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REPORT OF THE SUB-COMMITTEE ON AUDIT MATTERS

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PRC SUB-COMMITTEE ON AUDIT MATTERS

December 2019

ADDIS ABABA, ETHIOPIA

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ACTIVITY REPORT
OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

LIST OF ABBREVIATIONS

ACRONYM	DESCRIPTION
AU	African Union
AHRM	Administration and Human Resource Management
ACERWC	African Committee of Experts on the Right and Welfare of the Child
AUC	African Union Commission
AMERT	African Union Monitoring, Evaluation and Reporting Tool
BCP	Bureau of the Chairperso006E
CIDO	Civil Society and Diaspora
DCP	Deputy Chairperson of the African Union Commission
DEA	Department of Economic Affairs
DHRST	Department of Human Recourses, Science and Technology
DREA	Department of Rural Economy and Agriculture
DSA	Department of Social Affairs
DTI	Department of Trade and Industry
FRR	Financial Rules and Regulation
H.E.	His Excellency (Her Excellency)
IBAR	Inter Africa Bureau for Animal Resources
IED	Infrastructure and Energy Department
MED	Medical Services Directorate
MIS	Management Information Systems Division
OIA	Office of the Internal Audit
OLC	Office of the Legal Counsel
OSC	Intelligence and Security Committee
PRC	Permanent Representatives Committee
PBFA	Programing, Budgeting, Finance and Accounting
PRO	Protocol Office
PSD	Peace and Security Department
SPPMERM	Strategic Policy Planning, Monitoring, Evaluation and Resource Mobilization

ACTIVITY REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS THE PERIOD AUGUST TO DECEMBER 2019

I. INTRODUCTION

1. The Five sessions of the PRC Subcommittee on Audit Matters were held on 2 August, 8 and 31 October, 21 November, 4 and 5 December 2019, and 15 January 2020 in Addis Ababa, Ethiopia, under the chairpersonship of H.E. Amb. Emilia Ndinelaio Mkusa, Ambassador of Namibia and the Chairperson of PRC Subcommittee on Audit Matters.

II. MEMBER STATES OF PRC SUB COMMITTEE

2. The following are the members of the PRC Sub-Committee on Audit matters:
 1. Chad
 2. Cote d' Ivoire
 3. Cameroon
 4. Gambia
 5. Guinea
 6. Gabon
 7. Malawi
 8. Mali
 9. Mauritania
 10. Mauritius
 11. Morocco
 12. Namibia
 13. Seychelles
 14. South Sudan
 15. Zimbabwe
3. The North African Region assigned Morocco in November 2019 to replace Egypt in the subcommittee.

III. AGENDA AND PROGRAM OF WORK

4. The Members met and discussed the agenda items as summarised in the program of work below:

Agenda Items discussed	Date
1. Consideration of Terms of Reference for Forensic Audit of AUC	02 Aug. 2019
2. Adoption of the Draft Audit Report of the Sub-Committee of the meeting held on 2 August 2019. 3. Consideration of Internal Audit Report on Management of AU Peace Fund for the Period March 2018 – April 2019. 4. Consideration of Report from PBFA on detailed analysis of Special Fund Accounts with concrete proposals on those accounts that are no longer relevant.	08 Oct. 2019
1. Consideration of Report from AHRM on Stopping of Double Payments of Housing Allowances. 2. Preliminary Consideration of the Report by other AU Organs on outstanding audit recommendations.	31 Oct. 2019
1. Adoption of the Draft Audit Report of the Sub-Committee of the meeting held on 31 October 2019. 2. Consideration of Internal Audit Report on AUC Budget Performance for the 1st half of 2019.	21 Nov. 2019
1. Consideration of the Report of the AU Commission on sanctions and actions taken against staff responsible for irregularities and non-compliance to AU Rules and Regulations. 2. Adoption of the Draft Report of the Sub-Committee of the meeting held on 08 October 2019 with two deferred reports. <ul style="list-style-type: none"> • Consideration of Audit report on Revitalized Peace Fund • Consideration of PBFA updated report on Special Funds 3. Adoption of the Draft Report of the Sub Committee for meeting held on 21 November 2019 4. Consideration of the Report of the Matrix on Implementation of the Audit Recommendations (from Internal and External Audits) 5. Consideration of the Draft Report on Implementation of Enterprise Risk Management (ERM) within African Union.	04-05 December 2019

IV. ACTIVITIES OF THE SUB-COMMITTEE:

A. CONSIDERATION OF TERMS OF REFERENCE (TOR) FOR FORENSIC AND PERFORMANCE AUDIT OF AUC

5. The presentation of TOR was made by Director of Office of Internal Audit in the Subcommittee meeting of 2 August 2019. Following the presentation, members of the Subcommittee made comments as summarized here below:
 - i. Members suggested to include a preamble of what the Office of Internal Audit (OIA) does and its mandate.
 - ii. Members suggested that the AU Executive Council Decision ref: EX.CL/Dec. 1057(XXXV), an independent forensic and performance audit and decision ref: EX.CL/Dec.1069 (XXXV), be copied verbatim and inserted in the TOR document.

- iii. Members of the Sub-Committee suggested that the term “well qualified, experienced, reputed and independent” be used instead of just “experience”.
- iv. Some members proposed that they would submit written suggestions to the director to augment and enhance the objectives, which was supported by the other Sub-Committee members.
- v. Members agreed that the period should be from January 2012 to December 2018 financial years.
- vi. Members suggested that the audit will be performed at AUC Headquarters and in any other location as deemed necessary by the consultants, including employing technological tools if necessary.
- vii. Members deliberated on how the independent forensic and performance audit would be funded and suggested that OIA should work with PBFA and come up with a reasonable estimate which should be put as a request in the supplementary budget. The estimate could be reviewed after procuring the successful firm.

6. *In conclusion, the Subcommittee made the following recommendations:*

- i. Adopted the proposed Terms of Reference (TOR) for forensic audit and performance audit of AUC subject to amendments.***
- ii. Proposed that the Office of Internal Audit should work with the directorate of Programming, Budgeting, Finance and Accounting, and come up with a reasonable estimate which should be put as an urgent request for the supplementary budget during the September 2019 supplementary budget consideration.***

B. CONSIDERATION OF AHRM REPORT ON STOPPING OF DOUBLE PAYMENTS OF HOUSING ALLOWANCES.

- 7. The presentation was made by the Acting Director of AHRM on the measures the Commission under took on the double payments of housing allowances and other related costs like spouse allowances. Following the presentation, members of the Subcommittee made comments and sought clarification as summarized below:
 - i. Members noted that the report presented by AHRM was incomplete as not all staff had submitted the declaration of relatives working for the African Union.

- ii. The report was a management response which should have been validated by the OIA but had not been done.
 - iii. Members wanted to know why so many short term staff (40% of the total non-regular staff) were paid from budgeted vacant positions and whether this was in line with the AU Financial Rules and Regulations.
 - iv. The members wanted to know which accounts the recovered monies would be paid back into.
 - v. Members suggested some sanctions to be imposed on staff not submitting declarations such as suspension of salary or prohibition them from undertaking missions.
 - vi. Members wanted to know what sanctions had been already taken since the last deadline of 31st August 2019 for submitting of declarations.
 - vii. The members also wanted a clarification on why Local staff were entitled to spouse allowance as such allowance is usually meant to compensate spouses for loss of income when they relocate to another country.
 - viii. Members wanted to know if there was a deadline set for receiving the legal opinion.
 - ix. Members also wanted to know what will happen to the staff who already separated from the AU.
8. The Commission provided clarifications as summarized in the paragraphs below:
- a) The Acting Director AHRM responded as follows:
 - i. Pertaining to the 40% of the total non-regular staff being paid from budgeted vacant positions, this was due to the mandate off the AUC increasing over time and the Commission has resorted to use obsolete positions in the Maputo Structure to fund relevant position which were not in the Structure. The AUC recognize that the rules were not followed but envisage that the approval of the new structure currently under consideration will assist to rectify this problem.
 - ii. For the payback period for staff with double payments, this would be determined on a one to one basis and the concerned staff will be engaged to determine a feasible payback period.

- iii. Pertaining to the spouse allowance to local staff, the Staff Rules and Regulations (SRR) did not specify that this category of staff should not be paid.
- iv. Regarding the suspension of salary for staff who had not yet submitted declarations, according to the international labor law, the Commission cannot suspend payment of salary.
- v. On measures taken for staff who had not yet complied with submitting their declaration, the payment of salary arrears to the staff has been suspended and the staff have been engaged on a one to one basis via individual emails. Also the commission is considering taking disciplinary measures on the staff who will not comply.
- vi. Pertaining to the staff who already separated from the AU, the Ag Director explained that this exercise was focused on the serving staff based on their declarations.
 - b) The Director OIA also responded that OIA had not validated the figures to be recovered from the staff members, even though it also advised AHRM on some staff involved as identified during the audit of salary arrears.
 - c) The Ag. Director PBFA also alluded that the savings from the stoppage of the double allowance will be reflected in the reserve funds and will be available for alternative usage.
 - d) The OLC representative responded that their office was considering the double payments issue case by case and was looking at both the AUC's side and that of the staff member to determine where the fault arose and regulation 13 of the SRR would be implemented where the fault was placed.
 - e) The Deputy Chief of Staff in the Bureau of the Deputy Chairperson alluded that the issue was sensitive and management was committed to resolving the issue while taking into account the interests of both the Commission and the staff members.
 - f) The AU Organs represented at the meeting namely ACPHR (Banjul Commission), PAP, AUABC and NEPAD indicated that they had no cases identified of double payments at their respective Organs and that they had already requested staff to fill in the forms. APRM indicated that they would also request staff to submit their declaration based on which they would determine and report back on the issue to the AUC.

9. In conclusion, the Subcommittee made the following recommendations:

- i. All management responses on concerns of member states on financial issues that are presented to the Member States must be validated by the Office of Internal Audit.*
- ii. The Commission should impose sanctions on the staff members who have not submitted their declarations of spouse and other family relatives working for the AU. These include barring the concerned staff from undertaking missions in addition with blocking of payments for the salary arrears.*
- iii. The Commission should agree on modalities of recovery with the staff members who received double payment of the allowance and a deadline should be set to this effect.*
- iv. The Commission to report on the measures taken to the Sub-Committee.*

C. CONSIDERATION OF THE REPORT ON BUDGET PERFORMANCE FOR THE PERIOD JANUARY TO JUNE 2019

10. The Director, OIA presented the budget performance analysis for the African Union Commission (AUC) for the period January to June 2019. Following the presentation, members of the Subcommittee made comments and sought clarification as summarized below:
 - i. Members wanted to know how the Commission can pay for some budget lines as the approved budget was already exhausted in June 2019.
 - ii. Members made an observation that supplementary budget should be made on only extremely urgent cases.
 - iii. Members wanted to know whether inflation was factored in, during the preparation of AU budgets.
 - iv. Members wanted to know the budgeting process in general, what happens from beginning to the end of the budget process.
 - v. Members suggested that in future, PBFA should be careful when they reduce the budget amount from the requested amount. Where there are existing framework agreements, the agreement should be taken into account during the budgetary process and budget reduction should not be effected on predictable and known costs.

- vi. Members wanted to know whether PBFA has a unique nomenclature in the budgeting process for the specific activities.
 - vii. Members wanted to know whether there were control measures and pre-audit within the processes so as to ensure that proper checks are done before payments are effected.
 - viii. Members highlighted that the over spending on some budget lines is mainly due to poor planning which needs to be addressed.
 - ix. Members suggested that an opinion from the Office of Legal Counsel should be sought on what sanctions to be taken to remedy the situations on the department that changed the activities without approval.
11. The Commission provided clarifications as summarized in the paragraphs below:
- a) The Acting Director AHRM responded as follows:
 - i. AHRM requested the budget approval according to the needs and some of the requests were based on the existing framework agreement which the Commission cannot avoid. However, the reduction was done in the budget due to ceilings and golden rules.
 - ii. Pertaining to the operational budget lines which were almost exhausted by 30 June 2019, this was due to the reduced approved 2019 budget. As per the Golden Rule, the 2019 operational budget was reduced by 30%. There was a reduction in the specific budget lines like staff cost and maintenance cost. Supplementary budget is been requested to cover the costs for the remaining periods of the year 2019.
 - iii. Following the implementation of the moratorium, there was a freeze on the recruitment of the short term staff and an increase in the recruitment of the regular staff.
 - iv. AHRM also explained that the reason for the low execution rate on some programmes under AHRM was due to late release of partner funds which negatively affect operations.
 - v. On Temporary Assistance Medical Relief, was on the costs relate to medical relief staff hired on need basis by the Center for Disease (CDC).
 - vi. On Temporary Security Staff Cost, there was approval to have 20 additional security guards to assist in addition to the ones stipulated in the Maputo structure. However, the related costs were not approved in the budget though the request was made in good time.

- vii. For Non residence allowance, AHRM prepares operational budget – staff cost based on Maputo Structure. However, this was never approved by Policy Organs. PBFA compiles the budget of the Union based on the Ceiling Principle and due to this the requested operational budget for staff cost was not approved in Nouakchott. In particular with Non residence allowance, AHRMD requested amount was reduced, when these are fixed staff costs.
 - viii. On temporary Assistance, the budget lines were proposed based on the execution rate of 2018, and again, a deduction was made on these lines to be within the Ceiling.
 - ix. On overtime, it was also proposed based on previous actual execution. However, there was a rate change in mid-2017 by then the 2018 budget was already approved. Again in 2019 the same figure was approved because of Ceiling which is mainly determined by PBFA and AHRM is obliged to request supplementary budget in both 2018 and 2019.
 - x. AHRMD is preparing operational budget using the Maputo structure which include vacant positions to be filled and believe that it's the realistic way to prepare the budget. It is also to be noted that AHRMD works closely with PBFA so as to establish agreeable and realistic way of preparing budget.
- b) The Acting Director PBFA responded as follows:
- i. Pertaining to the control measures and pre-audit within the process, PBFA has a Certification Unit that ensures all transactions are checked and certified before payments are effected.
 - ii. With regard to nomenclature, the Acting Director PBFA confirmed that they exist. In Project accounting there are specific outputs and activities. Costing is done for every activity and this forms bases of the budget which is presented to the Member States for approval. At the end of the year, PBFA generates unique budget codes which are given to the respective departments with each department given different budget codes. The budget control is automated and done through SAP where confirmations are made by PBFA to ascertain that the budget codes exist and that the expenditures relate to the specific activity approved.
 - iii. For every expenditure, PBFA confirms fund availability and the budget codes for the specific activity. If there is new activity, then the departments seeks approval from PRC as per the FRR. No activity could be introduced without approval from the PRC.

- iv. To address the issue of poor planning, PBFA and AHRM will work together to ensure that proper budgeting is done going forward especially for staff costs in the approved 2020 budget.

12. The *Sub-Committee made the following conclusions and recommendations:*

- i. The Commission should impose sanctions on the staff members who do not adhere to the AU Financial Rules and Regulations relating to budget execution.***
- ii. PBFA should enhance the financial control unit to avoid the recurrence of the similar weaknesses in the future.***
- iii. The Commission should enhance the planning process on operation budget for costs that cannot be avoided.***

D. CONSIDERATION OF INTERNAL AUDIT REPORT ON REVITALIZED PEACE FUND FOR THE PERIOD MARCH 2018 – APRIL 2019.

- 13. The presentation was made by the Director, Office of Internal Audit indicating that following the observations by the Members of the Sub-committee, the Bureau of the Chairperson was engaged on the issues in the report. The report was also updated and a further follow up on implementation of the audit recommendations was done on 29th November 2019, as per matrix presented.
- 14. Following the presentation, members of the Subcommittee made comments and sought clarification as summarized below:
 - i. Members wanted to know why the payment of USD 1,687,761.32 from Eco Bank Peace Fund account was treated as human error and how supervisors failed to detect it.
 - ii. Members wanted to know whether monthly reconciliations were done and thoroughly checked.
 - iii. Members indicated that such instances show weaknesses in the internal control systems and reflect badly on the PBFA directorate.
 - iv. Members further stated that the unauthorized payment of USD 1,687,761.32 from Eco Bank Peace Fund account could not be termed as a human error.
- 15. The Commission provided clarifications as summarized below:

- i. There are controls on payments- before any payment is released it goes through four to five people in the payment process including the certifying unit.
- ii. Reconciliations are done on a monthly basis and enabled the detection of the payment of USD 1,687,761.32 error, which led to the refund of the monies used.
- iii. The transaction made was not intentional but was done to avoid unnecessary bank charges on the transfer of funds from other bank accounts located in other countries.

16. In conclusion, the Subcommittee made the following recommendations:

- i. Sanctions (Disciplinary measures) to be imposed on staff members who authorized the payment of USD 1,687,761.32 from Eco Bank Peace Fund account as this could not be classified as a human error.**
- ii. PBFA Certification unit and the section doing reconciliations should be strengthened so as to detect such cases before any damage is done.**

E. CONSIDERATION OF PBFA REPORT ON SPECIAL FUND ACCOUNTS

17. The presentation was made by the Head of Accounting from PBFA, giving the history and objectives of each fund, and showing both the General ledger SAP balances and the bank account balances as at 31 July 2019. She also presented the list of Special Fund Accounts that have been dormant for over five years with balances as at 31 July 2019 that needed approval to be closed as per AU Financial Rules and Regulations.
18. Following the presentation, members of the Subcommittee made comments and sought clarification as summarized below:
 - i. Members wanted to know why comprehensive analysis was not done with proper justification given on the closure of the bank accounts instead of just looking at the years involved.
 - ii. Members further inquired whether the line departments were consulted so as to establish the level attained in achieving the objectives of establishing these funds, and why the OIA didn't give a comment on the closure of the accounts.
 - iii. Members also wanted to know why bank balances were about USD 19,994.50 across the funds whilst the GL balances were higher.

- iv. Members wondered why allocation to Special funds budget lines was not done using the required percentages of the contributions received in line with the Executive Council Decisions
 - v. Members wanted to be provided with wanted to be provided with a list of the properties acquired using the Acquisition of AU Properties Fund
 - vi. Members also wanted to know why OIA confirmed the balances and then put a comment on not agreeing on the difference between the bank and the GL balances.
19. The Commission provided clarifications through the representatives of PBFA, AHRM and OIA as follows :
- i. Due to Inadequate funding from Member States contributions, special funds were allocated \$20,000 each which was deposited in various bank accounts to keep the accounts operational. These accounts now show USD19,994.50 due to bank charges.
 - ii. PBFA is willing to consult with line departments on the analysis of the dormant accounts as requested by the subcommittee, and that the OIA will also be requested to audit the information before resubmitting it for consideration.
 - iii. The Washington DC building was the last property bought and that any property to be bought from the acquisition of AU properties fund would need Members States approval.
 - iv. The OIA verified both the GL and bank statements but did not agree on the differences between the two balances because ordinarily, they were supposed to be the same if the allocation was done as required.

20. In conclusion, the Subcommittee made the following recommendations:

- i. The detailed analysis should be done on all the funds including those that have been dormant for over five years based on the achievement of objectives in consultation with the relevant departments before closing them to determine if they are no longer relevant. The analysis should be audited by the Office of Internal Audit and brought to the sub-committee for consideration by 31 May 2020.***
- ii. The Commission should abide by Executive Council decisions in allocating funds to all special funds using the respective percentages on the contributions received from Member States yearly in line with annual budgets.***

- iii. Accounting procedures used should be reviewed to ensure that balances in the bank are aligned to and reflect balances in the general Ledger of special funds.*

F. CONSIDERATION OF THE REPORT OF THE AU COMMISSION ON SANCTIONS AND ACTIONS TAKEN AGAINST STAFF RESPONSIBLE FOR IRREGULARITIES AND NON-COMPLIANCE TO AU RULES AND REGULATION

21. The presentation under this section was made by the Chief of Staff on 5 December and on 15 January after the report was updated. He indicated that the report was being presented on behalf of the Chairperson and the Commission as a whole. He further indicated that, it was a progress report as the work was still on going with some processes still underway. He presented the report under three main sections of:-
- a) Measures taken to address the overall Policy Environment and put in place and / or strengthen governance structures.
 - b) Specific sanctions meted out against staff identified as responsible for the misuse of resources, irregularities and violations of AU Rules and Regulations, as well as pending administrative and/ or disciplinary actions that are at different stages of the dispute resolution process.
 - c) Oversight role of the Commission in the management of human and financial resources, as well as recommendations to further enhance AUC working oversight with other Organs of the Union..
22. Following the presentation on 5 December 2019, members of the Subcommittee made comments and sought clarification as summarized below:
- i. Members indicated that they want an outline of specific measures taken and not general statements, and a timeframe for the implementation of these measures.
 - ii. Members wanted the recommendations on the role of the Chairperson of the Commission to oversee Heads of other AU Organs to be clear for the consideration by the Sub-Committee.
 - iii. Members also wanted the title of the report to be reworded as "Sanction" and not consequence Management as per decision of the Executive Council.
 - iv. Members indicated that the whole Section (II) needs to be redone and improved as per comments of the Members.

- v. Members wondered why there was no guarantor for loans taken by separated staff from the Union.
 - vi. Members also cautioned the Commission to ensure that sanctions taken are legal so that the measures cannot be challenged and bring the name of the Union in disrepute.
 - vii. On the review of the AU Rules and regulations, members wanted to know the identified gaps and proposed amendments.
 - viii. Members also wanted the key points from the report of the Deputy Chairperson on measures taken by his Bureau to be consolidated with the Chairperson's report so as to have comprehensive and consolidated information.
 - ix. The members further wanted the format of the report to be enhanced, and the updated report to be presented to the Sub-Committee on 9th January 2020.
23. The Commission agreed to the comments of the members of the Sub-Committee.

24. In conclusion, the Subcommittee made the following recommendations:

- i. The Commission should revise the report indicating specific measures taken in each case of misconduct under section II and indicate the time frame for the implementation of measures on pending cases.***
- ii. The Commission should submit specific recommendations on how the role of the Chairperson of the Commission could be enhanced to ensure compliance to AU Rules and Regulations.***
- iii. The Commission should indicate the identified gaps in the AU Rules and Regulations and to propose amendments to address the gaps.***
- iv. The report should also include key points from the presentation of the Deputy Chairperson.***
- v. The revised report should be resubmitted for the consideration of the Sub Committee on Audit matters in the meeting to be held on 9 January 2020.***

25. Following the presentation on 15 January 2020 on the updated report, members of the Subcommittee made comments and sought clarification as summarized below:

- i. Members sought from the Commission explanations on the Functional and Statutory Autonomy of the Organs and the term "Separation" used in the sanctions meted out.
- ii. They also sought to know whether there are enough structures in place to deal with all the measures taken and those to be taken.
- iii. Members cautioned the Commission to be careful in creating Committees as they don't always solve problems. Instead, the Commission should streamline the Committees and make more functional and productive means of strengthening internal controls.
- iv. Members also agreed to proposals of an Internal Audit Committee and urged that it should be high powered Committee composed of professionals who understand Auditing and Accountancy issues.
- v. Members also noted that there are various documents adopted to deal with governance issues in different Organs, and wondered whether these could not be the cause of challenges in the AU governance structure as Heads of some Organs feel that they are independent of the Chairperson of the African Union Commission on financial and human resources management.
- vi. Members also wondered why the Office of Legal Counsel is not giving adequate advice before approving the governance documents of various AU Organs to ensure coherence with existing AU Rules and Regulations, and other governance requirements.
- vii. Members suggested that the African Court of Justice could be used as an Appeal Court instead of creating new structures.
- viii. Members felt that recommendations of the Committee on sanctions were not fully captured in the decision.
- ix. Members raised concerns that the sanctions meted out to similar offences were not consistent, and also wondered why staff not working whilst getting paid could only receive warnings.
- x. Members also indicated that there is need to work more on the mindset change on the officials and staff of the Union on issues of internal controls and adherence to AU Rules and Regulations.
- xi. Members noted that some cases should have been finalized within 20 days from the previous meeting, and wondered why the status remains the same in the report when the period has elapsed, and why the double housing issue was again with the internal audit.

26. In conclusion, the Subcommittee made the following recommendations:

- i. Instructed the Commission to revise the heading of the report to reflect the content of the report.**

- ii. **The Office of Legal Council should ensure review and harmonization of all legal statutes.**
- iii. **All Heads of Organs should know that they report to the Chairperson of the African Union Commission on financial and human resource management issues and the Office of the Legal Counsel should clarify and communicate this to them.**
- iv. **The Commission should ensure due process is followed on the sanctions meted out to staff found guilty of irregularities and violations of AU Regulations and Rules, after having followed due process;**
- v. **The Chairperson of the African Union Commission should continue using his statutory and managerial powers to take strong actions to address all acts of misconduct in the Union;**
- vi. **The Commission should ensure that all pending cases are finalized by July 2020;**
- vii. **The Commission should present a report by July 2020 on the possible establishment of an appeals mechanism to consider concluded cases of the AU Administrative Tribunal;**
- viii. **The decision on this section should be revised incorporating all issues as per conclusion.**

G. CONSIDERATION OF THE REPORT OF THE MATRIX ON IMPLEMENTATION OF THE AUDIT RECOMMENDATIONS (FROM INTERNAL AND EXTERNAL AUDITS)

27. The presentation was made by Director Office of Internal Audit. She indicated that it was a consolidated report on recommendations follow up as at 31 October 2019 on both the Board of External Auditors (BoEA) reports based on the matrix that were already presented by the respective organs for 2016 to 2018 audited financial statements, and the Office of Internal Audit (OIA) reports from 2016 to the first quarter of 2019. She further indicated that on the overall as of 31 October 2019, there were 1,307 recommendations on both internal and external audit reports. Out of these recommendations, management had implemented 822 (63%) and had made progress in implementing 444 (34%), whilst 41 (3%) recommendations were not implemented.
28. Following the presentation, members of the Subcommittee made comments and sought clarification as summarized below:
 - i. Members wanted to know why 2016 recommendations were not yet implemented.
 - ii. Members wanted to know why the office of the Legal Counsel had outstanding recommendations.

- iii. Members indicated that the schedule on the long outstanding recommendations from 2016 and the reasons for non-implementation should have been shown separately for the Members to consider.
- iv. Members also wanted to know whether there were any improvements in the implementation rate, taking into consideration the measures put in place by the commission.

29. The Commission provided clarifications as summarized below:

- i. The issues addressed to the Office of the Legal Counsel were mainly on host agreements, which are being followed up.
- ii. There is great improvements on the implementation of audit recommendations looking at the low percentage of those not implemented.
- iii. The main reason for those under 2016 not implemented are requirement of policy decisions like on segregation of duties needing more than two (2) officers in finance and administration in implementing SAP, and policy decisions on separation of roles between the secretariat and elected officials of organs.

30. *In conclusion, the Subcommittee made the following recommendations:*

- i. The Office of Internal Audit should be preparing separate matrix for long outstanding audit recommendations and give reasons for non-implementation.***
- ii. The Office of Internal Audit should continue monitoring the implementation of all the audit recommendations and submit the results thereof to the Sub-committee on Audit Matters for consideration***

H. CONSIDERATION OF THE DRAFT REPORT ON IMPLEMENTATION OF ENTERPRISE RISK MANAGEMENT (ERM) WITHIN AFRICAN UNION

- 31. The presentation was made by the Head of Certification Unit of PBFA. She presented the report to the Sub-Committee in line with the role given to it under Article 68(1) of Financial Rules and Regulations (FRR) which states that the "*PRC Sub Committee on Audit matters shall also deal with risk management issues*"
- 32. Following the presentation, the members of the Subcommittee made comments and sought clarification as summarized below:

- i. Members wanted to know why there were no junior staff members in the ERM committee, and also indicated that the Director General in the new structure should be a member of the Risk Management Committee.
 - ii. Members wanted to know what support was needed from the Sub - Committee on the implementation of the ERM.
 - iii. Members noted the need to have a structure for ERM Implementation and inquired whether it is already in the proposed AUC structure.
 - iv. Members asked about the relationship between this unit and other functions like planning and certification.
 - v. Members also wanted to know if the ERM function could not be under internal audit.
 - vi. Members further wanted to know why only three directorates of PBFA, AHRM and OIA understood and responded positively to the issues of ERM.
33. The Commission provided clarifications as summarized below:
- i. The ERM unit structure was already submitted to the Reform Unit for inclusion in the new proposed structure and explained that the unit was placed under quality and compliance function.
 - ii. The ERM unit will be reporting to the PRC Subcommittee on Audit Matters on key risks and measures being taken to mitigate such risks and as such the members need to understand their role in risk management oversight.
 - iii. ERM is not for PBFA, OIA and HRM alone but for the whole AU and it needed a lot of sensitization across the entire AU and its organs.
 - iv. Risk management is one of the three lines of defense and internal audit should be independent of this function so that it can give assurance that risks are being managed, and hence the unit cannot be under OIA and the Director of OIA cannot be a member of the committee.
- 34. In conclusion, the Subcommittee made the following recommendations:**
- i. The Commission should organize a retreat for the members of PRC Sub Committee on Audit matters on ERM for them to enhance their oversight role.***

- ii. The commission should make regular updates to the PRC Sub-Committee on Audit Matters on the operationalization of the ERM in the AU.*

V. CLOSING REMARKS

35. The Chairperson of the Subcommittee expressed appreciation for the constructive deliberations and comments by all delegations.
36. She further thanked the members and the representatives of the Commission for the commitment towards the work of the Sub-Committee throughout the year and wished them all happy holidays and safe journey for those who were travelling during the festive season.

DRAFT DECISION ON AUDIT MATTERS
Doc. EX.CL/1177 (XXXVI)vi

The Executive Council,

1. **TAKES NOTE** of the Consolidated Report of the PRC Sub-Committee on Audit Matters and, **ENDORSES** the recommendations contained therein.

**ON THE TERMS OF REFERENCE (TOR) FOR FORENSIC AND
PERFORMANCE AUDIT OF THE AUC**

2. **Commends** the PRC Sub-Committee on Audit Matters for coordinating the engagement of the Independent Forensic Audit Firm.
3. **DIRECTS** the Commission to ensure that the audit is expedited and the report thereof be presented to the PRC through the Sub-Committee on Audit Matters by 31 May 2020.

**ON THE AHRM REPORT ON STOPPING OF DOUBLE PAYMENTS OF
HOUSING ALLOWANCES**

4. **TAKES NOTE** of the action taken by the Commission to stop the payment of double housing allowance in August 2019.
5. **DIRECTS** the Commission as follows:
 - a) Ensure that all management responses on concerns of Member States on financial issues that are presented to the Member States are validated by the Office of Internal Audit.
 - b) Impose sanctions on the staff members who do not follow the AU Rules and Regulations as well as any directives passed to enhance internal control systems, including those staff who have not submitted their declarations of spouses and other family relations working for the AU. The sanctions should include barring the concerned staff from undertaking missions, blocking step increments or promotions and blocking payments of any arrears during the period of non-compliance.
 - c) Work out by March 2020 modalities of recovery from the staff members who received double payment of the allowances (including those who left the organisations) and report to the Sub-Committee on Audit Matters.
 - d) Report every quarter to the Sub-Committee on Audit Matters on the measures taken to the staff who violate the AU Rules and Regulations.

**ON THE INTERNAL AUDIT REPORTS ON BUDGET PERFORMANCE FOR
THE PERIOD JANUARY TO JUNE 2019, AND REVITALIZED PEACE FUND
FOR THE PERIOD MARCH 2018 – APRIL 2019**

6. **DIRECTS** the Commission as follows:
- a) Impose sanctions on the staff members who did not adhere to the AU Financial Rules and Regulations relating to budget execution, including staff members who authorized and processed payments of USD 1,687,761.32 from Eco Bank Peace Fund account as this could not be classified as a human error.
 - b) Enhance the planning process on operation budget for costs that cannot be avoided, by submitting detailed information on the estimated costs using the actual costs requirements.
 - c) Strengthening the Certification (Financial Control) Unit and the Section dealing with Reconciliations so as to ensure detection of errors made in processing payments before any damage is done, and avoid the recurrence of the similar weaknesses in the future.

ON THE PBFA REPORT ON SPECIAL FUNDS ACCOUNTS

7. **DIRECTS** the Commission as follows:
- a) Prepare a detailed analysis on all special funds including those that have been dormant for over five years based on the achievement of objectives in consultation with the relevant departments before closing them to determine if they are no longer relevant, and have it audited by the Office of Internal Audit and submit it to the Sub-Committee on Audit Matters for consideration by 31 May 2020.
 - b) Abide by the relevant Executive Council decisions in allocating funds to all special funds using the respective percentages on the contributions received from Member States yearly in line with annual budgets.
 - c) Ensure that balances in the bank accounts are aligned and reflect balances in the general Ledger of special funds and report to the Sub-committee on Audit Matters periodically

**ON THE REPORT OF THE MATRIX ON IMPLEMENTATION OF THE AUDIT
RECOMMENDATIONS (FROM INTERNAL AND EXTERNAL AUDITS)**

8. **DIRECTS** the Commission as follows:

- a) Ensure that the Office of Internal Audit (OIA) prepares separate matrix of long outstanding audit recommendations with clear reasons for non-implementation.
- b) Ensure that the Office of Internal Audit continues monitoring the implementation of all the audit recommendations and submit the results thereof to the Sub-committee on Audit Matters for consideration.

**ON THE DRAFT REPORT ON IMPLEMENTATION OF ENTERPRISE RISK
MANAGEMENT (ERM) WITHIN AFRICAN UNION**

9. **COMMENDS** the Commission for the draft report, and regrets the delayed implementation of a risk management policy.
10. **CALLS UPON** the Commission to fast-track the operationalization and implementation of the risk management policy, bearing in mind the ongoing reform of the AU.
11. **ALSO CALLS UPON** the Commission to make regular updates to the PRC Sub-Committee on Audit Matters on the operationalization of the ERM in the AU.
12. **CALLS UPON** the Commission to organize a retreat for the members of the PRC Sub-Committee on Audit matters in particular on Enterprise Risk Management so as to enhance their oversight role.

**ON THE REPORT OF THE AU COMMISSION ON CONSEQUENCE
MANAGEMENT AND THE OVERSIGHT ROLE OF THE CHAIRPERSON OF
THE AU COMMISSION WITHIN THE UNION ON THE FUNCTIONING OF
OTHER AU ORGANS**

13. **TAKES NOTE** of the Report of Chairperson on the implementation of the Council decision EX.CL/Dec. 1057 (xxxv) par. 40 adopted by the thirty fifth (35th) ordinary session of the executive council held in Niamey, Niger in July 2019.
14. **TAKES NOTE** of the sanctions taken against staff found guilty of irregularities and violations of AU Regulations and Rules, after having followed due process;
15. **MANDATES** the AUC Chairperson to continue to use his statutory and managerial powers to take strong actions to address all acts of misconduct in the Union with a view to ensuring consequence management and zero tolerance against irregularities and violations of AU Regulations and Rules.
16. **DIRECTS** the Commission to expedite the process of addressing pending cases following due process, and report by July 2020;
17. **DIRECTS** the Office of the Legal Counsel to examine the Legal Instruments and Rules of Procedures of the AU Organs and identify areas of incoherence or conflict

with other AU Legal Instruments, and advise AU Policy Organs on amendments, as appropriate.

18. **DIRECTS** the PRC-sub Committee on general supervision, budget, finance and administrative matters through the PRC to approve the necessary budget for the implementation of this decision as applicable.
19. **REQUESTS** the Commission to present a report by July 2020 on the operationalization of the Court of Justice of the Union which is mandated to consider appeals from the AU Administrative Tribunal, as well as the establishment of an interim appeals mechanism.
20. **REQUESTS** the Commission to report on the implementation of this decision during the ordinary session of the Executive Council in June/July 2020.

ASSEMBLY DRAFT DECISION
***Consequence Management and the Oversight Role of the Chairperson of the
AU Commission within the Union on the functioning of other AU Organs***
Doc. EX.CL/1177 (XXXVI)vi

The Assembly,

1. **TAKES NOTE** of the Report of Chairperson on the implementation of the Council decision EX.CL./DEC. 1057 (xxxv) par. 40 adopted by the thirty fifth (35th) ordinary session of the executive council held in Niamey, Niger in July 2019;
2. **TAKES NOTE** of the sanctions including dismissal and separation taken against staff found guilty of irregularities and violations of AU Regulations and Rules, after having followed due process;
3. **MANDATES** the AUC Chairperson to continue to use his statutory and managerial powers to take strong actions to address all acts of misconduct in the Union including those committed by Head of Organs or Institutions with a view to ensuring consequence management and zero tolerance against irregularities and violations of AU Regulations and Rules;
4. **DIRECTS** the Office of the Legal Counsel to examine the Legal Instruments and Rules of Procedure of AU Organs and identify areas of incoherence or conflict with other AU legal Instruments, and advise AU Policy Organs on amendments, as appropriate;
5. **AUTHORISES** the African Court on Human and Peoples Rights to receive and resolve any appeal against the Judgments of AU Administrative Tribunal on an interim basis until the full operationalization of the Court of Justice of the Union;
6. **REQUESTS** the Commission to present a report by July 2020 on the operationalization of the Court of Justice of the Union which is mandated to consider appeals from the AU Administrative Tribunal;
7. **REQUESTS** the Commission to submit a report on the implementation of this decision to the Executive Council by July 2020.

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