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REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

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PRC SUB-COMMITTEE ON AUDIT MATTERS

22-23 MARCH 2016

ADDIS ABABA, ETHIOPIA

Audit S/Cttee/Rpt
Original: English

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

REPORT OF THE 9th MEETING OF THE SUB-COMMITTEE ON AUDIT MATTERS

HELD ON 22-23 MARCH 2016

I. INTRODUCTION

1. The ninth meeting of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on 22-23 March 2016. Both sessions started at 10:30 hrs.

II. ATTENDANCE

2. The meeting was chaired by H.E. Akuei Bona Malwal, the Ambassador of the Republic of South Sudan and the 1st 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 (DRC)
5. The Gambia
6. Kenya
7. Mauritania
8. Mauritius
9. Namibia
10. Niger
11. South Sudan
12. Togo
13. Tunisia

III. OPENING REMARKS

3. The Chairperson opened the meeting and welcomed all the members in attendance as well as representatives of AU Organs. Furthermore, the Chairperson introduced H.E. Claude Nyanugabo the new Ambassador of DRC. He also recognised the presence of Ms. Assietou Sylla Diouf the new Director of Finance (PBFA) as well as Mr. Yunus Sule man the new Financial Advisor to the Chairperson of the AUC.

IV. ADOPTION OF AGENDA

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

1. Opening Remarks;
2. Adoption of Agenda;
3. Consideration of the AU Board of External Auditors (BOEA) Reports for the Year Ended 31 December 2014 on the following:
 - i. AU Commission (AUC)
 - ii. Pan African Parliament (PAP)
 - iii. African Union Court (AfCHPR), Arusha
 - iv. AU Commission for Human Rights (ACHPR), Banjul
 - v. NEPAD Program Coordinating Agency (NPCA)
 - vi. Advisory Board on Corruption (AU ABC)
4. Any Other Business (AOB).

V. CONSIDERATION OF THE AU BOARD OF EXTERNAL AUDITORS REPORTS FOR THE YEAR ENDED 31 DECEMBER 2014:

5. The Chairperson of the Sub-Committee invited Mr. Thembekile Kimi Makwetu, the Chairperson of the AU Board of External Auditors (BOEA) to present the reports of the Board of External Auditors on each organ that was audited. The Chairperson of the AU Board of External Auditors thanked the members and stated that their responsibility as the BOEA was to express an opinion on the financial statements of African Union Organs.

6. The Chairperson of the BOEA informed the meeting that the BOEA was comprised of Supreme Audit Institutions (SAI) from five Member States i.e. Algeria, Cape Verde, Equatorial Guinea, South African and Uganda, which have together for the first time audited the accounts of the African Union for the year ended 31 December 2014 with South Africa being the Lead Auditor. The scope of the Board's work for the 2014 financial year covered the AU organs mentioned below, which were allocated to the members as follows:

African Union Organ	Auditor
African Court for Human and Peoples' Rights (AfCHPR)	Algeria
African Commission for Human and Peoples' Rights (ACHPR)	Cape Verde
Advisory Board on Corruption (AU ABC)	Equatorial Guinea
African Union Commission (AUC)	South Africa

NEPAD Program Coordinating Agency	South Africa
Pan African Parliament (PAP)	Uganda

7. The presentation of the report on each organ as well as deliberations and conclusions are summarised in the paragraphs below:

V. (1) AFRICAN UNION COMMISSION

a) Presentation

8. The Chairperson of the BOEA presented the report as summarised below:

Opinion

9. The Chairperson stated that the South African SAI issued an unqualified audit opinion with an emphasis of matter. This is a clean opinion although AUC is required to make further improvements in areas as explained in the management letter.

Emphasis of matter

10. The emphasis of matter was to draw the attention of the users of the financial statement to the fact that the Commission had elected not to disclose comparative information as permitted by IPSAS 1 Presentation of Financial Statements and that the Commission had adopted the transitional provisions as allowed by IPSAS 17 Property, Plant and Equipment.

Significant findings

11. The Chair also stated that a number of errors were identified in AUC, however management was able to correct material errors in order to avoid a qualification. There remains a risk that the control environment in the area of monthly reconciliations is weak, especially in areas of cash management and partner funding, of which are susceptible to fraud risk.

12. The Chair also mentioned audit findings raised that were cause for concern which included the following:

- Bank reconciliations were not prepared and reviewed on a regular basis. Long outstanding reconciling items were also identified, some of which were not recorded in a timely manner. This may increase the susceptibility of cash and bank to misappropriation;
- Project funds were rolled over between funding from different partners without prior approval from the relevant partners. This resulted in the balances per the expenditure statement not agreeing to the actual cash at bank, which in the

absence of regular bank reconciliations may increase the risk of project funds being misappropriated; and

- There were no formal approved and adopted policies and procedures to govern user access management to the Commission's information technology systems

b) Deliberations

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

- i.) Members thanked the Auditors for the work done and requested explanations as to why the bank reconciliation exercises were not being done as required.
- ii.) Members also wanted to know why there was a provision for bad debts included in the financial statements of USD 8,692,000.
- iii.) Members also wanted to know what was the major make-up of the deferred revenue amount on the statement of Partners Fund position.
- iv.) Members further wanted to know why comparative figures were not shown and disclosed in the financial statements.

c) Responses

14. The Programming, Budgeting, Finance and Accounting (PBFA) Directorate of the AUC responded that the situation on the bank reconciliation had since been rectified and the bank reconciliation exercises were being conducted as required and this finding is not expected to recur.

15. PBFA also responded that the provision for bad debt was mostly made up of the receivable from Morocco with respect to assessed contributions at the time since it was a member of the African Union. The amount has not yet been written off.

16. PBFA indicated that the deferred income was with respect to funds received from partners which have conditions attached to them. These funds are treated as a liability payable to the partners and recognized as income as the amounts are expensed and the set conditions are met.

17. PBFA further explained that comparative figures (for 2013) were not shown due to change in accounting standards after adoption of IPSAS which started in 2014. This is allowed under IPSAS 1 in the first year it is being adopted.

d) Conclusion of the Sub-Committee

18. Based on the deliberations that ensued, the Sub-Committee made the following conclusions:-

- i. Takes note of the Audit Report and commends the work done by the BOEA
- ii. Requests the AU Commission to implement the Audit Recommendations contained in the Audit Report and make sure that corrective actions are undertaken to resolve the weaknesses observed by BOEA.

V. (2) PAN AFRICAN PARLIAMENT

a) Presentation

19. The Chairperson of the BOEA presented the report as summarised below:

Opinion

20. The Ugandan SAI issued an unqualified audit opinion with an emphasis of matter.

Emphasis of matter

21. The emphasis of matter paragraph was to draw the attention of the users to the fact that disclosures were made in the financial statements stating that management was unable to include the South African government's contribution towards PAP operations; an amount received from development partners, which had been reflected as payables in the past periods has been credited to reserves and that no evidence was provided to support the existence of PAP Trust Fund.

Significant findings

22. Furthermore, the Chairperson summarized the significant audit findings identified in the PAP audit report as follows:

- A review of the budget process revealed that the approval of the budget is on a total figure and no detail breakdown of activities to be undertaken is provided. In addition, budget performance reports of the PAP revealed seven instances where expenditure was incurred beyond the budget provisions.

- PAP maintained four dormant bank accounts of which their balance has reduced over time raising the possibility that funds were being spent without necessary appropriation or authorisation of the Assembly.
- The staff regulations and rules provides for the creation of an Appointments, Promotions and Recruitments board. However no evidence was provided confirming the existence of such a board at PAP level.
- PAP lacks a comprehensive IT strategic plan. As such, IT initiatives were not coordinated which may adversely affect future developments of ICT. In addition, IT policies and standards were not developed.

b) Deliberations

23. Following the presentation, the Chairperson of the Sub-committee invited the Members for deliberations. The deliberations of the members are summarised below:

- i.) Members thanked the Auditors for the work done and requested to know why PAP had not included the South African government's contribution towards its operations.
- ii.) Members also requested to know why PAP did not have a detailed breakdown of the budget, when PAP was represented at the Budget meeting where the budgets were approved.
- iii.) Members also requested to know what action PAP was taking on the issue of the dormant bank accounts.

c) Responses

24. PAP informed the meeting that it was awaiting figures from the Government of South Africa to determine the contribution from the Government to be recognised in the financial statements.

25. PAP also stated that the official correspondence from AUC Headquarters communicating the approved budget with details of the activities was not sent by PBFA. They only received a communication with the total approved figure. Hence what PAP had was the detailed budget proposal.

26. PAP also informed the meeting that it was working to find ways to reduce the bank accounts; otherwise the bank accounts were originally used for partners' funds.

d) Conclusion of the Sub-Committee

27. Based on the deliberations that ensued, the Sub-Committee made the following conclusions:-

- i. Takes note of the Audit Report and commends the work done by the BOEA
- ii. Requests PAP management to implement the Audit Recommendations contained in the Audit Report and make sure that corrective actions are undertaken to resolve the weaknesses observed.

V. (3) NEPAD Agency Coordinating Program

a) Presentation

28. The Chairperson of the BOEA presented the report as summarised below:

Opinion

29. The Chair stated that SNG, a South African reputable private firm appointed by NEPAD, issued a qualified audit opinion.

Qualification

30. The qualification was based on the fact that it was not feasible for NEPAD to institute accounting controls over collections from donations and sponsorships relating to member states' contributions and development partner funding prior to the initial entry of the collections in the accounting records. Accordingly, it was impractical for SNG to extend their examination beyond the receipts actually recorded.

Significant findings

31. Significant audit findings raised during the audit were as follows:

- Value-added tax (VAT) from 2011 to 2013 was not refunded by the South African Revenue Service however no provision was raised against the VAT although the recoverability appears questionable;
- A number of expenses mainly relating to travel were incurred in 2013 however they were only accounted for in the 2014 financial year end; and

- Grant amount recorded in the accounting records differed from the amount in the grant agreement.

b) Deliberations

32. Following the presentation, members of the subcommittee were invited for deliberations. The deliberations of the members are summarised here-below:

- i.) Members requested to know why NEPAD could not rectify the matters which led to the qualified opinion issued by the External Auditors.
- ii.) Members also requested to know what measures were being undertaken by NEPAD on the VAT receivable from the South African government.

c) Responses

33. NEPAD clarified that the issue of controls over collections of voluntary contributions was not peculiar to NEPAD alone and was a cross-cutting issue to all organs of the African Union. The voluntary contributions referred to by the BOEA were with respect to donations from the group of 20 Member States (Members of the NEPAD Steering Committee) which have undertaken to give extra support to NEPAD activities but it is difficult to estimate with certainty whether these contributions will be made during the year.

34. NEPAD also informed the meeting that they had commenced the procedure for obtaining approval to write off the VAT receivable for the period 2011 to 2013 as it was evident that this amount is irrecoverable because the time for the VAT claims in question has already expired.

d) Conclusion of the Sub-Committee

35. Based on the deliberations that ensued, the Sub-Committee made the following conclusions:-

- i. Takes note of the Audit Report and commends the work done by the BOEA
- ii. Requests NEPAD management to implement the Audit Recommendations contained in the Audit Report and ensure that corrective actions are undertaken to resolve all the weaknesses noted.

V. (4) AFRICAN COURT FOR HUMAN & PEOPLES RIGHTS (AfCHPR)

a) Presentation

36. The Chairperson of the BOEA presented the report as summarised below:

Opinion

37. The Algerian SAI issued a qualified audit opinion with an emphasis of matter.

Qualification

38. Two uncorrected material misstatements relating to Inventory and Receivables were identified.

39. The organ elected not to disclose comparative information as permitted and allowed by IPSAS 1 Presentation of Financial Statements however they did not disclose this fact in the financial statements

Significant findings

40. Significant audit findings identified in the audit were as follows:

- Significant amounts of up to 200,000 USD are withdrawn out in cash to pay compensation to judges who refuse to open bank accounts;
- Inadequate preparation and execution of budget programs;
- No assessment of useful life for vehicles with a book value of zero amounts though the vehicles are in good condition and still in use; and
- Payments in violation of internal procedures relating to staff allowances (e.g. education allowance), daily allowance (DSA) and compensation for travel costs.

b) Deliberations

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

- i.) Members requested explanation as to why the AU Court could not rectify the issues, inventory and receivables which led to the qualified opinion.

- ii.) Members also wanted to know why the AU Court was withdrawing huge amounts of cash to pay the Judges, instead of transferring to bank accounts.

- iii.) Members also wanted to know what the AU Court was doing about the vehicles whose values are written-down to zero but have useful life.

c) Responses

42. The AU Court (AfCHPR) responded that the qualification was due the fact that a note had not been included indicating that it had elected to use the provision in the IPSAS standards which allow first time adopter not to show the comparative figures. This situation is not expected to recur in subsequent years as the comparative figures based on the standards will be available.

43. The Court also explained that receivables were on 2 long outstanding amounts. VAT claim with the Tanzanian Government which is delayed due to change of rules requiring original documents and is still being followed up by the Court. The amount from an airline agent that went bankrupt and needs approval for writing off.

44. The AU Court also explained that the amounts withdrawn in cash to pay the Judges were for Daily Subsistence allowance (DSA) and not compensation. They further explained that these were not withdrawn at once but in a series of withdrawals.

45. On written down values for vehicles, the Court explained that they had sought advice from AUC Headquarters on how to go about the revaluation exercise and were still waiting for the guidance from AUC.

d) Conclusion of the Sub-Committee

46. Based on the deliberations that ensued, the Sub-Committee made the following conclusions:-

- i. Takes note of the Audit Report and commends the work done by the BOEA

- ii. Requests AU Court (AfCHPR) to implement the Audit Recommendations contained in the Audit Report and make sure that corrective actions are undertaken to resolve the weaknesses observed.

- iii. Requests AU Court (AfCHPR) to provide a Report on the VAT with details and reasons for non-payment of VAT refunds in order to enable the Sub-Committee take an appropriate decision on the matter.
- iv. Observes that a lot of issues of non-compliance have been raised in the audit report, hence requests that more internal audits be done and appropriate measures be taken against non-compliance.

V. (5) AU ADVISORY BOARD ON CORRUPTION (AU ABC)

a) Presentation

47. The Chairperson of the BOEA presented the report as summarised below:

Opinion

48. Equatorial Guinea SAI did not express an audit opinion for the financial statements.

Significant issues

The Chair stated that attempts have been made to contact the SAI with no success. They have also not attended the BOEA meetings and no apology was provided. This has resulted in the 2014 audit of the Advisory Board on Corruption not to be concluded and the board questioning its operational effectiveness stemming from this situation. The Chair also indicated that more details are given under in his report under other matters (i.e. Operational effectiveness of the BOEA).

49. As a provisional measure to finalize the 2014 audit the Board has reallocated the audit to the Ugandan SAI (Supreme Audit Institution).

b) Deliberations

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

- i.) Members wondered why the Equatorial Guinea SAI had not performed the audit of the Advisory Board on Corruption as allocated.
- ii.) Members also questioned the reasons for Equatorial Guinea SAI not been able to attend the meetings for the AU Board of External Auditors.

c) Conclusion of the Sub-Committee

51. The subcommittee recommended as follows:-

- i. The Bureau of the Sub-committee on Audit Matters should consult with the Dean of Central Region on the issue of absence of Equatorial Guinea as a member of BOEA prior to reporting the matter to the PRC.

V. (6) AFRICAN COMMISSION FOR HUMAN AND PEOPLES RIGHTS

a) Presentation

52. The Chairperson of the BOEA presented the report as summarised below:

Opinion

53. The Cape Verdean SAI issued a qualified audit opinion with an emphasis of matter.

Qualification

54. Two uncorrected material misstatements relating to General Reserves and Accumulated depreciation were identified.

Emphasis of matter

55. The organ has elected not to disclose comparative information as permitted by IPSAS 1 Presentation of Financial Statements

Significant findings

56. Significant audit findings identified in the audit were as follows:

- No segregation of duties in risk areas such as bank reconciliations and preparation and issuance of cheques. There is a significant risk that money can be embezzles should this not be addressed; and
- The annual procurement plan does not exists though the organ's Procurement Manual requires that a plan be put in place that will analyse all proposed procurement for the year.

b) Deliberations

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

- i.) Members requested to know why the Commission (ACHPR) could not rectify the issues which led to the qualified opinion from the Auditors.
- ii.) Members also wanted to know why the salaries budget had been exceeded by 14% and whether due authorization for this overage had been obtained.

c) Responses

58. ACPHR explained that the two uncorrected material misstatements relating to General Reserves and Accumulated depreciation could best be explained by PBFA at Head Office, as the finance office for ACPHR was functionally under Head Office.

59. ACPHR further explained that a major setback was created by the communication difficulties with the Auditors who spoke Portuguese.

60. On the salaries budget line exceeded by 14% ACPHR explained that this had been due to the payment of arrears for staff which had not initially been budgeted for and the situation is not expected to recur.

d) Conclusion of the Sub-Committee

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

- i. Takes note of the Audit Report and commends the work done by the BOEA
- ii. Requests ACHPR management to implement the Audit Recommendations contained in the Audit Report and ensure that corrective actions are undertaken to resolve all the weaknesses noted.

V. (7) OTHER MATTERS RAISED BY THE BOEA

a) Presentation

62. The Chairperson of the BOEA presented other matters as summarised below:

Operational effectiveness of the BOEA

63. The Chairperson of BOEA explained that certain events, such as 2014 being their first year of auditing as the BOEA as well as the Equatorial Guinea SAI issue, have triggered them to reflect on the current BOEA rotation and composition.

64. Rotation of a BOEA member, as opposed to rotation of the whole BOEA, should be considered to be staggered over the years to allow the institutional knowledge to remain within the board. Replacing all five members at the same time will result in auditors losing the knowledge and experience gained thus impacting on the effectiveness.

65. The staggering of the appointment of the auditors will improve on the corporation and coordination experienced for first-time members. The setup around the establishment of the current BOEA had the following inherent challenges which impacted on its effectiveness:

- Audit methodologies used by members of the BOEA are different which resulted in inconsistencies in work methods and reporting;
- Inability to obtain prior year audit working papers that could have assisted with auditing of opening balances; and
- The coordination of activities was inherently challenging, given the geographical spread of members and difficulties in communication due to different languages.

66. Furthermore, the Chairperson of BOEA stated that the BOEA is a representative of the five AU regions and their experience has shown that an audit is a transversal process of evaluation regardless of the geographical location and region. In order to enhance the operational effectiveness of the BOEA, it is recommended that proper attention be given to the practicality of having a five member BOEA and the rotation of all members.

Risks raised by the AUC Chairperson

67. The Chairperson of BOEA informed the meeting that the AU leadership had requested them to host a workshop with the AU management to address certain key emerging risks that they had identified. The workshop would entail the audit team performing the following:

- Review of IT systems with a focus on SAP as the main application system;
- Review of the budget process and utilisation of funding;
- Inputs regarding the implementation of a results-based budgeting / management process; and
- Review of capacity-building initiatives and the implementation of policies on ethics, anti-corruption and enterprise risk management with a view to strengthen governance practices of the AU.

68. He then stated that the planned workshop could not take place at the agreed date of September 2015 and was postponed due to unforeseen circumstances. BOEA has incorporated the above request in this year's plan and work will commence in April 2016.

Office of the Secretary of the BOEA

69. The Chairperson of BOEA informed the meeting that it has come to their attention that the office of the secretary to the BOEA is perceived to be part of the AU finance department (PBFA) because the executive secretary reports directly to the director of PBFA. Reporting to the director of PBFA could raise questions around independence.

70. The Chairperson of BOEA then suggested that the Secretariat to the Board should ideally, in BOEA's opinion, be placed at the same authority as that of the BOEA. Therefore, there is a need to have the positioning of the executive secretary reviewed and clarified in due course.

The Role of Office of Internal Audit (OIA)

71. The Chairperson of BOEA also explained the need for reinforcement of the role of OIA so that they can be able to conduct more audits in offices and organs where the internal controls are deemed to be weak.

b) Deliberations

72. The members expressed concern on the delay in the presentation of the external audit report to the subcommittee and urged the AUC to ensure future reports were presented on time.

c) Conclusion of the Sub-Committee

73. After the deliberations on concerns raised by the BOEA, the following conclusions and recommendations were made by the Sub-Committee:-

- i. The Terms of Reference (TOR) of BOEA should be reviewed with a view of extending the term of members so as to ensure institutional memory of the Board of Auditors.
- ii. The Secretariat of the BOEA should be reporting to the Office of the Chairperson so as to ensure independence.

The role of the Office of Internal Audit should be reinforcement to be able to conduct more audits in Offices and Organs where the internal controls are deemed to be weak.

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

74. The Chairperson informed the meeting that it has been brought to his attention that decision EX.CL/Dec.915(XXVIII) paragraph 8 appear to render the function of this Sub-Committee redundant by requiring the BOEA to report to the Sub-Committee on General Supervision and Coordination on Budgetary, Financial and Administrative Matters. Therefore, the Chairperson requested that the decision be distributed to members and be discussed in the next meeting with a view to advise the PRC and the Executive Council during the next Summit.

75. The members also enquired on the documents for the Zanzibar Workshop Retreat which were not yet circulated to them.

76. There being no other business, the meeting was adjourned at 12:55 hours on 22nd and 23rd March 2016 respectively.

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PRC SUB-COMMITTEE ON AUDIT MATTERS

16 June 2016

ADDIS ABABA, ETHIOPIA

Audit S/Cttee/Rpt

Original: English

REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS

**REPORT OF THE 9th MEETING OF THE SUB-COMMITTEE
ON AUDIT MATTERS
HELD ON 16th JUNE 2016**

I. INTRODUCTION

1. The ninth meeting (second session) of the Sub-Committee on Audit Matters was held in Addis Ababa, Ethiopia on Thursday, 16th June 2016. The meeting started at 10:20 hrs.

II. ATTENDANCE

2. The meeting was chaired by H.E. Mrs. Monica N. Nashandi, the Ambassador of Republic of Namibia, and attended by representatives of the following Member States:

14. Burkina Faso
15. Chad
16. The Gambia
17. Congo
18. Kenya
19. Tunisia
20. Mauritius
21. Namibia
22. Niger
23. South Sudan
24. Togo

III. OPENING REMARKS

3. The Chairperson opened the meeting and welcomed all the members in attendance. She proceeded by inviting the members to the adoption of agenda.

IV. ADOPTION OF AGENDA

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

1. Opening Remarks;
2. Adoption of Agenda;
3. Adoption of the Report of the PRC Sub-Committee on Audit Matters (22-23 March 2016)
4. Consideration of:

- i. The Report on Budget Performance for the year ended 31 December 2015;
 - ii. The Report on the Implementation Matrix of Audit Recommendations as at 30 April 2016.
5. Any Other Business (AOB).

V. ADOPTION OF THE REPORT OF THE PRC SUB-COMMITTEE ON AUDIT MATTERS- On 2014 Audited Financial Reports

5. The Chairperson of the Sub-Committee invited the members for the consideration and adoption of the report.

6. The members deliberated on the report and adopted it with the following amendments to be included in the report:-

- The need for reinforcement of the role of OIA so that they can be able to conduct more audits in offices and organs where the internal controls are deemed to be weak.
- The member's concern on the delay in the presentation of the external audit reports to the Sub-Committee and urged the AUC to ensure future reports were presented on time.

7. The Chairperson also informed the members that in compliance with IPSAS(i.e. International Public Sector Accounting Standards), once the 2014 audited financial statements have been adopted by the Summit, they will be published on the African Union website.

VI. CONSIDERATION OF THE AUC BUDGET PERFORMANCE REPORT FOR THE YEAR ENDED 31 DECEMBER , 2015

a) PRESENTATION

8. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the budget performance report for the year ended 31 December, 2015.

9. The Director thanked the members and apologised for the delay in submitting the report and explained that it was due to delays in gathering all the required data for the audit. She then made the presentation, summarised as below:

1. Overall Assessment

10. The Director explained that the overall rate of budget execution for the AUC based on the approved budget for the period under review was 51%. She also added that the overall execution rate based on the available funds was 68% as summarised in the two tables below (Table 1 shows the overall for the year while table 2 shows the execution from 1st quarter to 3rd quarter and the comparative figures for the year 2014).

11. Table 1 shows the execution rate of programme budget at 40% on approved budget and 62% on available funds, whilst the rate for operational budget was 77% on both the budget and available funds.

Table 1

AUC Budget Execution for the Year Ended 31 December 2015

Details	Original Budget (US\$)	Supple. Budget (US\$)	Total Budget (US\$)	Available Funds (US\$)	Actual Expenditure (US\$)	Execution Rate %	
						On Budget	On Aailed Funds
Program Budget	203,317,104	52,185,406	255,502,511	163,301,597	101,914,919	40%	62%
Operating Budget	102,962,500	608,398	103,570,898	103,570,898	80,136,505	77%	77%
Total	306,279,604	52,793,804	359,073,408	266,051,424	182,051,424	51%	68%

Table 2

Quarterly and Comparative Previous Period Execution Rates

Details	Final 2014		1 st Quarter 2015			2 nd Quarter 2015			3 rd Quarter 2015		
	Execution Rate		Availed Funds (US\$)	Execution Rate		Availed Funds (US\$)	Execution Rate		Availed Funds (US\$)	Execution Rate	
	On Bud*	On Ava*		On Bud	On Ava		On Bud	On Ava		On Bud	On Ava
Program Budget	31%	71%	63.9m	8%	14%	89.3m	16%	38%	115.1m	31%	55%
Operating Budget	93%	93%	103.0m	14%	14%	103.0m	41%	41%	103.0m	57%	57%
Total	52%	85%	167m	11%	14%	192.3m	25%	39%	218.1m	40%	56%

*Bud = Budget; Ava = Available

i) Low and Zero Budget Execution

12. It was reported that, 129 budget lines with an amount of US\$27m or 11% of the program budget were executed below 40% of the released (available funds), whilst there was a zero budget execution rate on 492 budget lines with an amount of US\$35.8m or 14% of the program budget.

13. Most of the departments indicated late receipt of funding and challenges in staffing led to low and non-implementation of programmes.

14. The Office of Internal Audit recommended that the SPPMERM should liaise with the affected departments so as to review the activities not carried out during the period and include them in the future budget plans as appropriate.

15. The OIA also recommended that the Directorate of Administration and Human Resource Management (AHRM) should expedite staff recruitments for vacant positions on the approved structure.

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

16. A total of US\$25.6 million of the Program Budget for 317 budget lines did not received any funding during the year 2015. Of this amount **US\$23million** was under Partners while **US\$2.6million** was under Members States.

17. The Office of Internal Audit recommended that the SPPMERM should make the appropriate follow-up with the respective funding Partners.

iii) High Budget Execution (Over 100%)

18. It was reported that two budgets lines (IDCP00540 funded by USA under the Bureau of the Deputy Chairperson and ICOM01206 funded by Member States under the Communications Directorate) were executed by 125% and 307% respectively thereby exceeding the total allocated amounts of US\$158,175 and US\$22,002 respectively in the approved budget.

19. OIA recommended that SPPMERM should ensure that no objection and approval are obtained for the budget line funded by the USA Fund. Additionally, the requests for supplementary budgets should be made accordingly to avert budget overruns.

iv) Pass-Through Projects, technical Assistance and Special Assistance

20. It was reported that the Pass-through funds budget of **US\$68.7m** (available fund of US\$21.7m) had been executed by **32%** and **66%** on the approved Budget and Available Funds respectively

21. Additionally, Special Assistance amount of **US\$6.1m** was execution at the rate of **34%** and **42%** on the approved budget and available funds respectively. Technical Assistance projects were provided in kind e.g. through provision of consultants etc.

2. Findings on Programme Outputs

22. The OIA Director stated that during the year 2015, a total of one hundred and seventy one (171) outputs were planned. A review of the year-end Progress Reports in the AMERT system revealed that 25 project-outputs were achieved, 10 had not started, whilst 79 outputs were partially achieved. The balance of 57 outputs could not be verified as the reports were not yet submitted in the AMERT system at the time of the audit. However, some were submitted after the conclusion of the audit.

23. It was reported that for 2015 budget performance, the AMERT System continued having the following weaknesses:-

- 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 and output.

24. It was further reported 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.

25. The major challenges cited by the departments include:

- a) Budget constraints, where most of the programs were not funded and late receipt of funds, especially from the Partners.
- b) Lack of adequate staff capacity to facilitate implementation of programs.

26. The Office of Internal Audit recommended the following:

- a) The SPPMERM should come up with a mechanism to ensure compliance by all departments in timely submitting of reports on the implementation of programs.
- b) SPPMERM should ensure that departments adjust their respective plans (for the coming year) to reflect more realistic output targets which are achievable given the current capacity in terms of staff compliments as well as the available funds.
- c) SPPMERM in conjunction with PBFA should scale up the efforts of ensuring the funds mobilized from the Partners are received on time to enable the implementation of activities.

27. The follow-up on previous recommendations noted that some of them are not yet implemented or still in progress as summarised below:

- a) The AMERT system should be upgraded to prevent incomplete reports from being uploaded. (In progress).
- b) SPPMERM should ensure that when the departments submit their proposals, the outputs and indicators are weighted. (Not implemented).
- c) The AMERT system 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. (Not implemented).

b) DELIBERATIONS

28. Following the presentation of the budget performance analysis for the year ended 31 December 2015; the Chairperson invited the Members for deliberations after expressing appreciation for the good quality of the report.

29. The deliberations of the members are summarised below:

- i.) Members requested explanation on why some budget lines in the operational budget were expended at exactly 100% and explanations on the budget over runs on the program budget.
- ii.) Members requested to know what the Commission was doing on the issue of staff capacity which was negatively affecting the implementation of programs.
- iii.) Members also wanted to know what can be done to address the recurrent issues on lack of funding or late fund disbursements from the partners after making pledges to give financial support.
- iv.) Members noted some governance issues in programs implementation, accountability and funding requiring enhancement to boost partners' confidence in resource disbursements.
- v.) Members also wanted to know if systems exist to ensure proper accountability especially on partner funds.
- vi.) Members sought to know if management of partner funds was well coordinated in the Commission.
- vii.) Members furthermore requested for the status and scope of the audit on the Reserve Funds that should have been availed during this meeting.

c) RESPONSE BY THE COMMISSION

30. The Director of Internal Audit responded that the Operational budget were exactly 100% execution are as a result of rounding to the nearest digit. Furthermore, expenditures above 100% are not accepted by the SAP system.

31. On the status of the Reserve Funds audit, the Director OIA informed the members that, the audit has progressed well and should be ready for translation next week. The periods covered spanned from year 2009 to 2015.

32. The representative of the SPPMERM explained that the issues on the staffing are being taken care of by the restructuring which is currently under progress. However, for a quick fix measure, departments engage short term staff to temporally help in addressing some programs implementation.

33. The Director, PBFA also reiterated on the restructuring that is extending to the Organs of the Union to address most of the issues on staffing to enhance program implementation. Alongside this is the development of policies aimed at boosting staff morale and better performance.

34. On the over expenditures in the operational budget, it was explained that some budgets such as the election and monitoring funds were usually not enough and hence were only allowed to spend up to the budget amount and the department had to look for other sources of funds to finance the gap. Hence the 100% expenditure reflected on the budget.

35. There are systems to ensure accountability such as regular Internal and External Audits on all funds. These help significantly in boosting partner's confidence.

d) CONCLUSION OF THE SUB COMMITTEE

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

- i. The AU Commission should address the issues raised by the 2015 Budget Performance Report of OIA and implement the recommendations accordingly.
- ii. The OIA should be strengthened so as to enhance the capacity to better deliver and improve on the Organisation Governance.
- iii. To minimise on the staff turnover, the Commission should work on motivating the staff to stay and also think of policies that can retain the staff at least for a considerable time.

- iv. All departments should upload their output reports in the AMERT system on time to enable necessary verifications and reviews. Those who fail to upload reports in AMERT on time should be reprimanded.

VII. CONSIDERATION OF THE REPORT ON IMPLEMENTATION MATRIX OF AUDIT RECOMMENDATIONS AS AT 30 APRIL 2016

e) PRESENTATION

37. The Chairperson of the Sub-Committee invited the Director, Office of Internal Audit (OIA) to present the Report on Implementation Matrix of Audit Recommendations as at 30 April 2016.

38. The Director thanked the members and made a presentation of the report as summarised in the paragraphs below:

i) Review Scope and Categories of Implementation Status

39. The Director explained that OIA follows up on the implementation of internal audit and external audit recommendations. The review of the implementation matrix covered the extent and nature of actions taken on all audit recommendations from the Board of External Auditors (BOEA) reports for the year ended 31 December 2013 and 31 December 2014; and Internal Audit Reports on AUC Budget Performances for the years 2013 and 2014. She explained that the status of the recommendations is in four categories namely “*Implemented*”, “*In progress*”, “*Not Implemented*” and “*No Longer Relevant*”.

ii) Findings on the Reports for the Years 2013 and 2014

40. The OIA tracked 101 recommendations contained in the 2013 BOEA audit reports as well as the Internal Audit report on budget performance (issued in 2014). A total of 59 out of 101 (58%) were implemented, 33 out of 101 (33%) were in progress, and 9 out of 101 (9%) were not implemented.

41. Additionally, the OIA tracked 93 recommendations contained in the 2014 BOEA audit reports and the internal audit budget performance report (issued in 2015). A total of 33 out of 93 (35%) were implemented, 52 out of 93 (56%) were in progress, 7 out of 93 (8%) were not implemented and 1 out of 93 (1%) was no longer relevant.

iii) Overall Assessment of Implementation Status

42. Overall, there were **194** recommendations tracked in audit reports that were deliberated by the PRC Sub-Committee on Audit Matters. Out of these recommendations, 92 had been implemented and progress had been made in implementing **85**, while **16** were not implemented and **1** was no longer relevant.

iv) Conclusions

43. Based on the results of follow-up, the OIA had of the opinion that the implementation of audit recommendations requires further improvements, as only less than 50% of the recommendations have been fully implemented. Effective implementation of audit recommendation will add value to audit work and the OIA will continue to monitor the implementation efforts on all the pending recommendations (i.e. “in progress” or “not implemented”)- See Annex of Pending Recommendations.

f) DELIBERATIONS

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

- i.) Members sought to know the responsible departments for the implementation of the recommendations in the Commission and the Organs.
- ii.) Members also asked whether the OIA thoroughly analysed the “Not Implemented” and “In Progress - recommendations” and made sure that they will be implemented in future.
- iii.) Members also wanted some clarification on the conclusion of the OIA.

g) RESPONSE BY THE COMMISSION

45. The Director OIA referred the members to the annexes attached to the report, which has information of those responsible for the implementation of each audit recommendations that is still pending.

46. The Director also told the members that, as contained in the conclusion, the recommendations marked as “Not Implemented” or “In Progress” together are more than 50%. Hence, there is need to ensure that further efforts are made on the implementation of audit recommendations.

h) CONCLUSION OF THE SUB COMMITTEE

47. Members concluded the deliberations on the agenda item and recommended as follows:-

- iii. The OIA should continue with the follow-up of audit recommendations and report to the Sub-Committee on Audit Matters periodically.
- iv. The departments and organs responsible for implementing pending audit recommendations should take necessary action to implement so as to enhance improvements in the operations of the Organisation.

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

48. The members requested for the status of the reserve funds audit that should have been submitted to this sub-committee meeting for discussion. The Director OIA informed the members that the reserve funds audit has progressed well and should be sent to the Conference Directorate for translation soon. Once translated, it will be submitted for discussion.

49. The members requested to know when the document for the Zanzibar Retreat would be availed to them. The commission responded that the documents were under translation and will be availed as soon as translation was completed into the AU working languages.

50. The members wanted to know if the BOEA report for 2015 currently under audit would be presented on time to avert a recurrence of last year. The commission responded that there would be a delay in the presentation of this year's audit report due to some setbacks in the process but the situation was expected to normalise for next years' presentation.

51. There being no other business, the meeting was adjourned at 12:15 hours.

ANNEX 1

**CONSOLIDATED MATRIX OF PENDING AUDIT RECOMMENDATIONS
FOR THE YEARS 2013 AND 2014 - AUC**

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
1	<p>Policies and procedures not approved We recommend that management should ensure that the asset management policy and procedures are aligned to the Financial Rules and Regulations and IPSAS and that they expedite the process to approve the policy. Once the policy and procedures have been approved, they should be communicated to the respective stakeholders at headquarters and the regional offices to ensure that there is a consistent understanding of the application of the policy.</p>	2014	External Audit	PBFA	<i>There is a consultant who is working on the procedures manual and we expect the outcome by end of July latest.</i>	In Progress
4	<p>Travel and Imprest Advances Recommendation Put in place strengthened controls to ensure that advances are cleared on time.</p>	2013	External Audit	PBFA	<i>There has been significant program and PBFA will implement a monthly monitoring from April 2016 and will work closely with HR to effectively implement the policy. A target will be defined in 2016 as benchmark</i>	In Progress
5	<p>Outstanding Advances Recommendation Further efforts should be made to analyse and pay off the balances of the accounts advances to suppliers.</p>	2013	External Audit	PBFA	<i>The office has a lot of open receivables to suppliers who have failed to honor their obligations towards AUC. Efforts are underway to discourage issuance of advances and recover from those suppliers that have breached the performance agreement. Secondly, procurement is reviewing case by case the open receivables to ensure their associated expenditures are posted as most of these advances were paid 100%</i>	In Progress
6	<p>Advance not cleared in AUC books of accounts Recommendation Procurement Unit should communicate receipt of goods or services to the Accounting Unit to facilitate clearance of advances.</p>	2013	External Audit	PBFA	<i>The office has a lot of open receivables to suppliers who have failed to honor their obligations towards AUC. Efforts are underway to discourage issuance of advances and recover from those suppliers that have breached the performance agreement. Secondly, procurement is reviewing case by case the open receivables to ensure their associated expenditures are posted as most of these advances were paid 100%</i>	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
8	<p>Interest from the Working Capital Fund Account <u>Recommendation</u></p> <p>Management should comply with requirements of Articles 41(h) and 51 of the Financial Rules and Regulations by providing adequate disclosures on the management of Working Capital and also credit income from investment of the Working Capital Fund to the General Fund.</p>	2013	External Audit	PBFA	<i>Appropriate disclosure will be provided in 2015 FS in line with IPSAS and FRR requirements</i>	In Progress
9	<p>Recognition of Capital Reserve <u>Recommendation</u></p> <p>AUC should revalue its assets so that the surpluses are recognised as capital reserves.</p>	2013	External Audit	PBFA	<i>Will be part of 2016 review of due diligences</i>	In Progress
10	<p>INADEQUATE/NON DISCLOSURES OF FUNDS OF THE UNION <u>Recommendation</u></p> <p>Management should make adequate disclosures regarding the funds of the Union by taking into account the requirements of the relevant Articles.</p>	2013	External Audit	PBFA	<i>Recommendation should be reviewed and more specific as we can't find in the FRR any specific requirements related to the disclosure oh the Funds</i>	In Progress
11	<p>Staff welfare and benefits <u>Recommendation</u></p> <p>Concerned officers should be instructed to submit original owner booklets and in future Management should ensure that the required conditions and procedures are fulfilled and followed.</p>	2013	External Audit	PBFA	<i>PBFA to consult with Legal and HR on the way forward : either amend the requirements or requires a one off exercise to get the copy of the booklets for car loans.</i>	Not Implemented
13	<p>Notes to annual financial statements</p> <p>We recommend that management should adjust the AFS to ensure that disclosure requirements of IPSAS have been met.</p>	2014	External Audit	PBFA	IPSAS will be fully implemented over a period of 5 years and we will gradually align to the standards	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
16	<p>PPE: Fixed asset register. Management should ensure that all regions use the same practices and systems to prepare and maintain the asset registers in accordance with the documented policies and the requirements of the financial rules and regulation of the Commission. In addition to the above, the Commission will also be enabled to report their property, plant and equipment in accordance with the requirements of IPSAS 17.</p>	2014	External Audit	PBFA	<p><i>Uniform format for the preparation of Fixed Asset register was sent to all regional offices. Some regional offices have succeeded in implementing and some others still need further guidance. Inquire of current challenges on this subject.</i> <i>Any communication to the regional offices to standardise asset registers.</i></p>	In Progress
17	<p>PPE: Differences between the asset registers and the financial statements. Management should ensure that monthly reconciliations are done between the asset registers and general ledgers for all regions. These reconciliations should then be reviewed by the appropriate senior official. This will assist the Commission to report accurately and completely on the assets.</p>	2014	External Audit	PBFA	Observation will be included in the review of the processes .	In Progress
18	<p>PPE: Assets not componentized. During the transitional period management should ensure that all different types of assets are disclosed separately as per IPSAS 17 Property, Plant and Equipment. This will include to the unbundling process of infrastructure assets and the separate disclosure of different types of buildings etc.</p>	2014	External Audit	PBFA	To be addressed as part of the IPSAS full implementation plan	Not Implemented
20	<p>PPE: Depreciation differences. Management should ensure that an asset manual is adequately established to govern the activities and processes at the AUC and regional office levels to prepare and maintain the fixed asset register. This will assist management to accurately report on depreciation consistently for all regions. Management should also review the asset registers from the regions as to verify the accuracy of the amounts reported on. The principles of asset management applied at headquarters for asset management should be the same at regional offices.</p>	2014	External Audit	AHRM	This has been corrected and ensured this year. Fixed asset policy was drafted and approved by JAC, waiting for approval by HE CP.	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
21	<p>PPE: Insufficient support for the opening balance and overall finding on assets. We recommend that management should:</p> <ul style="list-style-type: none"> • Implement a proper filing system / record management system to maintain information that support the presentation and disclosure of the property, plant and equipment in the financial statements. • Consider taking advantage of the transitional provisions in IPSAS 17 Property, Plant and Equipment to ensure that its PPE are accounted for in accordance with the requirements of the IPSAS so that the fair presentation of the financial statements is not affected by the identified misstatements. • Continue with the implementation of its IPSAS implementation action plan to ensure that its PPE are accounted for in accordance with the requirements of the IPSAS 17. 	2014	External Audit	PBFA	<p><i>Ownership of this point lies with AHRM.</i> <i>All required document for the opening balance of HQ are available and duly sent to the external Auditors for verification and put in a file and delivered. Regional offices are informed to keep those relevant documents in their Archive and present to member of the Board of external Auditors on their visit to the office.</i></p>	In Progress
22	<p>Member states - other receivables long outstanding and not aged or cleared Management should implement appropriate review and monitoring controls to follow up long outstanding receivables, as required by the Financial Rules and Regulations of the African Union and to ensure those receivables are accurately disclosed in the financial statements.</p>	2014	External Audit	PBFA	<p><i>The balances are recorded in the financial statements. There is a sanction mechanism for the oversight of the outstanding.</i></p>	In Progress
23	<p>Payables suspense accounts not cleared at year-end Management should implement appropriate controls to ensure that suspense accounts are reconciled and cleared in a timely manner. The necessary adjustments should be made across the entire population and proof of journals should be submitted to support the revised financial statements.</p>	2014	External Audit	PBFA	<p><i>Finance will implement a monthly reporting that will assist in the timeliness of the accounts analysis and adjustments , from April 2016</i></p>	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
24	<p>Operating lease expenditure The Director Programming, Budgeting, Finance & Accounting should:</p> <p>(i) adequately review the Financial Rules and regulations to ensure alignment with the IPSAS requirements.</p> <p>ii) straight-line each lease identified as a lease to recognized the expenditure of each year in the statement of financial performance</p> <p>iii) make full disclosure of the total minimum lease payments under non-cancelable operating leases and included as a note to the financial statements.</p>	2014	External Audit	PBFA	Recommendation to be reviewed as does not provide enough details to be properly addressed	Not Implemented
25	<p>Accounting through the fund account errors The Director Programming, Budgeting, Finance & Accounting should adequately review the Financial Rules and Regulations to be in line with the IPSAS requirements.</p> <p>Management should also implement adequate record management in respect of the general fund and special reserve fund to ensure that supporting documentation for disclosures in the financial statements are properly filed, easily retrievable and available when required.</p> <p>Management should make the necessary adjustments to the general fund and special reserve fund and update the financial statements accordingly.</p>	2014	External Audit	PBFA	Will be considered in 2016 financials	In Progress
26	<p>Receivables from Observer Missions and REC Recommendation There should be proper planning and monitoring of projects to ensure timely implementation of projects.</p>	2013	External Audit	PBFA	<i>Again, will be addressed in 2016 as part of the monthly monitoring</i>	In Progress
30	<p>Member states contributions received in advance Management should reconcile the schedule of member states' contributions to the general ledger and the general ledger accounts for member states' contributions' liabilities and receivables should be reconciled to ensure that the accuracy of the relevant balances. The financial statements and the general ledger should be adjusted accordingly.</p>	2014	External Audit	PBFA	<i>Will be addressed as part of the 2016 monthly reporting</i>	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
31	Differences between general and trial balance for bank accounts. Management should adequately review all calculations performed on the bank reconciliations.	2014	External Audit	PBFA	<i>Will be addressed as part of the 2016 monthly reporting</i>	In Progress
32	Bank debits and credits have been accounted on reconciliations, but not the general ledger accounting records Management should ensure that all debits and credits, realized through the bank accounts of the African Union are recorded in the underlying financial records to ensure that they are accurate and complete. Management should investigate the misstatement and address the correction via the necessary journal entries and on the face of the financial statements.	2014	External Audit	PBFA	<i>Will be addressed as part of the 2016 monthly reporting</i>	In Progress
42	EC 55 Million Euro Programme Support Fund Recommendation Since the validity of the agreement is now over, AUC should negotiate with EC to write off the remaining ineligible expenditure. Meanwhile provision should be made for the ineligible amount and estimated contribution of EC to eligible expenditures be expensed.	2013	External Audit	PBFA	<i>EC is not in a position to write off the ineligible expenditures and the Commission needs to find a way to absorb same. Going forward, the Commission has put in place adequate internal control measures to reduce the occurrences of the ineligible to the barest minimum</i>	Not Implemented
43	Unutilised Funds Recommendation Action plan should be drawn to set out utilisation of all the dormant funds received from partners.	2013	External Audit	PBFA	<i>In line with the AU FRR, an analysis and reconciliation is being carried out and the dormant accounts for more than 5 years will be cleared to the General Funds.</i>	In Progress
44	Deferred revenue on partner funding not properly accounted The AUC should implement appropriate review and monitoring controls to improve the management of project funded by partners to enable accurate and complete financial reporting on partner contributions. Furthermore, the AUC should develop a proper record management system and policy to maintain information on partner contributions that will enable financial reporting and ensure that such information is properly filed, easily retrievable and available, when required.	2014	External Audit	PBFA	<i>Will be addressed as part of the 2016 monthly reporting</i>	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
45	<p>Partner funds receivables The AUC should implement appropriate review and monitoring controls to improve the management of project funded by partners to enable accurate and complete financial reporting on partner contributions. The AUC should implement adequate project managements, each project should have a schedule reconciling monies received and monies used. The project management should show the project lifecycle. The audit team has identified the full population of impacted cases and recommend that the correcting journal entries be passed upon investigation of these entries and the proper netting off be recorded to reflect the correct amount of payables and receivables.</p>	2014	External Audit	PBFA	Will be addressed as part of the 2016 monthly reporting	In Progress
48	<p>Inadequate management of cash <u>Recommendation</u> The African Union Commission should consider putting the funds on short term investments.</p>	2013	External Audit	PBFA	<i>Being reviewed with senior management</i>	In Progress
50	<p>General internal control deficiencies in cash and bank management. In order to meet partner requirements and sound governance, management should maintain information on all bank reconciliations to be readily accessible and available. Management should engage with partners to agree on maintaining the number of separate bank accounts. Bank accounts should be closed for zero balances. Timeous engagements should be held to close off accounts which are dormant relating to the funds section.</p>	2014	External Audit	PBFA	Will be reviewed as part of 2016 deep dive analysis	In Progress
51	<p>MANAGEMENT OF THE SPECIAL FUNDS <u>Recommendation</u> Management should prepare and submit financial statements relating to the management of the special funds for future audits.</p>	2013	External Audit	PBFA	<i>There is no requirement to produce financial statements for the special fund (refer art 26 of FRR).</i>	Not Implemented

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
29	Authorised Signatories to Appointment Letters Recommendation Delegation of powers should be properly documented. The signatories to the appointment letters should start indicating their names in the appointment letters with immediate effect.	2013	External Audit	AHRM	<i>Appropriate action will be taken by AHRM to regularize the matter.</i>	Not Implemented
39	Procurement Management Recommendation The commission should comply with the African Union Procurement Manual published in 2010.	2013	External Audit	AHRM	<i>Procurement is working within the framework of the AU Procurement Manual and the revised FRR. The updated manual has been submitted to the Office of the Legal Counsel for clearance before Chairperson's approval.</i>	In progress
40	Non-compliance with AU Procurement Manual Recommendation Procurement requirements stated in the manual should be adhered to.	2013	External Audit	AHRM	<i>Procurement is working within the framework of the AU Procurement Manual and the revised FRR. The updated manual has been submitted to the Office of the Legal Counsel for clearance before Chairperson's approval.</i>	In progress
2	Low Program Budget Execution Recommendation Furthermore, the procurement process and proper planning need to be enhanced in order to aid program implementation.	2013	Internal Audit	AHRM	<i>AHRMD is revising its procurement manual and is developing Standard Operating Procedures to improve its service delivery. Furthermore, the Directorate has developed its 2015 operational Master Plan in November 2014 to follow up on the implementation of the planned programs. Although the budget execution rate against the approved budget has been low due to the lack of cash flow from partners, AHRM is improving its budget execution against released funds.</i>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
29	<p>Inadequate IT governance controls</p> <p>The Deputy Chairperson, the Director of the Administration and Human Resources Directorate and the Head of Management Information Systems should collectively work together in creating an enabling environment for implementing IT governance principles and that all key stakeholders are involved in the process. ICT risk awareness, risk intelligence and accountability need to be embedded into the culture of the AUC. The Deputy Chairperson should lead the drive for utilising the MIS unit as a strategic partner to address the IT internal control deficiencies within the AUC.</p> <p>Moreover, the aforementioned leadership should review the membership and the roles and responsibilities of ITAC and ensure that the charter that governs this body is adequately documented, approved and adhered to. The Head of Management Information Systems and the Director of the Administration and Human Resources Directorate should ensure that all IT documents used to govern the IT environment are adequately and comprehensively documented and resubmitted to JAAC for approval. The Deputy Chairperson should ensure that these policies and procedure documents are approved to allow for implementation within the AUC environment.</p>	2014	External Audit	AHRM	<p><i>The major objectives of AU IT governance are to:</i></p> <ul style="list-style-type: none"> <i>· enable the strategic and tactical alignment of IT with AUC priorities and goals : the ICT strategy has been reviewed to align ICT with the AU goals</i> <i>· understand the value and impact of IT investments (dollars, human resources, and capital) : ICT governance structure has been reviewed; however because of the lack of the governance bodie MIS has started consultation with key business department in order to prioritize the ICT initiative; but there is a need to have the high level body of ICT govenance to be functional</i> <i>· identify opportunities for improved IT utilization : Several ICT initiative have been set up to improve ICT utilization such as trainings; open text for procure to pay; tracking systems; process reingeenering etc</i> <i>· support visible and transparent decision making: the review of the process in HR, PBFA and MM will improve the reporting; the rolling out of BI wil assist in decision making</i> <i>· establish and sustain effective IT policies : ICT policies composed of ICT administrative policy, ICT asset managment policy, ICT security Policy</i> <i>· establish performance measurements :System of performance measurement has been setup; Solarwind, contract management</i> <i>· identify and mitigate risks: Risk register in place and updated at every begenning and end of ICT projects</i> 	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
30	<p>Inadequate security management controls</p> <p>The Deputy Chairperson, the Director of the Administration and Human Resources Directorate and the Head of Management Information Systems should collectively work together in creating an enabling environment for implementing IT governance principles and that all key stakeholders are involved in the process. ICT risk awareness, risk intelligence and accountability need to be embedded into the culture of the AUC.</p> <p>The Head of Management Information Systems and the Director of the Administration and Human Resources Directorate should ensure that all IT documents used to govern the IT environment are adequately and comprehensively documented and resubmitted to JAAC for approval. The Deputy Chairperson should ensure that these policies and procedure documents are approved to allow for implementation within the AUC environment.</p> <p>The Head of Management Information Systems should ensure that operational adequate controls are put in place to mitigate operational risks that can be addressed by the MIS division.</p>	2014	External Audit	AHRM	<p>1. <i>ICT policy has been developed and approved by the commission.</i></p> <p>2. <i>The use of personal devices to access organization data has been regulated</i></p> <p>3. <i>Information security is well stated</i></p> <p>4. <i>Enforcement has been started with the acquisition of 2200 laptops, desktop, workstations and accessories. Harmonization on the installation will be obtained and access with personal devices to critical data will be denied</i></p> <p>5. <i>The finalization of the new DC and NOC will enhance the control.</i></p> <p>6. <i>Project charter for reviewing SAP Security, SOD has been prepared. Consultation has started with HR, PBFA and Procurement:</i></p> <ul style="list-style-type: none"> <i>• In HR: Processes are being reviewed including the role matrix. Blueprint session finalized; Realization started; The expectation changes are planned for June 2016</i> <i>• In PBFA: Consultation started with the new Director of PBFA; Finance super users have been nominated;</i> <i>• In procurement :consultation has started;</i> <i>• In MIS role access matrix has been developed</i> 	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
31	<p>Inadequate user account management controls</p> <p>The Deputy Chairperson, the Director of the Administration and Human Resources Directorate and the Head of Management Information Systems should collectively work together in creating an enabling environment for implementing IT governance principles and that all key stakeholders are involved in the process. Together they should ensure that there is buy-in from the AUC as whole. As part of the buy-in process stakeholders such as the MIS division, system owner and system users should be made aware of their roles and responsibilities and the impact of not fulfilling those responsibilities. IT risk awareness, risk intelligence and accountability need to be embedded into the culture of the department.</p> <p>The Head of Management Information Systems and the Director of the Administration and Human Resources Directorate should ensure that all IT documents used to govern the IT environment are adequately and comprehensively documented and resubmitted to JAAC for approval. The Deputy Chairperson should ensure that these policies and procedure documents are approved to allow for implementation within the AUC environment.</p> <p>The Head of Management Information Systems should ensure that adequate operational controls are put in place to mitigate operational risks that can be addressed by the MIS division.</p>	2014	External Audit	AHRM	<p>1. ICT Policy approved by JAAC and the AU commission meeting</p> <ul style="list-style-type: none"> • Enforcement has started • Access Control Policy stated that access should be based on role and task not based on position; • The use of Personal device has been regulated • User account access well regulated (acceptable use, password, remote access policies) <p>The implementation of solarwind system, NOC and the acquisition of 2200 pc, laptops will assist MIS in managing users account.</p>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
32	<p>Inadequate it service continuity controls - disaster recovery and backups</p> <p>The Deputy Chairperson, the Director of the Administration and Human Resources Directorate and the Head of Management Information Systems need to collectively work together in creating an enabling environment for implementing IT governance principles and that all key stakeholders are involved in the process. ICT risk awareness, risk intelligence and accountability need to be embedded into the culture of the AUC.</p> <p>The Head of Management Information Systems and the Director of the Administration and Human Resources Directorate need to ensure that all IT documents used to govern the IT environment are adequately and comprehensively documented and resubmitted to JAAC for approval. The Deputy Chairperson needs to ensure that these policies and procedure documents are approved to allow for implementation within the AUC environment.</p> <p>The Head of Management Information Systems needs to ensure that adequate operational controls are put in place to mitigate operational risks that can be addressed by the MIS division.</p>	2014	External Audit	AHRM	<p>1. ICT Policy approved by JAAC and the AU commission meeting</p> <ul style="list-style-type: none"> • Enforcement has started • Access Control Policy stated that access should be based on role and task not based on position; • The use of Personal device has been regulated • User account access well regulated (acceptable use, password, remote access policies) <p>The implementation of solarwind system, NOC and the acquisition of 2200 pc, laptops will assist MIS in managing users account.</p>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
33	<p>No standard operating procedures</p> <p>To minimize or eliminate the possible impact of the above we would like to recommend the following:</p> <ul style="list-style-type: none"> • Management should develop appropriate baselines to measure their performance against. This may be done by conducting relevant research and consulting with the relevant internal and external stakeholders to determine what will be the most reasonable targets to be achieved. • During the strategic planning session where all the key officials from the different departments across the AU have been invited a clear picture of the organizational objectives highlighting key priorities should be described to ensure a common understanding of where the organization want to go. After different departments have drafted their plan towards the achievement of these activities within the approved time frames, this needs to be scrutinized and coordinated by the leadership of the organization to ensure that no effort is duplicated and that the resources of the organization will be used in the most economic, efficient and effective way. • The allocation of the funds towards different programmes should always be aligned to the key priorities of the organization. 	2014	External Audit	AHRM	<p><i>In the OMP of 2016 10 SOPs per Division will be developed to ensure a systematic operation of AHRMD routine activities.</i></p> <p><i>All AHRMD activities and programmes are aligned with the Priorities of the Bureau of the Deputy Chairperson through which an Operational Master Plan had been designed which in turn is aligned with the Organizational Objectives.</i></p> <p><i>AHRM programmes Budget is also aligned to the OMP.</i></p>	In progress
36	<p>Performance evaluation</p> <p>Management should implement appropriate measures to ensure adherence to Staff Regulations and Rules as they pertain to the performance management of staff.</p>	2014	External Audit	AHRM	<p><i>The Performance Management is currently being revised in the framework of the revamp project of the SAP HCM which will enable staff to clearly align their objectives to the Organization's goals and mandate and to have clear KPIs.</i></p>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
39	<p>Pension scheme - decision not fully implemented We recommend that management of AUC should look into the decision of the Thirteenth Ordinary Executive Council held in Sharm El-Sheikh from 24 – 28 June 2008 in respect of the establishment of an AU pension fund and report back to the Executive Council on the progress made in this regard.</p>	2014	External Audit	AHRM	<p><i>The process is ongoing. An Expression Of Interest had been published and four companies had been shortlisted. Tender board had given it's go ahead for the Request For Proposal (both technical and Financial) together with a presentation be made to the evaluation Committtee prior to finalization by Tender Board and endorsment by the Commission. The AUC will submit an implementation Report to Policy Organ.</i></p>	In progress
24	<p>STRATEGIC DIRECTION AND PLANNING <u>Recommendations:</u></p> <ul style="list-style-type: none"> • AUC should adopt excellence model recognising various approaches to achieving sustainable excellence in all aspects of performance; • Develop Annual Operational Plan to ensure proper implementation and effective coordination of the Strategic Plan and close linkage to the budget process; the plan would also be a basis for Annual Performance Report; • Strengthen Directorate of SPPMERM in terms of capacity and capabilities; • Consider adopting a structured and integrated process of policy, planning and budgeting such as Medium Term Expenditure Framework (MTEF) for medium term programs and for better allocation of resources to strategic priorities. 	2013	External Audit	SPPM	<p><i>Medium Term Expenditure Framework (MTEF) will commence once the Alternative Sources of funding is implemented</i></p>	In progress
25	<p>ORGANISATIONAL PERFORMANCE <u>Recommendation</u> Heads of Department should ensure adequate implementation of activities to avoid low budget consumption.</p>	2013	External Audit	SPPM	<p><i>This is also a function of staffing levels</i></p>	In Progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
26	<p>MEASUREMENT OF ACTUAL OUTPUTS AGAINST INTENDED OUTPUTS</p> <p><u>Recommendations</u></p> <ul style="list-style-type: none"> • Annual Performance Report should not only focus on Program Budget rather a basis for Annual Performance Report should be Annual Operational Plan; • Completed outputs and ongoing outputs should be reported separately for accurate measurement of achievement rate; • There should be a quarterly review on achievement of outputs and establish whether relationship between budget execution and achievement rate on outputs exists. In most cases planned outputs are allocated budget. 	2013	External Audit	SPPM	<p><i>To a certain extent this is being done through the Business Plan that are prepared</i></p> <p><i>This will be done</i></p> <p><i>The PRC recommended half yearly reviews</i></p>	In progress
38	<p>Quality Assurance</p> <p><u>Recommendations</u></p> <ul style="list-style-type: none"> • Quality Assurance function should be operational to ensure that set policies and procedures are operating efficiently and effectively; • Directorate of SPPMERM should consider peer reviewing, maybe by other AU Organ like NPCA with similar set up. 	2013	External Audit	SPPM	SPPMERM will do this in the course of 2016	Not Implemented

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
3	<p>Zero Program Budget Execution Recommendation the Directorate of Strategic Planning (SPPMERM) should:-</p> <ul style="list-style-type: none"> Put in place systems through the Departmental Planners, to inform as appropriate where partners wish to fund activities by dealing with the suppliers directly, without remitting funds to the AUC. This will enhance appropriate reporting on activities carried out off budget. Furthermore, before committing projects to any partner, some mechanism of clearance on available of funds should be sought. Through the Departments' Planners work with the programme officers throughout the budget cycle to assist in implementation of activities, as well as starting the procurement processes (where applicable) early enough to avoid delays. Follow-up departments to comply with partnership agreements signed and adhere to the deadlines reports stipulate in the agreements. 	2013	Internal Audit	SPPM	<p><i>This will be done in 2016</i></p> <p><i>Consultations will be undertaken with Administration</i></p> <p><i>We will continue emphasizing thie message to departments</i></p>	In progress
1	<p>Program Budget Analysis Recommendation. The risk of non-receipt of funds from Partners should be effectively addressed by Management.</p>	2014	Internal Audit	SPPM	<i>The issue is being handled by the relevant PRC Sub-Committee</i>	In progress
2	<p>Low and Zero Budget Execution Recommendation. Departments should be engaging partners early on programmes so as not to delay implementation, considering that the budget approval by Policy Making Bodies is now done early in the previous year.</p>	2014	Internal Audit	SPPM	<i>Management also encourage timely submission of reports as it has impact on release of donor funds</i>	In progress
4	<p>Assessment on Outputs Recommendation. The departments should have realistic project implementation plans taking cognizance of the available funds.</p>	2014	Internal Audit	SPPM	<i>This is the standing instruction but needs to be emphasised continuously</i>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
5	<p>Assessment on Outputs Recommendation. The departments should plan program implementation activities in accordance with the available human capacity.</p>	2014	Internal Audit	SPPM	<i>This is a standing instruction but departments need to be constantly reminded</i>	In progress
7	<p>Assessment on Outputs Recommendation. The AMERT system should be modified to prevent incomplete reports from being uploaded. This would force the departments to provide all the necessary information.</p>	2014	Internal Audit	SPPM	<i>It's currently being updated to accommodate the required changes of Audit. All reports which have not been complete will be sent back to departments for completion. This part will be available for the annual report of 2015. Target Date November 15, 2015</i>	In progress
8	<p>Assessment on Outputs Recommendation. SPPERM should ensure that when the departments submit their proposals, the outputs and indicators are weighted.</p>	2014	Internal Audit	SPPM	<i>It's currently being updated to accommodate the weighting of indicators and outputs. This part will be available for the preparation of 2017 Program Budget. Target Date December 01, 2015</i>	In progress
9	<p>Assessment on Outputs Recommendation. 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.</p>	2014	Internal Audit	SPPM	<i>It's currently being updated to accommodate the required changes and will be available for the annual report of 2015. All changes made will be communicated to Internal Audit for validation. Target Date November 15, 2015</i>	In progress

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
34	<p>Consistency: No link between the strategic plan and annual work plan/annual programme implementation report</p> <ul style="list-style-type: none"> • The annual work plan should be prepared in such a way that it bridges the gap between the performance indicators and the inputs that need to go into the achievement of those performance indicators. The annual work plan, which should aligned to the strategic plan, should be reviewed and approved at appropriate level. • Reporting on the achievement of targets should happen in a format that is consistent and aligned to both the strategic plan and annual work plan. • The approved annual work plan, which is aligned to the strategic plan should then be cascaded down to an individual performance contract of the officials to ensure that the efforts of the officials support the achievements of the planned targets. • The format of the monthly reports from different departments should also be aligned to the strategic plan, annual work plan and annual performance report. 	2014	External Audit	SPPM	<i>No comments received</i>	Not Implemented

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
35	<p>Measurability of indicators and targets</p> <p>We recommend that management should ensure that the indicators set on the strategic planning document meet the criteria described below:</p> <ul style="list-style-type: none"> • Reliable: the indicator should be accurate enough for its intended use and respond to changes in the level of performance. • Well-defined: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use. • Verifiable: it must be possible to validate the processes and systems that produce the indicator. • Cost-effective: the usefulness of the indicator must justify the cost of collecting the data. • Appropriate: the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target. • Relevant: the indicator must relate logically and directly to an aspect of the institution's mandate, and the realization of strategic goals and objectives. <p>We also recommend that management should ensure that the target set on the strategic planning document meet the criteria described below:</p> <ul style="list-style-type: none"> • Specific: the nature and the required level of performance can be clearly identified • Measurable: the required performance can be measured • Achievable: the target is realistic given existing capacity • Relevant: the required performance is linked to the achievement of a goal • Time-bound: the time period or deadline for delivery is specified. 	2014	External Audit	SPPM	<i>No comments received</i>	Not Implemented

No	Audit Recommendation	Year	AUDIT TYPE	Responsible	Action taken	Status Apr 2016
37	<p>Internal Audit Function Recommendations</p> <p>Internal Audit has adequate independence and should therefore be objective in providing assurance in all operations of the Commission. However there is a need to look into the following:</p> <ul style="list-style-type: none"> • Need to review Financial Rules and Regulations on responsibility of Internal Audit for the Union; and Executive Council decisions on establishment of internal audit functions in the Organs, then decide whether to decentralise internal audit function or review FRR such that Internal Audit Department should only be responsible for AUC. • There a lot of dependence on donor funding in terms of funding positions and maintenance of auditing tools. Therefore there should be a strategy in place on continuity of internal audit function in case the donors cease to fund activities of the department. • The focus should not be mainly on the audit of transactions, compliance and financial statements. Attention should also be given to audits of processes, operations, Value-For-Money, etc. 	2013	Internal Audit	OIA	<ul style="list-style-type: none"> • <i>The matter of supervision of internal audit functions was deliberated by AU Policy Organs and an Executive Council decision was made to mandate the Director Internal Audit of AUC to coordinate other audit functions.</i> • <i>The issue of dependence on donor funding and audit staff structure are still work in progress through AU Alternative sources of funding and restructuring exercise.</i> • <i>Office of Internal Audit has already started focusing on the audits of processes and operations through the Performance Auditing (PA) exercises. All the Auditors have now been trained on performance auditing (PA). Also, PA manual has been developed.</i> 	In progress

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