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**EXECUTIVE COUNCIL**

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

## **REPORT OF THE 8<sup>th</sup> MEETING OF THE SUB-COMMITTEE ON AUDIT MATTERS**

### **I. INTRODUCTION**

1. The eighth meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on Wednesday, 4<sup>th</sup> November and 9<sup>th</sup> December 2015. Both sessions started at 10:30 hrs.

### **II. ATTENDANCE**

2. The meeting was chaired by H.E. Akuei Bona Malwal, the Ambassador of Republic of South Sudan and the Chairperson of the Sub-Committee on Audit Matters, and attended by representatives of the following Member States:

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

### **III. OPENING REMARKS**

3. The Chairperson opened the meeting and welcomed all the members in attendance.

4. Furthermore, on 9<sup>th</sup> December 2015, the Chairperson informed the meeting that he had received a letter from the Chair of AU Board of Auditors (Auditor General of South Africa). The letter requested the External Audit Reports to be tabled early in the year 2016 to allow them finalise their work. Therefore, the Sub-Committee would need to respond on this matter during the discussion of Any Other Business (AOB).

### **IV. ADOPTION OF AGENDA**

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

1. Opening Remarks;
2. Adoption of Agenda;

3. Report on Implementation Matrix of Audit Recommendations as at 15<sup>th</sup> September 2015;
4. Internal Audit Report on AUC Budget Performance Analysis for the period ended 30<sup>th</sup> June 2015;
5. Highlights of AUC Budget Performance for the period ended 30<sup>th</sup> September 2015;
6. Report on the status of execution of the Annual Procurement Plan of AUC;
7. Any Other Business (AOB).

**V. CONSIDERATION OF THE REPORT ON IMPLEMENTATION MATRIX OF AUDIT RECOMMENDATIONS AS AT 15<sup>th</sup> SEPTEMBER 2015**

**a) PRESENTATION**

6. The Chairperson of the Sub-Committee invited the Office of Internal Audit (OIA) to present the Report on Implementation Matrix of Audit Recommendations as at 15<sup>th</sup> September 2015.

7. The Deputy Director of Office of Internal Audit (OIA), thanked the members and made a presentation of the report as summarised in the paragraphs below:

*i) Review Scope and Categories of Implementation Status*

8. The Deputy Director explained that the Office of Internal Audit (OIA) follows up on the implementation status of its audit recommendations and external audit recommendations. The review of implementation matrix covered the extent and nature of actions taken on all recommendations presented in the audit reports. The review exercise then categorized the implementation status of audit recommendations into three categories namely “Implemented”, “In progress” and “Not Implemented”.

*ii) Findings on Reports of Board of External Auditors (BOEA) Year 2013*

9. The OIA tracked 94 recommendations contained in the 2013 BOEA audit reports issued to AU Commission and other organs. As of September 2015, 47% (44 out of 94) were implemented, 38% (36 out of 94) were in progress, and 15% (14 out of 94) were not implemented.

*iii) Findings on Report of Internal Audit Year 2013*

10. The OIA tracked 7 recommendations contained in its 2013 internal audit budget performance report presented to the PRC Subcommittee on Audit Matters. As of September 2015, 71% (5 out of 7) were implemented and 29% (2 out of 7) were in progress.

*iv) Findings on Report of Internal Audit Year 2014*

11. The OIA tracked 9 recommendations contained in its 2014 internal audit budget performance report presented to the PRC Subcommittee on Audit Matters. As of September 2015, 56% (5 out of 9) were in progress and 44% (4 out of 9) were not implemented.

*v) Overall Assessment of Implementation Status*

12. Overall, the BOEA and OIA made 110 recommendations in their audit reports that were issued in 2013 and 2014 which were deliberated by the PRC Sub-Committee on Audit Matters. Out of these recommendations, auditees have implemented 49 and have made progress in implementing 43, while 18 recommendations were not yet implemented. The audit work by BOEA and OIA will bring the greatest return when departments/organs act upon audit findings and recommendations. Therefore, OIA will continue to monitor the auditees' efforts to implement the recommendations that are either "in progress" or "not implemented".

**b) DELIBERATIONS**

13. Following the presentation the Chairperson invited the Members for deliberations. The deliberations of the members are summarised below:

- i) Members observed that there was a significant improvement on the implementation of the audit recommendations. However, it is crucial to understand why some recommendations were not implemented and deal with the challenges for non-implementation of those recommendations.
- ii) Members noted that, in future, it is important to start the meeting by considering matters arising (if any) from the previous meeting. In this regard it was noted that there were specific requests that had been made which were supposed to be presented but were not ready.
- iii) Members also raised concerns on the lack of seriousness from some of AUC Directors in attending the Sub-Committee meetings. It was also noted that even their representatives did not have appropriate answers/responses to the issues raised.

**c) RESPONSE BY THE COMMISSION**

14. The Deputy Director OIA informed the meeting that the main challenges for non-implementation of audit recommendations include lack of funding (financing), and lack of relevant and clear policies/guidelines in certain areas.

15. The Representative of AHRM informed the meeting that currently 18 administrative policies / guidelines are being worked on. Three have been finalised and

it is hoped that by March 2016 all the other policies will be finalised and approved. It was further indicated that the staff rules and regulation are also under review.

#### d) CONCLUSION OF THE SUB COMMITTEE

16. The members concluded the deliberations on the agenda item and recommended as follows:-

- i) The OIA should continue with the follow-up of audit recommendations and report to the Sub-Committee on Audit Matters periodically.
- ii) The Commission should ensure all the documents that were requested are availed. It was also suggested that the Sub-committee Chairperson meets the secretariat before the next meeting is convened.
- iii) All the concerned Directors/Heads of Departments should make sure they attend the Sub-Committee meetings. In case their representatives attend, then they should have complete information on the issues on the agenda in order to be able to respond appropriately.

### VI. CONSIDERATION OF THE AUC BUDGET PERFORMANCE REPORT THE PERIOD ENDED 30 JUNE, 2015

#### a) PRESENTATION

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

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

#### 1. Overall Assessment

19. The Director explained that the overall rate of budget execution for the AUC based on the “approved budget” was 25% as at 30<sup>th</sup> June 2015. She also added that the overall execution rate based on the “available funds” was 39% (see table below)

AUC Budget Execution for the Period up to 30 June 2015

Details	Budget (US\$)	Expenditure (US\$)	Execution Rate% Against Budget	Available Funds (US\$)	Execution Rate% Against Available Funds
Program Budget	203,317,104.17	33,539,167.00	16%	89,393,073.71	38%
Operational Budget	102,962,500.00	42,361,534.00	41%	102,962,500.00	41%
<b>Total</b>	<b>306,279,604.17</b>	<b>75,900,701.00</b>	<b>25%</b>	<b>192,355,573.71</b>	<b>39%</b>

i) Operational Budget Analysis

**20.** The 2015 operational budget was US\$102,962,500.00. The total expenditure of operational budget as at 30 June 2015 was US\$42,361,534.00 representing 41% execution rate.

ii) Program Budget Analysis

**21.** The 2015 approved programme budget was US\$203,317,104.17. The available funds as at 30 June 2015 were US\$89,393,073.71 representing 44% of the approved budget. The total expenditure incurred on programs during the year was US\$33,539,167.00 which represented 16% against approved budget, and 38% based on the available funds.

iii) Low and Zero Budget Execution

**22.** For the period ended 30 June, 2015, 116 budget lines for US\$24.7m were executed below 40% of the released (available funds). There was also a zero budget execution rate on 235 funded budget lines for US\$13.3m during the period under review.

**23.** Most of the departments interviewed on the low and non-implementation of programs stated that the activities were scheduled for the second half of the year, whilst others indicated lack of funding, staffing and delays in procurements. Furthermore, the SPPMERM (Strategic Planning) Directorate indicated that, the available funds during the first half was not enough to ensure implementation of the programmes.

**24.** The OIA recommends that departments should start planning for the third and fourth quarters activities in time to be able to execute the programs within the time remaining period of the year.

**25.** The OIA also recommends that SPPMERM should make consultations with Partners who have not yet released funds but pledged to do so for the affected activities to commence. The departments with staffing constraints should engage the DAHRM to expedite staff recruitment and the procurement process.

iv) Line Items for which no Budget was Released/Availed

**26.** A total of US\$29.2 million of the Program Budget represented by 268 budget lines had not yet received any funding, by 30th June 2015.

**27.** The OIA recommends that the Commission reviews some of the projects lacking funding and make the appropriate follow up with the respective funding Partners.

v) High Budget Execution (Over 100%)

**28.** For the period under review, two budgets lines (ICOM01206 under the Communications Directorate and IBCPO1735 under the Bureau of the Chairperson) were executed by 111% and 127% respectively thereby exceeding the total allocated amounts in the approved budget.

**29.** OIA recommended that the no objection should be obtained from Partners where over expenditure occurred and these be included under supplementary budget request to cover the additional expenditure over the approved budget.

## **2. Findings on Programme Outputs**

### *Assessment on Outputs*

**30.** For the year 2015, a total of one hundred and seventy one (171) program outputs were planned. A review of the Mid-Term Progress Reports in the AMERT as well as feedback from the relevant departments revealed that activities had commenced (started) on one hundred and twenty two (122) outputs representing a rate of 65%. Activities had not yet started on Thirty (30) outputs representing 18%. The remaining projects could not be verified as the reports were not submitted in AMERT system.

### *Weaknesses Observed*

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

- a) The AMERT reporting system allows reports to be uploaded even when all the fields are not completed.
- b) The outputs and indicators are not weighted as per their significance to the program.
- c) The OIA also noted that the Monitoring and Evaluation of program implementation was weak and still staffed with only one officer who cannot do much considering the large number of programs planned by the Commission.

### *Challenges*

**32.** The major challenges cited by the departments include:

- a) Budget constraints, where most of the programs were not funded for especially by the Partners.
- b) Lack of adequate staff capacity to facilitate implementation of programs.

*Internal Audit Recommendations on Output Assessment*

33. The Office of Internal Audit recommended the following:
- a) Given that the overall execution rate is low at 38% of the available funds; all departments should scale up the activities in the second half of the year in order to achieve a satisfactory implementation rate at the end of the year.
  - b) The departments should have realistic project implementation plans taking cognisance of the available funds and human capacity.
  - c) The AMERT system should be upgraded to prevent incomplete reports from being uploaded. This would force the departments to provide all the necessary information.
  - d) SPPERM should ensure that when the departments submit their proposals, the outputs and indicators are weighted.
  - e) It would be better to have an additional field for outputs and achievements where the departments can select from a dropdown list, the percentage of achievement for the indicators and the outputs. This would make consolidation and evaluation easier.

**b) DELIBERATIONS**

34. Following the presentation of the budget performance analysis for the period ended 30 June 2015; the Chairperson invited the Members for deliberations.

35. The deliberations of the members are summarised below:

- i) Members observed that the amounts received on the program budget have not been itemised, the report did not show the source of funds categorized by the partners. Members indicated that this information would be helpful to know which partners were meeting their pledges.
- ii) Members indicated that the report did not show comparisons for execution rates in the prior year which would be useful in analysing the information, and did not also show the overall AU approved budget as in previous reports.
- iii) Members also wanted to know if the review of budget performance also includes the overall administration of the budget, and why the report did not show departmental responsibilities on budget performance.
- iv) Members further expressed concern on the two budget lines overspent under the Communications Directorate and the Bureau of the Chairperson.



- v) Members raised concern that the audit report illustrates only the financial aspect of the operations, but issues on staff performances and evaluations are not mentioned.
- vi) Members sought to know if an audit had been conducted on the Reserve funds of the African Union.
- vii) Members furthermore wanted more information on what is constituted under the Pass-Through Funds, Technical Assistance Funds as well as Special Projects Funds.
- viii) Members expressed that the report should not only show the figures but also confirm that the executions have been done in accordance with the applicable AU rules and regulations.

**c) RESPONSE BY THE COMMISSION**

*Office of Internal Audit (OIA)*

**36.** The Director of Internal Audit responded that the break-down of the funding received on the program budget would be categorized by partners in the final report of the year. Also, the comparison of the execution rates for the previous year would also be included in the final report.

**37.** The Director of Internal Audit stated that plans were under way to conduct the audit of Reserve Funds of the Union. She further indicated that an audit of the Human Resources would be considered. However, she also indicated that a similar exercise on the Human Resource was currently being undertaken by an external consultant (*Bain and Company*) engaged for this purpose.

**38.** She also explained that the audit includes assessment of administration of the budget, and details on departmental responsibilities would be included in the overall 2015 budget performance audit.

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

**39.** The representative of the SPPMERM explained that pass through funds were developmental assistance funds received from partners which were channelled through the African Union but were for use by other related institutions such as Regional Economic Communities (RECs) and other beneficiaries. Also explained that the technical assistance funds were provided by the partners not in the form of cash but in kind, for example the provision of Experts and Consultants who are paid directly by the partner.

**d) CONCLUSION OF THE SUB COMMITTEE**

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

- i) The Budget Performance Report should include additional information and specification explaining what is constituted on the Technical Funds, Pass through Funds, and Special Projects Funds.
- ii) Reports on Budget Performance should include detailed information on the funds received showing the breakdown of the moneys received categorized by Partner.
- iii) Reports on Annual Budget Performance should also show comparisons on budget execution between the current and prior year.
- iv) Reports on Annual Budget Performance should also contain a summary of departments' performance showing how they have performed during the year. This will help to know the departments whose performance is not satisfactory.
- v) The Commission should carry out an audit of Human Resources and Staff Performance.
- vi) The Office of Internal Audit should undertake an Audit on Reserve Funds of the Union and present the report during the first quarter of 2016.

**VII. CONSIDERATION OF THE HIGHLIGHTS OF THE BUDGET PERFORMANCE FOR THE PERIOD ENDED 30 SEPTEMBER, 2015****a) PRESENTATION**

41. The Director explained that the overall rate of budget execution for the AUC based on the approved budget up to 30 September 2015 was 40%; the execution based on the available funds was 56% (table below refers)

AUC Budget Execution for the Period up to 30 September 2015

Details	Annual Budget (US\$)	Nine months Expenditure (US\$)	Execution Against Budget	Available Funds (US\$)	Execution Against Available Funds
Program	203,317,104.17	63,702,482.44	31%	115,123,026.16	55%
Operational	102,962,500.00	58,834,836.84	57%	102,962,500.00	57%
<b>Total</b>	<b>306,279,604.17</b>	<b>122,537,319.28</b>	<b>40%</b>	<b>218,085,526.16</b>	<b>56%</b>

**42.** The Operational Budget was US\$102,962,500.00. The total expenditure as at 30 September 2015 amounted to US\$58,834,836.84, representing **57%** execution rate.

**43.** The execution rate of Program Budget (including special projects, pass through funds and technical assistance) during the period under review was US\$63,702,482.44 which represented **31%** against the total approved budget. On the other hand, the execution rate was **55%** against the available funds of US\$115,123,026.16

*Internal Audit Overall Assessment and Conclusion*

**44.** The overall budget execution rate for the period up to third quarter was low. Ideally, at the end of the third quarter, the execution rate should be around 75%. However, the actual rate achieved was only 56% based on the available funds and 40% based on the approved budget.

**45.** Otherwise, since several departments have scheduled to carry-out most of their activities on the program budget during the fourth quarter, it is probable that the performance for the 4th quarter will pick up and substantially improve the execution rates. Hence, OIA recommends to the departments/units to scale up the activities in the 4th quarter of the year.

**b) DELIBERATIONS**

**46.** The Chairperson invited the Members for deliberations which are summarised below:

- i) The Members suggested that the future reports should show the execution figures presented per quarter as well as cumulative figures.
- ii) The Members also indicated that there was need to establish responsibilities for performance in order to assist the departments in decision making.

**c) RESPONSE BY THE COMMISSION**

**47.** The Director Office of Internal Audit responded that the future budget reports would include break-down to show information relevant for each quarter. She also indicated that information would be shown on program output performance per department.

**d) CONCLUSION OF THE SUB COMMITTEE**

**48.** The Sub-committee took note of the Report on Highlights of AUC Budget Performance for period ended 30<sup>th</sup> September 2015 and agreed to adopt the same conclusions and recommendations made on the Report of AUC Budget Performance for the period ended 30<sup>th</sup> June 2015.

## VIII. REVIEW AND CONSIDERATION OF THE STATUS OF EXECUTION OF THE PROCUREMENT PLAN FOR 2015

### a) PRESENTATION

49. The Representative from the AUC Procurement and Travel presented the status of execution of the Annual Procurement Plan (APP) for the year 2015. Here-below is the summary of the presentation:

#### *Procurement Mandate*

50. The mandate of the Procurement and Travel unit includes the following:

- a) Coordinating the professional aspects of procurement within the AUC and to act as the executive arm of the AUC Tender Board.
- b) Delivering value for money for the Commission while complying with AU rules and regulations as well as Partners' Agreements.
- c) Execution of the Annual Procurement Plan in conjunction with user departments based on confirmation of funds availability. (NB: Some activities were not executed due to late or non-release of budget)

#### *The Context of Operations*

51. The context of operations includes the following;

- a) In addition to procurement of Goods and Services, the Procurement Unit is also involved in the management of Grants, (Sub delegation).
- b) The recruitment and selection of grant recipients which follows the open tendering process and subsequent approvals.
- c) Procurement activities for projects under partners which were delayed due to the long process of getting No Objections at key stages of the procurement process.
- d) Execution of some activities despite not being on the plan, which were critical for the operation of the Commission. This posed a challenge of staffing resulting in some procurements being delayed. These include responses to emergencies (e.g. African Union Support to Ebola Outbreak in West Africa - ASEOWA) because they came as emergencies and at the time of this report the ASEOWA Procurement activities were not concluded as they were still being evaluated in Seychelles and the on-going Audit has not yet been finalized.

- e) Shipment of personal effects of personal effects is one category of expenses that was not included in the plan and these are included in the services category

*Status of Execution of Procurement Plan*

52. The Annual Procurement Plan was executed under 3 main categories (goods, services and works). The status of execution as at November 2015 was as shown in the table below:

Status of Execution as at November 2015

Category	Budget Amount (USD)	Actual Nov. 2015 (USD)	Balance (USD)	Execution
Goods	12,137,065.27	4,456,003.37	7,681,061.90	37%
Services	5,377,221.93	3,535,918.44	1,841,303.49	66%
Works	1,534,969.20	180,109.88	1,354,859.32	12%
<b>Total</b>	<b>19,049,256.40</b>	<b>8,172,01.69</b>	<b>10,877,224.71</b>	<b>43%</b>

53. Furthermore, Grants and Special projects worth USD 34,569,711.60 were managed and processed through the Procurement Unit. Grants were not included in the 2015 Annual Procurement Plan as they are long term projects and a continuation from previous years.

**b) DELIBERATIONS**

54. The Chairperson thanked the presenter and invited the Members for the deliberations. Members also appreciated the presentation and requested for a clarification on how the special projects were allocated.

**c) RESPONSE BY THE COMMISSION**

55. The Commission explained that the allocation starts with the programming where the projects are included on the program budget by the relevant departments. The projects are then justified to the Members States during the PRC budget sessions. Upon approval of the Budget, the projects are then included on the Procurement Plan for execution in due course.

**d) CONCLUSION OF THE SUB COMMITTEE**

56. The Sub-committee took note of the Report on the Status of Execution of the Annual Procurement Plan (APP) for the year 2015. The Sub-committee further recommended that additional information on how the special projects are allocated be part of Report.

**IX. ANY OTHER BUSINESS (A.O.B)**

**57.** The Chairperson requested the Sub-Committee to suggest the date on which the Reports of the Board of External Auditors would be considered following the request from the Chairperson of the AU Board of Auditors (Auditor General of South Africa). It was then agreed that the Reports of the Board of External Auditors on AU Organs for the year 2014 will be considered during the first week of March 2016.

**58.** There being no other business, the meeting was adjourned at 11.45 and 12:55 hours on 4<sup>th</sup> November 2015 and 9<sup>th</sup> December 2015 respectively.

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