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REPORT OF THE MEETING OF THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS

AFRICAN UNION
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MEETING OF THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS
22 - 26 APRIL 2013
MOMBASA, KENYA

Sub-Cttee/Rep./Momb.2

REPORT OF THE MEETING OF THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARYAND FINANCIAL MATTERS

REPORT OF THE MEETING OF THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS

A. INTRODUCTION

1. The meeting of the PRC Advisory Sub-Committee on Administrative, Budgetary and Financial Matters was held from22to 26 April 2013 to consider the 2012budget execution report of the African Union and the 2014 annual budget.

B. ATTENDANCE

2. The meeting was chaired by the Ambassador of the Republic of Sierra Leone, H.E. Mr.Andrew Bangali and was attended by the following Member States:

i. Algeria
ii. Angola
iii. Benin
iv. Botswana
v. Burkina Faso
vi. Burundi
vii. Chad
viii. Comoros
ix. Congo
x. Democratic Republic of Congo
xi. Djibouti
xii. Egypt
xiii. Equatorial Guinea
xiv. Ethiopia
xv. Gambia
xvi. Ghana
xvii. Guinea
xviii. Kenya
xix. Lesotho
xx. Libya
xxi. Malawi
xxii. Mali
xxiii. Mauritania
xxiv. Namibia
xxv. Niger
xxvi. Nigeria
xxvii. Saharawi Republic
xxviii. Senegal
xxix. Sierra Leone
xxx. South Africa
xxxi. South Sudan
xxxii. Sudan
xxxiii. Swaziland
xxxiv. Tanzania
xxxv. Togo
xxxvi. Uganda
xxxvii. Zimbabwe

C. Welcoming Remarks

3. The Chairperson welcomed all members and reiterated the importance of the session and the limited time available to consider the 2014 budget of the African Union because of the 50th OAU/AU Anniversary. Since this is the first time budget will be adopted in May he underscored the fact that the Advisory Sub-Committee on Administrative, Budgetary and Financial Matters should conclude its deliberation on time and then invited members of the Sub-Committee to adopt the organization of work and the agenda items.

D. AGENDA

4. The meeting adopted the following agenda:

a) Opening remarks;
b) Organization of work;
c) Consideration of the 2012 Budget Execution Report of the AU;
d) Consideration of 2014 Programme and Operation Budget of the African Union.

E. CONSIDERATION OF THE 2012 BUDGET EXECUTION REPORT OF THE AFRICAN UNION

Presentation by the African Union Commission

5. The Director of Programming, Budgeting, Finance and Accounting (PBFA) presented the 2012 Budget Execution report, with the following salient features;

i) The total approved budget of the African Union for 2012 was **US$ 274,094,433,** broken down into the Operational Budget of **US$114,800,234** and Programmes budget **of US$159,294,199.** Of the total budget, an amount of **US$122,428,670** was assessed to Member States, while the International Partners pledged to meet the balance of **US$151,665,763.**

ii) Furthermore, the Executive Council approved a Supplementary Budget of **US$11,498,829.49,** out of which **US$3,886,373.89** was for the operating expenses and **US$7,612,455.60** for Programmes. **Ref. EX.CL/Dec726 (XXII).**That brought the total budget for the year 2012 to **US$285,593,262**.

iii) During the financial year, a total sum of **US$88,153,027** was received from Member States, representing 72 per cent rate of collection from assessed contribution. Development partners contributed **US$101,985,112**, representing 64 per cent of their pledges. The total funds received/cash inflow for 2012 stood at US$190.2million.

iv) The meeting noted that the 2012 actual expenditure of the African Union stood at **US$185,933,274** representing an overall execution rate of **70 per cent**. The total expenditure was distributed as **US$111,875,993** and **US$74,057,281** for Operational (**94%**) and Programme budget (**50%**), respectively.

v) This overall execution rate reflects improvements in the Union's budget performance over 2011 of US$107,489,999 (**92%**) and US$57,811,021 (**39%**) from the Operational and Program budget respectively. However, the execution rate for programme budget remains a concern.

vi) The meeting was informed that the loss on exchange rate was largely due to the preferential rate that is accorded to the two Representational Offices (Geneva and Brussels). The preferential rate should not be taken as loss of exchange rate, but additional remuneration that goes to the two offices.

Comments by the Member States

6. During the discussions, members of the Sub-Committee made the following observations and comments:

i) Arabic documents had not been provided to the respective member states inline with AU Official languages requirement. In addition, there were inconsistencies in the use of languages which should be addressed by the Commission.

ii) The low execution rate of the programme budget in some Departments in the Commission and Organs need to be urgently addressed.

iii) The underlying reasons for the low rate of execution should be analysed to its causes, namely, partners not paying their pledges or organs not executing their mandate.

iv) The 2012 rate of collection from Member States' assessed contributions (72%) was not satisfactory.

v) The over reliance on partners funding, compromised the ownership of programmes and endangered implementation as some partners were not honouring their pledges.

vi) Partners' selective funding of programmes compromised implementation of some programmes. For instance, peace and security, governance and human rights continued to enjoy support at the expense of infrastructural and economic development projects.

vii) There was need to address the fate of some important programmes that did not obtain funding from both Member States and Partners for example, the Fouta Djallon project.

viii) The meeting requested the Commission to submit an update on the status of the purchase and renovation of the Washington office.

Responses by the Commission

7. The Commission responded to Member States' concerns and observations as follows:

i) With regard to the collection of assessed contribution by Member States, reminders were always sent on a regular basis.

ii) On budget management, it was explained that there was a distinction between budget and cash flow. Whatever was not executed lapsed. Where partner funds were not used within a particular financial year, they are only rolled over to the following year with the consent of the funding partner.

iii) There had been a decision to provide a supplementary budget for the completion of the renovation works of the Washington building and also to undertake an audit of the purchase and that a report would be submitted in May 2013.

iv) The low rate of budget execution was mainly caused by availability and release of fund from partners, as well as, implementation capacity of the respective departments and Organs. Over-budgeting also contributed to the low execution rate in some instances.

v) There is no mechanism to entertain additional funds from partners who come after the budget is approved. As a result, the Commission is not able to utilise such funds without the clearance of the PRC.

vi) The other factor for low execution rate related to partners who faced economic and financial challenges, and could no longer honour their commitments. For instance, Spain had already provided funds but requested the Commission to suspend its utilization.

vii) Some partners including Belgium and South Korea had pledged programme funding for 2012 but did not fulfil their promises.

<u>Recommendations</u>

8. The Sub-Committee took note of the report and made the following recommendations.

i) All Organs and departments should submit quarterly budget execution reports in a timely manner.
ii) The AU Organs should put more effort to improve their respective programme budget execution.
iii) The audit report should accompany the annual execution report.
iv) The Budget execution rate for the 2012 budget cycle should be a yard stick for consideration of the 2014 programme budget.
v) There is a need to strengthen monitoring and evaluation function to facilitate programme implementation.

vi) **The Commission should provide the audit report on the acquisition of Washington property to the Summit in May 2013 on the purchase of an office in Washington.**

CONSIDERATION OF 2014 PROGRAMME BUDGET

9. The Director of PBFA presented the highlights of the 2014 Programme Budget proposals. In his presentation, he referred to the transformation of the Organization of African Unity (OAU) into the African Union (AU) which brought forth an increased mandate and new challenges driven by the shared desire of accelerating socio-economic and political integration of the continent. In fulfilling this mandate, the Commission had developed a draft Third Strategic Plan for 2014-2017 anchoring on five priority Pillars, namely Peace and Security; Social Economic and Human Development programmes; Integration, Cooperation, and Partnership; Africa Shared Values; and AU Institutional Capacity Building.

10. The total regular budget of the African Union proposed for 2014 stood at **US$312,**694**.949** which was higher than the 2013 by 11.5**%** and composed of Operational budget of **US$132,803,852** and Programmes of **US$179,891,097**. It is proposed that the budget be financed by Member States 42% and Partners 58%. The major contributing factors for the overall increase (**11.5%**) of the 2014 budget over 2013's appropriation are:

- The effect of 5% salary increment as per Executive Council decision EX.CL/Dec.727(XXII);
- Increase in the activities of the Commission owing to its expanding mandate;
- Special projects such as, modernization of AUC's security system, and the maintenance and up-keeping of the New Conference Centre; and
- General increase in the price of goods and services.

11. It was reported that there were certain lines within the programme budget that were of recurrent in nature and which needed to revert to operating budget. For example, the cost of SAP User licences and VSAT were recurrent costs that needed to be covered by Member States under the Operation budget.

12. The Director of Strategic Policy Planning, Monitoring, Evaluation and Resource Mobilisation (SPPMERM) introduced the overall 2014 programme budget, which was reported to be aligned to the new 2014 - 2017 Strategic Plan of the Commission, with emphasis on a results chain. There were 47 project proposals estimated at US$144 million secured for the Commission, while US$63.9 million was unfunded classified as part A and part B. These represented 69.3 % and 30.7 % respectively. He requested that the budget be considered in totality and that the Commission be allowed to update the policy organs during the January summit, on whether the shortfalls had been covered with the understanding that those activities for which funding could not be secured would be removed from the programme budget.

13. Three new categories were also introduced to the programme budget; namely the Pass-through Funds, valued at US$90,536,525; Special Projects at US$56,892,656; and Technical Assistance at US$87,659,243which were submitted in the programme budget for the first time. Different departments and Representational Offices provided their detailed project proposals.

Comments by Member States

14. Member States made the following observations and comments:

i) Sought explanation whether budgetary provisions had been made for the operationalization of the Specialised Technical Committees.

ii) Sought clarification on why certain projects did not have secure funding.

iii) Requested the Commission to clearly demonstrate the relationship between the results chain and the lead departments for better appreciation and accountability.

iv) Pointed out the apparent lack of capacity of some departments in relation to their ambitious proposals.

v) Observed that the proposed budget was almost three times higher than the 2013 budget, and asked to be enlightened on how the funding gap for previous years had been addressed in order to ensure that there would not be problems with the proposed budget.

vi) Pointed out that projects should not be based on assumptions or on unsecured funding.

vii) Noted the low execution rate for most departments, and observed that budget allocation should be based on the capacity of departments to implement programmes. This was seen as an incentive for improvement in the subsequent year performances.

viii) Requested for information on the outcome of the study on the cost of hunger which had just been concluded.

ix) Agreed that budget figures for similar activities should be harmonised.

x) Noted the need for a special audit of IBAR covering its performance and operations management.

xi) The proposal to construct permanent offices for IBAR in Nairobi should be considered at a later date.

xii) It was felt that there might not be a need to set up a broadcast studio, but rather to make arrangements to produce programmes for Member States' national radio stations.

xiii) Recalling the decision to integrate NEPAD into AU, noted the need for a timeline when this would be concluded.

xiv) On Gender, a cross cutting issue, wondered how mainstreaming would be implemented by the departments; would each department mainstream on their own or this would be led by the Gender Department?

xv) Recalled that Host Countries had an obligation to provide buildings for technical offices located in their countries.

xvi) Asked to be enlightened about the criteria used to determine the five beneficiary countries of the Geothermal energy project and when other countries would be considered.

xvii) Regarding the study of African languages, explanations were sought about the specific African languages that were to be studied.

xviii) Pointed out that database should be developed to show the level and trends of corruption on the continent.

xix) Underlined the need for harmonization of programmes by Departments including NEPAD Planning and Coordination Agency.

xx) Requested the Commission to submit architectural drawings and cost of construction of the residence of the Deputy Chairperson for consideration under special projects to be funded from the Acquisition of Properties Fund.

xxi) Cautioned the Commission to review and take action on partners that reneged on their promises thus causing disruptions to budget implementation. Budget proposals on projects should not be based on assumptions or on unsecured funding.

xxii) Pointed out that training should be based on improving operational efficiency, while meetings and workshops should be harmonised and comply with the PRC decisions on the number and allocated budget per annum.

xxiii) Observed that some proposed activities could best be implemented jointly with or at the RECs level. For instance Fouta Djallon could be implemented by ECOWAS as the related activities are to be carried out in West Africa.

xxiv) Underscored the need for Member States to take ownership of some pertinent activities such as the celebration of the Day of the African Child.

xxv) Sought clarification on whether there has been a budget provisions for the Committee of Ten.

xxvi) Advised that the pre-summit civil society programmes now under CIDO should be undertaken by ECOSOCC while agricultural projects under the NEPAD budget should be moved Rural Economy.

Responses from the Commission

15. In response, it was reported that:

i) The Commission was equally concerned about the low budget execution rate that continued over the years, however, comprehensive measures were being taken to address the problem.

ii) Partners such as Belgium and South Korea had indicated willingness to join the AUPG in providing AU programme funding but could not fulfil their promises. Spain was a committed supporter of AU programme funding but had experienced a serious financial crisis that forced it to suspend the support.

iii) During the inauguration of the new office complex, China had declared financial assistance to the AUC but later communicated that that it could only provide assistance in kind and not cash since they are categorised as a developing country.

iv) The Commission agreed that reporting needs to be improved and has developed a reporting tool (AMERT) which will ensure that Departments report on what they are doing and have done before proposing new projects.

v) The Commission had instituted a Cost catalogue whereby the cost of organising Ministerial meetings is standardized with cost ceilings.

vi) Regarding the financing gap (Part B) of the proposed programmes, the Commission explained that discussions were still on-going with Partners with a view to bridging the gap. The Sub-Committee was requested to recommend the proposed Programmes budget for approval in principle and to allow the Commission to continue to mobilise funds to cover the gap until the end of 2013.

vii) On over-dependence on donors, the Commission reported that it was working on a resource mobilisation strategy that will among other things bring on board other stakeholders such as the Africa private sector.

viii) Regarding funding by partners, the ultimate goal was to encourage Partners for direct budget support i.e. where funds are put into the Pool to finance priorities determined by the Commission. There is also basket funding where donors put money into a basket but still earmarked for specific projects.

ix) The EU partnership was a strategic relationship, which had been expanded to include Member States co-chairing the partnership meetings, as well as the College to College meetings of Commissioners which are held every year both in Addis and in Brussels.

x) With regard to projects with unsecured funds, provisional approval is necessary as it would be difficult to negotiate with the partners for funding unless the projects are approved by the member states.

xi) The budget for the broadcasting studio was for equipment that would be provided by the Government of China.

xii) The NEPAD Planning Agency was working closely with RECs and Member States to mobilize funds for integration projects. As long as the NEPAD Planning Agency and the Commission exist, the coordinating unit would be a regular feature in the AU budgeting process.

xiii) The Department of Women and Gender Development experienced funding constraints in 2012.The bulk of its programme funding was received after July, which explains their low implementation rate. The department of Gender associates itself with PAWO because it is the premier continental women organisation and organises for a where high policy decisions on women issues are taken. Whilst other Departments implement their own programmes, they will be required to mainstream gender issues in their programmes.

xiv) Regarding the construction AU-IBAR office in Nairobi, it was explained that negotiations were on-going with China for the construction of a 20-million dollar office. The meeting was informed that there was a host agreement between AU and Kenya and that the Kenyan Government had donated a land for this purpose.

xv) Although CAADP is an African owned agenda, it unfortunately depends on partner funding. It would be preferable to have the whole programme financed by Member States in order to ensure sustainability and reliability. The CAADP programmes have been harmonised with NEPAD.

xvi) In response to the request on the need for US$1 million budget for communication, the Director of the Department of Rural Economy and Agriculture (DREA) explained that it was the result of a decision by the Executive Council to proclaim 2014 as the year for Agriculture. Through negotiations, the Bill and Melinda Gates Foundation had made available an amount of US$3 million for advocacy.

xvii) The representative of the Department of Infrastructure and Energy informed the meeting that the Geothermal Energy project started with five countries (Ethiopia, Kenya, Rwanda, Tanzania and Uganda) which had already taken some steps in the generation of geothermal energy. The second phase of the project would be extended to six other countries (Burundi, Comoros, Djibouti, DRC, Eritrea, and Zambia.

xviii) Partners had always prioritised funding of projects under peace and security and other areas of interest rather than on social and economic projects.

xix) The languages to be promoted by the Centre for Africana Languages (ACALAN) includes Hausa in West Africa, Tswana in Southern Africa; Kiswahili in East Africa. Partners have not shown an interest in this project.

xx) The recommendations of the study on cost of hunger will be implemented through the African Health Strategy.

xxi) The meeting was also informed that training programmes are organised through a Training Advisory Committee which studies proposals submitted by the various Departments and recommends them according to their relevance.

xxii) The Commission reported that there was a **US$50,000** budgetary provision for the Committee of Ten within the Department of Political Affairs.

xxiii) And finally, the meeting was informed that the Specialised Technical Committees would become operational in January 2014.

CONSIDERATION OF THE 2014 OPERATIONAL BUDGET

16. The Commission presented a total operation budget of **US$97,649,607** representing an increase of 5.13% over the 2013 budget and broken down into 73% as Staff Cost; 24.6% as Operating Cost; and 2% as Capital Expenditure.

Comments by Member States

17. During the discussions, Member States made the following comments:

i) The list of staff and their dependents should be updated and attached to the working document.

ii) Sought clarification why the budget for housing allowance was high.

iii) Sought clarification as to why Commission always referred to the Maputo Structure but there were still some posts in that Structure which had not been filled for the past 10 years. The Commission was instead recruiting General Service Staff at the expense of fully operationalizing the Maputo Structure.

iv) The Commission should prepare a recruitment plan for the next three years and the consequent recruitment there from should take account of the quota system as well as availability of funds given the 5% ceiling of annual budgetary increase.

v) AUC should pursue the interest by the Chinese Government for maintenance and improvement of premises.

vi) Sought explanation why the Commission was still budgeting for rent after moving to the new premises.

vii) Member States raised a concern on some training activities which were proposed to be undertaken outside the Continent and advised that member states had the capacity to provide the training.

Responses by the Commission

18. The Commission provided the following clarifications:

i) AUC would approach the Government of China for the renovation of Building C, however, should that fail, the Acquisition of Property Fund would be used.

ii) The proposed budget for Rental of Premises included rent of offices in Cairo, Washington and Bamako as well as, the residence of the DCP and AU Stores at Addis Export Building near the Vatican Embassy (Addis Ababa).

iii) It was proposed that if additional US$50,000 is added to the current annual rent being paid for Addis Export Building of US$156,000, a permanent store could be constructed on the available space of land in the AU compound and save the Commission from annual rental payment.

iv) The list of staff and their dependents would be cleaned and updated and provided to Member States.

v) Housing allowance as a statutory benefit is computed based on the number of positions budgeted for. It changes when a new staff member is recruited or when staff move into higher grades, which results in higher amount in housing allowance.

vi) The Commission acknowledge training programmes which were contracted outside the Continent, and submitted that the situation would be rectified.

OTHER AU ORGANS

19. All the other AU Organs presented their comprehensive budget proposals for 2014, which attempted to adhere to the 5 % ceiling.

Observations by Member States

20. The Sub-Committee made the following observations and comments;

i) Enquired about the countries that would be hosting the African Committee of Experts on the Rights and Welfare of the Child.

ii) Member States should incrementally assume ownership of the Organs.

iii) Observed the heavy reliance on International Partners to fund the Organs and called on Member States to gradually assume ownership of the Institutions.

iv) Noted that there was no provision of any advocacy in the budget proposals of the Court and advised that sensitisation and promotion activities should feature more in the budget.

v) The Court should consider reducing mission costs and reprioritise its activities by giving emphasis to recruitment.

vi) The Court was advised to present comparative budget and provide cost breakdown.

vii) There should be sensitization programme to ensure the visibility of the Advisory Board on Corruption.

viii) The Board on Anti-Corruption should establish links with national anti-corruption bodies.

ix) There seems to be some overlapping activities of the African Union Commission for International Law with the Office of the Legal Counsel.

<u>Responses by The Organs</u>

21. Clarifications were provided by other AU Organs as follows:

i) The Countries that had offered to host the secretariat of ACERWC were Burkina Faso, Kenya and Botswana.

ii) Regarding the links with national anti-corruption bodies, the Advisory Board on Corruption reported that it was assisting national commissions in the respective member states.

iii) One challenge facing the African Union Commission on International Law was about requests given to AUCIL to execute often after budget had been approved.

iv) There were no overlaps of activities between the AUCIL and the Legal Counsel. The AUCIL's mandate was to advise the Union on international law whilst the Office of the Legal Counsel advises the AUC on internal legal issues.

OVERALL IMPLICATION OF 2014 BUDGET ON MEMBER STATES ASSESMENT

22. The Director of PBFA informed member states that the overall assessment of Member States regarding the 2014 budget is 7.5% which is above the 5% ceiling. In view of the above, three scenarios is being proposed by Commission for consideration by the sub-committee as indicated below:

***Scenario 1**- Increase in assessed Member States contribution by **4.26%**with the inclusion only the impact of 5% increase in staff basic salaries of US$2,590.000 and excluding SAP User License Fees and VSAT services of US$1,576,329 to be financed from General Fund, cost of maintenance of premises and budget for security services amounting to US$2,105,986 to be financed from Acquisition of Property Fund as well as improvement of premises amounting to US$876,619 to be solicited from China.*

***Scenario 2** - Increase in assessed Member States contribution by **3.87%** by excluding the impact of 5% increase in staff basic salaries of US$2,590,000 to be financed from General Fund, cost of maintenance of premises and budget for security services* *amounting to US$2,105,986 to be financed from Acquisition of Properties Fund and improvement of premises amounting to US$876,619 to be solicited from China.*

Scenario 3 *- Increase in assessed contribution of 2.59% as result of charging US$4,166,329.00 to the General Fund with respect to the impact of the 5% salary increase and SAP User License Fees and VSAT services, cost of maintenance of premises and budget for security services amounting to US$2,105,986 to the Acquisition of Properties Fund as well as improvement of premises amounting to US$876,619 to be solicited from China*

Observations by Member States

23. Upon further deliberations, scenario 3 of 2.59% was recommended as the most feasible option to be assessed on Member States.

Recommendations

24. The Sub-Committee made the following recommendations:

(i) **The documentation provided to member states for budget discussions should be a consolidated single document that is available in all the AU working languages;**

(ii) **A total regular budget of US$303,298,376.00 was recommended for the African Union for year 2014, which was broken down into US$133,134,958.00 Operating costs(44%) and US$170,163,418.00 for Programmes (56%).**

(iii) **The budget was recommended to be financed by assessed contributions on Member States of US$126,050,898.00 and from International Partners, US$170,098,545.00.**

(iv) **In addition, a budget for Special Projects of US$24,241,656.00; Pass-Through Funds of US$90,536,525.00; and Technical Assistance of US$37,763,663.00 is being recommended for approval for the Union and authorization to the Commission to mobilize the required resources from Partners.**

(v) **The Commission should solicit funds from Partners to close the funding gap of US$78,185,573.00 (US$29,878,153.00 for regular Programs and US$48,307,420.00 for the special projects) on the Programme budget till the end of 2013 and report back the status to the PRC before the summit in January 2014.**

(vi) **The Sub-Committee also recommended authorisation to charge US$4,166,329.00from the General Fund with respect to the impact of the 5% salary increase and SAP User License Fees and VSAT services.**

(vii) **The cost of maintenance of premises and budget for security services amounting to US$2,105,986was recommended to be financed from Acquisition of Property Fund.**

(viii) **The Commission may negotiate with the Peoples' Republic of China for the renovation of building C and other costs related to improvement to premises estimated at US$876,619.**

(ix) **The Sub-Committee also recommended to the PRC to use the Acquisition of Properties Fund to build a Storage facility on the available land in the compound for a maximum cost of US$200,000.**

(x) **The Sub-Committee further recommended to the PRC that there was a need to grant exemption to NEPAD from the 5% cap on budget to gradually increase Member States contributions to its operational budget. NEPAD is also requested to submit its budget proposals on 2014 staff cost to the PRC for consideration.**

(xi) **The Sub-Committee recommended allocation of Member States funds on pertinent continental activities such as the celebration of the Day of the African Child.**

(xii) **The Union should consider funding some of the budget proposals of the organs instead of leaving them to partners and requests the Commission to assist the other Organs to include funding by Member States for some of their activities.**

(xiii) **The process of recruitment should be clarified through a three year recruitment plan, with the quota system complied to. The recruitment of general service staff instead of professional staff should be discontinued as the Maputo Structure is implemented.**

(xiv) **The Commission was requested to rationalise training and workshops, and look within the continent before considering facilities outside.**

(xv) **The construction of the residence of the Deputy Chairperson should be done after submitting to the PRC the architectural drawings and cost of construction, but that of the Commissioners should be deferred to a future date.**

(xvi) The Commission should explore the possibilities of establishing a Programme Implementation Fund to be capitalised through voluntary contributions by Member States, the private sector, independent foundations, development partners and other appropriate sources.

(xvii) The Commission was requested to make appropriate recommendations on the use of a certain percentage of the General fund for this purpose.

(xviii) Requested an independent audit of the IBAR Office.

(xix) The Commission was requested to submit a policy proposal to strengthen monitoring and evaluation to facilitate programme implementation and programme performance of AU Organs.

(xx) The Commission was also requested to find a solution on dissolution of Supreme Council for Sports in Africa (SCSA) before the activities could be incorporated into those of Department of Social Affairs.

(xxi) The Commission should find solution for the funding requirements of activities that fall under Social and Economic projects.

(xxii) The Observatory for Education in Africa should be harmonised and administered under CIEFFA and IPED. Therefore, the Commission is requested to reinforce capacity of the two to deliver on their mandates.

(xxiii) In future, the Sub-Committee on Programmes and Conferences should sanction all project proposals before the budget is discussed.

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**JOINT RETREAT OF AU COMMISSION
AND PRC ADVISORY SUB-COMMITTEE
ON ADMINISTRATIVE, BUDGETARY
AND FINANCIAL MATTERS
27 FEBRUARY – 02 MARCH 2013
ZANZIBAR, UNITED REPUBLIC OF TANZANIA**

REPORT OF THE JOINT RETREAT OF THE AU COMMISSION AND THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS

REPORT OF THE JOINT RETREAT OF THE AU COMMISSION AND THE PRC ADVISORY SUB-COMMITTEE ON ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS

A. INTRODUCTION

1. The Joint Retreat of the AU Commission and the PRC Advisory Sub-Committee on Administrative, Budgetary and Financial Matters was held from 27 February to 02 March 2013 in Zanzibar, United Republic of Tanzania, to discuss administrative and financial issues with a view of creating an enabling environment for the Commission to improve its operational effectiveness and efficiency.

B. ATTENDANCE

2. The meeting which was co-chaired by the Ambassador of the Republic of Sierra Leone, H.E. Mr. Andrew Bangali and the Ambassador of Botswana, H.E. Ms. Mmamosadinyana Molefe, was attended by the following Member States:

i) Algeria
ii) Angola
iii) Benin
iv) Botswana
v) Burkina Faso
vi) Burundi
vii) Cameroon
viii) Chad
ix) Congo
x) Côte d'ivoire
xi) Democratic Republic of Congo
xii) Egypt
xiii) Equatorial Guinea
xiv) Ethiopia
xv) Gabon
xvi) Gambia
xvii) Ghana
xviii) Kenya
xix) Lesotho
xx) Liberia
xxi) Libya
xxii) Malawi
xxiii) Mali
xxiv) Mauritania
xxv) Mauritius
xxvi) Namibia
xxvii) Niger
xxviii) Nigeria
xxix) Rwanda
xxx) Saharawi Arab Democratic Republic

xxxi) Senegal
xxxii) Seychelles
xxxiii) Sierra Leone
xxxiv) South Sudan
xxxv) Sudan
xxxvi) Tanzania
xxxvii) Togo
xxxviii) Tunisia
xxxix) Uganda
xl) Zambia
xli) Zimbabwe

C. OPENING

3. In his welcome remarks, the Deputy Chairperson of the AU Commission, H.E. Mr. Erastus Mwencha, thanked all Member States for attending the Retreat. He mentioned that the over 80% attendance by Member States showed the commitment of the Sub-Committee to the work of the Union.

4. The Deputy Chairperson drew the attention of the Sub-Committee to the new Commission's strategic plan of 2014 – 2017 which called for new ways of conducting business in the Commission. He mentioned that the Strategic Plan came on the heels of the celebration of 50 years of existence of the Organisation and what lay ahead for the next 50 years. He mentioned four (4) key result areas of the Plan namely: efficiency; effectiveness; accountability; and sustainability.

5. The Deputy Chairperson spoke about the huge expectations from the Commission by the people of Africa. There was a crisis of expectations which was not matched by the mandate given to the Union. He however praised the efforts by the Organisation in the areas of liberation and peace and security. He said that integration was not designed for the Organisation at that time; it was left for the regional communities. The African Union had now become the main mouthpiece of the continent on peace and security issues.

6. The Deputy Chairperson paid tribute to the Sub-Committee for its contribution for the last four years. He indicated that as a result of the Adedeji report, there had been improvements in areas such as the following:

- Improved work methods;

- Improved cohesion and coordination between the AU and the Regional Economic Communities (RECs);

- Better and structured relationship with Partners;

- More coordination and structured relationship with the United Nations Economic Commission for Africa (UN-ECA and the African Development Bank (AfDB).

7. According to the Deputy Chairperson, the Commission had now moved from activity-based budgeting to results-based budgeting based on the Strategic Plan. What was now encouraging was that budgetary collections from Member States stood at 80%. He however bemoaned the high rate of contributions by partners towards the financing of the programme budget which was 93% thereby resulting in the lack of proper ownership.

8. He mentioned the inappropriate financial and procurement practices which led to a significant amount of about US$300 million not being accounted for.

9. The Deputy Chairperson also touched on the issue of having too many meetings which was posing challenges of planning and implementation. He however said that most of the deliverables emanated from such meetings. He also mentioned the issue of staff undertaking too many missions with little or no time left for implementation of the outcomes of those meetings.

10. On the issue of technology, he was pleased to inform the Sub-Committee about the use of SAP software in improving the efficiency of administrative and financial processes.

11. Furthermore, the Deputy Chairperson highlighted the importance of the proposed change from the present accounting practices to International Public Sector Accounting Standards (IPSAS). He mentioned some advantages that would be gained from the adoption of IPSAS and other organisational changes as follows:

- i) Risk would be managed;
- ii) Effective use and maintenance of assets;
- iii) Structural changes to be based on the strategic plan;
- iv) Tackling the issue of monitoring and evaluation of programmes;
- v) Improved planning process as well as internal monitoring and controls.

D. AGENDA

12. The programme for the Retreat was adopted as follows:

- a) Welcome Session;

- b) Administrative and Financial Management System Reforms at AU Commission – Issues, Achievement and Future Developments;

- c) Adoption of the International Public Sector Accounting Standards (IPSAS) – Impact and Strategies for Implementation;

- d) Consideration IPSAS Implementation Budget;

- e) AU Budgetary Procedures and Review Processes;

f) Proposed Revision of Financial Rules and Regulations – Highlights on areas of significant changes;

g) Status of SAP-ERP Implementation – Progress, Benefits and Challenges;

h) Human Resource Reforms and Consideration of Proposed Terms of Reference for Comprehensive review of the AU Salary and Allowances;

i) Understanding AU Commission's Annual Financial Statement – Format, Presentation, Content and Changes;

j) Proposed new Fiduciary Policies to be introduced by AU Commission – Risk Management and Anti-Corruption;

k) AU Headquarters' Security Project and Consideration of related budget;

l) Review of Working Methods and adoption of the Sub-Committee's annual Programme of Work for 2013.

ADMINISTRATIVE AND FINANCIAL MANAGEMENT SYSTEMS REFORMS AT THE COMMISSION – ISSUES, ACHIEVEMENT AND FUTURE DEVELOPMENTS

13. The Deputy Chief of Staff in the Bureau of the Deputy Chairperson made a presentation on the above topic. He mentioned that the core mandate of the Commission was to coordinate the effective functioning of the AU and its organs. One of the main challenges was the need to transform the institutional structures that had been inherited from the OAU. Consequently, an institutional audit was carried out in 2007 by a high panel of experts which found that there was lack of clarity in the set-up; the scope of activities were spread too widely for it to be effective; and that the management needed to be improved. The report further recommended a complete overhaul of the Financial Management and Human Resource Management systems in the Commission.

14. There were other institutional assessments undertaken as well as external and internal audit reports that reinforced the need to reform the AUC as the central organ of the Union to make it more efficient and effective. These included the Five Pillar Assessment and the Roadmap to Programme support reports both of which were undertaken in 2010.

15. The Deputy Chief of Staff mentioned the overall objectives of the reform initiatives which were to strengthen capacity and enhance the operational efficiency and effectiveness of the Commission; promote synergies linkages and good working relations with all AU Organs; promote effective cooperation and collaboration with Member States and the RECs; and promote strategic partnerships for leveraging sustainable sources of funding and comparative advantages.

16. In order to operationalize the strategy, the Commission identified four areas as the focus of capacity building namely, Human Resource Development and

Management; Strategic Planning, Policy Formulation and Implementation; Financial Management and Budgeting; and Organisational Culture and Organisation Development.

Comments by Member States

17. The Chairperson implored members of the Sub-Committee to examine the challenges provided by the presentations and see how they could be addressed Member States should therefore see how they could assist the Commission in addressing those challenges.

18. During the discussions, Member States made the following comments:

i) The Commission should evaluate carefully the work of the partners and not to allow them to use the Commission for their own ends;

ii) Even though information was very important, there still existed key problems such as lack of documentation which gave credence to the lack of trust or confidence in the Commission;

iii) Questioned what the Commission had done in the area of modernization that had been approved;

iv) Member States were spending too much money on the VSAT and that there was -the need to instill some discipline into the financial management of the Commission in order to avoid fraud;

v) There was also the need to tackle the crisis of lack of trust and confidence between AUC and Member States and as well as between partners and AUC;

vi) Wanted to know who the 140 change champions were;

vii) The Commission should improve on prioritization of programmes instead of taking on so many activities without being able to execute;

viii) Monitoring and Evaluation systems should be well looked into and improved;

ix) What were the criteria used in scaling down projects to about 40%?

x) Had the Commission ever looked critically at the recommendations of the various reports such as the Adedeji and Ernst and Young reports;

xi) Member States wanted to know what AUC had done to fill the staff quota of all Member States and that some Member States were not receiving information about the status of their quota;

xii) Member States and the Commission should sit together and sort out the issue of mistrust so that all perception of trust could be erased;

xiii) The Commission never sends acknowledgements to applicants seeking for jobs;

xiv) Both the Staff Regulations and Rules and the Financial Rules and Regulations are not implemented fully, thereby creating a lot of indiscipline;

xv) Wondered why the AUC did not have a Telephone Directory as is the case with other organisations such as the United Nations;

xvi) The mandate of the AUC has been expanded beyond its capacity thereby making it impossible for the Commission to tackle all issues on time;

xvii) With the expansion of the mandate of the Commission, areas such the Office of the Secretary General needed to be provided with adequate human resources;

xviii) Recruitment process was still slow at the Commission;

xix) What efforts was the Commission taking to clear the perception of lack of transparency?

xx) Why did the Commission continue working with Partners who failed to provide funding as promised?

xxi) The Commission should start depending on resources generated within the continent and not to rely on partners. Recalled the decision that appointed the Obasanjo Committee to look at alternative source of funding of the Union;

xxii) Some of the partners reneged on their promise to provide funds;

xxiii) Partners should not be allowed to audit programmes run by the Commission;

xxiv) Priority should be given to projects that serve the interest of Africa.

Responses by the Commission

19. The Commission responded to the above concerns as follows:

i) There had been a lot of challenges regarding communication but this had been improved considerably in recent times;

ii) There had been considerable improvement in the financial management in the AU Mission in Somalia (AMISOM) compared to the situation of AMIS;

iii) The Commission would use the feedback obtained to improve on the communication to Member States in order to eliminate the mistrust between the two;

iv) Clarified that the Change champions were the staff who had been trained in all the new processes that had been introduced across the Commission;

v) The Commission hoped that the Retreat would provide an opportunity to address the various challenges;

vi) There was a need to address the expanded responsibilities or mandate given to the Commission;

vii) The African Monitoring, Evaluation and Reporting Tool (AMERT) had been developed by the Commission to help it in programme planning, work plan evaluation and reporting;

viii) The challenge of proportion of budget financed by Partners and Member States should be addressed;

ix) Ernst and Young report meant to address the following:

a) International accounting standards;

b) Auditing standards – Proposal to have private Audit firms to audit partner funds was accepted whilst Member States' funds to be audited by the Board of External Auditors;

c) Internal Audit standards – pointed out that the approved Audit Charter had already been implemented whilst the Audit Committee was being set up;

d) Procurement standards – Rules and regulations regarding procurement were now adequate. However, the Unit was not adequately staffed;

e) Grant management – There were no rules at all to guide staff. A Manual had just been developed and as soon as it was verified and completed, Member States would be provided with copies.

x) Touching on efficiency and effectiveness, the Deputy Chairperson reminded the Sub-Committee to look into the issue of working in five languages as compared to the United Nations and the European Union which had several official languages but work in only two languages.

xi) With regard to the issue of quota, vacant positions are filled based on the qualification and experience of the candidates bearing in mind the quota status of the countries of those candidates.

xii) The issue of 5% budget growth presented another challenge sometimes leading to the Commission's inability to propose new programmes.

Recommendations

20. The Sub-Committee recommended as follows:

i) Need for a meeting between the Sub-Committee for Programme and Conferences and the Sub-Committee for Administrative, Finance and Budgetary Matters to align programmes;

ii) The 2014 budget calendar should be distributed to Member States;

iii) Budget performance reports should be done half-yearly;

iv) There was a need to improve the capacities of the Commission in view of its expanded responsibilities and mandate;

v) Member States and the Commission should sit together and sort out the issue of mistrust so that all perception of trust could be addressed;

vi) The recruitment process of the Commission should be improved and accelerated and in a more transparent manner;

vii) The Commission should improve on prioritization of its programmes instead of taking on so many activities without being able to execute;

viii) Member States should be informed periodically about the status of their staff quota;

ix) The Commission should inform Member States to encourage qualified candidates to apply for vacant positions.

ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) – IMPACT AND STRATEGIES FOR IMPLEMENTATION

21. The Director of Programming, Budgeting, Finance and Accounting of the AUC presented the document on the adoption of IPSAS by the African Union. He informed the Sub-Committee that the Union had adopted IPSAS on January 2013 as mandated by Executive Council and endorsed by the Assembly. The Director mentioned that the objective of IPSAS was to harmonize financial reporting practices in order to improve transparency, promote efficiency and comparability of financial statements. He said that IPSAS adoption would represent major organisational change that would require significant investment in staff training, communication, and information systems.

22. The Director explained that the adoption of IPSAS would require that several provisions of the Financial Rules and Regulations of the AU be changed. He mentioned 12 standards that would have the most significant impact, namely:

IPSAS 1 – Presentation of Financial Statement;
IPSAS 2 – Cash Flow Statements;
IPSAS 3– Accounting policies, Changes in accounting estimates and errors;
IPSAS 4 – Effects of changes in Foreign Exchange Rates;
IPSAS 9 – Revenue from Exchange Transactions;
IPSAS 12 – Inventories;
IPSAS 13 – Leases;
IPSAS 17 – Property Plant and Equipment;
IPSAS 19– Provisions, contingent liabilities and contingent assets;
IPSAS 23 – Revenue from Non-Exchange Transactions;
IPSAS 24 – Presentation of Budget Information in Financial Statements;
IPSAS 25 – Employee Benefits.

Comments by Member States

23. During the discussions, members of the sub-committee made the following observations and comments:

i) Member States were concerned about the quality of external auditors. Training should be a continuous process and not a one-time event.

ii) Emphasis should be laid on the training of trainers in order to reduce cost;

iii) What would be the implementation period of IPSAS Member States were of the view that SAP was expected to reduce the use of paper which had not been the case. What would happen with the adoption of IPSAS?

iv) In view of the problems that were already associated with SAP especially at the Regional Offices, what measures was the Commission putting in place to avoid resistance;

v) What would be the financial implications if the partners disengage?

vi) Would the Commission maintain the services of the two staff after IPSAS implementation and how would it affect the structure;

vii) Would it be possible for Member States to have some training in IPSAS?

viii) Would provisions in the Staff Regulations and Rules also change in view of the anticipated changes in the Financial Rules and Regulations since IPSAS was said to also affect employee benefits liability?

ix) Future recruitment of Finance Officers should be based on the knowledge of IPSAS in view of the high cost of training;

x) Since IPSAS required organizational challenges in training, management information systems, would there be any budgetary provision?

Responses by the Commission

24. In response to the concerns and comments of the Member States the Commission responded as follows:

i) Article 109 of the Financial Regulations and Rules spells out the qualification of Members of the Board of external auditors;

ii) Training would be continuous and tailored to the diverse stakeholders;

iii) Three approaches being adopted for training would be cheaper than staff going to each Regional Office;

iv) The way financial information is captured would change under IPSAS but will not materially affect the current system design;

v) There are alternative systems that the Commission will introduce to interface with SAP in offices that are deemed not feasible for SAP rollout;

vi) Accrued staff Leave would be captured as liability in the Balance Sheet of the Union under IPSAS;

vii) There are some aspects of IPSAS that touch the core provisions of the Financial Rules and Regulations;

viii) The Head of the Implementation Task Force would be the Head of Accounting Division of PBFA and not the Coordinator. The Coordinator would only facilitate the implementation and providing administrative support;

ix) After the project implementation, the two positions recruited under IPSAS project would cease to exist;

x) IPSAS adoption will improve quality of financial information and enhance performance measurement.

Recommendations

25. The Sub Committee made the following recommendations before adjourning.

i) There was a need for Member States to nominate auditors who are knowledgeable on IPSAS to the Board of External Auditors;

ii) Training should be a continuous process and not a one-time event;

iii) The Commission should offer to provide refresher courses for auditors on IPSAS;

iv) Emphasis should be placed on the IPSAS training of trainers in order to reduce cost.

CONSIDERATION OF IPSAS IMPLEMENTATION BUDGET

26. The Director of PBFA presented for consideration, the budget of IPSAS implementation. He gave the total budget for IPSAS implementation for 2013 and 2014 as US$816,220.00 and US$679,443.00 respectively. The Director gave the breakdown of the budget as the cost of hiring of IPSAS Coordinator at P4 level; IPSAS Accountant at P2 level; Advisory services; training; oversight meetings; communication; equipment; and other miscellaneous expenses.

Recommendations

27. Following the presentation by the Director of PBFA, the Sub-Committee recommended for the approval of the PRC a budget of US$1,495,663 for the implementation of IPSAS to be financed by Partners.

AU ANNUAL BUDGET – PROPOSED BUDGETARY PROCEDURES AND REVIEW PROCESSES

28. The above topic was presented by the Head of Programming and Budget Division of Directorate of PBFA. He explained to the Sub-Committee the various processes that are followed in the budget preparation.

29. The Union has a unified budget categorized into Operating and Programme budget. All organs of the Union and departments of AU Commission are responsible for the preparation of their budget estimates. The Directorates of PBFA and AHRM serves as the lead in the preparation of Operating budget of the AU Commission, whilst the Department of Strategic Policy Planning, Monitoring, Evaluation and Resource Mobilization (SPPMERM) takes the lead in the preparation of Programme budget of the AU Commission. The overall budget of the Union is validated and consolidated by the Directorate of PBFA on behalf the Accounting Officer of the Union and thereafter presented to policy organs for review and approval. The presentation also highlighted challenges with the current process and areas for improvement.

Challenges

- Absence of clear framework that mutually guides the Commission and the policy organs in the budget and review process;
- Lack of clarity of programme priorities of the AU Commission;
- Prolonged budget review process;
- Huge budget documentation resulting in information overload;

- Funding constraints particularly from Partners had negatively affected the rate of programme budget execution.

Improvement in the budget review process:

- Improve the Budget Framework paper to include priority projects and programmes, cost implications, source of funding, budget ceiling in order to avoid over-ambitious programmes which cannot be financed and to show that budget allocation reflects or is consistent with the absorption capacity of the AU Organs and Medium Term Expenditure Framework**;**

- Establishment of an internal budget review committee to ensure quality of budget proposals;

- Budget review framework by the oversight body;

- Whether the proposed budget is within the agreed ceiling;

- To ensure that the proposed programmes/projects were within the strategic framework;

- What are the expected results from the proposed budget;

- Whether the targets set in the program budget are achievable in the budget period given the absorption capacity of the implementers;

- Assumptions/risks considered in formulating the budget ;

- The costing methods followed in computing the budget figures; Completeness of budget documentation in line with the FRR.

Comments by Member States

30. Member States made the following observations and comments:

i) What measures was the Commission taking to reduce the period of budget preparation?

ii) The budget process did not indicate the timing of the various processes;

iii) Member States should be informed of the current status of trying to make them own their programme funding;

iv) Member States wanted to know when the draft 2014 budget would be ready;

v) What were the bottlenecks that the Commission faced in the preparation of the budget;

vi) Member States had been saddled with constant budget increases each year with additional responsibilities;

vii) The Director of PBFA should be given appropriate authority to request the other organs to prepare and submit their budgets on time;

viii) Why was the AUC always coming back to the PRC for supplementary budget when Member States were always told that there were sufficient funds;

ix) Needed to know the impact of activities financed by partners;

x) Member States should understand that if they allow partners to fund about 93% of their programme budget, they should expect something in return;

xi) Which of the partners had not been faithful and had not delivered on their promises;

xii) The Commission should present proposals that are justifiable and realistic for consideration by the Sub-Committee;

xiii) Ambassadors and Heads of Missions should, as far as possible, take more interest in the work of the Sub-Committee as this would avoid discussions being re-opened during the PRC's meeting;

xiv) Since budgeting process is important and involves everybody, key officers should not be allowed to travel outside the Commission during the budget preparation period;

xv) The issue of only five countries contributing 67% of the Union's budget should be re-visited as all members should be made to own the Union;

xvi) Why the other Organs were not present at the Retreat;

xvii) Budget growth cap should be made to remain on the Operations budget whilst exceptions could be made for the Programme budget;

xviii) There seemed to be proliferation of proposals without looking at the financial impact or organisational structure implications;

xix) In preparing the new Strategic Plan, the Commission should be clear about the plans for implementation since there seemed to be too many activities but without corresponding implementation plans;

xx) The Commission should provide the PRC with the budget calendar.

Responses by the Commission

31. The Commission provided the following responses:

i) Since the meetings of the Sub-Committee of the Whole are not attended by Ambassadors, issues discussed by the Sub-Committee were always raised again for discussion at PRC level;

ii) The existing budget review process was time-consuming and there was a need to mutually agree on a budget review framework;

iii) AUC was always ready to provide detailed cost breakdown of budget proposals. However, they were only for reference purposes and not point of discussion; they should not be the main budget documents for discussion;

iv) In order to have results of budget execution, PRC had previously agreed that the Commission could provide half-yearly performance reports. Requests for supplementary budget are occasioned by unforeseen events that come up since budgets are indicative;

v) The Commission is envisaging adopting a Medium Term Expenditure Framework that will allow multi-year projection of expenditure and facilitate effective resource mobilization;

vi) Budget calendar is issued every year;

vii) If a time framework was agreed upon, the period of budget process could be shortened considerably;

viii) All budget execution is facilitated by SAP;

ix) If quality review process was followed, there would be realistic budgeting;

x) Eight priorities which were the strategies of the new Commission would be discussed with the PRC;

xi) The preparation of draft 2014 budget was underway and it would be submitted to Member States at the beginning of April to enable the Sub-Committee to start its deliberations on 15 April 2013;

xii) The new Strategic Plan was not focusing on introducing new frameworks, but rather a move to operationalize existing ones;

xiii) The Strategic Plan had delayed as a result of the new Commission coming in late and also the decision to have a Retreat with Directors to look at it;

xiv) The Strategic Plan was under translation and would be ready in two weeks' time.

Recommendations

i) Need for both Sub-Committee for Programme and Conference and the Advisory Sub-Committee on Administrative, Budgetary and Financial Matters to meet together;

ii) The Commission should be encouraged to proceed with the implementation of the proposed improvements in the budget preparation and review process including the establishment of an internal Budget Review Committee;

iii) Agreed to the suggestion of introducing budget ceiling as a guide for the preparation of budgets;

iv) Agreed on the principles contained in the proposed budget review framework;

v) Requested the Commission to share Budget calendar with the PRC;

vi) Budget performance reports should be done half-yearly;

vii) Member States should ensure that proposals that are made should be backed by the required budget allocation as this urges the Commission to come up with Supplementary budget requests.

PROPOSED REVISION OF FINANCIAL RULES AND REGULATIONS – HIGHLIGHTS ON AREAS OF SIGNIFICANT CHANGES

32. The presentation on the areas of FRR that would be significantly affected with the adoption of IPSAS was made by the AUC Head of Accounting Division. The notable areas include revenue recognition; Employee benefits liability such accrued annual leave, expense recognition including accrued expenditures and Plant, Property and Equipment (Fixed Assets).

Comments by Member States

i) How would arrears of assessed contribution be treated if certain provisions of the Financial Rules and Regulations were changed?

ii) Staff of the AU should be made to go on leave to avoid accumulation huge unutilized leave days;

iii) What would happen if Member States were not able to pay contributions with respect to cash flow?

iv) What would be the relationship between sanctions and reporting if a country did not pay its contribution?

v) How would Morocco's debt be recorded in the books?

Responses by the Commission

i) Sanctions would continue to apply to Member States in arrears;
ii) Member States' debts would not be written off; they would still have to pay their arrears;
iii) Morocco's debt would still appear in the financial statements under accounts payable like any ordinary debtor to the Union. There should be no conflict between the reporting and decisions taken.

Recommendations

33. There were no recommendations under this topic since the presentation was only meant to inform the Sub-Committee about the proposed revision of the Financial Rules and Regulations.

STATUS OF SAP-ERP IMPLEMENTATION – PROGRESS, BENEFITS AND CHALLENGES

34. The presentation on the status of implementation of the Systems, Applications and Products (SAP) project was made by the Acting Director of Administration and Human Resource Management Directorate (AHRMD). She informed the Sub-Committee that the SAP Project started in June 2008 and went live at the Commission on 01 January 2009. SAP had successfully been rolled out in two regional offices namely, AMISOM in February 2010 and AU IBAR Office in Nairobi in May 2010.

35. The Ag. Director explained that the objective of using the SAP-ERP was to improve transparency and decision-making; improve efficiency; elevate SAP usage, skills and system awareness levels; optimize and streamline AUC business and systems processes that match world class best practices.

36. She reported that there were currently over 1400 SAP User Licenses available. SAP training had been given to all staff including 14 Super Users; 12 Business Users; and 10 Senior Management personnel who have been training in SAP Academies. Whilst End User Training is conducted on regular basis for different User groups, Employee training is conducted for new staff on monthly basis. A wider community of AUC is now using the system to process transactions and manage their own data.

37. The Ag. Director informed the Sub-Committee about the challenge of losing six Super Users who had resigned from the AU in the last two years. Most of the key technical staffs were also on short term contract whilst others on secondment had gone back to their original Departments.

Comments by Member States

i) When would a full roll-out of SAP start since there still seemed to be some manual transactions?

ii) Was the Commission using the technology of 1972 or a revised one?

iii) Why were staffs trained with special skills resigning from the Commission?

iv) How would the Commission keep trained personnel with special skills?

v) The conditions of service of staff should be improved;

vi) Member States' ability to pay adequate remuneration should be taken into account;

vii) Measures should be put in place to retain trained personnel in special skills.

Responses by the Commission

i) The Commission was not using the technology the way it was first introduced in 1972;
ii) SAP system was introduced in the Commission in 2008 and rolled out in 2009;
iii) Most of the staffs trained in SAP were short term and this was due to the AUC structure which did not take care of certain positions.

Recommendations

i) There was a need to improve the conditions of service in order to retain staff;
ii) Measures such as bonding of trained staff should be included in the recruitment policy and conditions of service;
iii) There should be a succession plan to replace retiring staff;
iv) SAP should be rolled out in all the regional, representational and liaison offices.

HUMAN RESOURCE REFORMS

38. The Acting Director of AHRMD presented the document on Human resource reforms. On the internal capacity, she indicated that there were 758 positions in the Maputo Structure in 2003. As at December 2012, there were 1,262 approved regular positions within the Commission including 94 for the NEPAD Planning and Coordination Agency. Out of the approved structure, the current total staff at Headquarters stood at 1,104 whilst that of the Regional Offices and AMISOM was 452.

39. With regard to recruitment, she explained that whilst the quota system applied to regular positions, short term positions were not affected by the quota system. However, the policy of regional and gender balance was applied in the appointment of short term staff.

40. The Ag. Director mentioned some of the recruitment challenges that include the lack of modern selection and recruitment techniques; weak job description and selection criteria from Departments; lack of visibility of advertisements on the continent.

41. She also mentioned some of the implementation challenges of the new Staff Regulations and Rules that have financial implications. These include the following:

i) Acting Allowance;
ii) Education allowance for Project and Short Term Staff;
iii) Transportation of 4,000 kgs. of Personal Effects for Staff on Recruitment, and 6,000 kgs. for those on Transfer and Separation;
iv) Scholastic Travel for children of staff entitled to Home Leave and schooling outside their duty station every other year to visit their parents at the duty station.

Comments by Member States

i) What was the Commission doing about the class of travel of Ambassadors who were always made to travel in Economy Class instead of Business Class;

ii) Delays in filling vacant positions demotivate staff who act in those vacant positions;

iii) Was it possible to have performance-based contracts for staff;

iv) A system where important function such as Management Information Systems (MIS) Division, is being controlled by short-term staff was not sustainable;

v) There were too many vacant professional positions;

vi) The lead time of recruitment should be reduced;

vii) Critical Divisions of the Commission should not be controlled by Short term staff;

viii) Recruitment process at the Commission was not transparent;

ix) Recruitment should be done by independent companies devoid of any influence;

x) Approval of recruitment by the Deputy Chairperson was not appropriate;

xi) Several Senior officers of the Commission spend most of their time travelling;

xii) Why did some Member States have zero quota and others above their quota?

xiii) Rate of attrition should be seriously addressed;

xiv) Issues of occupation safety should be addressed;

xv) There was the need to look at the short term staff situation and find ways of regularizing their contracts;

xvi) Wondered whether the use of SAP had eliminated corruption or fraud;

xvii) Doubted whether regional balance in the recruitment process was being respected;

xviii) Detailed information should be provided to Member States regularly on the actual quota situation in order to ensure transparency;

xix) Information on vacancies should be disseminated through the Embassies;

xx) Information available indicated that short term staff were recruited from certain regions and linguistic groups;

xxi) Member States should be provided with a Table of Staff in the various categories of regular and short term;

xxii) When South Sudan was assessed for contribution, it should have been assigned a corresponding staff quota system of recruitment;

xxiii) Candidates interviewed for positions are never informed of the outcomes of their interviews;

xxiv) There should be an audit of the recruitment processes in order to ensure transparency.

Responses by the Commission

i) The issues of class of travel would be addressed by the Travel Policy which was under review;

ii) The Commission once contracted private consultants to do the recruitment but this brought frustrations among the existing staff who thought to have been by-passed for external candidates in higher positions;

iii) Recruitment is now done internally and approved by the Appointment and Promotion Board (APPROB) which is chaired by the Deputy Chairperson;

iv) Short term staff are recruited because the number of staff within the AU structure is inadequate;

v) Candidates from all language backgrounds were always considered for employment;

vi) The issue of audit of HR processes was being addressed;

vii) Short listing of positions of senior officers would be done in March 2013;

viii) Candidates from countries under suspension are not recruited;

ix) The Directorate of Administration and Human Resource Management as it stood now was too huge to ensure its effectiveness;

x) Candidates from countries under-represented were always encouraged to apply;

xi) A study to address the structure and job descriptions was underway;

xii) Recruitment was always done in accordance with provisions of the Staff Regulations and Rules.

Recommendations

i) The class of travel for Ambassadors and Heads of Mission of Member States should be properly addressed;

ii) Ambassadors travelling on behalf of the AU should travel in Business Class;

iii) Staff should not be made to act in a position for long periods;

iv) There was a need to introduce a bond system for staff trained by the Commission;

v) The recruitment of short term staff should be discouraged;

vi) All provisions of the new Staff Regulations and Rules should be implemented without delay;

vii) There was a need to motivate staff;

viii) The lead time of recruitment should be reduced;

ix) Member States should be informed regularly about the status of quota of staff;

x) The Commission should look at the issue of governance to ensure that the numerous travels by staff are reduced considerably;

xi) There should be a study to address the structure and job descriptions;

xii) There is need for an HR audit;

xiii) Issue of Maintenance Fund should be submitted for discussion.

UNDERSTANDING AU COMMISSION ANNUAL FINANCIAL STATEMENT – FORMAT, PRESENTATION, CONTENT AND CHANGES

42. The Sub-Committee was briefed about the format and content of financial statements and how they are presented. The representative of PBFA explained the various elements that are contained in the Financial Statements which include Statement of Financial Position; Statement of Financial Performance; and Statement of Changes in Net Assets. He provided insights into the differences between Assets, Net Assets; Current and Non-Current Assets; Liabilities; Current Liabilities; Non-Current Liabilities and other elements that go into the preparation of financial statements.

Comments by Member States

i) There is insufficient information to Member States about the status of their contributions;

ii) Wanted to know why monies not received by union were being treated as assets.

Responses by the Commission

i) The Commission sends quarterly reminders to members states on contributions payable to the Union;

ii) The assessed contribution not received from Member States are resources owned by the Union and therefore forms parts its assets.

Recommendations

43. The above document was presented only to show members of the Sub-Committee how the Financial Statements of the AU are presented. There was therefore no recommendation.

PROPOSED NEW FIDUCIARY POLICIES TO BE INTRODUCED BY AU COMMISSION – RISK MANAGEMENT AND ANTI-CORRUPTION

44. On the presentation on Fraud and Corruption, the Director of PBFA emphasized that the purpose of the policy was to provide conceptual framework for understanding the various forms, types and levels of corruption and fraud and outline where and how corruption and fraud may occur in the Union's operations, and modalities for its prevention. He stated that the key elements of the anti-fraud and corruption policy were therefore to clearly propose counter-fraud and corruption measures and clearly define the key roles and responsibilities in preventing, deterring, and detecting, investigating and taking action against perpetrators. The policy will cover fraudulent, corrupt, collusive, coercive and obstructive practices as well as explicit provisions on other international prohibitive practices such as money laundering and terrorist financing in its operation. The policy will also demonstrate AU's commitment to promoting and adhering to the highest standards of probity and accountability in the use of its resources and will take a zero-tolerance stance towards cases of fraud and corruption in its operations. Any fraud in AU's operations depletes funds and other resources intended for supporting its mission. Moreover, fraudulent and corrupt behaviour can seriously damage African Union's reputation and erode stakeholders trust in its ability to deliver results in an accountable and transparent manner.

Comments by Member States

i) Member States needed some information on how far the corruption phenomenon had existed within the Commission;

ii) A presentation from an official from the Anti-Corruption Board would have been appropriate;

iii) Member States had been given a role in investigation, arrest and prosecution of staff who might be engaged in cross-border corruption or fraud;

iv) Member States needed some examples of what had ever happened and what should be done in future;

v) The presence of the Legal Counsel would have been in the right direction;

vi) Some decisions of the Union were vague and this vagueness could always create gaps that would lead to even wrong interpretation;

vii) Lack of inventory had been the cause of leading those in charge to take advantage;

viii) Policies were too late in coming;

ix) When would the new policies be presented?

x) What had the AUC done in addressing the various audit queries?

xi) The lead time of recruitment should be reduced.

Responses by the Commission

i) Measures had been taken by the AU Commission in stemming the issue of fraud but there was the need to have a formal policy that systematically addresses the risk of fraudulent and corrupt practices.

Recommendations

i) The Commission should make a detailed study of present cases and what has been done to address them;

ii) An independent body should be set up to look into the issue of corruption and fraud;

iii) A code of ethics and staff code of conduct should be developed and implemented;

iv) There is the need to involve the Office of the Legal Counsel in developing the policy on fraud and corruption;

v) A status report on actions taken to recover monies that had previously been misappropriated should be submitted to the PRC.

POLICY ON ENTERPRISE RISK MANAGEMENT (ERM) FOR THE COMMISSION

45. The Director of PBFA presented the above topic and explained the various components and objectives of ERM. He emphasized that risk management was essential for strategic planning and good governance. With the introduction of the ERM policy, AUC Senior Management will seek to:

i) Proactively manage risks; (ii) Set the AUC's "risk appetite" (the tolerance for assuming risk); (iii) Act appropriately to assess the likelihood and impact of risks;(iv) Decide on and implement the appropriate responses; and (v) Monitor and assess the outcomes

46. The Policy Organs shall provide guidance on managing risks in the context of governance and oversight, assisted by the relevant Sub-Committees. The Chairperson of AUC, assisted by the Enterprise Risk Management Committee that would be setup, shall be accountable to the Policy Organs for the implementation of ERM.

Comments by Member States

47. Member states find the proposed policy to be in line with best practice and welcome the initiative to introduce formal process of managing risk within the AU Commission

Recommendations

48. The Commission should proceed in developing and implementing ERM policy in order to manage uncertainties that are inherent in the activities carried out by AU Commission.

AU HEADQUARTERS SECURITY PROJECT AND CONSIDERATION OF RELATED BUDGET

49. The Ag. Director of AHRM presented the above topic. She highlighted the importance of upgrading the security systems at the premises of the Commission as well as the residences of the Chairperson, the Deputy Chairperson and the Commissioner for Peace and Security.

Comments by Member States

i) The project had been approved already but the Commission had been requested to seek funding from partners;

ii) Modernization of security should not only be physical security but also training and the quality of personnel to detect modern security threats;

iii) There was no general security policy on buildings and other assets;

iv) The host country, as specified in the Headquarters Agreement, has the responsibility to ensure external security within its territory;

v) The Commission should think about AU properties in general and not only at the AUC premises;

vi) Access control badges could also be issued to staff of the Embassies;

vii) The Commission could still explore the possibility of funding from China and Japan;

viii) Security was so important that it should not be only the Commissioner for Peace and Security who should be protected

ix) How would the installation of security equipment affect the security staff strength of the Commission?

x) The number of security staff of the AU as compared to ECA was inadequate;

xi) The host country's primary obligation in relation to security is provide external security and to ensure that security equipment to be purchased by the AU would be imported duty free.

Responses by the Commission

i) Neither the Chinese government nor the partners would provide funding for the project as the contract had already been awarded;

ii) There remains a shortfall of US$2.2million that need to be paid to enable the project to completed;

iii) There were measures being taken to improve the security aspects especially in the area of warden;

iv) Regarding the security of all Commissioners, it was due to budget constraints;

v) Capacity building would be in the second phase of the project;

vi) Funds were available from the Acquisition of Properties Fund. If security modernization project is finalized, the number of security guards might either be reduced or maintained but not increased.

Recommendations

i) The Commission should cover the cost of the security project of US$2.2million from the AU Acquisition of Properties Fund;

ii) The Commission should lay emphasis on the modernization of the security system and reduce the recruitment of security guards;

iii) The Commission should put in place a security policy that would take into account all issues related to security.

CONSIDERATION OF PROPOSED TERMS OF REFERENCE FOR PREPARATION OF COMPREHENSIVE POLICY ON SALARY AND ALLOWANCES

50. The Acting Director of AHRM presented the Terms of Reference and requested approval for the recruitment of consultants for the study. The purpose of the submission of the Draft Terms of Reference was to inform the Sub-Committee about its content and also to seek funding for the consultancy assignment.

Comments by Member States

i) Consultants should determine the cost of living of each duty station;

ii) Issue of audit should be linked to salaries in order to know whether staff should be reduced in order to improve salaries;

iii) A comparison with other organisations was important for consultant to do a comprehensive assignment as this would provide Member States with options to choose from;

iv) There was also a need to do a comparative analysis with other Organisations such as the United Nations and other Regional Organisations;

v) Salary increases should be linked to staff performance;

vi) Consultants should indicate what were the causes of high rate of attrition;

vii) Management should sometimes meet with staff to ascertain the reason for staff resignations;

viii) Salaries are paid on positions and not on individuals.

Recommendations

i) A consultancy firm should be recruited to do the assignment;

ii) Certain elements in the Objectives of the Terms of Reference should be improved and submitted for consideration by the Sub-Committee;

iii) Consultants' report should be submitted by September 2013;

iv) The Commission should source funds from the General Fund to cover the consultancy fees.

REVIEW OF WORKING METHODS AND ADOPTION OF THE SUB-COMMITTEE'S ANNUAL PROGRAMME OF WORK FOR 2013

51. The Director of PBFA presented the proposed Sub-Committee's Annual Programme of Work for 2013.

Comments by Member States

i) Documents on budget discussions should be sent to Member States on time;

ii) The Commission should ensure that other meetings do not conflict with the Sub-Committee's Programme of Work;

iii) Consideration of the report of the Retreat should be included in the calendar;

iv) Agreed methodology of work to discuss the budget should be followed.

Reponses by the Commission

i) Dates for the Programme of Work would be amended bearing in mind the proposed PRC Retreat.

Recommendations

i) The Commission should ensure that other meetings do not conflict with the Sub-Committee's Programme of Work;
ii) Agreed methodology of work should be in compliance with the provisions of Financial Rules and Regulations and Terms of Reference of the Sub-Committee.

CONSIDERATION OF VOLUNTARY CONTRIBUTION BY SOUTH AFRICA

52. The Director informed the meeting that the Republic of South Africa had made a voluntary contribution of US$1million to AU Commission. The funds are intended for priority activities of the new Commission that has no budgetary provision, some of approved activities in 2013 budget with no secured funding as well as important activities prior to the 50^{th} anniversary celebrations. The submission was therefore to seek approval from the PRC for the funds to be utilized as per the grant agreement.

Comments by Member States

i) The Sub-Committee expressed its appreciation to the Republic of South Africa.

Recommendations

53. Recommended for the approval of the PRC the utilization of the voluntary contribution as per the contribution agreement signed between the Republic of South Africa and the AUC.

ESTABLISHMENT OF A FACILITIES MAINTENANCE FUND

54. A concept note on the establishment of a facilities maintenance fund was presented to the Sub-Committee. The purpose was to create a Fund where all monies generated from the use of the various meeting rooms of the Commission by external parties as well as a percentage of the Annual Operations Budget would be paid into.

This would enable the Commission to undertake periodic maintenance works on its buildings.

55. The Note was presented to the Sub-Committee to inform them of the proposed fund but was not discussed and would be considered as part of the Committee's programme of work for 2013.

2013

Report of the meeting of the PRC advisory sub-committee on administrative, budgetary and financial matters

African Union

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