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EXECUTIVE COUNCIL
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REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

**REPORT OF THE MEETING OF THE SUB-COMMITTEE ON AUDIT MATTERS
HELD ON 23rd MAY 2017**

I. INTRODUCTION

1. The meeting for the 11th session of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on Tuesday, 23rd May 2017. The meeting started at 10:15 hrs.

II. ATTENDANCE

2. The meeting was chaired by H.E. Mr James P. Morgan, the Ambassador of the Republic of South Sudan and the chairperson of the Sub-Committee. It was attended by representatives of the following Member States:

1. Benin
2. Burundi
3. Cote D'Ivoire
4. Gabon
5. Kenya
6. Malawi
7. Mauritania
8. Mauritius
9. Namibia
10. South Sudan
11. The Gambia
12. Tunisia
13. Togo
14. Zimbabwe

III. OPENING REMARKS

3. The Chairperson opened the meeting and welcomed all the members in attendance. He indicated that this was the first meeting he was chairing since his appointment as the Chairperson of the Sub-Committee. He called on the members and the Office of Internal Audit (OIA) for their full support as well as a continuation of the good work the Sub-Committee is rendering to the Union.

IV. ADOPTION OF AGENDA

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

- a) Opening Remarks;
- b) Adoption of Agenda;
- c) Consideration of:

- i) The Report on Budget Performance for the year ended 31 December 2016;
- ii) The Report on the Implementation Matrix of Audit Recommendations as at 30 April 2017.

d) Any Other Business (AOB).

V. CONSIDERATION OF THE AUC BUDGET PERFORMANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

a) PRESENTATION

5. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the budget performance report for the year ended 31 December, 2016.

6. The Director welcomed the new Chairperson and assured him of OIA's support. The Director then proceeded to the presentation of the report as below:

1. Overall Assessment Budget Execution

7. The Director explained that the overall rate of budget execution for the AUC based on the approved budget for 2016 was 45%. She also added that the overall execution rate based on the available funds was 67%.

8. The execution rate for the programme budget was 36% on approved budget and 67% on available funds, whilst the rate for operational budget was 69% on both the approved budget and available funds. The figures are as summarised in the two tables below (Table 1 shows the overall for the year 2016 while table 2 shows the comparative execution figures with 2015).

Table 1:- AUC Budget Execution for the Year Ended 31 December 2016

Details	Original Budget (US\$)	Supplement Budget (US\$)	Total Budget (US\$)	Available Funds (US\$)	Actual Expenditure (US\$)	Execution Rate	
						On Budget	On Availed Funds
Program Budget	241,625,097	34,140,387	275,765,483	150,659,159	100,354,935	36%	67%
Operational Budget	107,213,380	1,069,240	108,282,620	108,282,620	74,323,859	69%	69%
Total	348,838,477	35,209,627	384,048,104	258,941,779	174,678,794	45%	67%

Table 2:- Comparative Period Execution Rates

Details	2 nd Quarter 2015			4 th Quarter 2015			2 nd Quarter 2016			4 th Quarter 2016		
	Availed Funds (US\$)	Execution Rate		Availed Funds (US\$)	Execution Rate		Availed Funds (US\$)	Execution Rate		Availed Funds (US\$)	Execution Rate	
		On Bud	On Avail Funds		On Bud	On Ava		On Bud	On Ava		On Bud	On Ava
Program Budget	89.3m	16%	38%	163.3m	40%	62%	101.4m	15%	36%	150.6m	36%	67%
Operating Budget	103m	41%	41%	103.6m	77%	77%	107.0m	31%	31%	108.2m	69%	69%
Total	192.3m	25%	39%	266m	51%	68%	208.6m	20%	34%	258.9m	45%	67%

* Bud = Budget; Ava = Available Funds

9. It was reported that, 180 budget lines with an amount of US\$36.1 m (13%) were executed below 40% of the available funds and a zero budget execution rate on 306 budget lines with an amount of US\$18.7m (8%) was noted on the program budget. There was some improvement in this area compared to 2015 where 409 budget lines representing 14% of the program budget had zero execution rate.

10. It was also reported that an amount of US\$77.4m representing 28% of the Program Budget for 476 budget lines did not receive any funding during the year 2016. The largest amount of this was on EU, World Bank & China pledges.

11. It was also reported that 21 budgets lines were over-executed above 100% (of which 8 were above 120%) of the total budget for the year.

12. Additionally, the Pass-through funds budget of US\$33.3m with available fund of US\$9.4m had zero execution rate, whilst Technical Assistance amount of US\$7.2m and Special Assistance amount of US\$13.5m also had zero execution rate.

13. The Technical Assistance projects were provided in kind for example through provision of consultants, but the AUC has not yet developed a system to capture offshore expenditures under these categories, even though they were included in the approved budget.

14. Most of the departments interviewed on the low and zero execution of programs indicated that, late receipt of funding and challenges in staffing led to low and non-implementation of programmes.

15. Additionally, some departments could not carry out activities as the funds released and allocated by PBFA were significantly lower than the budgeted amounts.

16. The Office of Internal Audit recommended that:-

- i) SPPMERM should liaise with the affected departments so as to review the activities not carried out during the period and include them in future budget plans as appropriate.
- ii) AHRM should expedite staff recruitments for vacant positions on the approved structure.
- iii) PBFA should develop an effective formula based on priorities for allocation of available funds to enable departments carry out some programmes in full.
- iv) SPPMERM should ensure that no objection and approvals are obtained for the budget lines funded by Partners where over expenditures are not avoided, and requests for supplementary budgets should be made accordingly to avert budget overruns.
- v) SPPMERM should put in place a new strategy in engaging Partners for required funding.
- vi) A mechanism be put in place to capture offshore expenditures under Pass-Through Projects, Technical Assistance and Special Assistance.

2. Findings on Programme Outputs

17. The OIA Director stated that during the year 2016, a total of two hundred and five (205) outputs were planned. A review of the year-end Progress Reports in AMERT system revealed that 23 outputs were achieved and fully completed, 148 were partially achieved, whilst 12 activities had not started. The balance of 22 outputs could not be verified as the reports were not yet submitted in the AMERT system at the time of the audit. The projects that could not be verified were under Peace & Security Department which only finalized reports for 5 out of 27 outputs.

18. Departments stated the same challenges noted under section 1 above, of late or non-receipt of funds and inadequate human resources which led to none or partial completion of outputs.

19. The audit also noted that the Monitoring and Evaluation function for programme implementation was still weak in 2016 as noted in the previous audits due to understaffing even though efforts were made at the end of the year to recruit additional staff.

3. Findings On Funding For Programs

20. Funds released for the program budget from Partners and Member States for the year under review amounted to **US\$150,659,158.66** out of a pledged budget of **US\$198,338,142.74**. This showed an improvement from prior years, even though the large part of the funds were received during the second half of the year and affected the execution of programmes planned in the first half of the year.

21. The Office of Internal Audit recommended that:-

- i) SPPMERM should ensure that the scheduling of programme implementation during planning is aligned to the trend of receipt of funds from Partners and Member States as observed in the past years.
- ii) PBFA should align the allocation of funds to scheduling of programmes and activities.

b) DELIBERATIONS

22. Following the presentation of the budget performance analysis for the year ended 31 December 2016, the Chairperson invited the Members for deliberations on the report.

23. The deliberations of the members are summarised below:

- i) The members complained that the report was sent two days before the meeting and hence they did not have enough time to go through it thoroughly. Some issues raised in the report were critical and the two days' time was not enough to digest the report fully to get well prepared for the meeting.
- ii) Members noted with concern that the execution rate of the overall budget was very low at 45% on approved budget and 67% on available funds, indicating that this trend had not improved from the prior years.
- iii) Members noted that, there was lack of prioritisation in the budgeting and execution of programs at the AUC, when this matter should be considered a very important factor in the budgeting process.
- iv) Members noted that, the issues raised in the report are repetitive from the previous reports, and no significant changes were noted. Members therefore implored the audit to be more proactive in helping to avert the occurring of the problems rather than reporting on them after they have occurred, and to give concrete recommendations on what should be done.
- v) Members showed concern on delays in funding for some programs which affected execution, and sought to know why partners pledged funds but did not honour their pledges.
- vi) Members also sought to know whether it was necessary to have the Pass-Through-Projects included in the AU budget, while the funds are just received for onward transmission to the intended recipients.
- vii) Members also wanted to know why the issue of staffing was still a problem and what was being done about it.

- viii) Members recalled the concerns raised by Member States on the timing of requests for additional programme budget late at the end of the year during the consideration of the supplementary budget, and that those requests had very low execution rates.
- ix) The Members also sought to know if funds received late in a given year could be carried forward to the following period's budget.
- x) Members further reiterated the need to attract other sources of funding such as the Diaspora, private sector etc., and minimise the over reliance on partners.
- xi) Members further encouraged Member States to consider the issues raised in the audit report in the discussion and consideration of the 2018 budget.

c) RESPONSE BY THE COMMISSION

24. The Director of Internal Audit thanked the members for their constructive deliberations and apologised for the delay in submitting the report. She indicated that the delay was mainly due to late translations of the documents and efforts to reschedule the meeting failed due to other meetings already scheduled.

25. On the prevention of problems before they occur, the Director OIA explained that the audit function provides two main services for assurance and consulting. Since the audit of the budget was an assurance service, the audit process only start after execution and not before or during execution.

26. SPPMERM explained that the issues on funding delays is being addressed by the Commission through the department of SPPMERM. Departments are being engaged and consulted by SPPMERM in a bid to address this problem. Furthermore, the Partners are also being engaged on the need to honour their pledges on time, even though the challenge persists.

27. PBFA indicated that funding delays are not only from the Partners, but also some Member States have delayed in remitting their assessed contributions. Also, the Commission sometimes delay in submitting reports to partners as agreed, which also resulted in delays on the partners' release of funds to the Commission.

28. PBFA also agreed that, allocation of available funds should be based on priorities and not giving percentages to departments' budget line as is the practice now.

29. PBFA also was of the opinion that as per concerns of the Member States, pass through funds should be removed from the budget as they only involve receipt and transmitting funding to the intended recipients.

30. PBFA further indicated that, funds/arrears (contributions) received after year end cannot be carried forward. The carrying of surplus funding to the following year could contradict the Financial Rules and IPSAS requirements

31. HRM informed the meeting that, the delays in the recruitment process was being improved on. Previously, there used to be six layers in the process, but that has significantly changed now. The Human Resources Division has been made efficient in handling department staffing issues which include recruitment. The backlog in the recruitment is addressed now.

d) CONCLUSION OF THE SUB - COMMITTEE

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

- i) Reports should be sent at least one to two weeks before the meeting, so as to allow the members have sufficient time to read the report well and prepare for the meetings.
- ii) The Commission should put in the budget only programmes that have secured funding and use supplementary budget if additional funds are secured after the approval of the budget.
- iii) Members urged the Commission when considering modalities for financing the various Agenda 2063 Flagship, to consult with the relevant stakeholders with a view to developing investment vehicles through which the diaspora, the private sector and others can be incentivized to participate in financing the flagship projects.
- iv) The Commission should urge departments to budget according to the priority areas to avoid over budgeting.
- v) Partners should be engaged so as to understand why they have not funded the programs they pledged on.
- vi) The pass through projects should be excluded from the overall budget and be treated separately.
- vii) Members urged that, if the restructuring exercise carried out by the Commission is complete, the report should be submitted to the PRC for consideration so as to address the staffing issues the Commission is faced with.
- viii) The Commission should adjust the scheduling of programs to reflect the timing of funding availability.

- ix) The Commission should take necessary action to implement the recommendations contained in the report of Budget Performance for the year 2016.

VI. CONSIDERATION OF THE REPORT ON IMPLEMENTATION MATRIX OF AUDIT RECOMMENDATIONS AS AT 30 APRIL 2017

a) PRESENTATION

33. The Chairperson of the Sub-Committee invited the Director OIA to present the Report on Implementation Matrix of Audit Recommendations as at 30 April 2017.
34. The Director thanked the members and made a presentation of the report as summarised in the paragraphs below.
35. The Director explained that the OIA followed up on the implementation of external audit recommendations on the Board of External Auditors (BOEA) Reports on AUC and other AU Organs for the years 2013, 2014 and 2015.
36. The review also followed the implementation of recommendation on the Internal Audit Reports on the AUC Budget Performances for the years 2013, 2014, 2015 and the period 1st January to 30th June 2016.
37. She explained that the status of the recommendations were put in four categories of *“Implemented”*, *“In progress”*, *“Not Implemented”* and *“No Longer Relevant”*.
38. The OIA tracked 79 recommendations contained in the 2013/2014 BOEA audit reports as well as the Internal Audit report on budget performance (issued in 2014/2015) as at 30th April 2016. Out of 79 recommendations 8 representing 10% were implemented, 61 or (77%) were in progress whilst 10 which is 13% were not implemented.
39. The implementation status of these recommendations are shown on the schedules for each Organ on **Annex 1 to 6 for 2013/2014** recommendations.
40. Additionally, the OIA tracked 118 recommendations contained in the 2015 BOEA audit reports, which were issued in 2016. As of 30th April 2017, 62 representing 52% were implemented, 47 or (40%) were in progress whilst 9 representing 8% were not implemented.
41. The implementation status of these recommendations are shown on the schedules for each Organ on Annex 7 to 12 for 2015 recommendations.
42. On the overall as of 30th April 2017, there were **206** recommendations that the OIA tracked in audit reports issued and deliberated by the PRC Sub-Committee on Audit Matters. Out of these recommendations, **73** were fully implemented, **109** were in progress and only **24** were not yet implemented.

43. Based on the results of the follow-up, the OIA is of the opinion that the implementation of audit recommendations still requires further improvements as the percentage for those in progress is still high. The OIA will continue monitoring the efforts made to implement the pending recommendations (i.e. *“in progress”* or *“not implemented”*) and report as appropriate.

b) DELIBERATIONS

44. Following the presentation the Chairperson invited the Members for deliberations as summarised below:

- i) Members sought to know whether the recommendations are agreed upon with timelines for implementations during the audit before the auditors write the report so as to avoid situations where Auditees challenge the implementation of the recommendations not agreed on.
- ii) Members asked why agreed timelines were not showing on the matrix.
- iii) Members also urged that, recommendations that are in progress should show the exact status, not only *“In Progress”*.
- iv) The members wanted explanations on what is meant by doubtful debt, when the finding is reading *“Illegal Claim of Housing Allowance”*?
- v) Members also wanted some realignment on the tables, so as to show the Grand Total in front of the table instead of putting it at the end.

c) RESPONSE BY THE COMMISSION

45. The Director OIA assured the members that, the realignment will be done in the next report.

46. Recommendations agreed upon are implemented. However, there can be instances where policy issues may delay the implementation and that the matrix will include the agreed timelines in future.

47. The Director OIA also told the members that, the auditors highlighted the outstanding receivables and some of those that are remote in collection like the amount under *“Illegal Claim of Housing Allowance”* was referred to the Legal Counsel for follow up.

48. PBFA responded that, doubtful debt was an accounting terminology that referred to receivable amounts for which collection was not certain.

49. HRM also informed the meeting that, reconciliations are being done to recover the outstanding receivables through the payroll for active staff, and those for separated staff will be referred to the Legal Counsel for advice.

d) CONCLUSION OF THE SUB COMMITTEE

50. Members took note of the report, and recommended as follows:-

- i) The Sanction Regime should be put in place and enforced in due course. The Commission (i.e. Directorates of Strategic Planning, Finance, Administration, Legal and Internal Audit) should assist in crafting the Sanction Regime with reference to the AU rules and regulations.
- ii) The outcome of audits (i.e. implementation rate of audit recommendations) should be considered as part of the Performance Appraisal system of AU.
- iii) There should be a comprehensive and clear Policy for Debt Collections and Write-offs. The policy should be implemented strictly and any proposal for write-off should be based on investigation, taking into account all the recovery options.
- iv) The AUC records management should be enhanced and computerised with a view to ensure that all staff records including the debts/loans are accurately captured.
- v) The Report of Matrix of Audit Recommendations should provide specific details of action taken and state clearly the status of what exactly is still in progress along with a deadline.
- vi) The AU Commission and Organs should develop the Road Map for implementation of all the outstanding/pending audit recommendations (within one year).
- vii) There should be Financial Sanction for non-performance of departments. In this regard, the departments should be given budget allocation based on:
 - a) The rate of their previous budget execution;
 - b) The implementation rate of the audit recommendations.
- viii) There is need to schedule a PRC Subcommittee (Audit Matters) meeting with the Deputy Chairperson of the Commission (DCP) sometime after the June/July 2017 Summit in order to discuss in detail the financial and administrative matters facing the AUC with a view to ensure a positive change takes place.
- ix) The Office of Internal Audit (OIA) should assist to place responsibility i.e. determine the Officers responsible for the losses caused by the non-collection

of debts when staff separated (based on the list of debts for write-off) and in accordance with the existing AU policies.

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

51. The Chair proposed that health and Coffee/Tea Breaks should be introduced during the Sub-Committee meetings, as it was not healthy for members to sit down from 10:00 a.m. to 13:15 p.m. without any break.

52. There being no any other business, the meeting was adjourned at 13:15 hrs.

DRAFT
DECISION ON AUDIT MATTERS
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The Executive Council,

1. **TAKES NOTE** of the Report of the PRC Sub-Committee on Audit Matters and, **ENDORSES** the recommendations contained therein;
2. **CALLS UPON** the Commission and AU organs to address the issues raised by the PRC Sub-Committee on Audit Matters including the following:
 - i) The Sanction Regime should be put in place and enforced in due course. The AU Commission (i.e. Directorates of Strategic Planning, Finance, Administration, Legal and Internal Audit) should assist in crafting the Sanction Regime with reference to the AU rules and regulations.
 - ii) The outcome of audits (i.e. implementation rate of audit recommendations) should be considered as part of the Performance Appraisal system of AU.
 - iii) There should be a comprehensive and clear Policy for Debt Collections and Write-offs. The policy should be implemented strictly and any proposal for write-off should be based on investigation, taking into account all the recovery options.
 - iv) The AUC records management should be enhanced and computerised with a view to ensure that all staff records including the debts/loans are accurately captured.
 - v) The Report on Matrix of Audit Recommendations should provide specific details of action taken and state clearly the status of what exactly is still in progress along with a deadline.
 - vi) The AU Commission and Organs should develop the Road Map for implementation of all the outstanding/pending audit recommendations (within one year).
 - vii) There should be Financial Sanction for non-performance of departments. In this regard, the departments/organs should be given budget allocation based on:
 - a) The rate of their previous budget execution;
 - b) The implementation rate of the audit recommendations.
 - viii) The Commission to schedule a PRC Subcommittee (Audit Matters) meeting with the Deputy Chairperson of the Commission (DCP) sometime after the

June/July 2017 Summit in order to discuss in detail the financial and administrative matters facing the AUC with a view to ensure a positive change takes place.

- ix) The Office of Internal Audit (OIA) should assist to place responsibility i.e. determine the Officers responsible for the losses caused by the non-collection of debts when staff separated (based on the list of debts for write-off) and in accordance with the existing AU policies.

- 3. **REQUESTS** the Commission to report on the implementation of this decision during the AU Summit of January 2018.

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