noted that long outstanding advances paid to suppliers amounting to USD 344,037 and long outstanding receivable balances of USD 23,530 from 2005 to 2008 were written off to General Fund account without proper investigation and approval by the Accounting Officer.

26. On the other hand, Article 65 of the old FRR states that *'If such Funds have remained dormant for a period of five (5) years, they shall be analyzed and may be closed from the books of accounts.'* However, long outstanding Partner Fund income balances and dormant accounts of USD 1,602,228 were written off to General fund without sufficient investigation and approval by the Accounting Officer. Refer **Annex IV** for the details.

4.4 MISSING SUPPORTING DOCUMENTS

27. Article 31 (5) of the AU FRR states that *'Expenses shall be justified by supporting documents.'* However, supporting documents were either missing or incomplete for prior year expenditures charged to General Fund amounting to USD 439,762 and credit adjustments described as 'un-liquidated obligations' amounting to USD 2,272,755. Refer **Annex V** for the details.

4.5 POSTING ERRORS

28. It was further noted that adjustments related to capitalization of SAP and audit software amounting to USD 945,532 were wrongly charged to General Fund instead of Capital Reserve account and the details are shown under **Annex VI**.

4.6 RECOMMENDATIONS

29. **The OIA review shows that the main findings on the General and Reserve Fund transactions are mostly due to lack of approval by the Policy Organs and the Accounting Officer for prior year expenses, ineligible expenditures of Partners Funds and writing off of long outstanding balances were occurred during the audit period of 2009 to 2014. In this regard, it was commendable to note that there were no similar findings in the year 2015. This improvement is attributed, among others, to the implementation of IPSAS and compliance with its requirements. Therefore the OIA recommends that PBFA should ensure this improvement continues in compliance with the requirements of the AU Financial Rules and Regulations.**

30. **PBFA should make available the missing or incomplete supporting documents for prior year expenditures charged to General Fund amounting to USD 439,762 and credit adjustments described as 'un-liquidated obligations' amounting to USD 2,272,755 for OIA review.**

31. **PBFA should table to the Policy Organs for consideration and decision all the amounts that were charged to the General and Reserve Fund without approval from Policy Organs.**

4.7 MANAGEMENT COMMENT

The issues raised have been noted. However, regarding missing and incomplete documents, below is our position:

- *Voucher number 100014642 is for IBAR office, so it is not missing but at IBAR office.*
- *Regarding the two vouchers which are missing from 2011 & 2012, they were used to reverse unliquidated obligation of USD 2,272,755 credit balance. Prior to implementation of IPSAS, all open purchase orders were automatically accrued at the end of the year without analysis, hence resulting in clearing off unliquidated obligations at the end of the following year and there is no printout for them. With adoption of IPSAS, all accruals are done with supporting documents and any clearance is done with proper explanations.*
- *Two vouchers from 2009, which were listed as incomplete, are in our view complete and they all relate to the period between 2009 and 2012 and not the current period.*

5. Findings and recommendations on the presentation and FUND MOVEMENT

5.1 GENERAL AND RESERVE FUNDS

32. The review of the Financial Statements audited by the AU Board of External Auditors for the year ended 31 December 2014 showed a closing balance of USD 315,780,000 and this balance was transferred to Reserve Fund and Special Funds for USD 252,923,000 and USD 62,857,000 respectively. As a result of this adjustment, the General Fund balance as at 31 December 2014 became zero. The Reserve Fund closing balance as per the draft Financial Statements for the year ended 31 December 2015 showed USD 316,071,000. Whilst the General Fund showed only the net deficit of the year (excess of expenditure over revenue) of USD 23,274,000 and this amount was closed to Reserve Fund, resulting in zero balance of the General Fund account.

33. According to Article 25 of the Financial Rules and Regulations, the Reserve Fund was established to record any unutilized funds or surplus. However, the Reserve Fund account for the year ended 31 December 2014 mainly included the surplus arose from the donation in kind of land and the new Conference Center. In this regard, it is the OIA view that this accounting treatment was not in line with the definitions and context of Articles 23 and 25 of the AU Financial Rules and Regulations on General Fund and Reserve Fund respectively.

34. On the other hand, the cash and cash equivalents (cash on hand, cash at bank and short term investments) related to Member States fund for the years ended 31 December 2014 and 31 December 2015 were USD 13,347,000 and USD 18,090,000 respectively. The yearly balances of the General Fund, Reserve Fund, Working Capital, Special Fund as well as Cash and Bank balances are shown on the table under **Section 3.4** above.

5.2 RECOMMENDATIONS

35. **PBFA should ensure that the accounting treatment and presentation of General Fund and Reserve Fund should be in compliance with the definitions and context of Articles 23 and 25 of the AU Financial Rules and Regulations respectively. In this regard, the Reserve Fund should only show the balances on unutilized funds (surplus or deficits), which effectively represent cash and**

cash equivalents related to Member States funds at the end of each financial year. Whilst, the General Fund should show all other transactions.

36. Furthermore, **PBFA should also develop a guideline on the processes and procedures of managing the General Fund, Working Capital Fund and Reserve Fund.**

5.3 MANAGEMENT COMMENT

Noted. We will do so as recommended. Currently we have opened a separate bank account for reserve fund.

6. ANNEXES

Annex I – Definition of Funds Under the Old and New AU Financial Rules and Regulations (FRR)

| Type of Fund | The Old FRR | The New FRR |
|----------------------|---|---|
| General Fund | Article 17 requires the establishment of General Fund for expenditures using: <ul style="list-style-type: none"> a. Contributions by Member States and b. Advances from Working Capital. | Article 23 requires establishment of General Fund for expenditures using: <ul style="list-style-type: none"> a. Contributions by Member States and b. Advances from Working Capital. c. <i>Transfers from Reserve Fund.</i> |
| Working Capital Fund | Article 21 stipulates that the Executive Council shall determine the ceiling of withdrawal from the Working Capital Fund. Drawings over and above that ceiling shall be authorized by the Executive Council on recommendation of the PRC. | Article 24(2) stipulates that the proportion and the ceiling of the working capital Fund shall not be less than (1) month requirement of the operational budget of the Union |
| Working Capital Fund | Article 18(1) stipulates that A Working Capital Fund shall be established out of excess of income over expenditure. | Article 24 (1) stipulates that Working Capital Fund shall be established out of the reserve fund of the union |
| Capital Reserve Fund | Article 29 requires the establishment of capital reserve for purpose of accounting for the Union's fixed assets valuation. | No Capital Reserve Fund |
| Reserve Fund | No Reserve Fund in the Old Financial Rules and Regulations | Article 25 requires establishment of Reserve Fund where any unutilized funds or surplus shall be recorded and also gives guidelines on how these funds could be utilized. |
| Special Fund | Article 25 states the Chairperson may establish fiduciary funds, reserves and special funds | Article 27 states that the Accounting Officer may establish special funds for |

| | | |
|--|--|---|
| | outside the Budget appropriations in respect of specific activities entrusted to the Union, subject to the approval of the Executive Council on recommendation of the PRC. | specific purposes for the furtherance of the objectives of the Union and requires the purpose and limits to be clearly defined. |
|--|--|---|

Annex II - Transactions Posted to General Fund without Approval by Policy Organs

| Document Number | Date | Amount US\$ | Description | OIA Remark |
|-----------------|-----------|-------------|---|---|
| 1900000141 | 20-Jan-09 | 1,020.00 | French class tutor for AU Staff | No approval by Policy Organs and Accounting Officer |
| 1900000263 | 27-Jan-09 | 14,000.00 | Consultancy fee for the study on the elaboration | No approval by Policy Organs and Accounting Officer |
| 1900001501 | 3-Feb-09 | 3,487.26 | Salary of October'08 | No approval by Policy Organs and Accounting Officer |
| 1900000738 | 22-Mar-09 | 14,198.98 | Payment of Salary of Jan'09 | No approval by Policy Organs and Accounting Officer |
| 1500002023 | 15-Jun-09 | 2,373.00 | Settlement of medical evacuation Oct 2006 AV-1017 | No approval by Policy Organs and Accounting Officer |
| 1500002012 | 15-Jun-09 | 2,034.00 | Mission to Washington & New York in Sept. 2007 | No approval by Policy Organs and Accounting Officer |
| 1900005174 | 1-Jul-09 | 343,670.98 | SAP License fee & Enterprise support | No approval by Policy Organs and Accounting Officer |
| 1900002141 | 13-Jul-09 | 75,659.40 | Settlement of prior year program budget | No approval by Policy Organs and Accounting Officer |
| 1900002160 | 14-Jul-09 | 17,949.27 | Medical evacuation in 2008 | No approval by Policy Organs and Accounting Officer |
| 1500003444 | 17-Jul-09 | 2,218.80 | Settlement of medical evacuation October 2007 | No approval by Policy Organs and Accounting Officer |
| 100006206 | 11-Nov-09 | 162,769.27 | To record exp of EU 55m incurred by Brussels office | No approval by Policy Organs and Accounting Officer |
| 1900004421 | 13-Nov-09 | 608.40 | 2006 travel advance settlement | No approval by Policy Organs and Accounting Officer |
| 1900003867 | 17-Nov-09 | 1,513.00 | Settlement of d/t missions 2006 as per confirmation | No approval by Policy Organs and Accounting Officer |

| | | | | |
|------------|-----------|------------|---|---|
| 1900004646 | 11-Dec-09 | 3,635.46 | Unpaid entitlement of Mr.Tseg while in Lagos 2007 | Approved by the Deputy Chairperson but not by Policy Organs |
| 1900004064 | 18-Dec-09 | 227,984.30 | Payment of outstanding Invoices | Approved by the Deputy Chairperson but not by Policy Organs |
| 100007186 | 18-Dec-09 | 89,088.32 | Settlement of program budget 2008 | No approval by Policy Organs and Accounting Officer |
| 1900004352 | 29-Dec-09 | 185,885.41 | Home leave difference for 2008 | Approved by the Deputy Chairperson but not by Policy Organs |
| 100010282 | 31-Dec-09 | 320,611.32 | Reversal of AU contribution from inter office to GF | No approval by Policy Organs and Accounting Officer |
| 100009468 | 31-Dec-09 | 104,213.48 | Settlement of prog. budget for the year 2008 | No approval by Policy Organs and Accounting Officer |
| 100009468 | 31-Dec-09 | 73,801.95 | Settlement of prog. budget for the year 2008 PANVAC | No approval by Policy Organs and Accounting Officer |
| 100009772 | 31-Dec-09 | 57,475.21 | Settlement of 2007program budget expenditures | No approval by Policy Organs and Accounting Officer |
| 100009823 | 31-Dec-09 | 53,023.32 | Refund of HQ claim Algiers office | No approval by Policy Organs and Accounting Officer |
| 100009832 | 31-Dec-09 | 43,880.06 | Settlement of program budget for the year 2009 CELHTO | No approval by Policy Organs and Accounting Officer |
| 1900004750 | 31-Dec-09 | 26,581.13 | Car Hire Service | Approved by the Deputy Chairperson but not by Policy Organs |
| 100010065 | 31-Dec-09 | 17,525.02 | Air ticket FY-08 PO#00700 Ck #0436860 & DV178/04 | No approval by Policy Organs and Accounting Officer |
| 1900004413 | 31-Dec-09 | 10,000.00 | Prize money to winner of the Design of AU Flag | No approval by Policy Organs and Accounting Officer |
| 1900004677 | 31-Dec-09 | 2,192.40 | Medical evacuation in 2007 | No approval by Policy Organs and Accounting Officer |
| 1900004414 | 31-Dec-09 | 2,082.00 | DSA for Winner of the Design of new AU Flag | No approval by Policy Organs and Accounting Officer |
| 1900004682 | 31-Dec-09 | 1,668.00 | Settlement of Geneva mission 2006 | No approval by Policy Organs and Accounting Officer |
| 100001562 | 30-Apr-10 | 18,058.80 | DSA Payment on Medical Evacuation to Joburg in 2006 | No approval by Policy Organs and Accounting Officer |
| 1900001303 | 7-May-10 | 62,932.10 | Translation work of 2008 | Approved by the Deputy Chairperson but not by Policy Organs |
| 100001703 | 10-May-10 | 27,033.60 | Payment of DSA for wife's medical evacuation in 2007 | No approval by Policy Organs and Accounting Officer |
| 100001836 | 12-May-10 | 18,119.40 | Payment of DSA for wife's medical evacuation in 2007 | No approval by Policy Organs and Accounting Officer |
| 1900001902 | 1-Jun-10 | 47,221.10 | Payment to NY Office for Home Leave TKT Diff. | No approval by Policy Organs and Accounting Officer |

| | | | | |
|------------|----------------------------|---------------------|---|--|
| 1900001658 | 4-Jun-10 | 48,908.16 | Payment of Long OS Invoices of ET & KQ | No approval by Policy Organs and Accounting Officer |
| 100003680 | 9-Jul-10 | 6,988.20 | Adj. of medical Evacuation Entitlement to Johannes | No approval by Policy Organs and Accounting Officer |
| 100011201 | 31-Dec-10 | 344,036.80 | To clear advance given to suppliers | No approval by Policy Organs and Accounting Officer |
| 1900000323 | 10-Feb-11 | 55,831.59 | Payment of salary for the years 2008 and 2009 due to grade dispute | No approval by Policy Organs and Accounting Officer |
| 1900000603 | 7-Mar-11 | 21,022.74 | Charging of the translation cost of the year 2009 | Approved by the Deputy Chairperson and not by Policy Organs |
| 1900001385 | 28-Apr-11 | 71,599.00 | Refunding of unused balance of money donated by SIDA | No approval by Policy Organs and Accounting Officer |
| 1900003851 | 31-Aug-11 | 31,146.80 | Settlement of advance paid in 2008 for CCTV Installation | Approved by the Deputy Chairperson and not by Policy Organs; 50% advance not accrued in 2008 |
| 1900003851 | 31-Aug-11 | 27,084.17 | Final 50% payment for CCTV Installation | Approved by the Deputy Chairperson and not by Policy Organs; not budgeted in 2011 |
| 1900005078 | 2-Nov-11 | 23,530.26 | Closing of old receivables for years 2005 to 2008 | No approval by Policy Organs and Accounting Officer |
| 1400000222 | 28-Dec-11 | 324,543.43 | Interest income on EU 6M Capacity Building Project, 2005 to 2009 | No approval by Policy Organs and Accounting Officer |
| 1900006901 | 31-Dec-11 | (50,203.90) | Charging Credit Notes of airlines for unused tickets in 2008 and 2009 | No approval by Policy Organs and Accounting Officer |
| 1800000340 | 31-Dec-11 | (578,442.02) | Closing of dormant accounts for more than five years without analysis | No approval by Policy Organs and Accounting Officer |
| 1900001003 | 19-Mar-12 | 10,067.16 | Vehicle maintenance charged as the budget was exhausted in 2011 | No approval and not charged to current year budget |
| 1900006583 | 31-Oct-12 | 1,850,318.97 | Paying back to EC the interest accrued over the years 2005 to 2009 | No approval by Policy Organs and Accounting Officer |
| 1900006121 | 20-Dec-12 | 69,860.00 | Cancellation fee related to hiring of aircraft 2011 | Approved by the Deputy Chairperson and not by Policy Organs; charged to General Fund instead of to the receivables |
| 1900037604 | 30-Oct-13 | 2,116.80 | To clear travel advance AC | No approval |
| 1800000310 | 24-Dec-13 | (1,023,786.42) | Closing of long outstanding Fund balance per FRR27 | Approved by Director PBFA but not by Policy Organs |
| 100011394 | 30-Sep-14 | 1,000,000.00 | Preferential Rate for salary of Geneva Office | No approved budget under the regular and supplementary budget |
| 100014528 | 4-Dec-14 | 250,000.00 | Preferential Rate for salary of Geneva Office | No approved budget under the regular and supplementary budget |
| | Sub total of Debits | 5,593,126.80 | | |

| | | | | |
|--|-----------------------------|-----------------------|--|--|
| | Sub total of Credits | (1,073,990.32) | | |
| | Total (net) | 4,519,136.48 | | |

Annex III - Ineligible Expenses and Co-financing on Partners Fund Posted to General Fund without Approval

| Document Number | Date | Amount US\$ | Description | OIA Remark |
|------------------------|--------------|----------------------|---|---|
| 1600000024 | 11-Dec-13 | 52,945.91 | Adjustment of overspent EU contribution to AU Democracy | No approval by Policy Organs and Accounting Officer |
| 1900000448 | 4-Feb-14 | 342,730.09 | Recovery, Offset by EU From AIMOSM VIII of 8.2Mill | Approved by the Deputy Chairperson but not by Policy Organs |
| 1800000389 | 1-Dec-14 | 4,252,611.07 | Net Ineligible costs of EC55M 2007 to2013 | Approved by Director PBFA but not by Policy Organs |
| 1800000389 | 1-Dec-14 | 6,040,778.21 | 8.33% Co-financing costs of EC55M 2007 to2013 | Approved by Director PBFA but not by Policy Organs |
| | | | | |
| | Total | 10,689,065.28 | | |

Annex IV - Long outstanding balances written off without investigation and due approval

| Document Number | Date | Amount US\$ | Description | OIA Remark |
|------------------------|-----------------------------|-----------------------|--|---|
| 100011201 | 31-Dec-10 | 344,036.80 | To clear advance given to suppliers | No proper investigation and approval by the Accounting Officer |
| 1900005078 | 2-Nov-11 | 23,530.26 | Closing of old receivables for years 2005 to 2008 | No proper investigation and approval by the Accounting Officer |
| 1800000340 | 31-Dec-11 | (578,442.02) | Closing of Partners Fund income dormant accounts for more than five years without analysis | No proper investigation and approval by the Accounting Officer |
| 1800000310 | 24-Dec-13 | (1,023,786.42) | Closing of long outstanding Fund balance per FRR27 | No proper investigation and approval by the Accounting Officer; approved by Director PBFA |
| | Sub total of Debits | 367,567.06 | | |
| | Sub total of Credits | (1,602,228.44) | | |
| | Total (net) | (1,234,661.38) | | |

Annex V - Transactions Posted to General Fund without Adequate Supporting Documents

| Document Number | Date | Amount US\$ | Description | OIA Remark |
|------------------------|-----------------------------|----------------------|---|---|
| 100010282 | 31-Dec-09 | 320,611.32 | Reversal of AU contribution from inter office to GF | No approval and lack of relevant supporting documents |
| 100009468 | 31-Dec-09 | 87,301.55 | Settlement of fund sent to service Maputo action IBAR | Missing document (not archived) |
| 100014642 | 31-Dec-11 | 31,848.72 | Transfer balance IBAR Conference to General Fund | Missing document |
| 100014259 | 31-Dec-11 | (1,599,057.70) | Unliquidated obligation for year 2011 | Missing document |
| 100012289 | 31-Dec-12 | (673,697.49) | Unliquidated obligation for year 2011 | Missing document |
| | Sub total of Debits | 439,761.59 | | |
| | Sub total of Credits | -2,272,755.19 | | |
| | Total (net) | -1,832,993.60 | | |

Annex VI - Transactions Wrongly Posted to General Fund

| Document Number | Date | Amount US\$ | Description | OIA Remark |
|------------------------|--------------|---------------------|--|---|
| 1900005244 | 31-Dec-09 | (31,734.99) | To capitalize audit software as per the cost accum | Wrong posting (should have been charged to Capital Reserve) |
| 1900005244 | 31-Dec-09 | (81,303.25) | To capitalize audit software as per the cost accum | Wrong posting (should have been charged to Capital Reserve) |
| 100010239 | 31-Dec-09 | (832,493.54) | To capitalize SAP software as per the cost accum. | Wrong posting (should have been charged to Capital Reserve) |
| | | | | |
| | Total | (945,531.78) | | |

Annex VII – Movements of Fund Balances

| Year | Description | General Fund | Special Fund | Reserve Fund | Capital Reserve |
|------|--|-------------------|-------------------|--------------|-------------------|
| 2009 | Opening Balance | 86,002,000 | 14,463,000 | 0 | 36,594,000 |
| | Movement and surplus or (deficit) for the year | (22,205,000) | 13,853,000 | | 2,662,000 |
| | Prior period adjustments | | | | |
| | Balance at the year end | 63,797,000 | 28,316,000 | 0 | 39,256,000 |
| 2010 | Opening Balance | 63,797,000 | 28,316,000 | 0 | 39,256,000 |
| | Movement for the current year | | 2,088,000 | | 5,647,000 |
| | Surplus or (deficit) for the year | (15,416,000) | | | |
| | Prior period adjustments | 1,442,000 | | | |
| | Net movement on assessment and contributions | 5,785,000 | | | |
| | Balance at the year end | 55,608,000 | 30,404,000 | 0 | 44,903,000 |
| 2011 | Opening Balance | 55,608,000 | 30,404,000 | 0 | 44,903,000 |
| | Movement for the current year | | 15,647,000 | | (1,600,000) |
| | Surplus or (deficit) for the year | (31,673,000) | | | |
| | Prior period adjustments | (170,000) | | | |
| | Net movement on assessment and contributions | 37,523,000 | | | |
| | Balance at the year end | 61,288,000 | 46,051,000 | 0 | 43,303,000 |
| 2012 | Opening Balance | 61,288,000 | 46,051,000 | 0 | 43,303,000 |
| | Movement for the current year | (37,530,000) | 25,920,000 | | 977,000 |
| | Surplus or (deficit) for the year | 8,394,000 | | | |
| | Prior period adjustments | | | | |

| | | | | | |
|------|--|-------------------|--------------------|--------------------|-------------------|
| | Net movement on assessment and contributions | 1,623,000 | | | |
| | Balance at the year end | 33,775,000 | 71,971,000 | 0 | 44,280,000 |
| 2013 | Opening Balance | 0 | 71,971,000 | 33,775,000 | 44,280,000 |
| | Movement for the current year | | (10,089,000) | (2,124,000) | 5,064,000 |
| | Surplus or (deficit) for the year | | | 3,593,000 | |
| | Prior period adjustments | | 2,397,000 | (2,397,000) | |
| | Net movement on assessment and contributions | | | | |
| | Balance at the year end | 0 | 64,279,000 | 32,847,000 | 49,344,000 |
| 2014 | Opening Balance* | 35,244,000 | 61,882,000 | 49,344,000 | 0 |
| | Movement for the current year | (29,876,000) | 10,040,000 | 33,329,000 | |
| | Surplus or (deficit) for the year | 310,412,000 | | | |
| | Prior period adjustments | | | | |
| | Appropriation for the year | (315,780,000) | 62,857,000 | 252,923,000 | |
| | Balance at the year end | 0 | 134,779,000 | 335,596,000 | 0 |
| 2015 | Opening Balance | 0 | 134,779,000 | 335,596,000 | 0 |
| | Movement for the current year | | (592,000) | 4,245,000 | |
| | Surplus or (deficit) for the year | (23,274,000) | | | |
| | Prior period adjustments | | | (496,000) | |
| | Appropriation for the year | 23,274,000 | | (23,274,000) | |
| | Balance at the year end | 0 | 134,187,000 | 316,071,000 | 0 |

*The opening balance of 2014 and the ending balance of 2013 do not agree on the respective audited financial statements.

AFRICAN UNION

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**PRC SUB-COMMITTEE ON AUDIT MATTERS
13 - 14 DECEMBER 2016
ADDIS ABABA, ETHIOPIA**

Audit S/Cttee/Rpt(XI)
Original: English

**REPORT OF THE 11TH MEETING OF THE PRC SUB-COMMITTEE
ON AUDIT MATTERS**

**REPORT OF THE 11TH MEETING OF THE PRC SUB-COMMITTEE
ON AUDIT MATTERS
HELD ON 13 AND 14 DECEMBER 2016**

I. INTRODUCTION

1. The eleventh meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on 13 and 14 December 2016. The session started at 11:30 and 10:30 hours on the first and second days respectively.

II. ATTENDANCE

2. The meeting was chaired by H.E. Mr. Mass Axi Gye, Ambassador of The Gambia and attended by representatives of the following Member States:

- 1) Angola
- 2) Burkina Faso
- 3) Chad
- 4) Congo
- 5) Kenya
- 6) Mauritania
- 7) Mauritius
- 8) Namibia
- 9) Niger
- 10) The Gambia
- 11) Togo
- 12) Tunisia

III. OPENING REMARKS

3. The Chairperson opened the meeting and welcomed all the members in attendance as well as representatives of AU Organs and the Board of External Auditors. The Chairperson however expressed his concern on the low attendance on the first day of the meeting and urged members for full participation as this was one of the most important work of the PRC Sub-Committee on Audit Matters.

IV. ADOPTION OF AGENDA

4. The Chairperson presented the agenda which was adopted by the members as amended as shown below:

1. Opening Remarks;
2. Adoption of Agenda;
3. Presentation by the Chair of the Board on the African Union Report on the Operations of the AU Board of External Auditors for the year ended 31 December 2015;

4. Consideration of the AU Board of External Auditors (BoEA) Reports on the following:
 - i) African Court on Human and People’s Rights (AFCHPR) for the year ended 31 December 2015;
 - ii) NEPAD Planning and Co-ordination Agency (NPCA) for the Year ended 31 December 2015;
 - iii) Pan African Parliament (PAP) for the Year ended 31 December 2015;
 - iv) AU Advisory Board on Anti-Corruption (AUABC) for the Years ended 31 December 2014 and 2015;
 - v) African Commission on Human and Peoples’ Rights (ACHPR), Banjul for the Year ended 31 December 2015, and
 - vi) AU Commission for the Year ended 31 December 2015.
5. Consideration of the AUC Budget Performance Report for the period ended 30 June 2016;
6. Consideration of the Report on Implementation Matrix of Audit Recommendations as at 30 October 2016;
7. Any Other Business (AOB).

V. PRESENTATION BY THE CHAIR OF THE BOARD ON THE AFRICAN UNION REPORT ON THE OPERATIONS OF THE AU BOARD OF EXTERNAL AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2015

5. The Chairperson of the Sub-Committee invited Mr. Thembekile Kimi Makwetu, the Auditor General of South Africa and the Chairperson of the AU Board of External Auditors (BoEA) to present the audit reports of the AU Organs. The Chairperson of the AU Board of External Auditors thanked the members and stated that their responsibility as the BoEA was to express an opinion on the financial statements of the African Union.

6. The Chairperson of the BoEA informed the meeting that the BoEA was comprised of Supreme Audit Institutions (SAI) from four Member States, Algeria, Cape Verde, South African and Uganda who audited the accounts of the African Union for the year ended 31 December 2015. The scope of the BoEA’s audit work for the 2015 financial year covered the Organs mentioned below, which were allocated to the members as follows:

| African Union Organ | BoEA Member State |
|---|-------------------|
| African Court for Human and Peoples’ Rights | Algeria |
| African Union Advisory Board on Anti-Corruption (*) | Uganda |
| African Union Commission | South Africa |
| African Union Commission for Human and Peoples’ Rights | Cape Verde |
| New Partnership for Africa’s Development Planning and Coordination Agency | South Africa |
| Pan African Parliament | Uganda |

(*) – The BoEA member audited 2014 and 2015 financial statements for the AUABC.

7. Regarding the opinion given on the Financial Statements, the Chairperson of the BoEA explained that the financial statements of the AUABC for the year ended 31 December 2014 were unqualified. The 2015 financial statements of AUABC, AUC and PAP were unqualified with emphasis of matters being drawn on certain disclosure items in the financial statements. Qualifications were reported on the financial statements of the African Court for Human and Peoples' Rights, the African Commission for Human and Peoples' Rights and NEPAD in various areas.

8. On audit findings, the BoEA identified some significant issues of concern on the internal controls relating to various areas such as quality and timeliness of financial statements; property, plant and equipment; partner funding and budget processes to mention a few. Although not material enough to justify a qualification for some of the Organs, the findings will require urgent management intervention, particularly the involvement of the Office of Internal Audit.

9. The Chairperson of the BoEA stated that a large number of misstatements were identified in the financial statements and though management corrected some of these to avoid qualifications, some misstatements resulted in qualifications as they remained uncorrected. The corrections made resulted in the BoEA having to review numerous versions of the amended financial statements, for example, in the case of the AUC audit, the auditors had to review at least six versions.

10. These adjustments to the financial statements highlight the poor quality and severity of issues identified and based on the audit assessment they arose from the following root causes:

- Lack of basic control disciplines;
- Skills gap as there is a lack of understanding of the IPSAS;
- Slow response in audit information and requests;
- Using external audit as a control instead of having own controls in order to identify and correct misstatement; and
- Instability at key positions leading to inadequate understanding of the commission's value chains.

11. The above impacted the audit delivery significantly as the BoEA had to re-audit certain sections which equated into a second audit, making the audit deadline of 31 May 2016 unrealistic as the audit ended up taking almost two times (from 2,356 hours budgeted to 4,085 hours taken) longer than budgeted for the AUC.

12. The Chairperson of the BoEA also explained that significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements to be materially misstated and material instances of non-compliance with FRR to occur. The common findings noted in most of AU Organs include significant adjustments to financial statements, late submission of financial statements, weaknesses in accounting and disclosure of Property, Plant and Equipment and cash management.

13. The Chair of the Board also took the members of the Sub-Committee through a table showing the common findings on internal control weaknesses among the Organs as shown below.

| Issues Identified | African Court for Human and Peoples' Rights | AUABC 2014 | AUABC 2015 | AUC | African Union Commission for Human and Peoples' Rights | NEPAD | PAP |
|---|---|------------|------------|-----|--|-------|-----|
| Late submission of Financial Statements | | | | X | X | X | |
| Significant adjustments to Financial Statements | X | X | X | X | X | X | X |
| Property, Plant and Equipment | X | | | X | X | X | |
| Cash Management | X | | X | X | | | X |
| Partner Funding | X | | | X | | X | X |
| Budgeting | X | X | X | X | X | | X |
| Information Technology Expenditure | X | X | | X | X | | X |
| Human Resources | X | | | X | | | X |
| Internal Control issues | X | X | X | X | X | | X |
| Value Added Tax (VAT) recoverability | X | | | | X | | X |

14. The Chair of the Board indicated that all role players should continue to work together to strengthen the capacity, processes and controls which will enable credible financial reporting and sound financial management. The recommendations that follow are informed by best practices we have observed from organisations with strong internal control environments and that have unqualified audit opinions including limited identified misstatements.

- Monthly financial reporting;
- Regular reporting to management and governance structures;
- Ensure stability in key positions;
- Consequence management;
- Proper and timely record keeping;
- Controls to ensure that all transactions processed are accurate and complete;
- Continuous monitoring of the implementation and operating effectiveness of IT environment; and
- Internal audit review focused on external audit findings.

Report on the AU Audited Financial Statements

15. The Chairperson of the BoEA then presented highlights of the audit results on each AU Organs in the paragraphs below.

a) African Court on Human and People's Rights (AFCHPR)

Opinion

16. The Chairperson stated that the lead auditor was Algeria Supreme Audit Institution (SAI) and issued a qualified audit opinion.

Basis of Qualification

17. The Chairperson explained that the main findings for the qualified audit opinion are as summarized below:

- The Accounts Receivable under GIZ account balance was overstated by an amount of USD 60,657.23 as there was insufficient audit evidence to support this amount.
- The VAT receivable from the Tanzanian government which was not recoverable as it has been outstanding since 2007, and management's provision raised was understated by USD 100,230.00.
- Staff advances are overstated by USD 59,214.51 as management was not able to recover these from an employee who was suspended without pay effective 1 May 2015 and subsequently resigned effective 15 February 2016.
- The useful life of fixed assets has not been re-assessed for assets that have a balance of USD 1 however the assets are still in use. This is non-compliance with IPSAS Rules.
- Fixed assets are understated by USD13, 936.00 as depreciation was applied before the fixed assets were in use.
- Provision for annual leave is understated by USD 53,234.00 as management calculated the provision based on an amount that excludes certain staff costs.

Other findings

18. The Chairperson also mentioned the main audit findings raised that were cause for concern as follows:

- The ACHPR does not regularly perform verification on their fixed assets as it was identified that they only perform this on assets selected for external audit purposes.
- The ACHPR opened three new bank accounts, one in US Dollar and two in Tanzanian Shillings, however there have been no transactions in these accounts except for bank charges.
- The auditors were not able to obtain account receivable and account payable external confirmations but these balances were tested through the testing of the reconciliations.
- The basis of preparation of the financial statements states that the financial statements are based on UN rates of exchange spot rates however the ACHPR did not use spot rates but they used average monthly rates.

b) AU Advisory Board on Corruption (AUABC)

Opinion

19. The Chairperson stated that the lead auditor was Uganda SAI and issued an unqualified audit opinion for the year ended 31 December 2014 and an unqualified audit opinion with an emphasis of matter for the year ended 31 December 2015.

Emphasis of Matter

20. The audit noted an ongoing dispute on the balances owing to a consultant on services offered to AUABC in 2013 worth USD 63,202.00. At the time of audit, this dispute had not been settled and was still undergoing review by the AU legal team and the company representatives. Although the amount in dispute has been disclosed in the financial statements for the period ending 2015, it has remained outstanding for long, since 2013.

Other findings

21. The Chairperson also mentioned the main audit findings raised that were cause for concern was the fact that the budget of the AUABC for the year 2015 showed that the budget emphasis was mainly towards operational costs and not to the implementation of the core mandate of AUABC. The core activities, which lead to the attainment of; supporting the implementation and adoption of the convention on corruption, raising the Board's visibility and consequently its impact, as well as, enhancing organizational efficiency, were not budgeted for in the year.

c) African Union Commission (AUC)

Opinion

22. The Chairperson stated that the lead auditor was South Africa SAI and issued an unqualified audit opinion with an emphasis of matter.

Emphasis of Matter

23. The Commission did not recognize assets in the balance sheet that are in the process of being valued by experts: the new building in HQ donated by Germany, all of the assets in Algiers donated by the host country, Nigerian building donated by the host country and the DRC Liaison Office assets that are not consolidated. In addition, the land and building in Brussels have not been classified under their respective category of land and building. This disclosure of property, plant and equipment complies with the requirements of IPSAS transitional provisions.

Other findings

24. The Chairperson also mentioned the main audit findings raised that were cause for concern as follows:

- Management submitted their financial statement for the audit late.
- Sufficient appropriate audit evidence was not provided that goods and services to the value of USD287,989.00 were procured through the procurement and travel unit of the AUC and approved by the AUC Tender Board as stated in the African Union Commission Procurement Manual. The deviation from the AUC procurement manual was also not in accordance with Article 41 of the AU Financial Rules and Regulations. Management would need to come up with a solution to prevent this going forward.

d) African Commission on Human and Peoples' Rights (ACHPR)

Opinion

25. The Chairperson stated that the lead auditor was Cape Verde Supreme Audit Institution and issued a qualified audit opinion.

Basis of Qualification

26. The Chairperson explained that the main findings for the qualified audit opinion are as summarized below:

- The ACHPR management has been unable to do reconciliation of deductions that are made in the salaries of staff member's with the AU Credit Union. In the year 2015, the figure amounts to USD 12,533.77, and without proper reconciliation, it was impractical to extend the examination beyond the accounting records.
- The differences in the previous year asset records continued to affect the reporting period. Although in 2015 amortization rates were adjusted in accordance with IPSAS, it was found that these procedures have not been applied in previous years calling into question the comparability of financial statements.
- It was recognized in the balance sheet the value of USD 22,721.69 as an asset (accounts receivable) concerning the VAT to be receive from the Government of South Africa. Noting the collection impossibility of that value by ACHPR, it is understood that it should not be stated in balance sheet as an asset, taking into account the asset recognition criteria established by IPSAS.

e) NEPAD Planning and Co-ordination Agency (NPCA)

Opinion

27. The Chairperson stated that the lead auditor, South Africa Supreme Audit Institution issued a qualified audit opinion.

Basis of Qualification

28. The Chairperson explained that the main finding for the qualified audit opinion was that, it was not feasible for the NPCA to institute accounting controls over collections from donations and sponsorships prior to the initial entry of the collections in the accounting records. Accordingly, it was impractical for auditors to extend the examination beyond the receipts actually recorded.

f) Pan African Parliament (PAP)

Opinion

29. The Chairperson stated that the lead auditor was Uganda SAI and issued an unqualified audit opinion with an emphasis of matter.

Emphasis of Matter

30. The Chairperson explained that the main findings noted as emphasis of matter are summarized below:

- Attention is drawn to USD 473,646.00 being amount advanced to staff members in car loans. This amount has been recorded at nominal values instead of fair values as required under IPSAS 25. Management has indicated that it will consider changing the accounting treatment in the next accounting year.
- Total Net Assets/Equity of USD 154,990.00 is affected by prior year adjustments in the previous financial year. Out of the reversed balance to the tune of USD 635,569.52, USD 542,728.95 was indicated as a receivable from EC 55M African Union Support Programme. The balance of USD 92,840.57 was in regard to the Co-financing agreement of 8.33% between the African Union Commission and European Commission. Furthermore, an outstanding balance of USD159,901.85 credited to reserves account arises from grants received from Development Partners for which there was no adequate documentation to confirm that the payable exists.
- Included under current assets is USD140,143.00 from the PAP Trust fund. As noted in the previous audit report, the amount has continued to be reflected in the PAP books without evidence to support its existence.

VI. DELIBERATIONS

31. Following the presentation, the Chairperson of the Sub-Committee expressed his thanks and appreciation to the BoEA for the job well done and the report presented. He then invited the Members of the Sub-Committee for deliberations as summarised below:

- i) Members thanked the Auditors for the job well done and raised concern on the key internal control weaknesses noted by the auditors.
- ii) The Members requested explanations as to why the assets of the Union are not fully recorded after two and three years since the implementation of IPSAS. Members further sought to know the causes of this weakness and how to resolve the situation.
- iii) Members also wanted to know why the bank reconciliations could not be done in time.
- iv) Regarding the quality of financial statements, Members expressed their concern on how the AUC financial statements were revised six times with significant adjustments during the audit whilst these should have been done during the twelve months of the year.
- v) Members also wanted to know what arrangement needs to be done to submit the financial statements to the BoEA in time, by 31 March.
- vi) Members further wanted to know why some findings are repeated year after year and indicated that those responsible for the weaknesses should be made accountable.

VII. RESPONSES

32. The Director of Programming, Budgeting, Finance and Accounting (PBFA) responded that IPSAS is a set of standards and framework, the implementation of which requires time and effort. The standard itself allows a transition period of five years for full compliance, for example on Properties, Plant and Equipment. In addition, the assets of the Union cover many Offices outside the Headquarters and the identification, revaluation, recording needs time.

33. The Director of PBFA further explained that staff are undergoing extensive training and certification program on IPSAS and currently ten are certified while others are in progress. This training will also help full compliance in the coming year.

34. Regarding weaknesses on bank reconciliations, the Director of PBFA responded that there are many bank accounts and reconciliation exercise was done by only three staff. Currently, PBFA is working to automate bank reconciliations so that it can be done correctly in time.

35. On the quality and timeliness of financial statements, the Director of PBFA responded that the 2017 financial statements will be submitted by the deadline so that it will be presented in the July Summit.

36. Representatives of AU Organs also indicated that some of the audit recommendations are implemented and others are in progress.

37. The representative of PAP also indicated that some of the weaknesses emanated from the conflicting roles between the Secretariat which is aware of the AU Rules and Regulations, and the Political Wing of the Institution who wishes to make decisions without compliance with the Rules and Regulations. He expressed the concern on the need for separation of the administration function of the Clerk and oversight or political function of the President of PAP which is not yet resolved.

38. The representative of AUABC also indicated that some of the challenges in strengthening the internal control system were caused by non-separation of the functions between the Secretariat and the Board on Anti-corruption, which needs to be addressed by the Policy Making Bodies.

VIII. CONSIDERATION OF THE AU BOARD OF EXTERNAL AUDITORS REPORTS FOR THE YEAR ENDED 31 DECEMBER 2015

39. The Chairperson of the Sub-Committee called on the Chair of the Board to present the issues in the Management Letter on each of the Organs' Audited Financial Statements, and the Director was called upon to take the meeting through all the reports.

40. The Director of Programming, Budgeting, Finance and Accounting (PBFA) as called upon facilitated the discussions on the findings and recommendations contained in the management letter of each AU Organs audited; AFCHPR, NEPAD Planning and Coordination Agency, PAP, AUABC, ACHPR and AUC.

41. The representatives of each AU Organ also responded on the status of implementation of the audit recommendations and explained the causes of some of the findings.

42. The members of the Sub-Committee urged all AU Organs to fully implement the audit recommendations as contained in the reports.

IX. Conclusion OF THE SUB-COMMITTEE ON 2015 FINANCIAL STATEMENTS

43. Based on the deliberations that ensued, the Sub-Committee made the following conclusions:-

- i) Takes note of the Audit Reports and commends the job well done by the BoEA.

- ii) Recommends to the PRC the approval of the AU 2015 Financial Statements for all Organs.
- iii) Requests the AU Commission and all other Organs to implement the audit recommendations contained in the Audit Reports by preparing a matrix for follow up and make sure that corrective actions are taken to resolve the weaknesses observed by the BoEA.
- iv) Requests the AU Commission to significantly improve on the quality and timeliness of the financial statements.
- v) Requests all AU Organs to prepare a road map on the implementation of IPSAS so as to observe the deadline for full compliance in line with the requirements of IPSAS.
- vi) Recommends to the PRC to ensure comprehensive and harmonized Rules and guidelines on the mandate, entitlements and emoluments of Board Members of the AUABC as well as elected members of other AU Organs is put in place for consistent application at the Organs.
- vii) Recommends to the PRC that the administrative and oversight or political functions at AUABC, the PAP and the Court be clearly separated.
- viii) Recommends to the PRC to ensure all pending procedure manuals and guidelines are finalized and distributed to all AU Organs with a view to strengthen the internal control system and minimize the weaknesses noted.

X. CONSIDERATION OF THE AUC BUDGET PERFORMANCE REPORT FOR THE PERIOD ENDED 30 JUNE, 2016

a) PRESENTATION

1. Overall Assessment

44. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the budget performance report.

45. The Director thanked the Members and made a presentation on the main findings of the budget performance report as summarised in the paragraphs below.

46. The Director explained that the overall rate of budget execution for the AUC based on the “approved budget” was 20% as at 30th June 2016. She also added that the overall execution rate based on the “available funds” was 34% (see table below).

| Details | Total Budget (US\$) | Available Funds (US\$) | Actual Expenditure (US\$) | Execution Rate % | |
|------------------|---------------------|------------------------|---------------------------|------------------|-----------------|
| | | | | On Budget | On Aailed Funds |
| Program Budget | 241,650,096 | 101,442,033.16 | 36,840,957.53 | 15.24% | 36.32% |
| Operating Budget | 107,213,380 | 107,213,380.00 | 33,180,100.54 | 30.95% | 30.95% |
| Total | 348,863,476 | 208,655,413.16 | 70,021,058.07 | 20.07% | 33.56% |

47. The audit also noted low budget execution on 174 budget lines which were executed below 40% of the released (available funds). There was also a 0% execution rate on 617 budget lines with US\$30.1m released funds during the period same period.

48. The audit further noted that a total of US\$47.8million of the Program Budget represented by 335 budget lines had not yet received any funding, by 30th June 2016.

49. There were also cases of over expenditure on two budgets lines within the departments of Rural Economy and Agriculture (DREA) and Political Affairs (PAD) by 112% and 117% respectively thereby exceeding the total allocated amounts in the approved budget.

50. The audit also noted low reported execution rate on the approved budget for Pass-through, Special and Technical Assistance. Out of a total of US\$54.03m approved budget constituting 22% of the total approved program budget, the available funds were US\$10.3m and the expenditure was US\$4.2m. This was 8% of the approved budget and 41% of the available funds.

51. The audit further noted that some of the programmes under this category are consultancy and other Technical/Specialized Assistants which are paid directly by Partners. Since the funds are not availed in the system even when programmes and activities are carried out, it is difficult for PBFA to account for the expenditure in comparison with the budget figures which are uploaded in the system.

52. The Directorate of PBFA indicated that some activities without funding were due to lack of submission of Activities / Narrative Reports by some departments to the Partners as agreed.

53. The Directorate of PBFA also indicated that, the austerity measures put in place since last year was affecting implementation as some Departments didn't have enough funds to carry out some of the programmes and activities.

54. On the issue of over expenditure, the Directorate of PBFA, indicated that these were as a results of some controls relaxation in the SAP system on salaries thereby allowing posting for amounts more than the budgetary limits.

55. Most departments, however, indicated that the low and non-implementation of programmes and activities was that these were scheduled for the second half of the year, whilst others indicated lack of funding and delays in recruiting staff as a cause.

56. The OIA recommended as follows:-

- a) The Directorate of SPPMERM should enhance consultations with the Partners who release funds late after making pledges to avoid delays in commencing implementation of respective programmes/activities.
- b) The Commission should periodically review projects to ascertain those lacking funding and make the appropriate follow up with the respective funding Partners.
- c) PBFA should request for supplementary or virement budget to cover the excess amounts on the approved budget lines and obtain “no objection” from Partners where appropriate.
- d) PBFA should also put in place a control mechanism to eliminate the relaxation of the SAP controls so as not to allow over expenditures.
- e) PBFA should develop a mechanism of quantifying and recognizing the expenditures on the Technical Assistances Projects which are executed outside the AUC Books of Accounts, including those by Partners, so as to march expenditures with budgeted amounts.

2. Supplementary Budget Without Approval By The Policy Organs

57. The Director explained that, during the audit the OIA noted inclusion in the program budget of supplementary budget of US\$7.6m affecting 21 budget lines with released funds of US\$6.5m without due approval by the Policy Organs.

58. After the approval of supplementary budget however, it was noted that the un-approved figure reduced to USD3.1m relating to AHRM activities, with expenditure of USD1.770million already incurred.

59. The Directorate of PBFA explained that, during the 2016 budgetary process, some programmes included in the draft budget did not have secured funding, hence resulting in a funding gap. These programmes without funding were accordingly removed from the draft budget and put aside pending the securing of funds. Partners provided funding for some of these programmes which initially had no funding, after budget approval. These programmes were subsequently uploaded into the SAP system for execution, after approval of the Chairperson of the Commission.

60. The OIA recommended that PBFA should request for further approval of the supplementary budget of USD3.1m uploaded in the SAP system which includes the USD1.770m already expensed pertaining to the AHRM activities.

3. Programme Outputs

61. The Director explained that a total of two hundred and three (203) outputs were planned for. A review of the Mid-Term Progress Reports in the AMERT as well as feedback from the relevant departments revealed that activities had commenced (started) on one hundred and seventeen (117) outputs representing 58% planned outputs. Activities had not yet started on thirty-eight (38) outputs representing 19%, whilst the remaining forty-eight (48) outputs representing 24% could not be verified by the OIA as reports were not uploaded in the AMERT system.

62. Feedback from Departments showed that most outputs that were indicated as 'Not Started' were scheduled for the second half of the year. Other impediments cited were the lack of receipt of funds and lack of adequate staff capacity to facilitate implementation of programs, as not earlier under section 1 above.

63. The Office of Internal Audit continued to note the following weaknesses in the Progress Reports submitted by the departments:

- a) The outputs and indicators are not weighted as per their significance to the program and output. The directorate of Strategic Planning, Programming, Monitoring, Evaluation and Resource Mobilisation (SPPPMERM), indicated that the issue of the weighting is resolved now and will be effected in the 2017 programs weighting.
- b) The Monitoring and Evaluation (M & E) function was weak and still understaffed, even though the programs and outputs in the Commission have increased from last year. This continues to hinder the monitoring and evaluation of the Commission's planned programme implementation for targeted output.
- c) It was also noted that even though the recruitment has been in process for some months now, all the positions being recruited for M & E are under Partner Funds.

64. The Office of Internal Audit recommended the following:

- a) Considering the late or non-submission of reports in the AMERT system by some departments, the Directorate of SPPMERM should put in place a control mechanism to ensure that departments submit their reports on time.

- b) The Directorate of SPPMERM should also ensure that departments have realistic project implementation plans taking cognizance of the available funds and human capacity. (*Reported in prior Audit Report*).
- c) Additionally, the Directorate of SPPMERM should ensure that:-
 - i) The upgrading of AMERT system is speeded up as indicated to enable weighing of 2017 outputs and indicators.
 - ii) It intensify and escalate its pursuit of recruiting the M&E staff with the HRM to avoid any further delays, and also ensure that the unit is upgraded in numbers under the new proposed structure.

e) DELIBERATIONS

65. Following the presentation of the budget performance analysis for the period ended 30 June 2016, the Chairperson invited the Members for deliberations, as summarised below:

- i) Members noted with concern the continued lack of and delays in funding for some of the Commission programs by the Partners after having already pledged to fund them.
- ii) Members further indicated that, the Partners added their voices to the adoption of IPSAS in the Union in enhancing proper institutional accounting and financial reporting. The Union had adopted IPSAS since January 2014 and is still facing challenges in soliciting adequate funding from the Partners after making pledges.
- iii) Members wanted to know the level of engagement the Commission does with departments and Partners at the beginning of the year, and also if it has engaged them on possibility of having budget support instead of project funding.
- iv) Members also hoped for the enhancement of alternative sources of financing to resolve the challenges faced in funding programmes.
- v) Members wanted to know why some budget lines with funding still had no execution from departments.
- vi) Members also raised concern that most of the findings are repetitive; and wanted to know the Commission's response to the issues in the report.

f) RESPONSE BY THE COMMISSION

66. Following the deliberations of the Members, the Chairperson invited the Commission to response to the Members queries and the issues in the report. The Commission responded as follows:

- i) The lack of funding due to delay in disbursing funds by Partners is a challenge to the Commission and efforts are being made to address it. Some departments contribute to lack of funding as they delay in reporting to Partners, hence delaying funding as it needs accounting for the funds already released before the next funds are released.
- ii) Some Partners indicated that, their budgets are approved in September and always release funds after that.
- iii) Some of the budget lines with funding but with low or non-execution were those intended to be delivered in the third and fourth quarter of the year.
- iv) Delays in recruitment of some key staff needed to implement programmes in some departments also contributed to low execution.
- v) Furthermore, the austerity measure put in place since last year affected funding for some programmes and activities.
- vi) The Directorate of SPPMERM also responded that reminders to the departments on their program implementations is done regularly through the Departmental Planners and for the most cases, they indicate that the activities are not yet due or they have staffing constrains.
- vii) It was also indicated that the recommendations on over expenditure, supplementary budget without Policy Organ approval and the pass through projects were noted and actions to address them would be taken.
- viii) It was further indicated that recommendations on weaknesses and challenges were noted, but some that are technical in nature would require consulting the departments in addressing them. The staffing for the M&E was still a challenge as according to HRM, a staff recruited since three months ago had not yet reported for work.

g) CONCLUSIONS OF THE SUB-COMMITTEE

67. The members concluded the deliberations and took note of the issues and recommendations in the report. They adopted the report and recommended as follows:-

- i) The effective implementation of the Kigali Summit on alternative sourcing of funding should be pursued vigorously to avoid the over dependence on Partners for funding the Union programmes.

- ii) The Commission should engage Partners on budget support to Union instead of budget lines or projects.
- iii) The Commission should put in place effective systems and measures to eliminate repeated weaknesses and improve budget execution and performance.
- iv) The Commission should not expend supplementary budgets without approval by Policy Organs, and should therefore submit the USD3.1m to the relevant PRC Sub-Committee for approval.

XI. CONSIDERATION OF THE REPORT ON IMPLEMENTATION MATRIX OF AUDIT RECOMMENDATIONS AS AT 30th OCTOBER 2016

a) PRESENTATION

68. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the Report on Implementation Matrix of Audit Recommendations as at 30 October 2016.

69. The Director thanked the members and made a presentation of the report as summarised in the paragraphs below.

70. The Director explained that the review of implementation matrix covered the extent and nature of actions taken on all recommendations presented in the audit reports, and categorized the implementation status of audit recommendations into three categories namely “**Implemented**”, “**In progress**” and “**Not Implemented**”.

71. The Director explained that, OIA tracked 101 recommendations contained in the 2013 BOEA audit reports as well as the Internal Audit reports on Budget Performance issued in 2014. The status of the recommendations as at 30 October showed 67% (68 out of 101) were implemented, 27% (27 out of 101) were in progress, and 6% (6 out of 101) were not implemented.

72. The Director reported that, the OIA also tracked 93 recommendations contained in the 2014 BOEA audit reports as well as the Internal Audit Reports on 2015 budget performance issued in 2014/2015. The status as at 30 October 2016 Showed 46% (43 out of 93) were implemented, 49% (45 out of 93) were in progress, 4% (4 out of 93) were not implemented and 1% (1 out of 93) was deemed as no longer relevant.

73. The overall assessment as of 30th October 2016, tracked **194** recommendations in audit reports that were issued and deliberated by the PRC Sub-Committee on Audit Matters. Out of these recommendations, managers implemented **111** and have made progress in implementing **72**, while **10** recommendations were not implemented and **1** recommendation was no longer relevant.

74. The review further noted that some of the reasons for non-implementation of recommendations were:

- i) Lack of financial resources (funding);
- ii) Lack of relevant policies/guidelines in certain areas;
- iii) The need for changes/revision in some policies, and;
- iv) Lack of adequate number of staff, mainly in some functions particular in case of the PAP.

b) DELIBERATIONS

75. Following the Director's presentation, the Chairperson thanked the Director and opened the floor to the Members for deliberations.

76. As the Members had no deliberations to make, the report was adopted as presented.

XII. ANY OTHER BUSINESS (A.O.B)

77. There being no other business, the meeting was adjourned at 18:45 and 12:15 hours on 13 and 14 December 2016 respectively.

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REPORT OF THE SUB-COMMITTEE ON AUDIT MATTERS

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