



**EAST AFRICAN COMMUNITY
EAST AFRICAN LEGISLATIVE ASSEMBLY**

**Report for On-spot Assessment of the Internal Audit Systems of
The EAC Institutions (LVFO, IUCEA and CASSOA)**

by

The Committee on Accounts

9th – 14th February 2014: Jinja, Kampala, Entebbe in UGANDA

**Clerk's Chambers
3rd Floor, EALA Wing
EAC Headquarters
Arusha, TANZANIA**

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1.0 INTRODUCTION

The East African Legislative Assembly is the Legislative Organ of the East African Community responsible for, among other things, carrying out oversight function on all matters pertaining to the Community. Article 49 (2) (c) of the Treaty Establishing the EAC empowers the Committee on Accounts to discharge oversight functions on behalf of the Assembly on all financial matters of the Community. In accordance with the Rules of Procedure of the Assembly, particularly Annex 5A, the Committee on Accounts is particularly mandated to:-

- i) Carry out a post audit review and scrutiny of the expenditure incurred by the EAC Secretariat, the Organs and Institutions of the Community the sums appropriated in an annual budget approved by the EALA upon presentation by the Chairperson of the Council of Ministers of the EAC.
- ii) Carry out post audit review and scrutiny of the expenditure on the basis of an annual audit report of the Audit Commission, pursuant to provisions of Article 49(2) (c) and 134 of the Treaty for the Establishment of the EAC. This function is post budget and implementation of the budget by organs and institutions of the EAC.
- iii) Carry out post audit function that encompasses the need to monitor the implementation of the budget in a manner similar to internal audit, pursuant to Rule 72(1) of the Rules of Procedure of the Assembly.
- iv) Present a report with recommendations to the House for debate and adoption after the post audit review and scrutiny.

Madam Speaker,

Article 134(3) requires the Audit Commission to submit its reports to the Council which shall cause the same to be laid before the Assembly within six months of receipt for debate, adoption and such other action as the Assembly may deem necessary.

Over the last couple of years the Accounts Committee has expressed its disappointment on weak internal controls and poor resource management. The Committee took note and wished to strengthen the internal audit function which was seen as a major entity impacting negatively on the internal controls.

During the review and consideration of EAC Audited financial statements for the year ended 30th June 2012, a number of queries were reported especially in the institutions of the EAC namely; the LVFO, the CASSOA and the IUCEA. The issues arose largely from lack of the Internal Audit Unit or inefficiency where it exists. It is against this background that the Committee on Accounts decided to carry out an oversight assessment of the internal audit functions of the aforesaid EAC Institutions.

The assessment mainly looked into the following:-

- (i) Role of Internal Audit Units;
- (ii) Reports of the Internal Audit Units;
- (iii) Reporting and structure of the Internal Audit Units;
- (iv) Systems control;
- (v) Annual Audit plans;

- (vi) Challenges faced by the internal Audit Units; and
- (vii) Any other related internal audit matters.

1.1 Objectives of the Assessment

- i) To assess whether the Internal Auditors of the above institutions discharge their professional duties;
- ii) To establish if the said EAC Institutions are using modern auditing techniques and new applied technologies to assist them in carrying out their duties;
- iii) To understand any related challenges facing the Internal Audit systems of the EAC institutions;
- iv) To strengthen the Internal Audit Units of the EAC Institutions through appropriate internal audit policies and procedures in accordance with international standards; and
- v) To recommend on the improvement of the EAC Institutions Management.

2.0 METHODOLOGY

As a method of assessing the Internal Audit Systems in the EAC Institutions, the Committee undertook the following:-

- (i) Observed the work place set up and environment;
- (ii) Interacted and discussed with Management of institutions of the Community;
- (iii) Reviewed the reports made by the internal auditors;
- (iv) Received presentations from the internal audit units on their role and challenges faced while executing their duties; and
- (v) Held plenary discussions.

This report is divided into three (3) Parts:

3.0 PART ONE: LAKE VICTORIA FISHERIES ORGANISATION (LVFO)

3.1 Meeting with LVFO Management

The Committee met the Deputy Executive Secretary, the Visiting Internal Auditor, the Principal Administrative Officer and Other Staff.

The Committee briefed the Deputy Executive Secretary (DES) on the purpose of the activity as a review and assessment of the internal audit systems of LVFO. While doing so, the Committee sought to understand manuals and other issues regarding the internal audit systems.

The DES gave an overview of the functions of the LVFO, financial status and the functions of the internal audit. She informed Members that LVFO is a regional inter-governmental organization formed by the Convention signed in 1994 by the three founding members of the East African Community (the Republic of Kenya, the United Republic of Tanzania and the Republic of Uganda). The main objective of LVFO among others, is to ensure proper management and optimum utilization of fisheries and other living resources of the lake. In addition, she informed Members that the institution is faced with serious financial challenges due to delayed remittance of contributions from the three founding members, resulting in under budgeting of key activities as well as delay in program implementation.

3.2 Structure of the Internal Audit Unit

The LVFO does not have an internal audit unit, but it depends on “external auditors” on a quarterly basis. At the time of assessment, the institution had borrowed an Internal Auditor from the EAC Secretariat to audit financial statements, procedures and advise Management on improvement in preparation for external audit. The Committee was informed that the Council directed recruitment of an Internal Auditor but never provided funding for the same.

3.3 Committee Findings and Recommendations

1. The Committee noted that the Republic of Burundi and the Republic of Rwanda are yet to become members of LVFO yet Rwanda and Burundi are members of the Community.

The Committee recommends that instruments of amendment of the LVFO Convention be expedited to include the two other EAC Partner States, and expedite Council directive to fast track the process.

2. The Committee also noted that LVFO does not have an Internal Audit Unit and therefore lacks resident internal auditors to carry out day-to-day internal audit activities. Because of this, LVFO relies on short-term contracted auditors to advise the institution. The structure and budget of the Internal Audit Unit is not in existence under the current structure.

The Committee recommends that the Council provide funds to LVFO to enable fulfillment of its directive authorizing recruitment of an Internal Auditor. The directive was issued in 2009 and 2013 – Ref: to Council directive (EAC/CM27/Directive 8.4.4; and (EAC/CM28/Directive 10.1.7.6), respectively.

3. LVFO does not make use of the recommended Sun System in its accounting procedures and processes. However, the Committee noted that the EAC Secretary General has committed to procure the Sun System and support LVFO to get the Sun System operational. The Committee was further informed that the Secretary General had provided funds to enhance capacity of LVFO staff to be able to use the Sun System.

The Committee recommends that the Secretary General expedite the procurement of Sun System to help LVFO upgrade its accounting procedures to the internationally accepted Standards by December 2014.

4. The Committee further noted that there is discrepancy between harmonized terms of services of staff members, procedures, regulations, grades, salaries and daily subsistence allowances, and clear retirement policies and procedures. In addition, LVFO has not approved human resource and procurement manuals. Moreover, the ones in use are not harmonized with those of the EAC Secretariat.

The Committee recommends that LVFO harmonizes procedures, regulations, terms of services of staff members, grades, daily subsistence allowances, and introduce

comprehensive retirement policy and procedures. All should be mainstreamed and harmonized with those of other EAC Organs and Institutions.

5. The Committee noted that like other EAC Organs and Institutions, LVFO rely heavily on funding from development partners that is not sufficient and sustainable. Moreover, contributions from the three Partner States are not remitted on time.

Committee recommends that Partner States increase funding to LVFO and honor their commitments on time.

6. The Committee noted that the Governance Council of LVFO does not convene regular meetings and takes very long time to meet. Of late, the Council has taken three and half years without holding a Council meeting.

The Committee recommends that LVFO governance board institutionalizes periodical meetings in order to provide strategic and policy guidance regularly.

7. The Committee noted that LVFO has been under funded ever since it became an institution of the Community but the management ensured the Committee members that funding proposals have been developed and are being presented to potential donors for future funding.

The Committee commends LVFO management for the ongoing initiatives that would boost their financial base for appropriate implementation of its activities.

4.0 PART TWO: THE INTER-UNIVERSITY COUNCIL OF EAST AFRICA (IUCEA)

4.1 The Structure of the Internal Audit Unit at the IUCEA

The IUCEA has established an Internal Audit office managed by the Principal Internal Auditor and the Internal Audit Officer. The two officers monitor and evaluate management policies, regulations, procedures, and systems to facilitate and advise management on strategies for compliance with best practices for effective utilization of IUCEA resources. They also facilitate the development of risk management policies and systems as well as oversee the implementation of value for money or performance audits for IUCEA.

In discharge of their mandate, the IUCEA Internal Audit Charter requires that the Internal Auditors be accountable functionally to the Executive Committee through the Audit Committee and administratively to the Executive Secretary.

4.2 Meeting with the Management

The Committee met the Deputy Executive Secretary, the Internal Auditors and the accountant.

The Committee briefed the Deputy Executive Secretary (DES) on the purpose of the activity as a review and assessment of the internal audit systems of IUCEA. While doing so, the Committee sought to understand financial manuals and other issues regarding the internal audit systems that are used by IUCEA Internal Auditors.

The Deputy Executive Secretary informed the Committee that IUCEA was revived after the re-establishment of the EAC in 2000. EAC recognized IUCEA as one of the surviving institutions of the former Community. It was agreed to re-establish IUCEA as an institution of the new EAC and a protocol was signed to make IUCEA a legal body corporate of the EAC.

In 2009, the East African Legislative Assembly (EALA) enacted IUCEA Act 2009, thus effectively integrating IUCEA into the EAC operational framework.

The objectives of IUCEA are:-

- (a) To facilitate networking among Universities in East Africa, and with Universities outside the region;
- (b) To provide a forum for discussion on a wide range of academic and other matters relating to higher education in East Africa; and
- (c) Facilitate maintenance of internationally comparable education standards in East Africa so as to promote the region's competitiveness in higher education.

The DES informed the Committee that IUCEA is understaffed in all departments including the Internal Audit Unit department. As a response to the challenge, the governing board has approved the recruitment of a Principal Officer in charge of Finance and Administration. This however, does not provide a lasting solution to the problem of human resources that IUCEA is facing at the moment. He informed the Committee that the institution has developed a human resource manual that demonstrates how IUCEA intends to build its staff capacity and support the existing staff.

The Internal Audit Unit presented to the Committee its reports, the Internal Audit Charter, the Internal Audit Plan and the IUCEA organizational structure and staff establishment.

4.3 COMMITTEE FINDINGS AND RECOMMENDATIONS

1. Reporting Structure

- a) The Committee observed that in the functional analysis report, the reporting of the Internal Audit unit in the Job Responsibility indicated that Internal Audit reports to the ES contrary to the practice requirement of functional reporting to the Audit Committee and administratively to the ES and what is stipulated in the Charter. Arising out of this anomaly, the Committee discovered that the ES had written a six page letter to the Principal Internal Auditor attached as **Annex I**. The Principal Internal Auditor responded to the allegations – see **Annex II**.
- b) The Committee also observed that in the new Organogram of the Internal Audit Unit the level of unit head is at Grade P3 but reporting to the Audit Committee. This does not fulfill the professional practice requirement of standard 1110 of the International Professional Practice Framework (IPPF) of Audit. The Committee further observed that this recommendation to upgrade the Internal Audit function had earlier been approved by Council during its 27th meeting.

The Committee recommends that the reporting structure be streamlined as per practice requirement and the Internal Audit be upgraded as per the recommendations of the Audit and Risk Committee that was approved by the EAC Council of Ministers.

Pertaining to the issues discovered at the IUCEA, the Committee recommends to the Assembly that the Committee be given time and resources to meet the IUCEA Governing Board.

2. Response to Internal Audit Reports

The Committee observed that a number of issues in the Internal Audit reports are not responded to in time or not responded to at all which renders the function ineffective and thus not completing their activities.

The Committee recommends that IUCEA management takes the matter of responding to IA queries and Audit Unit advice more seriously and the IA unit should always appraise the Audit Committee on the issues or reports not responded to.

3. Independence of Internal Audit Unit and its Reports

The Committee observed that the Unit is not as independent as required especially in reporting to the Audit Committee. It observed that Management reviews the Internal Audit reports before submission.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure proper functioning of the Audit and Risk Committee and also ensure that the independence of the Internal Audit Units is guaranteed as provided for in the Charter.

4. Staffing

The Committee observed that the Internal Audit Unit at the IUCEA is understaffed and this renders its performance ineffective. The new structure has not considered changes in staffing on the unit despite the number of recommendation in the reports of the Internal Audit and that of the Council.

The Committee recommends that this matter be taken as a priority in the new Staffing structure.

5. Functional Analysis Report

The Committee observed that there were a number of anomalies unexplained by management in the exercise that may lead to a lot of dissatisfaction within the organization.

The Committee recommends that a forensic audit be carried out as earlier recommended by the Assembly.

6. The IUCEA Governing Board and the Audit and Risk Committee

The Committee noted that the IUCEA submits its reports to the Governing Board and at the same time to the Audit and Risk Committee. The Committee observed that this practice is a duplication of work.

The Committee recommends that since the Audit and Risk Committee is in place, and functional, the Committee of Governing Board at the IUCEA should cease to exist or take up other duties.

7. Missing of supporting Documents (Vouchers)

The Committee got information from the Internal Audit Unit and the Accountant that they recently failed to accomplish their work because of missing vouchers that were used for double payment while the Accountant was on leave. The Auditors could not therefore conclude the internal audit report due to lack of evidence.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to expedite engagement of the External Auditors to carry out the earlier recommended forensic audit.

8. Lack of Teamwork

The Committee observed lack of team work at the IUCEA and because of this, the Internal Audit Unit is not facilitated to look at the financial statements before they are submitted to the Audit Commission.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Institutions to ensure team work in their daily execution of their duties.

9. Segregation of Duties

The Committee observed that IUCEA accountant is a signatory to all accounts of the institution in accordance with the IUCEA financial rules and regulations. The practice jeopardizes checks and balances and safeguarding against fraud and ensuring accountability.

The Committee recommends the amendment of IUCEA Financial Rules and Regulations so that the accountant is not a mandatory signatory to all accounts of the Institution.

10. Absence of Records

The Committee noted lack of record keeping at the IUCEA. The Principal Internal Auditor never found any records when she assumed the office three years ago. The practice impairs the importance of records and threatens the culture of accountability.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC organs and institutions to ensure that records of the Community are kept safe and can be availed at all times.

5.0 PART THREE: THE CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY

5.1 Meeting with CASSOA Management

The Committee met with the technical Director who represented the Executive Director. In attendance was the visiting Internal Auditor from the EAC Secretariat.

The Committee briefed the technical Director on the purpose of the activity as a review and assessment of the internal audit systems of CASSOA. While doing so, the Committee sought to understand manuals and other matters that impact on the internal audit systems of CASSOA.

The technical Director gave an overview of CASSOA history, its objectives and the achievements so far registered. The technical Director also briefed the Committee on the challenges faced by the Agency.

The CASSOA came into existence following the recommendations from the International Civil Aviation Organization (ICAO) to pull the regional resources together to create safe and orderly development of international civil aviation.

The major achievements of CASSOA since its establishment have been the harmonization of regulations and development of guidance materials which have been promulgated in the Partner States. CASSOA has also trained inspectors in Partner States to oversee the aircrafts. Each aircraft has an inspector despite the challenges of new aircrafts whose technological knowledge is limited to supervisors. CASSOA requires more funds for continuous training of inspectors to catch up with the emerging new technology. However, inspectors are shared among the EAC Partner States.

The Technical Director further informed the Committee that an audit of civil aviation was carried out in Rwanda in 2007 and followed by the Republic of Uganda, Kenya and the United Republic of Tanzania in 2008. Burundi was audited in 2013. Shortcomings have been identified and collective action plans have been undertaken.

Since then, the Republic of Kenya and the United Republic of Tanzania went through a second audit and performance has since been declared good.

In addition, the Technical Director informed the Committee that despite success and achievements, there has existed challenges of staffing, funding, Board composition that creates conflict of interest, issuance of the land title and tax exemptions among others.

5.2 Structure of the Internal Audit Unit

CASSOA has an established Internal Audit Unit in its Organogram but has never recruited the officer. CASSOA depends on "External Auditors" who carry out the audit on a quarterly basis. At the time of assessment, the Agency had borrowed an Internal Auditor from the EAC Secretariat.

5.3 COMMITTEE FINDINGS AND RECOMMENDATIONS

1. The Committee observed that in accordance with the Organogram of CASSOA, the Board should report to the EAC Council of Ministers but the Board has never reported to Council. It is only the Executive Director who reports to and attends Council meetings yet there are matters that concern the Executive Director and the ED cannot report against himself.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that CASSOA Board of Directors submits its reports to the Council regularly.

2. The Committee observed that CASSOA board is composed of the Directors of CAAs of EAC Partner States who draw recommendations to be implemented by themselves in the Partner States. The Committee noted that the Directors cannot direct themselves to implement their own recommendations. This has created conflict of interest and may not be viable for CASSOA.

The Committee recommends that the EAC Council of Ministers revise the composition of CASSOA Board of Directors to ensure accountability and implementation of recommendations of the Board in the EAC Partner States.

3. The Committee noted that the Agency has had a problem of understaffing for a very long time. To be effective, the Agency requires a number of technical staff. CASSOA has only two technical staff, who perform administrative roles as well. There is need for a technical person to take care of Aerodromes, Airworthiness and Air navigation.

The problem has been attributed to the salary sealing imposed on CASSOA, yet aviation personnel are highly paid. The Human Resource Officer has since resigned, following her appointment as Principal Human Resource Officer at the EAC Secretariat but the Agency has no intention to recruit. The position of the Internal Auditor has also never been filled.

The Committee recommends to the Assembly to use the EAC Council of Ministers to waive the salary sealing on CASSOA to attract the technical staff. The Agency should also fill the vacancy of the Internal Auditor and recruit for replacement of the Human Resource Officer.

4. The Committee further noted that CASSOA has been under funded for a very long time yet its responsibility and budget have all grown. To make matters worse the CAAs of Partner States who fund CASSOA are constrained and as a result, have put a ceiling.

The Agency technical team proposed an alternative funding of levying 70 cents on every passenger but the Partner States with bigger volumes of passengers have since refused to implement the proposal.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to engage Civil Aviation Authorities in EAC Partner States to waive the budget ceilings and also implement the proposal to levy 70 cents on every passenger.

5. The Committee noted that CASSOA has never been issued with the Land Title. The Committee was informed that the process had started but taking very long. It is risky to erect buildings on the land that the Agency does not own.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that land titles are issued to all Organs and Institutions of the Community at their Head quarters as required by the Head quarters Agreement.

6. The Committee also noted that the Agency has never secured an Exemption Certificate. To this end, the Agency has always paid VAT and claiming it back is always difficult. At the time of the assessment, the Agency had managed to collect only 45 million Uganda shillings.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that exemption certificates are issued to all Organs and Institutions of the Community.

6.0 CONCLUSION

The EAC Institutions' Internal Audit System is compromised because it cannot perform its function as it should, reasons being; Lack of independence, limited staff or no staff at all in the case of LVFO and CASSOA hence compromising International Audit Standards benchmarks. It is however imperative to note that the Committee did not manage to visit other EAC institutions like LVBC because it lacked of enough resources. **To this end, time and funds should be availed to the Committee to carry out the exercise in order to have a comprehensive picture of Internal Audit Units/systems for all EAC Institutions.**

7.0 ACKNOWLEDGMENTS

The Committee on Accounts wishes to thank the Assembly for allowing it to carry out its oversight function. The Committee further appreciates valuable time accorded to it by the Institutions visited.

MEMBERS OF THE COMMITTEE ON ACCOUNTS

On-spot assessment of the Internal Audit Systems of the EAC Institutions (LVFO, IUCEA, CASSOA), 9th – 14th February 2014, Uganda

1. Hon. Straton Ndikuryayo - -----
2. Hon. Abdullah Mwinyi - -----
3. Hon. Adam Omar Kimbisa - -----
4. Hon. Amb. Jeremie Ngendakumana - -----
5. Hon. Bernard Mulengani - -----
6. Hon. Celestin Kabahizi - -----
7. Hon. Chris Opoka-Okumu - -----
8. Hon. Emmanuel Nengo - -----
9. Hon. Mumbi A. Ng'aru - -----
10. Hon. Nderakindo P. Kessy - -----
11. Hon. Pierre-Celestin Rwigema - -----
12. Hon. Saoli Ole Nkanae - -----
13. Hon. Sara T. Bonaya - -----
14. Hon. Susan Nakawuki - -----
15. Hon. Yves Nsabimana - -----