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IA13828

EXECUTIVE COUNCIL
Twenty-Sixth Ordinary Session
23 – 27 January 2015
Addis Ababa, ETHIOPIA

EX.CL/864(XXVI)iv
Original: English

REPORT OF THE PRC SUB-COMMITTEE
ON AUDIT MATTERS

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

I. INTRODUCTION

1. The sixth Meeting of the Sub-Committee on Audit Matters was held on 8th January 2015 in Addis Ababa. The meeting started at 10:00AM.

II. ATTENDANCE

2. The meeting was chaired by the Chairperson of the Sub-Committee on Audit Matters, H.E Lazare Makayat Safouesse, the Ambassador of the Republic of Congo, and attended by representatives of the following Member States:

1. Burkina Faso
2. Chad
3. Congo
4. Democratic Republic of Congo
5. Ethiopia
6. Gambia
7. Ghana
8. Lesotho
9. Mauritania
10. Namibia
11. Seychelles
12. Tanzania
13. Togo
14. Tunisia

III. OPENING REMARKS

3. The Chairperson welcomed members of the Sub-Committee as well as staff members of the AU Commission to the meeting.

4. The Chairperson also extended to all members and AUC staff the best wishes for the New Year 2015.

IV. ADOPTION OF AGENDA

5. The Chairperson presented the agenda which was discussed and adopted by the Sub-Committee as shown below:

1. Opening Remarks;
2. Adoption of Agenda;

3. Consideration of the Draft Reports of the PRC Sub-Committee on Audit Matters:
 - a) Draft Report of the PRC Sub-Committee on Audit Matters for the meeting held on 5th November 2014
 - b) Draft Report of the PRC Sub-Committee on Audit Matters for the meeting held on 26th -28th November 2014
 - c) Draft Report of the Training Workshop of the PRC Sub-Committee on Audit Matters held on 2nd December 2014
4. Any Other Business.

V. CONSIDERATION OF THE DRAFT REPORTS

6. The meeting considered the three draft reports and adopted them subject to amendments. The amended reports are annexed to this report as follows:

- i) **Annex I** - Draft Report of the PRC Sub-Committee on Audit Matters for the meeting held on 5th November 2014.
- ii) **Annex II** - Draft Report of the PRC Sub-Committee on Audit Matters for the meeting held on 26th -28th November 2014.
- iii) **Annex III** - Draft Report of the Training Workshop of the PRC Sub-Committee on Audit Matters held on 2nd December 2014.

VI. ANY OTHER BUSINESS

7. There being no other business the meeting was adjourned at 17:30 HRS.

IA13825

EX.CL/864(XXVI)iv
Annex 1

**REPORT OF THE FOURTH SUB-COMMITTEE MEETING
ON AUDIT MATTERS**

HELD ON 05 November 2014

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SUB-COMMITTEE ON AUDIT MATTERS
05 November 2014
ADDIS ABABA, ETHIOPIA

Audit S/Cttee/Rpt
Original: English

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

REPORT OF THE FOURTH SUB-COMMITTEE MEETING ON AUDIT MATTERS

HELD ON 05 NOVEMBER 2014

I. INTRODUCTION

1. The fourth Meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on 05 November 2014, and started at 10:30AM.

II. ATTENDANCE

2. The meeting was chaired by the Chairperson of the Sub-Committee on Audit Matters, H.E Lazare Makayat Safouesse the Ambassador of the Republic of Congo, and attended by representatives of the following Member States:

1. Congo
2. Ethiopia
3. Ghana
4. Lesotho
5. Mauritania
6. Namibia
7. Seychelles
8. Togo
9. Tunisia
10. Tanzania

III. OPENING REMARKS

3. The Chairperson welcomed all members of the Sub-Committee and the staff members of AU Commission to the meeting.

ADOPTION OF AGENDA

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

5. Opening Remarks
6. Adoption of Agenda
7. Adoption of the program of work
8. Consideration of Budget Execution Analysis for the period 1 January to 30 June 2014
9. Any Other Business

IV. ADOPTION OF THE PROGRAM OF WORK

a) PRESENTATION

5. The Chairperson invited the Director, Office of Internal (OIA) to present the Sub-Committee's Draft Program of Work for November to December 2014.

6. The Director, Office of Internal Audit presented the program of work as follows:-

05th November 2014

- Consideration of the Internal Audit Report on Budget Execution Analysis for the 1st and 2nd Quarter of 2014,
- Any other Business.

26th and 27th November (Two days meeting)

- Consideration of the reports of the AU Organs by the Board of External Auditors for the year 2013:-
 - ✓ Report on the AU Commission for the year 2013
 - ✓ Reports on the other AU Organs (PAP, AU Court, AUCIL, AUABC, Banjul Commission).
- Follow-up of the PAP outstanding report (2012)
- Board of External Auditors' Report on the Verification Exercise on ECOSOCC issues as per Malabo Decision of June 2014.
- Any Other Business

2nd December 2014

- Training Workshop on the Role of Audit Committees.
- Any Other Business

10 December 2014

- Consideration and Adoption of the Draft Report emanating from the above two sessions and training of PRC Sub-committee on Audit Matters.
- Any Other Business

b) DELIBERATIONS

7. Following the Director's presentation of the program of work, the Chairperson sought the reactions of the members to the work program. The members thanked the Chairperson and his Bureau for developing a program to direct their work and expressed some concerns on:-

- Why there was only an audit report on the Commission and no reports from other Organs.
- Sought clarification as to whether the OIA has full control over the Internal Auditors in the Organs.
- Whether the reports from the all Organs would be ready on time for them to be discussed on 26th & 27th November 2014.
- Why reports are submitted late to the members and which needed to improved so as to allow them ample time to read the reports to enhance their good understanding of what is to be discussed.

8. Following these issues raised by the members, the Chairperson asked the Commission to respond to the concerns raised by the members.

c) RESPONSE FROM THE COMMISSION

Office of Internal Audit

9. The Director OIA explained that, the mandate of the Office of Internal Audit is limited to the audit of the AU Organs, and it does not include control over the auditors in other Organs.

10. On the delay by the Organs in submitting reports, the Director informed the members that the reports for the AUC and PAP ready in all languages and would be circulated to members early whilst awaiting the reports from other Organs, which would be also circulated before the meeting.

Programming Budgeting Finance and Accounting

11. The Head of Budgeting reiterated that, in the new Financial Rules and Regulations, the Office of Internal Audit is the Auditor of the Union and by that the Office may need to look into harmonising the audits of the Union.

d) CONCLUSIONS

12. The members adopted the program of work and requested the Commission to circulate it to all members.

V. CONSIDERATION OF THE BUDGET EXECUTION ANALYSIS REPORT FOR THE PERIOD 1 JANUARY TO 30 JUNE 2014.

a) PRESENTATION

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

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

i) Overall Assessment

15. The Director explained that the report combined both the first (25% of the budget) and second (50% of the budget) quarters of the year 2014. Based on the quarterly prorated of the budget, there were variations in the execution rates as some of the expenditures are one off payment.

16. The overall rate of budget execution for the AUC when computed against the approved budget was 10% for the first quarter and 24% for the first half of the year ended 30th June 2014 as shown in table 1 below:

Table 1: Overall Budget Execution

Details	Budget (US\$)	1st Quarter 2014		1 st Half of 2014	
		Expenditure (US\$)	Execution Rate%	Expenditure (US\$)	Execution Rate%
Program Budget	218,576,722	11,312,735	5%	33,257,311	15%
Operational Budget	98,657,641	18,883,075	19%	41,963,519	43%
Total	317,234,363	30,195,810	10%	75,220,830	24%

ii) Operational Budget Execution

17. The overall execution rate for the Commission's operational budget for the first quarter was 19% represented by US\$ 18.9 Million whereas the execution rate for the first half was 43% represented by US\$ 41.9 Million. These execution rates were within acceptable levels except for the budget code on improvement of premises funded by the Government of China which had low execution rate.

iii) Program Budget Execution

18. The execution rate for the Commission's program budget for the first quarter was 5% represented by US\$ 11.3 Million whereas the execution rate for the first half was 15% represented by US\$ 33.26 Million **as shown in Table 1 above** . These execution rates are very low and implementation of programs needs to be scaled up if the intended objectives are to be achieved.

Low Programme Budget Execution

19. Approved budgets of **US\$ 11.4 Million** involving 35 programs activities were executed **below 40%** (on the 1st quarter allocation of 25% of the budget), and **US\$ 8.4 Million** involving 54 program activities executed below 40% (on the 2nd half of 2014 allocation of 50% of the budget). The explanation provided were delays in availability of funds and deferred program implementation to the third and fourth quarter. The OIA recommended that, departments should ensure enhanced program implementations in the second half of the year and to engage partners on program rollover.

Zero Programme Budget Execution

20. Approved budgets of **US\$ 21.1 Million** involving 289 program activities and equivalent to **9.64%** of the Program budget were not executed. The explanation provided by some departments was that, most of the activities are planned for implementation in the second half of the year while others stated lack of funds as the cause of the delayed program implementation. The Office of Internal Audit recommended that the departments should re-look at their priority activities to ensure that implementation of programs is scaled up.

Line Items for which no Programme Budget was Released/Availed:

21. A total of US\$ 24.3 Million of the Program Budget involving 318 budget lines had not yet been received by 30th June 2014. The explanation provided by the Resource Mobilization Unit under the Strategic Planning Directorate is that some Partners release the funds late and therefore they are hopeful that the funds will be availed in the second half of the year.

22. The Office of Internal Audit recommended that the Commission reviews the projects affected and reprioritize them. If possible, the Commission should seek for alternative sources of funding to ensure that the programs are implemented so as not to hamper service delivery.

High Programme Budget Execution (Over 100%):

23. Approved budget of **US\$ 4.0 Million** involving 35 program activities were executed above 100% when prorated in the first quarter and **US\$3.4 Million** involving 9 program activities when prorated for the half year. The Departments interviewed explained that some of the activities are one-off or a series of meetings held within a specific period and hence the high expenditure levels.

Office of Internal Audit's Concerns:

24. A critical review of the budget execution analysis revealed that, the low implementation of programs due to lack of funds is growing. The trend this year indicates that, non - achievements of goals and objectives would be worse than the previous years. The Commission is therefore urged to step up mobilisation of funds and the Member States to consider the alternative sourcing of funding.

b) DELIBERATIONS ON CONCERNS

25. Following the presentation of the budget execution analysis for the half year ended 30 June 2014 by the Director OIA, the Chairperson of the Sub-Committee invited the Members to give comments on the report presented.

26. The members made the following general comments and questions:

- i.) The members sought to know what had caused the low budget execution of below 40% and why the partners are not honouring their pledges.
- ii.) Furthermore, the members were not satisfied with the explanations by the departments for the low program implementation.
- iii.) The members stated that the report did not mention those responsible for program implementation for them to be held accountable.

- iv.) The members also stated that the report lacks essential program detail in terms of progress towards attainment of set objectives and planned results.
- v.) Members also reminded the Commission of the requirement to implement recommendations of the Executive Council adopted in Malabo in 2014 and all recommended program, travel and other reforms; and emphasised the need to report back to policy organs by January 2015.
- vi.) The Commission was also requested to brief members on progress towards the implementation of Executive Council Decision EX.CL/828 (XXV) IV, particularly paragraphs 2. ii) Which recommends the imposition of punitive sanctions on non-compliant individuals/ departments and paragraph 3 which urges the Commission to make necessary efforts to improve the implementation rates of the planned programs during the year.
- vii.) The Commission was requested to explain the main reasons why Partners could not honour their pledges for funding and the main concerns expressed by partners.
- viii.) The members stressed on the lack of release of funds by the partners that are obviously affecting program implementations thereby touching on the objectives of the Organisation. They renewed their support for the pursuit of alternative sourcing funding to be taken up.
- ix.) Clarification was also sought by the members about the inclusion of China Fund in the Operational budget that is supposed to be wholly financed by the Member States.

27. The members also made specific comments and questions on some sections in the report as follows:-

- i) Which Chairperson had been referred to in the report under introduction.
- ii) What AU-FRR means, stating that the acronyms that appear in the report for the French version should be clearly explained.
- iii) Clarity was also sought on what '*significant variance*' mentioned in the report meant and table 1's subheading to be modified so as to clearly show the figures for the first quarter and the first half.
- iv) Clarification for the affected budget lines was sought on the 100% execution rate.

- v) The members also asked for further information on exactly what in the travel policy was being challenged by the Partners.
- vi) Members also made comments on the issue of delays in submitting reports to Partners which might have contributed to delayed release of funds, as it was previously noted and the actions suggested to be made on the offenders.

28. With no further comments and questions, the Chairperson invited the Commission to give responses to the issues raised by the members.

c) RESPONSE BY THE COMMISSION.

Office of Internal Audit

29. The Director started by thanking the members and stated that, the reports focussed on the budget execution analysis and not performance of the programs. She informed the members that, the OIA plans to commence performance audits of the budget next year, but she also added that, the activity will require resources since some programs are implemented at country level. On the partners not releasing funds, the Director said that, the audit process did not include interviewing the partners, but relied only on explanations from AUC concerned departments.

30. On the specific issues, the Director stated that, the Chairperson referred to in the report is the AUC Chairperson. She also explained that the article referred to, was copied as it is in the Internal Audit Regulations, and that in the original document (English version) acronyms are all explained. On the significant variances, the Director stated that it referred to the levels of implementation as compared to the budget noted during the audit. On table 1 in the report, the figures are cumulative and so it would be corrected accordingly and amended to be clearer.

Programming Budgeting Finance & Accounting

31. On the inclusion of the China Fund under the Operational budget, the Head of Budgeting Division stated that, although the Operational budget is wholly financed by the Member States, the China Fund was included in the Operational Budget because it was meant for improvement of premises and had already been accepted by the Member States. The improvement is either to renovate Building C or demolish and reconstruct it again. However, as per the Chinese foreign policy, they do not remit the funds directly but give support in kind. Therefore, the activity is pending until the Chinese undertakes to do it.

Strategic Planning

32. The representatives of the Strategic Planning acknowledged the 2013 Malabo Executive Council Decision Ex.CL/828 (XXV) IV on improvement of budget performance and informed the members that, the department has already taken steps towards their implementation and took an opportunity of reviewing the Commission's Strategic and Program Planning, Implementation, Monitoring and Evaluation System in order to ensure holistic solutions to the problem of monitoring and evaluation of the implementation of programmes. The review process has been completed and a draft Implementation Road Map has been developed. The next

steps include presentation of the draft Implementation Road Map to the Commission for input and internal adoption. Thereafter, it will be presented to Member States for consideration. The implementation of this road map is scheduled to start in January 2015.

33. In line with the adopted Results Based Management and the current efforts of Internal Audit of migrating to performance based audit, in future all reports will focus more on results and progress made towards the attainment of set objectives. This in turn will make all implementing departments be held accountable and responsible for resources provided to them and the results they will achieve by employing given resources. As a result Member States will be given more in-depth information related to progress in terms of program implementation.

34. On late or non-release of funds by the Partners, the Strategic Planning representatives informed the members that, this year is a unique one as the main Partners' (JPA and EU) delay in honouring their pledges. The EU raised concerns regarding the AU Travel Policy of adding 20% on the UN rate as DSA for official missions, and wanted the new policy which does not include this to be implemented. The policy also includes restrictions on number of travel days per month, home leave treatment, DSA payment taking into account departure times, etc. The policy is adopted by the Commission and it is being reviewed taking into account other policies and rules to be presented for adoption in June 2015 summit. The AUC Chairperson has, in the meantime, suspended the payment of the 20 per cent on top of the UN rate. This move has since unlocked partner funds, mainly from the European Union and the Joint Program Arrangement. JPA pledged USD12 million, of which only 50% would be released this year and the contribution agreement is supported by individual Partner's Memorandum of Understanding with the Commission. The amount released was only USD2 million and the departments were advised to prioritise their programmes according to the available funds.

35. The low execution rate in this case can be explained by referring to paragraph 15 of the report, which showed that 289 budget lines had been allocated USD21 million dollars which is 10 per cent of the budget. This implies that on average each budget line is utilising about USD72, 000. From a programmatic point of view, this shows that departments tend to plan for too many small projects whose impact cannot be measured as high given the nature of continental developmental challenges they intend to tackle. Our draft Implementation Road Map advocates for the development and implementation of few high impact programs, with departments working together, through joint planning and programming, in order to exploit synergies and achieve more results with the limited resources available, instead of working on small activities or programmes by individual departments.

36. On the delays in reporting to Partners, he explained that there was great improvement and that the reviewed Strategic and Program Planning, Implementation, Monitoring and Evaluation System includes guidelines on reporting which would enhance the process of reporting to Partners.

d) FURTHER DELIBERATIONS BY THE MEMBERS

37. Having received responses from the Commission, the Chairperson invited the members to make their reactions.

38. The members made the following remarks:-

- i) The members stated that the partners would obviously challenge a program whose activities consist of more than 25% official travel, and requested the Commission to address this issue.
- ii) They also wondered why 20% was added to the UN rate, fully knowing that the AU is not richer than the UN, indicating that the policy should be looked into and be amended accordingly.

VI. CONCLUSIONS AND RECOMMENDATIONS

39. With no any further comments from the members and the commission, the Sub-Committee adopted the Budget Execution Analysis Report for the period 1 January to 30 June 2014 and made the following recommendations:-

- i) **The budget performance report should include specific departmental programmes analysis to determine whether the sets objectives and programmes are achieved.**
- ii) **The Commission should address the problem of planning of programs which keeps on affecting the implementation of the programmes.**
- iii) **The Office of Internal Audit should also be reporting on the programme performance and the attainment of the objectives instead of reporting only financials.**
- iv) **The Office of Internal Audit of AUC should harmonise and coordinate all internal audit functions of the African Union as enshrined in the Internal Audit Regulations and the Financial Rules and Regulations.**
- v) **The Commission should report to Member States on all reforms done in improving internal control systems including the implementation of the travel policy taking into consideration the Staff Rules and Regulations and Financial Rules and Regulations for the June 2015 summit.**
- vi) **The alternative sources of funding issue should be addressed as a matter of urgency by Member States to close the significant funding gaps.**

VII. ANY OTHER BUSINESS:

40. As there was no other business to be discussed, the meeting was adjourned at 12:10pm.

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EX.CL/864(XXVI)iv
Annex 2

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

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SUB-COMMITTEE ON AUDIT MATTERS

26 - 28 November 2014

ADDIS ABABA, ETHIOPIA

Audit S/Cttee/Rpt

Original: English

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

I. INTRODUCTION

1. The fifth Meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia from 26-28 November 2014.

II. ATTENDANCE

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

1. Burkina Faso
2. Chad
3. Congo
4. Democratic Republic of Congo
5. Ethiopia
6. Gambia
7. Ghana
8. Lesotho
9. Mauritania
10. Namibia
11. Seychelles
12. South Africa
13. Tanzania
14. Togo
15. Tunisia

III. OPENING REMARKS

3. The Chairperson welcomed all members of the Sub-Committee, the members of the Board of External Auditors (BOEA), the representatives from various AU Organs and the staff members of AU Commission to the meeting.

4. The Chairperson also thanked the BOEA for the services rendered and for a job well done.

IV. ADOPTION OF AGENDA

5. The Chairperson presented the agenda which was discussed and adopted by the Sub-Committee with amendments as shown below:

1. Opening Remarks
2. Adoption of Agenda
3. Consideration of the 2013 Financial Reports of AU Board of External Auditors:
 - a) Report and Financial Statements of the African Court on Human and Peoples' Rights (AfCHPR) for the year ended 31 December 2013;
 - b) Report and Financial Statements of the Pan African Parliament (PAP) for the year ended 31 December 2013;
 - c) Financial Report of the African Commission for Human and Peoples' Rights (Banjul Commission) for the year ended 31 December, 2013
 - d) Report and Financial Statements of the NEPAD Planning and Coordinating Agency (NPCA) for the year ended 31 December 2013
 - e) Report and Financial Statements of African Union Advisory Board on Corruption (AU-ABC) for the Year ended 31 December 2013;
 - f) Report and Financial Statements of the African Union Commission (AUC) for the Year ended 31 December 2013;
4. Any Other Business.

V. CONSIDERATION OF THE 2013 FINANCIAL REPORTS OF THE AU BOARD OF EXTERNAL AUDITORS (BOEA):

6. The Chairperson invited presentations from the AU Board of External Auditors (BOEA) and requested the BOEA to focus on the critical / key issues raised in the reports. He noted that in this way it would give the members an opportunity to focus on key issues that require the attention of the Sub-Committee.

7. The Chair and the Deputy Chair of the AU Board of External Auditors made presentations of the six audit reports on the first day of the meeting. Members expressed concerns on the late receipt of the reports. Therefore the deliberations, management comments and responses were deferred to the following day.

8. The paragraphs below summarise the BOEA's presentations, management comments, deliberations and responses along with the conclusions and recommendations of the Sub-Committee for each audit report:

A. REPORT ON FINANCIAL STATEMENTS OF THE AFRICAN COURT ON HUMAN AND PEOPLES' RIGHTS (AFCHPR) FOR THE YEAR ENDED 31 DECEMBER 2013.

i) PRESENTATION BY AU BOARD OF EXTERNAL AUDITORS

9. The Chair of the Board of External Auditors thanked the members and indicated that the audit opinion on the Financial Statements of the AfCHPR (the AU Court) was clean noting that the statements for 2013 are free from material misstatements. The Chair of the Board further explained the key issues contained in the report as follows:

Budget Execution

10. The operational budget execution stood at 89% and there was no overspending. However, out of USD 2,362,315 approved budget for programs from external partners, only USD 992,200 (42%) was received and spent, which affects program implementation.

Home Leave Travel

11. An amount of USD 29,000 spent on home leave travel was not justified as boarding passes were not submitted by beneficiaries.

Recruitment Process

12. A new operational structure was approved and adopted for the Court in June 2007 and was later revised in January 2012, requiring the recruitment of 45 additional personnel to join the Court in May 2013. An amount of \$1,000,000 was provided by the AU to begin the recruitment process but as at the time of the audit no recruitment was done and the process was quite slow.

Inconsistency in Staff Contract Terms

13. While renewing expired contracts some officers were given additional two years contract terms, but two officers were given only one year each, which was found to be inconsistent with the rules.

Stores Management

14. Despite previous audit recommendations, requisitions to stores for issue of items were not counter-signed by the head of the Unit.

Assets Management

15. Fixed assets which were purchased to the tune of US\$ 18,600.00 during the year were not recorded in the assets register, neither were they tagged.

Procurement Management

16. The Court failed to produce a comprehensive procurement plan and annual procurement report for the year 2013 as required by sections 5.3 and 20.2 of the AU Procurement Manual.

Involvement of the Judges on Administrative Matters

17. It was noted that during the periods between the sessions the judges are expected to carry out researches and prepare for all issues to be examined at the next sessions, however, they were also involved on administrative matters of the court, for example staff recruitment. This may lead to conflicting of the roles of judges and the registrar.

ii) COMMENTS FROM THE AU COURT

18. Following the presentation, the Chairperson of the Sub-Committee gave the floor to AU Court for comments and the representative reacted as follows:

- a) The AU Court agrees with the findings and recommendations of the BOEA on Budget Execution and Home Leave Travel.
- b) On Recruitment Process, the AU Court explained that in 2012, they had advertised for all the positions. Unfortunately funding was not available and they were only given USD 1 million in 2013 for the recruitment in 2014. The amount was only enough for recruitment of ten (10) positions of which 7 have already been filled from the candidates applied in 2012. The other 3 positions have not been filled due to inadequate pool of qualified candidates..
- c) Regarding inconsistency in contract terms, the AU Court stated that although the staff regulations provide that the contracts should be for two years, it should only be the case where the performance of the officers is satisfactory.
- d) The AU Court also noted that they will prepare a procurement plan for 2015 by January 2015 and a procurement report by 31 December 2015.
- e) On stores management, it was explained that the Heads of Departments have started signing the Purchase Requisitions (PR) as per the recommendation.
- f) The AU Court stated that the fixed assets data was lost during Pastel Software upgrade which unfortunately crashed the system. However, there is a manual backup (and hard copy) in MS Excel which is being used to update the data although it is not yet completed. Two staffs have been

recruited from EC fund and one of them has been dedicated to updating the Assets Register.

- g) Regarding involvement of Judges in administrative matters, the AU Court stated that this is done as per Article 24(1) of the Protocol. The protocol empowers the Court to appoint a Registrar, so in that regard they can also carry out administrative functions.

iii) *DELIBERATIONS*

19. Following the presentation and the management comments, the Chairperson of the Sub-Committee opened the floor to members for deliberation. In the debate that ensued, members made the following comments and observations:

- a) Members thanked the AU Board of External Auditors for the presentation and the audit work well done.
- b) Members stated that next year's budget proposals should be preconditioned on implementation of audit recommendations. They also stated that the BOEA should have recommended for sanctions on the violations observed.
- c) Members stated that all travel, whether for home leave or for official purposes should be justified by boarding passes. Members requested the AU Commission to provide them with a copy of the travel policy.
- d) Members sought a clarification as to whether the Court had its own policy on recruitment or used the AU Commission's policy. Members also stated that in their view, the USD 1 million should have been enough to conduct all the recruitments.
- e) Members sought to know the current status on implementation of the recommendation as the proposed dates for implementation had already lapsed for some of the items.
- f) Members sought explanation on how data on fixed assets can be lost and a partial record was given to the auditors.
- g) Members also asked why the Partners had released only USD 992,200 out of the expected US\$ 2,362,315 and noted that the AU should have predictable and sustainable sources of funding to execute its programs.

iv) *RESPONSES FROM THE AU COURT*

20. Following the deliberations, the Chairperson of the Sub-Committee gave the floor to the AU Court for responses on the concerns raised by members, and the AU Court replied as follows:

- a) The Court explained that the USD 1 million include the cost for the interview panel, installation costs and the salaries for the staff for the year and hence would only be enough for recruitment of 10 staff.
 - b) Regarding the lost data, the Court explained that data for 2007 and part of 2008 is still in the system and all the data is backed up in MS Excel and hence there was only partial data loss. The data available in Excel will be re-input in the system to ensure that it is up to date.
 - c) The AU Court also noted that it applies the AU policy on recruitment and normally invites the staff of the AU Commission to assist on the recruitment process and conducting interviews.
- v) **CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE**

21. The Sub-Committee expresses appreciation for the Audit Report presented by the AU Board of External Auditors. The Sub-Committee takes note of the Audit Opinion which indicates the Financial Statements present fairly, in all material respects, the financial position of the AU Court as at 31 December 2013.

22. On the other hand, the Sub-Committee expresses concerns on the areas of weakness raised by the Audit Report, especially on the following: (a) Budget execution, (b) Home leave travel, (c) Recruitment process, (d) Asset and Store Management, and (e) Procurement management. Also members expressed serious concerns on the conflict of competences on the Roles of the Judges and Registrar on administrative issues.

23. Based on the discussion that ensued, the Sub-Committee made the following recommendations to the PRC for consideration:

- a) **There should be a condition or requirement that all AU organs should provide a Matrix on the Implementation Status of Recommendations of the AU Board of External Auditors during the consideration of their budgets.**
- b) **Sanctions for violations and non-compliance of existing AU rules, regulations and policy directives should be applied as appropriate.**
- c) **Recall the on-going work on the Alternative Sources of Funding for the AU budget and encourage Members states to accelerate consultations on a way forward so as ensure the Union has sustainable and predictable funding.**
- d) **Harmonise the roles of the Judges and the Registrar in oversight and administration of the day-to-day operations of the Court in accordance with the rules.**

- e) Request the AU Commission to circulate to Member states the AU policy documents on Travel (including home leave) and Recruitment process.

B. REPORT ON FINANCIAL STATEMENTS OF THE PAN-AFRICAN PARLIAMENT (PAP) FOR THE YEAR ENDED 31 DECEMBER 2013

i) PRESENTATION BY AU BOARD OF EXTERNAL AUDITORS

24. The Chair of the Board of External Auditors thanked the members and indicated that the audit opinion on the Financial Statements of PAP was clean noting that the statements are free from material misstatements. In this regard, the Chair of the Board further presented the key issues contained in the report as follows:

Lack of Adequate Disclosures

25. The Generally Accepted Accounting Principles require that adequate disclosures of items on the financial statements should be made through notes. It was noted that there were no disclosure notes on the balances in the statement of income and expenditure. Additionally, there was an income of US\$ 1,325,629 which was not explained in any notes.

Improper Treatment of Depreciation Expense

26. Depreciation should be treated as an adjustment of the net book value of assets rather than expensed. It was however, noted that a depreciation of US\$ 20,049 was expensed.

Control over Fixed Assets

27. During the audit, it was discovered that there was no distribution list for the 25 laptops which were purchased.

Payment of Insurance for Assets with Nil Value

28. It was noted that PAP was still paying insurance for vehicles which were fully depreciated, although they were still in use.

Bank Charges

29. PAP maintains ten (10) bank accounts and a total of US\$ 61,663.08 was spent on bank charges in 2013 where US\$ 55,898 (90.7%) was incurred on one account. No explanation was provided for this.

Strategic Leadership and Direction

30. The demarcation of the management and administrative roles of and responsibilities of the Bureau and the Clerk was not clear. It was also noted that PAP did not have Annual Operational Plan, Business Unit Plans and Individual Work plans. There was also no performance monitoring and review systems to measure progress in delivering targets.

Human Resource Management- Recruitment and Training

31. The audit team noted a delay in the implementation of the recruitment plan. PAP also does not have a training policy in place and hence it's difficult to determine the training needs. Since there were no individual work plans, it was difficult to assess the performance reports.

Non-submission of Motor Vehicle Documents

32. It was noted that 9 staff members were awarded car loans amounting to US\$ 130,000 in 2013 but the ownership documents were not submitted to the Finance Officer as required by the regulations.

Accountability for Home Leave Travel

33. Although staff members who went on home leave in 2013 were paid in cash, there was no proof such as boarding passes to prove that the officers had travelled.

Communication and Stakeholder Management

34. Although the auditors were provided with a draft communication strategy in line with the strategic plan 2006-2010, it did not serve the purpose as it was not approved and focused more on external communication.

Governance – Internal Audit Function

35. There is a contradiction between the Executive Decision and the AU Financial Rules and Regulations on the internal audit function in the Union. It was also noted that the position of the head of internal audit is at middle management and this may compromise independence. Furthermore, the internal audit unit does not have financial independence as its budget is left under the control of the organization being audited.

ii) COMMENTS FROM PAP

36. Following the presentations, the Chairperson of the Sub-Committee gave the floor to the representative from PAP for comments and the representative reacted as follows:

- a) PAP agreed with the recommendation on lack of adequate disclosures.
- b) On treatment of depreciation expense, it was stated that the depreciation charged were related to fixed assets purchased prior to year 2013 and there was a difference in interpretation of the Financial Rules (FRR) regarding the treatment of depreciation expense.
- c) Regarding control over fixed assets, PAP stated that the laptops were currently in the custody of the IT Officer who was configuring them before issuance.
- d) Payment of insurance on nil value vehicles was made on the basis of the value placed on them by the insurance companies for compliance with the requirement of their continued use. However, PAP is in the process of buying new vehicles and therefore will dispose of the old vehicles.
- e) On bank charges, it was explained that one Rand Account has very high bank charges because PAP has an arrangement with the bank to effect all charges from the Rand Account. They also stated that they are consulting with the bank with a view to lowering bank charges.
- f) Regarding leadership of PAP, it was explained that the top management of PAP is composed of members from the national parliaments of the member states. There is an overlap of responsibilities of the Bureau and the clerk. However, there is a new Protocol being developed with a view of making the roles clear.
- g) On strategic direction of PAP, it was stated that the strategic plan has been developed and all staff members trained. They also stated that PAP is currently reviewing the strategic plan with a view to identifying the priority areas for implementation.
- h) PAP also stated that the recruitment process is on-going and will be completed by end of 2014.
- i) Concerning performance management and appraisal, it was explained that the orientation training on performance management has been completed.
- j) About non-submission of vehicle documents for car loans, all the staff involved have now submitted the ownership documents as per the recommendations.
- k) Regarding staff welfare, PAP stated that there is uncertainty and trauma among the staff as they are not sure of being retained resulting from the on-going recruitment which was opened to internal and external candidates.

iii) DELIBERATIONS

37. Following the presentations, the Chairperson of the Sub-Committee opened the floor to members for comments. In the debate that ensued, members made the following comments and observations:

- a) Members sought a clarification on how many of the 10 bank accounts are active and whether all are necessary for the operation of PAP. Also, on lack of adequate disclosures, members asked why disclosure were not given to the accounts.
- b) Members also raised concerns on whether the recommendations were actually implemented given the implementation timeline indicated under the management comment were elapsed and what evidence was available as to what action had been taken on the recommendations.
- c) Members also asked for an explanation as to why the car loans had been granted beyond the limit of US\$ 40,000.
- d) Members sought clarification on whether the voluntary contributions and partners funds are paid directly to PAP or through the AUC.
- e) Members sought clarification on the supervisory role of the OIA on the other internal audit functions of the AU organs.

iv) RESPONSES FROM PAP and COMMISSION

38. The Chairperson of the Sub-Committee gave the floor to the representative of PAP and the AU Commission for responses on the concerns raised by members and the following explanation was given:

- a) PAP explained that all the ten (10) bank accounts were still active as each partner (donor) would require opening and using a separate account and that the Rand Bank Account is the country's currency account used to make all the local payments. Furthermore, PAP agreed to make appropriate disclosures as recommended by Auditors.
- b) On granting of the car loans beyond the limit of US\$ 40,000, PAP explained that recovery for these loans has been fully completed.
- c) PAP stated that they have already started implementing the audit recommendations but the envisaged timelines for some changes depending on the availability of resources to implement them.
- d) PAP also confirmed that currently the longest period for staff contracts at PAP is three (3) months pending recruitment of regular staff, and this is affecting staff performance.

- e) PAP explained that some partners (like EC) make their contributions to AUC and then the funds are transferred to PAP. Where negotiations have taken place directly with the partners, they remit the funds directly to PAP. In other instances, they retain the funds and pay directly for any goods and services.
- f) The Commission explained that the new AU Financial Rules (AU FRR) requires the OIA to audit all the AU organs, but it is silent on the OIA supervisory role to other internal audit functions.

v) **CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE**

39. The Sub-Committee takes note of the Audit Report and the Audit Opinion which indicate that the Financial Statements present fairly, in all material respects, the financial position of the PAP as at 31 December 2013.

40. The Sub-Committee expressed concerns on the areas of weakness raised in the Audit Report which include the following: (a) Serious concerns on lack of adequate disclosures by PAP, (b) Cash management (i.e. bank accounts and huge bank charges), (c) Recruitment process, (d) Training and development, (f) Governance of internal audit functions (at the PAP versus AUC), (g) Communication policy, (h) Staff Counselling Policy, and (i) lack of documents on home leave and car loan payments.

41. The Sub-Committee decided to make the following recommendations to the PRC for consideration:

- a) **“The Requirement of a Matrix on Implementation Status” and “Sanction Regime” (as stated above for all AU organs) to apply accordingly.**
- b) **Request PAP to implement fully the recommendations of the AU Board of External Auditors.**
- c) **The Office of Internal Audit (OIA) of the AUC to provide a supervisory role to all the internal audit functions of other AU organs.**
- d) **To have the budget of OIA discussed by the Sub Committee on Audit Matters and recommend it to PRC accordingly, to ensure sufficient financial and human resource to enhance independence of the internal audit functions.**
- e) **To urge the AU organs that in implementing the Executive Council Decisions that affect staff welfare, management should ensure that staff counselling is undertaken as appropriate.**

- f) **The Sub Committee strongly recommends that PAP and all other AU Organs should provide adequate disclose of information in Financial Statements.**

C. REPORT ON FINANCIAL STATEMENTS OF THE AFRICAN COMMISSION ON HUMAN AND PEOPLES' RIGHTS (ACHPR) IN BANJUL FOR THE YEAR ENDED 31 DECEMBER 2013

i) PRESENTATION BY THE AU BOARD OF EXTERNAL AUDITORS

42. The Board of External Auditors indicated that they could not express their opinion on the Financial Statements of ACHPR since the statements were not yet signed by ACHPR as per International Accounting Standards. Otherwise, the BOEA presented the key issues contained in the report as follows:

Budget Execution

43. The overall budget was prudently executed with total expenditure being US\$ 3,202,837.00 that is 79% of the total budget. However, the installation allowance and acting allowance budget which had appropriations of USD 70,000 and 20,000 respectively was not utilized at all. On the other hand, there was no budget allocation from Member States contributions for programs.

Non-availability of the Financial Statements

44. As the time of the audit, the comprehensive financial statements were not prepared contrary to Article 88 of the Financial Rules and Regulations. The statements provided for the audit lack disclosure of notes; did not reflect procurement of office equipment amounting to USD 39,422.41, and cash received from donors of USD 137,669.00.

Outstanding advances from separated staff

45. Two separated staff owed the commission a total of USD 43,810.60.

Unaccomplished Recruitment Plan

46. In January 2010, 33 additional posts were approved for the ACPHR Secretariat through Executive Council Decision EX.CL/Decision 467 (XIV) on adjustments of the Maputo Structure. As at the time of the audit, the recruitment had not been finalised.

Fixed Assets Register

47. The assets acquired in 2011, 2012 and 2013 which meet the thresholds of USD 500 for capitalisation were not recorded in the fixed assets register. At the same time, assets with lower values than the threshold were recorded.

Procurement Management

48. The Commission did not prepare a procurement plan and a procurement report as provided for in the procurement manual.

ii) COMMENTS FROM ACHPR (Banjul Commission)

49. Following the presentations, the Chairperson of the Sub-Committee gave the floor to ACHPR for comments and the Secretary reacted as follows:

- a) The budget for installation allowance was not utilised as there was no recruitment done during the reporting period. Similarly, there were no positions acted for during the reporting period to use the budget for acting allowance. Furthermore, the Commission had no allocation from member states, so programs were fully financed by Partners.
- b) Regarding the non-availability of the Financial Statements, the Secretary of ACHPR explained that the audit took place at time when the Head of Finance was servicing the 55th Ordinary Session which was taking place in Luanda, Angola. However, the financial statements had been prepared and signed incorporating the missing items noted in the audit report.
- c) On the outstanding advances from separated staff, the amount was recovered from the separation entitlement of staff.
- d) Concerning uncompleted recruitment, it was explained that the ACHPR has acute shortage of staff and work overload on existing staff due to delay in recruitment. ACHPR depends on the AU Commission for the recruitment and it needs full support to expedite the recruitment process and get training so as to implement the audit recommendations.
- e) On Assets Register, it was explained that efforts are underway to update the current register as per audit recommendations. However, the task is impossible with the current staffing level in the finance and administration. Therefore, the ACHPR requests for assistance from the AUC to deal with the issue properly.
- f) Regarding Procurement Management, the ACHPR again requests additional staff and procurement training from the AUC to fully implement the audit recommendations.

iii) DELIBERATIONS

50. Following the presentations of the BOEA and management comments, the Chairperson of the Sub-Committee opened the floor to members for deliberations. In the debate that ensued, members made the following comments and observations:

- a) Members sought clarification from the BOEA regarding the paragraph of the audit report under Budget Execution. The total expenditure of USD 126,879 from the partners' contribution of USD 158,204 did not add up or agree with the breakdown of the expenditures for protection activities (USD 14, 727) and capacity building activities (USD 52,152).
- b) Members raised concern on how the auditors were not provided with the signed Financial Statements and the statements submitted had no disclosures e.g. there was no notes on cash received from donors of USD 137,669.00.
- c) Members further requested clarification as to why timelines were not indicated for the implementations of audit recommendations.
- d) Members also sought explanation from the AUC on the status of recording, valuation and tagging of assets for the purpose of IPSAS compliance by the AU.

iv) *RESPONSE FROM THE (ACHPR) Banjul Commission*

51. Following the members' deliberations, the Chairperson gave the floor for responses on the concerns raised by members. In this regard the following explanations were given:

- a) The BOEA explained that there is a correction on the expenditure shown for protection activities which should read USD 74,727 rather than USD 14, 727, and the total agrees with the amended figure.
- b) The Secretary of ACHPR explained that the financial statements are signed and submitted to the BOEA. Also, the missing items are incorporated in the statements.
- c) Regarding the timeline of implementing recommendations, the Secretary of ACHPR noted that it is difficult to determine the deadline in the absence of adequate staff and lack of training. She appealed to the AUC to provide quick support to expedite the recruitment process, upgrade existing staff and provide training.
- d) The Director of Programming, Budgeting, Finance and Accounting (PBFA) also explained that the consultant was engaged and the physical count of fixed assets was done and the phases of fixed assets valuation are process.

v) *CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE*

52. The Sub-Committee takes note of the Audit Report and that the Audit Opinion was not expressed by BOEA due to non-availability of signed statements at the time of audit.

53. The Sub-Committee took note of the Budget Execution and express concerns on the areas of weakness raised in the Audit Report including the following: (a) Non-availability of Financial Statements (at the time of audit), (b) Outstanding advances on separated staff, (c) Recruitment process, (d) Asset Management, (f) Procurement management.

54. The Sub-Committee made the following recommendations to the PRC for consideration:

- a) **“The Requirement of a Matrix on Implementation Status” and “Sanction Regime” (as stated above for all AU organs) to apply accordingly.**
- b) **Request the Banjul Commission to implement fully the recommendations of the AU Board of External Auditors.**
- c) **Policy Organs to make funds available to the ACHPR for programs so as to avoid over-reliance on partners’ funds.**
- d) **Expedite the Recruitment process of the Banjul Commission and provide funds for the recruitment exercise**
- e) **A need to review the structure of Finance and Administration of the Banjul Commission so as to give it the required capacity.**
- f) **The AU Commission should speed up the Inventory of Fixed Assets process including that of the Banjul Commission.**

D. REPORT ON FINANCIAL STATEMENTS OF NEPAD AGENCY (NPCA) FOR THE YEAR ENDED 31 DECEMBER 2013

i) PRESENTATION BY THE AU BOARD OF EXTERNAL AUDITORS

55. The Board of External Auditors indicated that they could not express their opinion on the Financial Statements of NEPAD Agency (NPCA) since the financial statements were not availed during the audit. The BOEA further presented the key issues contained in the audit report as follows:

Late Submission of Financial Statements

56. Although the Financial Rules and Regulations require that the financial statements should be finalised by 31 March, NPCA submitted its draft financial

statements on 8 May 2014. The BOEA could not do any review work on the draft financial statements submitted because the draft required some adjustments.

Lack of adequate disclosures

57. There was no adequate disclosure in the notes about trade and other receivables shown on the face of the financial statements.

Inadequate controls for clearing travel advances

58. It was noted that 95 officers had outstanding advances totalling US\$ 601,958.54 and there were inadequate controls to ensure that travel advances were cleared.

Fixed assets register

59. Although a comprehensive fixed assets register was maintained, it contained some items whose value were less than the capitalisation threshold of US\$ 500.

Budget Execution

60. Although the overall operational budget execution rate was 97.5%, some budget lines such as gratuity, insurance of personnel, other supplies and bank charges were exceeded. The overall program budget execution rate was satisfactory with the exception of human development budget line whose execution rate was only 8%.

Strategic Leadership and Direction

61. There was lack of a dedicated capacity in the Strategy and Management Unit. In addition, there was lack of adequate capacity in the procurement unit resulting in some steps in the procurement cycle (from needs assessment to contract management) being omitted.

Human Resource Management (Recruitment)

62. There are delays in the recruitment which may result in non-availability of competent personnel. In addition, the oversight role of AUC in the recruitment process appears to cause delays.

Governance of Internal Audit Functions

63. The NPCA structure provides for two internal audit staff while the Financial Rules and Regulations provide that the Internal Audit department at AUC is in charge for the audit of the organ. The governance structure needs to be made clear.

Performance Management and appraisal

64. Although performance appraisal system was in place, there was no mechanism to monitor time management in terms of the assigned activities.

Communication and Stakeholder Management

65. NPCA has a communication strategy that covers internal and external communication. However, the audit team could not establish measures put in place to ensure that all the staff understands the strategy and what is expected from them.

Continuous Improvement

66. The NPCA should ensure that once the Internal Audit Unit is in place, it should conduct its assignments in accordance with the Institute of Internal Audit Standards so as to ensure comprehensive coverage.

Organisational Performance

67. The planning documents such as the Business Plan for 2013 did not show the planned out puts. The relationship between the outputs and the resources spent could not be established. Additionally, the consolidated report on program review for the period 2010-2013 shows expected accomplishments and performance indicators but no actual accomplishments.

ii) COMMENTS FROM NEPAD Agency (NPCA)

68. Following the presentations, the Chairperson of the Sub-Committee gave the floor to NPCA for comments and the representative reacted as follows:

- a) NPCA representative explained the causes of late submission of Financial Statements, lack of adequate disclosure, and inconsistencies on the fixed assets register as an oversight due to lack of sufficient staff. He stated that the audit recommendations are accepted and the necessary adjustments and disclosures for information to the users of accounts will be made.
- b) About overspending on some budget lines, it was stated that the budget approved was less than the proposed budget, therefore some budget line items were re-prioritized to provide enough funds for the priority costs such as staff costs.
- c) Regarding inadequate controls for clearing travel advances, it was stated that the officer in charge of clearing staff advances resigned during 2013. This resulted in a backlog of clearing of the accounts as the position was not filled and due to no follow ups being made with staff and then updating the system. The clearing of the backlog is in progress and had significantly reduced the outstanding balance.
- d) On Strategic Leadership and Direction, the representative explained that the Strategic Plan and Knowledge Management function operates with bare minimum capacity of a professional staff. Initiative had already been under

taken to prepare comprehensive procurement plans for the NPCA effective 2014.

- e) Concerning issues on Human Resource Management, it was stated that will make necessary arrangements will be made to implement the audit recommendations.
- f) Regarding Performance Management and appraisal, the representative noted that NPCA management will put in place a time-recording system as part of the management information system to track resources used at activity level.
- g) The NPCA representative also explained that the management agreed with the recommendations on communications, internal audit and organizational performance and take action for improvement.

iii) DELIBERATIONS

69. Following the presentations of the BOEA and comments of NEPAD Agency, the Chairperson of the Sub-Committee opened the floor to members for comments. In the debate that ensued, members made the following comments and observations:

- a) Members noted that the delay in submission of financial statements and lack of disclosure on the statements is a major weakness and should be subject to appropriate sanctions.
- b) Members raised concerns about the inadequate controls over travel advances and the significant outstanding advances of US\$ 601,958.54. Members further enquired whether the same controls at the AUC are applied at NPCA on managing travel advances and how this happened.
- c) Members raised concerns on the delay in the recruitment and how to ensure that NPCA operates at its capacity.
- d) Members noted that the fixed assets register should comply with the requirement of IPSAS.
- e) Members also put their concerns on whether the recommendations were actually implemented given the implementation timeline indicated under the management comment were elapsed and what evidence was available as to what action had been taken on the recommendations.

iv) RESPONSE FROM THE NEPAD AGENCY (NPCA)

70. Following the deliberations, the Chairperson of the Sub-Committee gave the floor to NPCA for responses on the concerns raised by members and the following explanations were given:

- a) The NPCA representative explained the same control requirements of the AUC applied and advances are supposed to be cleared within 7 days of return from the mission. Furthermore, no second advance is given without clearing the first and proved working. However, the main cause of the significant outstanding travel advance was mainly attributed to lack of staff to verify and clear the documents submitted by the staff.
- b) It was also stated that the management of NPCA will implement the audit recommendations and put it in the suggested matrix.

v) **CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE**

71. The Sub-Committee takes note of the Audit Report and that the Audit Opinion was not given by the External Auditors since the Financial Statements were not yet signed at the time of audit.

72. The Sub-Committee expressed concerns on the areas of weaknesses raised in the Audit Report including the following: (a) Lack of disclosures on Receivables and Accrued Accounts, (b) Inadequate control of Travel Advances, (c) Recruitment process, (d) Asset management and (e) Governance issues.

73. **The Sub-Committee made the following recommendations to the PRC for consideration:**

- a) **“The Requirement of a Matrix on Implementation Status” and “Sanction Regime” (as stated above for all AU organs) to apply accordingly.**
- b) **Request NEPAD agency to implement fully the recommendations of the AU Board of External Auditors.**
- c) **Request NEPAD agency to align its internal control systems with that of the African Union.**

E. REPORT ON FINANCIAL STATEMENTS OF THE AU ADVISORY BOARD ON CORRUPTION (AU-ABC) FOR THE YEAR ENDED 31 DECEMBER 2013.

i) PRESENTATION BY THE AU BOARD OF EXTERNAL AUDITORS

74. The Board of External Auditors made the presentation of the AU-ABC raising the key issues contained in the report as follows:

10th Anniversary Expenditure USD 313,524.84:

75. It was noted that a total amount of USD 313,524.84 was spent on the celebration of the 10th Anniversary of the Board without approved budget. Also noted among the

expenditure was the engagement of Mega Mark Limited for media production and concert for USD 150,000 without any competitive bidding.

Purchase of Assets (Procurement management)

76. It was noted that furniture and office equipment costing USD 128,300.00 were purchased without following AU procurement rules. Also, purchases of air-tickets were made from one supplier without evidence that this travel agent was selected through competitive tendering.

Unretired Travel Advances by the Executive Secretary

77. It was observed that during the period the Ag. Executive Secretary failed to retire a total amount of USD 10,935.00 given to him as travel advances for different missions.

Abuse of Business Class by the Executive Secretary

78. It was noted that the Ag. Executive Secretary used business class on several occasions on trips less than eight hours (ranging from 1:30 hours to 6:50 hours).

Unjustified claims of Hotel Rate instead of City Rate

79. It was noted that on some occasions the Ag. Executive Secretary claimed hotel rates instead of the DSA for the cities and failed to provide the receipts of the hotel as required by the AU rules and regulations.

Unauthorized increase of Subvention to AU-ABC

80. The Ag. Executive Secretary continued to receive his salaries from AU Headquarters, from April to December 2013 while he was at the same time paid his salary at duty post in Arusha. He did not directly use the double salary personally but rather paid the amount he collected from headquarters to the AUABC's account in Arusha, which impliedly increased the subvention of AU-ABC by USD 90,261.00. It was also noted from the validation of the financial Statement that the Finance Officer failed to disclose this as additional income in the financial statement.

Illegal claim of Housing Allowance

81. It was noted that the Ag. Executive Secretary was paid housing allowance from April to December 2013 at the rate of USD 1766.40 per month amounting to USD 15,899.60 while he was provided with an official accommodation in Arusha.

Receivable from Partners Funds: US\$ 83,700

82. It was noted that the Partners provided the Board an amount of USD 759,300.00 during the year for its Programs and Projects. The Board spent USD 843,000.00 thereby overspent the funds received from the Partner by USD 83,700.00 without approval from the Partners. This amount has been treated by AUABC as Receivable from Partners, but it is not possible to recover it from partners if there was no approval.

ii) DELIBERATIONS

83. The Sub-Committee took note of the Audit Report. However, the Sub-Committee observed that:

- a) There were no representatives of the AU-ABC to respond to the concerns contained in the audit report. The organ does everything possible not to be available to respond to concerns expressed by the Members on the audit report. The members also lamented that, the report was availed to them late.
- b) Director PBFA however, informed the meeting that there is a forensic audit (financed by the Partner) that has been undertaken following the Malabo 2014 decision whose outcome will also be considered along with the Report of the Commission on the matter.

iii) CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE

84. Based on the discussion, the Sub-Committee decided as follows:

- a) Took note of the AU-ABC report and postpone the consideration of the Report pending the outcome of the Forensic Audit as well as the Report of the Commission on the matter.

F. REPORT ON FINANCIAL STATEMENTS OF AU COMMISSION (AUC) FOR THE YEAR ENDED 31 DECEMBER 2013.

i) PRESENTATION BY THE AU BOARD OF EXTERNAL AUDITORS

85. The Chair of the Board of External Auditors indicated that the audit opinion on the Financial Statements of the AUC was clean noting that the statements are free from material misstatements. The Chair of the Board further presented the key issues contained in the audit report as follows:

Implementation of Previous Audit Recommendations

86. The Board of External Auditors made a follow up on the 2012 External Audit Recommendations Implementation Matrix. Generally, the implementation of audit recommendations was satisfactory as evidenced by actions taken and work in progress by the AU Commission.

Budget Approval Process

87. It was noted from the Report of the PRC referenced PRC/Draft/Rpt.1 (16-2013) on the meetings of November 2013 that the PRC adopted the Supplementary and Virement budgets as proposed by the Advisory Committee on Administration, Budgetary

and Financial Matters. However, the report did not state the amount approved for supplementary budget and how that budget would be financed. Lack of information in the budget decision may mislead users of the budget.

Overall Budget Execution

88. The overall budget execution for 2013 was not satisfactory as it was 59%. A satisfactory budgetary performance of 85% on the operational budget was noted. Budget execution on the programmes was generally low at 40%.

Late Submission of Financial Statements

89. The Commission failed to observe the statutory period to submit the consolidated financial statement to the BOEA by 31 March and the 2013 statements were made available to the Board on 21 May 2014.

Incorrectly Recognized Assets

90. Expenditures of USD 319,276.67 related to completed activities for the AU new building were wrongly classified as assets under construction.

Acquisition of iPads

91. The Commission purchased 33 iPads for USD 25,230 but evidence of distribution to officers was not provided.

Bank Reconciliations

92. Some transfers between bank accounts approved and recorded as at 31 December 2013 in various bank accounts were still pending as of May 2014.

Inadequate management of cash

93. It was noted that some bank accounts have not earned interest from as far back as 2008. The balances of these accounts are the same in 2013.

Travel and imprest advances

94. The outstanding figure for travel advances has increased from USD 1.38 million in 2012 to USD 2.94 million in 2013

Advance to Suppliers, Staff and Others

95. These are advance payments made to suppliers of goods and services and the Commission had not received the goods and services at the end of a reporting period. The total outstanding advances to suppliers amounted to USD 7.449 million as at 31 December 2013 and the balance had increased by USD 2.104 million compared to the previous figure of USD 5.345 million.

Arrears of Contribution

96. Contributions from member states were always late. Member states were not regularly encouraged to pay their contributions.

Working Capital Fund

97. In terms of Article 21 of the Financial Rules and Regulations, the Executive Council has set a ceiling of USD 5 million of withdrawal from the Working Capital Fund Account (EX. CL/417 (XIII)). It was noted that a ceiling of USD 5 million was not sufficient to cover one month operating expenses. In January, February and March 2013, AUC spent USD 4,435,654.41, USD 4,641,464.38 and USD 6,412,837.34 respectively, and the total operating expenses for 2013 amounted to USD 93,246,000. On average, monthly expenses were USD 7,770,500 which was over the ceiling of USD 5 million.

Recognition of Capital Reserve

98. Article 29 of the Financial Rules and Regulations stipulates that capital reserve should be established for the purpose of accounting for the Union's fixed assets valuation. The value of fixed assets, as re-valued above the book value of assets shown on the Balance Sheet of the Union, should be credited to Capital Reserve Account. It was established that AUC has never re-valued its assets hence capital reserve do not constitute surpluses created by assets revaluation. Capital reserves of USD 49,344,000.00 were recognised in the financial statements instead of recognising the amount as capital.

Annual Operational Planning

99. The annual operational plan is also an important tool for linking activities with the budget. The AUC does not have annual operational plan for implementation of the strategic plan and for prioritisation of yearly activities but rather the priorities are contained in the Budget Framework Paper.

Recruitment process - Interviewed candidates whose quotas were full

100. Some candidates were shortlisted and interviewed for various positions during the period under review whilst the quotas allocated to their respective countries were already full. Human Resources Division (HRD) facilitated the interviews of candidates who competed for the vacant positions but could not be considered as their countries' quotas were full.

Employees beyond the Retirement Age

101. Contrary to the requirements of the rules and regulations, it was noted that from our sample that over 50% of the staff beyond retirement age had their contracts renewed more than 22 months.

Non-submission of Motor Vehicle original owner booklet

102. In terms of Staff Rules and Regulations, staff members of all categories may be granted interest-free loans for the purchase of means of transportation and staff granted loans are required to submit to the Finance and Administrative Officer original owner booklet immediately after purchase of the vehicle. The booklet will remain under the custody of the Finance and Administrative Officer until the loan amount is fully repaid but this was not done.

Education Allowance

103. As per new AU Staff Rules and Regulations, Education allowance is not paid to staff members on project, short-term and consultants. However where a staff member's contract is for a term of one-year or more and has continuously been in the services of the Union for more than 4 years, his or her children are eligible to receive fifty per cent (50%) of approved educational allowance paid to regular or continuing regular staff members. It appeared that the provisions of the rules were not adhered as the BOEA noted that short-term staff were not benefiting from educational allowance even though some of them were entitled.

Governance - Internal Audit Functions of the Union

104. The Director of Internal Audit in AUC is responsible for internal audit functions of the Union. However there have been Executive Council decisions on instituting other internal audit functions in other AU Organs. The decisions do not stipulate the relationship (in terms of supervision and reporting) of Director of Internal Audit and Heads of Internal Audit in AU Organs.

Procurement management - Awarding of contract

105. The Commission leased a Sound System and Lighting from a South African Company, Motale Group, at the cost of USD 296,443.74 for 50th Anniversary celebration without following tendering. This is contrary to AU procurement rules.

AU Policy on Official Travels

106. In July 2013, the Executive Council (DOC. Ex/CL/34 (111)) decided that staff members travelling in economy class for more than eight (8) hours without breaking their journey should be upgraded to the next class, which is Business class. There has not been a decision on non-staff members travelling in economy class for more than eight (8) hours without breaking their journey. As a result some inconsistencies have been observed in the treatment of non-staff members performing duties for the African Union. Some travelled by economy class irrespective of the distance or flight hours while others by business class.

ii) COMMENTS FROM THE AU COMMISSION

107. Following the presentations, the Chairperson of the Sub-Committee gave the floor to AUC for comments and the Commission responded as follows:

- a) The Director, PBFA explained that the PRC report on its meetings held on 4 and 7 November 2013 (PRC/Draft/Rpt.1(16-2013) adopted the Supplementary and Virement budgets as recommended by the Advisory sub-Committee on Administration, Budgetary and Financial Matters. The AU Commission finds the position of the Auditors to be out of professional norm by casting doubt on the integrity of the Report of the Advisory Committee on Administration, Budgetary and Financial Matters.
- b) Regarding the Arrears of Contributions, the Commission normally sends quarterly reminders to Member States and the PRC Sub-Committee on Contributions meets twice in year to review status of Payment. The problem with the payment is largely due to the weak sanction regime.
- c) On Incorrectly Recognized Assets, it was explained that according to IPSAS 17, an item of Property, Plant and Equipment (PPE) is recognised if it meets some criteria: e.g. the cost or fair value of the asset can be measured reliably. However, the Chinese government has not been able to give the exact cost of the construction and the related Furniture, Fixtures and fittings. However, AUC has engaged the services of a professional firm to establish the fair value.
- d) Concerning the iPads, out of the 33 purchased 24 were issued for various uses of the Commission and 9 were left in the stores during this period.
- e) The AUC accepted the recommendations on pending transactions in bank reconciliation statements. However, could not put these funds on short term investment, since all these funds were meant to be used immediately in line with the specific agreements with Partners, hence investing in any form would violate the terms.
- f) Regarding travel and imprest advances, out of the said total, US\$ 800,000 was advanced to women groups across Africa and has not yet been accounted for. Over US\$1.2m advanced to Finance officers for various Union activities have since been accounted for and cleared from this account. The advances to suppliers have since been corrected based on the recommendations.

- g) On ceiling of working capital fund, the Revised Financial Rules and Regulations (FRR) adopted by Assembly in January 2014, three months ahead of the commencement of this audit resolved the problem.
- h) Regarding recognition of capital reserve fund, similar treatment was used in prior years as part the Modified Accrual Accounting system and will not be applicable in 2014 under IPSAS.
- i) About the disclosure of general fund, USD 35,389.000 represents the Reserves of the Union which is an accumulated surplus of income over expenditure.
- j) On education allowance to short term staff, the new staff rules and regulations was approved on condition of financial implication. However funds have not been made available for implementation of these rules.

iii) *DELIBERATIONS*

108. Following the presentations of the BOEA and comments of the AUC, the Chairperson of the Sub-Committee opened the floor to members for comments. In the debate that ensued, members made the following comments and observations:

- a) Members noted that there are some divergences between the views of BOEA and PBFA. Hence there should be consultation among them to amend the areas of differences.
- b) Members raised serious concerns about lack of operational plan derived from the strategic plan. Given the time elapsed, a strong recommendations should be addressed to the AUC to implement the recommendation without further delay. It was suggested to engage a consultant to expedite the process.
- c) Members also noted that there are many recurring findings and appropriate sanction should be applied for non-compliance issues, not to have repeated findings.
- d) Members also sought to know why supplementary budget is requested whilst there is low execution of budget.
- e) Members also raised question as to how the figure on loss of exchange rate was increased and the title of 'Foreign Exchange Loss' on the Statement of Financial Performance should be amended to 'Foreign Exchange Difference' as the 2013 figure is gain and comparative figure loss.
- f) Members further raised concerns on why an interview is conducted if the Country quota is full.

- g) Members were concerned on the timeline to complete various outstanding studies including the Salary Review, Organisation Structure, Asset Management, and Procurement issues.

iv) *RESPONSE FROM THE AU COMMISSION*

109. Following the deliberations, the Chairperson of the Sub-Committee gave the floor to the AUC and the BOEA for responses/clarification on the concerns raised by members and the following explanations were given:

- a) The BOEA clarified that the audit team had already returned to their respective countries after the audit and could not address the issues of the divergences, although most of them are correct.
- b) Regarding supplementary budget, it was explained that supplementary budget contain items resulting from decisions of Policy Organs after the budget has been approved.
- c) Concerning the exchange rate loss, the major reason was the preferential rate paid to staff of Geneva and Brussels Offices and it is actually a salary expense. The two offices spend from USD 3.5 to 4 million a year for preferential rate and no decision has yet been made to correct the anomalies.
- d) Concerning interviewing candidates whose countries' quota was full, it was explained that the Commission is taking measures not to shortlist candidates whose quota are full as per the audit recommendation.
- e) The studies on structure and salary scale have been received by the Commission and are not comprehensive enough. Hence, additional work is needed to be done by the Consultants. As soon as the additional work is completed, they will be provided to Policy Organs for consideration.

v) *CONCLUSION AND RECOMMENDATIONS OF THE SUB-COMMITTEE*

110. The Sub-Committee takes note of the Audit Report as well as the Audit Opinion which indicate that the Financial Statements present fairly, in all material respects, the financial position of the AUC as at 31 December 2013.

111. The Sub-Committee expressed concerns on some major areas as raised in the Audit Report including the following:

- a) Budget of the AU – approval
- b) Budget Execution of AUC – low rate
- c) Fixed Assets Management
- d) Accounts Receivable – Travel and Imprest Advances

- e) Advance Payments to Suppliers, Staff and Others
- f) Recruitment issues – especially compliance with the quota system
- g) Procurement management
- h) Development of annual operational plans
- i) Strategic direction and continuous improvement
- j) Governance- Internal Audit Functions of the Union

112. Based on the discussion that ensued, the Sub-Committee decided to make the following recommendations to the PRC for consideration:

- a) **“The Requirement of a Matrix on Implementation Status” and “Sanction Regime” (as stated above for all AU organs) to apply accordingly.**
- b) **Request the AUC to implement fully the recommendations of the AU Board of External Auditors.**
- c) **Request the AU Commission to expedite the development of the Annual Operational Plans based on the AU Strategic Plan.**
- d) **The Office of Internal Audit of the AUC should harmonise and coordinate all internal audit functions of the African Union as enshrined in the Internal Audit Regulations and the Financial Rules and Regulations.**
- e) **The AU Commission, all other organs and the AU Board of External Auditors (BOEA) to consult with each other with a view to address divergences observed in the audit reports (i.e. Management Letters)**
- f) **The AU Commission to expedite the conclusions of the various outstanding studies including the Salary Review, Organisation Structure, Asset Management and Procurement Management.**
- g) **The AU Commission should not shortlist and interview candidates whose country quotas are full. Furthermore, request the AUC to make available the country updated quota status to the Member States.**

VII. ANY OTHER BUSINESS

113. A request was made by the Members for briefing on the status of ECOSOCC report and its related issues. It was noted that the ECOSOCC report was still a work in progress. In this regard, members of the Subcommittee look forward for information on the matter at the appropriate level and time.

114. Mr. Thomas Asare, Director of PBFA informed the meeting that he would be leaving the organisation (AUC) to join the UN system after the January 2015 summit.

Members expressed appreciation for his contribution during his tenure at AUC and wished him success in his future endeavour.

115. There being no other business the meeting was adjourned at 20:00 HRS (28 November 2014).

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Annex 3

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

AFRICAN UNION

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Audit S/Cttee/Rpt
Original: English

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

**02 December 2014
ADDIS ABABA, ETHIOPIA**

REPORT OF THE TRAINING WORKSHOP OF PRC SUB-COMMITTEE ON AUDIT MATTERS

I. INTRODUCTION

1. The training workshop of the PRC Sub-Committee on Audit Matters was held on 2nd December 2014 in Committee Room 1, Old Conference Building, in Addis-Ababa, Ethiopia.

2. The training workshop was organised by the Office of Internal Audit (OIA) and facilitated by Prof. Edward Dua Agyeman, the former Auditor General of Ghana.

II. ATTENDANCE

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

1. Chad
2. Congo
3. Ethiopia
4. Gambia
5. Ghana
6. Lesotho
7. Mauritania
8. Namibia
9. Seychelles
10. South Africa
11. Tanzania
12. Togo
13. Tunisia

III. OPENING REMARKS

4. The Chairperson welcomed Prof. Edward Dua Agyeman, the former Auditor General of Ghana as well as the members of the Sub-Committee on Audit Matters. He also expressed appreciation to the Office of Internal Audit (OIA) for organising the workshop since it is geared toward enhancing and strengthening the internal control, risk and governance function of the Union.

5. The Chairperson then invited the facilitator, Prof. Edward Dua Agyman, to make his presentations.

IV. TOPICS COVERED ON THE TRAINING WORKSHOP

6. The facilitator, Prof. Edward Dua Agyeman, made three presentations covering the topics below.

- a) **Roles and Responsibilities of the OIA:**
 - Internal Audit and Code of Ethics
 - Activities of Internal Audit

- Mandate of OIA
- Qualification of Internal Auditors and External Auditors
- Relation between Internal Auditors and External Auditors
- Role of Internal Auditor as Consultant
- Role of Internal Auditor as Risk Assessor
- Role of Internal Auditor as Compliance Reviewer

b) Roles of the Audit Committee in Governance:

- Definition of Audit Committee
- Working methods of Audit Committee
- The Audit Committee Charter (Terms of Reference of Audit Committee)
- The Roles of an Audit Committee
- The benefits of an Audit Committee

c) Relationship and communication among the Audit Committee, Internal Auditors , External Auditors and Management:

- Four Key Players in Governance Process (The Board, Audit committee, Auditors and Management)
- Role of the Board and Audit Committee in Governance
- Internal Audit relationship within the governance process
- External Audit relationship within the governance process
- Regular meetings and Audit Committee work plans
- Agency Conflict Among Management, Auditors, And The Audit Committee Chair

V. DISCUSSION AND CLARIFICATIONS

i) Comments/Questions from Members

7. Following the presentation, the Chairperson gave the floor to the members of the Sub-Committee for comments/questions. The issues raised are as follows:

- a) What causes the conflicts among internal and external auditors,
- b) What are the major differences between internal and external auditors and how their work differ,
- c) What can the facilitator advise in order to deal with situations on repeated violation of rules and regulations by the departments/offices,
- d) On what cases should the audit committee meet the external auditors privately,
- e) How can independence of external auditors be compromised,
- f) Why are there risks between internal auditors and management,

- g) Is there something that the Sub-Committee is not doing for the African Union to have same audit findings every year, and how can this problem be eliminated,
- h) Why the appointment of the Director and or Deputy Director of Internal Audit is not made by the Sub-Committee on Audit Matters as per requirement of international standards,
- i) Why do external auditors need to belong to professional bodies

ii) Clarification made by the Facilitator

8. The Chairperson gave the floor to the Facilitator for clarification. The Facilitator provided clarifications on the issues raised as follows:

- a) Conflicts are caused between internal and external auditors due to the way they work and the way they may interpret and apply the rules and regulations. Otherwise, external auditors normally rely on the work of internal audit.
- b) The internal auditors are employees of the organisation and are accountable to management and are able to know the weaknesses in internal control system. The external auditors are from outside and are accountable to the board (policy organs/governing bodies) and assess if the internal control systems are effective as they provide opinion on the financial statements.
- c) The audit committee can meet with the external auditors privately to discuss key issues which they feel the committee needs to know in the absence of management.
- d) The external auditors need to belong to professional bodies to enable them work professionally and also so that if there is any problem with the way auditors work, it can be reported to such bodies. The audit committee also need to review the work of external auditors.
- e) The internal auditors have some risks with management because they are employees of the organisation and some weaknesses found during auditing may be caused by management and can be risk for them to report.
- f) The repeated findings/issues that appear in audit reports may be reduced by applying sanctions according to the rules and regulations of the organisation.

iii) Clarification made by the Director OIA

9. The Chairperson also gave the floor to the Director of Internal audit for clarification. In this regard, the Director explained that the posts of Director and Deputy Director of Internal Audit are recruited as staff of the Commission in accordance with the AU Rules and Regulations.

VI. CONCLUSIONS OF THE WORKSHOP

10. Based on the training given, conclusions were made by the members through a summary of the Chairperson. The paragraphs below present a summary on each topic:

a) *Roles and Responsibilities of the OIA:*

11. The Chairperson noted that the presentation provided important knowledge to the members on the purpose of internal audit, code of ethics, qualifications of auditors, mandate of internal audit, and the key activities of Internal Audit which include:

- Evaluating controls,
- Evaluating risks,
- Analysing operations,
- Reviewing compliance and
- Making recommendations for improvement.

b) *Roles of the Audit Committee in Governance:*

12. The Chairperson noted that members have received a better understanding of audit committee, terms of reference (charter) of audit committee, the roles of an Audit Committee, as well as the benefits of an audit committee which include:

- Improving financial reporting,
- Improving internal controls,
- Improving financial management,
- Providing clarity on responsibilities,
- Bringing added value to Audit in monetary terms.

c) *Relationship among the Governing Board, Audit Committee, Auditors and Management:*

13. The Chairperson noted that the presentation provided additional insights to the members on the relationship among Four Key Players in Governance (i.e. the Governing Board, Audit Committee, Auditors and Management), the need for regular meetings with external auditors, Audit Committee work plans, and conflict management in the governance process. Therefore, the quality of governance is determined by effectiveness in the key players working together as a system.

14. Finally, members agreed to consider the under-listed matters for discussion/action in future meetings in order to improve the work of their Audit Committee (PRC Sub-Committee on Audit Matters):

- (i) Having a Self-Evaluation/Assessment Exercise of the Audit Committee,
- (ii) Having a separate meeting of Bureau with the Board of External Auditors before presentation of external audit reports.

VII. ANY OTHER BUSINESS

15. There being no other business the workshop was closed at 13:00 HRS.

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