EAST AFRICAN COMMUNITY
EAST AFRICAN LEGISLATIVE ASSEMBLY

REPORT OF THE COMMITTEE ON ACCOUNTS ON THE AUDITED ACCOUNTS OF THE EAST AFRICAN COMMUNITY

FOR THE YEAR ENDED 30TH JUNE, 2017

(AUGUST 26TH - SEPTEMBER 6TH 2018, ARUSHA, TANZANIA)

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EXECUTIVE SUMMARY

Mr. Speaker Sir,

During the review and consideration of the Audit Commission report on the Financial Statements of the East African Community Organs and Institutions for the year ended 30th June 2017, issues presented were examined and recommendations have been proposed.

The Community had a budget of **USD 106,494,898** and the actual expenditure was to **USD 66,358,844,** hence an overall budget performance of **62%**. Donor funding has greatly reduced and affected the programs and activities of the Institution.

Largely across the EAC; Institutions, Projects and Programmes have a challenge of low budget absorption requiring proper budgetary planning and coherence; and consistency in the budgeting process. It is desirable to put in place an EAC single projects coordination unit to harness coordination of growing EAC projects.

The Committee noted non-implementation of the previous Audit recommendations and no quarterly reports were provided to the Assembly as was recommended.

Procurement processes in the EAC Organs and Institutions contravened procurement procedures. Gross irregularities were noted in recruitment and award of short term contracts, a process that contravenes Staff Rules and Regulations and the Treaty.

EAC Organs and Institutions did not recover from Revenue Authorities of Partner States accumulated VAT refund, leading to forfeiture of activities that could have been undertaken using the VAT refunds.

It is ten years since the EAC embarked on an Institutional Review Exercise. Many programs of the Institution are dependent on its recommendations yet there is no indication on when the Council will conclude with the exercise.

Nevertheless, the Accounts presented the financial position of EAC Organs and Institutions for the year ended 30th June 2017 fairly in all material aspects, with exception of the EAC Secretariat which got a qualified opinion. Their financial performance and cash flows for the period were in accordance with International Public-Sector Accounting Standards (IPSAS).

LIST OF ACRONYMS AND ABBREVIATIONS

ACBF	African Capacity Building Foundation
AESAU	Association for Eastern and Southern African Universities
AfDB	African Development Bank
APSA	Africa Peace Support Architecture
AU-IBAR	African Union Inter African Bureau for Animal Resources
CAAU	Civil Aviation Authority of Uganda
CASSOA	Civil Aviation Safety and Security Oversight Agency
CCTV	Closed-Circuit Television
COMESA	Common Market for eastern and Southern Africa
COMESA	Common Market for Eastern and Southern Africa
EACA	East African Competition Authority
EADB	East African Development Bank
EAHRC	East African Health Research Commission
EAKC	East Africa Kiswahili Commission
EAMS	East African Monitoring System
EAPSA	East Africa Peace Support Architecture Project
EASTECO	East African Science and Technology Commission
FSDRP	Financial Sector Development & Regionalization Project
IAS	International Accounting Standards
IDA	International Development Agency
IFRP	International Financial Reporting Standards
IOE	Internet Of Everything
IPSAS	International Public Sector Accounting Standards
KPI	Key Performance Indicator
LVBC	Lake Victoria Basin Commission
LVEMP	Lake Victoria Environmental Management Project
LVFO	Lake Victoria Fisheries Organization
M&E	Monitoring & Evaluation
MASE	Maritime Security
MDAs	Ministries, Departments and Agencies
MEACA	Ministry of East African Community Affairs
MIS	Management Information Systems
MRH	Medicine Regulation Harmonization
MRHP	Medicines Regulatory Harmonization Project
NDA	National Drug Authority
NEPAD	New Partnership for Africa's Development
NORAD	Norwegian Agency for Development Cooperation
PITO	Principal Information Technology Officer
PMET	Planning, Monitoring and Evaluation Team
PPPM	Procurement Policies and Procedures Manual

PSSIP	Payment and Settlement Systems Integrated Project
RESP	Regional Electrical Support Program
RMB	Results Based Management
SIDCA	Swedish International Development Cooperation Agency
SMART	Specific, Measurable, Attainable, Relevant and Timely

A. INTRODUCTION

In accordance with the Provisions of Article 134 (3) of the Treaty for the Establishment of the East African Community (EAC), the Committee on Accounts while in Nairobi on 30th May 2018 received the Audited Accounts of the following East African Community (EAC), Institutions, Organs, Agencies and Projects for the FY ended 30th June 2017:

i. The East African Legislative Assembly;
ii. The East African Court of Justice;
iii. The East African Community Secretariat;
iv. The East African Lake Victoria Basin Commission;
v. The East African Lake Victoria Fisheries Organization;
vi. The Inter University Council of East Africa;
vii. The East African Civil Aviation Safety And Security Oversight Agency;
viii. The East African Kiswahili Commission;
ix. The East African Health Research Commission;
x. The East African Science and Technology Commission.
xi. The East African Competition Authority;
xii. The EAC Information And Communications Technology Systems;
xiii. The East African Capacity Building Foundation;
xiv. The Lake Victoria Environmental Management Project;
xv. The East African Financial Sector Development And Regionalization Project;
xvi. The East African Medicines Regulatory Harmonization Project;

In accordance with Rule 74(1), Rule 81 (c) and Annex 5 (A) of the Rules of Procedure of the Assembly, the Rt. Hon. Speaker referred the Reports to the Committee on Accounts for review. The Committee met for this purpose and produced a Report.

The Report covers the Committee's findings, observations and recommendations on the main issues raised. It is divided into three (3) parts:

- Part I: Audit Findings on the Financial Statements of the EAC Secretariat, Projects and Programmes for the year ended 30th June, 2017;
- Part II: Audit Findings on the Financial Statements of EAC Organs and Institutions for the year ended 30th June, 2017;
- Part III: General Observations, Recommendations and Acknowledgements.

B. METHODOLOGY

The Committee used the following methodology in analyzing the audited accounts for the FY ended 30th June 2017:

1. The Committee reviewed and analyzed the following documents were reviewed and analyzed:

    - The Treaty for the Establishment the East African Community;
    - The 5th EAC Development Strategy;
    - The Strategic Plans of the East African Community Organs and Institutions;
    - The Rules of Procedure of the East African Legislative Assembly;
    - The EAC Financial Rules and Regulations;
    - The EAC Staff Rules and Regulations;
    - The Audit Commission Reports on the Accounts of the EAC Organs, Institutions and Programmes.

2. The Committee interacted with the following Stakeholders:

    - The Audit Commission;
    - The EAC Council of Ministers;
    - The Management teams of the EAC Organs, Institutions and Programmes;
    - The Management of East African Development Bank;
    - Letters were written to Mbasha Holdings and Avtech Systems Ltd, but which were not honored.

C. KEY AUDIT FINDINGS

1. Qualified opinion on the accounts of the EAC Secretariat

The basis for a qualified opinion for the accounts of the EAC Secretariat hinged on the following:

i. Inaccurate and Incomplete Financial Statements:

The financial statements presented for audit for the year ended 30th June 2017 had the following anomalies:

a) Included in the current liabilities balance and administrative expenses figure of USD 8,760,862 and USD 16,116,728 respectively are commitments posted as expenditure and liabilities amounting to USD 397,400 for which no goods or services had been received or rendered as at 30th June 2017 contrary to the requirements of Paragraphs 26 and 27 of IPSAS 1 and 19 respectively. Further, only USD 69,725 of the amount appeared to have been contracted by the time of audit on 30th November 2017.

b) The statement of cash flows included a figure of USD 10,766 (2015/16: USD 195,474) which was indicated as an adjustment of accumulated depreciation. However the effect of the adjustment of accumulated depreciation on the statement of cash flows had neither been explained nor supported in the notes to the financial statements.

Management informed the Committee that the USD 397,400 was committed to facilitate the EAC Adhoc Services Commission on the job evaluation and workload analysis. However the activity was postponed many times due to lack of funds.

In consequence, it was not possible for the Audit Commission to confirm the accuracy, completeness and fair presentation of the financial statements for the year ended 30th June 2017.

ii. Non-current Assets:

The statement of financial position reflected a non-current assets balance of USD 20,251,613 as at 30th June 2017. However,

a) A total of USD 2,983 non-current assets with original cost of USD 3,819,390 which were fully depreciated were still in use without review of their useful lives;

b) The existence of six motor vehicles valued at USD 236,808 procured in July 2010 could not be verified as EAC Management indicated they were distributed to Partner States together with log books. No supporting documents were provided for audit review;

c) The fixed assets register had items valued at USD 829,058 that were captured in various assets classes in block figures. Also, other assets referred to as work in progress of USD 64,816 were alleged to have been procured but were not in use. In addition, the fixed assets register included 1,010 assets with a cost value of USD 1,880,662 and net book value of USD 12,052 whose existence and location could not be verified.

In view of the above, The Audit Commission could not ascertain the existence, ownership, completeness, valuation and accuracy of the non-current assets balance of USD 20,251,613 as at 30th June 2017.

Management of EAC informed the Committee that during the time of the Audit, it had engaged a Valuer to review the useful lives of the non-current assets. The Report was issued and figures adjusted in January 2018. Management submitted the financial statements on 21st January 2018 but the Audit Commission did not review them since it had concluded the Audit exercise.

On the six motor vehicles, Management informed the Committee that they were bought in the framework of implementation of the Avian Influenza Project, with the support from the European Union and in 2011 transferred to the Ministries responsible for livestock in the Partner States. The Audit Commission could not go to verify the existence of the vehicles, hence the Audit query.

iii. Unsupported Expenditure and Transfer of funds

The EAC Secretariat received a grant disbursement of USD 356,000 in March 2016 from the African Union Commission – Inter African Bureau for Animal Resources (AU- IBAR) for the implementation of Action for Reinforcing Veterinary Governance in Africa. During the year under review, EAC Management reported to have spent USD 178,761 on the project. Further, an amount of USD 117,000 was alleged to have been transferred to AU-IBAR on 4th November 2016. However, the original supporting documents were not provided for audit review.

Consequently, it was not possible for the Audit Commission to confirm the propriety and validity of the reported expenditure and transfer of USD 178,761 and USD 117,000 respectively as at 30th June 2017.

2. Budgetary Performance

Table showing the consolidated Statement of Comparison of Budget and Actual amounts for the Year ended 30th June 2017 (for all EAC Organs and Institutions in US Dollars)

Description	**Total for all Organs & Institutions**		
Revenue	**Final Budget**	**Actual Amounts**	**Performance in %ge**
Contribution from Partner States	52,148,505	52,148,505	100%
Support from Development Partners	50,471,564	15,252,708	30%
Other Revenue	3,874,829	3,267,043	84%
Total Revenue	**106,494,898**	**70,668,256**	**66%**
Donor Dependency Rate	*47%*	*22%*	
Expenses			
Staff Emoluments	36,036,151	28,738,956	80%
Administration and Activities (Meetings, Consultancies)	64,494,632	35,762,969	55%
Finance Cost	142,002	130,350	92%
Capital Expenditure (Assets)	5,822,113	1,726,569	30%
Total Expenditure	**106,494,898**	**66,358,844**	**62%**
Surplus/Deficit for the Period (%ge of the Revenue)	**0**	**4,309,412**	**6%**

Overall, in the FY 2016/17, the total budget of the EAC Secretariat, its Organs and Institutions was USD 106,494,898 while the actual budget received was USD 70,668,256. Of this USD 66,358,844 (93%) was absorbed leaving a surplus of USD 4,309,412 as at year end.

3. Weaknesses in Internal Controls

Audit review of the internal control system and control environment revealed that EAC Secretariat and its Organs and Institutions suffered from inadequate staffing capacity which led to limited segregation of duties.

Further, Management had not exploited the use of IT systems as IT governance, strategic plan, policies and procedures were limited or non-existent. The IT systems were also not integrated. The Information Technology (IT) unit structure, placement and staff capacity building had not been harnessed to drive EAC Secretariat's strategic objectives. The above internal control weaknesses undermined Management efforts in the prudent use of financial resources.

PART I: CURRENT YEAR AUDIT FINDINGS ON THE FINANCIAL STATEMENTS OF THE EAC SECRETARIAT, PROJECTS AND PROGRAMMES

1. AUDIT OF EAC SECRETARIAT

1.1 GOVERNANCE ISSUES

1.1.1. Late submission of the financial statements

The financial statements for the EAC Secretariat for the FY ended 30th June 2017 were submitted to the Audit Commission on 10th October 2017, ten, days late contrary to Regulation 116 (1) of the EAC Financial Rules and Regulations which in a way hindered due planning by the Audit Commission.

Management of EAC informed the Committee that the delays in submission of financial statements for FY 2016/2017 was due to the fact that the respective Organs and Institutions had submitted their respective accounts late to the EAC Secretariat and the late delivery of the Audited Accounts to the EAC Secretariat by the courier Company.

Committee Observations

Late submission of financial statements contravenes Rule 116 (1) of the Financial Rules and Regulations of the EAC and affects the planning and operations of the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***Management of EAC adheres to Rule 116 of the EAC Financial Rules and Regulations and makes timely submission of financial statements to the Audit Commission;***
ii. ***Disciplinary action should be instituted to the staff who did not comply with the EAC Financial Rules and Regulations;***
iii. ***The Secretary General should ensure that during the Audit exercise, relevant staff are present at the station.***

1.1.2. Non-Audit of the East African Development Bank (EADB) by the Audit Commission

The Audit Commission reported that the East African Development Bank, one of the surviving institutions of the Community, had never been audited by the Audit Commission contrary to Article 134 (1) of the EAC Treaty. Audit further reported that this had continued to happen despite previous EAC Management Letters.

Management of EAC informed that the Charter which established the bank gives it a different governance structure that is parallel to the EAC Treaty. This Charter empowers the EADB Governing Council to appoint auditors to carry out audits on the bank selected by the Board of Directors.

Management further informed the Committee that the current shareholding of the EADB includes four countries namely, Republic of Kenya with 27.03% shareholding, Republic of Rwanda with 9.51%, the United Republic of Tanzania with 23.77% and the Republic of Uganda with 27.03%. The Bank however has other non-EAC shareholders, including African Development Bank (8.82%), Netherlands Development Finance Company (2.67%), German Investment Corporation (0.71%), Commercial Bank of Africa (0.04%), Nordea Bank Sweden (0.04%), Barclays Bank London (0.01%) and Standard Chartered Bank (0.01%), Yugoslavia Consortium (0.2%) and SBIC African Holdings (0.17%)

Committee Observation

i. The non-audit of the EADB by the Audit Commission is in contravention of the Article 134 and Article 9 (3) East African Community Treaty and;
ii. The disparities of the Charter establishing the EADB and EAC Treaty on the legal Status of the Bank excludes it from audit by the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge Council to implement the Summit directive on resolving the disparity between the EADB Charter and the EAC Treaty.

1.1.3 Delayed formulation of the 5th EAC Development Strategy

The Audit Commission reported that the 5th EAC Development Strategy had not come into effect despite the expiry of the 4th EAC Development Strategy at the end of FY 2015/2016. Consequently, the EAC had operated without a strategic plan in the year under audit.

Management of EAC informed the Committee that the 5th EAC Development Strategy had since been approved by the EAC Heads of State.

Committee Observations

Absence of a Development Strategic Plan could lead to resource misappropriation, negative impact on timelines and failure to incorporate lessons learned into the development of future plans; all of which could hamper achievement of the EAC vision.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***Mid-term review of the Development Strategy is undertaken and results thereof considered in the development of the new strategy.***
ii. ***Timely commencement of development of the subsequent development strategy to avoid operating without one.***
iii. ***The unit for monitoring, evaluation and development should be strengthened in terms of human resources to ensure timely production of the Development Strategies of the EAC.***

1.1.4 Non-implementation of a results-based monitoring and evaluation framework

The Audit Commission reported that there was non-implementation of a Results-Based Monitoring and Evaluation Framework despite a provision for it in the FY 2016/17 budget. Audit further reported that more emphasis was being put on immediate outputs and spending rather than on long term results.

EAC Management informed the Committee that the lack of a framework and system for monitoring of the outcomes of the programs specified in the strategy was one of the factors behind the weak, non-harmonized and ineffective M&E System that posed a big challenge to the efforts of the EAC.

Committee Observations

The Committee noted that without undertaking a Result Based Monitoring and Evaluation, EAC will not be able to adequately review the relevance, efficiency, effectiveness, impact and sustainability of the interventions it carries out.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management:

i. ***Implements a Results-Based Monitoring and Evaluation System to adequately evaluate its interventions and their outcomes;***
ii. ***Is encouraged to evaluate the implementation of Council directives and decisions; and its staff performance towards achieving the EAC strategic development goals.***

1.2 SHORTCOMINGS IN BUDGETING AND BUDGETARY CONTROLS

1.2.1 Irregular reallocation of funds

The Audit Commission reported that a total sum of USD 1,342,650.08 was reallocated from personnel emoluments to recruitment expenditure contrary to Regulation 19 (3) of the EAC Financial Rules and Regulations Act 2012.

Management of EAC concurred with the Audit finding and explained that during the 35th meeting of the Council of Ministers, Council directed the EAC Secretariat to reallocate funds within its current budget to cater for the recruitment exercise.

Committee Observations

Although the 35th Meeting of the Council of Ministers had directed EAC Management to reallocate the funds, EAC Management should have sought the authority from the Assembly in which power to appropriate funds is vested (Article 49 of the Treaty). This reallocation was thus done irregularly and contravenes the EAC Treaty and the EAC Financial Rules and Regulations. Management of EAC should have presented a supplementary budget for reallocation of funds.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC ceases abrogating the Treaty of the EAC and its Financial Rules and Regulations by ensuring that all future reallocations are approved by the Assembly.

1.3 REVIEW OF REVENUE MANAGEMENT

1.3.1 Delayed disbursement of contributions by Partner States

The Audit Commission reported delays in remittance of contributions from Partner States. Audit noted that only 39% of the contribution for the FY under review had been received by 31st December 2016.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***There is adequate follow up on the outstanding contributions through timely and continuous reminders; and issuance of demand and receipt notes to the respective Partner States of what is outstanding to the EAC;***
ii. ***It explores the possibility of enforcing sanctions and penalties on the Partner States defaulting on remittances of contributions to the EAC.***

1.3.2 Reduction in funding from Development Partners and static contribution from Partner States.

The Audit Commission reported a 42% decline in contributions received from Development Partners compared to the previous FY. In addition, the amount received was only 31% of the budgeted amount. The contributions from Partner States had remained static over the years yet the EAC has continued to establish new staff structures, Organs and Institutions to match the Community's growth.

Management of EAC concurred with the Audit finding that the Development Partners' contributions were static and had declined in the FY under review.

The Committee was informed that a proposal for Sustainable/Alternative Financing Options for the EAC Projects and Programs is being considered by the EAC Partner States Ministers of Finance.

Committee Observations

Reduction in contributions from Development Partners meant that the EAC had limited funds to smoothly implement planned activities to achieve its mandate, and as a result, programs were only partially implemented or not implemented altogether.

Further the Committee observed that:

i. The current funding cannot sustain, advance nor support the growing Institutions of the Community;
ii. The EAC risks stagnation in the implementation of its activities thus slowing its growth.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. Fast-track the alternative financing mechanism to be able to implement the Community's planned activities;
ii. Enhance EAC donor relations and resource mobilization.

1.3.3 Unrecovered VAT of USD 1,877,168

The Audit Commission reported an outstanding VAT recoverable of USD 1,877,168, which was an increase by USD 478,859 from the previous FY 2015/16.

EAC Management informed the Committee that the issue had been discussed at the Council of Ministers Meeting and the Ministers had taken up the matter with their respective Revenue Collection Bodies. A verification of the claims is undergoing such that the VAT claimables are cleared.

Committee Observation

Non-recovery of the funds from the Revenue Collection Bodies in Partner States had accumulated VAT balance amounting to USD 1,877,168, thus depriving the Community of the scarce resources to implement its programs and activities.

***Committee* Recommendation**

The Committee recommends to the Assembly to urge the Council of Ministers to follow up with the respective Ministers responsible for Finance to ensure that the VAT refunds are promptly remitted to the Community.

1.4 REVIEW OF ASSETS MANAGEMENT

1.4.1 Shortcomings in the maintenance of the Assets Register

a) Unsupported entries in the Assets Register

The Audit Commission reported that items worth USD 829,058 indicated in the asset register availed for audit were not associated with any identifiable assets contrary to Section 1.12.12(b) of the EAC Financial Procedures Manual, 2013.

Management of EAC informed the Committee that EAC had adopted new accounting systems that included implementation of a new GFS Chart of Accounts and Budgeting Framework, which changes affected the way the institution was capturing and maintaining financial data. This caused some entries not to be supported in the assets register. Management however informed the Committee that the process of updating the fixed assets register to indicate the serial numbers, location and condition of assets was still ongoing and that the assets do exist at EAC and can be physically verified.

Committee Observations

The Committee observed that without specific identification of assets:

i) It may not be possible to track, monitor and control the assets;
ii) The accuracy of assets as reported in the financial statements could be doubtful, fraudulent, or suspicious.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC maintains a properly prepared and regularly updated Assets Register.

b) Gaps in the Assets Register

The Audit Commission reported that upon review of the Assets Register availed for audit verification, 1,010 assets with cost values totaling USD 1,880,662 and net book

value of USD 12,052 reported in the Register did not include critical information about the location or staff assigned to the assets.

In addition, Audit reported that the Assets Register included 2,984 assets with cost values of USD 3,819,390 that had been fully depreciated but were still in use. This matter had been reported in the previous year Management Letter but the ensuing Audit recommendation has not been implemented.

Management of EAC, informed the Committee that a professional Assets Valuer had been procured to assist the Secretariat in revaluing, reassessing, tagging and identifying those assets for disposal. In verifying the value, condition and location of the assets, the Board of Survey Committee conducted the verification process with the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC:

i) Assets valuation exercise is completed as soon as possible;
ii) Maintains a properly prepared Assets Register where all assets are clearly identified and recorded;
iii) Implements audit recommendations on the assessment of the useful life of the assets before they are fully depreciated.

1.4.2 Kitchen equipment valued at USD 212,987 not put in use for over two years

The Audit Commission reported that physical verification of the assets of the Community revealed that EAC Secretariat had purchased kitchen equipment valued at USD 212,987 and subsequently delivered in December 2014, but had never been put to use thus generating no economic value to the Community contrary to Regulation 31 (2c) of the EAC Financial Rules and Regulations, 2012.

Management of EAC informed the Committee that the procurement process for catering services advertised in the FY 2016/2017 attracted only one bid that ended up being non-compliant. The Evaluation Committee appointed for the process recommended to the Procurement Committee to re-advertise the service by requesting the user department to reinitiate the process by raising a procurement requisition form.

EAC Management hopes that a review of the Terms of Reference of the procurement will be able to attract bids and the procurement will be finalized in FY 2017/18 and the kitchen equipment will then be put to use.

Committee Observations

The Committee made the following observations.

i. Poor financial planning on the part of EAC Secretariat on the utilization of the Community's funds since there has been no value from the investment since it was made.
ii. The Community has tied financial resources in these assets that could have been used to address its other urgent expenditures.
iii. The non-use of the assets casts doubt on whether they were needed by the EAC.
iv. The depreciation charge for the assets could not be matched to the economic benefit derived from the usage of the assets.
v. The useful life of the equipment is in question and as such the depreciation charge may not be accurate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management is directed to carry out prior adequate planning of assets acquisition and utilization in order to minimize idle assets and enhance efficient utilization of the Community resources.

1.4.3 Delay in disposal of assets

The Audit Commission reported that despite recommendations to dispose of a number of assets having been made over the past years, no disposal had been carried out over the last four years. During the audit exercise, the Commission under took a physical verification of the assets and identified a number of grounded vehicles at the EAC parking lot whose conditions kept deteriorating.

Audit further reported that old computer equipment was kept in store at the basement occupying a lot of space contrary to Regulation 102 of EAC Financial Rules and Regulation and Paragraph 8.1.3 (h) of the EAC Financial Procedures Manual 2013.

Management of EAC concurred with the Audit finding and reported that the process of disposal of obsolete assets was recommended by the EAC Board of Survey Committee to the Secretary General and that for the FY 2016/17, the SG had directed the concerned departments to implement these recommendations on the same.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC immediately disposes of fully depreciated assets in order to avoid the Community incurring depreciation and storage charges.

1.4.4 Inadequate control over vehicles transferred to Partner States

The Audit Commission reported that physical verification of EAC assets revealed that 7 vehicles included in the Asset Register with a net book value of USD 14,808 were not available for verification yet the Assets Register availed for audit indicated that the assets location was the parking lot of EAC premises in Arusha.

A further inquiry from EAC staff revealed that the vehicles were transferred to Partner States. The ownership documents for the said vehicles were not availed for audit verification and no records were provided to indicate their conditions or usage. This is contrary to Paragraph 16.1.2 (h) of EAC Financial Procedures Manual.

Management of EA concurred with the Audit finding and noted that there are a number of assets in the control of the Secretary General in the EAC Assets Register that had been transferred to different points of use in the EAC Partner States. Management further informed the Committee that the specific vehicles which were mentioned in the Audit Commission report were project vehicles which were allocated to the Partner States to facilitate the various offices on the Avian Flu Project. Management revealed that for control purposes, EAC Management through the Board of Survey Committee had commissioned a team to carry out a validation exercise to ascertain the existence and condition for all EAC Assets in the Partner States.

Management further informed this Committee that it intends to make it an annual exercise as part of the Board of survey Committee assets verification process.

Committee Observations

i. There is a risk of misuse of the vehicles where there is no proper control;
ii. The existence of the said vehicles is questionable.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to:

i. Ensure that Management of EAC ensures that proper controls in the management of EAC fleet of vehicles are put in place;
ii. Should investigate the matter and report to the Assembly in three months.

1.5 REVIEW OF PROCUREMENT AND CONTRACT MANAGEMENT

1.5.1 Partially executed contract resulting to a security gaps at the EAC premises

The Audit Commission reported that in the FY 2015/16, it had recommended that the partially implemented security contract for the supply, delivery and installation of security equipment between EAC and M/s. Avtech Systems Ltd for a sum of USD 582,485.93 of which 80% of the contract sum was paid should be addressed to the end. Audit however noted that this issue is yet to be concluded.

Management of EAC concurred with the Audit finding and reported that the Secretary General had constituted a team of Staff members with representatives from various departments had been constituted to pursue the matter. Management further noted that the legal processes are due to commence in December 2018.

Committee Observations

i. There has since been no positive progress when the matter was reported in the 2015/16 Audit Commission report yet EAC had incurred a loss of USDS 582,485.93.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that:-

*i. **CTC expedites the legal process for recovery of USD 582,485 from Avtech Systems Ltd.***
*ii. **In future, procurements of this magnitude are properly insulated against possible breach and fraud by involving Contract Managers and legal representation from the Office of the CTC to oversee the procurement processes and implementation thereof;***
*iii. **CTC should expedite the process of blacklisting Avtech Systems Ltd for breach of contract;***
*iv. **Council institutes a forensic audit into this procurement.***

1.5.2 Irregularities noted in the procurement of Computers

The Audit Commission reported that EAC Secretariat purchased computers and accessories from M/s Mica Computers at a cost of USD 35,199.40 which were received on 30th June 2017 and an invoice issued on the same day. Audit review of supporting documents in support of the procurement further revealed the following anomalies:

i. Use of inappropriate procurement method
ii. Bids were submitted after opening date
iii. Evaluation of bids beyond the bid validity period
iv. Pro-longed delayed award of the procurement

Committee Observations

With the aforementioned anomalies:

i. The EAC may not have derived value for money from the procurement of the computers;
ii. There was breach of the EAC Financial Rules and Regulations.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that:

i. ***EAC Management procurements are carried out in accordance with EAC regulations and procedures;***
ii. ***It expedites the Institutional Review Exercise such that the manpower gaps in the procurement department are addressed;***
iii. ***Individuals directly responsible are reprimanded.***

1.5.3 Shortcoming in the Management of Consultancy Contract for Staff Recruitment

The Audit Commission reported that a review of the consultancy expenditure showed that the EAC Secretariat reported transactions amounting to USD 537,293 net of 18 % VAT relating to recruitment of staff. Supporting documents indicated that EAC Secretariat had made a request for a supplementary budget to meet the outstanding balance and was directed to reallocate funds from within its current budget to cater for the recruitment exercise. The following shortcomings were noted;

a) **Inadequacies in the contract management**
The original contract was not availed for audit verification. The copy provided had a signature with neither name nor designation of an EAC representative. The pages were also not countersigned.

b) **Variation between the contract and the engagement letters**
EAC Secretariat signed several engagement letters with the consultant (Deloitte) with reference to the framework contract. It was noted that the engagement letters did not include key tasks included in the original contract framework as indicated in the copy availed such as:
- Designing suitable advertisements on agreed job descriptions;
- Conducting psychometric tests;
- Obtaining references for the shortlisted candidates; and
- Preparation of a final report recommending a maximum of three candidates for final interview by EAC interviewing panel.

Audit revealed that all the above tasks were carried out by the adhoc Service Commission at EAC yet the consultant charged the original rate and gave a 10% reduction for the tasks not performed. The basis for the reduction was not clear since there was no evidence of any negotiation as required by EAC Financial Rules & Regulations.

c) **Performance of service without a valid contract and an engagement letter**
Included in the consultancy expenditure was an amount of USD 81,202 being administrative fees for providing support during recruitment of 24 positions.

Further included was an expenditure amount of USD 291,962.39 for recruitment of 32 EAC staff. Audit revealed that both these amounts were expended with total disregard to EAC Financial Rules & Regulations.

d) Non- adherence to cut off principle
e) Lack of contract control mechanism

Management of EAC concurred with this audit finding and informed the Committee that the Deloitte contract was duly signed by Deputy Secretary General Finance and Administration and the Principal Legal Officer having been recommended by the Director Human Resource. The contract was to provide recruitment services for 24 positions for staff who were due to undergo the interviewing exercises for the EAC jobs and that the issue was presented to the 14th Meeting of the Procurement Committee that cleared the matter of payment of administrative fees. The payment of the services rendered by the Consultant was based on the detailed report presented by Deloitte Consulting Limited. The report contained the names of the persons who had applied for every specific position.

Management further informed the Committee that in regards to USD 291,926.39 for the recruitment of the 32 EAC staff from previous financial years, the costs were consolidated by the Secretary General, forwarded to the Council that approved all of the outstanding recruitment expenditures.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Ensure that Management of EAC:***
   a) ***Properly reports expenses and liabilities of the Institution in the financial statements;***
   b) ***Enhances contracts management to ensure that all liabilities emanating from the projects are well managed and reported;***
   c) ***Puts in place adequate control mechanisms for future related contracts;***
   d) ***Ensures that all contracts are properly managed and executed in accordance with EAC financial rules and regulations;***
ii. ***Institute disciplinary action against the Director Human Resource and the Deputy Secretary General Finance and Administration for authorizing the irregular expenditure of USD 537,293 for the consultancy contract for staff recruitment.***

1.6 REVIEW OF HUMAN RESOURCES FUNCTION

1.6.1 Shortcomings in the engagement of Short Term Staff

Audit further reported the following anomalies:

a) **Lack of approval on establishment of short term contract staff.** There was no evidence that the engagement of short term staff was recommended to the Council for approval as required by the regulations.

b) **Lack of guidelines on the engagement of the short term staff.** There was no evidence to show that there was competitive process in the engagement. In addition, the determination of the salary levels for the staff was not clear.

c) **Continued engagement of same staff on short term contracts.** Selected staff showed that the same officers have been engaged on short term contracts for a period of over 7 years.

d) **Lack of employee benefits.** Audit noted that although the short term employees were continually employed, there was no evidence that these employees were entitled to leave and any terminal benefits. This could be against the international labor requirements and contrary to Article 70 (1) (2) and Regulation 37 (2) of the EAC Staff Rules and Regulations.

Management of EAC informed the Committee that it is currently operating under a structure and establishment that was approved in 2006 and that it is awaiting the completion of the Institutional Review Exercise that has been ongoing for ten years. In the interim, it has resorted to using short term staff to fill in the gaps.

Committee Observations

The Committee observed that this is a recurrent audit finding that has not been addressed by the Council of Ministers.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to:

i. ***Direct the Secretariat to comply with Staff Rules and Regulations;***
ii. ***Direct Management of EAC to phase out short term contracts and draw a road map to fill all positions that were previously held by short term contract holders with substantive staff;***
iii. ***Expedite the completion of the Institutional Review Exercise such that the short term staff are phased out of the EAC structures.***

1.6.2 Lack of staff training and development

The Audit Commission reported that the EAC Secretariat had not undertaken any staff training and development apart from induction of newly recruited staff. Furthermore, there was no evidence of a training plan or budget provision in the financial year under audit.

Management of EAC informed the Committee that no budget was allocated for staff training for the FY 2016/2017.

Committee Observations

Lack of staff training and development could result into low staff morale and low productivity.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that Management of EAC:

i. ***Adequately plans for staff development and training in order to enhance skills and productivity of its staff;***
ii. ***Continues to mobilize resources for staff training and development.***

1.6.3 Irregular payment of unutilized leave days

The Audit Commission reported that EAC Secretariat paid USD 155,589 as compensation for unutilized leave days. A further audit of the payments revealed cases where some employees were compensated for unutilized leave days beyond the maximum allowable of 30 days contrary to Regulation 71 of the EAC Staff Rules and Regulations.

Management of EAC informed the Committee that given the under-staffing in a number of EAC departments, it was not possible for staff to take their respective annual leave considering the work exigencies. Given this challenge, EAC resorted to remunerate officers for leave applied for and denied.

Management further observed that EAC Staff Rules and Regulations 2006 allow for staff to be paid cash in lieu of leave if they have express approval from the Secretary General or a relevant authority. Payments to these staff were approved by the Director Human Resource and the Deputy Secretary General Finance and Administration.

Committee Observations

i. The payment in lieu of the unspent leave days beyond those stipulated and without prior approval as required amounted to irregular payments and wasteful use of resources;
ii. Non utilization of leave days could lead to fatigue and hence negatively affecting productivity;
iii. The effected payment had not been budgeted for in the year under review;
iv. There was no basis for which the Finance Department acted upon to pay the unutilized leave because the supporting documents and personal files did not show that the employees had received express approval to accumulate days beyond the 30 days as required by the regulations;

v. The HR department is inefficient and is not able to plan for staff to undertake their leave.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i) Ensure that Management of EAC:
   a) Adequately plans for staff leave;
   b) Complies with the requirement of the Staff Rules and Regulations to avoid any misuse of resources;
   c) Make a provision for unutilized leave days based on the total approved yet untaken leave days.

iii. Institute disciplinary action against the two Officers who approved the irregular payment of leave days.

1.6.4 Payroll Variance noted between the Interface File and the GL for Secretariat

The Audit Commission reported that upon analysis of the employee costs for EAC Secretariat, it revealed discrepancies in the total amount posted in the General Ledger and what was presented from the interface file of the payroll system used to populate the General Ledger (GL) in the SUN system contrary to Para 16.1.2 (h) of EAC Financial Procedures Manual, 2013.

Management of EAC reported that the variances in the Audit Commission report were occasioned by two issues:

i) Approved Salaries for short term staff who by then were not processed via Inspiro as the Management system included only one established staff;
ii) Approved personnel payments made via General Journal (GEN) function in SUN systems and not paid through Inspiro People.

Management further informed the Committee that it had implemented the recommendation by the Audit Commission.

Committee Observations

The Committee observed that inconsistencies in payment processing could lead to double payment of salaries.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management expeditiously harmonizes the variances created in the payroll while processing salaries and allowances for staff.

1.6.5 Unregulated payment of Housing Advance to staff

The Audit Commission reported that upon analysis of the EAC General Ledger, it revealed that EAC Secretariat had issued USD 142,605.33 to staff as housing advance during the year under review. It further noted that as of 30th June 2017 USD 9,600 was still outstanding and there was no policy or regulation in place to regulate the payments for advances.

Management of EAC reported that the Housing advance was granted to staff to clear the house rent because some land lords require rent for 6 or at times 12 months upfront and staff might not have the money to clear such obligations. The Housing advance is governed by Regulation 54 (2 and 4) of EAC Staff Rules and Regulations.

Committee Observations

Absence of clear policy for managing housing advance may lead to abuse and misuse of EAC funds.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Puts in place an elaborate policy to regulate and streamline the housing advance;***
ii. ***Recovers all housing allowances advanced to staff within the FY in which the advances are awarded.***

1.6.6 Adequacy of accounting policy on employee benefits

The Audit Commission reported that upon review of the accounting Policy 4.1(e), it noted that the financial statements of EAC treat accrued gratuity as a defined contribution plan. However, the gratuity fund is managed by EAC and this does not meet the criteria of a defined contribution plan since EAC has not transferred actuarial and investment risks to employees as another separate entity as required by paragraph 28 of IPSAS 25.

Audit further reported that the accounting policy indicated that the employee benefit obligations were measured on an undiscounted basis. However, Paragraph 56 of IPSAS 25 requires that where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate stipulated in paragraph 91 of the Standard.

Management of EAC concurred with the Audit finding and undertook to review the post-employment scheme of the EAC so as to fully comply with the provisions of IPSAS 25.

Committee Observations

i. The financial statements may not achieve fair presentation of employee benefits
ii. Users of the financial statements may not understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management expeditiously develops and applies an accounting policy on employee benefits in accordance with IPSAS.

1.7 REVIEW OF CASH AND BANK MANAGEMENT

1.7.1 Unsupported entry in the cash flow statement

The Audit Commission reported that upon review of the cash flow statement of EAC, it revealed an unsupported entry in the cash flow statement amounting to USD 10,667 contrary to Paragraph 16.1.2 (h) of the EAC Financial Procedures Manual, 2013.

Management informed the Committee that the unsupported entry item had since been corrected accordingly to align it with the correct description in the notes.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC complies with Provisions in the EAC Financial Procedures Manual 2013, and ensures that the cash flow statements are properly supported by the requisite documents at all times.

1.7.2 Shortcomings in the preparation of bank reconciliation statements

The Audit Commission reported shortcomings in the reconciliation of bank statements contrary to Paragraph 5.2 (o) of the EAC Financial Procedures Manual 2013.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC complies with EAC financial procedures manual 2013, and ensure that the Principal Accountant and Accountants of all Organs and Institutions review reconciliations to ensure their correctness.

1.7.3 Dormant bank accounts

The Audit Commission reported that upon review of the EAC bank balances, it discovered two dormant bank accounts with a total cash balance of USD 17,236.95 as at 30th June 2017, maintained by EAC Secretariat and its projects. The accounts were

maintained at Barclays Bank. This was in violation of Policy 5.2(a) of the EAC Financial Procedures Manual 2013.

Management of EAC informed the Committee that EAC was operating the Main Operating Account No. 0028004230 which was officially closed on request by EAC Management and Barclays Bank sent EAC the final account closure bank statement after being given an instruction to transfer all remaining funds balances to another EAC operation bank account.

Further, as regards account No. 0028000065, it was opened after EAC and Trade Mark East Africa signed the Memorandum of understanding to support EAC Capacity Building Action Plan under Technical Support in February 2011. The Account was reactivated and EAC closed it in March 2018 after the expiry of the project.

Committee Observations

i. The existence of dormant bank accounts could be used to perpetrate irregularities/fraud and unnecessarily increase operational costs in form of bank charges;
ii. Omitted bank account indicates that bank balance reported as at 30 June 2017 is misstated and controls of bank accounts are inadequate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC forthwith closes the dormant bank accounts. The closure should follow complete official channels with evidence showing transfer of balances.

1.7.4 Stopped bank account

The Audit Commission reported that when it reviewed the bank balances, it discovered a closed bank account for the East African Community Broadband, account number 0028009089 with a balance of USD 87.62 as at 30th June 2017 as stated by Barclays bank on its certificate of balance. However, no evidence in form of a letter approving the closure and transfer of the balance to another account was provided for audit review contrary to Regulation 36(4) of EAC Financial Rules and Regulation, 2012.

Management of EAC however informed the Committee that all the dormant bank accounts have since been closed.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC forthwith transfers these funds from the stopped account and into its main accounts and thereafter formally closes this account.

1.7.5 Bank accounts with zero balance

The Audit Commission reported that when it reviewed the bank balances of EAC, it noted that some bank accounts had zero balances at the end of 30/06/2017 like EAC COMESA Climate and EAC COMESA Early Response.

Management of EAC informed the Committee that at the time of the audit exercise, the operations of the projects had ended but the EAC had just appointed auditors to review the projects and eventually close the accounts. Management further pledged to formally close these accounts.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC forthwith closes accounts with zero bank balances upon conclusion of the audit procedures.

1.8 REVIEW OF ACCOUNTS PAYABLE

1.8.1 Internal control weaknesses in accounts payable system

The Audit Commission reported that review of the internal controls for the FY 2016/17 over accounts payables of EAC revealed the following weaknesses contrary to Regulation 109 of the EAC Financial Rules and Regulations:

(a) Inadequate commitments Control

Commitments of resources is not properly done. Purchase orders were raised and approved long after the invoices had been received or after the activity had been completed.

(b) Use of manual purchase orders.

Manual purchase orders were used to procure goods and services.

(c) Accounts payable reconciliations

There were no manual registers of accounts payables and in addition, creditors' reconciliations were not performed on a monthly basis nor were the creditors' balances agreed to with the respective creditors through supplier statements.

Committee Observations

a) Payments made could have been irregular;
b) There was a risk that commitments were made without establishing the availability of the budget and funds;
c) There was a risk of double payment/fictitious invoices since it was difficult to track the individual invoices;
d) Liabilities are not recognized on time leading to long outstanding liabilities;

e) Delays in posting could also lead to interest / penalties on late payments.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC undertakes to ensure that:

i. ***Any obligations are raised through timely production of purchase orders which should be system based;***
ii. ***Liabilities are recognized in the books of accounts immediately they arise.***
iii. ***Every respective invoice is posted on its own.***
iv. ***Creditors control accounts are reconciled on a monthly basis and agreed to ledger accounts.***
v. ***Statements are sent to suppliers on a monthly basis and agreed to the control accounts.***

1.8.2 Inadequacy of the Accounting Policy on Payables

The Audit Commission reported inadequacies of the accounting policy on payables which are likely to lead to the financial statements not achieving fair presentation of payables. This is contrary to EAC Financial Rules and Procedures and IPSAS guidelines.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC develops a policy on accounting payables and also endeavors to disclose accounting policies relating to payables that will make financial statements understandable.

1.8.3 Inconsistencies in the Presentation of payables

The Audit Commission reported that a review of the financial statements of EAC revealed sub-classes in which items denoted as other accruals and other payables which had never been explained as to their nature.

Management of EAC informed the Committee that the necessary presentation adjustments had been corrected in the final financial statements for review by the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC considers amending the chart of accounts.. In future, Management should also endeavor to avail information that is relevant to an understanding of the respective entity's financial position.

1.8.4 Unsupported Payables Balances

The Audit Commission reported that EAC Secretariat did not provide supporting schedules for a number of balances totaling to USD 408,680. In addition, included in the one-off suppliers' balance of USD 1,043,034 were amounts totaling to USD 343,459.96 whose supporting documents were not provided for Audit Review.

Management of EAC informed the Committee that at the time of audit, it did not have the necessary supporting documents but had since availed the documents to Audit Commission.

Committee Observations

i. The financial statements may not reflect the true liabilities of EAC;
ii. There may be existence of fictitious claims or unrecorded liabilities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

iii. Keeps proper records for all transactions that are maintained by EAC at all times;
iv. Avails documents to the Audit Commission within the speculated Audit period.

1.8.5 Over statement of payables

The Audit Commission reported that in the creditors' balance of USD 3,384,722 were invoices and orders totaling to USD 71,449 that had been ordered after the cut-off date of 20th May 2017 and posted in the General Ledger. However these goods and services had not been provided as at 30th June 2017

Management of EAC informed the Committee that the expenditure was captured as a continuity of a significant amount of other preparatory activities that had commenced before the 20th May cut-off and related to conference facilities whose costs were committed to after confirmation of participation of Partner States that may have been made after the deadline.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC:

i. Adheres to budgetary controls and avoids making commitments which cannot be honored on time;
ii. Ensures that only transactions that give rise to an obligation and where goods/services have been received, should be recognized in the General Ledger.

1.8.6 Variances between invoices and general ledger

The Audit Commission reported that contrary to Paragraph 16.1.2(h) of EAC Financial Procedures Manual, variances between the figures in the invoices and purchase orders, and amounts posted in the general ledger amounting to USD 405.00.

Management of EAC concurred with the Audit finding and reported that the anomalies had since been rectified.

Committee recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC adheres to proper accounting procedures and make sure that all entries posted in the General Ledger are reviewed for accuracy and proper approval.

1.8.7 Long Outstanding Liabilities

The Audit Commission reported that whereas EAC Regulations and Financial Procedures Manual, 2013 requires that all payments of invoices for creditors are made within 30 days of receipt of the invoice, EAC had outstanding creditors' balances amounting to USD 3, 384,722 which further includes creditors amounting to USD 92,383 that had been outstanding for more than one year and others dating back to 2014.

Management of EAC informed the Committee that the long outstanding payables related from several causes including delay in service delivery, late provision of invoices by suppliers and incomplete supporting documentation.

Committee Observations

i. Delayed payment to creditors can lead to litigation cases against the EAC.
ii. EAC could incur unnecessary penalties and other contingent liabilities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to compel the Management of EAC to ensure prompt payment of creditors and to adhere to the Commitment Control System.

1.8.8 Inter-Institutional/Organs Transactions

The Audit Commission reported the following anomalies contrary to Policies 3.4.3(b) and 1.12.9(a) and (c) of the EAC Financial Procedures Manual.

a) IRCC Current Account

The EAC/IRCC Current account showed a debit balance of USD 3,700. This amount arose as a result of a transfer of EURO 200,000 reflected as USD 222,000 and subsequent refund reflected as USD 218,000. In addition, the

project was closed and this was not reported in the financial year under audit hence the reported receivable could not be recovered.

b) **EAC/Lake Victoria Fisheries Organization (LVFO) Current Account**
The current account debit balance of USD 254,777 is an amount that was advanced to LVFO on 16 January 2014. However, EAC had not recovered and refunded to the General Reserve the money for the last 3 ½ years as directed by the Council during the 28th EAC Council Meeting of Ministers Meeting held on 28th November 2013.

c) **EAC/East Africa Science and Technology Commission Current Account**
Included in the EASTECO account is a balance of USD 5671 which was not supported.

d) **EAC/ East Africa Kiswahili Commission Current Account**
Included in the credit balance of USD 52,902.23 were unsupported debit and credit transactions totaling USD 48,424.13 and USD 5,903.38 respectively that related to the FYs 2015/2016 and 2016/2017:

e) **EAC/East Africa Health Research Commission Current Account**
The credit balance of USD 182,575.50 was only supported by a payment to Monitor Publications of USD 1,112.76.

When the Management of EAC interacted with the Committee, it informed the Meeting that they had provided the necessary documentation in support of the outstanding amounts. Reconciliations of balances were done and balances that needed to be reversed in the case of EASTECO, appropriate correction had been done in consultation with the Principal Accountant of EASTECO.

Committee Observations

i. Non-recovery of funds advanced affects funds available in the General Reserve fund which can be used to fund unforeseen expenses.
ii. The reported balances could be non-existent.
iii. The reported balances could be overstated.
iv. The records maintained by EAC did not have accurate information

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC;

i. Immediately recovers the amounts owed;
ii. Investigates the variances and where applicable adjusts the books of accounts;

iii. ***Ensures that proper records of EAC activities are maintained;***
iv. ***Ensures that all transactions are supported;***
v. ***Uses debit notes and credit notes to support the current account transactions instead of e-mails because the emails can easily be manipulated;***
vi. ***Through the Director Finance (DF), crosschecks on a monthly basis with the responsible Accounts Assistant on the outstanding liabilities, noting the action lacking and guiding on what is to be done within specific timelines.***
vii. ***Through the DF, analyzes statistically the loss of foreign exchange rates which should inform if there is need to open another forex account e.g. the euro account.***

1.8.9 Misstatement of Salary Payable

The Audit Commission reported that EAC Financial Procedures' Manual 2013 requires the Secretary General to maintain correct, accurate and complete documents and records of all the financial transactions of the Community. In addition, Policy 7.2(d) of the EAC Financial Procedures Manual 2013 requires that salaries be paid on the 24th day of each month, unless this falls on a weekend or public holiday in which case the working day immediately following the date should be the date on which salaries are paid. The Audit Commission reported the following anomalies:

a) **Omission of salary expense**
The salary expenses for Projects reference EU06, US01 & US02 were not captured in the salary expense for the year although there are credit entries for these projects in the salary payable account.

b) **Omission of salary expense as payables**
Salary expenses totaling USD 104,128.91 could not be traced to the salary payable account.

c) **Un-cleared balances in salary payable account**

Salary payable balance of USD 513,916 which included debit and credit entries for various projects between the months of July 2016 and May 2017 which were not cleared.

d) **Variance between salary expense and salary payable account**
A review of the salary payable in the general ledger revealed un-explained and unreconciled variances between credits in the payable account and the corresponding debits in the salary expense account.

Management of EAC acknowledged the Audit Commission finding and explained that for the Part of US01 and US02, there was no omission, and stated that it could have been an extraction error (the correct extraction could have taken into accounts other components (US01 to US04).

For the FSDRP (WB01), Management noted that the staff salaries for the specific months of April, May and June, 2017 were all paid in June, 2017 after getting a No Objection from the World Bank. As there were no funds for making this payment prior to the No Objection, EAC Management could not commit the expenditure, hence the delay noted by the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to argue the Council of Ministers to ensure that Management of EAC:

i. ***Ensures that all salary expenses are recorded on a monthly basis;***
ii. ***Clears salary payable accounts whenever salaries are paid;***
iii. ***Investigates the source of the variances and reconciles the expenses and payables accounts.***

1.8.10 Accuracy of Creditors' Balance

The Audit Commission reported that according to Procedure 4.4.5(g) of the EAC Financial Rules and Regulations, the Senior Accountant is required to prepare an aged analysis report of outstanding payables on a monthly basis. Furthermore, the Purpose Statement 4.4.2 stipulates that accounts payable management policy is to ensure completeness, accuracy and reliability in the management of all accounts payable. Audit reported that when it compared the balances reflected in the financial statements in respect to creditors with confirmations from the suppliers, there were some variances.

Management of EAC responded that the variance between the recorded amount and the circularized amount in respect to Arusha International Conference Centre was as a result of a disputed amount of USD 125,582 for renting office space since 2004. Audit Commission observed that it was not clear why Management had not included a contingency liability for the disputed balance in the financial statements.

Committee Observations

i. The creditors' balances were overstated;
ii. There was violation of the Matching Principle in the financial records.
iii. The difference noted pointed to errors in the financial statements and/or unrealistic payable accounts;
iv. The records maintained by EAC on creditors could not provide accurate information on individual creditor balances.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Investigates the source of the variance and reconciles the accounts.***

ii. ***Ensures that only transactions that have been satisfactorily performed are recognized as obligations.***
iii. ***Makes necessary adjustments in the books of accounts where applicable.***

1.9 REVIEW OF GRATUITY MANAGEMENT

The Audit Commission reported that contrary to:

a) Par. 27 of IPSAS 1 on faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses;
b) Par. 26 IPSAS 19 on financial statements; and;
c) Policy 16.1.2(h) of the EAC Procedures Manual; it noted the following anomalies in the gratuity management of the EAC:

i. Non-recognition of gratuity expense and gratuity liability;
ii. Variance between expected gratuity expense and gratuity expense for the year;
iii. Over-statement of gratuity payables;
iv. Variance between gratuity expense for the year and gratuity payable account;
v. Omission of gratuity expense as payables;
vi. Irregular reversal of gratuity expense.

Audit reported that the above anomalies affected the manner in which the gratuity account was being managed at the EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Ensures that all gratuity expenses and liabilities are reviewed on a monthly basis before posting to the ledger;***
ii. ***Carries out regular review of gratuity liability for each staff account to ascertain the amounts owed;***
iii. ***In future reversals of journal entries be reviewed and approved before posting;***
iv. ***Posts a prior year adjustment to correct overbookings in prior years, and ;***
v. ***Investigates the source of the variances and reconciles the accounts.***

1.10 REVIEW OF EXPENDITURE MANAGEMENT

The Audit Commission revealed the following anomalies in the management of expenditure at the EAC:

a) Delay in finalization of the Staff Life insurance contract resulting into financial loss of USD 69,901.

The Audit Commission reported that this expenditure was doubtful and that the contract was awarded before it was signed and payments made before the procurement processes had been completed.

Committee Observations

Management of EAC did not follow the Commitment Control System in this procurement process and the commitments were only effected to avoid the funds being transferred to the Reserve Fund.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC is directed to ensure that future procurement processes are initiated and completed on a timely basis to avoid such losses.

b) Failure to comply with cut-off principle

The Audit Commission reported instances where EAC Management failed to meet the cut off principle in recognition of the following expenses:

v. An amount of USD 40,000 posted in the General Ledger on 30th June 2017 showed as assets valuation. However, the supporting documents showed that the contract was signed on 4th September 2017 and the award was done on 24th August 2017. No service had been provided as at 30th June 2017.
vi. An amount of USD 14,725 posted in the General Ledger on 30th June 2017 reported as 'consultancy for training needs assessment'. However the supporting schedule showed that the contract was to start from 1st July 2017 and as such no service had been provided as at 30th June 2017.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of the EAC:

i. Properly recognizes this expenditure in the financial statements;
ii. Properly plans for procurements execution so that planned activities are implemented within that particular FY.

c) Long outstanding staff claim inadequately supported

The Audit Commission reported that documents relating to expenditures of the APSA project for the period of 2015/16 were inadequately supported.

d) Delayed booking of air tickets

The Audit Commission's review of the invoices relating to air tickets showed that most of the air ticketing bookings were done closer to the travel dates which is in contravention of Policy Regulations of EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management procures tickets on time since specific meetings are scheduled beforehand with known dates and programs.

e) Other Audit findings in relation to the review of expenditures

i. Expensive tickets which were procured by EAC;
ii. Lack of verification of the fares invoiced by ticketing agents
iii. Difference between invoiced and contract amounts on services charged by air ticketing agents;
iv. Supply of laboratory and IT equipment not supported by delivery notes

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. Establishes cause of variances and takes appropriate action;
ii. Provides evidence showing that the paid for goods were actually received by the beneficiaries.

2 AUDIT OF EAC PROJECTS AND PROGRAMMES

2.1 EAC PARTNERSHIP FUND

2.1.1 Low budget performance during the FY 2016/2017

The Audit Commission reported that there was low budget performance of 30% for the FY 2016/2017 with most of the planned activities not being implemented resulting into non-achievement of the project' set targets and strategic objectives of the Community.

Management of EAC concurred with the Audit finding and informed the Committee that the major causes to low budget performance was the delays in remittance of funds by Development Partners and the appointment of the Principal Resource Mobilization Officer as the Chief-de-Cabine (CdC to SG) and the resignation of the Project Accountant. Management noted that these factors had contributed to the slow pace of implementation of activities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC plans for program activities that are manageable within the context of available resources and avoids setting overambitious targets which are not in line with SMART principles.

2.1.2 Decreasing trend of Grants released by the Development Partner

The Audit Commission reported that upon review of grants released by the Development Partners to finance EAC activities for three consecutive years from 2014/2015 to 2016/2017 and the pledges for the FY 2017/18, it revealed a declining trend from USD 7,427,612 in FY 2014/15 to USD 3,275,700 in FY 2015/16, USD 2,679,378.86 in FY 2016/17 to USD 2,566,414 in FY 2017/18.

Management of the EAC agreed with the Audit finding about the decreasing trend of grants from Development Partners towards the Partnership Fund. However, Management informed the Committee that they have initiated measures to address the declining trend including hiring a Fund Manager and a Project Accountant as well as convening a donor's conference to rebuild back donor confidence among other measures.

Management further informed the Committee that they have recruited a Principal Mobilization Officer to fill the vacant position such that robust resource mobilization can be undertaken.

Committee Observations

i. Insufficient remittance of contributions limits the Community from fully and timely implementation of its activities and programs in an efficient and effective manner.
ii. The decrease in the remittance of grants by Development Partners was due to failure to comply with donors' requirements in the earlier FYs.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC:

i. ***Continues to engage with the Development Partners such that they honor their pledges;***
ii. ***Adheres to commitments signed in the financing agreements with Development Partners;***
iii. ***Explores other avenues for resource mobilization of funds by soliciting for other donors to join the funding EAC programs;***

2.1.3 Irregular provision of benefits to a temporary staff

The Audit Commission reported that its review of the contracts signed between EAC Management and the temporal staff of Open Health Initiative Programme for a period of 9 months running from 1st April to 31st December 2016 revealed that the payment of gratuities to one staff was not included.

Despite this, on 22nd February 2017, nearly two months after the expiration of these contracts, the EAC Deputy Secretary General in charge of Finance and Administration, approved the request addressed to her by the Budget Officer and Acting Project Fund accountant, to pay gratuity to these staff.

Audit further noted that on 2nd June 2016, the donor (NORAD) inquired from the EAC Deputy Secretary General whether this expenditure was in line with the employment contract and whether there was a legal basis for including the gratuity in the employment contract.

On 10th December 2016 (three weeks before the expiration of the signed contracts) all existing contracts of these staff which had no provision for gratuity were withdrawn and replaced by others having a provision for payment of gratuity. There was no evidence that at the time (of modification of the contents of the contracts), any complaints had been lodged by staff to justify the amendments in the contracts.

On 28th April 2017 payment of USD 51,804 in respect of gratuity to these staff was effected contrary to Regulation 103 (1) of the EAC Staff Rules and Regulation 22 of the EAC Staff Rules and Regulations. Para (2) (e).

Management of EAC informed the Committee that project staff are on different terms and conditions depending on the financing agreement between the EAC and the donor and sought a No objection from the donor before the payments were made, which was granted. Project Staff are not bound by the EAC Staff Rules and Regulations.

Committee Observations

i. Noncompliance with EAC Staff Rules and Regulations of granting gratuity to temporal staff;
ii. Mismanagement and loss of funds which would have been used to carry out other activities for the general interest of the Community;
iii. The payments were fraudulently and suspiciously done outside the EAC Rules and Regulations;
iv. The fact that the contracts were changed during their duration casts doubt on their genuineness. Indeed after the Management's explanation, it was clear that it was the negligence of the Secretariat during the negotiation process of the contracts and its failure to clear this audit query even when they had the relevant documents to do so.
v. EAC Secretariat was negligent during the Audit process as they did not provide the necessary documents to the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. Management of EAC strictly adheres to the EAC Staff Rules and Regulations on payment of temporal staff;
ii. EAC Secretariat should be brought to order.

2.1.4 Unsupported expenditure and balances in financial statements

The Audit Commission reported that financial statements included in the salaries, wages and other employee benefits amounting to USD 1,050 was paid for overtime but did not have any supporting documents in respect of that expenditure. Another anomaly indicated payables amounting to USD 323,227 which were included in the balance in the EAC Secretariat Current account but which did not have any supporting documents.

Management of EAC concurred with the Audit finding and reported that at the time of the Audit, the documents hadn't been submitted for verification.

Committee Observations

i. Balances and expenditure not supported by verifiable documents casts doubt on their validity genuineness for inclusion in the financial statements;
ii. Relevant documents were not submitted to the Audit Commission for verification.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC always prepares necessary documents in time and avails them to the Commission in order to enhance transparency and good governance.

2.1.5 Long outstanding balances in payable

The Audit Commission reported the presence in the financial statements of a long outstanding payable of USD 1,898 owed to a former project staff member named Brenda Mugambi, and USD 19,950 as deferred private sector contribution which was outstanding in 2016 (as per the trial balance). Audit was not provided with any supporting documents to confirm whether this was a genuine payable such that it could assess how long it had been overdue.

Committee Observations

i. There was a risk of reporting payables that were not genuine or which could have been settled;
ii. Not settling payables in due time impacts on EAC's reputation.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC reassesses the payables by confirming from creditors so as to clear its accounting records.

2.1.6 Long outstanding Account receivables

The Audit Commission reported that a review of the Accounts receivables indicated a total sum of USD 460,731 outstanding as at 30 June 2017. The balance related to various transactions between the Partnership Fund and its various stakeholders including EAC, inter organs, staff of the project and VAT claimables.

Management of EAC informed the Committee that it has re-examined the Accounts receivables with a view of addressing the gaps that were highlighted by the Audit and intends to present the outstanding accounts receivables to Council for write off.

Committee Observations

i. Non-recovery of receivables indicates lack of follow up by EAC Finance Department;
ii. The recovery of the above receivables is likely to be futile since some of the projects have since closed operations;
iii. Tax receivables which have been outstanding for long may not be refunded by TRA as they may have expired.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC reviews all receivables, recovers the ones that are recoverable and considers writing off the ones that are not likely to be recovered.

2.1.7 Failure to comply with EAC Financial Rules and Regulations in the procurement

The Audit Commission reported that upon review of the contract which was signed between EAC and a consultant Michael Gitau Gituanja, a Statistics Expert, it discovered that the contract was signed on 16th September 2016 after the actual start of supply of services had already started. Paragraph2.1 of this contract states that it was signed for a period of 4 months starting from 1st March 2016 which shows that it was signed long after it was already expired.

Audit further observed that the same Consultant was also issued with another contract for a period of 12 months starting from 1st July 2015 to 30th June 2016 which was however signed on 13th December 2016, six months after the completion of the assignment.

Management of EAC agreed with the Audit finding and informed the meeting that the two Consultants were hired to provide Technical support to EAC in the area of Financial Statistics in relation to the Monetary Union integration pillar.

Committee Observations

i. Acquiring services from a Consultant with whom there is no signed contract specifying terms and conditions may lead to fictitious payments or undue litigations in case there are misunderstandings;
ii. Without a signed contract there is no room for assessment of the performance of the Consultant without specifications of what was expected from him;
iii. Acquiring services in this manner could lead to fraudulent transactions with third parties.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC exercises due care in the procurement of services from consultants by adhering to EAC Financial Rules and Regulations and procurement procedures.

2.1.8 Weaknesses in the management of EAC – PF fixed assets

The Audit Commission reported weaknesses in the management of the fixed assets register such as failure by the EAC – PF to maintain an asset register that records assets

at its disposal, and failure by the EAC to codify its assets contrary to Article 98 (2) and Regulation 97 of the Financial Rules and Regulations.

Committee Observations

i. Theft or loss of assets may be hardly detected in absence of an assets register;
ii. There is a risk of misappropriation or misuse of the assets unless there is a strong asset control mechanism;
iii. Monitoring and serviceability of the assets is likely to prove difficult in absence of a fixed assets register.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the EAC- PF Management maintains a Fixed Assets Register as required by the financial rules and regulations. In addition, EAC Management should ensure that assets are codified as required by the Financial Rules and Regulations.

2.1.9 Noncompliance with EAC Staff Rules and Regulations and unfair treatment of staff.

The Audit Commission reported that when it reviewed the operations of the Open Health Programme under the PF project was being implemented, it noted that although staff were being recruited on short-term contracts, they were paid other allowances and benefits including gratuity in addition to basic salary. However, this was not the case for some other staff recruited on short-term contracts particularly for the period of 9th January to 1st July 2017, contrary to Regulation 22.2 (c, d&e) of the EAC Staff Rules and Regulations.

Committee Observations

Inconsistency in payment of allowances and benefits amounts to discrimination and unfair labor practices.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC adheres to EAC Staff Rules and Regulations on recruitment of staff to ensure consistency and fairness in rewarding staff across all the EAC projects.

2.2 EAC REGIONAL MULTI-SECTORAL HIV – AIDS PROGRAMME

The Audit Commission reported that EAC on 25th November 2016, it signed a contract with an external auditor, PricewaterhouseCoopers for an amount of USD 18,000 for the audit of the EAC HIV&AIDS Project for a period of fifteen (15) months from 1st July 2015 to 30th September 2016 .This was contrary to Article 134 of the EAC Treaty which

mandates the Audit Commission to verify that any contributions received or revenue collected by the Community is allocated and distributed in accordance with the Treaty.

Management of EAC informed the Committee that the decision was taken in consultation with the Audit Commission in regard to the audit of the project.

Committee Observations

Expenses in the recruitment of an External Auditor could have been avoided if Management of EAC had used the Audit Commission to conduct the exercise.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC complies with EAC Financial Rules and Regulations on expenditures.

2.3 EAC RAILWAY ENHANCEMET PROJECT

2.3.1 Irregularities in the consultancy contract for Railway Expert

The Audit Commission reported that EAC incurred a project expenditure on a railway consultancy of USD 108,000. The Audit Commission's review of supporting documents showed that the consultant had been engaged for a period of 24 months which had expired on 31st March 2016. Audit observed that it was, not clear why the consultant was allowed to offer service without a contract. Furthermore, there was no evidence to support the nature of the tasks performed or deliverables achieved by the consultant during the period to which the expenditure related.

Management of EAC informed the Committee that in anticipation of the expiry of the contract of the Railways Technical Advisor and in view of outstanding activities still to be carried out, the Secretariat requested the Sectoral Council on TCM to approve the extension of contract for a further 12 months. The Sectoral Council on TCM, as the policy organ responsible, approved the extension.

Committee Observations

i. The expenditure incurred on the Consultant was void and irregular since it was incurred without a valid contract;
ii. The Community did not receive value for money from the engagement.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC recovers any payments made to the Consultant without a valid contract.

2.4 EAC FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT

2.4.1 Disbursement not effected by the donor

The Audit Commission reported that EAC signed an additional financing agreement for a grant worth USD 10,500,000 to support the project that was signed on 11 November 2016 effective from 15 February 2017 to 30th September 2019.

Audit reported that from the effective date of 15th February 2017 up to the end of the financial year 30 June 2017, there was no deposit made to the Designated Account (DA) and as a result, no planned activities were actually implemented.

Management of EAC informed the Committee that they had reviewed the work plans and ensured that the activities are undertaken within the remaining period. Management has further attempted to ensure that the three year work plan was adjusted to ensure that all activities are rescheduled accordingly.

Committee Observations

Planned activities were not executed and could negatively affect the overall performance of the project.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Undertakes discussions with the donor and takes necessary actions to ensure that planned activities are executed within the remaining time frame of the project;***
ii. ***Disbursements are done timely in order to avoid delays in the implementation of the project.***

2.4.2 Under or over absorption of FSDR Project budget

The Audit Commission reported that a financing agreement for grant No. H6410 meant to support the FSDRP worth USD 16,000 was signed on 14th February 2011 between EAC and International Development Association (IDA) with an effective date of 20th June 2011 and closure date of 30th September 2016 that was then extended up to 30th November 2016.

When Audit examined the project, it noted the following weaknesses:

i) Over or under absorption noted on different components for the grant No H6410;
ii) Under budget absorption during the year ended 30th June 2017

Management of EAC concurred with the Audit finding and informed the Committee that a close monitoring by the Project Management and the World Bank is in place to ensure that the project objectives are achieved. Monthly reports are prepared and reviewed by Management before they are sent to the World Bank. Additionally, video conference meetings are held as and when required and half year missions are also made by the Bank to ensure that the project activities are being undertaken as planned.

Committee Observations

i. Under absorption of the planned budget for the three main components of the project is an indicator that the main objective of the project were not fully attained.
ii. The over absorption under the component of Capacity Building implies that unplanned activities were executed, thus overall absorption negatively affected.
iii. The budget lines for which funds were allocated were not used as planned and the associated objectives were partially attained. This was an indicator of inadequate planning at the time of preparing the budget.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC:

i. Enforces sound project monitoring and management mechanisms to ensure that funds received from donors are utilized as planned so as to achieve the intended objectives;
ii. Follow ups and monitoring be enhanced during budget execution and review processes to ensure that the budget is appropriately executed.

2.4.3 Ineligible expenditure not refunded to the donor USD 63,000

The Audit Commission reported that the review carried out in June 2017 by a team from the donor showed that amounts paid to three consultants totaling to USD 63,000 were ineligible as there were no activities planned for these positions. This was contrary to Section 7.5.4 of FSDRP Operational Manual 2014.

Despite the agreed refund between the EAC and the donor, the Audit Commission noted that up to November 2017, USD 63,000 paid for ineligible expenditure had not been refunded to the donor.

Committee observations

Failure to refund the amount paid for ineligible expenditure was a non-compliance with the donor funding agreement; which in future could negatively impact collaboration between EAC and the donor.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC:

i. ***Takes due diligence to ensure that donor funds are used for the planned activities;***
ii. ***Recovers the funds so that they are promptly spent on EAC planned activities.***

2.4.4 Irregularities noted in the management of contract for the supply and installation of Smart Order Router, Central Depository System Interface, and Messaging Platform for Securities

The Audit Commission reported that a contract was signed on 3rd November 2014 between EAC and Infotech Private Ltd for the supply and installation of a smart Order Router, Central Depository System Interface, and Messaging Platform for Securities totaling USD 2,395,180 (USD 1,944,123 for contract execution and USD 451,057 for 3 years recurrent expenses).

Audit noted that the contract was expected to end on 29th April 2015 but was extended to 29th February 2016. Audit noted that, the implementation of the project stopped after the delivery of hardware and software licenses but without reaching the stage of Testing and Go Live. Further, the contract provided that 30% of the entire contract was to be paid upon completion of User Acceptance Testing and 10% of the entire contract amount upon Go Live. However, as at November 2017, 60% of the contract amount equivalent to USD 1,166,473.80 had already been paid to the supplier. In addition, the project had delayed for over 21 months as at the time of the Audit.

Management of EAC concurred with the Audit finding and informed the Committee that it had engaged the vendor and addressed the issue which led to the conclusion of the contract. Discussions were held with the vendor which ensured that the contract addendum was invoked and the remaining two deliverables concluded.

Committee Observations

Delayed completion of the contract affected the effective and efficient functioning of the project.

Committee Recommendations

The Committee recommends to the Assembly urges the Council of Ministers to ensure that Management of EAC liaises with all the concerned stakeholders to ensure that in future contracts are implemented within the agreed timelines.

2.5 EAC - USAID ASSISTANCE FOR COMPREHENSIVE REGIONAL DEVELOPMENT PROGRAMME

2.5.1 Low Budget absorption

The Audit Commission reported that review of the project budget performance revealed that the trend of low budget absorption had continued. During the year under review, it was observed that out of the total budget of USD 5,431,945; only USD 1,951,158 (36%) had been utilized leaving an unspent balance of USD 3,480,788 (64%). The budget absorption had decreased from 42% in the previous FY to 36% in the FY under audit.

Management of EAC informed the Committee that low budget absorption was as a result of understaffing existing at the project and the differences in fiscal years between EAC and USAID which makes budget preparation on their part challenging.

Committee Observations

There may be poor budget formulation procedures in use leading to unrealistic budgets.

Committee recommendations

The Committee recommends to the Assembly urges the EAC Management to adopt well-coordinated budget formulation mechanisms that will ensure that budgeted activities can be realistically and efficiently implemented within the available resource envelope.

2.6 EAC AFRICAN PEACE SUPPORT ARCHITECTURE (APSA) PROJECT

2.6.1 Planned project activities not implemented

The Audit Commission reported that upon review of the budget performance report, it showed that APSA Project budget was USD 2,901,596 with overall budget performance standing at only 18%. During the FY 2016/17, the project staff salaries had been borrowed from the Secretariat of which as at 30th June 2017, the Secretariat was owed USD 549,180 by the project. As at the time of the audit in November 2017, this amount had not been received from the African Union leading to the development budget not being implemented.

Committee Observations

Unimplemented activities indicate non-achievement of the projects' objectives and imply a delay in service delivery.

Committee recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC is advised to review and harmonize strategies to ensure that planned activities are implemented as planned for the purpose of service delivery to the East African population that the Community serves.

2.6.2 Delay in payment of creditors

The Audit Commission reported that a review of APSA Project financial statements and creditors' ledger of accounts payables revealed that the creditors' ledger as at 30th June, 2017 had long outstanding payables totaling to USD 63,855 which had not been paid for more than 29 months.

Committee Observations

Delay in payment of creditors may lead to litigation and disruption of APSA project activities and could result into unnecessary penalties.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC endeavors to pay creditors on time as per Financial Rules and Regulations on payables by identifying and analyzing all outstanding creditors for payment or write off.

2.7 EAC MEDICINE REGULATION HARMONISATION (MRH) PROJECT

2.7.1 Non-adherence to cut-off policy

The Audit Commission reported that when it reviewed the MRH Project, the records indicated that cut-offs had not been observed as some transactions relating to the preceding year were recorded in the current accounting period. This situation was observed with 41 assets worth USD 12,800 that were bought in July 2017 but recorded in the current period. Also, USD 15,104 had been recognized as payable in respect to this transaction. This was contrary to Section 1.12.4 of the EAC Financial Procedures Manual 2013.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC is directed to record each transaction in the respective accounting period so as to comply with the organization policies and accounting guidelines.

2.7.2 Expenditure without a Contract with the Supplier

The Audit Commission reported during the period under review, Audit reported that payments worth USD 48,327 were made to different internet service providers. These payments were made for internet services that were provided to public institutions in Partner States namely Zanzibar Food, Drug and cosmetic Board (ZFDB), Tanzania Food and Drugs Authority (TFDA), and National Drug Authority (NDA). The payments were irregular since there were no contracts between MRH/EAC and the EAC and with those providers.

Committee Observations

Given the fact that MRH had no contract with the service providers, these transactions could create legal complications in case of noncompliance.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC enters into contracts with service providers or designs avenues of meeting such expenditure.

2.7.3 Irregular Appointment of Staff

The Audit Commission reported that upon review of personnel files, it revealed that some staffs were appointed as short term staff for MRH Project contrary to the provision of Staff Rules and Regulations.

Committee Observations

The appointment of staffs was irregular since it was not in line with the EAC Staff Rules and Regulations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC designs proper and transparent guidelines on recruitment of project staff with approval by the appropriate authority.

2.7.4 Inadequately Supported Education Allowance

The Audit Commission reported that on review of the respective staff allowances paid, it was revealed that USD 40,500 that was paid for education allowance lacked supporting documents that are mandatory for the payment of such allowances. In addition, a voucher for USD 3,500 with respect to the allowance was not presented for audit despite several efforts to remind Management on the matter. This is contrary to Regulation 40(4) of the EAC Staff Rules and Regulations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC should follows up and recovers the amount unless documentary evidence is produced by the beneficiary employees.

2.8 EAC PAYMENT SETTLEMENT SYSTEMS INTERGRATION PROJECT (PSSIP)

2.8.1 REVIEW OF BUDGET PERFORMANCE

2.8.1.1Under Absorption of Budgeted Project Funds

The Audit Commission reported that review of the budget performance of the EAC - PSSIP revealed that there was under performance of the budget in the year under audit contrary to Regulation 30 of EAC Financial Rules and Regulation 2012.

Management of EAC informed the Committee that the project followed both the EAC and AfDB rules and procedures that required prior No Objection / approval by the Bank to proceed with any activity. However during that period under review, a number of activities did not receive the No Objection from the Bank despite numerous escalations and reminders to AfDB and as a result a number of activities were not cleared. However a meeting later held with the Bank and EAC had addressed the delays.

Committee Observations

Underperformance of the budget means that the activities that were planned for in the year were not implemented.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC takes necessary steps to fully implement the budget and hence offer the intended services to the Community.

2.8.2 REVIEW OF PAYABLES

2.8.2.1Long outstanding payables to suppliers

The Audit Commission reported that review of the Financial Statements of the project revealed that 92 % of the figure of payables (USD 98,167) was amount brought forward from FY 2015/2016. This means that the amount had been outstanding longer than the policy on payables permits contrary to Paragraph 4.4.4 (c) of the EAC Financial Procedures Manual 2013.

Committee Observations

Delayed settlement of creditors could lead to unnecessary litigations with related costs and expenses.

Committee Recommendations

The Committee recommends to the assembly to urge the Council of ministers to ensure that Management of EAC makes timely payment of creditors to avoid unnecessary litigations and loss of confidence and credibility with suppliers.

2.9 EAC MARITIME SECURITY (MASE) PROJECT

2.9.1 Undisclosed transactions in the EAC-MASE Project Financial Statements

The Audit Commission reported that review of the statements of Financial Performance revealed that Management of EAC-MASE Project did not record the advance disbursement from the Development Partner amounting to € 638,115 in the Financial Statements of the project contrary to Regulation 106 (1) of EAC Rules and Regulations 2012.

Management of EAC - MASE responded that they did not violate this provision since the whole amount was recognized in FY 2016/17. They stressed that USD 703,324 which was indicated alongside the comparable figures of 2015/2016, was the amount disclosed.

Committee Observations

Non-disclosure of grant received in the project financial statements led to unfair disclosures in the EAC Financial Statements.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. Record the grants as they are received in their financial records;
ii. Is directed to adjust the unrecorded figures in the EAC Financial Statements.

2.10 EAC REGIONAL ELECTORAL SUPPORT PROGRAMME (RESP)

2.10.1 Planned activities not implemented

The Audit Commission reported that whereas the RESP had budgeted to spend a total of USD 1,319,494.65 during the FY 2016/17, it only spent USD 266, 066 and some of

the critical activities in the project like conducting a training workshop of eminent persons and holding of a sector dialogue with youth were never implemented.

Management of EAC reported that the activities had been re-allocated to take care of the Burundi Dialogue budget whose EU Rider was signed midway the FY.

Committee Observations

Failure to implement activities according to plan could lead to inability to achieve the objectives of the project and unnecessary diversion of funds.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC is directed to devise strategies to ensure that all planned activities are always implemented within the set timelines.

2.11 EAC AFRICAN CAPACITY BUILDING FOUNDATION (ACBF) SUPPORT TO RESEARCH PROJECT

2.11.1 Failure to utilize the USD I million Grant

The Audit Commission reported that a review of the grant agreement which came into effect on 14th September 2015 and whose implementation was supposed to have started when the project received an initial advance of USD 150,000 in November 2015, revealed the following:

i. Project implementation started in March 2017 on recruitment of four staff members.
ii. Out of the approved budget for May & June 2017 of USD 306,928, only USD 189,022 had been expensed as at 30th June 2017.
iii. Out of the total expenditure of USD 189,022, a sum of USD 122,323 (65%) was used on employee benefits leaving only USD 66,618 equivalent to 36% for execution of project activities.

Committee Observations

a) There's a high likelihood that half of the grant USD 500,000 may not be absorbed by the project hence the Community may lose the benefits which should have accrued from the grant.
b) There was laxity on the part of the EAC Secretariat in implementing the project.
c) The objective of setting up a fully functional research unit may never be realized.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to devise strategies to ensure that the research unit remains functional and vibrant.

2.12 EAC BUJUMBURA – KIGALI PIPELINE PROJECT

The Audit Commission reported that EAC entered into an agreement with the African Development Bank (as administrator of NEPAD-Infrastructure Project Preparation Facility) on 17th August 2016 for a grant to procure consultancy services to carry out a feasibility study for an oil products pipeline from Kigali to Bujumbura. The bank agreed to provide an amount not exceeding USD 601,281. The consultant was to be paid directly by the bank while preparatory meetings and workshops were to be paid through a special account opened by EAC. The approved amount for preparatory meetings and workshops was USD 92,550.

The Audit Commission made the following observations with respect to the project:

a. Unrealistic Budget

The approved budget for the FY 2016/2017 in respect to the project had provided for workshops to approve a feasibility report with a total budget of USD 100,250 which was way above the approved amount by the Bank of USD 92,550 by USD 7,700. The basis of the budget was therefore in doubt.

Management of EAC acknowledged the Audit observation and responded that the USD 7,700 was an oversight.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to ensure that the budget process is well coordinated to avoid over-budgeting for activities.

b. Delayed Project Implementation

The Grant Agreement became effective on 17th August 2016 and the project was expected to start in April 2017 and end on 31st December 2018. Audit however noted that there was a prolonged delay in implementation of the activities being more than one year since the agreement was signed. Audit further noted that at the time of the audit in November 2017, the procurement process for the consultant had not been finalized more than two years since the procurement process was initiated. This delayed the holding of workshops yet the project had received USD 51,150 to facilitate the process.

Management of EAC responded that the project delayed in terms of implementation due to a number of factors including delayed responses between EAC and AfDB; and a long procurement process that required a no objection at every stage before going forward which made the practical implementation ineffective.

Committee Observations

The Committee observed that delayed implementation of project activities implies that the project deliverables were not achieved as desired.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to properly plan project implementation to ensure timely execution of activities.

2.13 EAC ROAD INFRASTUCTURE PROJECT

2.13.1 Weaknesses noted in management of income

The Audit Commission reported that upon review of the Minutes of 12th to 16th December, 2016, it discovered that the Steering Committee had agreed on the following apportionment of the logistics costs for each Partner State; Kenya and Tanzania were to pay USD 50,000 each, while Burundi, Uganda, Rwanda and South Sudan were to pay USD 30,000 per annum.

Audit however noted weaknesses in compliance with the Steering Committee's decisions. Review of income of Road Infrastructure Project from the Partner States for the year ended 30/06/2017 regarding logistics costs revealed that only two countries had contributed USD 60,000 and other Partner States had failed to contribute a total sum of US$ 190,000. Further, there were no reasons given for the non-remittances of contributions from the other Partner States.

Furthermore, when Audit reviewed the unremitted contribution of income for Road Infrastructure Project from the Partner States for the year ended 30/06/2017 regarding logistics costs, it noted that USD 190,000 that was not paid by the Partner States for the year under review was not recognized as receivables in the books of accounts at the end of year.

Management of the EAC informed the Committee that the logistics budget was set up to assist in the project management of road studies and the regional road network development. It stated that initially most multinational projects were between Kenya and Tanzania but since 2014, projects with Rwanda, Burundi and Uganda have been brought on board. It was, therefore, agreed in 2013, that the three Partner States should also contribute to the budget. However, the response from the three countries was positive and they have repeatedly demanded for justification for the contributions yet

they had participated in the formulation of the project. Despite the EAC clarifications, there has been no improvement.

Management further reported that it continues to send debit notes and reminders for remittance of the funds. Indications are that Burundi is ready to pay, Uganda has been presented with a new set of documents to support the debit notes and response is awaited from Rwanda

Committee Observations

i. Failure to comply with the agreed decisions resulted into EAC's failure to achieve targeted goals and objectives;
ii. The amount reported as receivable was misstated hence financial statements were not fairly presented.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management:

i. Fast-tracks the process of remittance of contributions from Partner States;
ii. Recognizes all receivables that are outstanding at the end of the year to enhance proper presentation of books of accounts.

2.14 EAC REINFORCING VETERINARY GOVERNANCE IN AFRICA PROJECT

The Audit Commission reported that in June 2012, the EAC entered into a Partnership Agreement with the African Union Commission Inter-African Bureau for Animal Resources (AU-IBAR) to support Action on reinforcing Veterinary Governance in Africa. The agreement came into force on 9 July 2012 and was expected to run for 51 months up to 19th December 2016.

The Audit Commission made the following observations with respect to the project

i. Poor planning and budgeting;
ii. Unsupported transactions. An amount of USD 117,000 was alleged to have been transferred to AU-IBAR on 4th November 2016. However, the original supporting documents were not provided for audit review.

Management of EAC informed the Committee that the grant agreement stipulated that original copies are a property of AU-IBAR in Nairobi. IBAR made certified copies of the original documents and a receipt acknowledging receipt of USD 116,949 from the Project Headquarters on 21st January 2018. Audit Commission however did not review the documents as they had concluded their audit.

Committee Observations

As a result, procured funds were not used for the intended purposes and without the supervision of EAC Management, leading to failure of the project to achieve its intended objectives.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Investigate the issue and produce a report to the Assembly within three months;***
ii. ***Ensure that contracts with donors follow the EAC Financial Rules and Regulations;***
iii. ***Ensure Management of EAC's timely provision of documents to the Audit Commission.***

2.15 EAC - GOVERNMENT OF CHINA SUPPORT

2.15.1 Delay in Payment of Creditors

The Audit Commission reported that when it reviewed the creditors' balance as at 30th June 2017, it revealed a total of USD 97,171 that had not yet been settled using the fund from Government of China support for a period beyond 90 days.

Management informed the Committee that the Burundi dialogue activity was financed with a grant from the Government of China worth USD 200,000 as per the Sectoral Council directives of 29th February 2016. However, actual dialogue expenditure was more than the actual fund received. Later it was decided EAC carries out an internal budget reallocation of up to USD 400,000 in order to finance the current dialogue cost and pay for the pending bills including conference costs, vehicle hire and air tickets.

Management further informed the Committee that the pending air tickets were paid after year end by the fund from EAC Secretariat. The total amount of USD 41,971.60 was paid to Charleston Travel ltd and a balance of USD 36,963 payable was later paid to UTB (2004) Ltd in November 2017 after receiving the remaining grant from Government of China

Committee Observations

i. Delays in the payment of creditors impacts negatively on the reputation of the Community and could lead to litigation against EAC.
ii. The presence of long outstanding payables casts doubt as to the genuineness of EAC liabilities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Endeavors to pay creditors on time;***
ii. ***Is advised to analyze the genuineness of all long outstanding creditors and take necessary action.***

2.16 REGIONAL CENTER OF EXCELLENCE FOR HEALTH SUPPLY CHAIN MANAGEMENT PROECT (KFW)

2.16.1 Planned project activities not implemented

The Audit Commission reported that a review of the budget performance report showed that the budget of the Regional Centre of Excellence for Health Supply Chain Management Project was USD 147,997. Out of the total budget USD 20,230 was to be spent on staff costs while USD 127,767 was for Steering Committees and recruiting and retaining staff under EAC Regional Committee. The Audit Commission's analysis showed that the overall budget performance was only 8% out of the total budget. In the same FY, the Steering Committee and Regional Committee staff recruitment were not implemented due to unavailability of funds.

Committee Observations

Unimplemented activities indicate non-achievement of the projects' objectives for the year and imply a delay of service delivery.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to review and harmonize strategies to ensure that the planned activities which were not implemented are rolled over to the next financial year in order to achieve the intended objectives.

2.17 OSBP NAMANGA SOFT INFRASTRUCTURE PROJECT

2.17.1 Duplication of budgeted activities between projects

The Audit Commission reported that when it reviewed the OSBP Namanga Soft Infrastructure Project, it observed that the project had some duplicated activities in the conduct of trainings for customs officials on OSBP procedures.

Committee Observations

Duplication of activities tantamounts to wasteful use of resources.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to ensure that the budget process is well coordinated to avoid duplication of activities among projects.

2.17.2 Delay project execution

The Audit Commission's review of the funding agreement showed that the funding period was to run from 1st July 2015 and end on 31st December 2015. Audit however noted that the project had been extended until 30th June 2018 but no evidence was provided to confirm that the extension was granted. The Audit Commission reported a prolonged delay in implementation of the activities being more than two years since the agreement was signed.

Committee observations

Delayed implementation of project activities implies that the project deliverables could not be achieved as desired.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to properly plan project implementation to ensure timely execution of activities.

2.17.3 Project Implementation weaknesses

The Audit Committee reported the following weaknesses:

i. Communication equipment for surveillance and heavy duty Uninterruptible Power Supply (UPS) to rooms had not been fully supplied and where supplied were not functional;
ii. Services which included workshops on adoption of OSBP procedures and manual together with training of border officials could not be verified owing to lack of supporting documents;
iii. A likely overlap of the work done by JICA and the software infrastructure covered by this project on training of border officials;
iv. EAC Secretariat supply of ICT items vide JR Electronics amounting to USD 163, 932.68 in November which varied with specifications and quantities.

Committee Observations

The project risks not attaining its intended goals and objectives, and value for money from the grant funds.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to ensure that Management of EAC provides the status of implementation with supporting documents and enforces supply, installation, insurance and utilization of project goods and follows up on the services not yet supplied or delivered.

2.17.4 Other factors affecting project implementation

The Audit Commission's review identified the following concerns affecting the implementation of this project specifically relating to the construction of the OSBP building.

i. Non- Intrusive Scanners were not installed;
ii. Server rooms did not have smoke detectors and were not activated hence high risk ;
iii. Insurance of the OSBP Building and equipment was not done;
iv. Evidence of Practical Completion Certificate and Occupational and Safety Certificate were not provided for audit review.

Committee Observations

The project objectives will not be effectively achieved as a result of the above challenges emanating from the construction contract.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to liaise with Partner States to address the issues raised and ensure complete execution of the contract to assure project beneficiaries of efficient service delivery to enhance integration.

2.17.5 Weaknesses in the procurement of Project Coordinator

a) Irregular procurement of the Project Coordinator

There was no evidence to indicate how the consultants participating in the procurement process were identified and whether they were approved by the Procurement Committee, contrary to the EAC Procurement Policies and Manual 2016 on supplier eligibility requirements;

b) Irregular variation in the Consultant's contract

The contract provided that the effective date for assumption of duty was to be not later than 1st March 2017. However records availed to Audit showed that the coordinator reported on duty on 28th March 2017 a month after the expiry of the reporting date. A variation of the contract to extend the reporting date to 4th May 2017 was long after this reporting date.

Management of EAC reported that the Consultant was eligible among the six consultants identified by EAC in accordance with the eligibility requirements provided under Para 1.11 of the AfDB Rules. Para. 1.11(d) limits the use of consultants who are employees of the Agency unless they have taken unpaid leave before being engaged as consultants. This was not applicable to the Project Manager since he was no longer an employee of EAC at the time of recruitment and the conflict of interest requirements therefore did not apply to this individual. Further in accordance with the guidelines, and the EAC procedures, the process was reviewed and a no-objection granted for the selection process.

Committee Observations

i. Possible non-compliance with the EAC Procurement Policy;
ii. There was conflict of interest during the procurement process.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to:

i. Ensure that procurement processes are carried out in accordance with EAC procurement policies and regulations;
ii. Investigate this procurement process and take appropriate action on those who committed the irregularities.

c) Overstatement of consultancy expenditure

The Audit Commission reported that the expenditure for the project was USD 19,614 which was paid to the consultant. When Audit reviewed the contract between EAC and the consultant, it showed that whereas the consultant was to be engaged for a period of 35 working days performing their duties in Arusha, Audit noted that the consultant presented an invoice of USD 19,614 and was in Arusha for only 19 days. Hence the eligible expenses should have been only USD 12,014. Audit therefore reported an overstatement of expenditure by USD 7,600.

Committee Observations

The financial statements did not reflect a fair view of the transaction of the entity.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to:

i. Ensure that the correct amount payable is reported in the financial statements;
ii. Recover all amounts unduly paid to the Consultant.

PART II: AUDIT OF EAC ORGANS AND INSTITUTIONS

3.1 INFORMATION AND COMMUNICATION TECHNOLOGY SYSTEMS

3.1.1 Weaknesses in IT Governance

The following shortcomings were noted in the Information and Communication Systems Technology IT governance.

3.1.1.1Lack of strategic direction for ICT

The Audit Commission reported that EAC had not developed and implemented the IT Strategic Plan and the Information Systems Business Continuity and Disaster Recovery Plan as laid out in the Strategic Direction and Management Intent for EAC ICT.

EAC Management however informed the Committee that the EAC ICT Strategic Plan was being developed and that there is an EAC-wide draft BCP already formulated under the coordination of Directorate of Human Resources and Administration (HRA).

Committee Observations

i. EAC ICT objectives are not aligned with the mandate of EAC which may result in wastage of resources, this might result into ICT enabling capabilities not being fully exploited and ICT risks not being mitigated;
ii. In the advent of disruption due to disaster, restoration of systems to complete functionality will be hampered.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC in consultation with the different stakeholders fast tracks the development and implementation of the comprehensive IT Strategic and Business Continuity and Disaster Recovery Plans.

3.1.1.2Absence of ICT Steering Committee

Section 4 of the EAC Corporate ICT policy provides for appointment of an ICT Steering Committee by the EAC Secretary General (SG) comprising of the DSG responsible for IT as the chair, heads of directorates and the relevant IT head as the secretary and a co-opted officer. The duties of the committee are spelt out in Section 5 and include monitoring and evaluation of the ICT Policy, to facilitate the implementation of ICT decisions and promote ICT usage at EAC. The Audit Commission's review revealed that the ICT steering committee has not been established.

Management of EAC informed the Committee that the ICT Steering Committee had not been functional due to the retirement of the Chairman and Secretary and that the replacement is undergoing.

Committee Observations

i. ICT issues are not represented at strategic level and therefore there is no support for the various ICT initiatives and programmes top management;
ii. ICT strategy is not aligned with the mandate and objectives of EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management immediately constitutes and operationalizes the ICT Steering Committee to strategize for ICT investments and steer EAC ICT.

3.1.1.3Review of IT Organisational Structure

a) Low Level Reporting Line for ICT Function

The Audit Commission noted that the IT function was not being run as a central responsibility for aligning IT and the business objectives of EAC. The ICT function is under the Library Department and the Principal Information Technology Officer (PITO) reports to the Director of Human Resource and Administration. This is a low reporting level for ICT. Further, short-term contract ICT staff report to the heads of departments which use the respective system or infrastructure.

b) Inadequate Staffing

The approved EAC staff structure or establishment 2006 provides for five (5) IT officers in the professional category as; Assistant Director (Information and Communication Services) as the head of department, Principal Information Technology Officer (PITO), Senior Systems Analyst; 2 Network Administrators for East Africa Court of Justice (EACJ) and East Africa Legislative Assembly (EALA).

The Audit Commission noted that only the positions of PITO and Senior Systems Analyst had been filled. Audit further noted that five (5) IT officers have been recruited on a short term contract basis to support IT systems and Network or solutions acquired under EAC department. However these positions are not in the establishment.

Audit also observed that the officers are handling very critical information for EAC yet they are on short-term contracts. Further, it is not clear whether the contract for the SunSystems administrator, whose contract was with Trade Mark East Africa (TMEA) and had expired on 31st October 2017, had signed a new contract with EAC. The officer is still carrying out her duties despite the expiry of the contract.

In addition, some of the work load on the system supported by these contract staff is periodical, like the payroll preparations and therefore the officers end up doing non IT work like clerical work there by being totally under-utilized.

Management of EAC informed the Committee that the ICT Department has submitted proposed structure and job descriptions to build minimum capacities in the Department for approval and subsequently for implementation.

Committee Observations

i. IT may not be receiving adequate support from EAC Management. This may hinder EAC from leveraging on IT to achieve its mandate;
ii. There can be weak attitude towards knowledge transfer and sharing as the staff will always want to be relevant so that a contract renewal is granted;
iii. The information availability is threatened in case the contract staff quits;
iv. The confidentiality and integrity of critical information can be compromised;
v. The staff potential is not wholly realized.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. Considers reviewing the IT structure to introduce more positions under the established staff including the position of Director of ICT;
ii. Awards longer contracts to the short term staff;
iii. Pools IT staff under one leadership for easier management and alignment to a common uninterruptible service delivery

3.1.1.4Inadequacies in the IT Policy and Operations

The Audit Commission noted that COBIT 5 Framework recommends that a policy framework meets stakeholders' needs, covers the end-to-end process (and not only the IT function), and establishes the additional documentation required to ensure that governance and management goals and activities are achieved.

Audit's review of EAC IT Policy and operations revealed the following weaknesses:

a) EAC IT guidelines and procedures have not been reviewed since 2012;
b) There is no formal policy on User Account Management;
c) Change management is not addressed in the policy and guidelines in EAC. Changes to systems are done without a structured approval from top management before being implemented into the operational environment;
d) The corporate ICT policy does not provide for documentation or knowledge capture for the day to day procedures and operations performed by users of IT systems. This creates dependence on individuals and affects succession or staff backup in case of occurrence of any interruption;
e) The ICT policy does not provide for ICT risk assessment and management at EAC;
f) The ICT policy does not include policies on the backup and retention of video recordings for EAC;
g) EAC has not put in place any specific policy to handle emerging technologies.

Management of EAC informed that the ICT Policy will be reviewed in the FY 2017/2018 and as soon as the ICT Strategic Plan is formulated.

Committee Observations

Gaps noted in the Policy may result into ICT breakdown and Management may not be able to intervene in a timely manner.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the EAC Secretariat is directed to review the ICT corporate policy to include provisions to address the aforementioned gaps. These standards and policies would act as the baseline to monitor existence and sustenance of security controls and validate the service levels of the service providers.

3.1.2 Level of Automation

In order for EAC secretariat to ably render services, it has acquired over 17 IT systems which are managed by different departments, units and projects. The systems were acquired in collaboration with Development Partners and Partner States. Some of these systems serve dedicated purposes specific to the operations of the unit that controls it while others share functionality. These IT systems and services require annual subscription and licenses and support while others require one off payments made at acquisition. The major systems are:

i. Infor SunSystems for financial management system;
ii. Budget Management System (BMS) for the planning, budgeting and monitoring purposes;
iii. East Africa Monitoring system (EAMS) for monitoring and evaluation purposes;
iv. HP TRIM for records management;
v. Adlib for library management;
vi. InspiroPeople for Human resource and payroll management;
vii. Case Management system;
viii. Election Observer Management (EOM) system for election observation;
ix. Customs Integrated System (CIS) for customs interconnectivity.

The Audit Commission review of the automation processes in EAC revealed the following:

3.1.2.1Non-integration of the systems and business processes

As a result of lack of an IT Strategic Plan for the Community, EAC Organs and Institutions have continued to acquire and maintain IT applications/solutions independent of each other, hence incurring more costs that would have been saved if the acquisitions were centrally done and managed.

Further, the systems are not integrated to share information between them and also with external critical systems such as banking systems. Information is manually transferred between systems which may be prone to errors and it is time consuming. For instance, the interface between *Hardcat* and *Infor SunSystems* is one directional, meaning that, information in SUN for fixed assets differs from that in *Hardcat*. The SUN systems is not interlinked to the online banking system to ease transactions involving Electronic Funds Transfer (EFT).

In addition, solutions like TRIM are not shared with other organs and institutions. It is only utilized at the Secretariat despite being web based i.e. meaning that it can be accessed globally and therefore can centrally be managed.

However, Management of EAC informed the Committee that this was being addressed as part of the ICT Strategic Plan.

Committee Observations

i. Integrity of information is questionable;
ii. Errors, duplication of information and redundancies emanate from the system;
iii. There is wastage of resources as support and infrastructure is spent in many EAC Organs and Institutions;
iv. Complexities in management of solutions e.g. if one is to apply any upgrade patch, it has to be done repetitively across the EAC Organs and Institutions.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. EAC Management is advised to find a mechanism of integrating the systems such that data is automatically shared across the several systems for uniformity;
ii. Some of the solutions with standard roles like SunSystems, Inspiro, and Hardcat should be centralized to ease management, patching, support costs and licenses.

3.1.2.2Duplicate modules in system

The Audit Commission reported that some of the systems have similar and duplicated functions as explained below:

i. Fixed assets management can be done by SunSystems, *Hardcat* and *InspiroPeople*;
ii. The payroll can be processed by SunSystems and InspiroPeople;
iii. TRIM shares responsibility with the Library Records Database;
iv. Budget Management System can be enhanced with functions of EAMS among others.

Committee Observations

i. EAC is incurring unnecessary costs for the licensing and maintenance of these duplicate systems which could be avoided by using one application.
ii. There is a risk of errors due to similar information being maintained in various systems.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to consider and evaluate the expenditure incurred on duplicated roles of the system in order to harmonize their functions.

3.1.2.3Poor ICT Projects and Investments Management

The financial statements for the FY 2016/2017 showed a total investment of USD 8,277,904 in the IT intangible assets, computer and telecommunication equipment. This excludes expenditure relating to support, maintenance, licensing and training. The IT function did not avail to audit for verification a detailed IT investment for EAC Organs and Institutions. This showed that ICT was not fully involved in some of the key projects. Further, management of IT investments or solutions was by the respective departments that acquired them without the IT department's control of the investments.

Management of EAC informed the Committee that the procurement, financial and ICT policies and procedures are being harmonised to address these cross-cutting control measures. The ICT Strategic Plan is also addressing the gaps.

Committee Observations

i. Without proper tracking and recording of the IT investment, Management may not be in position to adequately assess the return on the IT investments;
ii. When IT solutions are not centrally managed, there is a risk of duplication and underutilization of the solutions;
iii. Without a structured IT investments approach strategy, it will be difficult for management to make informed decisions on insurance of the IT infrastructure.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. Compiles a comprehensive IT Investment Strategy for EAC to plan and place safe guards on its IT investment;
ii. Controls IT investments maintained in the IT department;
iii. Secures an insurance cover for its IT infrastructure.

3.1.2.4Lack of Service Level Agreements (SLA)

The Audit Commission reported that technical support and maintenance of EAC ICT solutions is done by various service providers. Subscriptions and annual licenses payments are made to the providers of these solutions but Audit was unable to ascertain whether the systems are operating as per the documented agreements.

Committee Observations

Lack of SLAs with suppliers means that there is no legal and operational framework within which Management procures for goods and services. Further, goods and services provided and expenditures made cannot be cross-checked for compliance to standards and expectations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC adheres to the established rules and regulations of procurement.

3.1.2.5Active Super User Accounts

A Super User Account is a special user account used for system administration with privilege levels far beyond those of regular user accounts. This account is given to users that perform peculiar roles on the system. Because of the inherent risks associated with such accounts, best practise recommends that such accounts should be granted temporarily and terminated when the intended purpose is accomplished. Audit however reported that super user accounts on SunSystems and BMS are still active.

Committee Observations

Having super user privileges that are not controlled exposes the system to breaches in data integrity as unauthorised changes can be emanated.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to:

i. ***Ensure that super user accounts are end dated and whenever granted, the actions of these users should be logged and reviewed;***
ii. ***Monitor actions of the super user accounts.***

3.1.2.6Lack of end user needs assessment for IT systems

The Audit Commission noted that user requirements were not captured when acquiring SunSystems, InspiroPeople, East African Monitoring System (EAMS), Video Conferencing, TRIM, Adlib, and Case Management System among others. The only system whose user requirements were captured is BMS.

Management of EAC informed the Committee that there are user requirements for most of the systems which can be availed, albeit they date back to several years and they were actually subjected to past audits.

Committee Observations

i. Acquiring systems without user/ stakeholder(s) involvement causes challenges with acceptability and ownership;
ii. Failure to perform the intended tasks while paying for licenses which are not utilised is wastage of resources.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Procures ICT hardware, software, services and supporting infrastructure in a manner that is driven by information and communications technology needs;***
ii. ***Carries out periodic evaluation of the functioning and performance of the systems to determine if the intended purpose is realized;***
iii. ***Engages relevant stakeholders while acquiring IT systems so that acceptance and utilization is assured.***

3.1.2.7Lack of Training and capacity building

The Audit Commission revealed that EAC Management did not allocate funds for the training function. Further, no in-house trainings or refresher trainings were conducted during the period for the IT solutions. This has resulted into staff not being able to carry out their tasks efficiently and effectively

Management of EAC informed the Committee that ICT Department budgets for this activity every FY but unfortunately this is always dropped during F&A Committee meetings.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC undertakes regular trainings and refresher programs to impart skills into staff.

3.1.2.8Low user acceptance of the systems

The SunSystems was adopted by EAC in 2008. Audit reported that users have been provided with Vision interface tool to ease data extraction since the inbuilt reports are not user friendly. However, users still rely on the Systems Administrator for data extraction and analysis. This raises concerns about adoptability and acceptance of the system by users.

A review of the HP TRIM usage revealed that users have not embraced this system. Users receive digitized information in their accounts and do not attend to them, rendering the entire automation of the document management useless as they prefer hard copy. Further, TRIM is only used by the Secretariat. Other EAC Organs and Institutions do not have this solution and yet there is a lot of correspondences. Furthermore, some of the information that can be digitized and centrally managed like the Council minutes are not handled by TRIM.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of EAC to ensure that all staff are trained and competent in the use of IT systems as a way of smoothening operations and intercommunication between departments.

3.1.2.9Executives are not users of the systems

The Audit Commission reported that Senior Management like the DSGs are not users of the systems. When reports are required, respective officers are engaged to access information from the system and avail it to the executives. This creates a disparity in systems appreciation, authenticity and control of information.

In response, Management of EAC informed this Committee that it was being addressed as part of the ICT Strategic Plan.

Committee Observations

Unnecessary delays in transaction processing and authorisation as well as the increased operational costs breeds inefficiency and cripples service delivery.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Assesses and evaluates its ICT capacity and capability to ably utilize and harness value from its IT portfolio;***
ii. ***Automates the budget verification process so that control by the budget holders is enhanced;***
iii. ***Customizes reports for executive users to enable them scrutinize and monitor performance of activities in the IT systems.***

3.1.3 Control Weaknesses in the IT Applications

The Audit Commission reported the following weaknesses in the control of various IT Applications in use:

3.1.3.1Infor SunSystems

This is an accounting system. The following weaknesses were reported:

i. Lack of segregation of duties;
ii. Requisitions are offline;
iii. Offline approvals in the SunSystems;
iv. Manual Reconciliations;
v. Redundant role by the Budget Approver;
vi. Lack of integration with external systems;
vii. Inability to generate financial statements directly;
viii. Further, the system does not provide the ability to segregate the journal creation and approval/posting process online.

3.1.3.2InspiroPeople

The InspiroPeople solution is used for the human resource management role and the payroll management. The following weaknesses were noted in the system:

i. Reconciliation functionality not enforced in the Payroll processing;
ii. The system does not provide employee history information;
iii. Codes for payments are not captured;
iv. Gratuity payments not processed in InspiroPeople;
v. Projects payroll prepared in Ms Excel;
vi. InspiroPeople System functionalities not utilised such as rrecruitment module, appraisal function, medical insurance, training function, time and attendance module, reports not running, items assigned to staff not captured, the audit trail information

3.1.3.3Hardcat

This is an assets management system. The following weaknesses were reported:

i. Uncoded assets captured
ii. Incorrect assets assigned to Staff

3.1.3.4Budget Management System

The BMS requirements included the Monitoring and Evaluation function where cumulative progress reports are submitted to Heads of Organs and Institutions, modification of consolidated organ/ institutional implementation reports and also to send circulars for Sectoral Council and implementation reports. However this was not being utilised by the system.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC quickly addresses all weaknesses raised in the review of IT applications to erase the risks and avoid any negative implications that could result from the failure to address the issues.

3.1.4 Shortcomings noted on EAC Data Centre

The Data Centre is the control centre for the ICT function at EAC housing critical devices and ICT infrastructure for the servers, networking devices, UPSs among others. Because of its criticality, access to it is limited. The Audit Commission report revealed the following anomalies;

a) The Data Centre equipment has not been insured taking into account the fact that equipment is very expensive (the blade servers and Cisco equipment). The risks surrounding these equipment is high such that, in case of fire outbreak, all the equipment will be damaged as there is no fire extinguishing mechanism installed. Also, in case an intruder accessed the Data Centre, to steal or damage these items, it could be so costly to replace them;
b) A soft wood door is used for accessing the Data Centre. The only access control is the biometric access system. The door is not supplemented with a physical locking system and it is not reinforced with a strong metallic door. Whenever there is a power outage, the door opens freely as the lock is powered by electricity;
c) The fire suppression system that is installed in the Data Centre is not functional. The pipes are not connected to the cylinders that contain the fire suppression fumes;
d) The fire suppression cylinder is empty and it has never been serviced or tested for functionality;
e) The smoke detectors in the Data Centre are not functional and have never been tested;
f) Lack of back-ups. Currently interviews during recruitment are conducted with help of video conferencing facility. Further, there are many meetings that are conducted among EAC organs and institutions, and Partner States EAC ministries. These recordings are not archived and backed up or replicated in the data recovery sites. In addition, video footages from the CCTV surveillance system are not backed up.

Management of EAC informed the Committee that budget cuts year-in year-out have made it a challenge to mitigate these risks.

Committee Observations

The Data Centre in its current state can easily be destroyed in advent of fire or access by a malicious person.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC enhances the Data Centre to acceptable industry standards and also finds alternative ways of mitigating the above risks.

3.1.5 Weaknesses in the Security Systems at EAC premises

Audit's review of the security systems at the EAC revealed the following weaknesses:

a) Un-installed and non-functioning security equipment;
b) No stakeholder involvement;
c) No backup of CCTV footage.

Committee observations

i. The EAC security equipment have become obsolete even before being utilized;
ii. Failure to install a comprehensive security detail puts EAC premises in a very vulnerable and risky state for its staff, visitors and assets;

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC installs and operationalizes its security apparatus to safeguard the EAC premises, staff and assets.

3.2 EAST AFRICAN LEGISLATIVE ASSEMBLY

3.2.1 REVIEW OF ADMINISTRATIVE FUNCTIONS

3.2.1.1 Absence of EALA Financial and Administrative Autonomy

Article 16 of the EAC Treaty explains the effects of Regulations, Directives, Decisions and Recommendations of the Council in relation to the Assembly citing it as an independent organ. Furthermore, Article 49 illustrates the functions of the Assembly being overseeing functions and approval of the Community budget. In addition to that, Section 4.0 of the EAC Governance Charter entails that the Governance Charter shall be based on the organization structure which actually placed EALA at the top of it. The 33rd Meeting of Council of Ministers also granted EALA full Administrative and Financial Autonomy to run its affairs.

Audit's review of the financial and administrative affairs of EALA noted that it is still implementing sub-accounting status and therefore was not granted its ability to discharge its fully fledged financial and administrative autonomy contrary to Article 16 and 49 of the EAC Treaty.

Management of EALA informed the Committee that whereas it was true that the 33rd Council granted financial and administrative autonomy to EALA, the Assembly has not yet finalized the processes to effect the autonomy which requires the adoption of a range of rules and regulations. The Bill to operationalize the EALA financial and administrative autonomy is before the Committee on Legal and Privileges and which shall duly report to the Assembly.

Committee Observations

i. By lacking full administrative and financial autonomy, EALA fails to undertake its mandated duties with full authority. It further inhibits the objective of further strengthening the Assembly to be a replica of a strong Parliamentary Institution;
ii. In addition to that, the powers that have been vested in EALA as per the Governance Charter are undermined by the existing arrangement as EALA has a duty to oversee the undertakings of the EAC Secretariat.

Committee Recommendations

The Committee recommends that the EALA Commission undertakes a robust engagement with Council on the issue and draw a roadmap on when the financial and administrative autonomy should be attained.

3.2.1.2Non-matching Position Status of the Clerk to the Responsibilities of EALA

Article 48 of the EAC Treaty states that the Council shall appoint a Clerk whose salary and other terms and conditions shall be determined by the Council. Also, Section 12(a) of the Administration of the East African Legislative Assembly Act, 2011 states that the Clerk shall be the Head of Assembly Administration and Secretary of the Commission as established by Section 3 of the same Act.

During the 35th Meeting of Council of Ministers that was held from 30th March to 4th April, 2017, the proposal to upgrade the position of the Clerk from P5 to D1 was referred to the Finance and Administration Committee for consideration and assessment of its financial implications.

Audit's review of the Corporate Governance of EALA revealed that the proposal has never been addressed up to date. Audit further noted that the current position of the Clerk is not executive and hence not matching to the Status of the supervising role of EALA given that he is the administrative head. If this this scenario is not addressed, it will limit the power of EALA in performing its roles as it strives to achieve its pursuit for financial and administrative autonomy.

EALA Management informed the Committee that it was indeed true that Council considered the requests to upgrade the position of the Clerk to executive level to match its demands and supervisory function and that Management concurred with the Audit Commission's findings. Audit further informed the Committee that the delay in upgrading the position has been occasioned by the non-consideration of the item by the adhoc Service Commission and pledged to implore the Human Resources Department to convene the meeting of the Ad Hoc Service

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the process of upgrading the Clerk's position such that it can match the status of the Clerk to the responsibilities of EALA.

3.2.1.3Irregular Appointment of Staff

The Audit Commission reported that upon review of personnel files, it found that 20 staffs were appointed on short term contrary to the provisions of Staff Rules and Regulations. Furthermore, the contracts for these short-term staffs indicated that they were not entitled to benefits like housing and fuel allowances. However Audit noted that USD 97,924 had been paid in respect to these benefits.

On benefits paid, EALA Management provided the Committee with comprehensive explanation for the payments which the Committee found convincing.

Committee Observations

The appointment of staff was irregular since it was not in compliance with the Staff Rules and Regulations and could result in unfair placements of personnel. Furthermore, it resulted to additional costs which were ineligible due to benefits that were paid to the respective staffs.

Committee Recommendations

The Committee recommends to the Assembly to urge Council of Ministers to ensure that Management of EALA regularizes the appointments of the short term staff.

3.2.1.4 Irregular Deductions of Contributions by Partner States on Allocations to EALA

Article 132(5) of the EAC Treaty requires that the resources of the Community shall be utilized to finance activities of the Community as shall be determined by the Assembly on the recommendation of the Council.

EAC Secretariat receives funds on behalf of EALA. After the funds are received, they are subject to deductions originated from advances that were granted to EALA in previous years from the reserve fund.

However Audit Commission noted deductions on contributions by Partner States on allocations to EALA which limited EALA's ability to implement activities in fulfillment of its mandate.

Management of EALA concurred with the Audit Commission's observation and informed the Committee that the deductions were usually done even when EALA was expecting funds in line with its approved budget. Management further informed the

Committee that the Rt. Hon. Speaker and the Office of the Clerk have raised EALAs concerns with the management of the Secretariat through the relevant offices not to effect deductions until all funds due to EALA have been remitted and the surplus reverted to the General Reserve. The concerns also call for the Secretariat to always follow the requisite procedures in line with the Financial Rules & Regulations (FRR) and for the deductions subjected to an approval processes initiated by EALA. Once this is done, it will facilitate the reconciliation process.

EALA Management also undertakes to recover all the funds irregularly deducted from EALA during the FY 2017/2018 for purposes of paying uncollected revenue from the Partner States for the FY 2016/2017.

Committee Observations

Such deductions limited the ability of the Assembly to execute its activities and the fulfillment of its mandate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EALA follows up on the issue to ensure that all allocations made to it are remitted and deductions made only when there is surplus.

3.2.1.5OTHER OBSERVATIONS

a) Improper Revenue Recognition;
b) Non-timely submission of financial statements.

Management of EALA informed the Committee that it had noted the Audit Commission's query and has since corrected the revenue schedule as per the Appropriations Act of EALA.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EALA:

i. ***Revises the recognized revenue relating to Partner States Contribution so that it reflects the correct position;***
ii. ***Submits financial statements on time.***

3.3 EAST AFRICAN COURT OF JUSTICE

3.3.1 REVIEW OF FINANCIAL STATEMENTS

3.3.1.1Wrong figure used in Budget Performance Report in EACJ financial statement

The Audit Commission reported that a wrong figure was used in the Budget Performance Report in EACJ financial statement leading to an unexplained difference of USD 62,130.

Management of EACJ informed the Committee that this was occasioned by wrong figures being keyed in the system largely due to a staff member in the Accounts department taking leave amidst the already existing shortage in the department. Management further informed the Committee that the correction has since been made and that in the interim, EACJ Management had devised measures to borrow the services of an Accountant from the Secretariat whenever a key staff in the department undertakes leave.

Committee Recommendations

The Committee recommends to the assembly to urge the Council of Ministers to fast-track the Institutional Review Exercise such that EACJ can fill key vacant positions within its accounting department;

3.3.1.2Budget underperformance

The Audit Commission reported an underperformance of budget above 10% on some budget lines.

Management of EACJ informed the Committee that the underperformance was caused by failure to recruit new staffs that had been budgeted for. There was also non-remittance of funds by Development Partners thus leaving gaps in the budget in addition to the lengthy procurement processes that did not enable Management to execute as planned.

Committee Observations

Failure to utilize budget lines could result in partial achievement of the organ's objectives

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***The Institutional Review Exercise is fast tracked so that key positions within EACJ are filled so as to undertake activities of the budget;***

ii. ***Makes necessary follow up during budget execution and review processes to ensure that the budget is appropriately executed.***

3.3.2 REVIEW OF RECEIVABLES

3.3.2.1Long outstanding VAT not recovered

The Audit Commission reported that the figure of VAT outstanding had risen from USD 118,264 to 164,065 representing a 28% increase in the year under audit. Some of the VAT had been outstanding since FY 2011/2012.

Management of EACJ informed the Committee that they have filed all VAT refund claims with the relevant authorities and had made several follow-ups with the Ministry of Foreign Affairs in URT. They reported that they were yet to receive any response as they continue with the follow up the matter.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to liaise with the Ministry of Foreign Affairs in URT to expedite the recovery of the outstanding VAT claims.

3.3.2.2Long outstanding receivables from EACJ members states

The Audit Commission reported outstanding account receivables of USD 809,227 from Partner States under Non-Exchange Transactions at the end of the FY.

Management of EACJ informed the Committee that through the EAC Secretariat, it continues to follow up on Partner States arrears with frequent reminders.

Committee Observations

Non-remittance of funds from Partner States in time as stated in the regulation could have a negative impact on the operations of the Court.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACJ adopts strategies in bringing EAC Partner States to fulfilling their obligations in time.

3.3.3 REVIEW OF INTERNAL CONTROL SYSTEMS AND CORPORATE GOVERNANCE

The Audit Commission revealed the following anomalies:

a) Fully depreciated assets still in use;
b) Deficiencies in preparation of minutes of some meetings;
c) Delay in formulating of a Strategic Plan despite expiry of the previous strategic plan 2010-2015 Strategic Plan;
d) Absence of an established plan for training of staff;
e) Long delay in the delivery of cases submitted to courts;
f) Irregularities noted in the employment of staff including two temporary staff that had been hired for longer than the regulations provide; and their remunerations not matching with the first step of the appropriate salary grade to which the appointment was made.

Management of EACJ gave following responses:

a) On fully depreciated assets still in use, Management informed the Committee that it acknowledged the observation made by the Audit Commission and will reassess its PP&E useful lives annually before the assets reach zero value.
b) On deficiencies in preparation of minutes, Management pledged to ensure that minutes are prepared immediately after meetings.
c) On the delay to establish a Strategic Plan, Management informed the Committee that the plan is now in place and is being printed.
d) On the absence of a training plan for staff, Management pledged to develop a training plan specific to the EACJ and for all staff to avail reports and certificates.
e) On long delays in the delivery of cases submitted to Court, Management informed the Committee that delays had been caused by a number of issues including:
    - Instances where matters were filed with numerous interlocutory applications that had to be disposed of before the main Reference;
    - Matters that were filed with certificates of urgency which the Courts tried to dispose of with priority;
    - The adhoc nature of the Court's sittings; and
    - The dwindling budgetary support which reduced the effectiveness of the cases being concluded expeditiously.
f) On irregularities in the employment of the two staff, EACJ Management informed the Committee that one of the staff had been given a formal contract for 5 years and was no longer a temporary staff and that the difference in salary scale was to be corrected with immediate effect.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACJ:

i. Strictly follows the standard reporting requirements as regards asset management;

ii. ***Prepares and keeps copies of minutes and attendance lists for meetings, duly signed by all attendees and the Chair of the meeting;***
iii. ***Expedites the development of the training plan such that staff are trained and equipped with necessary skills;***
iv. ***Prepares a position paper on delivery of cases and submits it to the Council recommending for Resident Judges of the Court to be based in Arusha;***
v. ***Strictly adheres to the Staff Rules and Regulations on the recruitment and remuneration of staff.***

3.3.4 REVIEW OF CONTRACTS MANAGEMENT

3.3.4.1Absence of supporting documents of an awarded contract

The Audit Commission reported that during the year ended 30th June 2017, EACJ Management awarded tender number EAC/SVCS/16-17/00010 for consultancy services for formulation of the East African Court of Justice Strategy and Implementation Plan 2016-2020 and a contract worth USD 70,222 was signed on 25th May 2017 with University of Nairobi. However EACJ Management did not avail different documentations on the procurement processes in relation to the tender mentioned above for audit purpose.

Management of EACJ informed the Committee that whereas it was true that the whole process was done by EAC Secretariat, Management was following up the procurement process to acquire all necessary documents.

Committee Observations

The EAC procurement department failed to avail the necessary documents to the Audit Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACJ:

i. Complies with EAC Rules and Regulations in the procurement of services;
ii. Documents and files all documents relating to all contracts awarded during the FY for future reference and/or Audit purposes.

3.4 THE EAST AFRICAN CAPACITY BUILDING FOUNDATION PROJECTS POLICY RESEARCH UNIT

3.4.1 Failure to utilize the USD I million Grant:

Following the ACBF Board approval of a grant on 8th December 2014, the agreement of which was signed on 15th June 2015, the grant agreement became effective on 14th

September 2015. The project implementation was to have started when the project received an initial advance of USD 150,000 in November 2015.

The following issues were reported by the Audit Commission:

i. Project implementation started in March 2017 on recruitment of four staff members;
ii. In an aide-memoire of the ACBF Implementation Support Mission to EAC-CAP, the team was informed that the project was closing on 31st December 2017 in response to the indication given by the funding instrument from which EAC-CAP grant comes from.
iii. Out of the approved budget for May & June 2017 of USD 306,928, only USD 189,022 had been expensed by 30th June 2017.
iv. Out of the total expenditure of USD 189,022, a sum of USD 122,323 (65%) was used on employee benefits leaving only USD 66,618 equivalent to 36% for execution of project activities.

EACJ Management informed the Committee that delays in recruitment and request for reallocation for the revised budget and work plan contributed to the failure to utilize the grant.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACJ devises strategies to guarantee the functioning of the research unit.

3.4.2 Outstanding VAT Claimable (Receivable)

The Audit Commission reported that VAT receivables of USD 1,755.42 was still outstanding as at the end of the FY 2016/17.

Management of EACJ informed the Committee that whereas it is true from grant provision that, the fund should not be used to pay taxes and it true that EAC is a tax exempted institution, EAC has signed the headquarters agreement with governments where it is headquartered. There is however no uniformity of tax laws in each Partner State. For example in the United Republic of Tanzania, all institutions including diplomatic institutions are paying tax on the understanding that they will claim refund upon submission of tax invoices. EAC has been claiming VAT refund after payment, which VAT is then recognized as receivables.

Management further informed this Committee that the ACBF tax/VAT refund has been included in other claims toward the end of June and first quarter of 2017/2018 and will be submitted to the respective partner states for refunds.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACJ:

i. ***Institutes measures to have the VAT funds reclaimed;***
ii. ***Puts in place a mechanism for applying for tax exemption before project activities are implemented.***

3.5 LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT II

3.5.1 Budget Performance

A review by the Audit Commission revealed that as at 30th June 2017; out of the total budgeted amount of USD 1,717,179, USD 1,334,299 (81.25%) had so far been spent with some of the activities implemented by less than 50%.

Management of LVEMP informed the Committee that much as LVEMP had achieved an overall implementation rate of 81%, a number of activities were not fully accomplished as clearly pointed out. This was attributed to the fact that the project had not received all the budgeted for revenue. Additionally, some of the activities like preparation of the Project Completion Report had to be carried over to the next FY so that the report could encompass the final six months of the project that was to end in December 2017.

Committee Observations

Unexecuted planned project activities serve as an indicator that the project did not attain the objectives for the year and this could have adversely affected the confidence of Development Partners towards the project.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVEMP puts in place strong mechanisms to ensure that the planned activities are executed so that the project attains its intended objectives.

3.5.2 Outstanding imprest

The Audit Commission reported that a review of the Imprest Ledger revealed that a sum of USD 13,910 was outstanding.

Management of LVEMP however informed this Committee that the outstanding Imprest as at the date of audit related to activities which were still being undertaken. Subsequently these were retired by the mentioned staff. However, Management pledged to continuously ensure and enforce controls so that accountabilities are submitted on time.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVEMP:

i. ***Recovers the amounts from the responsible officers;***
ii. ***Comply with the Financial Rules and Regulations of the EAC.***

3.5.3 Unaccounted for Expenditure by Burundi Cleaner Production Centre

The Audit Commission discovered that an amount of USD 20,466 disbursed by LVEMP II to the Burundi Cleaner Production Centre had not been fully accounted for as at 30th June 2017. In addition, there was an amount of USD 9,723 relating to block transfers made from the US$ account for which details of the activities to be funded were not provided, and USD 160 being expenditures related to the hire of consultant for which supporting documents were also not available.

Management of LVEMP informed the Committee that LVBC through the LVEMP project periodically carries out financial review of the implementing agencies to which it grants funds for Cleaner Production activities. The pace of implementing the activities varies from Country to Country and the funds are only retired as a receivable only when the implementing agency submits the accountabilities. As part of the LVEMP II project closure processes, all the pending advances were supposed to have been accounted for by the project completion date in December 2017.

Committee Observations

The amount unaccounted for may impact on the completion of the project and casts doubt on prudent use of project finances under LVEMP II.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVEMP accounts for this expenditure by availing all the necessary documents of accountability for audit review.

3.6 EAST AFRICAN KISWAHILI COMMISSION

3.6.1 REVIEW OF FINANCIAL STATEMENTS

3.6.1.1 Weakness noted in the EAKC Financing structure

The Audit Commission reported that the EAKC's core activities were allocated only 5% whereas other non-core activities including staff emoluments were allocated 95%.

Management of EAKC informed the Committee that the Commission has religiously budgeted for activities geared towards executing its mandate but the budget has always

been rationalized to the current financing situation. With an approved Strategic Plan, the Commission hopes to continue to receive funding for core activities.

Committee Observations

The current financing structure as Partner States may not allow for the implementation of the 2017-2022 Strategic Plan.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the EAKC reconsiders its budget preparation processes and bases so as to allocate more finances to its core activities so as to achieve its mandate.

3.6.2 GOVERNANCE ISSUES

3.6.2.1Under-staffing at EAKC

The Audit Commission reported that minimal effort was being made to recruit core staff more than two years since the establishment of EAKC. The Commission has only 6 full-time staff whereas its organization structure provides for 31 positions. Furthermore, of the 6, only 3 are professional staff.

Audit reported that due to this insufficiency in human resources at EAKC, the segregation of duties was a problem. Audit further noted instances of some staff performing tasks for which they had no competent skills. For example the Senior Human Resource Officer was performing the tasks that should have been carried out by the Procurement Officer.

Management of EAKC informed the Committee that the Commission is critically understaffed and Management has consistently raised this issue with Council but no action has been taken.

Committee Observations

The Commission to efficiently carry out its functions; hence the timely achievement of its mandate may not be attained.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the vacant positions are filled as provided for by EAKC organizational structure.

3.6.2.2Absence of the Internal Audit function within EAKC

The Audit Commission noted that the recruitment of key staff under Governance Structure such as Internal Audit had remained unachieved since the establishment of the Commission.

Management of EAKC informed the Committee that whereas it is true the EAKC does not have an Internal Auditor; functions of Internal Audit are carried out by the EAC Secretariat Internal Audit. However, EAKC was awaiting the completion of the Institutional Review Exercise such that the Internal Audit function is filled.

Committee Observations

The Committee observed that EAKC is lacking checks and balances which make it susceptible to errors and inefficiencies in its operations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the position of the Internal Auditor is filled as per the EAKC Organizational structure.

3.6.3 REVIEW OF EXPENDITURE

3.6.3.1Lack of value for money for the amount spent on the renovation of EAKC Headquarters seat in Zanzibar

The Audit Commission reported that there was no value for money for the USD 265,021 that was spent on the renovation of a building that does not belong to the EAC but to the People's Revolutionary Government of Zanzibar. Audit noted that the total amount spent to renovate the office building could have been used to construct or purchase a new one.

Management of EAKC informed the Committee that the EAKC proposed the renovation works to the Council and after careful consideration, the Council approved funds for the renovation works.

Management further informed the Committee that the structure in question is centrally located within other relevant Government structures like the National Museum, National Library which are relevant to the functions of EAKC. Furthermore, the building is also of historical value since it was being used by King Sultan Ahmed.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to engage the People's Revolutionary Government of Zanzibar to consider donating the building to EAKC.

3.6.4 REVIEW OF ACCOUNTS RECEIVABLE

3.6.4.1Increasing trend in VAT Recoverable from Tanzania Revenue Authority

The Audit Commission reported increasing trends in VAT recoverable owed to EAKC from Tanzania Revenue Authority. The VAT balance had increased from USD 2,044 (2015/2016) to USD 32,102 as at 30 June 2017.

Management of EAKC informed the Committee that the EAKC had signed a Headquarters agreement with the Government of the United Republic of Tanzania but was later informed that EAKC falls under the regime of Zanzibar Revenue Authority (ZRA) as opposed to Tanzania Revenue Authority (TRA); and this had made it difficult to claim for VAT that FY. However the anomaly has been rectified and the Commission has filed for VAT refunds from the Zanzibar Revenue Authority and it awaits the VAT refunds.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAKC engages the Zanzibar Revenue Authority to refund the VAT claims.

3.6.4.2Delayed remittance of contributions from Partner States

The Audit Commission noted that for the financial year 2016/17, EAKC budgeted USD 1,179,544 as contribution from Partner State and General Reserve. However, the Commission's receivables contributions from Partner States were USD 718,740 to be met equally among them. Contrary to the EAC Financial Rules and Regulations, it was revealed that the Republic of Burundi and Uganda had not fully paid their contributions for the FY 2016/2017 to the tune of USD 122,435 and USD 18,958 respectively. It is worth to noting that the amount due from Uganda had increased from USD 6,637 (2015/2016) to USD 18,958 in (2016/2017). At the time of Audit in November 2017, there was no evidence that the amounts had been paid.

Committee Observations

Insufficient remittances of contributions limits EAKC from full and timely implementation of its activities and programs in an efficient and effective manner.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure:

i. ***Timely remittances of funds from Partner States;***
ii. ***Management of EAKC continues to liaise with the EAC Secretariat to recover the outstanding balances.***

3.6.4.3Unsupported current account balance as at 30th June 2017

The Audit Commission's review of accounts receivable revealed a current account balance of USD 52,902 that was outstanding as at 30th June 2017. This balance related to various transactions that took place between the Commission and EAC Secretariat through current account. However the Audit Commission was not provided with supporting documents to justify how these transactions were being cleared and those which were still outstanding as at the end of the year. Further, Audit did not obtain any evidence to show that the due amount as at 30th June 2017 was subsequently cleared.

Management of EAKC informed the Committee that the Commission would liaise with the EAC Secretariat to ensure that indebtedness that arose due to inter entity transactions are reconciled and settled immediately

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAKC liaises with the EAC Secretariat to ensure that the indebtedness that arose due to inter entity transactions are reconciled and settled immediately.

3.7 FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT

3.7.1 REVIEW OF PROJECT IMPLEMENTATION PERFORMANCE

3.7.1.1Disbursement not effected by the donor

The Audit Commission revealed that whereas the Additional Financing Agreement for grant No D1410 worth USD 10,500,000 to support the project was signed on 11th November 2016 effective from 15th February 2017 and to 30th September 2019, there had been no deposit made to the Designated Account from the effective date up until the end of the FY 30th June 2017. This was contrary to the provisions of the FSDRP Operational Manual.

FSDRP Management however informed the Committee that steps have been taken to review the work plan to ensure that the activities are undertaken within the remaining period.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that that the Project Team Administration (PTA) in collaboration with Management of EAC and the Donor discuss and take necessary actions to ensure planned activities are executed within the remaining time frame of the project.

3.7.1.2Under or over absorption of FSDR Project budget

The review of the Audit Commission on Project implementation performance report revealed the following weaknesses:

i. Over or under absorption noted on different components for the grant No H6410;
ii. Overall under budget absorption during the FY ended 30th June 2017

Management of FSDRP informed the Committee that close monitoring by the project management and the World Bank was in place to ensure that the project objective is achieved. Monthly reports are prepared and reviewed by Management before being sent to the World Bank. Additionally, video conference meetings are held as and when required and half year missions are also made by the Bank to ensure that the project activities are being undertaken as planned. Management further stated that 25 of the procurement packages were successfully concluded except the Capital Markets Infrastructure activity.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Identifies those activities which were not initially executed to ensure that at the closure of the project the intended objectives are fully attained;***
ii. ***Ensures that sound project monitoring and management mechanisms are put in place to ensure that funds received from donors are utilized as planned to achieve the intended objectives;***
iii. ***Makes necessary follow up during budget execution and review processes to ensure that the budget is appropriately executed.***

3.7.2 REVIEW OF GOVERNANCE AND INTERNAL CONTROL SYSTEM

3.7.2.1Ineligible expenditure not refunded to the donor

The Audit Commission revealed that a review made in June 2017 by a team from the donor showed that the amounts paid to three consultants totaling to USD 63,000 were not eligible as there were no activities planned for these positions as per the activities planned under the Additional Financing Agreement. Despite the agreed refund between the EAC and the donor, the Audit Commission noted that up to November 2017, USD 63,000 paid for ineligible expenditure had not been refunded to the donor.

Management of FSDRP informed the Committee that steps have been taken to ensure that the funds are refunded and a request has been made to the Council for budget allocation to enable the refund to be made. Management is closely sharing the updates on the requisite approvals with the World Bank.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Project Administration Team in collaboration with Management of EAC:

i. ***Refund USD 63,000;***
ii. ***Use donor's fund strictly for planned activities.***

3.7.3 REVIEW OF RECEIVABLES

3.7.3.1Outstanding VAT not recovered

The Audit Commission reported that Management of FSDR Project did not recover from Tanzania Revenue Authority (TRA) the accumulated VAT balance amounting to USD 26,224.98.

Management however informed the Committee that the VAT amount was not only from the URT but all the five Partner States. Efforts have been made and requests submitted but refunds have not yet been realized. Furthermore Management informed the Committee that it would continue to follow up with the respective Partner States to ensure refunds are made. The Management of EAC set up a payable unit within the EAC accounts department to follow up on all the VAT issues

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to follow up with URT to recover the VAT claims.

3.7.4 REVIEW OF CONTRACT MANAGEMENT

3.7.4.1Irregularities noted in the management of contract for the supply and installation of smart Order Router, Central Depository System Interface, and Messaging Platform for Securities

The Audit Commission noted the following irregularities in the contract between EAC and Infotech Private Ltd for the supply and installation of smart Order Router, Central Depository System Interface, and Messaging Platform for Securities worth USD 2,395,180

a) Delay in the implementation of Capital Market Infrastructure Project; and
b) Absence of contract for the period of 21 months

Management of FSDRP informed the Committee that efforts were being made to ensure that the contract was concluded. Discussion was on-going on with the vendor to ensure that the contract addendum is concluded and the remaining two deliverables realized. Despite not having a contract, the EAC had had weekly video conferences with the vendor and the Partner States to ensure continued implementation of the Project.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Liaises with all the concerned contractors to speed up the execution of the contract or demand for liquidated damages;***
ii. ***Ensures that a valid and updated contract between the two parties is established.***

3.8 LAKE VICTORIA FISHERIES ORGANIZATION

3.8.1 REVIEW OF FINANCIAL REPORTING

a) Limitation of Audit Scope

The Audit Commission reported that contrary to Regulation 120 of the EAC Financial Rules and Regulations 201, there was outstanding information which was not provided and this limited the ability of the Audit Commission to exercise its mandate.

Management of LVFO however informed the Committee that it had since availed the requested documents that had earlier not been availed for audit purposes.

Committee Observations

Non-provision of information requested limits the Audit Commission's scope in reviewing the underlying areas and this could lead to modification of the audit opinion depending on the extent to which the financial statements have been affected.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVFO in future prepares to avail necessary documents in due time to enable the Audit Commission to carry out its mandate smoothly.

3.8.2 REVIEW OF PROCUREMENT

The Audit Commission reported the following anomalies contrary to EAC Procurement Rules and Regulations:

a) Lack of a properly constituted procurement unit
b) Inadequate information on the Procurement Plan
c) Lack of contract with a Service Provider
d) Procurement requisition without estimated Prices
e) Irregularly constituted Procurement and Evaluation Committee

Management of LVFO had the following responses:

a) On lack of a properly constituted procurement unit, Management informed the Committee that a procurement Unit under the directorate of Finance and Administration exists though not yet filled due to funding constraints. The position of the Procurement Officer was approved in January 2016 in the LVFO Council of Ministers meeting and the recruitment for the position will immediately be filled when Partner States disburse the required funds.
b) On inadequate information in the Procurement Plan, Management informed the Committee that the Procurement Plans are in place but not on the related procurement files. In future, Management undertook to ensure that these would be filed against the respective related procurements.
c) On lack of a contract with a Service Provider, Management informed the Committee that United Bank of Africa (UBA) had a running contract with all MDAs of Uganda and LVFO therefore had to approach UBA after it was recommended by MEACA.
d) On procurement requisitions without estimated prices, Management informed the Committee that the procurement requisitions had the indicative budgeted amounts. In future Management pledged to indicate the estimated prices.
e) On the irregularly constituted LVFO Procurement and Evaluation Committee, Management informed the Committee that the number of persons on the Procurement Committee has been revised accordingly.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Ensure that a Procurement unit is established at LVFO so that all procurements are done efficiently and effectively;***
ii. ***Avail funds for the recruitment of a Procurement Officer for LVFO.***

3.8.3 OTHER OBSERVATIONS

Audit further reported the following anomalies:

a) Absence of risk management guidelines;
b) Lack of IT systems integration and absence of automation of payroll processes.

Committee Observations

Absence of risk management guidelines exposes LVFO to a risk of going concern and not achieving its objectives as planned.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to avail relevant funds to the LVFO to integrate the IT systems into the payroll process and to put in place risk management guidelines.

3.9 CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY

3.9.1 REVIEW OF THE BUDGET

3.9.1.1EAC - CASSOA Sustainability

The Audit Commission reported that whereas the primary funding of CASSOA is from the Partner States Civil Aviation Authorities and supplementary contribution from donors through EAC Partnership Fund, the Agency had never engaged in preparation of the resources mobilizations strategy or action plan to boost the sources of revenues or enhance its sustainable funding sources.

In addition, the agency did not receive any funding from Development Partners during the FY 2016/17and was unable to implement its planned activities and meet its strategic objectives.

Management of CASSOA informed the Committee that the Board of CASSOA has approved a sustainable funding plan and is in the process of engaging the respective CAAs to introduce a passenger levy starting the FY 2017/18.

Management further informed the Committee of the need for increased resources mobilization efforts at the Agency and had appointed a Senior Accountant (SA) and the Aviation Security Officer (ASO), who are participating in the EAC Resources Mobilization Forum. The Agency is also in a process to develop bankable projects in its core business to sell to potential Development Partners for funding.

Committee Observations

The Agency may not be able to sustain its current financing structure and Partner States may not get the value for money invested in staff and office running expenses.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA in collaboration with EAC Secretariat and other stakeholders, devises ways of obtaining further sources of funding in order to achieve its strategic goals.

3.9.1.2Planned activities not implemented

The Audit Commission reported that a review of the Agency's annual programme of activities, budget and implementation report of the Procurement Plan revealed that 16 planned activities for implementation in the FY 2016/17 were not implemented.

Management of CASSOA informed the Committee that some of the activities were not implemented due to Partnership fund not availing the funding that was expected in the FY. Management further revealed that the process of carrying out a midterm review of

the Strategic Plan is expected to be approved by the Board at its 40th meeting that had been scheduled in November 2017 upon which the review would be carried out by 31st March 2018 for consideration by the Board at its 42nd meeting scheduled for April 2018. A review of the Strategic Plan has been carried out and activities approved.

Committee Observations

Unimplemented activities resulted into non achievement of the agency targets; hence strategic objectives appearing in the Strategic Plan 2015-2020 may not be achieved.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA plans for program activities that are manageable within the context of available resources and avoids setting overambitious targets that are not in line with SMART principles.

3.9.2 GOVERNANCE ISSUES

3.9.2.1Employing consultants for posts provided by the organizational structure

The Audit Commission's review of the Agency's organizational structure revealed that it provides for the posts of a Medical Assessor (Grade P5) and a Manager Flight Operations (Grade P4). However, the Commission noted that instead of filling these posts, CASSOA Management hired two consultants and had signed contracts with them to carry out the responsibilities within the above positions. The hiring of consultants resulted into the Agency paying an extra amount equivalent to USD 49,080.

Management of CASSOA informed the Committee that while the two positions for Medical Assessor and Manager Flight Operations are so necessary for the activities of the Agency, the Agency has always found difficulty in attracting full time staff for the positions; reason being lower pay structure of the Agency as compared to the market rates prevailing in the Civil Aviation industry. Consequently, to remedy the problem, the Board resorted to approving use of consultants for the positions. However, as for the position of Manager Flight Operations, the Agency had been able to recruit a person who reported for duty on 1st November 2017.

Committee Observations

The use of consultants for posts provided for in the organizational structure has led the agency to incur much higher costs than the salaries that would have been paid to full time staff which is against the principle of efficiency in management practices.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that CASSOA Management uses available funds efficiently by recruiting full time staff instead of employing consultants. This will help the Agency to save funds.

3.9.2.2Lack of a Planning and Budget Committee

The Audit Commission reported that Annual Programme of Activities and budget for each of the financial years were considered during Staff Retreats where each department was required to present its own budget. In addition, Audit noted that the Agency organizational structure does not provide for an Officer in charge of Planning and Budgeting. The planning and budgeting functions have been left to staff during retreats which is against the CASSOA Financial Rules and Regulations.

Management of CASSOA informed the Committee that it had started operationalization of the Planning and Budgeting Committee in the FY 2018/2019 budget cycle. The Committee had considered the budget guidelines for the FY2017/2018 for issuance to staff.

Committee Observations

The Agency's failure to implement the provisions of the Financial Rules and Regulations 2014 means the Agency did not achieve its stated strategic objectives and mandate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA gives priority to the planning and budgeting process which is critical in the management of any organization.

3.9.2.3Under-staffing of CASSOA

The Audit Commission reported that the Agency does not have sufficient human resources. Out of 28 positions provided by the current structure, only 11 are filled by full time staff. This had a negative impact on the implementation of the annual activity plan.

Management of CASSOA informed the Committee that the Agency had recruited all the key staff per the revised structure as proposed by the Technical Committee on Finance and Administration in October 2017.

Committee Observations

Insufficient human resources at CASSOA may result in planned activities not being carried out and thus strategic objectives not being achieved.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA speeds up the recruitment of additional staff to fill the vacant posts as provided for by the revised organizational structure.

3.9.3 REVIEW OF EXPENDITURE

The Audit Committee reported the following anomalies:

a) Weakness in the payment of education allowances where some payments for education allowances were made on the basis of long-dated letters of admission;
b) Failure to use installed video conferencing facilities intended to reduce frequent travel and other related meeting costs.

Management of CASSOA informed the Committee that payments for education allowances were made subject to admission letters to avoid payment to non-school goers. Further, the Committee was informed that Management had since implemented the use of the Video Conferencing System.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA:

i. In the future, makes payments for education allowances using updated admission letters;
ii. Endeavors to make use of the video conferencing facility to avoid wastage of resources.

3.9.4 REVIEW OF ACCOUNTS RECEIVABLE

3.9.4.1Unexplained delay in recognition of received contributions from Partner States

The Audit Commission reported that contrary to Regulation 28 (1) & (2) of the CASSOA Financial Rules and regulations 2013, one of the Partner States remittance amounting to USD 44,058.88 which was made on 29/3/2017 was recognized in the books of accounts towards the end the financial year on 29/6/2017.

Management of CASSOA informed the Committee that Sun Systems receipts posting functionality was having a problem at the time of remittance of the above contribution. However this had been resolved in June 2017 by the support service provider and the receipts posted.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA immediately recognizes in the books of

accounts deposits made on its bank account as is required by the Rules and Regulations.

3.9.4.2 Increased outstanding contribution from a Partner State

The Audit Commission revealed that for the FY 2016/17, and contrary to the CASSOA Regulation 23 (4) of the Financial Rules and Regulations 2013, Burundi Civil Aviation Authority had not fully paid its contribution for the FY 2016/2017 to the tune of USD 105,766. The amount due from Burundi Civil Aviation Authority had increased from USD 80,766.75 (2015/2016) to USD 146,149 as at 30 June 2017.

Management of CASSOA informed the Committee that it has continued to follow up with the Government of Burundi and had received promises of settlement once its financial situation improved. Management further informed the Committee that they had submitted the matter to the Council of Ministers for consideration. They await the Council decision.

Committee Observations

Insufficient remittance of contributions limits CASSOA from full and timely implementation of its activities and programs in an efficient and effective manner.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to liaise with the Government of Burundi to ensure its remittance of the outstanding contribution is honored.

3.9.4.3Increasing trend in VAT Recoverable from Uganda Revenue Authority

The Audit Commission reported that the Republic of Uganda had not issued the Agency with a tax exemption, and the Agency had to pay VAT on taxable goods and services and subsequently claims the VAT refund from Uganda Revenue Authority. As highlighted in the Commission's previous year Audit Report, the VAT balance had increased from USD 21,878 (2013/2014) to USD 56,951 as at 30th June 2017.

Management of CASSOA informed the Committee that it has continued to submit monthly claims that conform to VAT laws in the Republic of Uganda and was following up the claims by engaging relevant URA Officials.

Committee Observations

Failure to recover VAT contravenes EAC Headquarters Agreement and could affect implementation of Agency programs.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to engage the Ministry of Finance, Planning and Economic Development of the

Republic of Uganda and Uganda Revenue Authority to ensure that VAT claimables are promptly recovered and remitted to CASSOA.

3.9.5 REVIEW OF PROPERTY, PLANT AND EQUIPMENT

3.9.5.1 Lack of title deeds for land and buildings at the disposal of WASAC Ltd

The Audit Commission reported that the financial statements of EAC - CASSOA as at 30 June 2017 included a piece of land worth USD 334,770. However, Audit noted that EAC – CASSOA does not have a title deed for the land on which its premises were constructed.

Management of CASSOA informed the Committee that for more than 5 years, the Agency had been in a process of trying to obtain the land title of the land on Plot 41/43 Circular Road. The Agency is now at a stage where it has engaged the Civil Aviation Authority Uganda (CAAU) to surrender the original land documents to the Uganda Revenue Authority (URA) for processing of the transfer. CAAU has shown willingness and the Agency has formally written to CAAU on the 6th July, 2017 vide letter ref: ADM/005/176 requesting for assistance in concluding the process of transfer of the land title to EAC-CASSOA by submitting the original land documents to URA for processing of the transfer. The Agency is still keenly following up the issue with CAAU.

Committee Observations

In absence of title deeds, the Audit Commission was unable to confirm whether the land and building reported in the financial statements actually belongs to CASSOA.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that CASSOA speeds up the process of obtaining the title deed for its plot of land.

3.9.6 REVIEW OF PROCUREMENT

3.9.6.1 Inadequate procurement procedures on repeated needed services

The Audit Commission's review of the Procurement Plan and Procurement Execution Report revealed that CASSOA uses requests for quotations for each event that required services that is usually and repeatedly needed such as the purchase of air tickets, meals and refreshments during meetings. Audit noted that this was not an efficient approach and is in contravention of Regulation 78 (1&2) of CASSOA Financial Rules and Regulations 2013 on framework arrangements.

Management of CASSOA informed the Committee that it concurred with the finding and pledge to embark on the process of concluding framework contracts with suppliers of repeat services.

Committee Observations

This was wastage of time and other resources where staff (who are limited in number) are required to stop their duties in their official assigned responsibilities to evaluate submitted quotations whereas they should be engaged in the performance of their responsibilities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of CASSOA liaises with suppliers for framework contracts in respect of services which are needed continuously instead of frequent and endless evaluations of quotations for such services.

3.10 MEDICINES REGULATORY HARMONIZATION PROJECT

3.10.1 FINANCIAL REPORTING

3.10.1.1 Improper Cut-offs

The Audit Commission reported that audit of MRH Project records revealed that cut-off had not been observed as some transactions relating to the preceding year had been recorded in the current accounting period. This situation has been observed with 41 assets worth USD 12,800 that were bought on July 2017 but recorded in the current period. Also, USD 15,104 has been recognized as payable in respect to this transaction. This is contrary to Section 1.12.4 of the EAC Financial Procedures Manual, 2013

Management of MRHP informed the Committee that the Project expected to receive the computer tablets and server racks before year end but due to delays and long procurement process the items were delivered by the supplier two weeks later on 14th July 2017.

Committee Observations

Non-adherence to cut-off may cause significant misstatement of the financial statements which in turn could make users take decisions basing on wrong information.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC records each transaction in the respective accounting period so as to comply with the organization policies and accounting guidelines.

3.10.1.2 Assets with Negative Book Value

A review of fixed assets by the Audit Commission for the FY 2016/17 revealed computer equipment having more accumulated depreciation than its cost and hence resulting to negative net book value. The Commission further noted that the cost of computer equipment is USD 41,204 but the accumulated depreciation is USD 56,535 in the year 2016/17. This is contrary to the principles spelled out in Paragraph 13 of IPSAS 17.

Management of MRHP informed the Committee that they are reviewing the Fixed Assets Register with support from Sun system Administrator to identify assets with negative value and pass respective adjustments to address the issue.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Management of EAC identifies the overcharge and accumulated depreciation is adjusted to suit the requirements of IPSAS.

3.10.1.3 Improper Revenue Recognition

The Audit Commission's review of MRH Project revenues revealed that revenue had been improperly recognized by including a portion of contribution which was yet to be realized. Audit noted a total of USD 796,046 that had been wrongly recorded as revenue instead of being shown as a liability against the Development Partner. This was in contravention of Paragraph 44 of the IPSAS 23 and Section 3.3.2.1(e) and 3.3.2.1(h) of the EAC Financial Procedures Manual, 2013.

Management of MRHP informed the Committee that it was within the accounting standards spelled out in IPSAS and its accompanying paragraphs and sub-paragraphs above; and was therefore in full compliance with the provisions of IPSAS 23 on recognition of revenue from non-exchange transactions.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of MRHP makes necessary adjustments to correct the accounts as per the regulations established.

3.10.1.4 Discrepancies in the Summary of Significant Accounting Policies

The Audit Commission review of MRH Project financial statements revealed some irregularities on the notes as follows:

i. On the basis of preparation, there was a statement citing the use of IFRSs and IASs where there was no IPSAS to apply on certain areas. This is contrary to the stipulation of IPSAS as IFRSs and IASs that are only for the Government Business Enterprises.

ii. Under Property, Plant and Equipment, the Project has not indicated whether it has adopted cost model or revaluation model as per requirement of Para 42 of IPSAS 17.

Management of MRHP informed the Committee that the project financial statement was submitted as part of EAC financial statements, the relevant and significant accounting policies and other explanatory notes were included.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC rectifies the matter by making proper presentation of respective notes such that they are aligned to the requirements of standards and other guidelines.

3.10.1.5 Non timely submission of financial statements

The Audit Commission reported that the financial statements for MRH Project were submitted to the Audit Commission on 30th October 2017 contrary to the requirements of Financial Rules and Regulations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC submits their financial statements on time.

3.10.2 OTHER OBSERVATIONS

The Audit Commission further reported the following:

a) **Expenditure without a Contract with the Supplier**
The Audit Commission reported that during the period under review, payments worth USD 48,327 were made to different internet service providers where there were no contracts with MRH/EAC Secretariat and those providers.

b) **Poor Filling System**
The Audit Commission noted that MRH does not have a clear filing system of the vouchers which directly corresponds to posting of transaction in the system. The vouchers are not serially numbered which makes it difficult to trace them.

c) **Irregular Appointment of Staff**
The Audit Commission reported that a review of personnel files revealed that some staffs were appointed as short term staff for MRH Project contrary to the provision of Staff Rules and Regulations.

d) **Irregular Procurement of Tablets and Server Racks**

The Audit Commission reported that MRH procured a server rack and tablets worth USD 15,104 from Benson and Company (T) Ltd without the Evaluation Committee's preliminary examination and technical evaluation which is contrary to the procurement guidelines.

e) **Inadequately Supported Education Allowance**
The Audit Commission review of respective allowances revealed that USD 40,500 paid for education allowance lacked supporting documents which are mandatory for the payment of such allowances. In addition to that, a voucher for USD 3,500 with respect to the allowance was not presented for audit despite several efforts to remind management on the matter.

f) **Failure to Claim VAT from Partner States Worth USD 5,377**
The Audit Commission's review of the Project's books revealed that a total of USD 5,377 that had not been claimed from Partner States. Some of the recoverable VATs were dating as back as 2012.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC addresses the issues in the Audit report.

3.11 EAST AFRICAN HEALTH RESEARCH COMMISSION

3.11.1 FINANCIAL REPORTING

3.11.1.1 Non Timely submission of Financial Statements

The Audit Commission reported that the financial statements for EAHRC were submitted to the Audit Commission on 11th October 2017 contrary to the requirements of Financial Rules and Regulations.

Committee Observations

Non-timely submission of financial statements hinders the Audit Commission's obligation to accomplish the audit timely and provide insufficient time for proper planning of the audit.

Committee Recommendations

The Committee recommends to the assembly to urge the Council of Ministers to ensure that Management of EAHRC submits financial statements in time as provided in the EAC Financial Rules and Regulations.

3.11.1.2 Overstatement of accruals and payables

The Audit Commission reported that included in the accruals and payables a balance of USD 315,403 were commitments amounting to USD 240,883 recorded as payables. The account commitments related to IT equipment, furniture and fixtures and generators. However, the items had not been received as at 30th June 2017 thereby violating the cut-off principle.

Management of EAHRC informed the Committee that all the items have since been delivered and the EAHRC HQ partitioning process was ongoing. The additional transactions in the trial balance were in relation to activities whose additional documentation has been availed to the Audit Commission.

Committee Observations

With the noted difference, there could be misstatement of the accounts payables in books.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAHRC:

i. ***Accounts for the difference that has been noted;***
ii. ***Avails supporting documents for the respective payables to the Audit Commission to be able to conclude on the respective account.***

3.11.2 OTHER OBSERVATIONS

3.11.2.1 Rent Paid for the Premises which is not being used by EAHRC

The Audit Commission reported that despite the Commission's staffs being situated at the EAC Headquarters in Arusha, on 22nd May 2017, EAHRC made a payment to the tune of USD 15,000 being a five month rent payment for hiring office premises between July 2017 and November 2017. Audit reported that the rent paid was a waste.

Management of EAHRC informed the Committee that the Commission signed the office lease agreement on 1st June 2017 therein taking possession of the building and hence was under obligation to pay rent since the building was no longer available for any other party to lease.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAHRC should stop payments for items or services which they are not in need of.

3.11.2.2 Absence of Risk Management Guidelines

The Audit Commission reported that a review of the EAHRC corporate governance structure revealed absence of risk management guidelines.

Management of EAHRC informed the Committee that whereas it recognizes the importance of having risk management guidelines, the Commission is utilizing the risk management guidelines that were set up by the EAC Secretariat. Management further informed the Committee that given budgetary limitations, it may not be possible for the EAHRC to independently set up its own risk management structure and guidelines in the near future.

Committee Observation

Absence of risk management guidelines exposes EAHRC to a risk of going concern and not achieving its objectives as planned.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAHRC Management develops comprehensive risk management guidelines that would safeguard it from risks its likely to face.

3.11.2.3 Inappropriate Application of Single Sourcing Procurement Method

The Audit Commission reported that during the year under review, EAHRC procured tickets services worth USD 28,514 but there was no evidence indicating that competitive tendering was done as required by Section 6.2.2 of the Procurement Policies and Procedures Manual, 2016. Further, there was no evidence that the supplier, Charleston Travel Limited, had met the qualifications of single sourcing.

Management of EAHRC informed the Committee that Charleston Travel Agencies is an official EAC Secretariat agent for tickets, and that the contract had been procured competitively and a framework contract signed between EAC Secretariat and Charleston Travel Agencies.

Committee Observation

Violation of procurement procedures denied EAHRC opportunity to have access to quality goods or services at a reasonable price.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAHRC:

i. ***Abides by the established procurement guidelines to enable EAHRC obtain value for money in its procurements;***

ii. ***Procures a travel agent through a competitive process to avoid the single sourcing procurement method;***

iii. ***Immediately hires a Procurement Officer to undertake to the procurement activities of the Commission.***

3.11.2.4 Restricted Access to Original Personnel Records

Regulation 82(3) of EAC Staff Rules and Regulation, 2006 requires a personnel file to have where necessary, a letter of application for the job, letter of appointment, letter of acceptance of appointment, confirmation, personnel decisions on salary assessment/adjustments, promotions, change of incremental date, change in names, recommendation letter, approved annual and home leave, sick and special leave, medical certificates of fitness for service, official oath, declaration of next of kin, appraisal forms and any other official records on a member of staff.

The Audit Commission reported that upon review noted that the files that were submitted contained only copies of some of the information required instead of the original ones. In addition to that, the copy files had incomplete records. Records like the official oath, letters of acceptance and declaration of next of kin were missing for all the files reviewed. This is contrary to Regulation 82(3) of EAC Staff Rules and Regulation, 2006.

Management of EAHRC informed the Committee that additional documentation and information was availed to the Audit Commission and that Management undertook to ensure that the files have all the necessary documents regarding staff.

Committee Observation

Restricted access to original personnel records limited the Audit Commission's review since some required information was missing. Furthermore, the authenticity of copy records that were included in the copy files became questionable since there was no access to the original copies.

Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAHRC maintains employee files complete with the necessary documentation regarding staff.

3.12 LAKE VICTORIA BASIN COMMISSION

3.12.1 Review of Internal audit function

The Audit Commission reported that on reviewing the Internal Audit Work Plan for 2016/2017 and the quarterly progress reports, the Commission observed that the internal

audit function is yet to fulfill its mandate as regards its scope of work contrary to Regulation 3.4.5 of the EAC Internal Audit Manual.

Furthermore, the Commission reported that it was not availed with the audit files containing adequate and detailed documentation (including working papers) for the audit and evidence for findings in the quarterly audit reports.

There was no indication that a review of the control environment of LVBC was carried out and as such the mission of the Internal Audit function "To add value to EAC organs and institutions through a systematic evaluation of risk management and governance process" may not be achieved.

Management of LVBC informed the Committee that quarterly progress reports from the Internal Audit departments are presented in the quarterly Management Committee Meetings alongside with other reports from Projects/Programs and departments. The focus being the status of implementation of recommendations from both Audit Commission and the Audit and Risk Committee. Progress of implementation of the quarterly operational plans and approval by the executives of the following quarterly operational plans is also reviewed during the meeting.
Furthermore, Management informed the Committee that having earlier noticed some challenges in the Internal Audit Department, it convened a meeting between the executives and the Internal Audit staff to address and give guidance on the identified challenges and thereafter provide guidance. Some of the issues addressed included work load allocation and regular (real time) monthly reporting of internal audit findings to the Executive Secretary. Management pledged to continue to follow up on the action plan.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC:

i. ***Effects a documented approach to Internal Audit assignments;***
ii. ***Internal Audit of LVBC maintains effective controls by evaluating their effectiveness, efficiency and promote continuous improvement.***

3.12.2 Weaknesses in Budget Management

a) Budget performance:

The Audit Commission's review of budget performance as at 30th June 2017 showed that though the LVBC had budgeted to spend USD 9,497,529, it was able to spend only USD 4,298,277 which was 45% of the budget. This was in violation of Regulation 30 of EAC Financial Rules and Regulation.

Management of LVBC informed the Committee it has established a Planning, Monitoring and Evaluation Team (PMET) whose role among others is to perform an in-

depth and comprehensive review of the annual operational plans and budget estimates proposals as well as review of the approved activities and the budget on quarterly basis and report to Management. LVBC regularly convenes management meetings on a quarterly basis to review the physical and financial achievements of the project. A mid-term review of the budget execution is also carried out to form a basis for the following year plans and Budget estimates.

Committee Observations

Budget lines for which funds were allocated were not used as required hence the associated objectives were partially attained

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC:

i. ***Ensures that funds budgeted for are used in line with budgeted plan activities to avoid budget underutilization;***
ii. ***Makes necessary follow up during budget execution and review processes to ensure that the budget is appropriately executed.***

3.12.3 Weaknesses in recovery of advances

The Audit Commission reported that there was an increase of 612% in the salary, housing and imprest advances from USD 16,077.05 reported in the previous year to USD 114,434.02 reported during the current year i.e. an aggregated increase of USD 98,356.97. The Audit Commission further noted violation of Regulation 54 (4) of the Staff Rules & Regulations (2006) relating to payment of salary advances and Regulation 40 (3) of the Financial Rules & Regulations (2012) relating to imprest.

Management of LVBC informed the Committee that it has endeavored to recover the outstanding staff imprest. However, before closure of the FY, funds had been advanced for the activities which were scheduled to take place in the first week of July and these funds have been subsequently retired. Additionally, Management undertook to continually enforce and enhance the controls regarding imprest management.

Committee Observations

There were weaknesses in the control and enforcement of management procedures in regards to advances.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC enforces due control in the management of staff salary and benefits' payments

3.12.4 Review of Board of Survey report:

The Audit Commission reported that the Board of Survey Report for the year ended 30th June 2017 noted that vehicle CD 1EAC1 which had been in use for more than seven years had become a liability to the Commission because its maintenance costs were USD 10,000 during the year under audit. The Audit Commission had further recommended for the RV Jumuiya disposal of non-serviceable spare parts, scheduling and conducting periodic and regular audit of RV Jumuiya operations among others, The Audit Commission noted that these recommendations had not been implemented.

Management of LVBC informed the Committee that it would assess and proceed to implement the recommendations in the Board of Survey Report where feasible and practical

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC implements recommendations made by the Board of Survey.

3.1.2.5Understaffing of the Procurement Unit

The Audit Commission's review of the procurement activities noted that the Procurement Officer had delegated her duties to the ICT Officer during the time of her maternity leave and the ICT officer had procured some of the Commission's items such as InspiroPeople Software License from Advance One that was procured at USD 11,368.

In addition, Section 3.3.1 (2) of the Procurement Policies and Procedures Manual (PPPM) of 2011 details that the head of the Procurement Unit has overall functional responsibility for all procurements carried out by the Commission. In this role the Head of the Procurement as an individual has a number of key responsibilities which shall not normally be delegated or designated to members of the Procurement Unit such as the Secretary to the Procurement Committee.

Committee Observations

i. Inadequate staffing in the Commission's procurement department
ii. With the current staffing level in the Procurement Unit, duties cannot be adequately segregated as required by the Financial Policies and Procedures Manual.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC:

i. *Liaises with EAC-HQ to ensure that the Procurement Unit is established based on the current Commission work load; and*
ii. *Assigns or allocates appropriate staff to the Procurement Unit to mitigate potential risk.*

3.12.6 Failure to complete Kisumu LVBC-Headquarters' Office development.

The Audit Commission reported that since the completion of the fencing in 2012, the development of the HQ Office has been at hold. In July 2016 the Council of Ministers passed a resolution requiring the Commission to open a separate bank account to set aside funds for HQ development. The Commission opened a reserve account of which as at the time of the audit the balance in the reserve account was $ 46,314 while the estimated construction cost was USD 3,500,000. Audit further noted that the Commission has a draft management plan pending for submission to Council of Ministers for approval.

Management of LVBC informed the Committee that there have been various efforts towards HQ office development. Such efforts include:

- Development of a concept note on the financing of the construction of LVBC Headquarters (presented at the 15th Sectoral Council of Ministers) for LVB recommendation to the Council to direct Partner States to make equal contributions towards the construction of LVBCHQ;
- Preparation and presentation at the 18th SECOM of a design complete with technical drawings and cost estimates of USD 3.54m for the construction of the LVBC headquarters; and
- Preparation to submit cost estimates during the upcoming 36th EAC Council for consideration.

Committee Observations

Lack of an approved implementation plan may lead to poor planning for the construction of the Headquarters building.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC:

i. *Continues servicing the reserve account and develops a concept/motivation paper for fund solicitation from Development Partners as well as Partner States;*
ii. *Expedites the process including submitting cost estimates to Council of Ministers for approval and decision making.*

3.12.7 Lack of reliable Generator during power rationing

The Audit Commission reported that despite the installation of the standby generator, during power rationing the generator could not be operated because the workload of the Commission is approximately 25KVA while the available generator capacity is 17KVA.

Management of LVBC informed the Committee that it has undertaken measures to initiate a budget proposal for the provision of Power generator in the next year 2018/2019 Budget.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC solicits for a permanent solution to avoid work breakdown during the power rationing.

3.12.8 Weaknesses in ICT Management

Audit revealed the following:

a) Absence of IT Strategic Plan
b) Inadequacies in the IT Policy such as:
    - ICT outsourcing and change management not being addressed in the current policy;
    - Lack of a problem and incident management mechanism;
    - Lack of knowledge management and retention mechanisms in the policy
c) Lack of a training programme for LVBC staff
d) Failure to capture system requirements when acquiring IT systems
e) Anomalies at the Data Center including:
    - The Data Centre is located in a very open place at the LVBC premises;
    - There is no burglar proofing for the Data Centre;
    - The Data Centre is not built with fire-resistant materials;
    - A biometric access is used at the door not supplemented with physical secured locking system;
    - There is no CCTV installed to monitor access to the Data Centre;
    - The UPS in the Data Centre can only run for one hour;
    - There is no power suppression system in the Data Centre, no smoke detectors, no fire extinguishers, and no fire alarms;
    - The Data Centre glasses for the behind windows are not tinted, and those in the front are half tinted;
    - There is no log book for signing in for visitors to the Data Centre, audit could not confirm if the periodic maintenance people visit the Data Centre;
    - The access control servers are not stored in the Data Center, they are kept in the IT office which is open;
    - There are no humidity detectors installed at the Data Centre.

f) Inadequate IT budget

Committee Observations

The weaknesses in ICT management at LVBC could have hampered the smooth running of its operations.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of LVBC reviews the ICT strategy and plans in order to enhance mechanisms to address the aforementioned gaps and anomalies.

3.13 INTER UNIVERSITY COUNCIL OF EAST AFRICA

3.13.1 REVIEW OF FINANCIAL STATEMENTS

3.13.1.1 Budget underperformance

The Audit Commission reported cases of underperformance of the budget above 10% on some budget lines.

Management of IUCEA informed the Committee that the funds which had been expected in October 2016 after IUCEA fulfilled the conditions of effectives of the financing agreement between IUCEA and the donors were received at the end of December 2016, hence so the activities delayed the implementation of activities starting in mid-January 2017.

Committee Observations

The budget lines for which funds were allocated were not used as required hence the associated objectives were partially attained.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA:

i. ***Uses the budgeted funds in line with budget plan activities to avoid budget underutilization;***
ii. ***Makes necessary steps to follow up during budget execution and review processes to ensure that the budget is appropriately executed.***

3.13.2 REVIEW OF RECEIVABLES

3.13.2.1 Long outstanding staff debtors on imprest not recovered USD 3,349

Audit Commission's review of the IUCEA books of accounts revealed that some staff had their imprest outstanding for more than one year in contravention of Regulation 43 (2-5) of IUCEA Financial Rules and Regulations 2014.

Management of IUCEA informed the Committee that majority of the imprest outstanding for more than one year were those under investigation and that it would endeavor to conclude the investigations on outstanding imprest to ensure that they are accounted for in full.

Committee Observations

The long outstanding unaccounted for imprest is an illegal advance to the concerned employees.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA recovers the amount owed by the employees immediately as per the Financial Rules and Regulations in place.

3.13.2.2 Long outstanding subscription fees from IUCEA member Universities and corporate members

The Audit Commission reported that member universities and corporate members owed to IUCEA a total of USD 473,692 as at 30th June 2017 with a big portion of the arrears pending for about two years.

Management of IUCEA informed the Committee that it had adopted several strategies to ensure that members meet their obligations after the issuing of debit notes to members during FY 2016/2017. Thereafter reminder letters were sent to members with outstanding balances and that during the IUCEA Governance Meetings, the status of membership fee is tabled as one of the reports and each of the Board Members representing universities in their country is given a list of members not in good standing for their follow up,

Furthermore, Management informed this Committee that with effect from last AGM meeting held in June 2016, support by IUCEA to its members to participate in IUCEA activities is only extended to members who have fully paid their current FY subscription as per invitation letter, support for staff exchange (mobility) are also carried out in universities which are in good standing for membership fee payments for the last three years. Eligibility for a member institution to be elected on IUCEA Board or its Board Committee is only applicable to members who are fully paid up.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of IUCEA to double its efforts in pushing members to pay their due contributions and take required measures for those failing to pay.

3.13.2.3 VAT not fully recovered

Review of other accounts receivables by the Audit Commission showed that the balance of VAT receivable was USD 119,024 in the current audit period, a drop by 47 % from last year's closing balance of USD 226,109.

Management of IUCEA informed the Committee that it has put in place vigorous ways and means of recovering VAT, and that is why there was a reduction in the amount of receivables from the previous year to the audit year.

Furthermore, Management revealed that the issue of VAT rejection is a common occurrence that they had no control over being a result of the companies not filing in time and is normally encountered whenever Management files for refund earlier than the Companies do.

Committee Observations

The longer the VAT stays unrecovered, the more likely it will be unrecoverable in the long run.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the process of recovery of the VAT refunds.

3.13.3 REVIEW OF PAYABLES

3.13.3.1 Delay in Payment of Creditors

The Audit Commission review of the creditors' aging list as at 30th June 2017 revealed that IUCEA at times did not comply with Section 4.4.2.(b.i) of the Financial Policies and Procedures Manual 2014. As at 30th June 2017 a total of USD 291,549, accounting for 46% of the total outstanding amounts related to creditors was beyond 90 days. In addition, included in current liabilities are long outstanding creditors totaling USD 76,158 which have been outstanding for a period of more than one year.

Management of IUCEA informed the Committee that it is in the interest of the IUCEA to settle its creditors as expected. However during the audit year, IUCEA Secretariat faced serious cash flow constraints due to delay by Partner States to remit their contributions on time and consequently were not able to meet her obligations as and when they fell due.

Committee Observations

Persistence to delay settlement of creditors may affect the reputation of IUCEA and lead to litigation against it. The presence of long outstanding payables also casts doubts as to the genuineness of IUCEA liabilities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA:

i. ***Endeavors to pay creditors on time;***
ii. ***Analyzes the genuineness of all long outstanding creditors and take necessary action.***

3.13.3.2 Unsupported long outstanding payable

The Audit Commission reported that included in the books of accounts of IUCEA for the year ended 30th June 2017 was an amount of USD 68,972 under another account payable namely "Association for Eastern and Southern African Universities (AESAU)". This amount was not supported by any verifiable supporting document and was just brought forward as payable balance.

Management of IUCEA informed the Committee that the AESAU had ceased its operations and USD 68,972 was left to its accounts as membership fee. Since then IUCEA has treated it as payable in its books of accounts.

Committee Observations

The authenticity of the unsupported long outstanding payable in the IUCEA books of accounts could be doubtful.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to investigate this case and take necessary action on the mentioned payable.

3.13.4 REVIEW OF INCOME

3.13.4.1 Unsupported Rent Income

The Audit Commission reported that contrary to Paragraph 3.3.2(n) of the IUCEA Financial Policies and Procedures 2014, included in 'other income' was USD 34,492, for house rent income of USD 1,800 collected during a period of 12 months in the Financial Year 2016/2017. The necessary documentation on the source of the income such as tenancy agreement and copies of receipts were not provided for audit scrutiny which would include tenant/ land lord agreement and receipt copies for the revenue.

Management of IUCEA explained that the income from the rent was brought into IUCEA books of accounts through annual booking at the beginning of the year. Receipts recognizing deductions from payroll of each month were provided since the house was being occupied by a staff member. Management further informed the Committee that it had noted the comments and was in the process of resolving the issue of regularizing the documentation

Committee Observations

Without detailed disclosure of the origin and basis of the income, it was difficult to establish whether IUCEA was getting fair value from this source of revenue.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA:

i. Regularizes ownership of the property;
ii. Recovers the money owed to IUCEA from the staff member.

3.13.5 REVIEW OF ASSETS

3.13.5.1 Gaps noted in the management of fixed deposit investment

The Audit Commission reported that IUCEA Management had investments in the following fixed deposits:

- USD 4,000,000 (arrears) in DFCU and Baroda Bank located in Uganda;
- USD 85,300 (IUCEA Fund) equivalent to UGX 300,000,000 invested in KCB;
- USD 1,429 held with bank of NBC-Dar salaam, in Tanzania.

A review of these investments revealed the following gaps:

i. **Lack of a clear policy on the management of utilization and investment of arrears fund**
   Audit Commission noted that there was no clear policy dedicated on the management of utilization and investment of arrears fund. The guidance in the Policies and Procedure Manual 2014 being used by IUCEA is generic and does not capture pertinent issues or give clear guidance on how to manage these arrears funds.

ii. **Dormant investment reported by IUCEA**
   IUCEA reported in its financial statements, an investment "Fixed Deposit" amounting to USD 1,429 held with NBC- DSM. However, the Audit Commission noted that this fixed deposit was dormant. Furthermore, there was no certificate for this Fixed Deposit and no proof of bank reconciliation made for that account

Management of IUCEA informed the Committee that it acknowledged the Audit Commission's recommendations and pledged to ensure that a policy proposal is developed on management of arrears as well as embark on addressing the issues raised.

Committee Observations

i. Without clear policy on the management, utilization and investment of the arrears funds, the funds may not be used for the intended objectives.
ii. The existence and completeness of the investment "fixed deposit" with NBC-DSM amounting to USD 1,429 which has been dormant for three years is doubtful and IUCEA is not getting any interest for the fund reported as fixed deposit.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA:

i. Sets clear and precise policies on the management, utilization and investment of the arrears fund;
ii. Is directed to take necessary action to activate the dormant account and ensure control over the fixed account such as getting investment certificate.

3.13.6 REVIEW OF PROCUREMENT

3.13.6.1 Absence of a Register of Personal Interests

Contrary to IUCEA Financial Policies and Procedures Manual 2014 1.13.5(a) to (c), the Audit Commission reported that the IUCEA does not have a Register of Personal Interests.

Management of IUCEA acknowledged the absence of a signed register of personal interests and promised to ensure its implementation with immediate effect.

Committee Observations

In absence of such a document, there is no assurance whether the Institution is transacting with suppliers having interests within IUCEA Management or staff. The absence of such a document denies the Institution due trust and transparency in ensuring that value for money is obtained in the selection of suppliers.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA complies with the Rules and Regulations governing the Institution by creating a Register of personal Interests.

3.13.6.2 Delayed consultancy services for development, testing, and commissioning of a web based Victoria Research Initiative (VicRes) Management System (VRIMS)

The Audit Commission reported that on 13th December 2014, an agreement was signed between IUCEA and University of Dar-es-Salaam Computing Center (UCC) for consultancy services for the development, testing, and commissioning of a web based Victoria Research (VicRes) Initiative Management System (VRIMS). The agreed amount for all works contracted for was USD 33,087 and the execution period was to end 31 January 2015. At its beginning, the project was supported by the Government of Sweden through the Swedish International Development Cooperation Agency (SIDCA) which ended on 31st December 2014. Hardware equipment worth USD 57,336 were supplied and handed over to IUCEA, the total value of the project becoming USD 90,423.

The Audit Commission reviewed the implementation of the said agreement between IUCEA and UCC and noted the following gaps:

a) UCC did not comply with the contract and delayed to deliver the agreed consultancy service when the execution period expired by 31 January 2015. Hence the contract delayed for 1,005 days.
b) The signed agreement did not provide for the rate of penalties that would be charged to UCC for delay.

Management of IUCEA informed the Committee that the VicRes Research Management Information System had since been completed and what was remaining was a few adjustments to the interface as discussed with UCC in August 2017. The system is accessible on the IUCEA website (http://vrmis.iucea.org) and is visible to researchers within and outside the region to read abstracts for research projects that came from the VicRes project. UCC uploaded the completed version of the system to the IUCEA servers on 2nd November, 2017.

Committee Observations

i. The delay in the execution of the project affected its end objectives and IUCEA did not obtain value for money due to project execution delays;
ii. Failure to specify penalty rates chargeable to the contracting party is an indicator of poor contract management.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that that Management of IUCEA:

i. Contacts the consultant for the completion of the delayed project;
ii. Endeavors to improve contract management.

3.13.6.3 Weaknesses in the contract management for contract of supply, installation, Testing and commissioning of ICT equipment for IUCEA HQ building

The Audit Commission reviewed the implementation of the 3-week contract worth USD 80,269.05 for supply, installation, testing and commissioning of ICT equipment for IUCEA HQ building and noted the following weaknesses:

a) Failure to obtain a performance guarantee;
b) Undefined execution period after limitations in complying with the initial contract execution period. The Audit Commission was not provided with evidence on the new end of the execution period for the said contract;
c) Delayed completion of the contract.

Management of IUCEA informed the Committee that the contract for supply, installation and testing of ICT equipment had since been completed and all the equipment has been tested and rolled out to the production environment and are being effectively utilized by IUCEA. Management further stated that the completion certificate for the project would be issued to the vendor before the end of November 2017.

Committee Observations

i. Failure to obtain a performance guarantee from the provider could cause IUCEA to incur a financial loss in case the provider fails to comply with the contract terms and conditions;
ii. Failure to precisely state the execution period does not allow for monitoring of the contract's implementation, and for penalties to be applied where there have been delays;
iii. The delayed execution of the contract is an indicator that the end objectives was not reached on time.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA:

i. Endeavors to improve contract management by recruiting a Senior Legal Officer who will be responsible for contract management;
ii. Complies with the provisions in the contract;

3.13.6.4Irregularities in the disposal of IUCEA motor vehicle

The Audit Commission review of the disposal process of IUCEA motor vehicle Toyota Land Cruiser Registration No. CD 124 01U revealed that the bid was only allowed to

IUCEA staff and not to the general public which is against the principle of effective competition. The vehicle was eventually sold to an IUCEA staff.

Committee Observations

Failure to comply with principles of effective competition by only allowing bids from IUCEA staff could have denied IUCEA to gain more proceeds from the asset that was being disposed of.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Institute disciplinary measures against the Head of Procurement and the Executive Director of IUCEA for superintending over a dubious disposal of IUCEA vehicle;***
ii. ***Ensure that Management of IUCEA strictly complies with the principle of effective competition by allowing the general public to participate in assets disposal.***

3.13.7REVIEW OF INTERNAL CONTROL SYSTEM AND CORPORATE GOVERNANCE

3.13.7.1 Weaknesses in conducting the end year assets inventory counts

The Audit Commission reviewed the assets inventory counts conducted at the end of the FY as availed by IUCEA Management and reported the following gaps contrary to Regulation 87 of IUCEA Financial Rules and Regulations 2014:

i. There were no names indicating which members of staff (different from staff in charge of day to day management of assets) that had conducted the assets inventory counts. Audit Commission was therefore unable to confirm whether the assets inventory count was adequately conducted.
ii. As a requirement of the Regulation 87 (5), the assets inventory count conducted at the year-end should be submitted to the Executive Secretary. There was however no evidence that the report was submitted to the Executive Secretary.

Management of IUCEA informed the Committee that at the beginning FY 2017/18, they had obliged with the regulations through the Board of Survey to carry out an end of year assets inventory count.

Committee Observations

Without assurance that the assets inventory count was adequately conducted and reported to the Executive Secretary, it cast doubt on the adequate control of IUCEA assets.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. *Reprimand the Principal Accounts Officer for failure to comply with the IUCEA Staff Rules and Regulations by not performing the end of year assets inventory count;*
ii. *Ensure that IUCEA Management conducts an assets inventory count as required by Regulation 87 of IUCEA Financial Rules and Regulations 2014.*

3.13.7.2 Lack of a regular cash count

The Audit Commission reported that there were no cash counts by the Internal Audit and that no report on cash count was performed by the Internal Auditor and no weekly reconciliation of the pre-numbered receipts to cash collections was done by the Assistant Accountant. This is contrary to the IUCEA Financial Policies and Procedures Manual 2014.

Management of IUCEA informed the Committee that the Internal Audit Unit witnesses the end of year cash count which impacts on the financial statements figures of IUCEA. Management further informed the Committee that weekly reconciliation of the pre-numbered receipts to cash collections would in future be done by the Assistant Accountant. IUCEA hardly has any cash at its disposal.

Committee Observations

This is a risk area since Management of IUCEA is not complying with the required regulations.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management strictly abides by the rules and regulations governing the Institution by ensuring regular petty cash controls are regularly performed and weekly reconciliation done to the pre-numbered receipts by the Assistant Accountant.

3.13.7.3 Absence of a clear and precise policy for the management of the gratuity scheme

The Audit Commission reported that included in the financial statements of IUCEA for the year ended 30th June 2017 is an accumulated gratuity amounting to USD 433,733. The Management of the gratuity scheme was entrusted to ICEA Life Assurance Company Ltd (ICEA Life) with which IUCEA signed a contract.

Regulation 101 of the IUCEA Staff Rules and Regulation 2014 used as guidance for the management of gratuity does not give clear guidance on how to manage gratuity contribution accumulated by IUCEA on monthly basis.

Management of IUCEA informed the Committee that IUCEA has a new policy in place within the Staff Rules and Regulations. It further informed the Committee that IUCEA

has initiated a new policy to address the management of gratuity scheme for the staff and is in the process of developing the guidelines to operationalize it. Management pledged to review the regulations and to put in place guidelines as recommended by the Audit Commission.

Committee Observations

Absence of a clear and precise policy guiding the management of the gratuity scheme may prevent both employer and employees from getting the maximum benefits that could come from the gratuity fund.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that IUCEA Management ensures that there is a clear and precise policy dedicated to the management of the gratuity scheme.

3.13.7.4 Absence of open competitive bidding

A contract on the management of gratuity scheme was signed between IUCEA and ICEA Life on 1st January 2017 for a period of six months ending 30th June 2017. However the Audit Commission reported that it was not provided with any evidence on the competitive process for selecting ICEA Life as a provider.

Management of IUCEA informed the Committee that the advertisement initially attracted no bidder. Later on, only one bidder turned up, who happened to be ICEA Life.

Committee Observations

Without competitive bidding, IUCEA may have been denied returns on the gratuity fund. The Committee further observed that the authenticity of the bidding process and the response provided by Management was doubtful. The Committee noted that there were a number of companies that would ideally have been interested in the management of gratuity of IUCEA had the process been fairer and more transparent.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that IUCEA Management in future places advertisements throughout the East African region in order to attract a greater number of interested bidders.

3.13.7.5 Annual interest on gratuity fund not claimed and accounted for

The Audit Commission reported that IUCEA did not request from ICEA the proof of declared annual interest rate to be applied in the calculation of annual interest for the year ended 30 June 2017. Consequently no follow up was made in order to find out the amount of interest to be received on the gratuity fund.

Management of IUCEA informed the Committee that IUCEA on an annual basis writes to ICEA to confirm the status of funds and interest generated on the gratuity scheme, and in return, ICEA provides a certificate regarding the annual interest earned from the scheme.

Committee Observations

Failure to claim and account for annual interest on the gratuity fund could deny IUCEA revenue gains from the fund.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA claims for annual interest on gratuity.

3.13.7.6 Delay to renew the existing contract or recruit a new independent party to manage the gratuity fund

The existing signed contract between IUCEA and ICEA Life for the management of gratuity scheme expired on 30th June 2017. The Audit commission noted that the contract with ICEA Life was not subsequently renewed yet ICEA Life continues to manage the gratuity scheme.

However, Management of IUCEA informed the Committee that it had already recruited an independent party to manage the gratuity fund.

Committee Observations

Delay to renew the existing contract or recruit a new independent party to manage the gratuity scheme was a weakness in management of gratuity because the funds in the hands of ICEA were not governed by any agreement.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA immediately validates the contract for management of the gratuity scheme.

3.13.7.7 Positions not filled despite recruitment approval

The Audit Commission noted that recruitment during the year ended 30th June 2017 did not take place despite an Executive Committee meeting on 6th October 2015 which approved the recruitment for different positions to fill some of the vacant posts in the IUCEA organizational structure.

Management of IUCEA informed the Committee that it had advertised and conducted interviews for two positions, i.e. Chief Research and Innovation Officer and Senior Legal Officer. The Senior Legal Officer has since been recruited while for the position

of Chief Research and Innovation Officer, one of the candidates petitioned the East African Court of Justice (EACJ) on the process. Management is currently working with German Technical Cooperation (giz) in the area of research and innovations while awaiting the decision of the Court on the matter before it can proceed with the recruitment process.

Management further informed the Committee that it was awaiting for the enhanced contribution from Partner States to be able to fill the rest of the positions.

Committee Observations

The exercise of IUCEA's mandate was affected following failure to recruit personnel for approved positions.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that hat Management of IUCEA prioritizes its human resource needs and fills vacant positions core to its day to day operations.

3.13.7.8 Non Compliance with NSSF Act

The Audit Commission reported that IUCEA Management failed to comply with the NSSF Act by not effecting monthly contributions to NSSF; and neither was a Certificate of Exemption from the Fund availed for verification. In 2012 NSSF Uganda had placed a claim of USD 3,812,422 as arrears in respect of contributions to NSSF by IUCEA on behalf of its employees. Although IUCEA was advised by EAC Secretariat that EAC Organs and Institutions are not subjected to NSSF requirements in their host Partner States, the matter has not been resolved with NSSF Uganda.

Management of IUCEA informed the Committee that IUCEA was in the process of establishing a retirement scheme which is a prerequisite for getting exemption from NSSF payments. Once it is established, Ministry of East African Community in Uganda will assist it to get the exemption from Ministry of Finance, planning and Economic Development of Uganda.

Committee Observations

The claim may adversely affect the operations of IUCEA in case the matter is not settled and the liability falls due.

Committee Recommendations

The Committee recommends to the Assembly that Management of IUCEA involves EAC competent Organs to ensure that the matter is concluded as the resolution would be beneficial to the whole Community.

3.13.7.9 Absence of a documented IT policy on emergency procedures

Review of IT policy by the Audit Commission revealed that contrary to the IUCEA ICT Guidelines of 2014 Section 13.15, the Institution did not have a documented and tested emergency procedures policy in place.

Management of IUCEA informed the Committee that it was working on the Policy and undertook to ensure that the policy is in place at the subsequent Audit exercise.

Committee Observations

In case of emergency, the personnel involved might not be aware of what is expected from them and this could jeopardize IUCEA operations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA expedites the process of designing an IT Policy on emergency procedures.

3.13.7.10 Absence of a disaster recovery plan

The Audit Commission reported that contrary to IUCEA ICT Policy Document of 2 104, section 13.14, IUCEA does not have a disaster recovery plan that could work as backup in case of disaster within the IUCEA data system.

Management of IUCEA informed the Committee that a draft disaster recovery plan was considered by the ICT Steering Committee meeting held on 17th April 2015 and has signed an agreement with the Sun Systems provider to provide offsite backup for the Financial Management System Databases, as a temporary measure to curb any risk of loss of information at the primary site.

Further, the Committee was informed that IUCEA is looking at ways of developing its own offsite DR Site jointly with the EAC Secretariat to share costs in its development. In the meantime, various measures have been taken to secure organizational information such as full backups of data.

Committee Observations

IUCEA may not be able to recover its data in case of a disaster. The Committee further observed that this was a cross-cutting issue with EAC Institutions.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA develops and implements a disaster recovery plan to safeguard its information as soon as possible.

3.13.7.11 Absence of an Offsite Storage Facility

The Audit Commission noted that IUCEA does not have an offsite storage facility except for the Finance Department information contrary to Section 15.14 of the IUCEA ICT Policy on Response Plans to Disaster Recovery.

Management of IUCEA informed the Committee that establishment of the facility was underway and would be ready at the EAC Headquarters by 29th March 2019.

Committee Observations

IUCEA may not be able to recover its data and related information in case of a disaster.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of IUCEA puts in place in place an offsite storage facility for the Council's electronic information.

3.13.8 PHYSICAL VERIFICATION

The Audit Commission reported the following:

i. **Physical verification of the two houses owned by the IUCEA on Plot 83/85 in Kololo.**

The two houses owned by the IUCEA are in good condition. However the Audit Commission revealed that, despite the fact that the case about the two houses is under investigation by court, the said houses are currently occupied by people whom the IUCEA claims not to recognize.

When IUCEA Management met with the Committee, it informed the Committee that IUCEA has since engaged the Ministry of East African Affairs and the Counsel to the Community (CtC) at EAC Secretariat to assist it in resolving this matter.

ii. **Physical verification of the IUCEA newly constructed building**

The Audit Commission reported that the field visit to the IUCEA newly constructed building revealed that despite the short time (six months) the building had been handed over, there appeared at different parts of the building some areas which were damaged and not repaired

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of IUCEA to:

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Management of IUCEA informed the Committee that it was working on the Policy and undertook to ensure that the policy is in place at the subsequent Audit exercise.

Committee Observations

In case of emergency, the personnel involved might not be aware of what is expected from them and this could jeopardize IUCEA operations.

Committee Recommendations

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Committee Observations

IUCEA may not be able to recover its data in case of a disaster. The Committee further observed that this was a cross-cutting issue with EAC Institutions.

Committee Recommendations

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Committee Observations

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The Audit Commission reported that the field visit to the IUCEA newly constructed building revealed that despite the short time (six months) the building had been handed over, there appeared at different parts of the building some areas which were damaged and not repaired

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct Management of IUCEA to:

i. ***Make continuous efforts with CTC and MEACA to ensure that the two houses are fully possessed by IUCEA;***
ii. ***Ensure that repair works for areas of the building which are already damaged is done to avoid further damage.***

3.13.9 REVIEW OF THE AFRICAN CENTERS OF EXCELLENCE PROJECT (ACE II)

The Audit Commission noted the following anomalies:

3.13.9.1 Delay to recruit for an approved position

Review of the project's 2016/2017 approved Procurement Plan revealed that despite the World Bank Report in which it was stated that IUCEA should hire a procurement expert to work with the Procurement Officer handling Project Preparation Agreement (PPA), recruitment of the Procurement Officer together with that of the Monitoring and Evaluation (M&E) Specialist had not taken place by the time of the audit in October, 2017.

Management of IUCEA informed the Committee that it had achieved tremendous progress in the process of the Procurement Assistant and Monitoring and Evaluation (M&E) Officer for ACE II. Further, Management acknowledged that the delay was brought about by the World Bank guidelines on recruitment where it has to issue a certificate of no objection before every next step in the recruitment process and introduction of the STEP system where all procurement planned activities had to be submitted online and approved prior to any procurement of staff, services or goods.

Committee Observations

Recruitments were not being implemented as required and the project procurement was not be done as agreed with the World Bank.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the recruitment of the Procurement Officer in line with the mentioned report so as to fasten the project's procurement processes.

3.14 EAST AFRICAN COMPETITION AUTHORITY

3.14.1 FINANCIAL REPORTING

3.14.1.1 Absence of Records on the Resources and Obligations of EACA

The Audit Commission reported that a review of EACA books revealed that there was no record showing how much had been received from Partner States on behalf of EACA

by the EAC Secretariat and how much was in arrears by the period end. It was also not clear whether the contributions from Development Partners had been received or not.

The EAC Secretariat informed the Committee that in the year under Audit, EACA was being manned by only one person (the Registrar) and it was therefore improper for this one person to run bank accounts for the institution since it would contravene the Financial Rules and Regulations. EACA was funded from the EAC General Reserve Fund and the Development Partners did not release their contributions amounting to USD 746,201.

EAC Secretariat further informed the Committee that Council had since approved the appointment of a Deputy Registrar and that EACA would now be able to manage its resources and to keep books of accounts.

Committee Observations

EACA did not a bank account and key staff to carry out administrative functions. Only the Registrar had been recruited during the time of the Audit. It was therefore improper for EACA to run a bank account with a single person as signatory. All the EACA transactions were managed at the EAC Secretariat.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to fully operationalize the EACA by appointing key staff to manage the Authority such that it can independently and efficiently carry out its mandate;

3.14.1.2 Untimely submission of Financial Statements

The financial statements for EACA for the period ended 30th June 2017 were submitted to the Audit Commission on 30th October 2017 contrary to the requirements of Financial Rules and Regulations.

Management of EACA informed the Committee that the Secretariat had assigned a temporary Accountant to EACA as recruitment is completed.

Committee Observations

Untimely submission of financial statements timely hindered the Audit Commission's duty to accomplish the audit timely and provide sufficient time for proper planning of the audit.

Committee Recommendation

The Committee recommends to the assembly to urge the Council of Ministers to ensure that Management of EAC is compelled to submit financial statements in time as provided for in the EAC Financial Rules and Regulations.

3.14.1.3 Improper Revenue Recognition

The Audit Commission noted that contributions from Partner States amounting to USD 841,365 had not been recognized as revenue during the period under review despite the fact that the same had been approved in the budget. The only revenue that had been included in the books is the transfer from the General Reserve. This was contrary to Paragraph 44 of the IPSAS 23.

Management of EACA however informed the Committee that the adjusted Financial Statements had already been processed and copies sent to the Audit Commission for recommendations.

Committee Observations

Non-recognition of revenue had caused an understatement of EACA revenue for the period. This also denied EACA right to receive Partner States contribution when they meet their obligations in subsequent financial periods.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Is directed to account for the revenue as per approved budget;***
ii. ***The EAC Secretariat should account for how much has been funded by Development Partners to supplement the budget.***

3.14.1.4 Improper Cut-offs

A review of EACA records by the Audit Commission noted that cut-off was not observed as some transactions relating to the preceding year had been recorded in the current accounting period contrary to Section 1.12.4 of the EAC Financial Procedures Manual, 2013.

Management of EACA informed the Committee that for items marked under EACA Draft Rules and Procedures, the activities had taken place before 30th June. The dates stated were the transaction dates when matching the imprest; and the same applied to the air tickets for the same activity.

Committee Observations

Non-adherence to cut-off may cause significant misstatement of the financial statements which in turn make users take decisions basing on wrong information.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC is advised to record each transaction in the

respective accounting period so as to comply with the organization policies and accounting guidelines.

3.14.1.5 Inadequate Disclosures on Related Party Transactions

The Audit Commission reported that a review of respective disclosure in the financial statements found them to be inadequate since it does not contain all disclosures that are required by IPSAS 20.

Management of EACA informed the Committee that it had taken up the audit recommendation and had the disclosures prepared as per IPSAS Regulations.

Committee Observations

Inadequacy in the related party disclosures may mislead users of the financial statements and misguide them in decision making.

Committee Recommendations

The Committee recommends to the Assembly to urge Council of Ministers to ensure that Management of EAC revises the related party disclosures in the financial statements so that they comply with the requirements of respective IPSAS.

3.14.1.6 Discrepancies in Summary of Significant Accounting Policies

The Audit Commission reported that a review of EACA financial statements revealed irregularities in the notes contrary to IPSAS 1 requirements. These irregularities are illustrated as follows:

i. On the basis of preparation, there was a statement citing the use of IFRSs and IASs where there is no IPSAS to apply on certain areas. This is contrary to the IPSAS since IFRSs and IASs are only for the Government Business Enterprises;
ii. Under Property, Plant and Equipment, the Authority had not illustrated whether it had adopted the cost model or revaluation model as per requirement of Paragraph 42 of IPSAS 17.

Management of EACA informed the Committee that the additional notes had been made to the financial statements.

Committee Observations

Discrepancies in the notes may confuse users from understanding the financial statements and hence affecting decision making.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EACA rectifies the matter by making proper disclosures so that the notes are aligned to the standards and other guidelines.

3.14.2 REVIEW OF PROCURMENT

3.14.2.1 Irregular Award of Contract to Sheny Jacksi Furniture

The Audit Commission's review of the evaluation process that led to the award of the contract revealed that Sheny Jacksi Furniture Ltd was awarded a contract to supply a LaserJet Pro 500 color printer at a cost of USD 1,602 despite the fact that it could only print 30 pages per minute while the minimum requirement was 40 pages per minute. This was in contravention of Section 8.1.2 (8) of the EAC Procurement Policies and Procedures Manual, 2016.

Management of EACA acknowledged the Audit finding and noted that Management was rushing to beat the timelines since the FY was coming to an end. However Management pledged to ensure that in the future, the evaluation committees will be advised to take note of such details as specified in order to ensure compliance to technical specifications.

Committee Observations

There was violation of procurement regulations in the award of this contract which denied EACA acquisition of a printer having specified qualities as the provider did not pass the technical qualification that was set for the printer.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Investigate this procurement and report to the Assembly;***
ii. ***Ensure that Management of EAC is compelled to act diligently and in the best interests of the Authority by strictly following the procurement guidelines.***

3.14.2.2 Irregular Revision of Award by Evaluation Committee

Audit Commission reported that a review of the tender for the supply of office furniture revealed that the Evaluation Committee had revised the furniture options within the catalogue offered by Mbasha Holding Limited after financial evaluation, effectively increasing the quotation inclusive of VAT from USD 18,575.796 to USD 21,675.83. This was contrary to Section 8.1.4 of the EAC Procurement Policies and Procedures Manual, 2016.

Management of EACA informed the Committee that it acknowledged the Audit observation and informed the Committee that the decision was based on the quality of the goods. Management pledged to ensure that in future, quality specifications of are stated prior to the procurement process.

Committee Observations

The procedure leading to the review of the award had no legal basis, was irregular, fraudulent and could point to insider dealings on behalf of the Procurement Committee. The Committee also observed various irregular procurements associated with Mbasha Holding Ltd.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Ensure that Management of EAC recovers the extra USD 3,100 irregularly added to the contract amount that was finally awarded;***
ii. ***Direct for the blacklisting of Mbasha Holding Ltd because of its association with a number of illegal procurements at the EAC.***

3.14.2.3 Unjustified Direct Procurement

A review by the Audit Commission of the 23rd Meeting of Ordinary Procurement Committee held on 24th April 2017 revealed that while discussing the request to contract the awarded supplier by the name of Sheny Jacksi Furniture Ltd, an additional contract to supply 20-24 inch TFT screen, mouse and keyboards at a price of USD 3,915 was awarded without any justification contrary to Section 11.6(4) of the EAC Procurement Policies and Procedures Manual, 2016.

It was further noted that the LPO amount was in excess by USD 704.70 compared to the amount at which the tender was awarded. The alterations led to variation of USD 4,619.70 equaling to 29.2% of the original contract price (USD 15,807.87)

Committee Observations

The procedure used in the award of the contract was illegal. Furthermore, changing the contract specifications midway to increase the contract award points to fraud. The Committee noted that this equates to misuse of funds and fraudulent dealings by EAC Management.

Committee Recommendations

The committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC:

i. ***Ensures that prior to the beginning of procurement processes, they should develop clear specifications of the items they require in order to promote the efficient use of resources;***
ii. ***Strictly adheres to the EAC Financial Rules and Regulations governing procurement.***

3.15 EAST AFRICAN SCIENCE AND TECHNOLOGY COMMISSION

3.15.1 REVIEW OF THE BUDGET

3.15.1.1 Weakness noted in the EASTECO financing structure

The Audit Commission's review of the budget for the financial year 2016/2017 revealed that the Commission's core activities were allocated with only 16%. For the budget of 2017/18 which is the first year of the 2017/18-2021/22 Strategic Plan, the same financing structure has been upheld where core activities were allocated only 17%.

Management of EASTECO informed the Committee of the following:

a) The skewed Financing/Budget Structure on programmatic activities originates from the operationalization of the Commission in FY2014/15 whereby programmatic activities had zero budget. The implementation Plan of the Strategic Plan has tried to correct that by providing for a progressive increase in budgeting for programmatic activities, professional staff and partnerships contributions.
b) The Strategic Plan also gives details for funding EASTECO programs with contributions from Partner States' STI Institutions. Furthermore, activities related to partnership mobilization were planned for in the FY2017/18 Annual Operation Plan and budget, and EASTECO would embark on identifying possible donors to partner with in achieving the EASTECO Strategic Plan. The same was approved by the Governing Board during its 2nd Meeting held in September 2017 in Arusha. However the challenge remains the practice of zero budget increase which has adversely affected the new institutions.

Committee Observations

The Commission may not be sustainable given the current financing structure as Partner States may not get value for money from the big percentage of recurrent expenditure. In addition, the current structure may not allow the implementation of 2017/18-2021/22 Strategic Plan.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO reconsiders its budget preparation processes so as to allocate more finances to its core activities as to achieve its mandate.

3.15.2 GOVERNANCE ISSUES

3.15.2.1 Review of the EASTECO Protocol vis – à – vis the board composition

Article 8.1 of the Protocol for the Establishment of EASTECO provides that the Governing Board shall be composed of 7 members from each Partner State, which would make a total of 44 members when Republic South Sudan is fully integrated.

Further, the Protocol in its Article 9 states that the Governing Board will meet at least twice a year and that extraordinary meetings may be convened by the Secretary General or on requests of a half of the board members.

The Audit Commission's review of the expenditure in relation to the first EASTECO board meeting held in Uganda Entebbe from 18 to 22nd June 2017 reported that the EASTECO was required to spend for only air ticketing expenses of an amount of USD 31,654 for only one meeting excluding accommodation, meals and local transport expenses. This, the Audit Commission notes, is a big number of board members for such a newly established Commission.

Management of EASTECO informed the Committee that Partner States provided their comments to the draft revised Protocol and that plans are underway to reduce the membership. The Commission undertook to liaise with the Council to expeditiously conclude the revision of the Protocol which shall incorporate review of composition of the Board as recommended by the Auditor.

Committee Observations

As a newly established commission struggling with finance constraints, EASTECO is most likely to face financing shortages due to the huge costs in respect of Governing Board meetings with such a big number of board members.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to review the EASTECO Protocol to reduce the composition of the Board to a feasible number. The Committee proposes assigning at most 2 Members from each Partner State.

3.15.2.2 Failure to include Key Performance Indicators (KPIs) in the EASTECO 5 year Strategic Plan (2017/18 – 2021/22)

The Audit Commission's review of the approved EASTECO 5-year Strategic Plan revealed that whereas the approved Strategic Plan identified 9 critical success factors (CSFs) that are key to EASTECO's achievement of its mandate, there were no accompanying Key Performance Indicators (KPIs) that would indicate that critical success factors are being achieved.

Committee Observations

Absence of specific KPIs makes EASTECO's monitoring and evaluation of its programs difficult since achievements in its mandate can neither be identified nor quantified.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO reviews its Strategic Plan to include Key Performance Indicators linked to the Critical Success Factors so as to effectively and efficiently monitor the achievement of its objectives.

3.15.2.3 Absence of the internal audit function within EASTECO

The Audit Commission reported that the recruitment of a key staff under Governance Arrangement like Internal Audit had remained pending since the establishment of the Commission despite the function having been provided for in the organization structure of the Commission. This is contrary to Regulation 113 of EAC Financial Rules and Regulations (2012)

Committee Observations

EASTECO is lacking checks and balances from the internal audit unit and was thus prone to errors and inefficiencies in its operations.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EASTECO is availed more funding so as to carry out key staff recruitments.

3.15.3 REVIEW OF REVENUE

3.15.3.1 Delayed disbursement of funds to EASTECO from Partner States and Secretariat.

The Audit Commission's review of contributions from Partner States revealed that only 80% of budgeted contributions from Partner States had actually been received as at 30th June 2017 contrary to Regulation 23 (5) of the EAC Financial Rules and Regulations.

The Audit Commission further noted that most of the remittances by Partner States were made towards the end of the FY rendering EASTECO unable to implement its planned activities on time.

In addition, only 81% of the contribution to finance the Commission's activities from the General Reserve Fund was actually remitted by the EAC Secretariat in May 2017 just towards the end of the FY.

Management of EASTECO however informed the Committee that efforts were being made in liaison with EAC Secretariat for Partner States to liquidate the outstanding receivables as per Council of Ministers directive -EAC/CM35/Directive 48.

Committee Observations

Delayed remittance of contributions by Partner States and by the EAC Secretariat limited EASTECO from the full and timely implementation of its activities and programs.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO liaises with the EAC Secretariat to recover the outstanding balance and recommend the concern to the Council of Ministers to take appropriate measures to speed up the remittance of contribution from Partner States.

3.15.4 REVIEW OF EXPENDITURE

3.15.4.1 Irregular benefits to EASTECO staff

The Audit Commission reported that within the period running from July 2016 to January 2017, a total amount of USD 3,320 in monthly payments was extended to staff members of EASTECO as "communication facilitation fees" contrary to Regulation 10 of EAC Financial Rules and Regulations Point (1) and without approval of the Council as per the guidelines.

Management of EASTECO informed the Committee that the issue of communication fees was a Management decision based on the approved 2016/2017 budget to provide staff with communication fees so that they could be able to carry out operations of the Commission as the process of getting a service provider for provision of telephone services was going on. Management further informed the Committee that it had since recovered these funds from the staff.

Committee Observations

The anomaly portrays mismanagement of the Commission's funds which could lead to wastage or loss of funds meant for planned activities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO:

i. ***Endeavors to have the amounts irregularly paid refunded;***
ii. ***In future, any expenditure not included in the approved budget should be avoided and where unavoidable, EASTECO must seek for authorization from the Council and EALA.***

3.15.5 REVIEW OF THE ACCOUNTS RECEIVABLE

3.15.5.1 Weaknesses noted in the review of the current account balance

The Audit Commission reported that as at 30th June 2017, EASTECO financial statements reported a negative balance amounting to USD 45,707 under its receivables for the current account with the EAC Secretariat. However, this balance was not supported by any documents to identify which individual items were not yet cleared as at 30th June 2017.

In addition, the Audit Commission noted that at the end of the FY 2015/16, the account showed a balance of USD 403,683 due to EASTECO by EAC Secretariat. However this amount was not remitted to EASTECO in the FY 2016/17 but at the end of the FY 2016/17 EASTECO financials showed that it owed USD 45,707 to the EAC Secretariat.

Furthermore, during the FY 2016/2017 there was a transfer of USD 426,250 to the Reserve Fund as unutilized funds for the FY 2014/15 for which the Audit Commission was not provided any documents to ascertain how this amount was arrived at.

Management of EASTECO informed the Committee that all the documents relating to transactions that occurred during the year under Audit contributing to a total receivable balance of USD 105,310 had been availed to auditors for verification. However, other documents for the transactions which had occurred in the previous years that were forming part of the receivables balance are available at the EASTECO Headquarters for audit for verification.

Committee Observations

i. The EASTECO books of accounts may not have presented fairly its financial status;
ii. Failure to provide supporting documents limited the Audit Commission from identifying which individual items had remained uncleared at the year-end 2016/17;
iii. Untimely settlements between EASTECO and EAC Secretariat makes it difficult for the Commission to operate effectively;
iv. Without any schedule of how the unutilized amount of transfer to the Reserve Fund for the FY 2014/15 was arrived at, financial statements may be materially misstated.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO:

i. Reports balances supported by valid documents for reference;
ii. Liaises with EAC Secretariat so as to reconcile and settle off inter-entity transactions so that the balance of the current account is zero at the end of

each year by ensuring that debit and credit notes are immediately issued for each transaction between the parties.

3.15.6 REVIEW OF ACCOUNTS PAYABLE

3.15.6.1 Unsupported payable to DELOITTE reported by EASTECO

The Audit Commission's review of accounts payable revealed EASTECO reported a payables balance of USD 15,315 as payable to Deloitte Consulting Limited for which there was no signed contract between EASTECO and Deloitte but between the EAC Secretariat and the consultant for provision of recruitment services. This payable had been outstanding in EASTECO books of accounts for more than three years (from 2014/15).

Further, Audit reported that the amount in respect of the same payable was recorded in the EAC Secretariat books of accounts initially at USD 12,954.98 which was reduced to USD 6,477.49 after negotiation with Deloitte and reported in its financial statements as an accrued expense (payable). However EASTECO was not notified on the result of the negotiation so as to reduce the liability amount nor to write off the balance standing in its own books. The Audit Commission disclosed that this liability had not been settled even at the time of its audit in November 2017.

The Audit Commission also reported that there was a VAT receivable from Tanzania Revenue Authority (TRA) amounting to USD 10,241 as a result of payments made to Deloitte which was also outstanding from the FY 2014/15.

Committee Observations

i. The recognition of a payable by EASTECO with no supporting documents, misstates the financials;
ii. The fact that the above payable was recorded in both the books of accounts for EASTECO and EAC Secretariat showed double recording and the risk of double payment once EASTECO and EAC pay;
iii. Failure to recover the VAT receivable from TRA denied the Commission funds that would have been used in its activities.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO:

i. Liaises with the EAC Secretariat to have this liability settled;
ii. Liaises with the Council to recover the VAT from TRA.

3.15.7 REVIEW OF PROCUREMENT AND CONTRACT MANAGEMENT

The Audit Commission revealed the following:

a) Irregular procurement of air ticketing services.

The Audit Commission reported that a review of the payments for air tickets revealed that during the year under Audit, EASTECO was procuring air ticketing services from International Travel Agency (ITA) even after it had been disqualified at the administrative compliance stage and with whom there was no contract.

Management of EASTECO informed the Committee that the tender process for provision of air ticketing services which started in November 2015 resulted in recommending award of contract to the best evaluated service provider in May 2016. However since the recommended contract award was only for the FY2015/16 period ending 30th June 2016, it didn't make sense to sign contract that would have been in existence for only one month.

Management further informed the Committee that moving forward; the Commission had endeavored to request for approvals in time while considering constituting its own Procurement Committee to speed up procurement processes. The Commission had finalized the procurement of supply of air ticket services together with other, goods and services; and the best bidders had already been recommended for contract awards in the FY 2017/2018.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EASTECO:

i. ***Puts in place a mechanism to evaluate the contracts of its travel agents with regard to cost effectiveness;***
ii. ***Strictly complies with Procurement Rules and Regulations.***

3.15.8 REVIEW OF INTERNAL CONTROLS

3.15.8.1 Under-staffing at EASTECO

The Audit Commission reported that very little effort had been made to recruit Commission staff with the Commission having only 7 full-time staff against its organization chart's provision of 26.

Management of EASTECO informed the Committee that the Commission was in the process of filling the positions as per staff establishment and budget availability.

Committee Observations

Insufficiency in human resources at EASTECO makes segregation of duties a problem with some staff performing tasks for which they have no educational background or incompatible functions.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the Institutional Review Exercise so as to fill the vacant positions at EASTECO.

3.15.8.2 Weakness in review of documents in respect of payments

The Audit Commission reported that on 21st September 2016, EASTECO paid spouse allowance amounting to USD 350 against the USD 150 stipulated in Regulation 41 of the EAC Staff Rules and Regulations (Schedule 4) to the Senior Personal Secretary. This amount was later noticed in November 2016 that the staff was overpaid and the amount was recovered on 2nd November 2016.

Management of EASTECO acknowledged the anomaly and informed the Committee that it had been corrected.

Committee Recommendations

The Committee recommends to the Assembly to urge Council of Ministers to ensure that Management of EASTECO establishes a strong internal control system by recruiting an Internal Auditor.

3.15.8.3 Failure to maintain a comprehensive fixed assets register

The Audit Commission's review of fixed assets maintained by EASTECO revealed the following weaknesses:

i. The fixed assets register maintained by EASTECO does not provide all necessary information on assets such as the supplier details, asset useful life or rates of depreciation, accumulated at the beginning of the year, depreciation for the period, accumulated depreciation at the end of the year and asset' s condition.

ii. The register provided during the audit was not extracted from Sun Systems accounting software, thus impairing reliability and completeness of the information presented in either financial statements and fixed assets register.

Committee Observations

Internal control weaknesses were as a result of the absence of an Internal Auditor and other personnel at EASTECO.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. Fast tracks the process to recruit substantive staff to undertake the Commission's management roles;

ii. ***Ensures that Management of EASTECO maintains a fixed asset register containing all necessary information as required by the Regulations;***

iii. ***Ensures that the fixed assets register is interfaced with the Sun system accounting software.***

PART III: GENERAL OBSERVATIONS AND RECOMMENDATIONS

1. Irregularities and Non-adherence to Procurement Rules and Guidelines.

The Committee observed that a number of Organs and Institutions of the EAC had not complied with the EAC Financial Rules and Regulations, leading to a number of irregular procurements. The Committee noted that in some cases, there was no due processes followed to place adverts, carry out evaluations or even sign Service Level Agreements (SLAs). The Committee further came across consultancies that had been paid for outside their contract durations as well as supplied goods that did not meet user department criteria.

This deprived user departments from deriving value for money out of these procurements and denial of fair competition from would be suppliers. The irregular procurements could be a signal for resource misuse at the EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Cause investigation into all irregular procurements and take appropriate deterrent disciplinary actions against the non-compliant Officers involved;***
ii. ***Cause the recovery of all funds irregularly spent in the irregular procurements;***
iii. ***Ensure that procurement processes within the EAC are carried out in accordance with EAC procurement policies and regulations.***
iv. ***Cause for blacklisting of Mbasha Holding Ltd and Avtech Systems because of their participation in a number of illegal procurements at the EAC;***
v. ***Implement the recommendations of the Assembly's 2015/16 Report on procurement.***

2. Delay Finalization of the Institutional Review Exercise

The Committee noted that it is over ten (10) years since the EAC embarked on an Institutional review Process. A lot of the programs of the EAC are dependent on its recommendations and yet there is no indication on when the Council will conclude with the exercise. The Committee observed that this had resulted into delays in the implementation of a number of key programs expected of the EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge Council to fast-track the conclusion of the Institutional Review Exercise to be completed no later than March 2019.

3. Delay in Granting Due Autonomy To The East African Legislative Assembly (EALA)

The Committee noted that whereas:

- The 33rd Meeting of the Council of Ministers granted EALA full Administrative and Financial Autonomy to run its affairs;
- Article 16 of the EAC Treaty cites EALA as an independent Organ mandated with the oversight and approval of the Community budget;
- Section 4.0 of the EAC Governance Charter entails that the Governance Charter shall be based on the Organization Structure which actually placed EALA at the top of the EAC;

However, the Committee observed that:

i. EALA was still implementing sub-accounting status, having never been granted fully fledged financial and administrative autonomy;
ii. By lacking full administrative and financial autonomy, EALA fails to undertake its mandated duties with full authority;
iii. Powers that have been vested in EALA as per the Governance Charter are undermined by the existing arrangement yet EALA has a duty to oversee the undertakings of the EAC Secretariat.

Committee Recommendations

The Committee recommends to the Assembly to:

i. Urge the EALA Commission undertake a robust engagement with Council of Ministers on the issue and draw a roadmap of when the financial and administrative autonomy should be attained;

ii. Urge Council to complete the formulation of the scope of the autonomy within the Institutional Review Exercise, and implement it.

4. Irregular Employment for Short Term Contracts Staff.

The Committee noted that whereas "short term contracts" in the EAC were used to fill manpower gaps arising from the continued increase in the number of Institutions and the delay in conclusion of the Institutional Review Exercise, Audit revealed weaknesses in the management of short term contracts including:

- Lack of approvals on hiring of short term contract staff from the Council as required by the Regulations;
- Lack of guidelines on the engagement of the short term staff such as competitive recruitment processes and unclear determination of emoluments and benefits for short term staff;
- Continued engagement of same staff on short term contracts for up to ten years in some cases despite the maximum three months Regulation.

The Committee observed that this is a recurrent audit finding that had not been addressed by the Council of Ministers as the Institutional Review Exercise meant to solve this and other associated human resource challenges has dragged on for so long.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to:

i. ***Direct the Management of EAC to phase out short term contracts and draw a road map to fill the positions that were previously held by short term contract holders with substantive staff;***
ii. ***Expedite the completion of the Institutional Review Exercise such that the short term staff are phased out of the EAC structures.***

5. Delayed, Static and Non-Disbursement of Partner States' and Development Partners' Contributions to Various Organs, Projects and Programs of the EAC.

The Committee observed that some Partner States only remitted a portion of their budgetary contributions for some EAC projects while others did not entirely send their contributions as at end of the FY 2016/17.

The Committee observed that this had narrowed the resource envelope resulting in the EAC Organs and Institutions being unable to fully and smoothly implement planned objectives in the FY to achieve their different mandates. As a result, a number of planned projects had either been partially implemented, delayed or not implemented at all.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***There is enhancement of follow up on the outstanding contributions through timely and continuous reminders; and issuance of demand and receipt notes to the respective Partner States of what is outstanding to the EAC;***
ii. ***Explore other avenues for resource mobilization by soliciting other donors to join the funding EAC programs;***
iii. ***Enhance EAC donor relations and resource mobilization;***
iv. ***Council explores possibility of enforcing penalties on the Partner States defaulting on remittances of contributions to the EAC.***

6. Delay in the conclusion of the 'Alternative Financing Mechanism'

The Committee noted the static and sometimes reducing contributions from Partner States and Development Partners towards the EAC Budget, Management of EAC developed and presented to the Sectoral Council of Finance and Economic Affairs, a proposal for Sustainable/Alternative Financing Options for the EAC Projects and Programs. The proposal is being considered by the EAC Partner States Ministers

responsible for Finance. However the Committee observed that the conclusion of this process had delayed and there were no proposals approved to that effect.

The Committee further observed that as a result, there were still zero-increment in the total budget of the EAC over the years yet the Institution has continued to expand its mandate through the creation of new Organs and Institutions. The Committee noted that this was crippling the exercise of the EAC mandate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the conclusion and consequent approval of the Alternative Financing Mechanism;

7. Low Absorption of Funds

The Committee observed that the Organs and Institutions of the EAC had unspent funds at the end of the Budget Year. The Committee noted that this led to planned activities not being implemented and consequently low service delivery. Furthermore, the Committee observed that this reduces the confidence of Development Partners over time resulting in non-renewed agreements to finance EAC development initiatives.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that:

i. ***Management of EAC to adopts a well-coordinated budget formulation mechanisms that will ensure that budgeted resources are utilized in the implementation of planned activities;***
ii. ***Concludes the Institutional Review Exercise in order to recruit sufficient staff and absorb more funds;***
iii. ***Engages Partner States and Development Partners to ensure timely remittances of funds to the EAC.***

8. Weaknesses in Accounts management

The Committee observed general weaknesses in the management of accounts at the Organs and Institutions of EAC. The Committee specifically highlighted the following:

- Unregulated payment of advances to staff;
- Variances between interface file and the General ledger;
- Irregular payment of unutilized leave days;
- Lack of contract control mechanisms;
- Non-adherence to the Cut-off Principle;
- Payments made where no goods or services were supplied;
- Inadequate controls over Assets Management;
- Internal control weaknesses in Accounts Payable Systems;

- Inadequacy of Accounts Policy on Payables such as inconsistencies, overstatements and unsupported payable balances;
- Variances between invoices and the General Ledger;
- Long outstanding liabilities;
- Misstatement of salary payables;
- Misstatement of expenses;
- Irregular provision of benefits to temporary staff;
- Inadequate gratuity management mechanisms;
- Paid payables reported as still outstanding at end of year;
- Unsupported and abnormal payable balances;
- Non-compliance to financial Rules and Regulations;
- Unsupported transactions;
- Unretired imprest
- Unsupported current account balances

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Initiate a policy to regularize insurance benefits currently paid to short term staff;***
ii. ***Keeps proper records for all transactions that are maintained by EAC at all times;***
ii. ***Investigates the outlined variances in the books of accounts and where applicable makes adjustments;***
iii. ***Ensures that proper records of EAC activities are maintained;***
iv. ***Ensures that all transactions are supported;***
v. ***Uses debit notes and credit notes to support the current account transactions instead of e-mails because the emails can easily be manipulated;***
vi. ***Through the Director Finance (DF), crosschecks on a monthly basis with the responsible Accounts Assistants on the outstanding liabilities, noting the action lacking and guiding what is to be done within specific timelines;***
vii. ***Ensures that the budget process is duly coordinated to avoid under-budgeting activities of projects;***
viii. ***Liaises with the EAC Secretariat to ensure that the indebtedness that arose due to inter-entity transactions are reconciled and settled immediately;***
ix. ***Maintains a properly prepared Assets Register where all assets are clearly identified and recorded;***
x. ***Endeavours to carry out prior adequate planning of assets acquisition and utilization in order to minimize idle assets and enhance efficient utilization of the Community resources.***

9. Untimely submission of Financial Statements

The Committee observed that a number of EAC Organs, Institutions and Agencies did not timely submit their financial statements to the Audit Commission as per the EAC

Financial Rules and regulations. This hindered the Audit Commission's plans to accomplish a timely Audit.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that in Management of EAC and its Organs and Institutions:

i. ***Adhere to Rule 116 of the EAC Financial Rules and Regulations and make timely submission of financial statements to the Audit Commission;***
ii. ***Limits travel of staff during the Audit exercise.***

10. Non-Implementation of the Previous Assembly and Audit Recommendations

The Committee observed a low implementation of recommendations made by the Assembly and the Audit Commission across the EAC Organs, Institutions and Agencies. This is in spite of the Assembly's recommendation that the Secretary General should produce a quarterly report to the Assembly on the status of the implementation. As a result, a number of Audit queries have continued to appear in the successive Audit Reports which underlined weaknesses in EAC Management's efforts to adhere to the EAC Financial Rules and Procedures, Policies and resolutions.

Committee Recommendations

The Committee recommends to the Assembly the following:

i. ***Put in place a proper mechanism which will enable the Assembly to receive periodical reports on the status of implementation of its recommendations from the Council of Ministers;***
ii. ***Council should ensure to update the Assembly on the status of implementation of Audit recommendations on a quarterly basis.***

11. Weaknesses at the EAC Data Centre

The Committee observed that whereas the Data Centre is the control centre for the ICT function at EAC housing critical devices and ICT infrastructure for servers, networking devices, UPSs among others, the conditions at the facility were not commensurate with the criticality of its purpose. This was because of the following:

a) The Data Centre equipment has not been insured;
b) The fire suppression system that is installed in the Data Centre is not functional, hence there is no effective fire suppression mechanism;
c) The door is not supplemented with a physical locking system and it is not reinforced with a strong metal, leaving it easily penetrable.
d) The only access control being the biometric access system;
e) Whenever there is a power outage, the door opens freely as the lock is powered by electricity;
f) Lack of data and power back-ups;

g) Recordings from the many meetings that are conducted among EAC Organs, Institutions and Partner States EAC Ministries are not archived, backed up or replicated in the data recovery sites;
h) Video footage from the CCTV surveillance system are not backed up.

The Committee noted that in light of these weaknesses at the Data Centre, grave risk was posed to both the information stored and the equipment and infrastructure housed therein.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that EAC Management enhances the Data Centre to acceptable industry standards and also finds alternative ways of mitigating the above risks.

12. Weak Internal Audit Function at the Community

The Committee observed weak audit mechanisms within EAC and its Organs and Institutions characterized by understaffing within the Audit Units. The Committee noted that some Organs and Institutions were without fully a fledged Internal Audit function and continued to rely on support from the EAC Secretariat Internal Audit which was also not fully fledged.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to strengthen the EAC Internal Audit function by ensuring that it acquires the necessary personnel.

13. Lack of A Coordinated Approach to Management of EAC Projects and Programmes

The Committee observed that there was no mechanism in place to address coordination, learning, sustainability and resource sharing between the various projects and programmes that were implemented by the EAC and its Organs and Institutions. As a result, there was duplication of activities, failure to share lessons; and resource wastage.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to:

i. ***Institute a coordinating mechanism for all projects and programmes of the EAC by establishing a Project Management Unit to coordinate and monitor EAC projects and programmes;***
ii. ***Draw sustainability plans for all projects and align them with the EAC objectives and mission to enhance effectiveness and delivery of the initiatives during and after project/programme closure;***

14. Unrecovered VAT Receivables

The Committee noted a number of cases of VAT unclaimed balances from Partner States' Revenue Collection Bodies. The Committee observed that non-recovery of the funds from the Revenue Collection Bodies had led to accumulation of huge VAT balances and reduction in the already scarce resources available for the EAC and its Organs and Institutions to implement planned activities. The Committee was concerned that the EAC Secretariat alone had unrecovered VAT balances amounting to USD 1,877,168.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to engage the Sectoral Committee on Finance to ensure that the VAT receivables are remitted timely to the EAC Institutions.

15. Understaffing at the EAC

The Committee observed that most of the EAC Organs and Institutions are grossly understaffed which has led to non-segregation of duties and violation of Staff Rules and Regulations. The Committee further noted that is partly due to the delay in the conclusion of the Institutional Review Exercise that has taken more than seven years.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to:

i. ***Ensure that the Institutional Review Exercise is quickly concluded and its recommendations adopted to allow for the recruitment of vacant positions within EAC departments; and***
ii. ***Cause for a review in the emoluments structure at the EAC to harmonize it with the changing costs of living and minimise conflict of interest.***

16. Big Governing Councils

The Committee noted that the membership of the Governing Councils of EAC Commissions are big resulting into huge expenditures on allowances, leaving limited resources for core activities. The Committee observed that this trend was unsustainable given the limited resources available to these Institutions to carry out their mandate.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to review the Protocol Governing the Councils by amending it to provide for a sizeable number of representatives from the respective Partner States. The Committee recommends 2 members from each Partner State.

ACKNOWLEDGMENTS

The Committee wishes to thank the Rt. Hon. Speaker, the Clerk, the Audit Commission; and the Management of the various Organs and Institutions for the excellent facilitation accorded to it while executing its mandate. Despite the limited time, the Committee finalized the demanding exercise within the financially dictated timeframe. It is however my place as Chairman to state that in future more time is required to dispose of Audit items.

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