EAST AFRICAN COMMUNITY

IN THE EAST AFRICAN LEGISLATIVE ASSEMBLY (EALA)

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117th Sitting - Third Assembly: Third Meeting – Fourth Session

Tuesday, 1 December 2015

The East African Legislative Assembly met at 2:39 p.m. in the Chamber of Deputies, Parliament of Rwanda, in Kigali.

PRAYER

(The Speaker, Mr. Daniel .F. Kidega, in the Chair.)

(The Assembly was called to order)

COMMUNICATION FROM THE CHAIR

The Speaker: Honourable Members, good afternoon. Today the world is commemorating the World Aids Day, and this Assembly would like to join the rest of the world in commemorating this day. We would also like to reaffirm our commitment to fight this scourge and to eliminate it from our region. We support all the regional and national projects, which are in place to fight this scourge - *(Applause).*

This Assembly, as you may be aware, has passed a law on HIV/Aids. Our appeal to the Council of Ministers and the Partner State governments is that this law be implemented anchored onto the policy, which is in place. I thank you so much - *(Applause).*

PAPERS

The following Papers were laid on the Table: -

(i) (by the Chairperson of the Committee on Accounts (Mr. Jeremie Ngendakumana) (Burundi)

The Report of the Committee on Accounts on the EAC Audited Financial Statements for the financial year ended 30 June 2014.

(ii) (by Mr. Straton Ndikuryayo (Rwanda) on behalf of the Chairperson of the Committee on Communication, Trade and Investment)

The Report of the Committee on Communication, Trade and Investment on the Oversight Workshop on the Financial

Sector Integration in the East African Community.

(iii) (by the Chairperson of the Committee on Agriculture, Tourism and Natural Resources, (Mr. Christophe Bazivamo) (Rwanda)

The Report of the Committee on Agriculture, Tourism and Natural Resources on the Sensitisation Workshop on Standards by the African Organisation of Standards.

MOTION

FOR THE CONSIDERATION AND ADOPTION OF THE REPORT OF THE COMMITTEE ON ACCOUNTS ON THE AUDITED FINANCIAL STATEMENTS OF THE EAC FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2014

The Speaker: Chairperson of the Committee on Accounts, please move the motion. Hon. Member, you are going to move the motion and we get a seconder before you do the presentation.

The Chairperson, Committee on Accounts (Mr Jeremie Ngendakumana) (Burundi): Rt. Hon. Speaker, I beg to move that the report of the Committee on Accounts on the Audited Financial Statements of the EAC for the financial year ended 30 June 2014, be adopted.

(Several Members stood in their places to second the Motion)

The Speaker: Seconded by Hon. Mulengani, Hon. Straton, Hon. Kessy, Hon. Shy-Rose and all the Members standing. Chair, you can proceed and present the report now. *(Interruption)*

Ms Hajabakiga: On a Point of procedure, Rt. Hon. Speaker, we do not have copies of the report. I have at least personally not received a copy. It has not been distributed.

The Speaker: I have just instructed the Office of the Clerk to make sure that copies of the report are circulated to the Members in the shortest time possible. There are two versions: the abridged version, which is the summary that the Chair is going to present, and then the huge document, which will be circulated.

In the interest of time, the Chair can start the process as we wait for copies of the report to be brought in the House. Office of the Clerk, please take note. Hon. Chair, please proceed.

The Chairperson of the Committee on Accounts (Mr Jeremie Ngendakumana) (Burundi): Mr Speaker, Sir, in accordance with the provisions of Article 134 (3) of the Treaty for the establishment of the East African Community (EAC), the Chairperson of the EAC Council of Ministers on 13th October, 2015 in Nairobi, Republic of Kenya laid before the Assembly the following reports of the Audit Commission:

i) The Audited Financial Statements of the EAC organs for the year ended 30th June, 2014;

ii) The Audited Financial Statements of the Lake Victoria Basin Commission (LVBC) for the year that ended 30th June, 2014;

iii) The Audited Financial Statements for the Lake Victoria Fisheries Organization (LVFO) for the year ended 30th June, 2014;

iv) Audited Financial Statements of the Inter University Council for East Africa (IUCEA) for the year ended 30th June, 2014; and

v) The Audited Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the year that ended 30th June 2014.

In accordance with *Rule 77, Rule 79* 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 and recommendations on the main issues raised. This report is sub-divided into seven (7) parts.

Part I:	Introduction
Part II:	Audit Findings on the Financial Statements of the EAC Organs for the Year Ended 30th June, 2014
Part III:	Audit Findings on the Financial Statements of the Lake Victoria Basin Commission (LVBC) for the Year Ended 30th June, 2014
Part IV:	Audit Findings on the Financial Statements of the Lake Victoria Fisheries Organization (LVFO) for the Year Ended 30th June, 2014
Part V:	Audit Findings on the Financial Statements of the Inter – University Council for East Africa (IUCEA) for the Year Ended 30th June, 2014
Part VI:	Audit Findings on the Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the Year Ended 30th June, 2014
Part VII	Acknowledgements

Executive Summary

As has been the case, finalization of the institutional review of the EAC has been delayed and this has had major setbacks regarding the operations of the EAC especially in the areas of the structure and recruitment.

As reported in the Audit report, other issues require attention despite clean reports obtained by all EAC Organs and Institutions. The Accounts of the EAC Organs and Institutions for the financial year ending 30th June 2014 presented a fair view. The Committee identified the following major issues that require attention:

Management of Projects and Programs: - EAC management is not committed to follow up its projects and programs being implemented. To date, EAC management has not been able to establish a Project Management Unit to monitor projects and programs implementation by identifying technical and functional problems for the Community to be able to measure effectiveness of projects and programs performance against intended results.

Non alignment of planned activities and the budget:- There were instances of over budgeting and budgeting for activities which had been completed in the previous years and those that were not operational during the year under review which indicates that, planning and budgeting are not effectively being used as planning and control tools. This, however, could have been monitored but the monitoring and evaluation unit is critically understaffed and not adequately being funded; one staff cannot carry out the monitoring of all activities being implemented by himself.

Non-implementation of EAC Council of Ministers' decisions- A number of Council decisions and directives have not been implemented. Some of the decisions were taken as far as 2001. This implies that the intended objectives will never be achieved.

Delayed assent to EAC Bills: Out of 22 bills, which we passed, only one (the East African Civil Aviation Safety and Security Oversight Agency Bill, 2009) had been assented to by all EAC Heads of State.

Finally, some institutions like the Lake Victoria Fisheries Organisation were underfunded such that they continued using funds meant for gratuity to implement institution activities**.**

Nevertheless, the Accounts presented fairly, in all material respects, the financial positions of EAC Organs and Institutions for the year ended 30th June, 2014; their financial performance; and their cash flows for the period in accordance with International Public Sector Accounting Standards (IPSAS). This was done in compliance with the Treaty for the Establishment of the EAC and Regulation 80-85 of the EAC Financial Rules and Regulations (2006).

Important to note is that is also non-implementation of the Assembly previous recommendations.

PART II

Audit findings on the consolidated financial statements of the EAC organs

1.0 PREVIOUS YEAR AUDIT AND RECOMMENDATIONS NOT FULLY IMPLEMENTED

The Audit Commission reported that most of the previous year audit recommendations in all EAC Organs and Institutions have not been fully implemented. A detailed matrix is appended as ANNEX I.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to coordinate full implementation of all pending recommendations that were adopted by this August House, and to present a report to the Assembly by May 2016.

2.0 Current Year Audit Findings AND RECOMMENDATIONS

2.1 EAC SECRETARIAT

2.1.1 Financial Performance

The Audit Commission reported that during the year under review the Community reported total revenue of USD 58,991,085 comparing to USD 55,180,435 received during the previous year. Total expenditure during the year amounted to USD 57, 627,621 against USD 52,048,850 spent in the year 2012/13 thereby recording a surplus of USD 1, 363,464 compared to USD 3,131,585 achieved in the year 2012/13. The major sources of revenue were contributions from Partner States of USD 35,517,304, which matched with what was budgeted while donors released only USD 22,748,138 against the budget of USD 54,354,149 resulting into an underfunding by USD 31,606,011 i.e. a shortfall by 58% of the budget.

On the expenditure side, the main expenditure lines included salaries, wages and employee benefits, which recorded a total expenditure of USD 20,507,102 against a budget of USD. 24,701,861 while administrative, meetings and consultancy expenses recorded an expenditure of USD 35,663,171 as compared to a budget of USD 51,687,115.

According to management, the underfunding by donors is positively correlated with the under expenditure in the two expenditure lines, this being a result of a number of staff positions not filled during the year under review and some activities not carried out as planned. The low absorption capacity recorded had a direct impact on the disbursements of funds from Development Partners.

Additionally, with respect to capital expenditure, the Community spent only USD 1,793,865 against a budget of USD 13,048,038, an under spending of USD 11,254,173 i.e. 86% of the budget.

Management asserted that the under spending was caused by delays in launching and implementing the Payment Settlement Systems Integration (PSSI) Project which had a budget of USD 10,390,625 which was not spent at all.

Overall, the financial position of the Community remained reasonably healthy, with sufficient liquid assets to meet its maturing liabilities. As at the year-end, the Community had net assets/equity of USD 31,786,181(2012/13 USD 28,683,375), a net assets (equity) ratio of 66% (2012/13 a ratio of 62%) indicating the extent to which the assets of the Community are leveraged by its net assets rather than total liabilities.

As at the year end, the Community had a quick financial ratio of 1.9 (2012/13 a ratio of 1.56) indicating that the Community had sufficient liquidity in terms of cash and investments in financial assets to service its maturing current liabilities while the ratio of cash and investments to total liabilities including post-retirement liabilities falling beyond the reporting date but excluding deferred long term credit for assets was 1.4 (2012/13 a ratio of 1.2).

Financial Ratios Analysis

Details	2013/14 (USD)	2012/13 (USD)
Cash and cash equivalent	15,592,072	18,584,956
Investments in financial assets	4,100,000	2,1000,000
Total cash and investments in financial assets	19,692,072	20,684,956
Total Assets	48,037,238	46,563,628
Current liabilities	10,226,013	13,270,149
Post retirement (employee) benefits falling beyond the reporting date.	3,651,441	3,635,702
Total Liabilities(excluding deferred long-term credit for assets)	13,877,454	16,905,851
Net Assets/equity	31,786,181	28,683,375
Ratio of cash and investments to current liabilities	1.9	1.56
Ratio of cash and investments to Total Liabilities(excluding deferred long-term credit for assets)	1.4	1.22
Net Assets/equity ratio(Net assets/equity over Total assets)	66%	62%
Cash and investments in financial assets to total Assets	41%	44%

The EAC Management explained the low absorption capacity as reported by the Audit Commission in an illustration using the table below:

Code	Project Name	Receipts in USD	Budget in USD	%ge Received	Variance in USD	Explanation of under performance
AD01	EAC BIN Broadband ICT infrastructure network	-	156,500	0%	156,500	Project ended in FY2011/12, and its expected extension was not confirmed.
AD02	EATTF Eat African Trade and Transport Facilitation	32,985	315,050	10%	282,065	Project implementation ended 31/12/2013.
AD05	EAC railway enhancement program	569,391	861,400	66%	292,009	Implementation just started
AD07	Support for Payment Settlement Integration Project	509,600	14,301,08 4	4%	13,791,48 4	Project implementation just started in January 2014.
AG01	Alliance for Green Revolution in Africa	180,075	187,350	96%	7,275	Satisfactory performance
AU01	APSA African Peace Support Architecture	1,874,929	2,956,175	63%	1,081,246	Activities of the project were implemented with some delays due to late remittances
AU03	IBAR Veterinary Governance Project AU3	-	332,630	0%	332,630	The condition of having an AU-IBAR was not met as during the whole financial year the project accountant was sick.

Code	Project Name	Receipts in USD	Budget in USD	%ge Received	Variance in USD	Explanation of under performance
CM01	Climate Change project EAC/COMESA/SADC	499,995	833,826	60%	333,831	Activities of the project were implemented with some delays due to late remittances
CM03	RISP II - Regional Integration Support Project	2,961,740	3,773,410	78%	811,670	Project implementation period ended 31/12/2013.
EU01	Investing in Advocacy for Adolescents' Health	136,450	297,348	46%	160,899	Project implementation period ended 31/3/2014.
EU04	Regional Political Integration Support Project	-	136,700	0%	136,700	Project ended 15/9/2013, and the funds used for the three months extension had been received at the end of June 2013.
EU06	IRCC Interregional Coordination Committee Project	-	1,771,001	0%	1,771,001	Project not operational during the FY2013/14.
EU07	Maritime Security (MASE) Project	506,497	506,497	100%	0	Satisfactory performance
GC01	-Budget Support from Government of China	200,000	183,600	109%	(16,400)	Satisfactory performance
MF01	HIV Project - Mixed Funding from	880,730	841,588	105%	(39,142)	Satisfactory performance

Code	Project Name	Receipts in USD	Budget in USD	%ge Received	Variance in USD	Explanation of under performance
	HIV/AIDS Group					
NA01	Nordic Institute in Africa	-	45,200	0%	45,200	Funds used had been received at the end of June 2013. No remittance was received during FY2013/14
PF01	PAF EAC Partnership Fund Budget Basket	5,714,752	9,528,949	60%	3,814,197	Some Development Partners' Memoranda of understanding with EAC ended and the process of renewing them took longer than expected, and hence funds were not disbursed.
TM01	Capacity Develop Action Plan/TMEA	-	371,908	0%	371,908	Funds used had been received in the previous years. No remittance was received during FY2013/14
UN06	Sexual Reproductive Child and Adolescent Health Pr	311,159	604,872	51%	293,713	Disbursement schedule affected by difference in Financial Years between EAC and UNFPA
US01	Comprehensive Support to EAC Regional Integration	2,493,699	6,852,395	36%	4,358,696	Disbursement schedule affected by difference in Financial Years between EAC and USAID, in terms of signing letters of implementation

Code	Project Name	Receipts in USD	Budget in USD	%ge Received	Variance in USD	Explanation of under performance
WB01	FSDR Financial Sector Development and region	3,275,877	4,515,150	73%	1,239,273	Planned activities implemented but speed affected by heavy procurement process of the World Bank.
WB02	MRH Medicines Regulations Harmonization	2,060,799	2,952,266	70%	891,467	Planned activities implemented but speed affected by heavy procurement process of the World Bank.
WB03	Statistical Capacity Building Project WB	-	110,800	0%	110,800	Project implementation ended in FY2012/13, and expected extension did not materialise.
WB05	Public Financial Management Harmonization	325,476	494,700	66%	169,224	Project implementation just started in March 2014, and further remittances are pegged to utilisation of prior advances from the World Bank.
ZA01	EAC Roads Infrastructure project	213,985	1,423,750	15%	1,209,765	Some feasibility studies paid for directly by AfDB were not yet complete for payments to be effected.
Total		22,748,138	54,354,149	42%	31,606,011	

The main justifications are the following:

The amount released by Development Partners depends on absorption capacity. Most development Partners disburse a small start-up amount for the project, and subsequent remittances can only be released once the first instalment has been spent.

For projects, which started in FY2013/2014, there were delays in recruitment of project staff and hence the effective date of implementation of planned activities.

As an illustration, during the year under review, the Payment Settlement System Integration project (PSSIP) had a budget of USD14Millions. The recruitment of staff was concluded in January 2014. As a result, very few activities were implemented, for USD 208,000 against the USD509, 600 disbursed. There were also challenges caused by changes at the AFDB. These challenges have been addressed and therefore the project improved its performance during the subsequent financial year.

As the project financial agreements sometimes show, the multi-year total budget, it is challenging to allocate accurately the funds to annual work plans. Thus, some projects had their annual work plans and budget overstated/too ambitious with regard to what can be achieved in one financial year, especially when the project is just starting. Scrutiny is being undertaken from FY2015/2016 during budgeting process.

The Committee observed that although there were challenges in disbursements of donor funds, the EAC Management pays less attention in aligning budget to the planned activities. There is also lack of commitment and follow up on the disbursements of donor funds. Most of the time, the requirements by donors are not complied with on time. All this affect implementation of planned projects and programmes activities, financial performance of the EAC and leads to overall failure to achieve strategic objectives.

Committee Recommendations

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

- Use planning and budgeting as control tools to avoid over budgeting and executing unbudgeted for activities;
- Follow up on disbursements of donor funds and comply with their requirements in time and at all times; and
- Strive to implement the planned activities within the agreed time frame and avoid further delays in the implementation of planned activities as in the case of the Payment Settlement Systems Integration (PSSI) Project.

2.1.2. Review of the budget formulation, execution and monitoring process

The Audit Commission reported that budget planning preparation, execution and monitoring is an essential part of an effective financial management system. The budget is a key tool for demonstrating how resources will be allocated to deliver an organisation’s strategic objectives. Budgets should represent an articulation of an organization’s priorities and aspirations and communicate management’s view on the resources required to achieve them, thereby establishing transparency and the basis for financial management and control and for holding management to account for delivery.

The Audit Commission noted the following:

The budget cycle provided in the EAC Budget Act 2008 is different from that which is given in EAC Financial rules and Regulations. While Section 3(1) of the EAC Act states that The Secretary General shall, not later than the 15th day of October in each year, prepare the budget of the Community and submit it to the Council of Ministers for consideration, Regulation 18(3) of the EAC Financial Rules and Regulations 2012 states that the Secretary General shall submit the budget of the Community to the Council for consideration, by 30th April of the financial year.

In addition, according to Regulation 18(1) of the Financial rules and Regulations, the Secretary General submits the draft budget estimates to the partner States by 31st December of the current financial year, to provide for the budget of the Community in the national budgets of the Partner states which may be considered to have done earlier enough to provide room for mid-year review which according to Section 2.3.4 (n) of the manual this is done in January of each year.

In some cases, budget to fund planned activities is not, available as and when required due to lack of a predictable source of funding.

Lack of flexibility of the budget at the budget input level

Regulation 19(1) of the financial rules and regulations states that, "A Reallocation budget proposal shall constitute a request submitted by the Secretary General to the Council for movement or reallocation of financial resources on existing approved activities and inputs of the Community within the financial year".

As such, there are no levels of authority provided for the Secretary General to authorise reallocation of funds within budget lines. The mandate to authorise reallocation is vested only in the Council of Ministers, thus sometimes affecting implementation of activities in the event there are exigencies, which may necessitate reallocation because the Council of Ministers do not meet regularly.

The EAC Management responded that it concurs with the Audit Commission that Institutional Review is overdue but its finalization is at the advanced stage and it is expected to be concluded before the end of the Financial Year 2015/2016

The EAC Management argued that it is aware of the inconsistencies posed by the Budget Act 2008 against the EAC budget cycle. The process of reviewing the budget act is underway and is expect to be concluded before end of Financial Year 2015/2016.

The issue of lack of budget flexibility in the EAC Financial Rules and Regulations has been brought to the attention of the EAC Council of Ministers twice. The request was that Council considers devolving some powers to the Secretary General to do some reallocations within budget lines to a certain extent. The request is still under consideration.

The EAC Budget Cycle commences in August of each Financial Year. The implementation of the current year's budget would be just for one month and this does not give EAC a reasonable time of reviewing the implementations of its projects and programmes being in a position of knowing which ones will have to be carried out in the next financial year. This is mainly because the Partner States require the EAC Estimates Proposals as an input to their planning cycle. EAC Management will therefore table the budget estimates to the Council of Ministers in November. However, as the budget is considered and adopted by Council around February/March, necessary adjustments are made as required.

The Committee observed that delayed finalization of the Institutional Review has stalled growth and implementation of EAC projects and programmes. In addition, the absence of proper and effective budgeting, EAC runs the risk that scarce resources are not allocated effectively and efficiently used. In addition, lack of predictable funding sources may affect the achievement of the Community objectives.

Committee Recommendations

The Committee recommends to the Assembly to Urge the EAC Council of Ministers to -

i) Finalise the long overdue Institutional Review process that has stalled implementation of the projects and programmes of the Community;

ii) Source for a more predictable source of funding to facilitate smooth and timely execution of the EAC planned activities;

iii) Consider delegating some powers to the Secretary General allowing him/her to do some reallocations within budget lines that may not exceed certain limits; and,

iv) Consider reviewing harmonising EAC Financial Rules and Regulations with the EAC Budget Act 2008 and the Community's budget cycle to provide room for changes noted during the mid-year review to be accommodated in the next year budget.

2.1.3 Review of the Planning, Monitoring and Evaluation Functions.

The Audit Commission reported that good financial management requires effective planning, monitoring and risk management of the financial performance and position of an organization, and ensures strong accountability to stakeholders for the use and stewardship of resources. It typically involves strong financial planning integrated with strategic and corporate planning processes; a good understanding of the Organization's cost base; and high quality and timely financial information tailored to the needs of users.

Performance reporting is the mechanism by which an organization monitors progress towards achieving its objectives. Effective programme planning and performance reporting enables an organization to set appropriate goals and put in place effective plans to achieve them. Those processes should also enable an organization to measure outcomes, assess whether it is using its resources effectively, and hold people to account for the effective use of those resources.

Audit Commission reviewed the EAC Annual Operational Plan and the corresponding Progress/Performance Report for the year ended 30^{th} June 2014. The performance report captures the progress made in implementation of planned activities and achievement of targeted annual outputs in line with the EAC Annual Operational Plan and the Medium Expenditure Framework (MTEF).

The review aimed at establishing whether the EAC has a sound framework for programme planning and performance reporting, which is operating effectively and efficiently.

The report indicates that EAC experienced a slow start in implementing the planned activities during the year especially in the first quarter largely due to limited financial resources as the percentages of remittances by Partner States was still very low.

According to the report, the key achievements registered during the year included the following:

a) The Monetary Union Protocol was adopted by Council of Ministers and signed by the Summit in November, 2013;

b) Fifty five NTBS were resolved, Six new NTBs identified and Twenty two(22) NTBs remained unresolved;

c) The following Bills were passed by EALA: The EAC One Stop Border Post Bill, 2012; The EAC Vehicle Load Control Bill, 2012; The EAC Appropriation Bill, 2013; The EAC supplementary appropriation bill 2013; and EAC holidays bill 2013 and the following Bills were Tabled by the Council: The EAC One Stop Border Post Bill, 2012; The EAC Vehicle Load Control Bill, 2012; The EAC Appropriation Bill, 2013; The East African Community Supplementary Appropriation Bill, 2013 ; and The EAC Holidays Bill, 2013;

d) The Refugee Management Policy was developed and considered by the Chiefs of Refugee Management and the EAC Customs Curriculum was finalized and submitted to Partner States to commence accreditation process;

e) The African Development Bank (AfDB) through the NEPAD-IPPF carried out an appraisal mission in January 2014 and undertook to provide funds for feasibility studies and detailed designs for two roads: Nyakanazi – Kasulu – Manyovu & Rumonge – Bujumbura and Lusahunga – Rusumo & Kayonza – Kigali;

f) The Arusha – Holili – Taveta road, contract for construction was signed between the Contractor and the Kenya Government in October, 2013 and the project officially launched in December, 2013 and the MoU on operationalization of the EAC Agreement on Search and Rescue was signed by the Heads of Civil Aviation of all the five Partner States;

g) Final draft of Regional Framework for control of Aflatoxin in agriculture production was finalized; two value chains studies carried out and Draft EAC Industrialization Bill prepared and submitted to Partner States for comments ; and

h) Draft structures and frameworks leading to the harmonization of the EAC curricula have been developed and harmonized. Draft Rules and Regulations to guide the conduct of Examinations in EAC Education institutions have been developed and harmonized among others.

The report identifies various challenges encountered during the year including -

- Insufficient financial and human resources to implement planned activities and programmes especially due to delays in disbursement of funds by the Partner States and Development Partners.

- Lack of full participation (and sometimes frequently changing composition of delegations) by Partner States for some of the EAC meetings. This coupled by sometimes slow response by Partner States on requests for comments and or information stifles the implementation of a number of the regional projects and programmes.

- Monitoring and reporting on the status of implementation of regional activities at country level is still low due to limited capacity at the Secretariat to monitor and follow up of all projects and programs at Partner states level and report accordingly.

A review of the report and discussion with EAC senior management came up, apart from the challenges described above, with the following issues:-

i) A number of activities were not implemented such that some results were not achieved as per the annual operation plan.

ii) In some cases, some of the targets and indicators were not specific, measurable, attainable, relevant and time-bound.

iii) As noted in the challenges above, the Monitoring and Evaluation Unit is critically understaffed with only one staff who cannot carry out the monitoring of activities being implemented through tracking of achievement of the results by himself. The officer is mostly dealing with the monitoring function through the web based Monitoring and Evaluation System. We have noted that the Unit has not devoted much of its efforts towards performing the evaluation function.

iv) Apart from the fact that the M&E Unit is understaffed, it is not adequately being funded to enable it effectively carry out its functions.

v) In some cases although indicators had been formulated, the corresponding budget estimates were not clearly identified against each result.

The EAC Management reported that -

a) The EAC Annual Operational Plan and MTEF is based on broad and directorate priorities, targets and the corresponding activities are costed. The Annual operational plan has provision for expected outcome (Results) for purposes of bridging a connection between activities, outputs and resources

b) On limited staffing of M&E Unit, the challenge still exists. However for the last two years the Secretariat has been relaying on short term technical assistance to support the Unit specifically on monitoring and follow up of Summit & Council Decisions and Directives it is expected that the finalization of institutional Review will address the staffing challenge as well as the reporting relationships;

c) Full operationalisation of the performance contracting process that requires every officer at every level to sign a performance contract based on the annual operational plan has gone a long away in improving the status of implementation of planned activities though constraints like limited staffing, and delays in release of funds still pose challenges to the timely implementation of planned activities;

d) The inclusion of clear targets, indicators and outcomes (results) which are specific, measurable, attainable, relevant and time-bound are well noted and the Secretariat will continue improving on target setting and indicator formulation Delays in Implementation of Council of Ministers Directives.

The Committee observed that Monitoring and Evaluation Unit is critically understaffed with only one staff who cannot himself alone carry out the monitoring of activities being implemented through tracking of achievement of the results. The officer is mostly dealing with the monitoring function through the web based Monitoring and Evaluation System. The Unit has not devoted much of its efforts towards performing the evaluation function.

Committee Recommendations

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

i) Create a relatively independent and effective well-staffed Monitoring and Evaluation Department.

ii) Define all cost estimates for each result to enable the Community determine a clear connection between results and resources needed to carry out each activity;

iii) Ensure that planned activities are implemented within the planned timeframe; and

iv) Ensure that Annual operational plans clearly specify targets, indicators and results and ensure that they are specific, measurable, attainable, relevant and time-bound.

2.1.4 Delay in Implementation of Council of Ministers Decisions and Directives

The Audit Commission reported that its review of M&E implementation status of Council of Ministers directives indicated that some decisions/directives have remained unimplemented by Partner States for so a long time, since 2001. The review indicates that EAC has categorised the status of implementation of Council and Summit Decisions and Directives into three categories (a) fully Implemented, (b) implementation in progress, and (c) not implemented / no action taken. The Audit Commission also noted that in some cases the implementation report does not indicate the status of implementation of a particular decision by some Partner States.

The EAC Management responded as follows:

a) As part of the process of ensuring implementation and compliance by Partner States, the Secretariat has compiled a compendium of outstanding Council decisions and Directives for (2001-2014), the compendium was shared by the Commission;

b) In line with a Summit directive, the Secretariat updates the status of the compendium every six months and presents the report to Council and Summit for consideration. The status report for which the Commission based her recommendation is updated as 30th November 2014.

c) Based on the recommendation of the Secretariat, the status of implementation of Summit and Council decisions/directives was adopted by the 15th Summit in November 2013, as a permanent Agenda Item for all Ordinary meetings of the Summit.

d) The Secretariat in 2013 developed and operationalised an on-line and web based Monitoring System(EAMS) to among others monitor and report on the status of implementation at country level and requested Council to appoint focal point officers

e) The Secretariat has supported the development and operationalisation of Country EAMS in Uganda, Rwanda and Burundi and the development of the same is ongoing in the United Republic of Tanzania and Kenya.

The Committee noted that the EAC Council of Ministers has not implemented its own Decisions/Directives and EALA recommendations in the EAC Partner States, an indication of weaknesses on their part since 2001.

Committee Recommendations

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

i) Table before the House, a roadmap on implementation of all pending EAC Council of Ministers' decisions / directives and EALA recommendations;

ii) Put in place enforcement mechanisms of its own decisions and directives in the EAC Partner States;

iii) Implement EALA recommendations; and

iv) Apply sanctions for non-implementation;

2.1.5 Bills not yet assented to by Partner States

The Audit Commission reported that as at the time of audit, out of 22 Bills, which have been passed by the East African Legislative Assembly, only one, for the East African Civil Aviation Safety and Security Oversight Agency Bill, 2009 has been assented to by all the EAC Heads of State. Some of the bills have been pending since 2010 without being assented to.

The EAC Management responded that it is true that a number of bills had not been assented to for a long time. This was brought to the attention of the Heads of State at their 16th Summit held on 20th February 2015. In paragraph 5 of the Summit Communiqué, the Heads of State directed that all Bills that are due for assent in accordance with Art 63 of the Treaty be assented to by 30th July 2015. Therefore, this is being acted upon and progress will be reported during subsequent audit.

The Committee observed lack of commitment on the part of the EAC Council of Ministers on the matter. The Bills that have not been assented to within three months shall certainly be referred to the Assembly for reconsideration in accordance with Article 63 (2) of the Treaty. The avoidable process shall be wastage of time and resources.

Committee Recommendations

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

i) Ensure that all Bills not assented to receive assent by 30th July 2016 as undertaken in the Management response; and

ii) Follow up and explore the proposal of securing assent to Bills during the Meetings of the EAC Heads of State Summit.

2.1.6 Unduly long time Institutional Review Exercise

The Audit Commission reported that in the implementation of the Decisions of the 9th Meeting of the Sectoral Council on Transport, Communications and Meteorology (TCM), the EAC initiated a process of undertaking an Institutional review exercise to cater for its extended mandate and effective implementation of economic, social and political matters for its mutual benefits.

EAC entered into a contract with WYG international Limited for the provision of consultancy services to undertake a detailed institutional review study and report of the East African Community. The contract was signed on 24th January 2013 to be executed for a period of four (4) months. The contact sum was $ 116,500 while the ceiling on consultant's liability was limited to $ 167,010.

Audit Commission review noted that the institutional review exercise has taken an unduly long time. As pointed out above, the contract was supposed to be executed for a period of four months starting from May 2013. However, until the time of audit in March 2015, the assignment had not been concluded and the report had not been submitted to management as per contract agreement, a delay of more than twenty months.

The EAC Management responded that it concurs with the findings and recommendations from the Audit Commission on expediting the finalization of the Institutional review.

A new road map for finalization of the Institutional review was agreed with the Consultant, as follows:

Progress will be reported accordingly, after the report is considered by the Council and subsequently by Summit.

Roadmap for the Finalization of the Institutional Review Activity	Time-Frame	Responsibility
Commencement of the finalization of the pending work	Mid-November, 2014	Consultant
Submission of Draft Final Report	March. 2015	Consultant
Validation of the Draft Final Report	March, 2015	Consultant/Partner States/Secretariat
Consideration of the Final Report by the SCMEACP	April, 2015	Consultant/Partner States/Secretariat
Consideration of the Report by the Council of Ministers	April, 2015	Council of Ministers

The Council, at its meeting in April 2015, considered the Final Report of the Institutional Review. A Ministerial Sub-Committee of Ministers Responsible for EAC Affairs to consider, conclude, and submit recommendations to the Meeting of the Council in August 2015.

The Committee observed laxity on the part of the EAC Management to enforce contractual obligations arising from contracts entered into between EAC and other parties. EAC is bound to lose time and money once its contracts are not honoured.

Committee Recommendations

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

i) Conclude the Institutional Review process and report to the Assembly by March 2016; and

ii) Direct EAC Management to ensure contractual obligations are duly respected always.

2.1.7 Operationalization of EAC Protocols

The Audit Commission reported that the East African Community Development Strategy for the period 2011/12-2015/16 outlines broad strategic goals of the East African Community as well as the specific targets to be achieved during the period.

The Strategy outlines priority areas, projects and programmes to be implemented during the period to 30th June 2016. The strategy aims at implementing four protocols namely, the Customs Union, Common Market, the establishment of a Monetary Union and laying the foundations for the political federation, promotion of solid and economic infrastructure that would support and enhance economic growth in the five Partner States.

The review of the EAC Development Strategy revealed that, while substantial achievements have been recorded, EAC has faced predominant challenges towards the achievements of the set objectives as follows:

Customs Union

The principle objective of the Customs Union, which came into effect in 2005, is to deepen the integration process through liberalization and promotion of intra-regional trade; promotion of efficiency in production in response to intra-region competition among businesses, enhancement of domestic, cross border and foreign investment and promotion of industrial diversification with a view to enhance economic development.

The EAC Partner States have been experiencing a state of uneasiness with regard to cumbersome customs administration; inappropriate trade facilitation; inadequate revenue management; inappropriate customs trade partnership; inadequate human and capital resources; slow pace in the elimination of NTBs; delays at national level for the implementation of regional commitments including operationalization of the competition act; continued loss of government revenues; inappropriate Duty Remission Regulations and the Rules of Origin; trade challenges from multiple memberships; and poor state of infrastructure. Others include inadequate relationships with the private sector and international organizations; weak legal, regulatory and dispute settlement mechanisms; partial revocation of laws (derogation of CET); and inappropriate harmonization and application of Rules of Origin.

Common Market

The EAC Partner States entered into a Common Market Protocol in November 2009. The Common Market Protocol became effective in July 2010. The overall objective of the Common Market is to widen and deepen cooperation among the partner states in the economic and social fields. This was to be realized through removal of restrictions on the movement of goods, persons, labour, services and capital, and the rights of establishment and residence.

EAC has experiencing a number of challenges that hamper realization of the full benefits of the Common Market. These include inadequate institutional, national and regional level capacities to domesticate regional policies and information access; low levels of awareness across Partner States; inappropriate legal and regulatory frameworks, continued nationalistic tendencies, weak private sector, differences in education systems, cultural diversities, language barriers, differences in level of economic development including limited participation of the various stakeholders; weak capacities of implementing agencies; inadequate safeguard measures and dispute settlement mechanisms; incomplete harmonization of examination and certification; inappropriate labour policies and legislation; weak urban planning policies and disparities in intra-regional trade.

Monetary Union

Serious negotiations of the EAC Monetary Union Protocol commenced in January 2010. The success of the Monetary Union under negotiation will call for concerted interventions to harmonise the policy and regulatory frameworks benchmarked to best practice, undertake region wide civic education, strengthen and empower the institutions that implement and monitor monetary and fiscal affairs at the regional and national levels.

The challenges anticipated during the negotiations of the EAC MU include fears of impacts of a single currency; limited national and regional capacities*;* divergent socio-economic policies and structures; and disparities in political views and commitments; inadequate manpower, capacity and skills and inappropriate legislative and institutional frameworks for managing a robust financial sector. In addition, there is high degree of vulnerability to adverse external effects given that Partner State external debts are unsustainable. There is also the lack of safeguards for the country specific problems that are subsequently transferred to the entire region.

Political Federation

One of the major drivers to attaining political integration remains the maintenance of political will and commitment as well as flexibility, good governance practices, political responsibility and creating a conducive environment for enforcement of regional policies. It also includes building cohesion and unity in management of international relations and pursuit of mutual interests on the international arena. Governance challenges including inadequate capacity and financial resources, weak institutions, slow implementation of policies, slow law and constitutional reform processes, sovereign sensitivities and lack of clarity on the type of federation EAC is to embrace still hold the pace of integration, democracy and election challenges. The differences in electoral cycles and political systems are likely to be exacerbated by insecurity associated with terrorism and piracy, continued political instability in the region, wide spread trade in small arms. The following need attentions to facilitate political federations.

The EAC Management responded that the implementation of Customs Union is guided by policies, strategies, laws and procedures, which have been adopted at the regional level. The strategies on Customs and Trade are integral components of the EAC Development Strategy 2011/2016 and contain shared vision and mission for

Customs Union implementation. The Customs and related Trade laws enacted by EALA take precedence over similar national laws. For example, the EAC Customs Management Act has been adopted, and it applies uniformly in all Partner States. To address the challenges identified in this report the EAC commenced implementation of a Single Customs Territory in January 2014 to enhance trade facilitation and attain free circulation of goods that will result in increased intra EAC Trade. This initiative of Single Customs Territory is being complemented with deliberate infrastructure development projects along the Northern and Central Corridors. On the International trade level EAC as a bloc is negotiating bilateral trade arrangements, which will mitigate the multiple membership challenges through the Tripartite Free Trade Area with COMESA and SADC.

Implementation of the Common Market Protocol is largely hinged on Partner States amending their respective national laws to conform to the principles agreed in the Protocol. In collaboration with TMEA and the World Bank Group, the Secretariat developed the EAC Common Market Scorecard 2014 that identified more than 700 laws and regulations in the Partner States that require to be amended to conform to the Protocol. This process is ongoing but it is still very slow. Secretariat has also advised Partner States to consider the option of enacting regional laws and regulations in the various areas of the Protocol. This proposal has been submitted to the Sectoral Council on Legal and Judicial Affairs for guidance.

Regarding the Monetary Union, the United Republic of Tanzania and the Republic of Rwanda ratified the Protocol on the Establishment of the East African Monetary Union (EAMU Protocol) that was signed by the EAC Heads of State in November 2013. The draft Bills for establishment of the institutions necessary for implementation of EAMU, specifically the EAC Monetary Institute and the EAC Statistics Bureau, have been prepared.

On political federations, efforts are under way to build consensus on the proposed model structure of the political federation. The Summit has decided that processes for Constitution making process for the Political Federation start. Work on this is ongoing and Council will report to the Summit at its Meeting in November 2015. Ongoing programmes under peace and security, foreign policy coordination and good governance seek to establish and institutionalise regional benchmarks and standards and to lay the foundation for political integration in general and political federation in particular. A proposal for harmonisation of the EAC electoral Calendars to minimise disruption of the integration by electoral processes is yet to be considered. More so, the peace and security sector and the governance sector are working hand in hand noting that the two sectors have a symbiotic relationship.

The Committee noted hindrances to full operationalisation of Customs Union, Common Market and Monetary Union Protocols. The Committee agrees with the Audit Commission that the challenges indeed affect EAC objectives and holds integration efforts in contempt.

Committee Recommendations

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

i) Work out and table before the House a roadmap on the operationalisation of EAC protocols so far signed and ratified by May 2016; and

ii) Harmonise all related policies, laws and regulations that would foster integration in all EAC Partner States.

2.1.8 Implementation of Headquarters Agreements

The Audit Commission reported that it reviewed the operationalization of the six Headquarters Agreements for EAC Secretariat and Institutions:-

a. The Headquarters Agreement between the Government of United Republic of Tanzania and the Secretariat of the Permanent Tripartite Commission for co-operation between the United Republic of Tanzania, the Republic of Kenya and the Republic of Uganda.

b. The Headquarters Agreement between the Government of Kenya and the Lake Victoria Basin Commission.

c. The Headquarters Agreement between the Government of Uganda and the Lake Victoria Fisheries Organisation.

d. The Headquarters Agreement between the Government of Uganda and the Civil Aviation Safety and Security Agency.

e. The Headquarters Agreement between the Government of Uganda and the Inter University Council of East Africa.

f. The Headquarters Agreement between the Government of Rwanda and the East African Science and Technology Commission.

The review revealed the following inconsistencies and shortcomings:

i. The EAC Secretariat/Institutions do not have any other agreement between them and the Partner States apart from that Partner States where their headquarters are based. These agreements should cover other matters including issues relating to VAT, withholding taxes, sales tax; free of restrictions from custom duties; prohibitions and restrictions on import and exports in respect of articles imported or exported by EAC Secretariat/Institutions for its official use in the rest of the Partner States

ii. Immunities and privileges protocol is still in progress.

iii. Payment records revealed that EAC and the Institutions do not claim tax exemptions from other Partner States apart from that Partner State where their Headquarters are based.

The EAC Management responded that the issues identified as being weaknesses in the Headquarters Agreement have and are being addressed.

a) The Headquarters Agreement between the Government of United Republic of Tanzania and the Secretariat of the Permanent Tripartite Commission for co-operation between the United Republic of Tanzania, the Republic of Kenya and the Republic of Uganda has is supplemented and completed by the accession treaty of the Republic of Rwanda and the Republic of Burundi.

Pursuant to Art 142 of the Treaty, that HQs Agreement was saved in the Treaty. It is now a Community Agreement but not of the Tripartite Commission anymore. In addition, on the issue of the Agreement not recognizing Rwanda and Burundi, when the two Republics acceded to the Treaty, they also acceded to this Agreement since it is part of the Treaty as stated above. Further, the two Republics acceded to all *acquis communitaire*, including the said Agreement.

b) For observations (ii) and (iii), Articles 73 and 138 of the Treaty provide for the status of privileges and immunities of EAC officers and its projects. In addition, the Community has concluded a Protocol on immunities and

Privileges, which was approved by the 16th Heads of State Summit on 20th February 2015. The Protocol, once in force, will address all the issues relating to immunities and privileges.

c) The Audit recommendation that EAC Secretariat and Institutions should claim the taxes they have paid on goods and services from the rest of the Partner States apart from where their headquarters are based is noted and will be implemented. Indeed this matter had been discussed with Partner States. It was agreed, in a meeting with Permanent Secretaries responsible for EAC Affairs, that EAC could send those claims to Partner States. Ministries responsible for EAC Affairs would forward them to the Revenue Authorities via the Ministries of Foreign Affairs, based on the Provisions of the Treaty, which exempts EAC from paying Tax in the Partner States.

The Committee observed that responsible office holders in the EAC have not done their job. The Committee also noted the issues raised by the Audit Commission, and it agrees with the proposals articulated**.**

Committee Recommendations

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

i) Initiate agreements between EAC Partner States and all EAC Organs and Institutions for purposes of tax and duty exemptions on supplies and services transacted by EAC Organs, Institutions and officials;

ii) Expedite implementation of the EAC Immunities and Privileges Act;

iii) Kick-start negotiations for all EAC Partner States hosting EAC Organs and Institutions to harmonise provisions of the HQs agreement; and

iv) Always condition Partner States requesting to host EAC Organs or Institutions to apply harmonised HQs agreement.

v) All Organs and Institutions of the Community should consider establishing compliance frameworks;

vi) Direct all recommendations relating to the Assembly to the Assembly for action.

2.1.9 Vacant positions not filled for a long period of time

The Audit Commission reported that Regulation 20 (2) of EAC Staff Rules and Regulations of 2006 requires that, no recruitment should be undertaken unless an approved vacancy exists in the establishment of the Community and for which financial provision has been made.

Further, regulation 20 (3) requires that, all vacancies with the exception of the posts of the Secretary General and Deputy Secretary General shall be advertised in the major circulating newspaper in the partner state, including use of electronic media.

During the year under audit, Audit Commission reviewed the EAC organisation structure and noted that three senior officials (Director of Finance, Principal Internal Auditor and Council to the Community (CTC)) positions remained vacant some for a period of more than five years.

On the course of audit, the Audit Commission reviewed the report of the meeting of the Heads of Public Service Commissions on EAC recruitment process with regard to 19 vacant professional staff posts, which has taken long than expected.

The following anomalies with regard to recruitment process were noted:

i. The positions were advertised, however, some of the advertisements were ambiguous and not exhaustive enough to provide clear professional qualifications requirements as a result, the team did not approve them, which necessitated them to be re-advertised.

ii. Interviews for similar post were not done concurrently hence creating unfair advantages among partner states; similar questions were used to all candidates despite the fact that they were interviewed at different time; there was no objectivity as some candidates were privileged with over others. The report indicated that, there were huge variances of more than 5 points in scoring on the same criteria among the interviewing panellists.

In consideration of the reservations above, it was agreed that, 12 positions out of 19 would have to be advertised in order to get personnel with requisite qualifications and experience.

Further, we are concerned that the current policy of merit and equity sometimes results in emphasis on equity rather than merit and this may affect the level of professionalism within the Community.

The audit review also noted that EAC has no approved Human Resources Policies and Procedures to guide as a management instrument in matters relating to recruitment.

The EAC Management responded that the relevant provisions in the EAC Staff Rules and Regulations, and the approved quota system guide the recruitment process in the EAC Organs and Institutions.

The delay in the recruitment for some of the positions mentioned in this report was a result of Partner States postponing interviews for these positions when they are scheduled to be held, due to some deficiencies in the process. In March 2015, twenty-one of the vacant positions were filled, and the remaining will be filled by end of April 2015.

An HR Policies and Procedures Manual has been completed to address some of the gaps mentioned by the Audit Commission.

The Committee noted and appreciated progress as reported by the EAC Management. It is however important to note that failure to recruit timely, well-qualified, experienced and competent staff might affect the Community in meeting its strategic goals.

Committee Recommendations

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

i) Always ensure that vacant posts at all levels are filled within agreed timeframe to facilitate efficient and effective service delivery; and

ii) Speed up the preparation of Human Resources Policies and Procedures to enhance realistic planning and management of human resources.

2.1.10 Sustainability of service delivery

The Audit Commission reported that sustainability parameters such as staff capability and availability are of paramount importance for sustainability of service delivery. The continuing availability of skilled staff for the operations of the Community results into Community operational effectiveness and social sustainability.

A reviewed of the EAC staffing level during the year under audit noted that about 27 officers are going to retire and leave the organisations in the year 2017.

The EAC Management responded that it is likewise concerned about the 27 staff who are retiring in 2017. The same concern has been tabled to the meeting of the Sectoral Council on EAC &Planning Affairs which directed the Secretariat to present to ad hoc EAC Service Commission for analysis and formulation of the proposals to the Sectoral Council. The matter will be part of the agenda of the next meeting of the ad hoc EAC Service Commission.

Meantime, EAC Secretariat has prepared a replacement plan for the staff who will retire within the next 3 years. The 27 positions are part of this plan.

The Committee noted that there is a risk of inefficient services if no appropriate arrangements regarding replacement or retention of existing Community employees is put in place. The Committee was also informed that the Community does not have any database to keep records of the staff that are expected to retire and the years due for their retirement.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers direct the EAC Secretariat to-

i) Have the Updated Human Resources procedures manual and policy approved and operationalised; and

ii) Consider employment of its staff at longer and permanent terms, especially for the professional staff to enhance and sustain the existing institutional memory and sustainability of its service delivery.

2.1.11 Harmonisation of terms of tenure between EAC Organs and Institutions

The Audit Commission reported that a review of the EAC Organs and Institutions Staff Rules and Regulations revealed that Executive Directors and executive Secretaries in the institutions and EAC Deputy Secretaries General that are under the same grade (E1 & D1) have different terms of service. For instances while Executive Directors/Executive Secretaries of CASSOA, LVFO, LVBC and IUCEA are appointed to serve for a fixed term of five years, EAC Deputy Secretary Generals are appointed to serve for a three-year term renewable once.

Whilst the Deputy Secretaries General may save for six years, the Executive Directors/Executive Secretary only serves a fixed term of five years.

It was also noted that Deputy Executive Secretaries/Directors of institutions and EAC Professional staff (P5) that are under same grades (E2 and P5) have different terms of tenure. For instances DES of IUCEA, LVBC are appointed to serve for a three year term, which may, subject to satisfactory performance, be renewed once, while at EAC all Professional staff including P5 are appointed to serve for a fixed term of five years, which may be renewed once.

While EAC professional staff under P5 may save for a period of ten years, the Deputy Executive Secretary may save only for a period of six years.

The EAC management agreed that EAC should harmonise the staff categorisations, terms of tenure and grading of its staff in its Organs and Institutions in order to avoid unnecessary complaints and develop a well-motivated work force and undertook address the anomalies in the Institutional Review.

The Committee took note of the EAC Management undertaking.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to expedite implementation of its undertaking.

2.1.12 Policies and Procedures under Capacity Development Action Plan (CDAP) not yet finalised

The Audit Commission reported that the Capacity Development Action Plan (CDAP) of June 2009 revealed that, the Human Resources Policies and Procedures Manual and the Risk Management Framework, Policy and Strategy remain to be concluded by EAC.

As per results/indicators in the Capacity Development Action Plan, the exercise of defining, developing and/or updating the relevant policy and procedural management instruments were supposed to be completed within a period of twelve months from the starting date of implementation of the Action Plan is 5 July 2010(as rescheduled).

The EAC Management responded that it would address the deviations noted in the implementation process. A committee was set up to fast track the implementation of outstanding items under CDAP, and it has been working on addressing the various gaps identified under the CDAP, with a timeframe to complete this process by end of June 2015, when a 7 pillar institutional assessment of the East African Community by the European Union will be carried out. The Management Framework, Policy and Strategy are in place and implementation is on course.

The Committee observed lack of commitment by the EAC Secretariat to accomplish EAC projects in a timely manner. The Committee agrees with the Audit Commission that non-accomplishment of the agreed targets within the CDAP may affect the achievement of desired goals and results of the plan by EAC.

Committee Recommendations

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

i) Always pay attention and follow up to the logical conclusion of Community projects in a timely manner; and,

ii) Specifically accomplish the preparations for and implementation of the Capacity Development Action Plan and address any deviations in the implementation process in a more robust and a timely manner.

2.1.13 Absence of Project Management Unit (PMU)

The Audit Commission reported that the reviewed of the projects and programs management function of EAC, revealed that EAC has not established a Projects Management Unit (PMU) that would effectively plan project activities, Select and organise project teams, Interface with stakeholders, Integrate project teams and stakeholders, Monitor project status, Identify technical and functional problems, recommend termination or redirection of efforts when objectives cannot be achieved.

In the absence of a Projects Management Unit, the projects being implemented may be ineffectively planned, poorly defined or missing project objectives, hence the community may not be able to measure the effectiveness of the projects and programmes performance against intended results.

The EAC Management responded that they are in the final stages of establishing the PMU. The Secretary General has already approved a structure and design of the functions of the PMU. Two officers are proposed to be recruited, i.e. a projects coordinator and a grants financial management officer, the positions are already factored in the partnership fund and recruitment is ongoing. The unit will be operationalised in FY15/16.

The Committee noted progress by the EAC Management.

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Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to expedite the establishment of the Project Management Unit.

2.1.14 Formulation and operationalization of Risk Management Framework

The Audit Commission reported that EAC approved the Risk Management Policy Framework in November 2011. The East African Community (EAC) is committed to implement and operationalize a process of risk management that is aligned to the principles of sound corporate governance recognizing that the management of risk is an important strategy for the achievement of the EAC Mission and supporting objectives.

EAC has in place an approved Risk management Framework, Policy and Strategy, which it intends to operationalize. The Framework provides the establishment of a risk management function across EAC Organs, Institutions, and the recruitment of a Risk management officer.

i) A review of the framework revealed that the following have not been done:

ii) Full operationalization (EAC-wide) of the approved Risk Management Framework, policy and Strategy by rolling out of the risk assessment exercise to its organs and institutions i.e. LVBC, LVFO, IUCEA and CASSOA.

iii) Establishment of a risk management function and other structures

iv) Recruitment of the risk management coordinator

v) Development and institutionalizing the risk management culture and awareness and periodic reporting on risk management activities.

The EAC Management responded that:-

a) The process of recruiting for the position of the EAC Risk Management Coordinator is ongoing and the successful candidate has been recommended. However, the selected candidate is not on board pending availability of funds.

b) In response to the requirements of the EAC Risk Management Framework, the following activities have been undertaken;

i) Establishment of the EAC Audit & Risk Committee (i.e. a Committee of Council) in 2012 mandated to offer oversight services to the EAC Risk Management programmes,

ii) Establishment of the Management Risk Committee (i.e. a management Committee) in 2014 mandated to manage risks of the Community by delegating work to teams or staff to continuously supervise and monitor the risks in each area,

iii) Development of and approval for roll-out of the Risk management Manual in 2014,

iv) Generation of draft risk registers for the three Arusha-based EAC Organs (i.e. EACS, EALA and EACJ including most of the departments/units thereon) ready for validation through all-inclusive workshops, and

v) Some EAC Institutions have developed and rolled out their risk management policies and procedures- notably IUCEA.

c) Work in the following other areas is not complete as yet;

i) On the drawing board is full operationalization (EAC-wide) of the approved Risk Management

Framework, Policy and Strategy that will cover risk assessment for the remaining departments/units of the Arusha-based EAC Organs, LVBC,LVFO and CASSOA (expected completion- October 2015).

ii) Establishment of a risk management function & supporting structures (once the Institutional Review is completed and report approved by Council for implementation).

iii) Creating awareness and building of a risk management culture in EAC to include periodic reporting on risk management activities by each of the EAC Organs and Institutions.

The Committee noted the progress on the matter.

Committee Recommendations

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

i) Always ensure availability of funds before engaging in recruitment process;

ii) Expedite completion and full operationalisation of the approved Risk Management framework for all EAC organs and institutions; and

iii) Implement its undertakings as stipulated in the Management response.

2.1.15 Improving the ICT Planning process

The Audit Commission reported that ICT planning process involves producing strategic and annual plan. An information and communication technology strategy relates to the long-term direction an organization wants to take in leveraging information and communication technology for improving its business processes. It is best practice to define the approach and structure of ICT planning in order to ensure ICT strategy is aligned with Business strategy.

Audit revealed that the previous management letter issued by the Audit Commission to EAC Secretariat noted that the Secretariat did not have a holistic strategic ICT plan. Rather it had documents containing individual ICT projects. Further, management informed the audit team that it expects to hire a consultant in the financial year 2015/16 to assist developing an ICT strategic plan.

Additionally, the audit team has identified other EAC institutions such as LVFO and IUCEA that are engaged in similar practice of hiring consultants for developing ICT Strategic plan. Whereas no defined integrated approach and structure that is in place to facilitate efficient ICT planning across the East African Community.

The EAC Management Responded that it will develop an ICT strategic plan and undertake a study to define an integrated approach and structure that harmonizes the ICT planning process across the East African Community as recommended by the Audit Commission.

The Committee noted the EAC Management undertaking.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to expedite development of ICT strategic plan.

2.1.16 Inefficient Implementation of Integrated Information Management Systems in EAC

The Audit Commission reported that EAC institutions use accounting software that differs from institution to institution. In the current year of audit, it was noted that EAC is in the process of implementing Integrated Information Management system across the institutions.

However, the institutions are in the process of implementing Sun system for harmonization of the accounting system with the Secretariat and its organs. Nevertheless, the approach used in the implementation of the Sun system to the institutions involves each institution to establish a separate ICT infrastructure and install system. This approach precludes the seamless linkages of data and processes of these institutions and headquarters.

Audit identified that it is possible to setup Sun system to provide seamless integrations of data and processes, where these institutions could be defined as business units within the Sun system. However, management did not pursue this approach due to lack of adequate network connectivity among these institutions and headquarters.

The EAC Management responded that it agrees with the recommendation to resolve the network connectivity problem among the EAC institutions and pursue the approach that enables the implementation of fully integrated information management system. The Management undertook to implement the recommendation by June 2016 after a better coordination of ICT among EAC Organs is achieved. Further, the EAC ICT Steering Committee and the joint meeting of ICT functions of all organs plus joint meetings of User Groups will be engaged to achieve the desired integration of systems. A study on the best integration approach will also be commissioned by August 2015.

The Committee observed that once integrated information management system is implemented, it will reduce duplication, costs and risks because of harmonized and optimized business processes and practices. The Committee also noted Management's undertaking.

Committee Recommendation

The Committee Recommends To The Assembly To Urge The Eac Council Of Ministers To Direct Eac Secretariat To Expedite Implementation Of Its Undertaking For Efficiency And Mitigation Of Costs.

2.1.17 Optimize It Governance Process

The Audit Commission reported that ICT Governance is leadership, organizational structures and processes to ensure that the organization's ICT sustains and extends the organization's strategies and objectives. An ICT Governance framework is used to identify, establish and link the mechanisms to oversee the use of information and related technology to create value and manage the risks associated with using information and technology. It is best practice to have appropriate structure, processes and relational mechanism to facilitate effective IT governance.

Each EAC institution has ICT activities that fall into two categories, ICT activities for supporting core activities that are in alignment with the institution mandate and ICT activities that support non-core activities, such as Finance, Human Resource, and procurement. The ICT activities that support core institution activities differ from one institution to another as they depend of the respective institution mandate. However, the ICT activities that support non-core institution activities are common for all institutions and headquarters.

The review of ICT activities of LVBC, LVFO, IUCEA and CASSOA identified common weaknesses as follows:

i) Inactive ICT Steering Committee

ii) Lack of approved ICT strategic Plan

iii) Lack of approved ICT Policy

iv) Inadequate Disaster Recovery Plan

v) Lack of Change Control Procedure

vi) Inadequate IT Staff

These weaknesses are indicators for weak ICT governance structure across the EAC and it is auditor's view that lack of holistic ICT governance framework across the EAC is a cause of weak ICT governance within the institutions, as ICT governance activities are confined within each institution and this consequently fails to provide economies of scale for ICT governance activities. There are still some opportunities for EAC to consolidate these ICT governance activities across the institutions and make them efficient and effective.

EAC Management responded that it agrees with the recommendation to undertake a study to define a holistic ICT Governance framework that is efficient and effective to address all governance issues within the Community. To this end, the EAC Management undertook to commission the study by December 2015.

The Committee observed that weak ICT governance structure across the EAC institutions might lead to high risk of ICT projects, lower quality of ICT services and increase in cost of delivering ICT services.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to report progress of the study to the Assembly by March 2016.

2.1.18 Improve IT security

The Audit Commission reported that ICT organization structure for EAC institutions and headquarters revealed that at EAC Secretariat, there is a role of information security that is assigned to IT Network Assistant post which has been vacant since year 2011. In all of EAC institutions, each ICT department is currently having just one personnel that is supporting all necessary ICT activities within the institution.

The review of EAC ICT steering committee minutes submitted by EAC secretariat contains discussion with regard to misuses of EAC platform that occurred. The misuse involves circulation of damaging anonymous letter via email. This incident indicates that there is a need for security training and awareness for EAC staff.

The Audit Commission recommended that EAC Management should recruit IT security personnel and consolidate information security activities in order to build capacity to safeguard EAC information assets.

The EAC Management Responded that Management agreed with the recommendation and that it would be implemented during FY 2015/16, by June 2016.

The Committee noted and agreed with the Audit Commission that the absence of dedicated IT personnel responsible for information security in EAC institutions and headquarters weakens the capability of EAC to safeguard its information assets. It is important to have a trained IT security personnel required to develop and execute an information security program.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to expedite recruitment of IT security personnel and consolidate information security activities in order to build capacity to safeguard EAC information assets.

2.1.19 Supply, Delivery and installation of security equipment worth US $ 582,485.93

The Audit Commission reported that on 10th October 2012, EAC entered into contract worth $ 582,485.93[1] with M/S Avtech Systems Ltd for supply, delivery and installation of security equipment. The contract was for a period of four (4) to eight (8) weeks. The agreed priority items were to be supplied and installed within the first four weeks (as per the first lot in the BOQ). The remaining items were to be supplied and installed within eight (8) weeks (as per the second lot in the BOQ). However, to date, apart from the contractor having been paid 80% of the contract price, some of the items have not been delivered as listed under Annex II.

The review of the contracts and procurement procedures noted the following deficiencies:

i. Non delivery of some of the security equipment:

Examination of the Bills of Quantities (BOQ) and physical verification revealed that, some security equipment were not delivered despite the fact that, the contract period had ended almost two years ago. Inquiry from management of EAC could not substantiate the cause of the non-delivery of that equipment.

ii. Supply of equipment not in line with the BOQs:

The Audit Commission noted that some equipment supplied and installed did not match with the specifications given in the Bills of Quantities (BOQ).

iii. Absence of goods delivery/receipts note & inspections committee report:

Management could not avail the goods received notes of the said delivered security equipment, which were installed. Moreover, there was no evidence that EAC appointed a goods inspection and acceptance committee hence no reports were produced for the goods claimed to be delivered. Absence of documentations for the receipts of supplies signifies weak management control over the contract management aspect as well as procurement processes. The stewardship role was not adhered to, thus value for money, accountability and interest of EAC as among the procurement principles to be adhered could not be established.

iv. Procurement Due diligence problems:

The review of the procurement processes and contracts with regard to the Supply, delivery and installation of security equipment noted some weaknesses along the process of procurements. Careful identification and confirmation of all facts relating to this procurement was a problem. The following scenarios signify the problems under due diligence:

Long procurement processes, in particular the long drawn out negotiation processes among others resulted in delay of the supply of the equipment. For instance, the contract was supposed to be executed in four to eight weeks from the date of signing (10 July 2012). However, it took about twelve months to start delivering the intended equipment. The same were not delivered at par rather were being delivered in piece meal while other items were yet to be delivered at the time of audit in March 2015.

The Audit Commission reviewed the document dated 6th – 8th May 2013 which is said to be an inspection/site visit report used to validate payment and noted that the document was vague. The document did not show who verified the pre -shipment of the equipment or while they were at the supplier's premises. Further, in the same document, the accounts section confirmed that all the contents of the equipment were received and that, the requested payments of 30% may be released to the supplier as per clause No. 1.7(d) of the agreement. However, up to time of audit, in March 2015, some of the equipment were yet to be received.

The Audit Commission further reviewed minutes of the meetings in relation to supply, delivery and installation of the equipment and noted that, despite several comments from the security officers (who are the users), apparently no serious action has been taken to rescue the situations of delays and breaching of contract by the contractor. For instance, one of the comments from the officers was the delay in delivering the equipment as agreed. Management instituted no action, many more comments notwithstanding. To make matters worse, even the equipment already delivered, few have been installed while others, apart from being installed are not operational.

The EAC Management responded that it is true there are a number of items not supplied by the contractor. A detailed list of the same was availed to the Audit Commission.

EAC has written to the supplier indicating dissatisfaction with the pace of the work so far done. The supplier has further been informed to fulfil his contractual obligations failure to which legal redress will be sought. In the meantime, 20% of the contract amount is still withheld by the EAC Secretariat, and will not be released until all issues are addressed.

The Committee noted with concern, the glaring lack of stewardship in procurement procedures at the EAC. There is general lack of responsibility and Community resources have been inappropriately spent due to breach of EAC Financial Rules and Regulations.

Committee Recommendations

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

i) Hold the EAC top Management responsible for the loss incurred by the Community;

ii) Institute a vigorous quality control system to ensure that due diligence is not compromised while executing procurement processes, contracts management and drafting;

iii) Institute disciplinary action to persons involved; and

iv) Commence investigations into the matter and report to the Assembly by March 2016.

2.1.20 Delayed supply and installation of kitchen equipment

The Audit Commission reported that on 18 July 2012 EAC entered into agreement with M/S Service scope Ltd, for Supply, Delivery & Installation of Kitchen Equipment Works at EAC HQ building at a contract price of US$ 212,987. The Contract was for a period 16 months from the date that the advance, payment was made.

During the review of the procurement processes and contracts, it was noted that some weaknesses along the process of this procurement include lack of careful identification and confirmation of all facts relating to this procurement. The following other weaknesses were noted:

The supplier furnished a performance bank guarantee and an advance payment guarantee on 9th August 2012. However, EAC could not proceed with making of the advance payment to contractor, pending approval of the supplementary budget by EALA, which took place on 18 December 2012. Due to this administrative delay, the supplier's advance payment guarantee expired on 31 December 2012, while the performance bond expired on 31 March 2013. This is according to the Procurement Committee minutes of meeting held on 17 May 2013.

It was further noted that the tender for the supply of kitchen equipment had been advertised in 2009, however due to lack of funds this contract was postponed to 2012 where the same contractor who had won the tender in 2009 M/s Service scope was given this tender without being re-advertised.

ARECO the Main Contractor for the construction work of the building could not accomplish the work relating to the kitchen due to lack of funds covered by KfW funds. Kitchen equipment was tendered in 2009. Constraints of funds resulted into postponement of the award of contract. The contract was awarded on 18.07.2012 to Service scope the former company winning the tender in 2009. At the time of contract, ARECO was on site and could not have accomplished the builders' work, which needed to be coordinated with the kitchen equipment supplier Service scope. In a meeting with EAC & KfW in September, three weeks before official handover, it was discussed that the kitchen work to be accomplished by ARECO will be omitted in the ARECO contract. Service scope received the Advance payment on 24.07.2013, one year after the contract was signed. As the main contractor had demobilized it become necessary to tender the remaining works in the kitchen area to local contractor. It becomes obvious to settle the building works for the kitchen as an addendum for M/S ACME under KfW funding and they started work in March 2014.

The physical verification of the kitchen equipment revealed that the contractor had not delivered some of the equipment and the contract period had expired since 2013. We could not be provided with delivery notes and inspections report to substantiate delivery of these item.

The EAC Management responded that it is using the expertise services of the consultant GBC to determine the quality of all goods and services delivered. Delivery and commissioning of the kitchen equipment was done on 19th May 2015.

The Committee is concerned with this long drawn out negotiation processes, which delayed the supply, delivery and installation of kitchen equipment. The Committee further observed contravention of EAC Financial Rules and Regulations especially the procurement procedures.

Committee Recommendations

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

i.) Institute a vigorous quality control system to ensure that due diligence is not compromised while executing procurement processes, contracts management and drafting; and

ii.) Always ensure proper planning and budgeting before initiating procurement of goods and services.

2.1.21 Procurements exceeding approved thresholds.

The Audit Commission reported that Chapter 6.5 of the EAC Procurement policies and procedures manual 2011 provides that in order to use the request for quotation (RFQ) method of procurement, the value of the procurement should be below US$10,000; hence, for procurements with a higher value Open Regional procurement method should be used.

Chapter 11.7 (1) of the same manual provides that there shall be a contract manager for any on-going works.

Regulation 11.7.3(1) requires that payment for works contracts shall be made against payment certificates or completion reports on provisional or final takeover of the works by EAC.

Contrary to the above provisions, management entered into the under listed contracts:-

a. Contract for the supply and installation of Venetian Blinds at EAC – Mbasha Holdings Limited- US$ 79,590

Secretariat contracted M/s Mbasha Holdings Limited for the supply and installation of Venetian Blinds at the secretariat. The contractor was paid a sum of US$ 79,590 VAT inclusive via cheque no.0109848 on the 18/12/2013.

b. Contract for modification works in the library and changing partly worn out electrical cables in the corridors- -US$ 16,533

M/s Mbasha Holdings Limited was contracted and paid vide Cheque No: 109848 on the 18/12/2013, a sum of US$ 16,533 for modification works in the library and changing partly worn out electrical cables in the corridors. However, a number of shortcomings were identified with the above contracts as shown below:

- A wrong procurement method of RFQ was used instead of Open regional bidding, given the cost of the procurements.
- There was no contract manager assigned to supervise the quality of works done on the project.
- Payment of the said sum was made without any completion report or payment certificate to certify the quality of work done.

c. Other Various procurements

EAC procured several goods and services costing US$ 219,795 without complying with procurement procedures in force; the tenders were awarded through direct procurement without adhering to the circumstances governing the direct procurement as specified in section 6.6.5 of the EAC procurement policies and procedures manual.

The EAC Management responded that it took note of the Audit Commission's recommendation and would streamline procurement activities to ensure that procurement is conducted within the rules stipulated in the EAC Policies and Procedures.

Management further explained that the contract for supply and installation of venetian blinds at EAC was awarded to Mbasha Holdings Ltd as the same supplier had successfully supplied similar items in the recent past. Following the relocation to the new Headquarters building, the blinds were urgently required hence the exceptional use of RFQ instead of open regional tender. The same applies to the contract for modification works in the library and changing partly worn out electrical cables in the corridors.

The EAC procurement committee approved these two exceptions.

Regarding the other procurements issues pointed out by the Audit Commission, EAC entered into Long Term Agreement/Framework Agreements with the various suppliers of goods and services repetitively used. The Framework agreements were arranged through a competitive process where advertisement was done in regional media, the bids evaluated and frameworks agreed. Repeated call off contracts are placed on a need basis based on the terms and conditions of the framework agreement. There is no contract in existence until the organisation places the order. The objective of the Framework is to minimise time and effort required to process similar procurement transactions for repeated contracts over a period. The frameworks are as follows:

Firm	Framework Agreement
Diamond Express/TNT	Courier Services
Cyber world	Office Supplies
BMT ltd	Maintenance of Machines
Sharon & Aaron	Beverages
Hygiene and Pests	Cleaning Services
Creative Media	Promotional materials
Mount Meru petroleum	Fuel and Lubricants
Nation Media Group	Advertisement
Darworth	Office Supplies
EMEC Engineering	Supply and management of the Telephone system**.**

The Committee observed breach of procurement procedures and lack of consistent work plans.

Committee Recommendations

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

i) Always adhere to the procurement plans and procedures; and

ii) Always be consistent in executing EAC activities / work plans.

2.1.22 Limitations of policies and procedures for Procurement

Audit Commission reviewed Part VII of the EAC Financial rules and regulations and the EAC procurement policies and procedures Manual and reported the following shortfalls:-

a) The policies and procedures are not clear about the timeframe to submit the procurement plan and its approval by procurement committee; Section 4.9 of EAC procurement policies and procedures manual mentions the approval of the procurement plan but there is no precise timeframe within which the plan should be submitted and approved.

b) Regulation 75 of EAC Financial rules and regulations is not clear about the types of securities (guarantees) needed to be submitted along with the bid for instance percentage of bid guarantee, advance guarantee and performance guarantee.

c) The policy does not provide any rule relating to penalties for non-execution, delay in contract execution (or liquidated damages for work contracts) and poor quality in the execution of the contract; this clause is also not reflected in all contracts signed with contractors or service providers.

d) Regulation 47 (3) of EAC Financial rules and regulations does not list all the potential officials or staff who cannot be members of the procurement committee; the Audit Commission noted that an internal memo dated 3rd February 2012 appoints Deputy registrar and Deputy Clerk to be members of the procurement committee while both are sub accounting officers for EACJ and EALA respectively.

The EAC Management responded that the Procurement manual was developed to place at least some operational procedures in place to support the EAC Financial Rules and Regulations, 2006. Whereas the Financial Rules and Regulations, 2012, have since replaced the Financial Rules and Regulations 2006 the Procurement manual has not been updated and is still using the 2006 FRR. Management has realised weaknesses and omissions in the procurement policies and procedures manual and will be proposing to a comprehensive review the procurement manual in order to bring it in line with the Financial Rules and Regulations, 2012.

Exclusion of certain officials will be addressed during this review. However, the Commission may wish to note that the Deputy Clerk and the Deputy Registrar are not Accounting Officers and have been validly nominated to sit in the Procurement Committee. The Officers with Sub-accounting powers are the Clerk of the Assembly and the Registrar of the EACJ.

The Committee noted the undertaking by the EAC Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to carry out a comprehensive review of the procurement manual in order to bring it in line with the Financial Rules and Regulations, 2012 and report to the Assembly by March 2016.

2.1.23 Irregularity in Conducting Procurement Committee Meetings

The Audit Commission reported that Section 3.4.1.4 of EAC procurement policies and procedures manual states that the quorum for the meeting of the procurement committee shall be any five members.

During the review, it was noted that on 20th March, 2014, the 41st extra-ordinary Procurement Committee meeting was held to deliberate on the Procurement of services to hire consultant for assessing the degree of the exchange rate misalignment during the convergence phase, consultant for the study on Harmonisation of core inflation measurement in the EAC, consultant to analyse the impact of short term capital movements on the EAC Partner states and implications of these flows for the effectiveness of monetary policy of Partnership fund.

Despite lack of quorum, the meeting went on to discuss and approve the procurement methods and awarded contracts for these services

The EAC Management responded that it would address the matter.

The Committee observed consistent breach of the EAC procurement procedures as provided for in the Financial Rules and Regulations by EAC Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to adhere always to the set EAC procurement procedures as provided for in the Financial Rules and Regulations.

2.1.24 Non-Compliance with procurement policies and procedures.

The Audit Commission reported that during the review of the procurement unit, several weaknesses were noted as follows:-

a) Regulation 59 of EAC Financial rules and regulations states that, a complaints committee should be established; however, during the time of audit in March 2015 the committee had not been established.

b) The procurement unit did not prepare the annual procurement report of all tenders awarded for the financial year ended 30th June 2014.

c) There is no evidence that the Procurement Unit is involved in contract management as it does not maintain any file for contract management i.e. a register of all contracts entered into which is contrary to regulation 42 of the EAC Financial rules and regulations.

d) There is no any standard format of contract used by EAC and most of the contracts lack the stipulation of penalties for non-execution, delay in contract execution and poor quality execution; the Community has many service providers who delay to deliver goods and services but it is not able to institute any sanctions as they are not stipulated in its contracts and Procurement policy and procedures.

The EAC Management responded as follows:-

a) The Complaints committee has been established under regulation 60 of the Financial Rules and Regulations, which clearly provides for its membership. It is worth mentioning that no complaint has ever been received requiring the complaints committee to meet;

b) It is true there was no procurement report prepared during the period under review. However, there is now in place a procurement-reporting framework.

c) The contradictions in the FRR and the Procurement manual will be addressed during the review of the Procurement manual to align it to the Financial Rules and Regulations (2012).

d) It is true there is lack of a standard format of contract used by EAC and most of the contracts lack the stipulation of penalties for non-execution, delay in contract execution and poor quality execution. The deficiency will be cured by the proposal to develop standard bidding, contract documents and Procurement Forms to be used at EAC during the proposed review of the Manual.

The Committee observed non-compliance with procurement procedures and deficiencies in the procurement unit and its tools.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to comply always with procurement procedures as provided for in the Financial Rules and Regulations.

2.1.25 Procurement of Air Tickets

The Audit Commission reported that the Secretariat spent a total of US$ 5,143,767 on air travel. This translates to about 9.2% of its total expenditure for the year under review. This therefore implies that such a category of expenditure is a critical cost item on which ordinarily management is expected to institute strong internal controls.

A review of travel arrangements and payments for air tickets revealed a number of control weaknesses as outlined below:

a. No clear Channels of Information Flow

The Secretariat sends invitations to delegates from Partner States through the Ministries of East African Affairs. Timely official responses are expected detailing the names and designations of the nominated persons.

We found serious weaknesses in the information flow regarding delegates from Partner States. A review of the ticketing process revealed that the official responses from Partner States concerning the nominated officers were not availed to the air ticket booking officers; as such one could not confirm whether the delegates to whom tickets were issued were the rightful ones.

b. Non Authorized Changes

The audit found instances of changes in ticket details in the form of travel dates and routing after issue by travellers, which resulted into extra costs to the Secretariat without authorization of such changes by a responsible officer.

c. Very expensive tickets

It was also noted that the cost of some tickets were way out of range for the given routes; where the worst case scenario involves the delegates from same place destined to same route having different air ticket costs.

The EAC Management responded that the findings and recommendations thereon have been noted. The Agents appointed by EAC invite quotes from Airlines who give the bookings before agents confirm the tickets.

The Management agrees with the observation on Delegations. Information on delegations is dependent on Partner States. The Secretariat sends invitations to delegates from Partner States through the Ministries of East African Affairs.

The instances of changes in ticket details in the form of travel dates and routing after issue of the tickets result into extra costs to the Secretariat. To address this, management has instituted control measures to avoid penalty charges brought about by the change of tickets. It has instituted administrative changes which stops all such changes and where authorized, the affected Officers is required to make a change in reservation a nearest Travel Agent and seek a refund through the retirement system. The retirement system ensures extra expenses, which were not envisaged at the beginning of the journey, are authorized before refund. Since this action was instituted, no change has been successfully effected and the community is no longer losing cash through unnecessary changes.

Expensive tickets: Ticketing dynamics provide for price discrimination of tickets on an airline. The airlines establish the economic cost of flying a plane earlier then the forces of demand and supply start applying. This is based on the passenger numbers, the traffic on a particular routing and the time of booking. The earlier one books the cheaper it is and the later the more expensive. Apart from Business Class, Economy also has different classes depending on the traffic, season and demand on the airline. Therefore, no same prices are available on a Carrier at any given time. An Economy ticket may have up to six classes with each class having different fares.

Tickets become expensive because of delayed bookings where tickets are booked so close to the travel date when cheaper classes are no longer available. Where bookings are done on time but confirmation is not made on time, the ticketing system auto cancels and a new ticket issues with different terms and conditions.

Management has directed the Deputy Secretary General (Finance and Administration) to initiate negotiations with Major Airlines with a view to agreeing on reduced tickets for the EAC.

Regarding the other recommendations, Management takes note of them and will endeavour to implement them appropriately.

The Committee noted very weak internal controls and negligence on events that place costs and surcharges to the Community. The continued undertakings and promises to act on such issues have yielded to nothing.

Committee Recommendations

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

i.) Always ensure such costs of re-routing and change of dates on tickets are not borne by the Community;

ii.) Report the outcome of negotiations with major airlines on reduced rates of air tickets for EAC by March 2016;

iii.) Always ensure that ticketing officers make bookings and issue ticket on time; and

iv.) Elevate the ticketing office to the level of responsibility where the officer in charge should be able to understand and prevent such unnecessary costs.

2.1.26 Refund of unutilized funds to SIDA US$ 361,083

The Audit Commission reported that a total of US$ 361,083 was transferred from EAC Secretariat account No: 8004230 held in Barclays Bank-Arusha to miscellaneous projects account held in Barclays bank number: 8003439 vide reference number FUNDT/SEC/00328 and Cheque number 100472 on 15/04/2014 as a refund of funds which was not considered eligible expenditure under SIDA/EPA project. The issue arose from the audit report for SIDA-EPA Negotiation Project for the period December 2010 to July 2013. The following were noted;

- We noted that EAC had to pay back to SIDA a sum of US$ 2,121,246 unutilized funds by Partner States and Secretariat, which included US$ 361,083 that was not accepted by SIDA. The amount related to expenditure by the Partner States during EPA negotiations with the donors.

- Further review of records revealed that the expenditure which was not accepted by SIDA was US$ 80,176 and not US$ 361,083

The EAC Management responded that before closing the Project on EPA negotiations between EAC Partner States and the EU trading block facilitated by EAC through the directorate of Trade, EAC charged the project funding an amount of USD $ 361.083 originally spent from EAC Partner States funds on the same negotiations. This was done through a debit note claiming for refund of this amount from the SIDA project funds as expenditure to be borne by the project dealing with EPA negotiations. The project refunded the EAC Secretariat the same amount of USD $ 361,083.

However, during the audit of the SIDA project, this expenditure, which was on the work plan funded by EAC Partner States, was disallowed under SIDA funds. EAC Secretariat remitted back to the project account the same amount.

The Committee noted the Audit Commission concern and the Management response.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to avail to the Audit Commission all the necessary supporting documentation to confirm that the expenditure was to cater for properly approved and planned Community activities.

2.1.27 Unclaimed VAT

The Audit Commission reported that Article 4 Section 1 Sub-Section (d) of the EAC Headquarters Agreement with the United Republic of Tanzania provides for exemption of EAC from all taxes, including withholding tax (WHT) and Value added tax (VAT); However it was noted that the Commission did not recover from Tanzania Revenue Authority (TRA) VAT outstanding balance amounting to US$.784, 443. The amount had increased from last year as indicated in the table below:

Description	Outstanding as at 30/06/2014 in US$.	Net movement during the year , in US$.	Outstanding as at 30/06/2013, in US$.
VAT	915,574	131,131	784,443
Total	915,574	131,131	784,443

Further, a review of a sample of the Secretariat payments worth US$ 148,404 noted that VAT totalling to US$ 26,055 was not claimed from Tanzania Revenue Authority.

The EAC Management Responded that the receivable account used to record VAT receivables in the EAC books of accounts is the same for all VAT paid for transactions in all the five (5) EAC Partner States. It should be clarified that EAC only has a tax exemption arrangement, as enshrined in the Headquarters agreement, with only the United Republic of Tanzania while none exist for the other Partners States. It is for this matter that the VAT receivables figure has at this point risen to the said figure because the EAC Secretariat does not have a VAT claim mechanism with the other four (4) Partner States for VAT paid on procurements done there.

The EAC Council of Ministers will address the issues of tax exemption with all EAC Partner States. So far, the Permanent Secretaries in charge of EAC Affairs advised that EAC submits claims for refunds to Partner States though the Ministry for EAC Affairs.

EAC Secretariat would like to highlight in the FY under review, USD $ 131, 131 was claimed and refunded from the United Republic of Tanzania.

Further to this, Management undertook to thoroughly examine the transactions spotted out by the Audit Commission and ensure that any Tax not claimed is filed for refund.

Currently, VAT claims are prepared and submitted on a quarterly basis for all VAT incurred and sent to Tanzania Revenue Authority for them to process the refund. Unfortunately, when TRA makes refunds of moneys, fund area sent to only one account that makes it very difficult to allocate theses receipts to the various projects that are incurring the VAT. To further exacerbate the situation, for one reason or another, not all VAT claimed is actually refunded to the Community. It should also be noted that irrespective of whether management makes USD denominated claims, TRA usually makes refunds in the local currency, the Tanzanian shilling, which further worsens the situation of knowing the exchange rate that was used to convert the funds.

The management will work closely with the Tanzania Revenue Authority with a view of addressing all the challenges described above.

The Committee observed failure of EAC Management to negotiate conclusive and thorough Headquarters agreement to allow EAC enjoy its privileges. As if reluctance of this kind is not enough, VAT claims are not filled for refund.

Committee Recommendations

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

i) Initiate negotiations for improved and thorough EAC Headquarters agreements with all EAC Partner States that host EAC Organs and Institutions and all meetings and events;

ii) Always furnish the Audit Commission with necessary documentation; and

iii) Always act responsibly, fill and submit VAT claims on time.

2.1.28 Repairs and Maintenance of Motor Vehicles

The Audit Commission reported that a review of the repairs and maintenance cost of motor vehicle for the Community during the financial year under review incurred a total of USD 163,206.

The physical verification of vehicles was done at DT. Dobie in Nairobi. The objective of the visit was to understand the process by which EAC vehicles are booked for repairs or servicing, the process of raising invoices for the works done and release of the vehicles. In particular, the audit aimed at establishing the process of approval for repairs, the time taken for repairs and invoicing and eventual release of the vehicles.

DT Dobie staff explained that for every vehicle taken for repairs a job card is opened where defects as explained by the client (driver) are noted. An estimate for the repairs is provided upon which the client is expected to raise an LSO. DT Dobie staff admitted that EAC's vehicles were in some instances repaired upon receipt of email approval awaiting the approval of the LSOs. On approval of the repairs, the vehicle is then taken to a diagnostic section where an initial test is carried out to determine the specific problem of the vehicle upon which an estimate of additional work (if any) is determined for approval by the client. At the time of the visit three EAC vehicles were at the garage i.e. TCD 97 EAC, TCD M1 EAC and TCD 326 EAC.

a) TCD 97 EAC

Date of Registration- 8 July 2005

Make- Mercedes Benz E240 Saloon

This vehicle was at the diagnosis section at the time of the visit. The vehicle had been at the garage since 4th August 2014, seven months as at the time of the visit on 27th February 2015. According to the Service Provider, there was delay in approving the repairs of the vehicle, and the approval for repairs was finally given on 17th February2015. The vehicle was ready for collection but when the driver went to pick it, it could not start properly and so it was left at the garage for further diagnosis. The service provider explained that the vehicle could have developed parts failure because of longer stay at the garage before repairs. The diagnosis report on the vehicle indicated low voltage causing the engine to stop on its own after starting.

A review of the vehicle file at EAC revealed that the vehicle had incurred huge repairs and maintenance cost as follows:

Repairs and maintenance history of the vehicle

Date of Estimate	Date of LPO	LPO no	Amount (Ksh)	Amount in USD*	Mileage
21-February-13	18-March-13	2209	185,521	2038.69	129660
15-April-13	11-July-13	2754	389,749	4282.96	134,439
31-August-13	23-September-13	3059	463,254	5090.70	136,295
09-January-14	28- February-14	3548	389,895	4284.56	144,165
19-August-14	No LPO raised		531,275		152,749
04-February-15	17- February-14	4921	174,900	1921.97	152,749
				17,618.88	

b) TCD M1 EAC

Date of Registration- 18- July- 2014

Make-Mercedes Benz GL 5000 Station Wagon

The vehicle was in the Garage since November 2014. The vehicle was involved in an accident in Nairobi, and it is being repaired at the Insurance company expense. A review of the vehicle file revealed the following:

The vehicle had covered 6583 kilometres just three weeks after purchase, an indication that it was used for long distance travels. The repairs and maintenance history of the vehicle from I July 2013 is as shown below:

Repairs and maintenance history of the vehicle

Estimate date	LPO date	LPO no.	Amount	Amount (USD)
07-August-2014	18-August-2014	4326	Ksh 66,175.71	727
29-October-2014	06-November-2014	4608	Ksh 33,662.45	369.91
31-October-2014	06-November-2014	4609	Ksh 66,850	734.61
TOTAL				1,831.52

* Conversion rate used 1 USD=91 KSH and 1800 TSH

c) TCD 326 EAC

Make- Mercedes Benz S350L

Date of Registration- 7 March 2011

This vehicle had been in DT. Dobie garage yard since July 2014 after it was involved in an accident on 6th July, 2014 along Nakuru - Nairobi highway. According to the records, the vehicle was insured at a value of USD 118,274. The vehicle was taken to the garage to provide cost estimation for repairs, which was estimated at Ksh. 4,975,443 (approx. USD 54,675). Correspondences between the Community and the insurance firm indicated that the insurer had agreed that the vehicle be written off however there were disagreements on the value of the compensation. Records from the garage indicate that the vehicle was accruing parking charges and the insurance company claims depreciation charges is accumulating which could affect the compensation amount.

e) TCD 96 EAC

Date of Registration- 27 June 2005

Make- Mercedes Benz E240 Saloon

Physical verification of the vehicle indicated that the vehicle had stalled. A review of the related records indicated that the vehicle had been serviced and repaired in February 2015. According to the driver, the vehicle stalled barely two weeks after the service.

Repairs and maintenance history of the vehicle for the last two years is shown below:

Repairs and maintenance history of the vehicle

Estimate date	LPO date	LPO no	Amount Transacting Currency	Amount (USD)*
12-Feb-2013	18-March-2013	2207	Tsh 593,540	329.74
11-March-2013	20-March-2013	2215	Ksh 130,627	72.57
15-April-2013	02-May-2013	2343	Ksh 261,903	1,435.46
02-October-2013	23-October-2013	3189	Tsh 576,430	320.23
05-February-2014	04-February-2014	3465	Tsh 1,455,000	808.33
21-February-2014			Ksh 155,000	1,703.30
03-March-2014			Ksh 104,000	1,142.85
28-May-2014	25-July-2014	4245	Tsh 552,830	307,13
17-July-2014	25-July-2014	4246	Ksh 46702	513.21
18-July-2014	18-August-2014	4327	Ksh 394,736	4,337.76

16-October-2014	12-November-2014	4647	Ksh 231,523	2,544.21
26-January-2014	02-February-2015	4849	Ksh 48,619	534.27
				14,061.93

* Conversion rate used 1 USD=91 KSH and 1800 TSH

The following audit observations were made:

a) High repairs and maintenance cost

Sn	Registration No	Vehicle Type	Year Of Acquisition	Current Mileage Km	User	Condition
1	TCD 96 EAC	Mercedes Benz E240	2005	135,808	DG (C&T)	Running
2	TCD 97 EAC	Mercedes Benz E240	2005	179,367	DSG (PF)	Running
3	TCD 95 EAC	Mercedes Benz E240	2005	155,511	DSG (PI)	Not Running
4	TCD 139 EAC	Mercedes Benz E280	2007	159,909	DSG(PSS)	Running
5	TCD 67 EAC	Nissan X-Trail	2003	166,133	Pool	Running
6	TCD 086 EAC	Nissan Pick-Up	2005	61,133	Pool	Running
7	TCD 103 EAC	Nissan Patrol	2005	306,192	Pool	Running
8	TCD 168 EAC	Nissan Patrol	2006	287,963	Pool	Running
9	TCD 177 EAC	Toyota Van	2008	301,219	Pool	Running

It was noted that the amount of repairs and maintenance of vehicles of the Community is quite high compared to the mileage covered. The repairs costs were mainly attributed to aged vehicles and the continued use of a single service provider for non-warranty vehicles. For instance, TCD 97 EAC from February 2013 to February 2015 the vehicle had covered 23,089 Km but incurred a total cost of Ksh 1,428,418 (approx.15, 697). This vehicle had been identified for disposal in the 2012/13 financial year and bids were received for it but it was not clear why the Community decided to retain the vehicle given the history of the repairs and maintenance cost.

The EAC Management responded it has noted the escalating cost of repairs to motor vehicles, which are caused by old age of the motor vehicles. Most of the vehicles allocated to four executive and other staff are over seven (7) years. East African Financial procedure Manual provides for the applicable annual depreciation rates for motor vehicles as 25%. This implies that vehicles should have been disposed of after four years. This means that the vehicles are running beyond their Economic life. Most of the Vehicles start replacing major parts after five years of operation. EAC vehicles fall in this category hence the high cost of repair and delays in ordering parts from the manufacturers. This is expensive considering the fact that most of the parts are imported individually hence very high unit cost of importation.

The challenge has been the inability to replace the vehicles due to constraints in the budgetary process.

Management would like to confirm that the Board of Survey has identified the following vehicles for disposal:

A valuation will be done soon and the vehicles advertised for disposal.

TCD 97 EAC had been identified for disposal in the 2012/13 financial year and bids were received for it but it was pulled out of the list because it seemed to be in a relatively good working condition.

The Committee observed very poor fleet management and irresponsible use of Community vehicles. Also, driving EAC cars for long distances attract high risks of accidents.

Committee Recommendations

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

i.) Always act responsibly in the management of EAC vehicles;

ii.) Review the annual depreciation rates of EAC vehicles and asses their useful lives to determine whether they are worth keeping or disposed off taking into consideration cost benefit analysis; and

iii.) Stop driving EAC vehicles for long distances to meet Executives and Professional Staff while attending meetings in EAC Partner States capitals such as Bujumbura, Kigali, Kampala and Dar es salaam;

b) Prolonged stay of EAC Vehicles in the garage

It was noted that EAC vehicles take unnecessarily longer period in the garages, thus depriving the Community the benefits accruing from using them. According to the service provider, the prolonged stay of the vehicle at the garage was attributed to delays by EAC to approve the repair works and in some instance, there was delay in ordering for parts that were not readily available in the service provider's spares shop.

The EAC Management responded that overstaying at the Garages have been necessitated by internal Clearance for repairs by the EAC management after being alarmed by the extremely high costs provided in the Estimates. This is meant to ascertain that the repair costs were genuine. This combined with the lead-time for ordering parts contributed to the delays in ordering the parts. Management has noted the matter and is addressing it. The Commission is invited to consider an update during the next audit.

The Committee observed reluctance by EAC Management to pay attention to details, hence loss of resources by the Community.

Committee Recommendations

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

i) Pay attention to Community resources; and

ii) Avoid causing unnecessary delays of EAC vehicles in garages.

c) Lack of a verification mechanism for repairs and maintenance of motor vehicles

The Audit Commission reported that there was no verification mechanism in EAC to validate the nature of the repairs as indicated by the service provider before approving the repairs. This may result to unnecessary repairs and replacement of parts when the Community purely relies on the advice of the service provider. In addition, there was no evidence that EAC carried out its own assessment to determine whether the repairs were adequately carried out after release of the vehicles from the garage. Further, correspondences from the service provider indicated that both authority to repair and invoice together with payment inquiries were forwarded to the procurement department an indication of lack of segregation of duties.

The EAC Management undertook to address the anomaly and reported that it would be proposing the purchase of new vehicles, in line EAC Transport Management Policy in-order to provide efficient, safe, reliable and cost effective transport services for the Executive staff and staff of the Community.

The Committee reiterates that fleet management at the EAC is very poor.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to put in place a verification mechanism to determine the necessity of the repairs before approval.

d) Delay in insurance claim follow-up

The Audit Commission reported that the Community delayed in making follow up with the insurance company for payment of claims as a result, the vehicle stayed at the garage longer than necessary. In addition, it was noted from the communication between the insurance firm and the Community for instance in the case of TCD 326 EAC that although the vehicle was insured for a sum of USD 118,274, the insurance company provided to compensate at a value of USD 69,954 only which is much below the insured sum. As at the time of the audit in March 2015 no agreement had been reached. There is no evidence that the Community has put sufficient effort in the follow up since it has taken more than 8 months and no compensation has been received.

The EAC Management reported that the correspondence file indicates when the accident happened and when a claim was put forth to the insurer. On the fateful day, a police report was immediately issued, an officer dispatched from headquarters, and soon thereafter, the insurance company informed hence the acceptance by the insurer to pay. All these were within the timeframe to file for claims. The only disagreement between management and the insurer is the settlement amount.

The Committee observed lack of follow up by the EAC Management. There is no action taken so far after the disagreement arose on the settlement amount.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to follow up the matter to the logical conclusion and report to the Assembly by March 2016.

e) Un-economical usage of Motor vehicles

The Audit Commission reported that a review of the vehicles files including driver's daily subsistence allowances indicated that the vehicle covered long distances to facilitate the executives in the Partner States who used air travel. This results into the driving of the vehicles for long distances and at high speed.

The EAC Management responded that it would undertake a Cost-Benefit Analysis of using EAC Vehicles vis-a-vis the hiring option during the preparation of the respective mission and arrive at an informed decision.

The Committee noted the EAC Management undertaking.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to implement the option of hiring vehicles for executives once they travel to Partner States.

2.2 THE EAC-COURT OF JUSTICE

2.2.1 Procurement of Goods and Services on uncompetitive Bidding process USD. 110,778.

The Audit Commission reported that a review of procurement procedures, records and other related documents of EACJ revealed that the organ entered into agreement with various suppliers for procurement of goods and services without competitive bidding procurement process contrary to Regulation 42 (3&4) of EAC Financial Rules and Regulations (2012).

EAC Management responded that contracts for similar services rendered to the EAC such as Air tickets, Courier services, Insurance services, Fuel etc. are entered into by the Secretariat and enforced by the other organs. However, for services that directly affect the organs, the organs have liberty to make their own choice to suit their needs using the prequalified list of suppliers listed by the Procurement department or on recommendation by the Procurement Committee if that supplier is not among the pre-qualified suppliers.

Winglink Travel Limited was sourced by the Secretariat through competitive bidding process in the year 2011 and entered into contract with the EAC for initial period of 2 years from May 2011. The contract specified that the duration of the contract might be extended by mutual written consent of the Client and the Contractor. That means the initial contract would have ended in May 2013. After signing the contract, EACJ was informed by the Secretariat to go on using the services of the Company for ticketing until further notice. During the contract period, there were some misunderstanding between Secretariat and Winglink Travel Limited on settling of the outstanding invoices, a problem that led the Company to stop issuing tickets to the Secretariat but it continued with EACJ without any problem. There was no any communication from the Secretariat to inform EACJ on the status of the contract. Therefore, the Court continued enjoying the services of the Company until it came in to its attention that the contract with Winglink

Travel limited had not been renewed. EACJ informed the Secretariat that it had continued using the services of Winglink Travel Limited and renewed the contract with effect from July 2014 for further 2 years.

From the explanation above it is true that the Court used the services of the Company without the valid contract due to breakdown of communication between EACJ and the Secretariat but the cost was not affected because the Company was still competitive.

Diamond Express Limited and African Risk Insurance Ltd was procured by the Secretariat on behalf of other organs and EACJ was informed to start using the services of the identified Companies.

The Committee observed breach of EAC Financial Rules and Regulations caused by lack of inter organ communication.

Committee Recommendations

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

i) Enhance its communication methods with other organs; and

ii) Always comply with its Financial Rules and Regulations.

2.2.2 Utilities Fund Used to Settle Personnel Emoluments USD 18,895

The Audit Commission reported that EACJ used utilities fund to settle personal emoluments because EAC chart of accounts does not have an accounting code for communication allowances under personnel emoluments.

The EACJ Management responded that adjustment would be made after creation of the proposed Account Code under Personnel Emoluments by transferring the amount reported under administrative costs to Personnel Emoluments.

The Committee observed that there is a weakness in the EAC chart of accounts that causes reporting errors.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to amend its chart of accounts to accommodate the communication allowances accounting code under personal emoluments.

2.2.3 Fully Depreciated Assets

The Audit Commission reported that IPSAS 17 Paragraph 67 on Property, Plant and Equipment provides that, the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date, and if expectations differ from the previous estimates, the change(s) shall be accounted for as a change in accounting estimates in accordance with IPSAS 3.

EACJ assets register report as at 30th June 2014 had 728 PPE at Cost of 1,194,919 and Net Book Value of $ 673,842. The Audit Commission discovered that included in the assets register were 378 assets at a cost of $ 278,868 with zero net book values.

The assets register also lacked details like the assets initial costs and their respective locations hence making it difficult to verify the assets depreciations and confirm their locations.

The EACJ Management responded that it concurs with the findings will in future reassess the useful lives of the assets before they are fully depreciated.

The Committee observed inconsistencies in assets registration at the EACJ.

Committee Recommendation

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

i) Put in place a policy on disposal of assets; and

ii) Always assess and update their Assets register.

2.2.3 Unclaimed VAT -USD 92,321.93

The Audit Commission reported that EACJ paid a total of USD 92,322 in taxes in the procurement of goods and services. However, only USD 30,343 was reported as VAT receivable in the financial statements. The finding contravenes Article 4 Section 1 Sub Section (d) of the EAC Headquarters Agreement with the United Republic of Tanzania which provides for exemption of EAC from all taxes including withholding tax (WHT) and value added Tax (VAT). In addition, Regulation 83 paragraph (7) stipulates that the Community shall not pay taxes on any procurement contract with any contractor or supplier from the Partner States.

EACJ did not have evidence of any attempt to claim from the tax body the total amount of VAT claims, which includes the previous financial year's unclaimed tax of USD 16,884.46.

The EACJ Management responded that during the year under review, EACJ submitted a total of USD 21,771.15 and TZS 15,420,598 to TRA for refund but up to now, refunds have not been received. The necessary adjustments have been passed to recognize the receivable and details of the amount claimed were availed to the Audit Commission for verification.

The Committee observed disinclination of EACJ to claim decisively the refundable VAT and other taxes.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to put in place mechanisms for timely compilation and submission of claims for tax refunds expeditiously.

2.3 EAST AFRICAN LEGISLATIVE ASSEMBLY

2.3.1 Understaffing, lack of recruitment process documentation and temporary staff with a contract exceeding 3 months

The Audit Commission reported that the review of staff management and staff files at EALA revealed the following:-

- The approved EALA staff establishment provides for 31 staff. It was noted that the current staffing level as at 30 June 2014 was 27 permanent staff, thus, 4 deficit staff. Currently, EALA has 17 temporary staff.

- The Audit Commission observed a disproportionate increase in the short-term temporary staff compared to those staff in the approved establishment.

- Noted are cases whereby, temporary staff are being hired for a period exceeding 3 months for posts not established in the organizational structure. These temporary staffs are being hired for a renewable period of 12 months without having neither evidence to show any existence of a need to employ those temporary staff nor evidence that they are replacing some staff that had retired, resigned, dismissed etc.

- In addition, there was no any evidence in these staff's files, which indicate how they were recruited. It is therefore difficult to confirm whether the Community is hiring the right people. No staff performance appraisals being performed before ones contract is renewed or extended. Some of the temporary staff had no files.

- Noted also is that the current policy of merit and equity sometimes results in emphasizing on equity rather than merit and this may affect the level of professionalism within the Community.

EALA Management reported that it is true the 2006 approved structure of EALA provides for 31 members of staff and EALA has recruited 9 short term staff (Not temporary staff in the meaning of regulation 22) to supplement this structure. However, over the years, at the request of the House Business Committee and subsequently the Commission and the Clerk, the Council has approved additional staff structure for the professional Category while the secretary General on the advice of the HR advisory committee has approved additional staff for the general staff category to perform duties of the Assembly.

Section 4 and 11 of the administration of EALA Act 2011 empowers the Assembly through the Commission to make recommendations on the appointment of staff and creation of offices to ensure the efficient functioning of the Assembly.

The Community has now completed the process for the recruitment of additional staff amongst the, Principal Clerk, two Senior Clerks, Clerk Assistant, Hansard Reporter and Sergeant-at- Arms. The issue of the staffing gap is further being addressed by the ongoing Institutional review.

The Committee observed irregular recruitment and breach of Staff Rules and Regulations specifically regulations 12 and 20. In addition, the regular and irregular recruitments do not put into consideration equal representation of staff from each EAC Partner State.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to address the irregularities in staff recruitment.

2.3.2 Irregularities in overtime allowance payment

The Audit Commission reported that temporary staff were being paid overtime allowance after every staff fills the overtime sheet showing the overtime hours worked and the sheet is approved by his/her direct supervisor. The overtime allowances are part of the staff's salary and wages during the year under review, EALA had paid USD **76,676.00** to general staff. It is difficult to confirm whether these hours claimed and paid were actually worked because it is signed once a month.

The EALA Management responded that it concur with the observation of the audit commission that there is need for a daily attendance sheet as a way of control. The daily attendance sheet has been designed.

The Committee observed lack of control measures to monitor and justify overtime allowance and payment.

Committee Recommendation

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

i.) Devise strong measures for monitoring overtime to avoid ghost payment;

ii.) Monitor the work of general staff to ensure that their inefficiencies are not paid for in form of overtime payment; and

iii.) Always justify overtime allowances and payments.

2.3.3 Activity Imprest to Non-Finance Staff Beyond Stipulated Threshold

The Audit Commission reported that the following non-accounting staff were given imprest beyond the specified threshold centrally to Regulation 40 (6) of EAC Financial Rules and Regulations 2012 where activity imprest to non-finance staff should not exceed twenty thousand Dollars (USD 20,000).

Activity imprest to non-finance staff beyond stipulated threshold

Date	Staff	Chq no.	Amount(USD)
1-April-14	Enock Musiime	9290	23,150
16-May-14	Winifred Kaliba	9437	27,690
2-April-14	Beatrice Ndayizeye	9114	42,700
1-July-13	Lawrence Kamugisha	8480	21,970

The EALA Management responded that it concurs with the audit observation and correctional measures will be undertaken henceforth.

The Committee observed non-compliance with the EAC Staff Rules, Regulations, and guidelines that were issued by the Secretary General. There is also lack of supervision on implementation of guidelines.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to comply with EAC Staff Rules and Regulations.

2.3.4 Assets Register

The Audit Commission reported that the Assembly assets register availed for audit verification did not provide information on the location of the assets.

The EALA management reported that it completed its movement to the new offices at EAC headquarters building in 2013 and as such, the update of the register in relation to Asset coding and location has been finalised by the consultant.

The Committee took note of the progress.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to avail to the Audit Commission the coded assets and location for verification in the next audit exercise.

2.4 PROJECTS AND PROGRAMMES

A. African Peace And Security Architecture (APSA) Project

2.4.1 Budget Performance

Performance budgets use statements of missions, goals and objectives. It is a way to allocate resources to achieve specific objectives based on program goals and measured results. Hence the level of implementation of the project closely corresponds to the percentage of utilization of funds allocated to the activity.

The Audit Commission reported that the budget execution of APSA Project for period under review was 50% of the approved budget as seen in the table below;

BUDGET	ACTUAL Expenditure	Un utilized budget	BUDGET UTILISATION
2,956,175	1,472,084	1,484,091	50%

The EAC Management responded that the project has had challenges in receiving timely funds release from the donors. However, the project has continued to utilize the funds received to achieve the objectives of the project.

The Committee noted untimely release of funds by donors.

Committee Recommendation

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

i) Devise strategies of implementing the project activities in order to achieve the set goals within the planned period of the project; and

ii) Develop alternative approach to donors to ensure funds are released on time.

B. ALLIANCE FOR GREEN REVOLUTION IN AFRICA (AGRA)

Back ground and Overall goal of the project

Grant agreement was signed between AGRA and EAC on 16th January 2013 for a grant support of US$299,933 to carry out the activities of *"EAC Regional agricultural inputs systems Development"* from July 2013 to June 2015.

The overall goal of this project is to improve access of farmers in the EAC region to fertilizers and improved seeds of a wide variety, higher quality, affordable prices, and which are better suited to the soil and climatic conditions of the region by promoting inter and intra-regional trade of agricultural inputs as well as improving technology transfer. This will be achieved through the harmonization of appropriate laws, policies, regulations and standards for seeds and fertilizers to promote inter and intra-regional trade of fertilizer and improved seeds in the EAC region.

2.4.2 Budget Performance

The Audit Commission reported that the budget execution of AGRA for period under review was 15% of the approved budget as indicated in the table below:

Budget Performance

BUDGET Expenditure ($)	ACTUAL Expenditure($)	Balance($)	Budget Utilization
187,350	27,463	159,887	15%

The EAC Management responded that the project experienced implementation delays at the inception due to a miss match in allocation of funds to some key activities. Inadequate funds were allocated to consultancy fees for development of regional policies on fertilizers and seeds. These draft policies were meant to be first critical deliverables to inform implementation of the rest of the project activities. This challenge was resolved through mutual understanding between EAC Secretariat and AGRA. It was agreed that experts from relevant institutions in EAC Partner States be engaged to develop regional fertilizer and seed policies through technical meetings/workshops.

The Committee observed the general lack of attention to project details hence the unnecessary delays in projects implementation low budget utilisation.

Committee Recommendations

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

i.) Always carry out research to pre-empt foreseeable challenges and address them way before they mature; and,

ii.) Develop strategies to implement the project activities in order to achieve goals in planned period of the project.

C. COMESA CLIMATE CHANGE

2.4.3 Budget Performance

The Audit Commission reported that the budget execution of COMESA for the period under review was 50% of the approved budget as detailed below:

Budget Performance

BUDGET Expenditure ($)	ACTUAL Expenditure($)	Balance($)	Budget Utilization
833,826	416,541	417,285	50%

The EAC Management responded that the Programme's Financial Year follows the COMESA financial year (Jan-Dec) unlike EAC's financial year that runs from July-June. During the period under audit (July 2013- June 2013), the programme was experiencing cash flow challenges due the following reasons:

- Delayed disbursement of funds from the Development Partners (Norway and DfID). DfID had withheld expenditure under the programme for a period of 6 months (Nov 2013-May 2014) due to the Trade Mark South Africa (TMSA) audit;
- Consequently, COMESA disbursed only US$500,000 to the EAC in May 2014 after COMESA received the same from Norway and DfiD. This was against EAC's budget of US$833,826;
- EAC could not undertake any activities from the period January-May 2014 due to unavailability of funds. This included finalization of the 5 programme staff that had been interviewed in Dec 2013 and were due to report on duty in January 2014. The lasts disbursement to EAC of US$ 334,000 was made in Dec. 2014 and EAC had exhausted its funds;
- It therefore implies that EAC's expenditure of US$416,541 against the disbursed funds of US$500,000 represented 83.30%.

The Committee noted the challenges of differing financial years and late disbursements of donor funds among others.

Committee Recommendations

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

i) Always plan for future eventualities and peg activities to the required financial years; and,

ii) Always reinforce the strategies to implement the project activities in order to achieve goals in the planned period.

2.4.4 Consultancy services for the short listing of 16 project vacant positions

The Audit Commission reported that a tender was awarded to M/S CROWN AGENTS KENYA LIMITED for short listing exercise and preliminary interview for 16 project vacant positions for a contract amount of USD 67,590**.** Out of the total amount, COMSESA paid USD 21,122**.** The following irregularities were noted: -

a) The tender was awarded through single source (direct procurement); this is contrary to section 6.2 of procurement policies and procedures manual of EAC stipulating that all tenders above $50,000 should be done through open bidding.

b) An evaluation committee meeting held on 23rd August 2013 approved an amount of USD 66,519 without having formal financial proposal to the contract**.**

c) The contract was signed between EAC and the contractor on 26th August 2013, the consultancy fees increased from US$ 66,519 to US$67,590; the increment of USD 1,071 was not supported.

The EAC Management responded as follows:

In 2012, East African Community took a decision that the activities of short listing, and Due Diligence for donor funded project positions be done by a recruitment consultant. At the time, EAC had advertised 13 positions. The consultancy firm was procured competitively using open tendering as required by the procurement policies. After the evaluation, the Procurement Committee appointed CROWN AGENTS. This recruitment firm performed very well the tasks assigned.

In 2013, the Development Partners pressured EAC to fast track the recruitment of various new projects that EAC signed failure of which they would withdraw the funding. Due to the urgency to fill the those positions, Management took the decision that Crown Agents be requested to submit a quotation for conducting the short listing exercise for those vacant project positions including COMESA Climate Change Project since given the lengthy procurement process, EAC may lose the funds.

Crown Agents submitted a quotation for an amount of Pounds Sterling £43,390, which was approved by the Procurement Committee as required, with justifications. The contract signed between CROWN AGENTS and EAC amounts to Sixty Seven Thousand Five Hundred Ninety (67,590) which was the equivalent of the above amount. The variation seen at the time of approval by the Procurement Committee and the signing of the contract was due to different exchange rates applied.

The Committee noted breach of procurement procedures, poor contract management in the process of service procurement and non-provision of supporting documents during the audit period.

Committee Recommendation

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

i) Always comply with procurement procedures;

ii) Always plan ahead for projects of this nature;

iii) Always provide all required documents during the audit exercise; and

iv) Investigate irregular consultancy fees involved and take the necessary action.

D. EAST AFRICAN TRADE AND TRANSPORT FACILITATION PROJECT

EATTFP was approved by AfDB's Board of Directors on 29 November 2006. The Project objective is twofold: (i) improve the trade environment through the effective implementation of the EAC Customs Union Protocol; and (ii) enhance transport and logistics services efficiency along key Corridors by reducing non-tariff barriers and uncertainty of transit time. At appraisal, the Project was expected to lead to the following outcomes: (i) harmonized legal and regulatory customs framework established and enforced, leading to an effective Customs Union and free trade area by the end of the Project; (ii) appropriate Corridor management institutions on the Northern and Central Corridors are set up and/or strengthened and adequate transit transport facilitation is provided; (iii) total transit time through the two main Corridors are significantly reduced; and (iv) predictability of total transit and travel time along the region's main Corridors is improved.

2.4.5 Inadequate budget utilization

The Audit Commission reported that out of the total project budget of USD. 315, 050 only USD.152, 699 was actually utilized leading to a shortfall of USD 162,351.10 (48% of the budget) which is below average.

Nevertheless, a few achievements were made under the project, key among them, which include the following; Procurement for the Regional Customs IT interconnectivity System, Supervision services for the Regional Customs IT interconnectivity System, Operationalization of the Customs Information Technology Regulations.

The EAC Management concurred with the audit observation and informed that EATTF project initially had a closure date of 31st December 2013, as per the AfDB disbursement procedures. The listed activities were to be implemented in the Financial Year 2013/14 through funds from the special account operated by the EAC Secretariat, which was not replenished by the Bank as it was anticipated that the project was winding up. A project extension was sought and granted up to November 2014, but this clearance did not cater for replenishment of the special account to enable completion of the activities, it was mainly to allow for the implementation of the customs interconnectivity component whose payments are made directly by the bank (AfDB).The project extension letter was made available for audit verification.

The Committee noted the poor performance of the project.

Committee Recommendations

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

i.) Improve on management of projects by ensuring proper planning and timely actions; and

ii.) Ensure implementation of the outstanding activities is carried out within the remaining project time to avoid project extension costs.

E. INTER-AFRICAN BUREAU FOR ANIMAL RESOURCES (IBAR) PROJECT

2.4.6 Budget Performance

The Audit Commission reported that the budget execution of IBAR for period under review was 3% of the approved budget as detailed below:

Table 29(d) Budget Performance

BUDGET Expenditure ($)	ACTUAL Expenditure($)	Balance($)	Budget Utilization
250,630	7,649	242,981	3%

The EAC Management responded that the Development Partner, IBAR, requires that an accountant recruited and directly paid by the project do the project financial management. The accountant of the VETGOV project fell sick in July 2013 and IBAR did not recruit a replacement. Since then, the project has not received any more funds from AU-IBAR for the Financial Year 2013/2014. Management is pursuing this matter with AU-IBAR.

The Committee noted the causes of the very poor performance of the project.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to engage IBAR to replace the sick accountant and report progress to the Assembly by March 2016.

F. INTER - REGIONAL COORDINATING COMMITTEE (IRCC) PROJECT

2.4.7 Project Idleness

The Audit Commission reported that IRCC project was funded by European Development Funds (EDF). The role of the project included but was not limited to the following roles;

- Supporting all stages of the project cycle for 9th and 10th Regional strategy paper/Regional indicative program (RSP/RIP);
- Contribution to the regional integration agenda;
- Contribution to the Aid effectiveness agenda.

The duration of the project was up to January 2013. During the financial year ended 30th June 2014 the project was idle, only some accrued expenses were paid during the period under review but there was no any activity that was under taken.

Furthermore, IRCC bank accounts 3300546168 (USD) with a balance of USD 139,005 and 3300546176 (Euro) with the balance of € 1,016 both opened in KCB-TZ are currently dormant. Audit Commission has not been given any way forward subsequent to the end of the term of the project.

The EAC Management reported as follows: -

The project IRCC is still ongoing. However, during the year under audit, there was a period of lapse as the project extension was being worked on (Rider). It should be noted that this project is for all RECs,-EAC, COMESA and IGAD and this took time. The Programme Estimate 1 was covering the period from 01/08/2011 to 31/01/2013. Since this was time bound hence on, the end of date no other activities were carried out hence the dormant accounts.

There is a second Programme Estimate now that was signed from August 2014, two months after the audit exercise. Since then, more money was remitted and the project is operational.

The Committee noted progress of the project.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to avail evidence of project progression to the Audit Commission for verification in the next audit exercise.

G. Maritime Security Project

The Eastern and Southern Africa and Western Indian Ocean region (ESA-IO) is increasingly subject to security challenges linked to piracy, maritime insecurity and organised crime. Maritime security and law enforcement in the Indian Ocean region are of international importance due to the high level of trade routed via sea and thus the threat that piracy and other strands of organised crime represents for crews and passengers and more widely for the security of navigation.

Therefore following the adoption of the East and Southern Africa (ESA)-IO (Indian Ocean) Maritime Security Strategy and Action Plan by Regional Ministers at a Ministerial Meeting held in Mauritius in October 2010, the EU offered to facilitate seed funding to support the implementation of the Strategy and Action plan in light of the serious problem related to Somali Piracy in the Indian Ocean.

A technical team drawn from all ESA-IO RECS thereafter commenced on a project development exercise, which culminated into the signing of a financing agreement for an ESA-IO Maritime Security Project with an overall EU commitment of Euros 37.5 million on June 27th 2013.

The overall objective of the project is to enhance maritime security in the ESA-IO region hence contribute to global security and create a favourable environment for the development of the ESA-IO Region and beyond.

The specific objective of the project is to strengthen the capacity of the ESA-IO region in the implementation of the Regional Strategy and Action Plan against Piracy and for Maritime Security.

Implementation of the EAC component commenced on 15th April 2014 upon conclusion of an 18 month program estimate within the EU Delegation in Dar-es-Salaam. The start-up component of the project was approved for implementation by EALA in February 2014 awaiting conclusion of PE1.

2.4.8 Inadequate Budget Performance

The Audit Commission reported that out of the total project budget of USD. 315, 050 only USD.152, 699 was actually utilized leading to a shortfall of USD 162,351.10 (48% of the budget) which is below average.

However, despite the shortfalls in the project implementation highlighted above, some achievements were achieved by the end of the financial year. Among others included the following; Three capacity building workshops were carried out with specific focus to improving regional forensic services, benchmarking for prison and correctional services, improving the capacity of Judicial service Officers and Chief Justices.

The EAC Management responded that the approval to implement the project by the Legislative Assembly was received in May 2014, which was one month towards the end of the financial year 2013/2014. This had an impact on the overall budget utilization and implementation of the project activities. Management has always strived to ensure that projects are being implemented effectively. Management also concurs with the advice given and will ensure that outstanding activities as approved by the donor are implemented.

The Committee noted challenges faced.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to implement outstanding activities expeditiously within the remaining project time to avoid project extension costs and report progress in the next audit exercise.

H. REGIONAL POLITICAL INTEGRATION AND HUMAN SECURITY SUPPORT PROGRAMME (RPIHSSP)

The East African Community (EAC) together with Common Market for the Eastern and Southern Africa (COMESA) and Inter-governmental Authority for Development (IGAD) jointly implemented the Regional Political Integration and Human Security Support Programme. The programme was funded under the EDF 10 arrangement of the European Union.

The East African Community was the leading Regional Organization (RO) in good governance component, while COMESA and IGAD lead the democratization and migration management components respectively. While each RO took the lead on a specific component of the programme, they all implemented activities in all the three programmatic areas.

The overall objective of the programme was to contribute to deepening of regional political integration as an integral part of regional integration and as a way of assuring peace and stability in the Eastern and Southern Africa- Indian Ocean Region (ESA- IO). Specific objective of the programme was to contribute towards improved levels of good and democratic governance and human security in the (ESA-IO) regions.

The Financing Agreement between EAC and the European Union was signed in March 2010 and fund disbursement was effected in October 2010. Programme Estimate I was implemented from October 2010 to October 2011 paving way for the Programme Estimate II that was to run up to September 2012. However due to late start of program implementation; a no- cost extension of the Financing Agreement was approved in September 15th 2012, thus paved way for extension of the implementation period to September 2013.

The project implementation period ended on 15th September 2013, with the closure period from 16ht Sept2013 to 15th Dec 2013.

The Committee observed that there was no action plan in place for the programme.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to put action programmes for all projects and programmes always.

J. ARUSHA-NAMANGA- ATHI RIVER ROAD (ANAR) PROJECT

The project is an ADB funded project. The details of the project are as follows:

IDF Grant Number	P-ZI-DB0-038
Grant no	2100155008616
Agreement Date	8th February 2007
Agreement Amount	UA 3,128,000
Closing date	31 December 2012
Description of the project	Arusha-Namanga- Athi River Road

The objective of the project is to improve essential road transport infrastructure between Kenya and Tanzania.

To support regional integration, cross border trade, tourism, socio-economic development of the zone of influence and a contribution to the reduction of poverty.

The Audit Commission carried out the audit of The **Arusha-Namanga-Athi River road (ANAR)** Project, for the year ended 30th June 2014 on 26th January 2015. During the course of the audit, some issues were identified.

The objective of the audit was to obtain reasonable assurance as to whether the financial statements are free from material misstatements but not to identify matters that may be of interest to management in discharging its responsibilities highlighted in the engagement letter. Because of audit observations, some suggestions were outlined as indicated below.

2.4.9 Lack of Budget and Action Plan

Arusha-Namanga-Athi River Road Project (ANAR) received revenue from different partners as detailed below:-

Budget and action plan

Partner	Amount contributed (USD)
ADB (through direct payment)	569,391.18
Tanzania	358,951.07
Kenya	197,350.00
Total	1,125,692.25

The Audit Commission reported that the revenue was used to settle invoices of consultant fees in relation to the road consultancy services for the feasibility studies and detailed engineering design Mulindi- LungaLunga/ Horohoro-Bangamoyo Road, administrative costs including meeting, training and travelling. However, the project worked without action plan showing the planned for the year.

Furthermore, as result of not having the budget, the EAC did not include the activities of this project in its budget for the year ended 30 June 2014.

The EAC Management reported that it would ensure that all funds irrespective of their sources would be included in the EAC budget (MTEF).

The Committee takes note of the EAC Management undertaking.

COMMITTEE RECOMMENDATIONS

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

i.) Always have an action plan detailing the activities to be conducted during the period, and regularly make follow up on their implementation;

ii.) Ensure that all sources of revenue under its custody are included in its budget for proper management;

iii.) Build capacity of Partners involved in the project; and

iv.) Report progress of action taken in the next audit.

K. COMPREHENSIVE SUPPORT TO EAC REGIONAL INTEGRATION (CSRI) PROJECT

This project is funded by United States through the United States Agency for International Development (USAID). The details of the project are as follows:

Agreement number	623-AA-09-002-00-EAC
Initial Agreement Date	23 September 2009
Agreement Amount	USD 13,026,500 (based on the seventh amendment dated 26th February 2014)

The primary objective of the project is to increase Regional Economic Growth and Integration in the EAC region. The project cuts across sectors of Trade and Customs; Food Security and Food Safety; Clean Energy, Climate Change, Biodiversity and WASH (Health and Institutional Strengthening Support).

The Audit Commission reported that it carried out the audit of the Comprehensive Support To Eac Regional Integration (CSRI) Project, For the year ended 30th June 2014 and outlined some suggestions for management consideration.

2.4.10 Low Absorption of Budgeted Funds

The Audit Commission reported that a review of the project budget performance report indicated that the project absorbed 55 % of the budgeted funds during the year under review. Planned activities for USD 1,107,262 reported zero expenditure an indication that they were not implemented totally.

The EAC Management reported that during the Financial Year (FY) 2012/13, the overall budget utilization was low with only one component being above 50%. The entire expenditure for the year was $819,355 against a budget of $2,201,386 resulting in a low 37% utilization. The under spending was because of limited technical and administrative capacity.

After the recruitment of three (3) USAID supported staff in July 2013, there is a notable improvement in projects implementation; the budget utilization rate has increased from 37% in FY 2012/13 to 55% in FY 2013/14. Annual expenditures tripled from$ 819,355 in FY 2012/13 to $ 2,930,977 in FY 2013/14.

However some activities planned did not take place especially aflatoxin related activities due to the restructuring of the Project. The 27th Meeting of the EAC Council of Ministers called for a holistic and multi-sectoral approach that encompasses Agriculture, Health, Trade and Industry sectors in the implementation of the EAC Aflatoxin interventions at national and regional levels. The 27th Council of Ministers further directed the EAC Sectoral Council on Agriculture and Food Security to co-opt and engage relevant experts from health, trade and industry sectors when addressing matters of aflatoxins (EAC/CM 27/Directive 21). Pursuant to this directive, the EAC Secretariat restructured the aflatoxin project to cover seven clusters in the areas of standards development, animal and human health, agriculture, environment, economic impacts on trade, communication and awareness and vaccination/immunization. The International Institute of Tropical Agriculture (IITA) was brought on board to provide technical backstopping in the implementation of the project. The restructuring of the project, the new partnership arrangements and the need for reallocation of funds to accommodate the new structure resulted to delays in implementing some of the planned activities. Details on activities not implemented and reasons are given below:

Planned activities not undertaken

ACTIVITY DESCRPTION	BUDGET	ACTUAL EXPEND ITURE	REASON FOR NOT UNDERTAKING THE ACTIVITY
Adopt regional concept paper and strategy	88,005	0	
Development of a regional framework on Single Window	64,200	0	The activity was not undertaken because of the delay in procurement of a consultant to develop a regional framework on Single Window, which is now finalized. The consultant is expected to commence work in April and finalize by July 2015
Enactment and operationalization of the Customs Information Technology regulations	47,600	0	The customs information technology regulations were passed by the council of ministers in November 2014. They have been gazetted and are ready for application
To convene one stakeholders forum	208,400	0	
Experts for verification of papers Cluster no. 5	33,950	0	Technical paper under cluster 5 has been verified
To develop EAC harmonized standards for aflatoxin	64,980	0	The activity took place in January 2014
EAC health, agriculture and trade staff retreat	10,200	0	The staff retreat was postponed to June 2015
EAC Staff trainings on Aflatoxin	17,700	0	Training plan is ready waiting for approval
Map the size of Key populations in the EAC region	132,450	0	
To print and disseminate Information Education	30,500	0	Policy briefs to be printed by 30th June 2015. This was dependent on finalization of technical papers under various clusters and hence the delay

ACTIVITY DESCRPTION	BUDGET	ACTUAL EXPEND ITURE	REASON FOR NOT UNDERTAKING THE ACTIVITY
Payment of Salary and Allowance for IT Expert for	52,224	0	We had anticipated to get the expert by January 2014 but we only got the expert by June 2014
Payment of Salary and Allowance for Climate Change	21,457	0	Part of this money will be used to settle outstanding claims for education and spouse allowances for CCAS
To develop an EAC Water Vision 2025	44,100	0	The donor (USAID/ EA) provided some changes in priority areas and the two activities were dropped
Review of the inception report on the EAC Water	38,000	0	
Staff capacity building on Control of Aflatoxins	35,700	0	Training plan is ready waiting for approval
Workshop for the multi-sectoral committee	23,200	0	Inception workshop for the multi-sectoral committee was held in March 2014 in Bujumbura
Experts to verify technical papers Cluster no. 3	53,250	0	Delays occasioned by the restructuring of the project as explained below. The paper were verified between July and December 2014
Consultative meeting for the coordination	14,900	0	This activity was undertaken in September 2014
EAC Agriculture Staff trainings on Aflatoxin	21,400	0	Some of the staff to attend training in May 2015
Workshop for the multi-sectoral committee	24,200	0	Inception workshop for the multi-sectoral committee was held in March 2014 in Bujumbura
Experts to verify technical papers Cluster no. 3	52,750	0	Delays occasioned by the restructuring of the project as explained below. The papers were verified between July and December 2014

ACTIVITY DESCRPTION	BUDGET	ACTUAL EXPEND ITURE	REASON FOR NOT UNDERTAKING THE ACTIVITY
To print and disseminate Information Education	28,096	0	Policy briefs to be printed by 30th June 2015. This was dependent on finalization of technical papers under various clusters and hence the delay
Total	1,107,262	-	

The Committee observed the inability to implement planned activities.

Committee Recommendation

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

i.) Ensure that planned activities are implemented as per the project action plan and budget; and

ii.)

iii.) Report implementation progress in the next audit exercise.

L. PUBLIC FINANCIAL MANAGEMENT (PFM) PROJECT

The project is a World Bank funded project for PFM coordination and Harmonization in East African Community countries. The details of the project are as follows:

IDF Grant Number	TF014974
Agreement Date	15th August 2013
Agreement Amount	Not Exceeding USD 1 Million

The objective of the project is to harmonize and coordinate the setting up of PFM standard amongst EAC Partner States to facilitate compliance with the monetary and financial cooperation requirements in the EAC Treaty as Key aspect of becoming a Monetary Union.

The agreement requires that the project shall hire a financial management and procurement consultant with experience, qualification and terms of reference acceptable to the World Bank to assist with fiduciary aspect of the project.

Designate one of its staff with experience, qualifications and terms of reference acceptable to the World Bank as the Project Coordinator. The coordinator shall be responsible to oversee the work carried out by the consultants and consolidate the reporting on progress made.

The Eligible Expenditure according to the grant agreement is as follows:

Category	Amount of the Grant Allocated (USD)	Percentage of expenditures to be financed (Inclusive of taxes)
Goods	9,000	100%
Consultants' Services (Including Audit)	862,00	100%
Training/ Workshops	129,000	100%
TOTAL	1,000,000	

The Audit Commission reported that the audit of The Pubic Financial Management (PFM) Project, for the year ended 30th June 2014 revealed the following:

2.4.11 Spending in excess of funding agreement

The project agreement provided for a total of USD 129,000 to be expended for training and workshops over the project period. It was however noted that during the year the project incurred a total of USD 178,606 on conferences and meetings contrary to the requirement of the agreement.

The EAC Management responded that it acknowledged this observation, and stated that the PFM project held two stakeholders' workshops in Nairobi, Kenya and Kigali, Rwanda to agree on the areas of coordination and harmonization and develop road maps for implementation of the agreed standards. During the preparation of the two workshops, the project World Bank Task Team Leader (TTL) was informed that the proposed costs for holding these two meetings would justifiably exceed the amount of the grant allocated to Training/Workshops, to which the TTL understood and gave ago ahead for the two workshops to proceed at the proposed costs.

The TTL agreed with management to proceed with proposed meetings at the proposed costs and a review of the allocated funds to Trainings/Workshops in the grant would be reviewed as the project progressed.

The Committee observed the anomaly.

Committee Recommendations

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

i.) Build capacity of its staff on activities of projects;

ii.) Always plan for all the activities and avoid unjustifiable re-allocations.

M. EAC REGIONAL MULTI-SECTORAL HIV AND AIDS PROGRAMME

HIV and AIDS is a regional program being implemented with financial support from the Swedish and Norwegian Governments through the Swedish International Development Agency (SIDA), and from the Republic of Ireland through Irish AID.

The Programme Vision: "An East African environment free of HIV and AIDS".

Programme Goal: "To reduce incidence of HIV infection in the East African region in order to secure sustained socio-economic development in the region."

The EAC HIV and AIDS Program activities are based on the eight Strategic Objectives of the EAC HIV and AIDS Multi-sectoral Strategic Plan 2008-13 as outlined below;

i) To enhance the institutional capacity of the EAC Secretariat so as to secure effective implementation of regional and national responses to HIV and AIDS

ii) To mainstream HIV and AIDS in the EAC Organs, institutions and Sectors

iii) To improve the effectiveness of interventions through the harmonization of EAC Member States' HIV and AIDS protocols, policies, plans, strategies, and legislation

iv) To improve the design and management of national and regional responses to HIV and AIDS through the generation of, and easy access to, strategic information and knowledge on the epidemic

v) To scale-up regional and national Reponses to HIV and AIDS through the strengthening of political leadership and commitment towards addressing the epidemic

vi) To consolidate effective partnerships among strategic partners both within and outside the EAC region in response to HIV and AIDS

vii) To improve the work environment by operationalising an EAC Workplace Policy on HIV and AIDS

viii) To strengthen regional responses to mitigate the effects of vulnerabilities related to HIV and AIDS that result from internal and cross-border population mobility within the East African region through harmonized responses and interventions by various multisector stakeholders

The EAC secretariat is implementing a regional HIV and AIDS strategic plan 2013 – 2015, supported by the Government of Sweden through SIDA, to coordinate the HIV response in the region, and mitigate the impact of HIV and AIDS.

The Audit Commission reported that financial statement of EAC Regional multi-sectoral HIV and AIDS Programme for the year ended 30th June 2014 revealed the following:

2.4.12 Budget Performance

Best practice requires that Project Management should implement activities as planned.

Analysis of the budget performance revealed the following instance of overspending beyond the budget:

Budget performance

Activity Description	Budget (USD)	Actual (USD)	OVERSPENT AMOUNT (USD)	OVERSPENT DIFFERENCE (%)
Facilitate Annual HIV and AIDS Programme external audit	16 000	28 000	12000	75%

Also noted were cases of underutilization of the budgets as follows:

Underutilization of Budget

Activity Description	Budget (USD)	Actual (USD)	UNUTILISED AMOUNT (USD)	UNUTILISED (%)
Pay for Office Utilities	12 800,00	3 418,59	9 381,41	73%
Conduct end of programme Evaluation of 2012/14 Plan and Develop the regional HIV and AIDS Strategic Plan for 2014/2016	25 100,00	-	25 100,00	100%
Develop the regional HIV and AIDS Strategic Plan for 2014/2016	17 400,00	3 901,76	13 498,24	76%
Hire Consultant to develop a regional EAC Legal reform Action plan to address the gaps	8 500,00	-	8 500,00	100%
Disseminate the EAC HIV and AIDS work place policy to 3 Organs and 5 institutions	28 000,00	-	28 000,00	100%

Activity Description	Budget (USD)	Actual (USD)	UNUTILISED AMOUNT (USD)	UNUTILISED (%)
Develop a regional resource Mobilization and sustainability strategy	18 800,00	-	18 800,00	100%
Develop the operationalization plan for the regional HIV and AIDS resource mobilization strategy	8 200,00	3 550,00	4 650,00	57%
Map the size of Key populations in the EAC region	84 000,00	28 022,40	55 977,60	67%

The EAC Management responded with the following illustration:-

Activity Description	*Budget (USD)*	*Actual (USD)*	*Overspent (USD)*	*Overspent Difference (%)*
Facilitate Annual HIV and AIDS Programme external audit	*16 000*	*28 000*	*12000*	*75% (The over expenditure arose from the audit fees of the previous FY 2012/13 which was not accrued and was paid in 2013/14, together with the Audit fees for 2013/14. Thus over expenditure.*

Also noted were cases of underutilization of the budgets as follows:

Activity Description	Budget (USD)	Actual (USD)	UNUTILISED AMOUNT (USD)	UNUTILISED (%)
Pay for Office Utilities	*12 800,00*	*3 418,59*	*9 381,41*	*73% This is Based on actual expenditure.*
Conduct end of programme Evaluation of 2012/14 Plan and Develop the regional HIV and AIDS Strategic Plan for 2014/2016	*25 100,00*	-	*25 100,00*	*100% The program experienced a delay in disbursement of funds thus this activity was not implemented*

Activity Description	Budget (USD)	Actual (USD)	UNUTILISED AMOUNT (USD)	UNUTILISED (%)
				during this period and therefore has been extended to June 2015 instead of June 2014.
Develop the regional HIV and AIDS Strategic Plan for 2014/2016	*17 400,00*	*3 901,76*	*13 498,24*	*76%* *This is WIP. And the delay has been due to failure of the first consultant to finalize the strategic plan due to contractual issues. New consultant on board and work is in progress.*
Hire Consultant to develop a regional EAC Legal reform Action plan to address the gaps	*8 500,00*	-	*8 500,00*	*100%* *Activity was implemented with technical support from UNDP, RSC for Africa based in Addis Ababa. No consultant was paid for by the EAC.*
Disseminate the EAC HIV and AIDS work place policy to 3 Organs and 5 institutions	*28 000,00*	-	*28 000,00*	*100%This is work in progress.* *And this will be implemented this financial year, 2014/2015.*
Develop a regional resource Mobilization and sustainability strategy	*18 800,00*	-	*18 800,00*	*100%* *Activity not implemented due to late disbursement of Funds from SIDA. This has been rescheduled for this financial year. This will follow the recommendations from*

Activity Description	Budget (USD)	Actual (USD)	UNUTILISED AMOUNT (USD)	UNUTILISED (%)
				the High Level Dialogue on domestic financing.
Develop the operationalization plan for the regional HIV and AIDS resource mobilization strategy	*8 200,00*	*3 550,00*	*4 650,00*	*57%* *Delayed implementation. A high Level Dialogue Meeting (HLDM) is on plan, which will provide guidance on process for developing the strategy.*
Map the size of Key populations in the EAC region	*84 000,00*	*28 022,40*	*55 977,60*	*67%* *No funds. The cost of the study is so high and we are considering use of the funds for other key activities. -REALLOCATION. Another reason for delayed implementation was a result of slow actual development of the research TORs and protocol. Countries are also conducting mapping studies with support from CDC country programmes. we decided not to duplicate, and study requires experts on such matters. The activity also experienced delays in the recruitment of consultants and agreement on the methods to be used in this study. This work in progress for the FY 2014 /2015.*

The Committee noted management response.

Committee Recommendation

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

i.) Always devise strategies to ensure activities are implemented as planned; and

ii.) Always present required documentation to the Audit Commission for verification.

N. GOVERNMENT OF CHINA BUDGET SUPPORT TO EAC

The East African Community and the Government of the peoples' Republic of China signed the agreement on the supporting the EAC's integration process, and strengthening cooperation in economy, trade, investment, infrastructure and capacity building, based on equality and mutual benefit and within the framework of their respective domestic laws and regulations. The agreement was signed on 17th of November in the year 2011.

2.4.13 Delays in retirement of imp rest USD 43,000

The Audit Commission reported that a review on the imprest paid to various staff within financial year 2013/14 revealed that imprest advances amounting to USD 43,000 were lately retired for a range of 7 to 67 days contrary to Regulation 40 (3 & 4) of the Financial Rules and Regulations of EAC.

The EAC Management responded that staff having connecting missions caused the Delay in retirements. The recovery mechanisms were instituted including reminder, but later on the staff deposited unutilized cash to the respective bank account and deposit slips are available for verification.

The Committee observed reluctance on the part of EAC Management to implement the set rules and regulations.

Committee Recommendation

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

i.) Ensure that all the imprest given out is retired within five working days after the end of the activity and 10% surcharge be recovered from the salaries of all staff who fail to retire their imprest within the prescribed time;

ii.) Stop advancing imprest to staff withholding retirements; and

iii.) Issue circular to all staff requiring an explanation of late retirement.

O. EAC - MRH PROGRAMME

The East African Community MRH Programme was officially launched on 30th March 2012, in Arusha, Tanzania. The Purpose is to improve access to safe, efficacious and good quality essential medicines for the treatment of conditions of public health importance.

Goal: To have a harmonized and functioning medicines regulatory system within East African Community in accordance with national and internationally recognized policies and standards [WHO & ICH].

Funding Agency: Bill and Melinda Gates Foundation

Project Grant Management and Administration: The World Bank

Implementation Period in two phase: Three (3) years and 2 years

Expected Closing Date for phase I: 31st Dec 2014

Grant to EAC Secretariat Phase I: USD5.55Million

Project Components

Component One (I); Regional Coordination and Capacity building for medicines regulatory harmonization (USD 2.4M).

Core activities include development of regional harmonized manuals, requirements, guidelines and standard operating procedures by four regional technical working groups (TWGs) namely; Medicines Evaluation and Registration (MER), current Good Manufacturing Practices (GMP), Quality Management Systems (QMS) and Information Management Systems (IMS). In addition, the component supports regional capacity building and establishment of centres of excellences (CoE) in accordance to the four mentioned thematic areas.

Component Two (II): Institutional Development and Strengthening of National Medicines Regulatory Authorities (USD 3.13M). The component finance activities at the NMRAs/ Country level covering cost of personal, training, in-country workshops, technical assistance and supply of ICT equipment's (hardware and software).

2.4.14 Budget performance

The Audit Commission revealed that a review on MRHP Budget for the financial year 2013/2014 noted that MTEF annual approved budget was USD 2,952,266 whilst the expenditures at the year-end was only 2,031,965 translating to 69% as detailed below:

Table 43 Budget performance-MRH

DESCRIPTION	ANNUAL BUDGET	ACTUAL EXPENDITURES TO JUNE 2014	VARIANCE	% SPENT
Support in EAC International meeting	9,350	-	9,350	0
Procurement of office equipment	42,000	17,727	24,273	42
Facilitate TWGs	20,020	12,782	7,238	64
Training of NMRAs	13,200	392	12,808	3
Strengthening NMRAs	7,500	0	7,500	0
Procurement of IMS Equipment	761,721	33,396	728,325	4
Convene Sectoral council	40,500	13,635	26,865	34
Visa processing	9,000	5,118	3,882	57
International forum participation	11,400	8,284	3,116	73
Office running expenses	40,700	8,766	31,934	22
procurement of reference materials	70,000	56,414	13,586	81
Acquisition of video equipment	3,500	0	3,500	0
Capacity building of NMRAs	308,314	220,927	87,387	72
Conduct join assessment	104,200	92,520	11,680	89
Facilitate Regional stakeholders	275,250	151,861	123,389	55

The EAC Management responded with the illustration below:

Final budget performance report with explanations.

	ACTIVITY DESCRIPTION	BUDGET AMOUNT	ACTUAL SPENDING	VARIANCE	%AGE SPENT
1	*Salary and staff benefits - staff based EAC HQ*	*288,964*	*277,928*	*11,036*	*96%*
2	*Salary and staff benefits – NMROs*	*334,992*	*330,645*	*4,347*	*99%*
3	*Develop and finalize the Harmonized guidelines*	*444,060*	*464,522*	*(20,462)*	*105%*
4	*Support NMRA Burundi*	*10,000*	*10,000*	*-*	*100%*
5	*Support in EAC International meeting*	*9,350*	*-*	*9,350*	*0%*
6	*Procurement of office equipment*	*42,000*	*17,727*	*24,273*	*42%*
7	*Facilitate TWGs*	*20,020*	*12,782*	*7,238*	*64%*
8	*Training of NMRAs on risk based approach*	*13,200*	*392*	*12,808*	*3%*
9	*Strengthening NMRAs*	*7,500*	*7,500*	*-*	*100%*
10	*To map registration*	*121,200*		*121,200*	*0%*
11	*Procurement of IMS Equipment*	*761,721*	*307,122*	*454,599*	*40%*
12	*Convene Sectoral council*	*40,500*	*13,635*	*26,865*	*34%*
13	*To process visa*	*9,000*	*5,118*	*3,882*	*57%*

	ACTIVITY DESCRIPTION	BUDGET AMOUNT	ACTUAL SPENDING	VARIANCE	%AGE SPENT
14	*To participate in International for a*	*11,400*	*8,284*	*3,116*	*73%*
15	*Office running expenses*	*40,700*	*8,766*	*31,934*	*22%*
16	*Procurement of reference materials*	*70,000*	*56,414*	*13,586*	*81%*
17	*Acquire Video camera*	*3,500*	*2,605*	*895*	*74%*
18	*Building capacities of NMRAs*	*308,314*	*220,927*	*87,387*	*72%*
19	*Conduct joint assessment*	*104,200*	*92,520*	*11,680*	*89%*
20	*Facilitate the Project Steering Committee*	*36,395*	*53,322*	*(16,927)*	*147%*
21	*Facilitate Regional stakeholders*	*275,250*	*141,756*	*133,494*	*52%*
TOTAL		*2,952,266*	*2,031,965*	*920,301*	*69%*

The overall budget performance is 69% of the total budget, with two budget lines 5% over and 47% above budget explained below for the overrun.

1. The major activities under this project during phase I was development of regulatory guidelines (IMS, QMS, GMP & MER), this unplanned activities was planned in Dar es salaam aiming to review these guidelines before presented to Sectoral Council in Zanzibar for approval.

2. Steering Committee – overrun resulted Phase I review activities carried out to all Partners States during May & June 2014, which were not planned for in the budget but important for Project to qualify for Phase two.

3. International meetings – all international meeting attended by Programme officers were fully paid by Organisers

4. Mapping registration – the activities was postponed because of Phase I

review meetings implemented during May / June 2014, this activity was implemented in July 2015 using year 2014/2015 budget

5. Actual training on Risk based training was postponed to the current financial year 2014/15 until the Guidelines on QMS is finalised, printed and distributed to NMRAs, NEPAD is currently finalising the printing of these documents

6. The Sectoral Council carried out in Zanzibar was jointly financed by both EAC Secretariat and all projects under Health Department

7. Major activity, which pulls down the performance to 69%, was part implementation of IMS Equipment. Under this budget lines the Project managed to procure only VC (Video Conferencing Equipment) amounting to USD 240,330, the IMS Equipment was finally agreed to be procured jointly by MRHP and TMEA during year 2014/2015. MRHP agreed to pay for Hardware and TMEA will pay for Software.

The Committee noted management response and observed that to some extent, budgeting was done in disregard of existing prices.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to take corrective measures and implement all activities as per approved work plans and budget.

2.4.15 Expenditures over and above budget limits USD 169,453

The Audit Commission reported that MRHP documents for the year under review indicated over expenditures in some budget line items. There were no prior approvals from oversight board for the excess expenditures contrary to Section 14.2 (d & f) of EAC Financial manual (2013) as shown in the table below:

Expenditures over and above budget

DESCRIPTION	ANNUAL BUDGET	ACTUAL EXPENDITURES TO JUNE 2014	VARIANCE	% SPENT
To map registration	121,200	273,726	152,526)	-126
Facilitate the project steering committee	36,395	53,322	(16,927)	-47
Total	157,595	327,048	(169,453)	-173

The EAC Management responded that the overall budget performance was 69% of the total budget, with two budget lines 5% over and 47% above budget explained below for the overrun:

1. Major activities under this project during phase I was development of regulatory guidelines (IMS, QMS, GMP & MER), more time was required to review these guidelines in Dar es salaam before approval by Sectoral Council in Zanzibar.

2. Steering Committee – overrun resulted Phase I review activities carried out during May & June 2014, which were not planned for in the budget.

3. International meeting – all international meeting attended by Programme officers were fully paid by Organisers.

4. Mapping registration – was postponed because of Phase I review meeting, which was implemented in July 2015.

5. Major activities which pulled down the performance were IMS Equipment, whose budget lines was used to procure VC Equipment and the IMS which was finally agreed to be procured jointly by MRHP and TMEA during year 2014/2015. MRHP will pay for Hardware and TMEA will pay for Software

The Committee observed weaknesses in planning.

Committee Recommendation

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

i.) Strengthen planning exercise for projects and programmes; and

ii.) Always seek approvals for expenditures not planned for.

2.4.16 Unclaimed VAT - USD 9,795.99

The Audit Commission reported that the Organization paid taxes contrary to Article 4 Section 1 Sub Section (d) of the EAC Headquarters Agreement and Regulation 83 paragraph (7) of EAC financial rules and regulations (2012). A total of USD 7,972.99 remain unclaimed.

It was also revealed that MRHP did not include or disclose this receivable of USD 7,972.99 in their financial statements, implying that the project will not claim this amount from the Tax Authority.

The EAC Management responded that the items referred to by the Audit Commission are VAT charged on conference cost and procurement of assets. Out of total of USD 9,795.99, the USD 4,267.80 was incurred and paid in Tanzania. Management received a total refund of USD 716.41 to date and the total of USD 3,551.39 was submitted later pending refunds. A total of USD 5,528.10 was paid in Partners states as conference fee.

For payment made in United Republic of Tanzania, management prepare and claim refunds from Tanzania Revenue Authority (TRA). Payment in other Partners States, currently do not have an administrative arrangement in place to get refunds, but management finally agreed with Permanent Secretaries that EAC would submit the claims through the Ministries in charge of EAC Affairs, which shall liaise with the respective Revenue Authorities.

The Committee observed lack of initiatives and commitment to claim VAT and other taxes from revenue authorities expeditiously.

Committee Recommendations

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

i) Initiate agreements with all EAC Partner States on EAC tax exemptions; and

ii) Show evidence of steps taken on VAT claims and initiation of agreements on exemption of taxes in the next audit.

2.4.17 Project assets not physically verified.

The Audit Commission reported that a review of MRHP documents operations and financial statements for the year under review revealed that periodic physical verification of assets was not carried out during the year since the report of the board of survey on verification of fixed assets of the East African Community at closure of the financial year ending 30th June 2013 does not include the assets of MRHP. The practice contravenes Regulation 98(6) of EAC financial rules and regulations (2012).

The EAC Management responded that the MRHP assets are located in seven different locations, namely EAC offices located at AICC (Kilimanjaro wing, 5th floor in two rooms, six National Medicine Regulatory Authorities (NMRAs) offices in Zanzibar, Dar es Salaam, Nairobi, Kigali, Bujumbura and Kampala. Board of Survey inadvertently left out fixed assets located in EAC Kilimanjaro wing 5th floor Health Department (two rooms); a formal request has been sought to the board of survey to verify the left out assets, while assets located in NMRAs were physically verified by respective NMRAs. For the subsequent years end, the Project management will ensure the all project assets are physically verified by Board of Survey.

The Committee observed weak internal controls.

Committee Recommendations

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

i.) Strengthen its internal controls;

ii.) Always update and carry out annual physical assets verification; and

iii.) Provide updated reports to the Audit Commission for verification.

2.4.18 Delays in retirement of imprest USD 16,366

The Audit Commission reported that a review on the imprest paid to various staff within financial year 2013/14 revealed that imprest amounting to USD 16,366.00 were lately retired for the range of 32 to 123 days contrary to Regulation 40(3&4) of the Financial rules and regulations of EAC.

The EAC Management responded as follows:

1. The imprest holders (Principal Health Officer) after attending the Project Steering committee meeting in Bujumbura, proceeded to another meeting organized by the World Bank in its Nairobi offices before returning to Arusha for the PV concept note preparation, copy of the invitation letter available.

2. This was the imprest for DSA and procurement of Computers and its accessories and Furniture for NMRA Offices Rwanda and Burundi, the activities was done in December 2013 and January 2014. The Procurement Officer was reminded with several memo and telephone calls but she was busy most of the time away from Arusha on several assignments therefore unable to retire on time. Later she retired and bank unspent cash of USD 1,500.

The Committee observed inadequate controls and reluctance on the part of EAC Management to implement the set rules and regulations.

Committee Recommendations

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

i.) Ensure that all the imprest given out is retired within five working days after the end of the activity and 10% surcharge be recovered from the salaries of all staff who fail to retire their imprest within the prescribed time;

ii.) Stop advancing imprest to staff withholding retirements; and

iii.) Issue circular to all staff requiring an explanation of late retirement.

S: PARNERSHIP FUND (PAF) PROJECT FOR THE FINANCIAL YEAR 2013/2014

The Audit Commission reported that the audit of the USD 7,919,805 project revealed the following:

2.4.19 Long outstanding VAT receivables

Included in the financial statements of PAF is VAT receivables of USD 130,764.67 that was long outstanding as at 30 June 2013, and the same was still outstanding as at 30 June 2014. The Audit Commission was not provided with the status at the time of audit in February 2015.

Long outstanding VAT receivables

Account code	Supplier	Balance as at 30 June 2014 (USD)	Balance as at 30 June 2013 (USD)	Other remarks
6310501	VAT Receivables	153,274.86	130,764.67	The increase of USD 22,510.19 from 30 June 2013 to 30 June 2014 was as result of further VAT resulted from the period and no VAT was refunded

The EAC Management responded that EAC does not have a VAT exemption certificate. Currently EAC has an arrangement with TRA where claims are sent and TRA refunds after payment. TRA refunds the total for EAC as a lump sum and in local currency and therefore posing a challenge in apportioning to different projects, making it difficult to determine the specific refund for Partnership Fund. EAC management will work out a mechanism for apportioning. For the other Partner States, EAC is working on the modalities of getting the refund.

The Committee observed lack of structure and initiatives and commitment to claim expeditiously VAT and other taxes from revenue authorities.

Committee Recommendations

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

i.) Initiate agreements with all EAC Partner States on EAC tax exemptions;

ii.) Assign a specific officer to follow up VAT refunds and request revenue authorities to do the same; and

iii.) Show evidence of steps taken on VAT claims and initiation of agreements on exemption of taxes in the next audit.

T. REGIONAL DEVELOPMENT (FSDR) PROJECT

2.4.20 Weaknesses In Management Of Accountable Imprest

The Audit Commission reported that imprest was being issued to staff with unretired balances from previous activities contrary to regulation 40 (3) and (5) EAC Financial Rules and Regulations 2012.

The EAC Management responded that it concurs with the audit finding. However, the meetings were following each other and therefore, the accountant could not have had an opportunity to come to Arusha and submit the accountability. On the other cases where the accountant did not retire on time, management took a disciplinary action.

The Committee observed inadequate controls and reluctance on the part of EAC Management to implement the set rules and regulations.

Committee Recommendations

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

i.) Ensure that all the imprest given out is retired within five working days after the end of the activity and 10% surcharge be recovered from the salaries of all staff who fail to retire their imprest within the prescribed time;

ii.) Stop advancing imprest to staff withholding retirements;

iii.) Develop a retirement system for officers out of station;

iv.) Issue circular to all staff requiring an explanation of late retirement; and

v.) Take action against late retirements.

PART III

THE LAKE VICTORIA BASIN COMMISSION

AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Avoidable expenditure on travel and subsistence allowance US$ 120,529

The Audit Commission reported that a sum of $ 120,529 was spent to facilitate various staff as per diem while on official duties. The Audit review revealed the following;

i) Some travels did not require the number of staff who travelled

ii) In some instances the number of days spent on these travels could not be justified by the activity being carried out

The EAC Management responded that the concern of the Audit Commission is noted. The situation was partially necessitated by the lack of office space for meetings at the LVBC premises. However, with the anticipated move to better and bigger premises, the space shortage will be alleviated. Additionally, management has already put in place measures to ensure that internal meetings outside the duty station are minimized and facilitation mode to be on full board basis in few cases of such meetings. This is also in line with the SG's circular on meeting management.

The Committee observed gross mismanagement in this matter and appreciates that LVBC Management accept that the money was spent in error.

Committee Recommendations

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

i.) Always exercise prudence, ensure relevant staff attend relevant meetings and avoid such expenditures; and

ii.) Recover the amount spent in error.

3.1.1 Consultancy services of result based management framework for LVBC

Audit Commission reported that the Commission signed a contract of USD 133,600 with Planet Limited for the provision of consultancy services to develop a result based management framework for Lake Victoria Basin Commission. The following irregularities were noted:

a) According to section 2.3 of the Special Conditions of the contract, the period of the contract was 10 calendars months; the two parties agreed that the contract should not go beyond 28th February 2013. The contract later got an addendum to extend the contract for an addition of four months from July 2013 to 30th November 2013. However, the reasons for the delay were not explained clearly in the addendum, otherwise penalties should have been charged against the consultant.

b) A reimbursable expense amounting to US$ 5,000 was paid on 10th December 2013, however, the Audit Commission did not get the related supporting documents to ascertain the authenticity and the validity of the expenses incurred.

c) As at the time of audit in February 2015 the Audit Commission could not confirm that the consultancy had been completed.

The LVBC Management responded that the procurement process was open, where the Commission advertised in the East African as well as the LVBC website and that of EAC. Three firms namely Resource Use and Capacity Building Consultants, AG Consultants and Planet Ltd bids were evaluated and Planet Ltd a Canadian based firm emerged the winner.

Initially the Commission had anticipated the exercise would take about 8 months. However, after incorporating the component of capacity building of the LVBC staff and National Focal Point Officers from Partner States into the exercise, the process took a longer period. It is worth noting that the process was not only for the development of an RBMS but also included training and coaching of Commission Staff on its use.

The consultancy was completed in as much as all intended outputs were achieved namely training of the LVBC staff and production of requisite documents including programme models (Economic development, environment, socio-development model and the RBMS handbook). The documentation was presented to the 12th SECOM, which directed that the report and accompanying tools be submitted to Partner States for additional inputs. Even though the Partner States have not submitted inputs, the Commission has used the result based management framework principles as the guiding tool to do work plans and monitoring processes.

The Committee noted management response.

Committee Recommendations

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

i.) Direct Partner States to provide comments to enable proper utilization of the tool;

ii.) Direct LVBC Management request Ministries of EAC Affairs to intervene on submission of comments; and

iii.) Direct LVBC to always support all payments with proper documents and improve on contract management.

3.1.2 Provision of Air Ticketing Services – PEL TRAVELS LTD

The Audit Commission reported that LVBC entered into a framework contract with PEL Travels limited for Air Ticketing Services during the financial year 2013/2014. A review of the contract and solicitation documents discovered that there was no clear payment terms specified in the contract, contrary to regulation 83 (1) of the EAC Financial Rules and Regulations 2012. In addition, there was no agreed commission percentage for the duration of the contract.

An analysis of the payment files and receipt shows that there was no independent verification of the charges claimed by the travel agency resulting into varying percentages of commission charged by the agency as indicated in the table below:

Inconsistencies in Air ticket management

Journey	Cost(USD)	Agency Commission(USD)	% of commission to ticket cost
Kis-Nbo- Kil Return	794	34	4%
Kis-Nbo- Kil Return	712	34	5%
Kis-Nbo- Kil Return	779	34	4%
Kis-Nbo- Ebb Return	105	35	33%
Kis-Nbo- EbbReturn	710	35	5%
Nbo- Kis	150	20	13%
Kis-Nbo- Buj- Return	820	30	4%
Kis-Nbo- Mwanza Return	877	35	4%

Furthermore, the contract specified that payment shall only be made in Kenyan Shillings but audit revealed that contrary to the contract agreement, all payments were made in US Dollars.

The LVBC Management responded that it had taken note of the recommendation and that it will re-negotiate the terms of the contract with the service provider for more clarity and efficiency. The Commission rate was however specified in the bidding documents of the Service provider, which also form an integral part of the Contract. The Commission rates comprise a fixed amount and percentage with a maximum commission of USD 35 per ticket issued. In some circumstances, this is also affected by the number of times alterations are made to the final ticket due to time rescheduling.

The service provider is paid in dollars as the airlines ticket pricing is in dollars and it was found more cost effective to pay in dollars to avoid foreign exchange losses.

The Committee noted inconsistencies in the contract.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to re-negotiate the terms of the contract with the service provider for more clarity and efficiency.

3.1.3 Contract for the maintenance and Repair of IT equipment.

Requires that payment shall only be made based on duly certified invoices and other supporting documentation, which indicate the goods or services, which have been received in accordance with the documents establishing the obligation.

The Audit Commission reported that the LVBC made a monthly payment of US$ 1,500 to Ms By-Grace Technologies twice for IT support services and maintenance of IT equipment as follows:

Payments to By Grace technologies

Documents reference No	Date	Description	Amount (USD)
Cheque no. 003513	12/03/2014	Being payment for monthly IT support	1,500
Cheque no. 003481	13/03/2014	Being payment for monthly IT support	1,500

This is contrary to Regulation 41(4) of the EAC Financial Rules and Regulations 2012.

In addition, payments to the contractor lacked crucial supporting documentation such as, contract agreement and schedule of work done during the preceding month to warrant the payment. The Audit Commission could not confirm and ascertain if there was any work done and if LVBC was getting value for money for its payments.

The LVBC Management responded that By-grace Technologies had an operative one year contract (1st July 2013 to 30th June 2014) with the Commission, to provide maintenance services for computers and IT equipment. The total cost of the contract was Ten Thousand One Hundred and Sixteen US Dollars (10,116), payable on a quarterly basis at USD 2,529.

LVBC Management further argued that, because of resignation of the Commission's IT officer, the Commission needed an IT person or entity to facilitate the Commission on a day-to-day basis on matters of information technology. To this end, the Commission held further discussion with By-grace Technologies to provide a standby resource person pending recruitment of an IT officer. An addendum agreement was subsequently executed on 1st October 2013, at a cost of USD 8000. Both the Service Agreement and Addendum were provided for reference.

The Committee observed that By-grace was paid twice in one month. LVBC also never bothered to put in place activity logs or any evidence to support the payments.

Committee Recommendations

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

i.) Address the issue of one man department;

ii.) Always draw activity logs to monitor and justify temporary engagement services; and

iii.) Always avail necessary documents to auditors and recover any payment that was made in error.

3.1.4 Consultancy services for web based information data base application for Mara River Basin

The Audit Commission reported that LVBC signed a contract of USD 25,000 with *ICT LTD* to develop a web based information data base application for Mara River Basin with the following irregularities:

a) Contrary to section 6.3 of procurement policies and procedures manual of the EAC, a tender was awarded by direct procurement as proof of invitation to potential suppliers for tendering was not provided.

b) According to section 2.V. of the contract, the consultant had an obligation to maintain the system for a period not less than 12 months; however there was no proof that the maintenance was carried out during the specified period.

c) The 20% last instalment of the contract was paid to the Consultant in November 2013 and the Audit Commission was not provided with the approval of the final report, a requirement for the last instalment.

d) During the time of audit in February 2015, the database developed by the consultant could not be accessed.

The LVBC Management responded that due procurement process was followed. The advert was placed in the EAC newspapers and on LVBC website for open competitive bidding. The evidence for this process was provided.

The Committee observed contradictions in the Management response and Audit report. It is evident that LVBC Management is reluctant and negligent to avail necessary documents to the Audit Commission for review.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to urge LVBC Management to-

i) Always comply with Procurement procedures;

ii) Always avail all necessary documents to auditors for review; and

iii) Improve on record keeping and contract management.

3.1.5 Failure to file for VAT refunds on Qualifying Expenditure

The Audit Commission reported that LVBC contrary to Article 138 (3) of the East African Treaty and Regulation 17(2) of the EAC Rules and Regulations has not taken any initiative to recover from Kenya Revenue Authority (KRA) VAT outstanding balance amounting to $104,916 as analysed below:

In addition, during the year under audit more than US$ 355,538 was spent on air travel on various Commission activities, and on this expense a 16% Value Added Tax of US$ 56,886 was levied. In line with the above regulations, the Commission ought to have filed for a tax refund from the Kenyan Authorities to refund this money. (Refer Schedule 6 of the Appendix to this report).

The LVBC Management responded that during the year under review, claims amounting to USD 17,516 were submitted to KRA for re-fund; however, VAT on air tickets was mistakenly omitted because it had just been re-introduced in the current financial year. This has since been corrected, VAT claims on air tickets have been filed, and relevant adjustments passed in the financial statements.

The process for claiming is not clear-cut for the organization. All refunds and filings are done through the Ministry of Foreign Affairs who grant exemption and then it is the Ministry, which submits the claim to KRA. As an organization we are not authorized to interact with KRA directly which makes follow up of claims difficult. However, the organization will continue engaging the Ministry over the issue of refunds.

The Committee observed reluctance in VAT claims.

Description	Outstanding balance as at 30/06/2014	Net movement during the year	Outstanding balance as at 30/06/2013
	US$.	US$.	US$.
VAT	104,916	17,516	87,401
Total	104,916	17,516	87,401

Committee Recommendations

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

i) Always file and submit for tax refunds;

ii) Make a regular follow up on VAT refunds; and

iii) Show evidence of steps taken on VAT claims and initiation of agreements on exemption of taxes in the next audit.

3.1.6 Inspection report on the Status of RV Jumuiya

The Audit Commission reported that on 15th February 2015 Audit Commission conducted an inspection on *RV Jumuiya* located in Lake Victoria at Mwanza-United Republic of Tanzania and noted the following;

- The Vessel has never been operational since 2011 but it still incurs significant costs on maintenance, repair and other related costs to the tune of $112,168 since the period 2011 when it became un-operational.

- The vessel currently does not have certificate of seaworthy from the Authorized licensing Authority - SUMATRA.

- The audit inspection also revealed that the vessel still lacks some technical items such as bilge pumps, sewage plant, Echo sounder and the need for dry-docking before a seaworthy certificate can be issued. There no planned schedule to fix the above mentioned issues and as such, the asset is idle.

- The replaced spare parts have not been disposed of they were bundled in an open space, and most of them were rusting away.

- In the year 2010, the vessel generated revenue of US$ 43,500, this implies that for the period it has been un-operational, the Commission is likely to have lost an estimated US$ 174,000 in revenue.

The LVBC Management responded that it agrees with the issues raised by the Audit Commission on expediting the process to make RV Jumuiya operational. The vessel needed to undergo mandatory dry-docking for full inspection and fixing of some equipment before obtaining a certificate of seaworthy to enable its use. The dry-docking has delayed because another vessel occupied the dry dock in Mwanza for more than one and a half years. Currently the Vessel is 2nd on the queue (schedule) for dry-docking after MV Victoria. The Commission will keenly follow up on this issue.

The Committee observed negligence and reluctance on the part of LVBC Management to follow up the matters of RV Jumuiya. To the Committee, covering and disposing of replaced spares does not require dry-docking of the vessel and incurring costs to displace MV Victoria could not take this long time.

Committee Recommendations

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

i) Ensure that RV Jumuiya is dry docked, fixed and inspected for seaworthiness certificate by March 2016; and

ii) Dispose of the replaced spare parts to avoid further deterioration.

3.1.7 Non presentation and disclosure of Segment information

The Audit Commission reported that LVBC had neither presented nor disclosed its segment information in its financial statements as per IPSAS 18 requirement by identifying all separate segments for each distinguishable activity or group of activities for which financial information are reported, for purposes of evaluating the past performance of the entity in achieving its objectives, and making decisions about the allocation of resources by the Commission.

The LVBC Management responded that it acknowledges the audit observation but implementation was hindered by the limited chart of accounts that was in use then. Subsequently, the commission undertook an exercise to implement the GFS chart of accounts that will enable segment reporting going forward.

The Committee noted progress reported.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to urge the LVBC Management to avail implementation of GFS chart of accounts for verification in the next audit.

3.1.8 Absence of Reconciliation of Accrual basis financial statements against Cash Basis budget report.

The Audit Commission reported that LVBC did not prepare a reconciliation of actual amounts of the financial statements against the cash basis budget, identifying separately any basis, timing, and entity differences to the net cash flows contrary to IPSAS 24 Paragraph 47 and 51.

LVBC Management responded that it took note of the audit observation and has included a comparison of the actual to the budgeted expenditure. Management undertakes to improve on the Financial Statement presentation further by providing a reconciliation of the cash based budget and accrual based actual expenditure.

The Committee observed non-compliance with Para 24 and 51 of IPSAS 24.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to comply with Para 24 and 51 of IPSAS 24 to enhance transparency and accountability in its financial reporting.

3.2 LAKE VICTORIA BASIN COMMISSION PERTNERSHIP FUND

3.2.1 AUDIT FINDINGS AND RECOMMENDATIONS

3.2.2 Control deficiencies on Travel and subsistence allowances US$44,485

The Audit Commission reported that a sum of $44,485 was spent to facilitate various staff as per diem while on official duties. The audit review revealed the following:

i) A reasonable number of the travels did not require the number of staff who travelled.

iii) In some instances, the number of days spent on these travels was unreasonably high.

The LVBC Management responded that it took note of the Audit Commission concern and has rectified the anomaly by putting in place measures in the approval process to ensure that only relevant staff attends meetings outside the duty station. The directive by the EAC Secretary General on meetings outside the duty station will be strictly applied.

The Committee observed irresponsibility in the management of LVBC finances. Management should have exercised its role to hold such meetings in a prudent manner.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to put an end to unjustifiable expenditures.

3.2.3 Irregular Expenditure on Allowances of US$ 2,767.

The Audit Commission reported that expenditure amounting to USD 4,000 was paid vide cheque number 300848 dated 28/01/2014 under SIDA EALP to the Program Coordinator for PHE to cater for incidentals during her mission in the United States.

A review of the supporting documents revealed that the organisers of the conference (Population Action International) covered all travel costs including accommodation subsistence and yet the officer claimed Subsistence allowance contrary to EAC financial rules and regulations.

The LVBC Management responded that **a**s per Financial Rules and Regulations No. 58, officers attending meetings that are fully paid for by the organizer are entitled to 25% of their respective per diem. The imprest of USD 4,000 was to cater for the quarter per diem as per the regulations and for incidental expenditure.

The officer went to the US during heavy winter in the month of February 2014 and the imprest helped cushion her from adverse winter conditions. It is important to take note that the Coordinator managed to mobilize resources for the PHE program.

The Committee noted irregularities and breach of Financial Rules and Regulations by LVBC Management because cushioning staff from adverse winter and advance summer is not provided for in the financial rules. Mobilising funds for the program is the responsibility of the officer irrespective of whether they are cushioned or not.

Committee Recommendations

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

i) Always respect and comply with financial rules and regulations; and

ii) Review the expenditure and recover from the officer the amount of money irregularly spent.

3.2.4 Weaknesses in procurement and contract management

3.2.4.1 Consultancy services of result based management framework for LVBC

The Audit Commission reported that LVBC signed a contract of USD 133,600 with Planet Limited for the provision of consultancy services to develop a result based management framework for the Lake Victoria Basin Commission. The following irregularities were noted:-

a) According to section 2.3 of the Special Conditions of contract, the period of the contract was 10 calendars months; the two parties agreed that it could be beyond 28th February 2013. Addition to that, the contract got an addendum from July 2013 to 30th November 2013. However, the reasons of delay were not explained clearly in the addendum, otherwise penalties should have been charged against the consultant.

b) A reimbursable expense amounting to was paid on 10th December 2013, however, the Audit Commission did not get the supporting documents to ascertain the authenticity and the validity of the expenses incurred.

c) As at the time of audit in February 2015 the Audit Commission could not confirm that the consultancy had been completed.

The LVBC Management responded that the procurement process was open, where the Commission advertised in the East African as well as the LVBC website and in print media on 10th October 2011. Three firms namely Resource Use and Capacity Building Consultants, AG Consultants and

Planet Ltd bided were evaluated and Planet Ltd a Canadian based firm emerged the winner. Initially the Commission had anticipated the exercise would take about 8 months. However, after incorporating the component of capacity building of the LVBC staff and National Focal Points Officer in Partner States into the exercise, the process took a longer period. It is worth noting that the process was not only development of an RBMS but also training and coaching of the Staff of the Commission on its use.

The consultancy was completed in as much as all intended outputs were achieved namely training of the LVBC staff and production of requisite documents including programme models (Economic development, environment, socio-development model and the RBMS handbook. The documentation was presented to the 12th SECOM, which directed that the report and accompanying tools be submitted to Partner States for additional inputs.

The Committee observed double payment of the consultancy services. The same amount of money on the same dates was expensed from the Partnership Fund budget and the LVBC mainstream budget in respect of the same contract by the same consultant.

The Committee had earlier recommended on the matter and will add the following recommendation:

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to investigate the matter and report action taken to the Assembly by March 2016.

PART IV

4.0 THE LAKE VICTORIA FISHERIES ORGANISATION

4.1 CURRENT YEAR AUDIT FINDINGS:

4.1.1 Harmonization of LFVO Financial manual with EAC Financial Rules and Regulations.

The Audit Commission reported that a review of LVFO's financial manual states that the threshold for capitalization of fixed assets is USD200, while EAC Financial Rules and Regulations provides for USD 250 as the threshold for assets capitalization. The financial manual does not refer to a specific financial reporting frame work such as IPSAS or IFRS instead it refers to generally Accepted Accounting principles while in the real sense the Organization is using IPSAS in the preparation of its financial statements.

LVFO Management responded that the organization is in the process of fully mainstreaming into the EAC and in the process, harmonization of the manuals is one of the priority areas. In some scenarios, LVFO adopts the procedures of EAC where such appear silent in the LVFO Manual.

The Committee recalled that the request for harmonization has been outstanding for a long time and the response has remained the same.

Committee Recommendations

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

i) Harmonize all its policy documents with those of the EAC and report progress to the Assembly by March 2016;

ii) Harmonize its calendar of meetings and other activities with the EAC Secretariat; and

iii) Generate through the EAC Council of Ministers, a Bill for the establishment of LVFO.

4.1.2 Fully Depreciated Assets Still in Use

The Audit Commission reported that LVFO's assets register report as at 30th June 2014 had 834 PPE at Cost of $ 1,859,255 and Net Book Value of $ 1,127,727. It was noted that included in the assets register were 693 assets at a cost of $ 541,147 with zero net book value but still in use by LVFO contrary to IPSAS 17 Paragraph 67 on Property, Plant and Equipment. The 693 assets include office furniture & fixture and office equipment.

The LVFO Management responded that Management communicated to the Ministry of Works requesting to reassess the useful lives of all LVFO assets; the team has concluded the exercise and a report is yet to be issued to Management. All Assets with zero book values have been disclosed in the notes.

The Committee noted that the assets in question are still useful to the organization and standards are not restrictive on any adopted model.

Committee Recommendations

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

i.) Re-assess its PPE useful lives annually and identify those assets which are likely to be fully depreciated while they still have economic benefits or service potential;

ii.) Ensure that all assets with zero book values should be disclosed by way of a note indicating both their costs and net book values; and

iii.) Adopt a model that allows establishment of economic benefits and service potential of its assets.

4.1.2 Management of Gratuity Account.

The Audit Commission reported that a review of the gratuity operations revealed the following irregularities:

a) Irregular expenditure of staff gratuity

It was noted that in the months of September, October and December 2013, February, March and May 2014, LVFO did not transfer the staff's monthly gratuity contributions amounting to USD 42,090 to the gratuity bank account. The staff's gratuity entitlements were instead utilized to meet other operational costs of the Organization.

b) Asset not matching Liability

Whereas the liability due to be paid has accumulated to USD 93,266, the corresponding asset to match this liability stands at USD 64,689 as of 30th June 2014 with an unaccounted for difference of USD 28,577.

c) Borrowed Reserve funds, USD 254,777

It was noted that in the year under review a total of USD 254,777 was borrowed from EAC's Reserves to pay for staff gratuities that were due for payment during the year under audit.

The LVFO Management responded that due to Partner States' failure to remit their respective obligations in a timely manner at the time, the organisation could not honour the full monthly staff remuneration package, apart from the salaries.

The situation improved following the decision to route the funds through the respective Ministries of EACA, and the entire outstanding gratuity amount is remitted to the gratuity account. To date the gratuity asset and liability component are matching.

The Committee noted progress, commended the initiative to route the funding through the Ministries responsible for EAC now implemented by the Republics of Kenya and Uganda and discouraged any future mismanagement of the gratuity account.

Committee Recommendations

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

i.) Urge the United Republic of Tanzania to also remit its contributions through the Ministry responsible for EAC Affairs; and

ii.) Review the rules to enable accrued interest on gratuity belong to the owner and this should apply to all EAC organs and institutions.

4.1.3 Unclaimed VAT -USD 13,118.80

The Audit Commission reported that during the year under review, the Organization paid taxes amounting to USD 10,812.80 in its procurement of goods and services. As at the year-end, the total unclaimed VAT was USD 13,118.80, which included the previous financial year's unclaimed tax of USD 2,306 contrary to Section (1) subsection 1(e) of the Annex to the convention establishing the LVFO.

The LVFO Management responded that the tax body introduced a new system for filling at the end of 2013 and the Organization was re-registered from 1st May 2014. Management wrote to URA requesting the VAT Registration to be backdated to 1st July 1996 to allow to claim VAT for the period not covered. As at 30th April 2015, LVFO has filed a total of UShs.73, 811,418 to the tax body.

The Committee noted progress on the matter.

Committee Recommendations

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

i) Always file and submit for tax refunds;

ii) Assign an officer to make a regular follow up on VAT refunds; and

iii) Show evidence of steps taken on VAT claims in the next audit.

4.1.4 Payment of Salary In Lieu of Leave USD. 5,500

The Audit Commission reported that a total of USD 12,000 was paid to LVFO staff as compensation for 30 days leave not taken in the previous financial year ended 30th June 2013. However, it was observed that, payment of leave was calculated by using the rates of daily subsistence allowances of USD 400 per day for 30 days. The officer therefore was paid USD 5,500 in excess of what his entitled monthly basic salary of USD 6,500.

The LVFO Management responded that although the LVFO Staff Rules and Regulations state that annual leave can be converted into monetary payment with the approval of the Executive Secretary, the manual does not specify what method of payment should be applied. The former Executive Secretary applied this rule to execute the payment.

The Committee observed abuse of office and conspiracy. The excess amount should have been deducted from the staff's terminal benefits.

Committee Recommendations

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

i.) Re-enforce internal mechanisms of recovery in such cases; and

ii.) Follow up the matter and recover from the officer who processed the payment and report progress in the next audit.

4.1.5 Lack of an Investment Register

The Audit Commission reported that as at 30th June 2014, LVFO had invested USH 28,749,324 in fixed deposits. The Organization does not maintain an investment register contrary to LVFO's Financial Manual Chapter 6 (6.2.10 b).

The LVFO Management responded that the Investment Ledger has been opened to track the Organization's investments and provided to the Auditors.

The Committee noted progress reported by LVFO Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to report progress in the next audit for verification.

4.1.6 Lack of Approved Annual Procurement Plan

The Audit Commission reported that during the year under review, LVFO lacked an approved procurement plan to LVFO's financial manual Chapter 5 (5.2.3)

The LVFO Management responded that due to a bleak position on the ground then, insufficient/ doubtful funding and grossly under budgeted lines, Management failed to come up with a procurement plan for the period. Indeed no major procurements occurred during the year. The situation has however improved and the approved procurement plan will be in place.

The Committee noted the undertaking by LVFO Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to avail the procurement plan to the Audit Commission for verification in the next audit.

4.1.7 Long Overdue Outstanding Receivables USD.1,712,391

The Audit Commission reported that as at 30 June 2014, LVFO had outstanding receivables from Partner States on regular contributions and supplementary emergency budget. Receivables from fixed deposit in bank of USD 1,712,391 were also outstanding. The aging analysis indicated that USD 663,343 (39 percent) and USD 1,049,048 (61 percent) were outstanding for more than 12 months and 24 months respectively. The concern is the recoverability of these amounts, as some of them may remain outstanding for a long period without being collected as indicated below:

PARTNER STATES	***Outstanding Up to 12 months***		***Outstanding for more than 12 months***		***Total***	
	Amount USD	***%***	***Amount USD***	***%***	***Amount USD***	*%*
Govt of Kenya (Annual contribution)	122,208	18.42	0	0	122,208	7.14
Govt of Kenya (Nile Perch Fund)	0	0.00	29,093	2.77	29,093	1.70
Govt of Tanzania (Annual contributions)	270,050	40.71	212,777	20.28	482,827	28.20
Govt of Tanzania (Nile Perch Fund)	0	0.00	414,987	39.56	414,987	24.23
Govt of Uganda (Annual contributions)	270,050	40.71	230,142	21.94	500,192	29.21
Govt of Uganda (Nile perch)	0	0.00	159,840	15.24	159,840	9.33
SUB Total	662,308		1,046,839		1,709,147	
Bank of BARODA-Fixed Deposits Interest	1,035	0.16	2,209	0.21	3,244	0.19
	663,343	100	1,049,048	100	1,712,391	100

The LVFO Management responded that following the LVFO 8th Council of Ministers decision recommending the rerouting of funding through MEACAs of the respective Partner States, which was followed by a directive of the 28th EAC Council of November 2013, the situation has improved. As at to-date, the receivable figure has reduced to US$ 703,875.41. Follow up with the Bank was concluded and the status of the Fixed Deposit is up to date. The Committee observed reluctance of the LVFO Management to claim interest on fixed deposit accounts.

Committee Recommendations

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

i.) Always follow up and claim interest on contributions and fixed deposit accounts; and

ii.) Report progress on the outstanding receivables for verification in the next audit.

4.1.8 Procurement of Goods and Services using Uncompetitive bidding method.

Review of procurement procedures, records and other related documents of LVFO revealed that, the Agency entered into agreement with various suppliers for procurement of goods and services without competitive bidding procurement process contrary to Section 5.2.1 of the LVFO financial manual. A sample of the procurements conducted is given here under:

PV	CHQ	AMOUNT USD	Payee
5505	93046	1,050	2 Morrow Consult
5544	93085	1,990	Extra Mark Solution
6430	93549	2,633.56	Technology Associates Ltd
5487	641476	534.95	Mike Chris Kiganda
300	198	3,154.9	Ridar Hotel Ltd
TOTAL		9,363.41	

The LVFO Management responded that the Providers are among the pre-qualified list of 'Service Providers' for 'Minor Works, goods and Services' for FY 2012/2013 & FY 2013/2014. In future thorough procurement bidding procedure will be emphasized.

The Committee observed that procurement procedures were breached in the disguise of minor works.

Committee Recommendations

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

i.) Always comply with procurement procedures; and

ii.) Report rectification of the anomaly for verification in the next audit.

Insufficient funding of the Organization

The Audit Commission reported that the Organization had budgeted to receive a total of USD. 3, 203,041 of which USD. 810,150 was expected from Partner States and USD. 2,392, 891 from development partners. However, during the year under review, no funds were realized from the Partner States in respect of that financial year while USD 579,631 was received from donors. This represents a paltry performance of 37% of the annual approved budget. A sum of USD. 600,146 received during the year from Partner States was in respect of contribution arrears, which at the yearend amounted to USD. 1,709, 147. According to management, this inadequacy in funding the Organization operations has resulted into LVFO failing to implement its planned activities which included;-

- Recruitment of the senior scientist a gap that is considered by the Organization to be critical for the effective delivery of its mandate.
- Data gaps in updating the management indicators for sustainable utilization of the fisheries resources.
- Delaying in the process of amending LVFO convention in order to improve the visibility of the organization and widen its scope.

The LVFO Management responded that in the Financial Year 2014/2015, two Partner States started forwarding Country Contributions through the Ministry of East Africa Community Affairs. Management has advertised for the post of the Senior Scientist, and interviews are planned in March 2015.

With support from EAC/Partnership Fund, LVFO conducted Hydro-acoustic Survey and with support from LVEMP II Project, it conducted a lake wide Frame Survey on Lake Victoria in December 2014. LVFO is preparing Project Proposals to source funding for the core program activities, which update the management indicators and review regulations and other management measures for sustainable management of the fisheries and development of aquaculture. A Donors' Conference is planned towards the end of May 2015. LVFO is also involved in the Development of the EDF 11 Program and focus is in commercialization of aquaculture and the provision of Guidelines and Operating Procedures. The 8th Session of LVFO Council in November 2013 requested Partner States to budget for resource monitoring activities to improve the information base on fisheries management (3.4 (I&II) .

The Committee observed that the organization's funding require enhancement.

Committee Recommendations

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

i) Initiate mechanisms for additional resources mobilization;

ii) Always follow up on non-remittances of the committed funds and take appropriate actions; and

iii) Develop a proposal on increasing annual Partner States contributions.

4.1.9 Inadequate control over Cross Border Fish Trade

The Audit Commission reported that cross boarder fish trade within the Partner States is mainly informal with some consignments crossing the boarders without being recorded or inspected to guarantee safety of the fish being traded. Only few borders have systems in place to monitor consignments crossing the borders.

The LVBC Management responded that with support from NEPAD and AU-IBAR, LVFO would collaborate with the respective Countries to handle the issue of informal fish trade.

The Committee observed that uncontrolled fish trade might be going to importing countries in unhygienic conditions.

Committee Recommendations

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

i) Liaise with directors of fisheries in Partner States to work out control strategies; and

ii) Carry out training and sensitization sessions with fish traders on the importance of records.

4.1.10 Lack of Harmonization of regulations between importing and exporting countries on fishing of immature fish

The Audit Commission reported that while fishing and exporting small sizes of fish in Kenya, Tanzania and Uganda is illegal, in other EAC states of Rwanda and Burundi and the neighbouring countries of the Democratic Republic of Congo and South Sudan its importation is not illegal.

The LVFO Management responded that efforts are underway to broaden the scope and mandate of LVFO to include the Republics of Rwanda and Burundi and this will include harmonization of fisheries regulations. LVFO will continue to engage stakeholders for compliance while urging Partner States to intensify enforcement of the regulations.

The Committee observed that the decline of Nile perch and tilapia fish in Lake Victoria is because of fishing of immature fish. This will certainly affect the sustainability of the fishing industry within the region.

Committee Recommendations

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

i.) Enhance collaboration with Partner States to devise strict control measures of banning exportation of immature fish;

ii.) Liaise with Partner States to destroy, ban importation and local manufacturing of small nets used to fish pre-mature fish; and

iii.) Carry out training and sensitization sessions with customs officers on all to forms of illegal fishing practices and control thereof.

4.1.11 Lack of adequate and robust control over illegal fishing practices

The Audit Commission reported that Illegal fishing practices including using monofilament gillnets and use of illegal fishing gears are still prevalent in the lake despite efforts being made by the individual Partner States.

The LVFO Management responded that in addition to the harmonized measures which are in place, the revised Management Plan for Lake Victoria (2016-2020) has identified other measures which include among others the installation of deterrent structures in critical habitats and sandy beaches to deter beach seining and also protect juveniles. The 8th Session of LVFO Council requested Partner States to strengthen Monitoring Control and Surveillance to prevent the catching of and trade in immature fish as well as preventing monofilament as well as other illegal gears from entering into the lake (4.2). The Sixth Special LVFO Council also retaliated and urged the Partner States to work with the Revenue Agencies to curb the importation of monofilament nets and other illegal fishing gears.

The Committee observed and warns that if fishing malpractices is not addressed, sustainability of the fishing industry within the region is at stake.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to enhance collaboration with Partner States to put an end all forms of illegal fishing.

4.1.12 Lack of harmonized guidelines for development of cage/pen culture

The Audit Commission reported that Cage or pen culture is a system that confines the fish in a mesh enclosure using existing water resources.

According to management, the three Partner States do not have specific policies, strategies and guidelines although this type of fish culture is being used in some of the Partner States though at a very low scale. Cage or pen culture has both advantages including resource use flexibility, multiuse of water resources low initial investment relative to cost of pond construction etc and disadvantages such as water quality problems, environmental problems, cultured fish breaking through the existing water resources thus introducing foreign species in the existing water bodies etc. Hence, adequate control, monitoring and harmonized guidelines is of critical importance.

The LVFO Management responded that the Sixth Special LVFO Council of Ministers directed Partner States to provide advice on the development of cage culture on Lake Victoria with consideration of environment and biological limits. LVFO Secretariat wrote to the Partner States to request them to provide/develop National Guidelines and Standards, which will be harmonized / developed at regional level to guide the development of cage culture. The consultative and harmonization meeting of the Scientific Committee is planned for May 2015.

The Committee observed that lack of harmonization on Cage or pen culture guidelines in this area might cause water quality and environmental problems within the water resources.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to enhance collaboration with Partner States to put in place guidelines on cage guidelines and report progress in the next audit for verification.

4.1.13 Lack of Regional standards for fish feed manufactured in the region

The Audit Commission reported that the three Partner States have not developed standards for fish feed manufacturers in that the quality of the feed produced is not properly controlled.

The LVFO Management responded that the meeting of LVFO Scientific Committee was planned for May 2015, but it was re-scheduled for January 2016 pending availability of funds. The meeting will address among other things the issue of standards for feed manufacturing.

The Committee observed that there is need to developed standards for fish feed manufacturers in order to attain quality of the feed.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to convene the meeting as scheduled and address the issue of fish feed manufacturing.

4.2 Review of ICT Controls

4.2.1 Lack of Active ICT Steering Committee

The Audit Commission reviewed the activity of ICT steering Committee for LVFO for the year of audit and identified that no formally established ICT Steering Committee exists. Additionally, we were notified that LVFO is in the process of changing its Accounting System from "Palladium" to SUN System, it is our view that this type of change requires proper governance structure to properly steer the activities of the project. Management responded by identifying that ICT management is part of overall management of the Organization.

4.2.2 Lack of Comprehensive Disaster Recovery Plan

The Audit Commission reviewed the Disaster Recovery Plan (DRP) of LVFO and noted that development of DRP was not based on business impact analysis to identify critical systems in conjunction with identified risk scenarios. Consequently, the existing DRP does not contain enough instructions to enable effective recovery when followed by IT personnel. Management accepted the need to improve the DRP to make it comprehensive.

4.2.3 Lack of Best Practice in IT Project Management

The Audit Commission reported that the Lake Victoria Fisheries Organization (LVFO) has been in the process of changing its accounting system from "Palladium" to SUN System since July 2014. The Audit commission requested for project plan, issue register and risk register in order to review the progress of the project. However, none of these key project management documents existed and an interview with end user of the accounting system indicates that there was unavailability of consultant on site. Further, LVFO has no guideline showing how the IT project needs to be conducted in the Organization.

4.2.4 Inadequate IT Staff

The Audit Commission noted that, currently, LVFO has one IT personnel to handle its strategic and support activities that range from maintaining IT applications, IT applications users support and administrative issues. The activities cannot be handled effectively by one person. Management notified the Audit Commission that it is planning to hire additional IT personnel possibly in the next financial year.

4.2.5 Inadequate IT Operations Planning

The Audit Commission also received LVFO Information and Date Policy, which is the ICT strategic plan that covers five years from year 2009 to 2014. The Audit Commission noted that no approved ICT annual plan existed and during the year under audit LVFO management decommissioned the IT applications for fishing activities survey data, research data, aquaculture information, digital mapping for the lake and budget management . The reason for the decommissioning of these still useful IT applications were that, the server was needed to host a new incoming application called SUN System. Management notified Audit Commission that the process of acquiring a new server is underway in order to re-commission the named IT applications. The act of decommissioning and then re-commissioning these IT applications is a result of weak IT operations planning.

4.2.6 Lack of Backup Procedures

The Audit Commission reported that LVFO runs a number of critical IT applications in areas such as Geo-referencing, financial management and email exchange. However, when we requested for evidence of backup procedures for identified critical systems, management responded that no approved backup procedures have been established.

The LVFO Management responded that it has formally established ICT Steering Committee, updated the DRP to make it comprehensive, put in place IT project management guidelines with EAC Secretariat and being customized to ensure LVFO IT Project Management activities are effectively carried out, included in the FY 2015-2016 budget for recruitment of Principal Database Administrator, revised the ICT Strategic Plan July – June 2015 and consequently ICT Annual Plans will be developed and approved. The draft backup guidelines are in place but will be improved and approved**.**

The LVFO Management further reported that it has acquired a big database for disaster recovery and a trade portal. The EAC Secretariat has also facilitated the organization with the server and power supply.

The Committee took note, and commended the progress reported by the LVFO Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to avail evidence of all the progress reported to the Audit Commission for verification in the next audit

Part V

5.0 The Inter University Council of East Africa

5.1 Current Year Audit Findings

5.1.1 Limitation of the accounting system to produce budget execution report

The Audit Commission reported that during the year ended 30 June 2014, the IUCEA was using Microsoft Dynamic (Solomon) to record accounting transactions based on chart accounts (accounting codes) to identify the nature and classes of each accounting transactions. The budget of IUCEA was prepared based on activities to be conducted and each activity was given a different code for identification. The budgetary codes for the year under review were different to accounting codes. According to IUCEA management, the budget codes included in the approved budget have been changed while upgrading the accounting system to accommodate changes in the accounting codes. The budget for the year under review was prepared in such a way that each activity in the budget has its own code to easy the monitoring of cost on activity basis. However, IUCEA failed to extract the budget execution from the system both by activities and by nature of expenditure and revenue including upgraded codes. In addition, IUCEA failed to extract from the system (accounting system) the budget with the upgraded codes. Therefore, due to above irregularities, it was difficult to match accounting transactions against budget.

The IUCEA Management reported that the Budget report from the system is activity based from the MTEF, and that it will be improved. There is a system limitation in the automatic extraction of budget execution reports. After migrating to BMS, same coding will be used and after sun system implementation, the two systems will be automatically linked together.

The Committee observed the anomaly.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i) Expedite adoption of BMS and implementation of sun system; and

ii) Present progress to the Audit Commission for verification.

5.1.2 Deficiencies noted in the assets register

The Audit Commission reported that a review of IUCEA assets register revealed that all property, plant and equipment were recorded without showing their locations, current users, insurers, insured value, premium, when paid and disposal policy contrary to the requirements of the financial Rules and Regulations.

The IUCEA Management responded that there is a limitation of the system in generating the fixed asset register as required.

The Committee observed that IUCEA did not keep a comprehensive assets register and therefore not able to implement its own financial rules and regulations.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i) Upgrade the system to put in place a complete assets register and always be guided by rules and regulations while executing their duties;

ii) Always avail required information to the Audit Commission as and when they need it.

5.1.3 Un-procedural reallocations of funds

The Audit Commission reported that during the period under review, the IUCEA made the following reallocations contrary to para 3.5.1 (iii) Staff, Financial Rules, and Regulations of March 2010.

s/n	Activity undertaken	Value (USD)	Budgeted amount (USD)	Activity affected	% reallocated from the affected activity	Other auditors' observation
1	Support Authors to write a book on East Africa	101,400	0	Allocate funds for 5 post graduates students to selected High Education Institutions in the Northern hemisphere	46%	
2	Development of Risk management Framework and board manual.	50,860	0	Not clear where the funds was sourced.		The support documents for the payment shows that there was no budget for this activity, the budget line to pay this activity was not disclosed.

The IUCEA Management reported that reallocation of funds has been usually done internally and not always documented. Reallocation of funds will be done according to the requirements of the regulations.

The idea of writing a book on EAC was an opportunity to scholars to do research and publish an authoritative book on EAC that would be used for their academic promotion, by researchers, students and East African citizens. In that spirit, a modest budget was allocated to that activity.

A call for application was sent to local newspapers and in universities and three authors were selected. However, the financial offer was higher than the available budget.

Considering the importance of the book for the Community, the academic world, the people of East Africa and the international community, IUCEA reallocated internally funds from activities that were not approved to the project of writing a book on EAC. The budget was drawn from the activity" facilitate 5 post graduate students to selected higher education institutions in the Northern Hemisphere".

Management is now implementing the new Budget Management System (BMS) that does not allow for internal reallocation of funds.

The Committee observed that IUCEA irregularly reallocated funds for an activity that was not planned or budgeted for.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i.) Always ensure that reallocations of funds respect the provisions of the financial rules and regulations; and

ii.) Always avail required information to the Audit Commission as and when they need it.

5.1.4 VAT not Claimed

The Audit Commission reported that a review of various accounting records revealed that IUCEA paid VAT amounting to USD 12,566.92 and UGX 2,612,106 during the year 2013/2014. However, these transactions were not recognized in the Council's primary books of account and no reconciliation was done against VAT claims as detailed below:

Table 1: VAT Paid in USD

S/n	Payee	Details	Reference	Amount Paid USD	VAT Paid 18%	Payment Voucher No	Date of payment
1	Symbion (U) Ltd	Fees for Final design	Invoice No 071FD/13	82,383.13	12,566.92	VR 24122	10/9/2013

Table 2: VAT paid in UGX

S/n	Payee	Details	Reference Invoice	Amount Paid UGX	VAT Paid 18%	Payment Voucher No	Date of payment
1	National Media Group Ltd TIN No 1000092362	Bid Notes for procurement of consultancy	2307739/ 2307914	8,577,000	1,308,357	2356	7/8/2013
2	Vision Group TIN No 1000027144	Bid Notice for procurement of contractor	AD-411756	3,998,000	610,017	2357	7/8/2013
3	National Media Group Ltd TIN No 1000092362	Advertisement on TOR for designing continuity recovery plan	2339753	2,4237,356	341,292	3541	21/2/2014
4	Security Group Uganda Ltd TIN No 1000026136	Payment for security services	IG14077	1,248,440	190,440	3510	20/1/2014
5	Pinnacle Security Limited VAT No 1000127917	Payment for security services	6365	1,062,000	162,000	3509	20/1/2014

	Total				2,612,106		

The IUCEA Management reported that the Ministry of East African Community Affairs- Uganda said that the Parliament of Uganda had not ratified the Headquarters Agreement. The management met the Minister of EAC Uganda and agreed that there will be a follow up. The shorter route was to be included in the privileges schedule. It has taken time to follow up the matter. It also relates to the history of the Council where it was operated as an institution of the government. The Council is now included in the schedule.

The Committee observed reluctance and irregularity on the part of IUCEA. It is not convincing that IUCEA had not made any follow up on the matter for this entire long! Non-disclosure of non-refundable VAT in the books of accounts is also an irregularity.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i) Follow up and recover all refundable VAT and other taxes;

ii) Follow up and Expedite harmonization of Headquarters agreement with other EAC Institutions and organs.

5.1.5 Non Compliance with the NSSF Act where exemption is not granted

The Audit Commission reported that the IUCEA did not comply with NSSF Act by not effecting monthly contributions to NSSF considering that a Certificate of Exemption from the Fund was not availed for verification.

The IUCEA Management reported that the matter has been pursued through Ministry of East African Community Affairs - the Uganda Retirement Benefit Regulatory Authority is now handling Uganda as per the directive from the Council of Ministers of 31/08/2013 held in Arusha and the issue.

The Committee observed that IUCEA has been reluctant to follow up the matter.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to follow up the matter with the regulatory authority, obtain exemption certificate and report progress to the Audit Commission for verification in the next audit.

5.1.6 Procurement Issues

The Audit Commission reported that the IUCEA contracted the following suppliers for provision of services using single source method of procurement contrary to Staff and Financial Rules and Regulations March 2010. See details in the table below:

Date of signing the contract	Procurement	Contractor	Reported expenditure in 2012/13 (USD)
12 October 2013	Consultancy for facilitation of the development of Qualifications Framework	Dr. Mohamed Kerre	20,883
22 April 2014	Consultancy Services for the development of a Risk Management Framework and board manual.	ABS Consulting Group	26,500
31 July2013	IPSAS Training	ABS Consulting Group	10,000
5 September 2013	Development of IPSAS Manual	ABS Consulting Group	18,600
18 February 2014*	Customization of Financial Rules and Regulations	ABS Consulting Group	7,660

The IUCEA Management responded as follows:

(1) Engagement of Dr. Mohammed Kerre on the Development of the East African Qualifications Framework for Higher Education

Prior to this engagement Dr. Kerre participated in the development of an Academia-Public Private Partnership framework that now guides IUCEA in this area, after having been identified together with our partners, GIZ and East African Business Council. In that initial engagement, he demonstrated outstanding competence in higher education policy analysis, a subject still new in East Africa. It was during this engagement that he exemplified outstanding competence in analysing higher education systems, qualifications and human resources development matters, areas that are relevant to the development of a qualifications framework. It should also be noted that the concept of qualifications framework is new in the region, which is still only vaguely understood by the cross section of the higher education fraternity. Hence, it was considered risky to source for experts from the public to undertake such a specialized task, as it could have ended up producing useless output, to the dismay of the donor who funded the activity. Therefore, it was on this basis that Dr. Kerre was nominated through single sourcing

(2) Single Sourcing of ABS Consulting Group

The ABS Consulting Group was also single sourced because there was already existing contract between IUCEA and ABS for service of similar nature.

Additionally, given the Commitment that Management had made to carry out the activity during the Financial Year, the procurement was handled as a matter of urgency. ABS was consulted because of two studies. One was a World Bank consultant that was sent the EAC secretariat to look at the IPSAS implementation and the consultant identified a number of issues to be addressed in compliance with IPSAS. These include the need for IPSAS manual and training. The IUCEA board tasked the IUCEA management to get a clean audit report. ABS was contracted to come up the road map and carries training because they were handling similar assignment in EAC secretariat.

The Committee observed that IUCEA acted in contravention of Staff and Financial Rules and Regulations of March 2010.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to comply with the Staff and Financial Rules and Regulations always.

5.1.7 Shortfalls in funding of IUCEA

The Audit Commission reported that the review of the financial statements revealed that IUCEA was unable to collect expected contributions from Partner States of USD 2,015,320.42 (revenue for the year). In addition, it was also noted that the arrears of contributions from the Partner States as at 30th June 2014 had accumulated to USD 13,372,917.05 as shown in the table below:

COUNTRY**	Arrears b/f 1st July 2013	Expected contribution for F/Y 2013/2014	F/Y 2012/2013 contribution received	Current year outstanding as at 30th June 2014	Total arrears c/f as at 30th June 2014**
	A USD	B USD	D USD	E=B-D USD	A+B-D USD
BURUNDI	1,343,854.66	809,241.00	240,790.30	568,450.70	1,912,305.36
KENYA	4,328,128.77	809,241.00	2,067,104.48		3,070,265.29
TANZANIA	3,823,307.66	809,241.00	171,612.28	637,628.72	4,460,936.38
UGANDA	3,120,169.02	809,241.00		809,241.00	3,929,410.02
Closing	12,615,460.11	3,236,964.00	2,479,507.06	2,015,320.42	13,372,917.05

This table does not include the Republic of Rwanda because it paid more contributions than required. The overpaid amount was accrued as payments in advance and was adjusted against the current year's Rwanda's obligation.

The IUCEA Management responded as follows:

- Reminders have been sent.
- Matters relating to arrears have been addressed from IUCEA Board level to Council of Ministers level.
- Visits to Partner States have been made as follow up missions of arrears.

In 2012, the matter was taken to the EAC Council of ministers where it was agreed that the debt would be paid. In 2013, the IUCEA considered writing off the debt but the Partner State agreed to pay. The IUCEA still does follow up and some Partner State are now honouring their obligations. Effort will continue to ensure regular payments from Partner States are achieved.

The Committee observed delayed remittances at the IUCEA. Partner States apart from the Republic of Rwanda have not honoured their obligations.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct Partner States to honour their obligations and promptly remit their contributions.

5.1.8 Non-Interest Bearing Fixed Deposit Accounts

The Audit Commission reported that IUCEA made investments with various banks. However, these accounts have remained dormant some for more than two years. Details of the Bank Accounts is as shown below:

S/n	Name of Banks	2013/2014	2012/2013
		USD	USD
2	National Bank of Commerce – Arusha	5,121	5121
3	National Bank of Commerce-DSM	1,923	1923

In addition, the following weaknesses were identified:

a) IUCEA did not obtain fixed deposit receipts issued by these banks to acknowledge that funds were deposited with the banks and that the same receipt will be produced upon maturity.

b) The terms and conditions e.g. Period, rate, maturity etc. were not specified.

c) IUCEA does not maintain an investment register as required by IUCEA Staff Rules and regulations

d) The Council has not developed an Investment policy that guides investment in fixed deposit and other investments

e) Details of the finding is as shown

S/n	Name of Banks	A/c No	Amount (USD)
1	National Bank of Kenya-Nairobi	01345003158900	13,451
2	National Bank of Commerce – Arusha	C014059002596	5,121
3	National Bank of Commerce-DSM	014059002496	1,923

The IUCEA Management responded as follows:

i) For the Accounts at NBC Dar es salaam, it was dormant and Management is in process of closing down.

ii) NBC Arusha was also dormant, but has recently been activated to facilitate closure.

iii) There is also an investment register and investment policy in place.

The Committee took note of IUCEA response.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to avail information to the Audit Commission for verification in the next audit.

5.1.9 Outstanding balances of annual subscriptions fees

The Audit Commission reported that included in the financial statements of IUCEA for the year ended 30 June 2014 is Subscriptions from member Universities and Corporate Institutions of USD. 346,500.

The review of the contributions revealed that Universities were contributing varying amounts ranging between USD 2000, and USD. 8000. However, the Audit Commission was not given the basis for paying the subscriptions at those rates. It was noted that the budget for the subscriptions was reduced from USD 298,400 in 2012/2013 to USD. 238,300 in 2013/2014. The reasons for budget reduction were not given.

The IUCEA Management responded that:

- Membership fees billing is based on individual University student's population, and on category of either Public or Associate Member University.
- For the difference noted between the previous budget for membership contribution was due to the fact that we budgeted based on the previous year billing from membership fees,
- The tarrif was approved we will provide documents for approval.
- Also the fact that National University of Rwanda had requested to be singly billed rather than billing it and its constituent University Members,
- Also the Business Councils of East Africa have been merged

All the above mergers have an impact on the receivables from University annual subscription.

There is limitation in enforcing the obligation. Since it is only required to be suspended. In 2012, the matter was taken to the Executive Council (EC). The EC refused the idea of suspension because of the mandate of the council and it was decided to engage the debtors and reporting the matter in the AGM. The draft bill prepared includes a clause of on the enforcement where the Permanent Secretary in the respective Partner States take up the matter.

The documentation about the decrease of budgeted revenue will be provided in the next audit.

The Committee took note of IUCEA response.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i.) Follow up the matter by sending regular reminders;

ii.) Put in place robust mechanisms of recovery of membership subscription fees; and

iii.) Present evidence of follow up to the Audit Commission for verification.

5.1.10 Long Outstanding Creditors

The Audit Commission reported that IUCEA reported USD 54,236 as project liability, which has been outstanding from previous financial year. In addition, creditors ledger showed that a total of USD 17,772.46 accounting to 20% of the total accounts payable have been outstanding for over seven months as shown in the table below. It was further noted from most of the invoices that they were dated 27 November 2013 an indication that these were brought forward balances whose actual dates were not properly captured in the ledger.

The nature of the related transactions were not identified, as indicated below:

VENDOR	INVOICE	DATE	AMOUNT	
IMPERIAL RESORT BEACH HOTEL	2120	7/31/2013	4,782.00	Payment voided in May. PV 3280
GLOBETROTTERS TRAVEL & TOURS	841	8/5/2013	150.00	Investigation continues
BUNYONYI	44901	10/18/2013	378.00	Investigation continues
UGANDA TRAVEL BUREAU	13101361,13,98	10/31/2013	801.35	Investigation continues
UGANDA TRAVEL BUREAU	13101290	10/31/2013	428.20	Investigation continues
BUNYONYI	June 2013 Inv.	11/27/2013	2,130.60	Investigation continues
ELITE ENTERPRISES	0114/0146	11/27/2013	-14.39	Forex differences
KARIBU TRAVEL SERVICES LIMITED	9178/263	11/27/2013	1,453.00	Investigation continues
MUGERWA & MASEMBE	LPO 2604	11/27/2013	1,445.35	Investigation continues
SECURITY GROUP UGANDA LTD	20,20,21,973	11/27/2013	1,413.63	Amount captured twice and reversed on the wrong sides now to be reversed
THE NEW VISION		11/27/2013	1,432.28	Cheque 102297 Invoice booked twice
TOYOTA (U) LTD	90078979	11/27/2013	378.98	
UGANDA REVENUE AUTHORITY	LPO 2604	11/27/2013	1,862.46	Cheque102380.
UGANDA TELECOM	LPO 2604	11/27/2013	43.04	Forex differences
ULTRA UGANDA LTD	11854/7	11/27/2013	1,087.96	Ch. 102296. Invoice booked twice
Total			17,772.46	

The IUCEA Management responded that although the above amount has not been spent, the audit observation has been noted and this will be improved. All the above payables are still being investigated.

The Committee observed weaknesses in the accounting process, poor internal control system and general incompetence in bookkeeping and record keeping.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i.) Initiate real time processing to avoid unnecessary investigations;

ii.) Strengthen internal control systems; and

iii.) Investigate the nature and origin of such payables.

5.1.11 Wasteful Expenditure

The Audit Commission reported that contrary to Staff and Financial Rules and Regulations (March 2010), IUCEA undertook the process of the recruitment of Chief Principal Planning, Finance and Administration Officer. As of 30 June 2014, a total of USD 20,773 had been incurred as recruitment expenses for this position. A review of the Council's organization structure as indicated in the functional analysis report approved by the Governing Committee on 25th March 2013 showed that the position of Chief Principal Planning, Finance and Administration officer did not exist in the structure. Further, correspondences on the recruitment indicated that the process was halted at the interview stage due to anomalies in the constitution of the short listing panel and professional qualification requirements. It was however not clear why the Council undertook the process of recruitment for a non-existent position in the approved organizational structure.

The IUCEA responded that at its 11th meeting held on 25 March 2013 in Kampala, Uganda, the Executive Committee approved the Functional analysis report that provided for the new structure of IUCEA. Among the recommendations was the recruitment of the Deputy Executive Secretary in charge of Planning, Finance and Administration. As the current Act 2009 does not provide for that position, the Executive Committee directed IUCEA to recruit the Chief Principal, Planning, Finance and Administration as an interim measure awaiting for the enactment of the new Act that would provide for the position of the second Deputy Executive Secretary. This directive is in line with section 13(2) of the IUCEA Act 2009 that stipulates, "The Secretariat shall be composed of the Executive Secretary, the Deputy Executive Secretary and such other staff as the Executive Committee may from time to time appoint".

Although the approval to establish the position was granted by the Executive committee, the basis was on functional analysis and did not consider the approved organizational structure that does not consider the position of Chief Principal Planning, Finance and Administration officer.

The Committee observed breach of IUCEA Staff and Financial Rules and Regulations (March 2010) and noncompliance with the IUCEA structure.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i.) Comply with the regulations and recruit in accordance with the existing structure; and ii.) Expedite amendments to the Act and address the need.

5.1.12 Delay in accounting for staff imprest.

The Audit Commission reported that some staff issued with imprest delay to account for more than year as detailed in the table below:

Name	Balance as at 30 June 2013	Accountability/ further imprest	Balance as at 30 June 2014	Other observation
Ms. Balyagati Wilhelemina	11,540.18	10,453.00	21,993.18	Not accounted as at the time of audit in Feb 2015
Dr. Joseph Cosam Chawanga	1,426.00	9,270.50	10,696.50	Not accounted as at the time of audit in Feb 2015
Dorine Rwehera	2,291.44	2,093.05	4,384.49	Not accounted as at the time of audit in Feb 2015
Anna Akot	1,651.70	1,190.00	2,841.70	Not accounted as at the time of audit in Feb 2015
ISAAC Maliim	0.00	1,500.00	1,500.00	Not accounted for as at the time of audit in Feb 2015 and subsequent to June 2014, received USD 1,000 not accounted for
Ms. Gertrude Lutaaya	1,818.75	(354.49)	1,464.26	Not accounted as at the time of audit in Feb 2015
Irene Wasswa	500.00	-	500.00	Not accounted as at the time of audit in Feb 2015
Alice MURONDO	380.00	0.00	380.00	Not accounted as at the time of audit in Feb 2015
Ms. Nightingale Mirembe	0.00	100.00	100.00	Not accounted as at the time of audit in Feb 2015
Total	19,608.07	24,252.06	43,860.13	

The IUCEA Management responded that it agrees with auditors concern. Measures will be taken to ensure that staffs that have outstanding accountable advances are no longer advanced imprest until they account. Similarly, management is going to enforce application of the rules on recovery of unaccountable advances by deducting the funds from staff salaries.

The Committee observed negligence by IUCEA to recover unaccounted for imprest, which has become unsecured loans.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i) Recover unaccounted for imprest; and

ii) Report progress to the Audit Commission for verification.

VICRES PROJECT

5.1.13 Long Outstanding research costs not accounted for

The Audit Commission reported that according to VICRES annual review meeting held on 15th October 2013, it was noted that there are researchers who delay to account for research funds advanced to them for research activities. The Audit Commission noted that funds advanced amounting to USD 811,040 was not accounted for as per the agreement signed between the Council and the specific researchers.

The IUCEA Management responded that emphasis on recoverability is ongoing with physical visits to the researchers and this is towards making sure that by the end of project all funds are accounted for.

As of 30th April 2015, the outstanding research funds advanced had reduced from USD 811,040 to USD 17,176. Research reports are also available.

The Committee observed weaknesses in the reporting mechanisms.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i) Recover unaccounted for advances to researchers; and

ii) Avail report to the Audit Commission for verification in the next audit.

5.1.14 Absence of memorandum of understanding on accountability of funds to IUCEA

The Audit Commission reported that on 5.07.2013, SIDA/ VICRES approved USD 285,000 to be disbursed to IUCEA to implement East African Qualifications Framework for Higher Education (EAQFHE). However, it was noted that there is no memorandum of understanding signed between IUCEA and SIDA concerning how funds disbursed would be accounted for. In addition, it was noted that out of this funds USD 200,381 was utilised for the agreed activity and the remaining USD 84,619 was neither accounted for in terms of submitting expenditure accountabilities nor remitted back to the project (VICRES).

The IUCEA Management responded that there was no MOU. The budget and activity plan were prepared and approved by the donor-based system on which the donor approved expenditure of funds. The IUCEA will effect an adjustment to recognize the deferred component of the fund.

The Committee observed inconsistency and inappropriate management of funds.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-i.) Account for remaining balance of the funds;

ii.) Always strive to have proper documentation of donor funds.

5.1.15 Absence of accounting research advances for innovation

The Audit Commission reported that in April and June 2013, VICRES disbursed USD 259,734.00 to researchers to support innovation project. It was agreed with the researchers to complete the projects not later than June 2014. It was however noted that only USD.2, 566 was surrendered during the year under review. In addition, there was no any report issued on the activity undertaken.

The IUCEA Management responded that emphasis on recoverability has been ongoing and the status to-date stand at $193,899. Physical visits are ongoing in making sure that funds are accounted for before the end of the project.

The Committee observed delays in accountability.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i) Double efforts in recovering unaccounted for funds; and

ii) Avail progress report on recovery to the Audit Commission for verification.

5.1.16 Absence of research copy right policy

The Audit Commission reported that VICRES financed different researchers to conduct research, where 104 research projects were funded from 2003 to 2013. The agreement with researchers was that the copyrights for these researches will be for IUCEA and research products should be freely distributed. According to the strategic plan of VicRes 2010-2014, it was planned to develop intellectual copyrights policy and establish intellectual property notes /committees in each Partner State to handle intellectual property through VicRes project.

The IUCEA Management responded that it agrees that this was not covered by VICRES, and IUCEA is planning to develop IP copy right in the future.

The Committee observed lack of coordination and lack of information flow.

Committee Recommendations

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to -

i) Institute proper coordination to facilitate information flow;

ii) Develop IP copyright policy and report progress to the Audit Commission.

5.2.0 Review of IUCEA Information System

5.2.1 Inadequate IT Staff

The Audit Commission reported that the approved structure of IUCEA requires 3 IT personnel to perform IT function. However, during the year under review, it was found that only one IT personnel remained in IT section after the second one moved to other department.

The IUCEA Management reported that it understands the risk of having one staff in the department, and it has planned the recruitment of one additional staff in the next financial year as outlined in the functional analysis report. However, in the meantime, management is in the process of recruiting an IT Support Assistant as a temporary staff. Furthermore, management is in the process of outsourcing some of the routine ICT operations.

The Committee noted management report.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to endeavour to assess the complexity of the work of its current staff and establish whether there is need to fill current vacancies in the IT function and report progress to the Audit Commission.

5.2.2 Lack of Payment Data Visibility in the Accounting System

The Audit Commission reported that the accounts unit records financial information using an accounting system named "SOLOMON" with the following modules:

- Fixed assets
- Account Payable
- Account Receivable
- Cash Manager
- Payroll
- Budget/Project Controller
- Management Reporter
- General ledger

In addition, the accounting unit is using CityDirectSystem, provided by City Bank, to effect IUCEA payment transactions in its accounts with City Bank. When payment is effected, using CityDirectSystem the system issues a confirmation note with referent number of the transaction effected.

A review of the payment process in the Accounts Payable module noted that the Council was using voucher numbers in updating the payment transactions in both the cashbook and creditor's ledgers. There was no link between the payment voucher number and the actual reference number from CityDirectSystem in the system. Management informed the Audit Commission that the actual reference numbers coming from CityDirectSystem contain about twenty digits making difficult to manual input in the "SOLOMON" system.

The IUCEA Management reported that it would endeavour to create a linkage between the reference number from the Citi direct system and payment voucher in Dynamics Solomon system.

The Committee noted lack of payment data visibility in the accounting system.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to-

i) Initiates a linkage between reference numbers generated by CityDirectSystem and the payment vouchers in the 'SOLOMON' system;

ii) Report correction of the anomaly to the Audit Commission for verification.

PART VI

6.0 Civil Aviation Safety Security Organization Agency (CASSOA)

6.1 CURRENT YEAR AUDIT FINDINGS

6.1.1 Lack of Segregation of Duties

The Audit Commission reported that the payment process allows persons to undertake all duties of requesting, approving and claiming or receiving the payments. On the other hand, imprest retirements were being claimed and approved by the same officer without being checked for authenticity and genuineness by another person either from accounts department or from any department within CASSOA. This contravenes the good practice in relation to segregation of duties.

CASSOA Management responded that the Agency takes note of the observation and agrees to adopt a new system for segregation of duties on the payments and claims processes immediately. The Agency shall henceforth establish a policy where all payments, claims and retirements are independent and are void of duplication of signature. The system shall ensure that situations of Executive, delegated staff or other staff duplicating roles in the requesting, checking and process is eliminated.

The Committee observed the weakness but noted the undertaking by the management to adopt a new system.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct CASSOA to report operationalization of the new system to the Audit Commission for verification.

6.1.2 Management of Bank Accounts

The Audit Commission reported that the Agency manages four bank accounts as follows:

Name	Account Number	Account Type	Amount(USD)
Barclays bank	6003614873	Current-USD Account	20,606 (reserve)
Barclays bank	6002220448	Current-UGX Account	45,412 (equivalent)
Barclays bank	6002220456	Current-USD Account	174,669 (operational)
Barclays bank	6002376715	Current–USD Account	53,841 (Gratuity)

It was noted that all the Agency's bank accounts are operated under Barclays Bank of Entebbe.

The CASSOA Management responded that it agrees with the observation and the added value to risk diversification and shall bring the need to operate different accounts in separate banks to the attention and approval of the Board.

The Committee observed that the process is taking unnecessarily long.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct CASSOA to expedite implementation diversification of bank accounts and report progress to the Audit Commission for verification.

6.1.3 Expenditure not adequately Supported USD. 86,969.85

The Audit Commission reported that payment vouchers for USD 86,969.85 were lacking some of the supporting documents such as acknowledgement receipts, invitation letters, attendance register sheets etc. It was also noted that all supporting documents to the journal vouchers, which were passed during the year under review, were not stamped "PAID" on their face contrary to CASSOA Financial Rules and Regulations (2013).

CASSOA Management responded as follows:

(a) Missing receipts

The Absence of receipts in some payments is effectively compensated by other applied control measures related to payments by the Agency. All payments made by the Agency are supported by:

1. Availability of valid contracts or Purchase orders
2. Payments against duly approved invoices or debit notes
3. Payments by either crossed cheques in the names of suppliers or service providers or direct bank transfers to suppliers accounts;
4. For payments made by crossed cheques, acknowledgement of cheques payment by suppliers by way of signing on the payment vouchers (Received by section in the payment vouchers)

5. For payments of training fees, attendance of training by staff members

However, Management agrees that there is need to secure receipts for all payments to enhance on the above controls. With immediate effect (05/02/2015), the Agency will adopt a mechanism to ensure that receipts support all payments.

(b) Missing Boarding passes

1. For all staff travels on official duty, the Agency requires staff to submit boarding passes that form part of the retirement supporting documentation. This requirement is an assurance for the Agency to satisfy the confirmation of period spent out of station on official travel as approved and claimed. All boarding passes for staff travels on official duties are available.

2. Currently the Agency does not request for submission of boarding passes from staff for travels on entitled home leave

3. Currently, the Agency does not request submission of boarding passes for travels by board members when attending board meetings

With effect from 05/02/2015, the Agency will require submission of boarding passes for travels by Board members and staff home leave beneficiaries.

(c) Missing attendance sheets

The Agency has been using registration forms that are signed only on the first day of the meeting as evidence of attendance. With effect from 05/02/2015, the Agency will introduce attendance sheets to be completed daily for all Working Group and Technical Committee meetings.

a. Supporting documents not stamped "PAID"

1. All payment vouchers and their supporting documents are stamped "PAID"

2. The Agency has not been stamping "PAID', claims made by receipts attached to retirement forms. The claims are mainly airport transfer expenses paid by staff members on official travels. The Agency does not anticipate a situation where these receipts can be submitted more than once as they are submitted together with retirement forms, boarding passes, and verification is made to the effect that the dates of the receipts match with travel dates. This verification on retirement is a measure to assure that resubmission is eliminated.

Management agrees that there is need to enhance on the above controls. With immediate effect (05/02/2015), the Agency will stamp "PAID" all claims made by receipts attached to retirement forms.

The Committee observed weakness in CASSOA accountability measures.

Committee Recommendation

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct CASSOA to institute control measures, expedite correction of the anomaly, and report progress to the Audit Commission for verification.

PART VII

7.0 Acknowledgments

The Committee wishes to thank the Rt. Hon. Speaker, the Clerk and the entire Management of EALA for the excellent facilitation accorded to it while executing its mandate. Despite limited time, the Committee finalised the bulky and demanding exercise within the financially dictated timeframe.

The Committee further wishes to thank the Audit Commission for fulfilling their mandate bestowed on it by *Article 134* of the Treaty.

Finally, the Committee commends the EAC Secretariat and other EAC Organs and Institutions for the continued cooperation.

Mr. Speaker, Sir, I beg to move - *(Applause).*

The Speaker: Thank you so much, Hon. Ngendakumana, Chairperson of the Committee on Accounts. The clapping speaks for itself. We thank you for taking us through this very good and long report.

Hon. Members, the motion before the Assembly is that the Report of the Committee on Accounts on the Audited Financial Statements of the EAC for the Financial Year ended 30th June 2014, be adopted. Debate is open.

Honourable Members, you know this is one of the cardinal roles of this Assembly. Basing on the strong pillar of our function of oversight, we cannot afford to gloss over this report, which has been effectively presented to this House. I would like to adjourn this meeting to allow you to go and read this report so that we will have an effective debate on this matter - *(Applause)* – and improve on or adopt the recommendations that have been presented by the Committee.

In addition, and most importantly, you will remember we agreed that in this Meeting we should be stopping a little early to allow Members to go and practice sports. We do not want to be the last Parliament among the six parliaments that are going to participate in the games.

Now, before I adjourn, I have the following announcements to make. The Inter-Parliamentary Prayer Fellowship – this is a new event – Inter-Denominational, meaning all faiths – are to meet for the first time on Thursday at 1.00 p.m. here.

Honourable Members, you know that all our sister Partner State Parliaments have Parliamentary Prayer Fellowships in which we have been participating. We also need, as God-fearing people, to establish our own fellowship. I have designated Hon. Nancy Abisai to coordinate this - (*Applause).* I, therefore, call upon you to come tomorrow at 1.00 p.m. for our first fellowship and to agree on a way forward.

The second announcement is that, honourable Members are requested to keep copies of the reports because the process of production is a rather time consuming and expensive.

Finally, the meeting for tomorrow will take place in the beautiful Chambers of the Senate.

The House stands adjourned to 2.30 tomorrow.

(The House rose at 5:10 p.m. and adjourned until Wednesday, 2 December 2015, at 2.30 p.m.)