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EAST AFRICAN COMMUNITY
EAST AFRICAN LEGISLATIVE ASSEMBLY

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**REPORT OF THE COMMITTEE ON
ACCOUNTS ON THE MEETING WITH AUDIT AND RISK
COMMITTEE**

(13TH - 17TH NOVEMBER 2016, NAIROBI - KENYA)

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

November, 2016

1.0 INTRODUCTION

Whereas the Committee on Accounts is particularly mandated to:-

- i] Carryout a post audit review and scrutiny of the expenditure incurred by the EAC Secretariat, the Organs and Institutions of the sums appropriated in annual budgets approved by the EALA upon presentation by the Chairperson of the Council of Ministers of the EAC;
- ii] Carryout post audit review and scrutiny of the expenditure on the basis of an annual audit report of the Audit Commission, pursuant to provisions of Article 49(2) (c) and 134 of the Treaty for the Establishment of the EAC. This function is post budget and implementation of the budget by organs and institutions of the EAC;
- iii] Carryout post audit function that encompasses the need to monitor the implementation of the budget in a manner similar to internal audit, pursuant to Rule 72(1) that the Assembly shall monitor the implementation of the budget of the Community through the Committee responsible for budgetary control and other relevant Committees;
- iv) Carry out on-spot assessment on activities of the EAC and those of the donors; and
- v] Present a report with recommendations to the House for debate and adoption.

The East African Audit and Risk Committee is mandated to discharge its oversight responsibilities in regard to:

- i. The effectiveness of the processes of Governance;
- ii. The integrity of the financial information;
- iii. Compliance with legislation, regulatory requirements and internal policies and procedures;
- iv. The adequacy of the internal control system;
- v. The effectiveness of risk management;
- vi. Efficiency, effectiveness and economy (value for money) in the use of the Community resources; and
- vii. The performance of the EAC Internal Audit function.

The East African Community Audit and Risk Committee was established by the Charter that was approved by the 20th Meeting of the Council of Ministers (**EAC/CM/20/Decision 87**) and amended by the 32nd Meeting of the same Council. The Committee derives its mandate from the Charter and assists the Council as its technical arm.

Owing to the fact that the Community has been faced with issues as pointed out by the Audit Commission and recommended upon by the Assembly, the issues have persisted despite

Assembly efforts to mitigate the audit queries. The Committee deemed it appropriate to meet the Audit and Risk Committee to further discuss to the roots of issues for a lasting solution.

2.0 THE OBJECTIVE OF THE MEETING

The Committee met the Audit and Risk Committee to forge a working relationship. The Committee on Accounts being an accountability Committee and an arm of the Assembly as an oversight organ, would work with the Audit and Risk Committee, just like it works with the Audit Commission. The roles of the two Committees are almost similar despite performance in different capacities with different reporting structures. It is in this regard that the Committee on Accounts has initiated the meeting as culture of sharing information and building synergy to enhance accountability in the Organs and Institutions of the Community.

3.0 METHODOLOGY

The Committees conducted a joint meeting where the Chairpersons read statements as opening remarks, made presentations and held plenary discussions.

4.0 PRESENTATIONS

4.1 Recurrent Audit Queries *in the EAC Organs and Institutions*

The Chairperson of the Committee on Accounts presented the recurrent Audit Queries in the EAC Organs and Institutions as follows: -

4.1.1 Accounting Function at EAC

The Audit Commission of the EAC had reported that the EAC Secretariat submitted Financial Statements for the FY 2014/15 to the Audit Commission on 5th Oct, 2015. The submitted Financial Statements were signed by the Director of Finance and the Secretary General on 25th Sept, 2015 and 30th Sept, 2015 respectively.

It was noted that the EAC Secretariat passed a total of 1146 adjustments to the transactions in the General Ledger after the submission of the Financial Statements. Out of these adjustments, 138 were recommended by the Audit Commission and the remaining 1008 adjustments were passed by the EAC Secretariat.

During the review and consideration of the Audit Commission reports, the EAC Management conceded that there is lack of coherency and complementarity in the finance department hence financial imprudence.

Indeed, there is lack of proper recording of financial transactions and general lack of capability to exercise supervisory role in the finance department. The adjustments of the Financial Statements are an indicator of failure of the EAC top Management to supervise its departments and laxity of the finance staff and the Internal Audit to do their work.

The EAC Council of Ministers is required to:-

- i) strengthen EAC internal control mechanisms by ensuring that financial transactions are accurately and timely posted in the financial information system;*
- ii) direct EAC Management to enhance capabilities of finance and internal audit staff; and*
- iii) prevail over the directorate of finance to render its supervisory role over the accountants.*

Most important to note is that the accounting function at the EAC has been queried for the last four years. If it is not due to understaffing, it is the accounting systems or underfunding.

4.1.2 Lack of EAC Projects Coordination Unit

This is an audit query that has existed for a decade.

EAC has a number of projects ongoing or proposed by various development partners that respond to its core mandate notably: Peace and Security Project, Medicines Regulatory Harmonization Project, Climate change Project, Railways sector Enhancement Project, Financial Support Development and Regionalization Project etc. This relationship is likely to continue for the long-term, hence the need to establish a top level unit to coordinate the implementation of these projects through an effective project management.

The EAC Council of Ministers should prioritize this matter and ensure it is addressed.

4.1.3 Outstanding VAT Claims

There is persistent failure of EAC Management to negotiate conclusive and thorough Headquarters agreement to enable EAC enjoy its privileges.

This challenge has existed since the inception of the EAC and in all the EAC Organs and Institutions.

Of course the Assembly has always and severally recommended that the EAC Council of Ministers direct EAC Management to:

- i) negotiate and conclusively finalise agreements that exempt VAT with all EAC Partner States that host EAC Organs and Institutions and all meetings and events;*
- ii) put in place mechanisms for timely compilation and submission of claims for tax refunds;*
- iii) convene a tripartite meeting of the EAC Secretariat, EAC Council of Ministers and the Revenue Authorities in all Partner States to forge a lasting solution of the VAT issue; and*
- iv) forge a way of engaging the Ministries of Finance directly.*

There is need to have the Assembly recommendations implemented.

4.1.4 Expenditure on payments to short-term contract staff in terms of Salaries and overtime allowances.

There has been, and there is still, an illegal practice at the EAC regarding short term contracts. The continuous recruitment and maintenance of the short term contracts in the guise of stop – gap measures contravenes EAC Staff Rules and Regulations (2006).

4.1.5 Irregular Payment in Lieu of Leave

The Audit Commission Reports have always pointed out this irregularity. These payments always have no evidence that special permission to accrue the leave had been obtained or granted as required by the regulations.

The practice contravenes Regulation 71 of the Staff Rules and Regulations (2006).

The EAC Council of Ministers ought to come up with sustainable solution to this recurrent query.

4.1.6 Wasteful Expenditure

The Audit Commission gave instances where the EAC Secretariat spent funds that could have been avoided had Management been more prudent in the utilization of its resources.

Most of the expenditures were on conference facilities, fuel, and accommodation for various meetings.

4.1.7 Procurement Matters

Every year, from FY 2010/2011 – 2014/2015 the Audit Commission reports have queried procurement at the EAC.

There has been irregularities in the procurement of goods and services in contravention of Financial Rules and Regulations (2012) and EAC Procurement Policies and Procedures Manual (2011).

Most procurements like awarding of tenders and procurement of hotel services at the EAC are done without justification, quorum and exceed approved thresholds.

This query has persisted despite recommendations to the EAC Council of Ministers by the Assembly.

4.1.8 Internal Audit Function

The Internal Audit Function has had concerns for many years. The major problem affecting proper functioning of the Internal Audit Unit has been understaffing, hence non-accomplishment of its mandate.

The Assembly has previously recommended to upgrade the unit to the directorate level but nothing has been done to date!

4.1.9 Budget Performance

Budget performance at the EAC has been a recurrent issue. There has been Under Utilization of Budgeted Funds especially in the EAC Projects and programs.

The poor performance has always been attributed to unrealistic project budgeting, late disbursement of funds and different budget cycles.

The EAC Council of Ministers has not done much despite Assembly recommendations.

4.1.10 Shortfall in Funding

Despite efforts to recover the outstanding balance, there is always outstanding balances from the Partner States. This applies to all organs and institutions.

The EAC Council of Ministers should prevail over the EAC Partner States to honor their obligations and disburse contributions timely.

4.1.11 Non-Compliance with the NSSF Act (IUCEA)

The IUCEA has not been effecting monthly contributions to NSSF as required by the NSSF Act in the Republic of Uganda. NSSF has a claim of more than four million dollars against IUCEA.

The Assembly is not comfortable with this unresolved matter. The EAC Council of Ministers should expeditiously report progress in the implementation of the Assembly recommendations on the matter.

4.1.12 Expenditures over and above budget limits

Most of the time statement of comparison of budget and actual included in the financial statements reveal expenditure beyond budget in most line items.

The EAC Council of Ministers should address unrealistic budgeting, weaknesses in budget controls in all EAC organs and institutions.

4.2 PRESENTATION BY THE CHAIRPERSON OF THE AUDIT AND RISK COMMITTEE

4.2.1 Introduction

The Audit and Risk Committee informed the meeting that it is a technical committee of the EAC Council of Ministers that was established by the 25th Meeting of the Council of Ministers (EAC/CM25/Decision 43).

The Audit and Risk Committee was established and appointed in accordance with Regulation 110 of the EAC Financial Rules and Regulations (2012), that gives powers to the Council to establish and appoint members of the Audit and Risk Committee.

Article 135 (1) of the Treaty for establishment of the East African Community give powers to the Council to make Financial Rules and Regulations of the Community.

The Committee derives its mandate from the Audit and Risk Committee Charter that was approved by the 20th Meeting of the Council of Ministers (EAC/CM/20/Decision 87) and amended by the 32nd Meeting of the Council of Ministers.

4.2.2 Execution of the Audit and Risk Committee mandate/responsibilities

In accordance with the Charter, the Committee is required to meet at least four times a year. The Internal Audit units of the Organs and Institutions periodically prepare reports in line with the approved work plans and submit the same to the Audit and Risk Committee.

In executing its mandate the Committee meets to deliberate on issues in line with their mandate and prepares reports with recommendations which are eventually submitted to the Council annually for consideration and adoption.

The Council of Ministers meet at least twice a year and consider the status of implementation of previous decisions/directives emanating from the Audit and Risk Committee recommendations.

4.2.3 Achievements

The Audit and Risk Committee informed the meeting that some achievements have so far been registered:-

- a) Improvement of the link between the Internal Audit function and the Council of Ministers through the Internal Audit reports which are reviewed by the Audit and Risk

Committee and tabled to Council annually, hence improvement in the implementation of the recommendations of the Internal Audit unit.

- b) The Audit and Risk Committee has been assisting the Council of Ministers in analyzing and making recommendations on matters of governance, accountability and effective use of the Community's resources.
- c) The Audit and Risk Committee has since advocated for the establishment and/or improvement of the Internal Audit function across the EAC Organs and Institutions and has succeeded to some extent for instance Lake Victoria Fisheries Organization has now an audit unit headed by a Principal Internal Auditor.
- d) Recommendations from the Internal Audit and Audit Commission are now part of the reports of the Council of Ministers and the Council can now monitor their implementation through the existing EAC Monitoring & Evaluation framework.

4.2.4 Challenges

The Audit and Risk Committee stated that despite the achievements that have been recorded since its establishment, there have been challenges which have affected the execution of the mandates of the Committee as follows:

4.2.4.1 Governance

- a) There is slow Implementation of the Audit and Risk Committee recommendations by organs and institutions as well as Partner States.
- b) EAC Governance structures limit corporate governance in such a way that Audit and Risk Committee meetings are convened by EAC Secretariat at its convenience.

4.2.4.2 Internal Audit Units

- a) The Structure of the Internal Audit Units of the EAC Organs and Institutions is not in line with the International Professional Practice Framework (IPPF Standard 1110 on Organizational Independence) rendering the function ineffective.
- b) The Internal Audit Units are understaffed and underfunded, causing ineffective delivery on their mandate.

4.2.4.3 Risk Management

There is lack of full operationalization (EAC-wide) of the approved Risk Management Framework, Policy and Strategy that will cover risk assessment for the remaining institutions - LVBC, LVFO and CASSOA.

5.0 PLENARY DISCUSSIONS

The two Committees held plenary discussions arising out of the presentations made by the two Chairpersons.

5.1 Findings / Observations

5.1.1 The Untimely convening of the Audit and Risk Committee to execute its duties.

The Committee observed that the Audit and Risk Committee is convened by the EAC Secretariat at its convenience. Whereas the Audit and Risk Committee was established as a technical arm of the EAC Council of Ministers, it does not regularly meet in accordance with the Charter and not accorded adequate time to appropriately brief the EAC Council of Ministers.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to accord time and regularize Audit and Risk Committee meetings in accordance with its Charter.

5.1.2 Lack of Synergy between Oversight and Accountability Committees.

The Committee noted that for effective delivery and to properly serve the Community, there is need for synergy and harmonized working relationship between the Assembly Committee on Accounts, the Audit Commission and the Council.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretariat to initiate and regularly convene the tripartite meeting for purposes of building synergy and harmonizing accountability at the EAC.

5.1.3 Non-implementation of Assembly recommendations and non-disclosure of audit and assessment results on staff qualifications.

The Committee recalled that following a recommendation on due diligence on staff qualifications, audit was carried out following the discovery of forged academic papers by the expelled senior accountant at the LVBC.

The meeting was informed that due diligence of all EAC staff qualifications was undertaken, report produced but never disclosed to any of the oversight or accountability Committees.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to table before the Assembly, the said report in January 2017 during the next session.

5.1.4 Gaps in EAC Management and Governance

The meeting was informed that there are so many gaps in EAC Management and Governance partially expressed by the lack of EAC Projects Coordination Unit.

It was clear that the Council has always received reports from the Audit Commission, the Audit and Risk Committee and the Assembly. All the reports have pointed out the issues and flaws at the EAC but the EAC Council of Ministers has not address most of the issues.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to arrange an extra ordinary meeting and accord time to the Audit and Risk Committee for a regular and detailed brief on the issues paralyzing the Community.

5.1.5 Performance of the Audit and Risk Committee

The Committee observed that the Audit and Risk Committee does not perform its duties in accordance with the Charter. The Audit and Risk Committee has met fewer times in fact only two instead of the four as stipulated by the Risk and Audit Committee Charter.

COMMITTEE RECOMMENDATION

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

- a) avail resources to enable Audit and Risk Committee to meet regularly;
- b) facilitate Audit and Risk Committee in the discharge of its duties to also vigorously implement Assembly recommendations.

5.1.6 Slow pace in implementation of Audit and Risk Committee Recommendations

The Audit and Risk Committee informed the Committee on Accounts that for the fewer times it has met to review the Audit Commission reports, several recommendations have been

drawn. It is however disappointing that only one recommendation has been implemented in a period of two years.

The Committee expressed disappointment.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to always ensure all recommendations are implemented timely.

5.1.7 Financial Limitations

The Audit and Risk Committee informed the Committee that financial difficulties caused by delays and lack of disbursements of contributions by Partner States also lead to non-implementation of some of the recommendations.

COMMITTEE RECOMMENDATION

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

- a) always ensure that Partner States disburse their contributions on time;
- b) lift the zero-increment policy on the EAC budget; and
- c) table quarterly reports to the Assembly.

5.1.8 Audit and Risk Committee Reports to Council

The Committee noted that the Audit and Risk Committee reports to the EAC Council of Ministers annually. Given the state of affairs at the EAC, there is urgent need to address issues of governance and exercise proper risk management and controls.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that detailed reports of the Audit and Risk Committee are received and attended to adequately on a quarterly basis.

5.1.9 Inefficiency of the Internal Audit Units

The Committee was informed that the Internal Audit Units of the EAC Organs and Institutions structure is not in line with the International Professional Practice Framework (IPPF Standard 1110 on Organizational Independence), rendering the function ineffective. This issue has not been attended to despite reports to the EAC Council of Ministers.

The Committee was further informed that inefficiency of the Internal Audit Units is also caused by understaffing and insufficient funding. This specifically hampers effective delivery of the Internal Audit Units Mandate.

COMMITTEE RECOMMENDATIONS

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

- a) cause the alignment of the EAC Internal Audit Units to IPPF Standard 1110 on Organizational Independence by March 2017; and
- b) ensure that Internal Audit Units are sufficiently staffed and funded.

5.1.10 Non-Operationalization of approved frameworks, policies and strategies.

The Committee was informed that the approved (EAC-wide) Risk Management Framework, Policy and Strategy risk assessment to include LVBC, LVFO and CASSOA has not been fully operationalized.

The Committee noted that persistent refusal to operationalize such strategies and policies will always expose the EAC establishment to risks.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to prioritize and expedite full operationalization of EAC – wide Risk Management Framework, Policy and Strategy to also cover EAC Institutions.

5.1.11 Weak Monitoring and Evaluation Mechanism

The Committee noted weaknesses in monitoring and evaluation mechanisms at the EAC. Council decisions and Assembly recommendations are not effectively and sufficiently implemented.

COMMITTEE RECOMMENDATIONS

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

- a) enhance Monitoring and Evaluation mechanism for full implementation of the Council decisions, Assembly recommendations and Audit and Risk Committee recommendations by conducting physical monitoring for verification on the reported status of implementation of the decisions and recommendations;
- b) direct EAC Secretariat to allocate adequate resources to enable the Audit and Risk Committee timely and effectively execute its mandate; and

- c) build and improve capacities of the Internal Audits of the Organs and Institutions and urgently fill the approved positions for the Internal Audit Units.

6.0 CONCLUSION

The Committee had a fruitful meeting with the Audit and Risk Committee. The meeting discussed several issues affecting the Community with the EAC Council of Ministers at the center stage in successes and failures of the Community.

The Council is vested with full authority to manage the Community but still have much to do to ensure all the recommendations and advice from all oversight and accountability Committees and Organs are implemented.

The Council has for several years received reports from the Audit Commission, the Audit and Risk Committee and the Assembly. In accordance with Article 14 of the Treaty, the Council is mandated to ensure the proper functioning and development of the Community. This infers that the implementation of the recommendations proposed by the accountability committees and approved by the Assembly rests in the hands of the EAC Council of Ministers.

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.

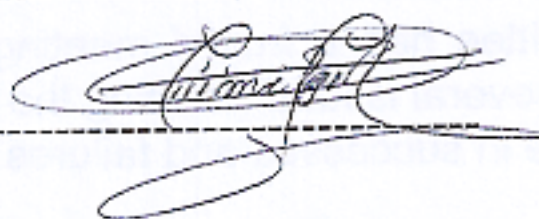
The Committee finally wishes to thank the Audit and Risk Committee and the Internal Audit Units for their availability and meaningful participation in the meeting.

MEMBERS OF THE COMMITTEE ON ACCOUNTS

Report on Joint meeting with EAC Audit and Risk Committee

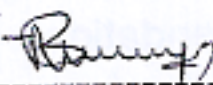
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1. Hon. Amb. Jeremie Ngendakumana-

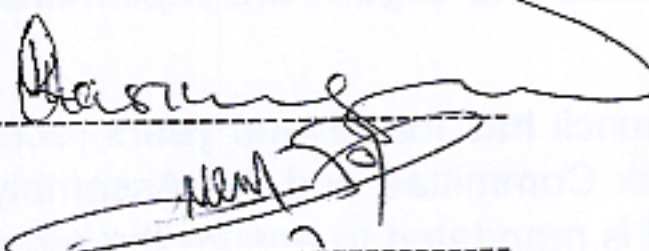


2. Hon. Bernard Mulengani -

3. Hon. Bernard Murunya -



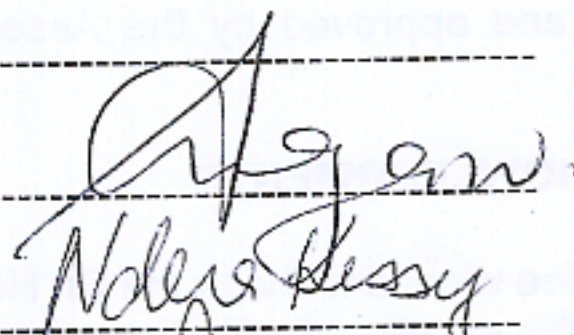
4. Hon. Oda Gasinzigwa -



5. Hon. Emmanuel Nengo -

6. Rt. Hon. Margaret Nantongo Zziwa-

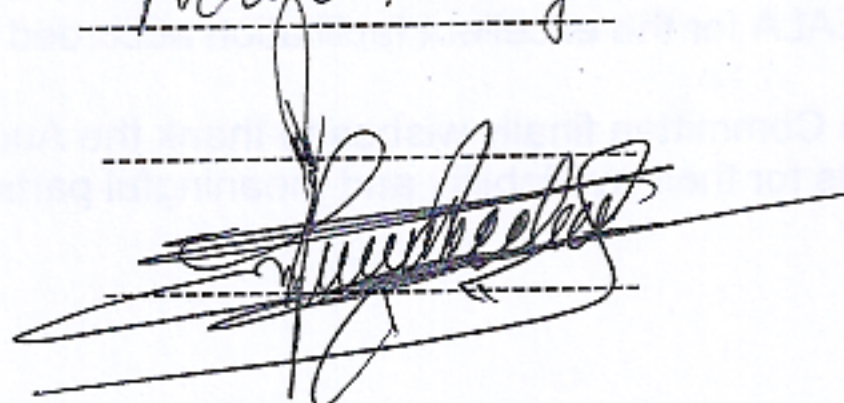
7. Hon. Mumbi A. Ng'aru -



8. Hon. Nderakindo P. Kessy -

9. Hon. Peter Mathuki -

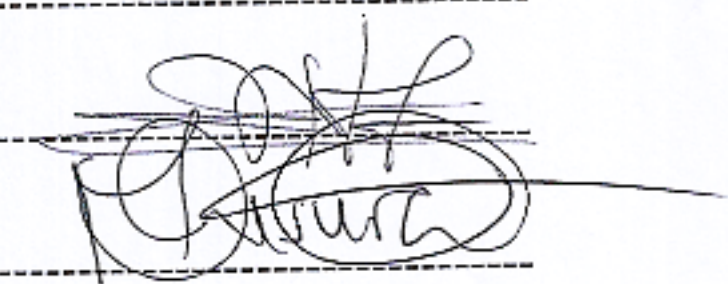
10. Rt. Hon. Pierre-Celestin Rwigema -



11. Hon. Saoli Ole Nkanae -

12. Hon. Shy-Rose Bhanji -

13. Hon. Straton Ndikuryayo -



14. Hon. Nusura Tiperu -

15. Hon. Yves Nsabimana -