EAST AFRICAN COMMUNITY

EAST AFRICAN LEGISLATIVE ASSEMBLY

REPORT OF THE COMMITTEE ON

ACCOUNTS ON THE AUDITED ACCOUNTS OF THE EAST AFRICAN COMMUNITY

FOR THE YEAR ENDED 30TH JUNE, 2012

BUJUMBURA, BURUNDI

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

October 2013

ACRONYMS

AfDB	African Development Bank
AICC	Arusha International Conference Centre
CASSOA	Civil Aviation Safety and Security Oversight Agency
CM	Common Market
BOS	Board of Survey
DLP	Defects Liability Period
EAC	East African Community
EACJ	East African Court of Justice
EADB	East African Development Bank
EALA	East African Legislative Assembly
EPA	Economic Partnership Agreement
EU	European Union
GFS	Government Financial Statistics
IPSAS	International Public Sector Accounting Standards
IUCEA	Inter University Council for East Africa
LPO	Local Purchase Order
LVBC	Lake Victoria Basin Commission
LVBC-PF	Lake Victoria Basin Commission – Partnership Fund
LVEMP II	Lake Victoria Environment Management Programme II
M&E	Monitoring & Evaluation
MoU	Memorandum of Understanding
TRA	Tanzania Revenue Authority
TORs	Terms of Reference
URA	Uganda Revenue Authority
WHT	Witholding Tax
VAT	Value Added Tax

Table of Contents

PART I

1.0 INTRODUCTION

In accordance with the provisions of Article 134 (3) of the Treaty for the establishment the East African Community (EAC), the Chairperson of the EAC Council of Ministers on 23rd October, 2013 in Bujumbura, Burundi laid before the Assembly the following reports of the Audit Commission:

i) The Audited Consolidated Financial Statements of the EAC organs for the year ended 30th June, 2012;

ii) The Audited Financial Statements of the Lake Victoria Basin Commission (LVBC) for the year that ended 30th June, 2012;

iii) The Audited Financial Statement for the Lake Victoria Fisheries Organization (LVFO) for the year ended 30th June, 2012;

iv) The Audited Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the year that ended 30th June, 2012; and

v) Audited Financial Statements of the Inter University Council for East Africa (IUCEA) for the year ended 30th June, 2012.

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 Consolidated Financial Statements of the EAC Organs for the Year that Ended 30th June, 2012

Part III: The Lake Victoria Basin Commission (LVBC)

Part IV: The Lake Victoria Fisheries Organization (LVFO)

Part V: The Civil Aviation Safety and Security Oversight Agency (CASSOA)

Part VI: The Inter-University Council For East Africa (IUCEA)

Part VII Acknowledgements

PART II

2.0 AUDIT FINDINGS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE EAC FOR THE YEAR THAT ENDED 30TH JUNE, 2012

The Accounts of EAC Organs and its Institutions of CASSOA and LVBC presented fairly, in all material respects, the financial position of EAC for the year ended 30th June, 2012; its financial performance and its cash flows for the period in accordance with the 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). The Accounts of Lake Victoria Fisheries Organization and the Inter University Council of East Africa were qualified and the Audit Commission was not able to make an opinion and issued a disclaimer thereof.

2.1 CURRENT YEAR AUDIT FINDINGS

2.1.1 SIGNIFICANT ISSUES

a) Enhancing Supervisory role by the Secretary General over the EAC Institutions

The Audit Commission reported that the EAC Secretary General does not exercise adequate supervision over all EAC institutions in accordance with Article 67 (3) and 67 (3b) of the Treaty.

The Secretary General is not involved in the preparation and implementation of the strategic plans, so are the quarterly, the periodic, or the annual reports prepared by the institutions and sent for his review on institutions progress and no updates of institutions strength and weaknesses.

There are no performance benchmarks for each institution and as such no sanctions or rewards by the Secretary General for non-performing institutions. For example; CASSOA does not have enough technical staff for their oversight role in aviation; LVFO may face challenges in discharging some of its roles; and water hyacinth menace is consuming the lake without successful action by LVBC, LVEMP or EAC. The risk is that EAC institutions may fail to deliver on their duties because of lack of supervision and monitoring.

The Management responded that although the legal instruments establishing the EAC institutions do not specifically provide that the Secretary General exercise direct supervisory role on the institutions as embedded in the Treaty, the Secretary General held a meeting with the heads of institutions and resolved that the legal instruments would be amended and harmonized to reflect the role of the Secretary General on the institutions. Meanwhile the Secretary General will sign off the strategic and annual plans of the institutions and the respective performance contracts of the heads of the EAC institutions with effect from next financial year 2013/2014. The institutions would also furnish the Secretary General with periodic reports.

COMMITTEE RECOMMENDATIONS:

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

i) ***expedites amendment and harmonization of legal instruments establishing the Institutions to comply with the Treaty provisions of Article 67 (3);and***

ii) ***direct the EAC Secretary General to elevate the M&E Unit to a Directorate level and develop a strategy for monitoring the performance of the EAC Organs and Institutions.***

2.1.2 EFFECTIVENESS OF THE EAC AUDIT AND RISK COMMITTEE

The EAC Audit and Risk Committee is a highly technical management tool for assisting an institution in its oversight role, risk analysis, risk mitigations and moderations before losses occur and implement audit recommendations.

The Audit Commission observed that the EAC Audit and Risk Committee members were nominated by ministries in the Partner States without due regard to their technical qualifications. Consequently, the effectiveness of the Committee is compromised as it may lack technical knowledge to assess the risks.

The Management responded that members of the Audit and Risk Committee were nominated in accordance with the EAC Audit and Risk Committee Charter and therefore be allowed to perform its functions before appraising its performance. The assessment recommends to the EAC Council of Ministers for improvement if necessary.

The Committee noted the concern of the Audit Commission on the effectiveness of the Audit and Risk Committee due to the nature of its appointment.

COMMITTEE RECOMMENDATIONS

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

i) ***Nomination of members of the Audit and Risk Committee should strictly take into consideration their technical skills and competencies as stipulated in the Charter; and***

ii) ***The nomination of the Audit and Risk Committee always be done in consultation with the Auditors General of the Partner States.***

2.1.3 INADEQUATE STAFFING

The Audit Commission observed and reported that the EAC does not have adequate staffing in some positions within its institutions. Examples highlighted are:

i) CASSOA which lacks enough experts to execute the Agency mandate; and
ii) The LVBC which also lacks enough experts to save Lake Victoria from pollution and water hyacinth which has destroyed and dwindled fish species.

The Management responded that:

CASSOA has three highly qualified and technical staff in the aviation industry namely the Executive Director, the Technical Coordinator, the Manager Airworthiness and that consultancies for the current year are to cover the functions of Flight Operations and Medical Assessor. The Management concluded that CASSOA Management is adequately equipped to execute the Agency mandate.

The committee observed that, in addition to the named Institutions above, the IUCEA is also inadequately staffed.

COMMITTEE RECOMMENDATIONS

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

i) ***Finalize recruitment exercise to fill gaps across EAC Organs and Institutions; and***
ii) Engage experts to save the Lake Victoria from Water hyacinth and pollution.

2.1.4 ISSUES NOT PROPERLY ADDRESSED BY THE EAC TREATY

The Audit Commission reported that Article 134 of the Treaty is silent on financial statements. The Treaty envisages the final Audit Report whilst other audits which include value for money (economy, efficiency and effectiveness), forensic interim audit have not been covered by the Treaty.

The Treaty has not defined all its institutions which should be audited in accordance with Article 134. The Treaty does not embrace recent changes in EAC first its grown membership, technology and management, does not properly cover accountability and other managerial aspects of oversight bodies.

The Management responded that while there is an attempt to address the concerns during the ongoing Treaty amendment process, the Treaty may not contain operational details since these are covered in other policy documents and governance instruments of the Community. Article 134 of the Treaty is operationalized by the provisions of the Financial Rules and Regulations. The EAC has also set up mechanisms to amend the Treaty when necessary.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to widen the scope of audit to include management, value for money, (economy efficiency, and effectiveness) audits.

2.1.5 FUNDING GAPS

The Audit Commission noted that the funding mechanism of the EAC institutions is faulty. Some institutions were not getting the budgeted funds as planned. Consequently, some institutions, like LVFO were borrowing staff gratuity to finance their operations. CASSOA also used general reserves to fund its activities during the year 2011/2012. The audit further notes that failure to adhere to funding mechanisms could lead to the collapse of some institutions, as they will not be able to discharge their mandate.

The Management reported that delays by Partner States to remit their contributions was occasioned by financial constraints they were facing, but they always fulfilled their obligations and resources have always been availed to organs and institutions, despite the delays. It was reported that LVFO will replenish the funds when Partner States remit their arrears. With the revised strategic and organization development plan of CASSOA, the practice would not re-occur as budget estimates will have reduced.

The Committee noted the funding gaps; especially in LVFO, there is a serious problem that might lead to the total collapse of the institution: if not immediately addressed**.**

The Committee observed that the EAC General Reserves in the EAC Organs & Institutions are not audited, and are used without any authorization.

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly:

i) ***to urge the EAC Council of Ministers to urge the EAC Partner States to comply with their funding obligations to Organs & Institutions in a timely manner;***

ii) ***to urge the EAC Council of Ministers to direct EAC Organs & Institutions to stop use of General Reserves unless approved by relevant authority; and***

iii) ***that the Audit Commission provide information on the use and status of General Reserves and report to the Assembly by November 2013.***

2.1.6 THE EAC AUDIT COMMISSION

Article 134(1) of the Treaty mandates the Audit Commission to undertake the EAC audit. However, the following was noted in the previous audit:

- The budget of the Audit Commission was not properly done, leading to delay in the commencement of the audit exercise; and

- There was no Secretariat to handle and coordinate audit matters, hence lack of proper coordination.

Despite timely dispatch of the audit programme to the EAC Organs and Institutions, indicating the time, budget and required documents, the EAC Staff did not prepare for the exercise on time, causing delay in the commencement and completion of the audit exercise and thus increase in the overall cost for the exercise.

The Audit Commission recommends the need to establish an Audit Commission Secretariat who will handle and coordinate all activities of the Audit Commission, including proper budgeting, availability of relevant documents on time and all related matters.

The Management reported that the audit activities were previously funded by the respective national audit offices of the Partner States. However, the Audit Commission requested the Council to have their expense centrally budgeted at the Secretariat. Budget estimates were accordingly approved by the Assembly. It was further reported that in future, the budget proposal for the Audit Commission will be originated in consultation with the Commission.

The Committee observed that the lack of adequate facilitation to the Audit Commission greatly hampers the audit exercise.

COMMITTEE RECOMMENDATIONS

The Committee therefore recommends to the Assembly that:

i) ***The EAC Council of Ministers urgently establishes the Audit Commission Secretariat at the EAC Headquarters to enable custody of documents; and***

II) ***A separate and independent budget line to facilitate the coordination of the Audit Commission activities be created in accordance with Article 132 (5) of the Treaty.***

2.1.7 INTERNAL CONTROLS AND ACCOUNTING SYSTEMS

Financial regulations require that proper and accurate records be maintained to ensure that public funds are properly utilized and value for money achieved. During the previous audit however, weaknesses in internal controls and accounting systems were noted. These include delay in submission of financial statements to the Audit Commission by LVFO and IUCEA; lack of clear policy to govern travel contracts and air ticketing refunds; air ticketing done by staff without relevant qualifications; shortage of internal auditors in EAC and loss of funds due to non-refund on unutilized tickets.

The Audit Commission recommends that:

i) The EAC managements should ensure that accurate financial statements are prepared and submitted as per EAC treaty and financial regulations;

ii) There is need to train/update the accountants on new standards e.g. IPSAS and other technological skills;

iii) Draft financial statements should not be submitted for final audit;

iv) Air ticketing staff be enhanced with relevant skills and/or qualified staff be deployed;

v) EAC should come up with a policy that defines management of meetings so as to get value for money;
vi) In case of out of station meetings, EAC should consider paying for hotel facilities and quarter per diem to participants, which is more economical; and
vii) Value for money audit should be conducted on administrative travel and meeting expense.

The Management reported that the delay to submit the financial statements was occasioned by the system redesigning of Accounts to adopt the Government Financial Statistics (GFS) Codes and also migrating from Sun System version 531 to 541.

The Lake Victoria Fisheries Organization Accounts had to be re-done in accordance with IPSAS so that they are in the same reporting framework with the Secretariat.

The travels for DSGs, DG, Directors and equivalent ranks are cleared by the SG, while those of other officers are cleared by respective DSGs/DG.

The Management welcomed the recommendation to pay for hotel meetings and giving quarter per diem and promised to study the modalities for possible implementation.

The Management further reported that the staff handling air ticketing has been trained in relevant skills. The ongoing institutional review is expected to create positions for travel officers in the EAC structure, and officers with relevant qualification will be recruited. A travel policy will be in place by September 2013.

The Committee observed laxity in some EAC Institutions to avail the required documents during the audit exercise, especially by the LVFO. Furthermore, the reported negotiated exercise with travel bureaux and airlines lacked articulation of reasons to secure desired rates, resulting to loss of discount and unnecessary loss of huge amounts of money. The report on negotiations for discount presented to the Committee only indicated the state of affairs and the recommendations thereto indicated that the institution negotiated at a weaker point.

COMMITTEE RECOMMENDATIONS

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

i) direct the EAC Institutions to prepare and submit accurate and timely financial statements as per the Treaty and the EAC Financial Rules and Regulations;

ii) direct the EAC Management to negotiate better rates with travel bureaux and airlines given the fact that EAC expenditure on air tickets should attract better rates;

iii) direct the EAC Management to explore other avenues of lowering travel rates given the large volumes of tickets being procured.

2.1.8 THE INSTITUTION NOT AUDITED BY EAC AUDIT COMMISSION - THE EAST AFRICAN DEVELOPMENT BANK

The Audit Commission is responsible for auditing all institutions of the Community. However, contrary to Article 134(1), the bank could not be audited by the Audit Commission, therefore unable to determine its ownership, membership, the Act establishing it, its controls, appropriation of profits and relationship with the EAC.

The Audit Commission recommends that the EADB should be supervised by the Secretary General in all aspects which include management, appointments, conduct of business, going concern review, among others.

The Management reported that the EADB audit is currently conducted in accordance with its Charter, but advised the Audit Commission to work with management of bank to explore modalities of auditing the bank as provided for in the EAC Treaty.

The Committee noted that the EADB is by law an Institution of the Community, yet it is not audited by the Audit Commission as per Article 134(1) of the EAC Treaty. The management of the Bank embraces the Charter and disregards the Treaty, yet the Treaty supersedes the Charter. Important to note is the fact that individual Partner States own the following amount of shares in the bank:

EAC Partner State	**Percentage of Shares**
The Republic of Kenya	27.20
The United Republic of Tanzania	27.20
The Republic of Uganda	27.20
The Republic of Rwanda	04.34
Total Shares	**85.94**

The Committee also noted that there is need to streamline the legal and structural framework of the EADB in relation to the EAC.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to streamline the legal framework of the Bank in relation to the EAC, and thereafter implement Article 9(3) of the Treaty.

2.2 REVIEW OF ICT SYSTEMS AT THE EAC SECRETARIAT

2.2.1 LACK OF AN ACTIVE ICT STEERING COMMITTEE AND AN APPROVED ICT POLICY

The previous audit revealed that EAC does not have an ICT Steering Committee, as specified in the draft EAC Corporate ICT Policy. It was noted that lack of an ICT policy exposed the risk of having an ineffective ICT governance structure that may lead to high risk of ICT projects, lower costs of ICT services and related risks. The Audit Commission reported that the EAC Corporate ICT submitted for audit was still in draft form. Lack of an ICT Policy implies that users are formally not aware of management intentions pertaining to ICT.

The Management reported that the ICT Steering Committee has been formed and the ICT Policy, guidelines and procedures have been approved and communicated to users.

2.2.2 LACK OF APPROVED ICT STRATEGIC PLAN

During the period under review, it was observed that EAC does not have an ICT Strategic Plan to improve its business processes. The only documents availed during the audit contained individual ICT projects.

It was noted that lack of an ICT Strategic Plan exposes the EAC to the risk of delaying to build the required ICT capabilities and consequently failing to achieve the organizational strategic objectives.

The Management concurred with the audit findings and undertook to have an ICT Strategic Plan in place by September 2013. The Committee was informed that the plan would be developed and approved by 30th June, 2014.

2.2.3 LACK OF A FORMALLY APPROVED STANDARD OPERATING POLICY, PROCEDURES AND ANNUAL PLANS

The audit findings revealed that EAC does not have the Information Classification Policy and the Physical Access and Environmental Control procedures which are required in streamlining ICT service delivery processes. It was further observed that absence of these standard documents increases difficulties of managing the ICT department service delivery.

The Management reported that Information Classification Policy was under Records and Archives Management and had already been approved. Management further reported that the Physical Access and Environmental Control Procedures would be developed, taking into consideration new structures at the new EAC Headquarters. Standards Operating Policy, Procedures and annual plans will be developed and approved by 30th June 2014.

2.2.4 LACK OF DISASTER RECOVERY PLAN

The Audit Commission observed that the EAC does not have a formally written and approved disaster recovery plan for recovering and protecting IT infrastructure in the event of disaster.

The Management reported that the EAC is implementing two Disaster Recovery Sites in Arusha and Kampala, to be completed in the next quarter. Disaster Recovery Plans will then be prepared in line with the new disaster recovery sites. The Management updated the Committee that the disaster recovery site in Arusha, a replica of the production site is fully functional and the one in Kampala housed by the EADB is near completion.

2.2.5 CHANGE CONTROL PROCEDURES

During the year under review, the Audit Commission reported that the EAC lacks Change Control Procedures for signed off items, despite upgrades made in the Sun System.

Absence of this procedure could give programmers access to the production environment and make unauthorized changes which could lead to fraud and financial loss.
The Management reported that a change request template has been developed and is available. The EAC shall formally compile, document and approve change control procedures. The Committee was updated that Change control procedures will be developed and documented by 30th June, 2014.

2.2.6 MANAGEMENT OF BACK-UPS

The audit findings revealed that the off-site Back-Ups are irregularly located in the same building where the live systems are and no register of Back-Ups is kept. In case of a fire, both the live and back-up systems will be damaged.

The Management reported that the current Back-Ups are automated across the network to the servers located in two separate buildings. Some more improvements are being done such as:-

- Implementation of new hardware serves-storage area network, both at Main Data Center and DR site; and
- Implementation of two Disaster Recovery Sites in Arusha and Kampala to be completed in the next quarter.

While reviewing the Audit report, the Committee was updated that the Disaster Recovery in Arusha at AICC building is fully functional and the one in Kampala is near completion.

The Committee noted that whereas ICT upgrades have been done, no control mechanism is in place to avoid alterations of documents in the system: Back-Ups are stored in the same room, posing a risk to data.

The Committee further observed that there is lack of harmonization in the linkage of the ICT Systems, policies, and procurement of tools.

COMMITTEE RECOMMENDATIONS

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

i) create an IT directorate at the EAC to coordinate ICT activities of the EAC Organs and Institutions;

ii) direct the ICT Units of all organs and institutions to meet regularly to exchange ideas, share experience and establish other systems of interest to all;

iii) direct the Management to improve connectivity by introducing secure web-based activities, upgrading the Sun System and Info 10 to enable online sharing of information which should be extended to EAC Ministries;

iv) ***expedite formulation and approval of ICT Strategic Plan, ICT Standard Operating Policy, Procedures and Annual Plans; Change Control Procedures, Disaster Recovery management of Back-Up systems; and***

v) ***centrally procure as to earn economies of scale, and to harmonize the systems to ease connectivity.***

2.3 NON CURRENT ASSETS

2.3.1 NON MAINTENANCE OF AN INVESTMENT LEDGER

The Audit Commission reported that the EAC does not maintain an investment ledger, showing details of each investment including the face value, proceeds of sale and income derived, as required by Regulation 31 of the EAC Financial Rules and Regulations (2006). This implies that some benefits made from some investments may be misappropriated.

The Management took note of the audit recommendation and undertook to establish an investment ledger. Further, the Management updated the Committee that Currently EAC invests only in Fixed Deposits. The Investment ledger which has been created in compliance with the Audit recommendation show the Fixed Deposit amount, expected interest and maturity date. The audit Commission will confirm in the subsequent Audit.

The Committee noted the willingness of the EAC Management to implement the recommendations of the Audit Commission.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Management establishes an Investment Ledger immediately.

2.3.2 DELAYED CONCLUSION OF NEGOTIATIONS FOR RENTED SPACE

The Audit Commission observed that EAC is effecting rent payments for office space occupied at the AICC basing on the tenancy agreement which expired on 15th May, 2011 except for the 5th floor of Kilimanjaro Wing. It was further observed that payment of rent for the 5th floor of Kilimanjaro Wing is pending conclusion of negotiations over the rent that was paid for unoccupied space.

It was further noted that EAC is still occupying the 5th and 6th floors of Kilimanjaro Wing, after moving some offices to its new headquarters. However, by the time of this audit EAC had not yet handed over the vacated space to AICC and no tenancy agreement had been entered into.

It was observed that continuous occupancy of two floors without a tenancy agreement and non-handover of vacated space to AICC may compel EAC to pay for both the unoccupied and occupied space unfairly.

The Management reported that it has already engaged its legal department led by the CTC and the Estates Management Unit to establish the retained office space.

The Management further reported that the new tenancy agreement is being finalized and vacated space has already been handed over to AICC.

It was further reported that conclusion of negotiations on the alleged rent overpayment of 184 square meters is in final stages after investigations on the disputed areas.

The Committee was updated that EAC got an advice from the Counsel to the Community that "the rent was at all material times payable" and paid AICC without recovering what was alleged to be an overpayment.

The legal advice and the Report of the Board of Survey were availed to the Committee on Accounts.

The Committee noted laxity in the management of the EAC resources. Physical verification by the Board of Survey (BOS) revealed that 244.12 square meters were being over charged. However, the Landlord was simply asked to take action, instead of officially demanding for a refund of the overcharge.

Furthermore, two floors continued to be occupied without a tenancy agreement and vacated space was not formally handed over to AICC.

COMMITTEE RECOMMENDATIONS

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

- ***i) come up with a written status on the matter and submit to the Assembly by November 2013; and***
- ***ii) enhance the EAC expertise during negotiations and drafting of contracts.***

2.4 SHORTCOMINGS IN THE CONSTRUCTION OF THE EAC HEADQUARTERS

2.4.1 POOR ASSESSMENT OF ACCOMMODATION NEEDS AND HENCE BUILDING DESIGN

The Audit Commission reported that the new EAC Building has not fully satisfied EAC's intended objectives as EAC has continued to rend the 5th and 6th floors of Kilimanjaro Wing, which comprise total space of 1,621 sq. meters as compared to the previous total space of 3,478 sq. meters, shown in the BOS report. The new building therefore has only saved EAC rent difference of 1,857 sq. meters (53%) of previous rent expenditure.

The Audit Commission further observed that special design and drawing were not adequately reviewed against EAC accommodation needs before forwarding to the Council for approval.

The Audit Commission further notes that Partners States will continue to bear the rent burden, since the new building has only relieved EAC from rent by 1,857 sq. meters out of 3,478 sq. meters originally rented.

The Audit Commission is of the view that Management should continue looking for funds to add floors on the existing building to fully address EAC accommodation needs.

The Management reported that assessment of accommodation needs and review of drawings was adequately done in 2007, however, the available funds could not cover beyond what had been planned.

The Management concurs with the Audit Commission recommendation that further assessment and expansion of the building be carried out to meet the growth of the Community.

2.4.2 UNSATISFACTORY FINISHES IN SOME PARTS OF THE BUILDING

The previous audit findings revealed unsatisfactory finishing of works in painting, tile works and cabling. The walls in the conference rooms had swelling paint spots, wall tiles in wet rooms was poorly done and doors in one of the ladies wet rooms on 1st floor of the EALA Wing was not closing.

The Management reported that certification of all works and payment certificates were done with strict reference to the contract and especially the Bills of Quantities, drawings and specifications. The Contractor was categorically instructed to rectify all defects mentioned in the snag list before end of the DLP (04/10/2013).

2.4.3 POOR WORKMANSHIP ON EXTERNAL WORKS

The Audit Commission observed that external works at the main entrance were poorly done and workmanship not impressive. Stone slates were not well placed, leveled and grouted, which could allow water to percolate underneath and cause damage to the whole works.

The Management reported that the Contractor was informed about the defects. Management further pledged to ensure that the Contractor is supervised to attend to the defects before expiry of the DLP.

2.4.4 UNPLANNED ADDITIONAL WORKS AND COST VARIATIONS DURING THE CONSTRUCTION OF THE EAC BUILDING

The Audit Commission observed that there was an increase in the original contract sum of Tshs. 20,741,506,735.22 to Tshs. 21,488,270,262.49 due to additional unplanned works in the building and was further expected to rise to Tshs. 23,207,061,341.40 due to additional cost of furniture, rehabilitation of historical buildings, remaining kitchen doors door blades/flush doors and replacement of wall mounted lamps.

The Audit Commission is of the view that EAC should look for funding for additional works that will not be financed by the donor or request Partner States to contribute for the works. Furthermore, the EAC should ensure that all designs of future projects are comprehensively reviewed before implementation, to minimize cost overruns.

The Management concurred with the Audit Commissions recommendation and updated the Committee that the Audit Commission's observations as recommended in various issues raised above have been implemented. The Defects Liability Period comes to an end on 5th October, 2013. There has been very close coordination and supervision of the rectification of defects, as contained in the Snag List that was presented to the Main Contractor during handing over on 5th October, 2012.

In June 2013, the Project Consultants (including all Service Engineers), visited the Headquarters to assess and review progress made on the rectifications. Management had a series of meetings and inspections that also involved the Main and all Sub Contractors. The purpose of the meetings and inspections was to evaluate at which level the rectifications were done to our satisfaction; point out on those which were yet to be accomplished to our satisfaction; identify those which were yet to be done completely; as well as establishing new defects that were not on the original Snag List. To make this exercise very clear, photos of all pending defects were taken and put on a new Snag List that was presented to the Main Contractor for his necessary action. This included defects in site works such as the paved drive and walkways, exterior and interior works in the buildings. The Main Contractor was expressly reminded that all rectification works had to be finished before the end of the DLP.

A similar follow-up session of meetings and inspections was carried out involving the same participants as above with the same purpose in September 2013. The Consultants and EAC were satisfied with the progress made, especially as the Main Contractor firmly committed himself in ensuring that everything was accomplished before the end of the DLP. A memo was also circulated to all members of staff requesting for their cooperation during the DLP; and asking them to submit any observations on defects that they may have spotted. The response was negligible, which was a confirmation that no further defects were identified.

Today, virtually all defects have been rectified satisfactorily. However, this is subject to further confirmation in meetings and inspections lined up for the 40th Week, from 1st to 4th October, 2013. These meetings and inspections are envisaged to be final, where all stakeholders will be present. It will also involve final testing and commissioning of the fire fighting and security installations.

The Committee noted that there was no attention paid to the objectives of constructing the EAC building, leading to non accommodation of all the EAC staff, poor finishing in some parts of the building, poor workmanship on external design, all of which indicate that the design of the project was not adequately reviewed.

COMMITTEE RECOMMENDATIONS

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

i) direct the EAC Management to implement the recommendations of the Audit Commission; and

ii) facilitate the Audit Commission with resources and experts to carry out a comprehensive audit including value for money and report to the Assembly by June 2014.

2.5 DEBTORS

2.5.1 LONG OUTSTANDING RECEIVABLES OF VAT- USD680,220

A review of the EAC consolidated financial statements for the period under audit revealed an increase in VAT and WHT receivable of USD109,263 as at 30th June 2011 from USD570,967 to USD680,220 as at 30th June 2012, contrary to Article 4, Section 1(d) of the EAC Headquarters Agreement with the United Republic of Tanzania.

The Management took note of the audit recommendation to follow up refund of USD680,220 with TRA and the Council of Ministers. Management further undertook to meet officials from the Ministry of Foreign Affairs and TRA to explore ways of fast-tracking the refund.

The Committee was updated that during the period of July 2012 to September 2013, EAC Secretariat received refunds from the Tanzania Revenue Authority Tshs. 254, 364,382.83 (equivalent to USD 159,977.11). To avoid future accumulation of unrecovered taxes, the Secretariat is keen in ensuring that any suppliers to deal with have the Electronic Fiscal Device to print a Tax receipt which is required to support the Claim for Refund from TRA. In addition, the Secretariat will request the Council to write off any Tax outstanding for more than 3 years as it can no longer be refunded.

The Committee observed that the United Republic of Tanzania is in breach of Article 4 of the EAC Headquarters Agreement. The EAC Secretary General implored the Committee to seek the intervention of the EAC Council of Ministers in rectifying the matter.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to intervene with relevant government Institutions to ensure that refund of VAT and WHT is timely and prompt.

2.5.2 DELAYS IN BANKING OF CASE FILING FEES

The Audit Commission observed that filing fees charged by the EACJ is not banked intact and promptly as per Financial Regulation 47(3) which demands that receipts shall be recorded in the books of accounts on the date of remittance and deposited in the bank, not later than the next working day. In some instances, banking was done between 26 and 68 days.

It was further noted that non adherence to regulations exposes the Community to misappropriation of funds.

The Management concurred with the audit findings and undertook to ensure that all funds received are deposited promptly and intact. The Committee was further informed that the EACJ now complies with the internationally adopted practice to scrap off court fees.

The Committee was satisfied with the justification and noted that the issue should not arise again.

2.6 EXPENDITURE

2.6.1 UNSUPPORTED EXPENDITURE ON EAC-EU EPA NEGOTIATIONS - Kshs. 1,400,000

A review of payment vouchers revealed that Kshs 1,400,000 (75% of Kshs. 1,990,000) was paid to Safari Club Nairobi vide cheque number 105350 dated 13/10/2011 to provide a conference package for regional meetings on EAC – EU EPA negotiations which took place between 17th -21st October 2011. The audit finding revealed the following:

i) No invoice from the supplier was attached;
ii) List of delegates attending the meeting was missing;
iii) There was no indication that competitive bidding was done contrary to financial rules and regulations;
iv) The LPO number PON/SEC/000157 issued to the supplier was for Kshs.840,022.40 (being 240 participants at Kshs.3,017.25 each and Kshs.115,862.40 tax amount) and the meeting dates were 10th-15th October 2011, while the payment voucher indicated Kshs. 1,400,000 being 75% down payment for the meeting to be held between 17th-21st October, 2011.

The Management reported that EAC has a list of pre-qualified suppliers (hotels) for conference facilities. When a meeting is scheduled, the procurement unit selects a hotel based on number of delegates, standard of meeting – technical or high level.

The Management further reported that controls are in place to manage EAC meetings outside the headquarters. When the procurement unit identifies a hotel the meeting, the hotel will be required to submit a quotation for facilitating the meeting based on the no of participants. Based on this quotation, EAC issues an LPO for the value quoted and makes a down payment of a proportion (usually 50% or 75% depending on the certainty of participation) of the total value of services requested. After the meeting has taken place, based on actual participation, the hotel prepares an invoice for the actual expenditure duly deducting the down payment made earlier. This then is the basis for making final payment for the hotel services rendered.

For the particular identified case, because of changes in the dates (from 10th-15th October, 2011 to17th -21st October, 2011) for the convening of the meeting and the numbers of delegates originally thought to be only 40 participants, an LPO PON/SEC/000157 for Kshs.840, 022.40 was issued. As the preparation for the meeting was on-going but prior to the making of the down payment, it was later communicated that participation would increase to 100 delegates (as per the communication attached onto the payment) and hence expenditure rose to Kshs. 1,990,000 participants (including the costs of breakaway rooms that are usually used for individual country consultations). So this was basis on which the down payment of 75% percent (Kshs. 1,400,000) was made. So there is no case of ineligibility of this payment to the hotel service provider.

The Management however accepts the recommendation by the Audit Commission that after the new dates and participation figures was confirmed, a new LPO clearly indicating the updated dates and expenditure figures of the services to be rendered and consumed should have been raised after all procurement and financial rules and regulations were properly and fully followed.

Further, Invoice for the actual cost of the meeting and the List of Participants have evidenced that the expenditure is supported. These documents have been availed to the Committee.

Regarding the funds transferred to an implementation partner for the 'Invest in advocacy for Adolescents' health project, DSW, in line with the Financing agreement signed with the European Commission, the Funder, the Accountability documents submitted by DSW are available for verification by the audit Commission in the subsequent audit.

COMMITTEE RECOMMENDATIONS

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

i) direct the Secretary General to ensure that planning of activities is done and executed properly; and

ii) direct the EAC Management to avail the documents to the Audit Commission for verification.

2.6.2 LACK OF REGULATIONS FOR THE APPOINTMENT AND REWARD OF NON-STAFF OF THE COMMUNITY

A review of the human resources capacity of the Community revealed that 75 Project Staff and 12 Temporary Staff are not categorized and appointed in accordance with Regulation 20 to 23 of the Staff Rules and Regulations and yet most of them have been in the Community for years through renewal of contracts.

Further scrutiny of their sample personnel files revealed that persons offering similar services are appointed and employed under different terms and conditions of service, a sign that there could be favoritism and unequal representation of Partner States due to lack of transparency.

The Management reported that at its 26th meeting held in Nairobi on 26th November 2012, the Council approved the policies on salary structure for the project staff (EAC/CM 26/Decision 81), which will be followed henceforth.

The Management further reported that the HR Advisory Committee will review the issues raised by the Audit Commission and make recommendations to the Secretary General.

The Committee was updated that the Secretariat has since checked the files of the staff listed and have found out that the letters in question were renewals for short term contracts that had expired. The format of the letter was such that it only included two (2) clauses:

(i) a clause informing the individual that his/her contract had been renewed stating the period and the effective date of renewal; and

(ii) a general clause stating that the terms and conditions of employment remain the same.

The Management has since developed guidelines to streamline management of short term contracts including temporary staff. One of the new measures introduced to curb the perennial renewals that have characterized this category of staff, is the introduction of a separation clause.

Staff members on short term contracts are now required to disengage from the service of the Community upon expiry of their contracts. If the services of that particular individual are still required, a new/fresh contract is issued. This implies that there is no continuity in service in terms of employment for staff on short term contracts without a break from the service of the Community.

The fresh contract gives detailed terms and conditions of service pertaining to that assignment.

The Committee noted action taken to address the Audit Commission concerns but observed that the Management subjects itself to monitoring competencies of staff which may not be properly done. The Committee further concurs with the Audit Commission that the existing recruitment practice promotes favoritism and unequal representation of Partner States.

COMMITTEE RECOMMENDATION

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

negotiations of projects and consider representation of all the EAC Partner States when recruiting project staff.

2.6.3 LACK OF CONTROL OVER EXPENDITURE

The Audit Commission had observed that EAC went into a Grant Agreement with European Union in support of Invest in Adolescent: Building Advocacy Capacity in East Africa and Planned to take 36 months. The query was on a payment voucher dated 5th April 2012 and Cheque reference No. 000116 of funds amounting to USD 397,500 and payment voucher dated 18th August 2011 and Cheque reference No. 000077 amounting to $87,600 both inadequately supported.

The Audit Commission later informed the Committee that the Management finally submitted the requested accountability on the matter.

COMMITTEE RECOMMENDATION

The Committee however recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to ensure that accountabilities are done on time to avoid likely misuse of funds.

2.7 EAC SECRETARIAT

2.7.1 HUMAN RESOURCE MANAGEMENT

A review of the human resource management revealed that EAC does not have a HRM Policy that would guide on recruitment process, rewarding, staff rotation, promotions and other procedures intended to motivate staff.

The Management reported that HR policies are currently embedded in its Staff Rules and Regulations (2006). However, the process of reviewing the document to separate the rules and regulations from policies and procedures is on-going. There are Draft Staff Rules and Regulations (2013) that are currently under discussion and if all goes well, will be presented to the 28th Meeting of the Council for consideration and possible adoption.

Upon adoption, the document will then be referred to the Legal and Judicial Affairs Sectoral Council for legal input before approval by the Council.

The process of finalizing the HR Policy and Procedures Manual had to be suspended because it has to await finalization of the review of the Staff Rules and Regulations. This document can only be finalized after the Rules and Regulations have been approved.

The Committee condemns lack of a Human Resource Policy for the EAC, whose existence is more than 12 years.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council to direct the EAC Management to expedite the conclusion of HR Policy by January 2014.

2.7.2 NEED TO USE INTEGRATED MANAGEMENT INFORMATION SYSTEM IN EAC

The Audit Commission reported that EAC Organs and Institutions are using different accounting software. EAC and its Organs including LVBC are using the Sun System accounting software. CASSOA is using IDEMPIERE (VOB Financial Management Software) while IUCEA is using SOLOMON accounting software.

The Audit Commission is of the view that EAC Organs and Institutions should adopt single accounting software which is fully fledged integrated information and shared among all the institutions.

The Management reported that it is using Sun systems as accounting software. Institutions which are using different software (CASSOA, IUCEA and LVFO) are in the process of switching to Sun system. The process is expected to be completed by end 2014.

The Committee noted laxity by the Management to implement the Assembly recommendations and audit findings.

The Committee further observed that the Institutions and Organs of the Community are using different Management Information Systems which is costly and difficult in information sharing.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to expedite the procurement and harmonization of the Accounting software and other information systems across all EAC Organs and Institutions.

2.7.3 FAILURE TO FILL VACANT POSITIONS

The audit finding on the EAC personnel records revealed that there are 93 vacant positions out of the 272 approved posts. Out of the 93 posts, EAC has only advertised for 27 positions to be filled leaving a balance of 66 as analyzed below:

Table I

INSTITUTION	APPROVED	FILLED	VACANT	ADVERT. ON 22 FEB.2012	BALANCE (VACANT)
EAC SECRETARIAT	186	130	56	15	41
EACJ	48	24	24	7	14
EALA	38	25	13	5	8
TOTAL	**272**	**179**	**93**	**27**	**66**

It was further noted that the 272 approved posts and grading of personnel was done in 2006 when the Community had only three Member States. Failure to recruit required personnel negatively impacts performance.

The Management reported that the above table gives the number of vacancies that have been filled to date. The total number is based on the approved total establishment. However, filling of positions remains a prerogative of the Council and management has no say in this matter. EAC makes proposals based on identified needs to the Council and when approval to recruit is granted, the positions are filled accordingly.

In addition, because staff recruitment has budgetary implications, all the vacant positions in the structure cannot be filled at ago.

The on-going institutional review is supposed to assist in identifying those critical positions that are vacant and need to be filled or need to be established to enable EAC cope with the expanded mandate.

The Committee observed that even the already established position is not filled after the officer relinquishes the position.

COMMITTEE RECOMMENDATIONS

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

i) ***Ensure recruitment is done immediately to replace staff who leave the service of the Community;***

ii) ***Conclude recruitment of vacancies for which interviews were conducted in 2013; and***

iii) ***Finalize Institutional Review and unfreeze the positions indicated in the Management response.***

2.8 EAC PARTNERHSHIP FUND

2.8.1 SHORT TERM APPOINTMENTS

The Audit Commission reported that there is non compliance of Staff Rules and Regulations in the recruitment of short term staff. Regulation 22 of the same rules requires that temporary appointment shall not exceed three months; however, several temporary staff had stayed for more than three months. Furthermore, a salary disparity for the same jobs was noted. Regulation 26(4) of the same rules requires the Secretary General to pay a token of $100 to an Intern per month; but instead allowances paid to interns are $1000 per month.

The Management reported that steps taken to address the anomaly. Guidelines have since been developed to manage temporary recruitments including harmonization of salaries and benefits for staff on temporary terms.

The same guidelines have also addressed the issue of internship by reviewing the existing guidelines and putting a mechanism to guide how interns can be identified and utilized given the large number of applications for internship received by the Secretariat every year.

The Committee noted the laxity of the EAC Management to comply with the Staff Rules and Regulations in the recruitment exercise.

COMMITTEE RECOMMENDATIONS

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

i) ***comply with the EAC Rules and Regulations especially under project staffing; and***

ii) ***harmonize the EAC Salaries and report to the Audit Commission for verification.***

PART III

THE LAKE VICTORIA BASIN COMMISSION (LVBC)

3.0 FOLLOW UP OF PREVIOUS YEARS ISSUES

3.1.1 SLOW IMPLEMENTATION OF PROJECTS - LVEMP II

The Audit Commission reported that LVEMP II had planned to spend USD3,079,550 and USD 3,566,700 on the components for "strengthening institutional capacity for managing shared water and fisheries resources;" and "Point source pollution control and prevention" during the period under review. The review of the statement of comparison of the budget and actual amounts for the year revealed that only USD1,595,917 and USD1,193,456 was spent resulting into USD1,595,917 and USD2,373,244 remaining respectively unspent.

The Management reported that there were consultancies planned to be carried out under the two components. The procurement process for Hydro-graphic Survey Consultancy was duly carried out to the point of contract award. However, the winner of the contract declined to accept the contract based on the TORs. A new Consultant has been brought on board to develop new TORs. The procurement process will then start afresh.

The Committee noted that non implementation of project activities especially in LVEMP II is perennial. Although LVBC reported challenges as caused by World Bank delays, it was observed that planning did not envisage the World Bank procedures yet technical planning demands so.

COMMITTEE RECOMMENDATIONS

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

i) always plan realistically; and

ii) ***implement the project and always report the progress to the Secretary General, after every three months.***

3.1.2 WEAKNESSES IN THE MANAGEMENT OF ACCOUNTABLE ADVANCES - LVEMPII

The audit of the financial statements revealed that USD 12,495.69 imprest had not been retired on 30 June 2011 Contrary to Section 7.8.1(b) and 7.8.2 (a) of LVBC-LVEMP II Financial Management Manual.

Further review of the Trial Balance and imprest registers revealed that imprest amounting USD 21,597 remained unaccounted for by the close of the year under review due to disregard of the above requirements.

Table II

	Account Code	Imprest Holder	Amt Not Retired (USD)
1	14210086	G. Fumbuka	8,886
2	14210099	F.Mgube	700
3	14210139	Simon Peter Okwao	844
4	14210145	Tom Odak	910.00
5	14210148	Robert James Otim	190
6	14210149	Peter Nkwama	5,493
7	14210157	Pamela Onyiso	27
8	14210163	Tom Ogwal	1,498
9	14210166	Mwanjari Omari	50
10	14210171	Leonard Ntemi Majiji	86
11	14210172	J.Muhirwe	50
12	14210174	John Ssettumba	1,873.00
13	14210177	Kennedy Ogambo	75.00
14	14210181	J. Rudasingwa	300
	Total		**21,597**

The Management responded that circulars on Financial Regulations regarding issue of imprest have been issue to staff. Administrative action has also been taken to cushion the Commission against non-retirement of imprest.

It was reported that with effect from 2012-13 FY, recoveries have been effected on un-accounted for imprest by way of deduction from the staff salaries. No staff will be issued with more than two imprest at the same time.

The Committee observed that LVEMP II Management did not comply with Section 78.1(b) and 78.2(a) of the LVBC – LVEMP II Financial Manual. Although the LVBC Management assured the Committee that measures are in place to avoid the weakness, there is no evidence to that effect.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to recover all unaccounted for imprest from staff and report to the Assembly by November 2013.

3.2 WEAKNESSES OBSERVED DURING THE REVIEW OF LVBC ICT SYSTEMS

3.2.1 WEAKNESSES IN IT GOVERNANCE

a) **Inactive ICT Steering Committee:** It was noted that the ICT Steering Committee set up by LVBC was inactive, as evidenced by lack of minutes.

b) **Lack of Approved ICT Policy:** It was observed that LVBC does not have an approved ICT Policy and so, management of ICT has not formally been communicated to users. The one availed for audit was still in draft form.

c) **Lack of Approved ICT Strategic Plan:** It was noted the LVBC does not have an approved ICT Strategic Plan derived from its organization strategy, which may lead to non adherence of budgetary allocation or ICT procurements not aligned to the LVBC objectives.

d) **Lack of formal Approved Documents for the following ICT aspects:** There was no Annual Training Plan based on an IT Strategic Plan and Disaster Recovery Plan.

e) **Low Reporting Level of the ICT Function:** It was noted that IT reporting level in the organization chart availed for audit was at a low level. IT being a strategic resource should report to a higher level in the organizational hierarchy.

The Management concurred with the findings and took note of the Audit Commission concern and recommendation to improve on ICT policy and documentation.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to expedite establishment of ICT systems and report progress to the Assembly by November 2013.

3.2.2 SEGREGATION OF DUTIES IN THE ICT FUNCTION

The Audit Commission reported that the ICT Function at LVBC is managed by only one IT Officer, who is in-charge of administering the Database, maintaining ICT inventory, overseeing network infrastructure, managing and reviewing LVBC IT Security, among other roles.

It was further noted that while the officer had managed to support the LVBC ICT Systems, management should consider employing more IT staff and segregate some of these conflicting roles which should not be done by one person.

Management took note of the Audit Commission finding and the recommendation to propose the recruitment of another staff in ICT.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to urgently segregate duties in the ICT function and report to the Audit Commission for verification.

3.2.3 INADEQUATE UTILIZATION OF THE INFO SUN SYSTEM

A review of the LVBC Sun System revealed the following:

i) Duplication of Work; it was noted that some transactions such as payment vouchers were prepared manually and then posted in the system, which may result into duplication of work and related posting errors.

ii) The System has ability to produce financial Statements after the end of the financial year; however, it was noted that the officers in accounts were exporting the data from the system using vision to change and analyze it in excel and import it back to the system. Provision should be made in the system for accurate data capture to enable production of the financial statements direct from the system. Exporting through vision should be limited as much as possible to analysis work and not adjusting the financial statements.

iii) The budgeting module was procured but it is not fully utilized, as budgeting is done in excel and then uploaded into the system.

iv) There is also iinadequate segregation of duties within the system where the procurement module supervisor and his assistant were found to be having the similar rights within the system.

Management took note of the Audit Commission concern and undertook to request the Ilanga Service Provider to improve on the accounting program reconfiguration so that Accounts can automatically run the reports.

The Committee notes LVBC undertaking to correct the anomaly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to improve on the accounting program reconfiguration so that Accounts can automatically run the reports, and to report the progress to the Assembly by November 2013.

3.2.4 REVIEW OF SERVICE LEVEL AGREEMENT (SLA) – INFO SUN SYSTEM

During the review of the service level agreements it was found that the SLA between LVBC and M/S Ilanga Systems was signed in 2010. The management should consider its review to document clearly any new requirements which may have come up since 2010.

The Management reported that it took note of the Audit Commission recommendation to consider the review of Service level Agreement.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to caution the LVBC Management on its laxity while managing institution's agreements.

3.2.5 MECHANISM OF OFFSITE BACK UP

The Audit Commission observed that LVBC has an offsite back up arrangement with one of its sister organization LVFO that was yet to be formalized by entering into a MoU. However, LVBC should have this arrangement formally documented and approved by management through the Disaster Recovery Strategy/IT Security Policy.

The Commission should further consider classifying its data and encrypting the back up for highly confidential data.

The Management concurred with the Audit Commission observation and undertook to improve on ICT policy and documentation.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to implement the Audit Commission recommendation and report the progress by November 2013.

3.2.6 LACK OF ADEQUATE POWER BACK-UP

The audit finding revealed that the Commission does not have a standby generator or equivalent backup. This implies that operations are always disrupted in event of power failure.

The Management concurred with the Audit Commission observation and recommendation and undertook to install power back-ups and improve on ICT policy and documentation.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to implement the Audit Commission recommendation and report the progress to the Assembly by November 2013.

3.2.7 WEAK MANAGEMENT CONTROL OF CHANGES TO THE INFORMATION SYSTEMS

The audit finding observed that there was no approved documented procedure for Information System's changes or upgrades during audit exercise. Management should consider establishing mechanisms for change management to prevent unauthorized changes to the system.

The Management concurred with the Audit Commission observation and recommendation and to undertook to improve on ICT policy and documentation.

The Committee took note of the undertaking.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to comply and implement the Audit Commission recommendation and report the progress to the Assembly by November 2013.

3.2.8 INADEQUATE ONLINE REVIEW OF THE SUN SYSTEM MIS BY THE INTERNAL AUDITOR

It was noted that the internal auditor does not have an interface (Based on his role) to interact with the Info Sun system. No online triggers for suspect transactions are sent to the Auditor automatically from the System. This implies that transactions requiring auditor's attention may occur without his knowledge.

Further, the internal auditor should be accorded adequate training to be reviewing some aspects of the system online.

The Management took note of the issues raised by the Audit Commission and promised to request the Ilanga Service Provider to improve on the accounting program review to make it user friendly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to comply and implement the Audit Commission recommendation and report the progress to the Assembly by November 2013.

3.2.9 ICT Systems not completed on schedule.

It was observed that the EALP and LVEMP Systems are not in use despite their completion schedule having passed. These points to IT project implementation delays and LVBC and its stakeholders may not reap the intended benefits from these systems on time.

Management took note of the concern of the Audit Commission and pledged to improve on the use of EALP and LVEMP Systems.

The Management further reported that the delay to complete the systems was caused by delays in supply of the server from the manufacturer. The systems were installed immediately after receiving the server and are now ready for commissioning by June 2013.

The Committee noted weaknesses in the ICT systems but also commended the LVBC Management for positively admitting the short comings and promising to improve as reported in the Management responses.

COMMITTEE RECOMMENDATIONS

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

i) ***revitalize the ICT Steering Committee;***

ii) ***employ more IT staff with immediate effect;***

iii) ***harmonize IT systems with other EAC Organs and Institutions; and***

iv) ***direct LVBC Management to implement all recommendations by the Audit Commission and report the progress to the Assembly by November 2013.***

3.3 DEBTORS

3.3.1 IMPROPER MANAGEMENT OF ACCOUNTS RECEIVABLE OF PARTNERSHIP FUND

The previous audit noted that a balance of USD 269,442 on accounts receivable of Partnership fund remained outstanding at the end of the FY 2011/2012 due to continued advance of funds without the previous funds being accounted for as detailed below:

Table III

Account Code	Details	2011/2012 balances (USD)	2010/2011 balances (USD)
14120000	STAFF Debtors	43,222.65	286,098.45
160B001	Republic of Burundi	4,049.93	1,010.00
160K001	Republic of Kenya	29,901.00	29.901.00
160R001	Republic of Rwanda	65,463.36	25,463.36
160T001	Republic of Tanzania	122,625.00	62,625.00
161U001	Advance to NFP-Uganda	4,000.00	4,000.00
		269,261.94	**409,097.81**

It is advised that the Management should always follow up accountability of the funds before making further advances to the same Organs/Institutions.

The Management reported that strong measures have been taken to recover any outstanding imprest from staff. Some accountabilities were submitted in FY12-13. The

Management will continue to request for the accountabilities from the implementing agencies and make reconciliation in the accounts.

The Committee noted the anomaly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to recover and account for all the outstanding imprest from staff and ensure the Partner States make timely accountability.

3.4 DEFERRED INCOME

3.4.1 UN-EXPLAINED DIFFERENCES OF DEFERRED INCOME

During the year under review LVEMP II had a total of USD 6,399,028 being available for use, of which USD 3,142,348 was spent leaving an unspent balance of USD 3,256,680 which was expected to be reported as deferred income.

However, note No. 14 of the Financial Statements shows, deferred income was USD 2,213,048.47 composed of USD 2,224,817.90 for LVEMPII GEF funds and a debit balance of USD 11,769 for LVEMPII SIDA funds resulting into unexplained variance of USD 1,043,631.53.

In addition, the cash and bank balance of USD 1,421,560 at the close of the year was far less than the expected deferred income of USD 3,256,680 as detailed below:

Table IV

Description	LVEMP II GEF USD	LVEMP II SIDA USD	Total USD
Opening Balance restated at 1st July, .2011	1,554,340.00	1,702,340.00	3,256,680.00
Add: Funds received from Donors	1,663,284.00	1,479,064.00	3,142,348.00
Funds available for use	**3,217,624.00**	**3,181,404.00**	**6,399,028.00**
Less: Projects Expenses	1,663,284.00	1,479,064.00	3,142,348.00
Closing balance at 30,06.2012 (A)	**1,554,340.00**	**1,702,340.00**	**3,256,680.00**
Financial Statement presentation **(B)** note. 14	2,224,817.90	-11,769.43	2,213,048.47
Difference (A-B)	**-670,477.90**	**1,714,109.43**	**1,043,631.53**

Management should rectify the observed differences in order to portray a fair view.

The Management concurred with the Audit Commission observation and undertook to reconcile the differences and correct the anomalies.

The LVBC Management admitted that the entry was wrong and promised to adjust the figure in the current financial year, because it was unable to explain the difference.

The Committee observed that the Financial Statements under review were not regularly seen by the Internal Auditor before submission to the Audit Commission. The Institution also had, for a long time, employed unqualified staff who have since not been replaced.

The Committee further observed that the Internal Auditor did not have opportunity to look at the Accounts, and there is a general weakness in the inter-departmental linkages.

COMMITTEE RECOMMENDATIONS

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

i) ***direct the LVBC Management to initiate a systemic inter-departmental linkages;***

ii) ***recruit and fill the position of a Senior Accountant who was dismissed; and***

iii) ***implore the Audit and Risk Committee to streamline the accountability systems at LVBC and report to the Assembly by January 2014.***

The Committee also recommends the Audit Commission to audit the unexplained difference and report to the Assembly.

3.5 EXPENDITURE

3.5.1 WEAKNESSES IN THE PAYMENTS SYSTEM

It was noted in the audit finding that although payment transactions are posted to the Sun Accounting System after preparation and approval of manual payment vouchers, referencing and cross-referencing of these transactions is not done. Most vouchers lacked payees’ signatures or receipts acknowledging receipt of the payments.

The Audit Commission recommended that:

- Manual payment vouchers should be referenced and cross-reference with particulars pertaining to their corresponding records in the Sun System Package;
- Payees should sign the payment vouchers or issue receipts acknowledging receipts of payments; and
- Payment vouchers should only be prepared after approval of the requisitions at the actual time of payment.

The Management reported that the problem was due to the different references generated automatically in the system at the time of recording the accrued invoices and payments for the same transaction. However, the problem has already been identified and the Sun Systems Service provider has been requested to review the configuration.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to implement the Audit Commission recommendations and submit correct configuration for review in the accounts of the FY ended 30th June 2013.

3.5.2 IRREGULAR HIRE OF PRIVATE EXTERNAL AUDITORS

It was noted that the Audit Commission Chair – Auditor General (Kenya) wrote to the Management of LVBC vide letter Ref: EAC/2011/12/1, dated 29th October, 2012 informing the Executive Secretary of the audit of LVBC, LVEMP 11 and all the other LVBC donor funded Projects, planned to commence on 3rd to 17th December, 2012.

The Management responded to the Audit Commission Chair vide letter Ref: F&A /Audit/1/11-12 dated 2nd December, 2012 requesting him to shift the audit exercise to the beginning of the month of February 2013, reason being that several activities were scheduled for the whole month of November and part of December involving the participation of key staff of the LVBC.

During the same time that the Audit Commission had planned to carry out the audit and the Executive Secretary claimed that the key LVBC would not be available, management irregularly hired M/S Oakland Partners Certified Public Accountants to audit the financial statements of LVEMP 11 for the same period at USD 17, 780.

According to the contract, the private auditor was expected to carry out the audit in 8 days between 21st and 30th December, 2012. This timing was far below, the time specified by the audit firm in its technical bid. According to the breakdown of remuneration per activity contained in firm's technical proposal, the exercise was to take between 15 and 24 days for the different members of the engagement team.

Based on the rates quoted as payable to the different members of the engagement team per day, the total amount payable if all the members worked for the 8 days contained in the contract should have been only USD 11, 257 and not USD 17, 818 contained in the contract. This implies that the difference of USD 6, 561 could not have been worked for and was paid for no days worked.

The Management reported that the LVBC did not ignore the provisions of Article 134 of the Treaty for the Establishment of the East African Community as regards the audit of the Accounts of the Commission and reporting to the East African Legislative Assembly. All documentation in relation to the Financial Statements of the Commission were submitted to the Audit Commission which commenced its audit on 4th February, 2013.

The communication from the National Audit Office - Republic of Kenya required that the audit was not for only LVEMP II but the entire LVBC. That time, the Commission had a skeleton staff in office due to the fact that there were many other activities of the Community taking place which management had to attend.

The Management further reported that the Audit which was contracted to M/S Oakland Partners Certified Public Accountants was specifically for satisfaction of the requirement of the World Bank who provides the funds for LVEMP II. This was done with the Banks consent and it accepted the report.

The Committee observed that some negotiations with development partners do not take into account Article 134 of the Treaty for the Establishment of the EAC. To this end, LVEMP II was audited twice. Ordinarily the External Audit Report should have been submitted to the Audit Commission to save time and resources.

COMMITTEE RECOMMENDATION

The Committee therefore recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to put into consideration Article 134 of the EAC Treaty while negotiating projects with development partners.

3.5.3 UN-ACCOUNTED FOR FUNDS

It was noted in the audit finding that a total of USD 46,500 was transferred to various organizations from Partnership Fund to support the implementation of the projects. However, acknowledgement of receipt of the said amounts and utilization reports from the beneficiary organizations were not availed for audit verification as detailed below:

PV /Check Ref & Date	Amt (USD)	Payee
Po/000409 of 28/11/2011	40,000	NFPO-Kenya
001405 of 03/08/2011	3,000	A/c 0140020406701- Kiyindi water project-Kenya
01373 of 20/06/2011	3,500	Trans African Management Institute-Uganda
	46,500	

The Management reported that the funds were disbursed to support implementation of pilot projects in the Amalo sub-catchment and to Kiyindi water project in the then Mukono District to finalize the water and sanitation micro-project and to Trans African Management Institute-Uganda.

It was further reported that due to delay in the submission of the accountabilities despite reminder by the Commission, the reconciliation of these accounts will be done in the current Financial Year 2012/2013.

The Management also undertook to follow up with the recipients of the funds to obtain confirmations of receipt of the funds. Utilization reports will also be obtained and verified.

The Committee noted laxity by the LVBC in accounting for funds.

COMMITTEE RECOMMENDATIONS

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

i) ***avail evidence of accountability of the funds for confirmation of implementation to Audit Commission for verification in the subsequent audit; and***

ii) ***always ensure acknowledgement of receipts of the remittances.***

3.5.4 FAILURE TO PREPARE SEPARATE PROJECT FINANCIAL STATEMENTS

The Audit Commission reported that separate Financial Statements for four (4) projects were not prepared, hence disabling the assessment of performance of the affected projects.

The Management reported that the Financial Statements of the LVBC for the FY ended 30th June, 2010 were qualified on the basis of not aggregating together all the LVBC programmes and projects into one Financial Statement.

Following the qualification, Consolidated Financial Statements were prepared and presented for the subsequent year (2010/2011) and the same has been done for FY 2011/2012. Meanwhile, transactions are recorded in accounting systems and can be analyzed per project and per donor.
The Committee noted that the LVBC Management fails to separate project Financial Statements because of not applying or using International Accounting Standards (IPSAS) and did not specify to the provider what they needed. The provider would have separated and consolidated the Accounts.

COMMITTEE RECOMMENDATIONS

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

i) ***always separate accounts for different projects and consolidate later;***

ii) ***invite the service provider to properly reconfigure the system; and***

iii) ***add Financial Statements for the four(4) projects to the main Financial Statements for consolidation***.

PART IV

THE LAKE VICTORIA FISHERIES ORGANIZAITON (LVFO)

4.0 FOLLOW- UP OF PREVIOUS YEAR'S MATTERS

4.1 OUTSTANDING COUNTRY CONTRIBUTIONS

4.1.1 MEMBER STATES CONTRIBUTIONS

The Audit Commission has observed that Partner States have continuously failed to honor their obligations in time contrary to Rule 6.5 of the Financial Rules and Regulations (2003). At the start of the period under review unpaid country contributions stood at USD 2,590 which thereafter accumulated to USD 355,070 from the three Partner States as at 30th June, 2011 as shown in the table below:

Member States Contribution Status in USD

Table V

S/N	11	Outstanding As At 01/07/2010 (A)	Contribution For F/Y 2010/11 (B)	Outstanding Contribution During 2010/11 (C)	Actual Contribution 2010/11 (D)	Outstanding Balance As At 30/June/11 (C-D)
1	Kenya	(5,284)	194,000	188,716	48,745	139,971
2	Tanzania	(2,781)	194,000	191,219	143,049	48,170
3	Uganda	2,590	194,000	196,590	29,661	166929
	TOTAL	**(5,475)**	**582,000**	**576,525**	**221,455**	**355,070**

4.1.2 OPERATION SAVE NILE PERCH FUNDING

The 2nd Session of the LVFO Council of Ministers held on 6th November, 2009 at Laico Regency Hotel agreed to create a fund to address the declining state of Nile Perch Stock Fishery. Each Partner State was to contribute USD.600,000 for the purpose.

The audit finding noted that a total of only USD 570,907 was received during the period under review, leaving a balance of USD 1,229,093 outstanding. Below is the status of Fund Contribution as at 30th June, 2011.

Table VI

S/NO	Member State	Outstanding As At1/7/2010 (A)	Received during F/Y2010/11 (B)	Outstanding Balance As At 30/June/2011 (A-B)
1	Kenya Government	600,000	570,907	29,093
2	Tanzania	600,000	0	600,000

	Government			
3	Uganda Government	600,000	0	600,000
	TOTAL	**1,800,000**	**570,907**	**1,229,093**

The EAC Management acknowledges auditor's recommendation and confirms that there has been a continuous effort of requesting and reminding Member States to honor their obligations.

The Committee noted financial constraints faced by the LVFO. Partner States have not honored their contributions in total sums and on time. This cripples the activities of the organization and it remains indebted to the extent of operating on gratuity funds. No wander the organization is even understaffed.

The Committee also observed that the organization is not mainstreamed in the EAC and has not taken on board Rwanda and Burundi as members of the organization.

COMMITTEE RECOMMENDATIONS

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

i) ***urge Member States to urgently honor their contributions to LVFO;***

ii) ***direct the LVFO Executive Committee to recruit staff in key positions in the organization; and***

iii) ***expand the Scope and Mandate of LVFO to cover all the Fisheries and Aquaculture Development in the EAC and change the name to East Africa Fisheries Organization (EAFO).***

4.2 CURRENT YEAR MATTERS ON INTERNAL CONTROLS

4.2.1 WEAKNESS IN INTERNAL CONTROL ENVIRONMENT

A review of the LVFO confirmed that LVFO does not have disaster recovery plan or business continuity plan. Should disaster strike, the LVFO risks losing property and data that is stored onsite. It was further noted that the organization has no documented and approved risk management policy

The EAC Management reported that:

i) The disaster recovery/business continuity plan exists and already implemented by having in place fire proof data safe that resist fire up to 4000C for a maximum of four hours. The power consumption is structured and has three power sources that include 20 KVA true online UPS supply with a capacity of 4 hours run time at a rate of 7.5 KW Hrs;

ii) There is a negotiated WAN – Optic Fibre that also links to LVBC to enable outside building storage just in case the LVFO Secretariat building is immobilized;

iii) The installations of fire extinguishers and fire hydrant are in place, the exit outlets with regard to any dangers within the building also do exist; and

iv) The LVFO Secretariat also updates important information on the EAC EAMs system directly which acts as secondary data storage for the organization.

4.2.2 WEAKNESSES IN IT INTERNAL CONTROLS

The Audit Commission noted that the LVFO license for the Accounting Software – Sage expired and was not renewed due to lack of funds. The organization is now using MS Excel which has no inbuilt controls to ensure integrity of the financial statements generated.

It was further noted the IT Function had no clear structure and there was only one staff responsible for all tasks.

The EAC Management reported that lack of funding from Partner States has caused the non renewal of the financial package license. The anomaly will be corrected when funding is received from Partner States.

The position of the IT officer was approved by the Council of Ministers Meeting at 7th Regular Session held at Sea-cliff, Dar es Salaam, Tanzania on 27th February, 2009 but the position can only be filled when the budget for the post is approved.

The Committee noted the efforts by the LVFO to secure data and plan for continuity. However, as earlier observed, the organization has financially broken down. Measures in place do not guarantee the organizations data and business continuity.

The Committee was further informed that the EAC Secretary General committed himself to provide Sun Accounting System to LVFO which undertaking was never fulfilled.

COMMITTEE RECOMMENDATIONS

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

i) ***direct the LVFO Management to design a Risk Management Policy and Disaster Recovery Plan and present to the Audit Commission for verification;***

ii) ***direct the EAC Secretary General to provide the Sun Accounting System to LVFO;***

iii) ***recruit and fill the IT and other key positions in the organization; and***

iv) ***direct LVFO Management to always implement the Council decisions.***

4.2.3 LACK OF INTERNAL AUDIT FUNCTION AND AUDIT COMMITTEE

The Audit Commission observed that the LVFO does not have an Internal Audit Unit as well as the Audit Committee to review the internal control systems, carryout risk assessment and ensure economic use of resources as required by Regulation 12.1(d) of the LVFO Financial Rules and Regulations.

The EAC Management reported that the 7th Regular Session of the Council held on 27th February, 2009 at Sea Cliff Dar es Salaam approved the position of Internal Audit, among other positions to be filled, However, the Council has not yet approved the budget for the positions. The lack of funding for the posts has not allowed the Organization to fill the position of internal audit.

The Committee noted lack of Internal Audit function.

COMMITTEE RECOMMENDATIONS

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

i) ***approve budget and secure funds to enable recruitment of an Internal Auditor; and***

ii) ***direct the Audit and Risk Committee to visit LVFO and review the internal controls and advice accordingly.***

4.2.4 LACK OF PROPER ACCOUNTING SYSTEM

During the period under review, it was noted that LVFO could not submit the general ledger due to non renewal of the Sage accounting software license. It was further noted that items were not coded per activity in the trial balance, making it impossible to confirm the audited figures of 2010/2011 to comparative figures of 2011/2012. The current accounting system cannot produce credible accounts that can be certified to be free of errors and misstatements.

The EAC Management reported that the general ledger exist and can be traced from opening balances, transactions from the coded cash book during the year, accrued journal vouchers to closing balances, which are subsequently transferred to the financial statements.

It was further reported that the organization prepares comparative financial statements showing opening and closing balances for each financial year.

The Organization also prepares trial balances for both years and were submitted.

It was reported that the organization has a Chart of Accounts and the codes are also reflected in the trial balance submitted to the auditors. The Cash Book also shows allocation of expenditures using the accounts codes.

The Committee noted poor accounting records in LVFO, leading to inaccurate financial statements. Lack of budget seems to be the major problem. The EAC Council of Ministers has not seen the implication of denying an increment of the budget to the organization.

COMMITTEE RECOMMENDATIONS

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

i) ***exercise due diligence to advise on the status of an institution before taking over an institution;***

ii) ***find funds for the organization;***

iii) ***direct LVFO Management to always classify accounts properly both by activity or nature to provide useful information to the users; and***

iv) ***fully implement Article 9 (3) of the Treaty and the Summit directive on the organization;***

4.3 FINANCIAL STATEMENTS OBSERVATION

4.3.1 GOING CONCERN/SUSTAINABILITY OF SERVICE CONSIDERATIONS

The previous audit revealed that the financial statements for LVFO reflected a deficit of USD 368,756 and USD 1,137,661 for 2011/2012 and 2010/2011 financial years respectively.

Furthermore, the organization borrowed staff gratuity of USD 286,541 to finance its activities from 2009/2010 to 2011/2012 as shown below:

TABLE VII

Gratuity utilized during the Financial Year	Amounts (USD)
2009/2010	39,459.00
2010/2011	126,041.00
2011/2012	121,041.00
Total	**286,541.00**

The reason to use staff gratuity was due to lack of commitment from Partner States to remit the funds as budgeted.

The Audit Commission recommended that:

- the organization should formulate a Risk Management Policy; and
- the LVFO Management should seek to have a Disaster Recovery Plan.

The LVFO Management concurs with the audit findings and recommendations and confirms that several reminder letters were written to Partner States with regard to country contributions, correspondences of which were availed to the auditors.
The Committee noted the concern of the Audit Commission.

COMMITTEE RECOMMENDATIONS

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

i) ***urge LVFO Member States to urgently remit their arrears; and***

ii) ***direct LVFO Management to refund staff gratuity.***

4.3.2 UNSANCTIONED INTERNAL BORROWING

The Audit Commission reported that LVFO borrowed funds from various projects run under it, contrary to LVFO Financial Rules and Regulations, rule 8.1(f). During the period under review, USD 857,805 was borrowed from LVEMP II, Staff Gratuity and Operation Save Nile Perch projects, without any approval from the Council of Ministers.

The EAC Management reported that:

i) The USD 1,540 is not a borrowing but an advance to the AMREF Project and forms part of the total amount of USD 6,514 advanced to AMREF referred to in note no. 6.4 of the Financial Statements 2011/2012; and

ii) The borrowings from Save Nile Perch Project USD 735,224 and Gratuity USD 121,041 are reflected in the financial statements under note no. 6.3 of statement of financial position as at 30th June, 2012. Repayments will be made when the Partner States fulfill their obligations for the previous and current years.

The Committee noted the anomaly.

COMMITTEE RECOMMENDATIONS

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

i) ***direct LVFO Management to always work within the budget;***

ii) ***direct LVFO Management to respect borrowing procedures; and***

iii) ***direct LVFO Management to refund the borrowed money to respective accounts.***

4.3.3 NON-COMPLIANCE TO IPSAS 6 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

During the period under review, it was noted that LVFO financial statements do not conform to the provisions of IPSAS 6. The organization has several projects namely COMESA Fishery Project, ACP Fish II Project but separate financial statements for each project were not prepared, making it difficult to determine the value of the project.

The EAC Management reported that the consolidated financial statements were prepared and presented in the current year under review. Separate financial statements for projects were also prepared but not for presentation as the reporting frameworks are different, i.e. IFRS and IAS in previous period vs. IPSAs in the current period.

The EAC Management undertook to prepare and present both consolidated and separate financial statements for the next financial year in compliance with IPSAs.

The Committee noted the non compliance to IPSAS 6 by the organization.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to comply with IPSAS 6 and present the Financial Statements to the Audit Commission for verification.

4.3.4 PRESENTATION OF FINANCIAL STATEMENTS

The audit review noted that the statement of changes in net assets/equity as at 30th June 2012 shows prior year adjustments as at 30th June 2012 amounting to USD 350,605. However, these adjustments were not supported by journal vouchers and no evidence was provided to show that they were captured in the general ledger and trial balance. It was therefore not possible to ascertain whether these adjustments were effected properly.

Further the prior year adjustment figures ought to have been summed up in the statement of changes in net assets/equity. However, several adjustments were reflected in the statement contrary IPSAS 1

The Committee noted that the Financial Statements figures may not have been fairly stated.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to make journal entries where adjustments are made and at the same time reflected in the General Ledger and Trial Balance.

4.3.5 DIFFERENCE BETWEEN THE GRATUITY FIGURE REFLECTED IN THE STATEMENT OF COMPARISON OF BUDGET VERSUS ACTUAL AND BANK BALANCES

A review of the staff gratuity account revealed the following:

i) The Financial Statement reflected gratuity payment of USD 11,286 which was not supported by any verifiable document. In addition this figure differs with the figure appearing in the statement of comparison of budget vs actual which shows gratuity payment for the year as USD 69,914 thus occasioning a difference of USD 58,628 which is not explained; and

ii) The bank account reflects USD 83,050 while the correct balance should be USD 163,566 after taking into consideration the borrowings/ payments. The resultant difference of USD 83,050 has not been explained:

Table IX

Particulars	As at 30th June 2012
	USD
Gratuity for the year	421,934
Less: Gratuity payments made during the year	(11,286)
Balance before internal borrowing	**410,648**
Less: Internal borrowing(accumulated figure)	(247,082)
Balance expected in bank after borrowing	**163,566**
bank balances as per F/S	**80,516**
Unexplained difference	**83,050**

The EAC Management acknowledges the Audit Commission's recommendation and confirms that the funds will be paid back as soon as outstanding member states contributions are fully paid.

The Committee noted unexplained loss of funds and the likelihood of continued use of staff gratuity to finance the expenses of the Organization.

COMMITTEE RECOMMENDATIONS

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

i) direct LVFO Management to reconcile the unexplained difference of USD83,050 and present to the Audit Commission for verification; and

ii) direct LVFO Management to refrain from using Gratuity Funds and should refund the used amounts as soon as possible.

4.3.6 MISSTATEMENT OF BALANCES IN THE FINANCIAL STATEMENT

During the period under review, examination of LVFO Financial Statements reflected the following misstatement:

Cash Flow Statement: which reflected the following variances between the 2011/12 and 2010/11 comparative figures.

Table X

Details	2011/2012	2011/2012	
	Balance reflected (USD)	Correct balance (USD)	Difference USD
(Increase)/Decrease in Other current assets	27,742	32,882	5,140
(Increase)/Decrease in provisions	48,511	38,231	10,280
Purchase of computer software and phones	7,570	29,131	21,561

The explanation given for the additions of computer of USD 21,561 where a prepayment was made is not correct as the statement of financial position has prepayment balance of USD 5,261. The EAC Management should investigate these variances and have the correct figures reflected in the financial statements.

The Committee noted the anomaly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to investigate the variance and present correct figures in the Financial Statements to the Audit Commission for verification.

GENERAL OBSERVATION

The Committee observed that during the audit exercise of LVFO Financial Statements, the Audit Commission was not able to get appropriate evidence to provide an audit opinion and therefore issued a disclaimer.

The Committee further observed that the operations and Legal Framework of LVFO are not streamlined with the EAC operations; only three Partner States out of five contribute to the Organizations moreover through the departments in the Ministries of Fisheries.

The Committee also observed that the previous Financial Statements of the Organization were being audited by the Auditor General of the Republic of Uganda. However, the Committee proceeded to review the qualified accounts due to the Directives of the Summit and the Decisions of Council of Ministers to integrate the organization.

To this end, the Committee recommends to the EAC Council of Ministers to always exercise due diligence while incorporating institutions into the EAC mainstream.

PART V

THE CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY (CASSOA)

5.0 FOLLOW UP OF PREVIOUS YEAR'S MATTERS

5.1 INCORRECT CLASSIFICATION OF EXPENDITURE IN THE SYSTEM

The audit finding on the CASSOA expenditure classification system revealed that some expenditure are classified in the system according to the activity such as board meeting and activities, Technical Committee meetings, recruitment etc., while on the other hand are classified by nature like airfare, subsistence allowances, other logistics etc. in reality, the later (airfare, subsistence allowances other logistics) are related to a particular activity.

It should be noted that presenting separately is to understate the expenditure incurred to that activity.

The EAC Management reported that it has retained classification by nature of expense and this has been implemented in the FY 2012/2013 where changes have been made to the existing chart of accounts by creating new accounting codes and deactivating others.

The Committee noted compliance and implementation of the Audit finding. The Committee implores CASSOA to avoid mixing up classification of expenditure.

5.1.1 TAX EXEMPTION NOT GRANTED

Article 4(4) of EAC Headquarters Agreement with the Republic of Uganda provides for exemption of EAC from all taxes, including withholding tax, and Value added tax (VAT). At the time of this audit, it was noted that CASSOA did not recover from Uganda Revenue Authority (URA) VAT outstanding balance amounting to USD 18,266. It was further noted the 23rd meeting of the EAC Council of Ministers directed the Agency to request for tax exemption certificate from the Government of Uganda to allow the Agency not to pay taxes as provided in the EAC Treaty.

The EAC Management reported that the Agency upon the Directive of the 23rd Meeting of the EAC Council of Ministers on 9th September, 2011 applied for exemption of VAT to the Ministry of Foreign affairs. The Agency awaits feedback from the Ministry on the status of the application.

It was further reported that, the Agency has claimed all VAT paid between March 2010 and January 2013. Refunds have been received for claims for VAT paid after registration, between August 2011 and September 2012 and the reasons for disallowed amounts communicated to the Agency. Follow up is done regularly and resubmission of claims is done where appropriate. The Agency has to date recovered USD 9,989.93. A reminder will be sent to the Ministry as follow up.
The Committee noted that unlike TRA and KRA, URA despite delays has to a greater extent refunded VAT and WHT to CASSOA. The Committee was not fully convinced that the Agency was pursuing the matter aggressively.

COMMITTEE RECOMMENDATIONS

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

i) ***follow up and secure Tax Exemption Certificate; and***

ii) ***follow up recovery of VAT and WHT before the expiry of the time limit***.

5.2 CURRENT YEAR'S AUDIT FINDINGS

5.2.1 REVIEW OF INFORMATION TECHNOLOGY (IT) SYSTEMS AT CASSOA

5.2.2 THE IT STRATEGIC PLAN

The Audit Commission reported that IT strategy was part of the CASSOA 5 Year Strategic Plan of November 2009. A review of the same revealed that IT tactical plans which operationalize the strategies in the strategic plan could not be availed. It was further noted that whereas IT is running various projects at the same time, there was only one IT staff at the organization and yet these projects need in-house project managers.

It was also observed that most IT strategies are interweaved with the rest of the organization's strategies; making the responsibility of IT unclear.

The EAC Management appreciates the recommendation and undertook to develop specific IT strategies and tactical plans from the Organizational Strategic Plan by the end of April 2013.

It was further reported that the Agency has developed and is implementing a project plan for the SOFIA project, which is the biggest IT project and will develop the same for other IT projects.

The Committee noted the Audit Commission's report and the undertaking by CASSOA and commends the progress.

5.2.3 IT PROJECT BEHIND SCHEDULE

During the period under review, a number of IT projects at CASSOA were found falling behind schedule. A good example is the "monitoring the implementation of the examination management policy with Partner States" which should have commenced in 1st quarter of the FY 2011/12, but was rescheduled to 14th February, 2013.

The EAC Management recognizes the value and importance of timely implementation of IT projects. However, the major factors that cause the delays in implementation were beyond the Agency control. These include procurement procedures, readiness of the Partner States that are the primary stakeholders of the projects, and non-attainment of expected funds.

The EAC Management, further, undertook to include the Partner State in the planning phase of the projects in order to have realistic time frames.

It was also noted that the proposed IT projects shall be given the deserved priority, during the budgeting process, to ensure commensurate funding.

The Committee noted the reports by the Audit Commission and CASSOA Management.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the Partner States to cooperate by adhering to schedules and putting in place all the required infrastructure like Examination Centers and harmonized Examination System for aviation staff.

5.2.4 IT STEERING COMMITTEE

CASSOA like any other establishment ought to have an IT steering committee or equivalent composed of executive, business and IT management. The previous audit finding however revealed that the Agency does not have an IT steering committee or its equivalent, to provide oversight to IT administration and management.

The EAC Management concurs with the Audit Commission's recommendation to form a Task Force to champion IT projects and the members will include the management team as provided for in the IT Policy Manual.

The Committee noted the Audit Commission finding. However, the CASSOA Management informed the Committee that the IT Steering Committee is now in place.

The Committee commends the CASSOA Management for implementing the Audit Commission recommendation.

5.2.5 IT ORGANIZATION STRUCTURE/INADEQUATE STAFF

A review of CASSOA IT structure revealed that there was only one staff member in the IT function, who runs all IT tasks in the organization.

The Audit Commission is of the view that the organization should endeavor to fill their current vacancies in the IT function. It is also important that IT provide for IT representation at the strategic level of the organization such that as strategic goals of the organizations are formed they are blended into the IT strategic objectives of the organization.

The EAC Management reported that all professional officers at the Agency participate in the strategic planning activity, including the IT officer whose professional input is captured during the planning period.

It was further reported that CASSOA core function remain to be in the domain of coordination of oversight systems of the Partner States and the strengthening thereof. The IT systems support the technical activities for effective implementation of the mandate.

The proposed organizational structure intends to include employment of more IT personnel but this proposition has been deferred due to financial challenges currently experienced at the Agency. Consequently, the Agency has been obliged to postpone recruitment of staff until a sustainable funding mechanism is put into operation.

The Committee noted the Audit Commission report, and further noted that CASSOA is not able to implement the audit recommendations and the Board decision due to limited funding.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to engage the Partner States to increase funding for CASSOA.

5.2.6 LACK OF IT TRAINING POLICY

The audit finding on CASSOA noted that the Agency has no formal IT Personnel Training Policy, therefore exposing the organization to a risk of obsolesce of IT skills among IT staff since IT is a fast changing discipline.

EAC Management reported that the CASSOA ICT Policies and Procedures Manual is in place and provides for the development of human resource in ICT.

The EAC Management reiterated that inadequate funding continues to curtail the drawing up a feasible training program. However, funds have been budgeted for in the next financial year to cover training and the training program shall be drawn by 31^{st} May 2013.

The Committee noted the Audit finding and the CASSOA Management further confirmed to the Committee that despite inadequate funding to draw a feasible training program, the budget now covers training and the training program which has already been performed.

The Committee commends CASSOA Management for the progress.

5.2.7 LACK OF SEGREGATION OF DUTIES

A review of the user permission on the system revealed that segregation of duties is not enforced at the Agency. It was noted that the Senior Accountant and the Accountant have the same role on the system. It was further observed that the IT section had only one staff, who performs all IT roles in the Agency. He is the Systems Administrator; Database Administrator, Security Manager, Systems Analyst, Programmer, Network Administrator and IT Support Officer. Lack of segregation of duties may lead to perpetuation and concealment of fraud.
The EAC Management reported that:

i) the Agency endeavors to ensure segregation of duties. However, due staffing limitations at the Agency, (presently CASSOA has only ten staff, three of whom are general staff), it may not always be practical to delegate work of a professional nature to personnel of unrelated discipline;

ii) task that are not of a technical nature, are often delegated to staff who possesses salient competencies in another department in the absence of staff in a relevant department;

iii) the Agency will not face a situation where an employee will solely execute a transaction from initiation to completion without involvement/ consent of a secondary approval; and

iv) employment of persons primarily for purposes of segregation of duties is neither viable nor cost effective to the Agency.

The Committee noted the Audit Commission report. Further to the EAC Management response, CASSOA informed the Committee that another IT officer had been recruited to mitigate risks. The Accounts Section has also been enforced and IT Section is pushing to secure more funds.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to find other sources of funding to complement the current funding of CASSOA to allow recruitment of sufficient staff to manage duties of the Agency.

5.2.8 UN-ENFORCED WIRELESS NETWORK SECURITY

The Audit Commission observed that the network access code at the Agency was blank, had no authentication as well as the encryption, making the Agency susceptible to malicious intruders like hackers and crackers.

The EAC Management reported that the normal procedure at the Agency is to have the wireless internet connection protected. However, when meetings are held at the Agency premises, the network is kept open to allow participants access to the internet.

The EAC Management however welcomed the observation and the consequential security concerns and undertook to adopt the recommendation and ensure that the network is kept secure with access limited to persons issued with passwords.

The Committee took note of the Audit Commission's report and CASSOA Management response. The Committee commends CASSOA for undertaking to enforce the Wireless Network Security.

5.2.9 IT CHANGE MANAGEMENT POLICY NOT DOCUMENTED

During the year under review, it was observed that a Change Management Process existed at the Agency; however, it was not comprehensively describing how the change is followed up in terms of implementation and testing of programs.

The EAC Management concurred with the Audit finding and recommendation and promised to develop a comprehensive documented Change management process to implement the requirements of the ICT policy by 31st May, 2013.

The Committee took note of the Audit Commission's report and CASSOA Management response.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly that the Audit Commission should verify the implementation of the ICT Policy.

5.2.10 INADEQUATE PHYSICAL ACCESS CONTROL

The Audit Commission noted that some procedures specified in the physical access policy were not adhered to. It was observed that the Agency had no logging system which gives details of entry like date, time and departure of visitors to and from secure areas like the server room/data center. In case of damage/problem to data, it may be difficult to track the source and hold anyone accountable.

The EAC Management acknowledged the merit of the recommendation and will take appropriate interventions in the shortest time possible. A manual logging system will be put in place as an interim measure as arrangements are being made to install an electronic security device in the next financial year.

The Committee took note of the audit finding.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to direct the CASSOA Management implement the Logging System for entrance to secure areas of concern.

5.2.11 INADEQUATE ENVIRONMENTAL CONTROLS

A review of the Agency's IT environmental control measures revealed that the server room was significantly hot. The AC in the server room, which is supposed to sense fluctuations in temperature could not automatically switch on. It was further observed that the server room is located at the basement of the building, making it susceptible to floods. The audit further observed that the fire control equipment was in place, but the fire control/evacuation procedures were not communicated to all members of the organization.

The EAC Management reported that:

i) the Agency is currently experiencing power fluctuations which result in erratic operation of the automatic air conditioning units. On the day of the visit the main power source was off and the erratic scenario was observed;

ii) the Agency is in the process of procuring a generator which will provide stable power. Moreover, the Agency has a maintenance contract with a service provider for periodic maintenance of air conditioners thus the Agency is able to monitor the performance of the air conditioning system;

iii) relocating the data centre at current location would pose major challenges. However, the Agency has invested in an effective drainage system to ensure that the data centre is not affected by water from heavy downpour. This system is to compliment the natural phenomena of the gradient in the topographic layout of the premises which is conducive to effective drainage; and

iv) the Agency has also invested in a fire suppression system to protect the centre from fire and will endeavor to have in place more effective fire communication procedures and put in place a fire protection policy.

The Committee noted the Audit Commission's report.

COMMITTEE RECOMMENDATIONS

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

i) ***direct CASSOA Management to ensure power back-up with automatic change of switch at all times; and***

ii) ***ensure more effective fire communication to users.***

5.2.12 INADEQUATE IT CONTINUITY PLAN (ITCP)

During the year under review, it was noted that CASSOA has not developed, maintained, communicated and tested IT continuity plan to ensure continuity of services in case of disaster. The audit further noted that there is no formally communicated plan in place to restore services in case of a breakdown of major hardware infrastructure.

The Audit Commission is of the view that Agency should develop a framework for IT continuity to support enterprise wide business continuity in a consistent process.

The EAC Management concurred with the Audit Commission's recommendation to have an IT continuity plan in place and it will be included in the overall Business Continuity and Disaster Recovery Plan to be developed by the end of the current financial year for Board approval and implementation.

The Committee took note of the Audit finding.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the CASSOA Management to present the Business Continuity and Disaster Recovery Plan to Audit Commission for verification.

5.2.13 IT PROJECT MANAGEMENT FRAMEWORK

It was revealed in the Audit finding that CASSOA does not have an IT project management policy/framework that contains a master plan, assignment of resources, definition of deliverables, approval by users, a phased approach to delivery, Quality Assurance, a formal test plan, for the entire portfolio of IT projects; however the above are defined on a project by project basis.

It was further observed that in the absence of a proper IT project management framework, it is likely that IT projects; not meeting stakeholder expectations will increase. For example it is more likely that the number of projects exceeding the budgeted cost, and timelines will increase, and also that the number of projects experiencing scope creep will go up.

The EAC Management concurs with this recommendation and will develop and implement a suitable IT project management Framework.

The Committee took note of the audit report.

COMMITTEE RECOMMENDATION

The Committee *recommends to the Assembly to urge the EAC Council of Ministers to direct the CASSOA Management to develop a suitable IT Project Management Framework and present it to the Audit Commission for verification.*

5.3 CONSTRUCTION WORK IN PROGRESS

The Audit Commission reported that the Agency awarded a contract for the construction of CASSOA Annex (CASSOA/WORKS/001) to M/s Coronation Developers (U) Limited.

At the evaluation stage, it was found that Ms Coronation Developers (U) Ltd had no evidence of cash flow which was considered to be of material substance to the evaluation outcome. This was one of the elimination criteria, of which failure to meet would mean elimination. However, the company was passed to the next stage. There was no justification for its passing to the next stage in evaluation.

The audit further noted that the Agency secured a performance security of only 10% against the 20% advance payment. This was in favour of the contractor and not favourable to the Agency. It was further noted that the defects liability and the amount to be withheld were not specified in the agreement.

The EAC Management reported that:

i) the adequacy of cash flow was measured by assessing audited financial statements submitted by the bidders of which, the bidder, Coronation Developers submitted as required;

ii) the statements submitted were for the years 2008 and 2009. Both financial statements showed the cash adequacy at the time. Since the bidder did submit the audited statements as required, the Evaluation Committee passed them to the next stage. The evaluation committee however highlighted the fact that these were not current and the need for getting more recent status of cash flow and chose to alert the Procurement Committee on this observation;

iii) the Procurement Committee noting the caution raised by the Evaluation Committee approved the award of the contract to Coronation Developers subject to the Agency obtaining confirmation from their bankers on the liquidity status. This confirmation was subsequently received from Bank of Baroda (Uganda) Ltd. ref. KSG/ADV/2K11/01 dated 20th December 2011 upon which the award was given;

iv) the successful bidder was required to submit a 10% performance security. The bidder complied with this requirement Ref. 9507IGPER000112 dated 14th February 2012;

v) Clause 14.2 of the contract states in part that 'the Employer shall make an advance payment, as an interest free loan for mobilisation, when the contractor submits a guarantee in accordance with this sub clause. The total advance payment rate agreed in the contract is 20%. The Agency paid USD 52,200 being 20% of the contract amount of USD 261,000 based on an Advance Payment Guarantee issued by Imperial Bank (Uganda) Limited ref no. APG/015/IBUL/2012 dated 9th March 2012 of USD 52,200 and not based on the Performance Guarantee of 10%; and

vi) the conditions of the contract part II - under contract data, provides for 365 days as the defect notification period and 10% as retention amount.

The Committee took note of the anomaly reported by the Audit Commission.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to task the Audit Commission to carry out an extensive audit of the project on the construction of CASSOA annex on how procurement was done and assess value for money.

5.3.1 LACK OF POTENTIAL AND TECHNICAL STAFF

During the audit, it was noted that CASSOA does not have adequate qualified technical personnel to undertake oversight activities as mandated by the Treaty. The technical and core department only had one staff. It was further noted that failure to appoint technical staff could not only derail the mandate of the Agency, but could lead to failure of the Agency to justify its existence.

The CASSOA Management reported that aviation is capital intensive that only attracts highly paid specialists. Indeed, technical staff are inadequate due to limited funding. Moreover, CASSOA funding is drawn from Civil Aviation Authorities who depend on their governments that as well suffer budgetary constraints.

In order to mitigate the problem, CASSOA had come up with 70 cents charge on every passenger but Partner States of the United Republic of Tanzania and the Republic of Kenya were still consulting while other Partner States are in agreement with the proposal.

CASSOA has, however, mitigated the problem by engaging experts as consultants to secure their sufficient pay.

The Committee noted the challenges of funds faced by CASSOA.

COMMITTEE RECOMMENDATIONS

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

i) ***extend the mandate of the CASSOA and transform it into a business institution for self sustainability;***

ii) ***urge the EAC Partner States to comply with their financial obligations in the affairs of the Agency and its sustainability; and***

iii) ***urge the United Republic of Tanzanian and the Republic of Kenya to conclude consultations and respond to the proposal by CASSOA Management to levy the USD 0.70 (70 cents).***

PART VI

THE INTER UNIVERSITY COUNCIL FOR EAST AFRICA (IUCEA)

The Audit Commission reported that due to the matters described in the Basis for Disclaimer of Opinion paragraph, they were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

6.0 NON-COMPLIANCE TO IPSAS 17

6.1 DEPRECIATION

According to accounting policy (VI) included in financial statements, a full year's depreciation is provided for Property, Plant, and Equipment (PPE) is charged in the year of acquisition and nil in the year of disposal.

This is contrary to IPSAS 17 which stipulates that depreciation for Property, Plant and Equipment purchased during the year is apportioned proportionately to the remaining period of the year.

6.1.1 REVALUATION RESERVE

The consolidated statement of financial position as at 30th June 2012 shows revaluation surplus of USD 26,193 which differs with the amount shown in the consolidated statement of changes in net assets/equity of USD 26, 348. However, the property, plant and equipment schedule does not reflect any revaluation of assets during the year under review. In addition the revaluation reserve is not properly disclosed by way of a disclosure note contrary to IPSAS 17 on property, plant and equipment.

6.1.2 MISSTATEMENT OF COMPARATIVE FIGURES

Contrary to IPSA 1 the financial statements for the year ended 30th June 2012 reflects the following comparative figures which differ with the amounts reflected in the audited accounts for 2010/2011 as follows:

Item	Bal per 2010/2011 audited accounts	Bal in 2011/2012 accounts	Difference
	USD	USD	USD
Payables	**190,979**	**325,751**	**134,772**
Staff creditors	**363,759**	**36,144**	**327,615**
Depreciation – Vicres	**59,313**	**56,035**	**3,278**

The differences have not been explained or reconciled.

6.1.3 ERRORS IN THE FINANCIAL STATEMENTS

The consolidated statement of financial performance for the year ended 30th June 2012 reflects depreciation charge of USD 76,494 while note 18 on property, plant and equipment reflects depreciation charge for the year as USD 48,157.

The difference of USD 28,337 is not explained or reconciled.

The IUCEA Secretariat Statement of changes in Net Assets/Equity for the year ended 30th June 2012 shows the revenue reserve balance brought forward from 2010/2011 of USD 10,706,808 while the 2010/2011 audited financial statements show a figure of USD 10,697,224. The difference of USD 9,584 is not explained. In addition the 2010/2011 comparative figure reflects revenue reserve figure of USD 10,697,214 while the audited financial statements show USD 10,697,224 occasioning a difference of USD 10 which is not explained.

6.1.4 WEAKNESSES IN THE ACCOUNTING AND ACCOUNTING CONTROL SYSTEMS

The underlying accounting system and controls put in place from which the council's financial statements are prepared is not properly and fully utilized by the accounting staff who are also few and with limited understanding of the system. The effectiveness of the entire accounting system and controls cannot therefore be relied upon to generate credible financial statements.

For example the financial statements for the year ended 30th June 2012 submitted for audit were found to have numerous errors which necessitated numerous adjustments. Even after the adjustments the accounts had errors as indicated above. In addition the management did not maintain proper subsidiary records such as debtors and creditors ledgers.

Consequently the accuracy of the financial statements as a whole is doubtful.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, the Audit Commission have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, no opinion was put for the Financial Statements.

The Committee noted, among other issues, the following:

- non-remittance of contributions by Partner States;
- lack of absorption capacity by Universities;
- lack of proper management of the institution;
- lack of competent staff, and team work;
- lack of linkage between the EAC Council of Ministers and the Executive Committee;

- lack of segregation of duties; and
- un-accounted for funds.

Coupled with the information provided by the Audit Commission that IUCEA got worse and worse as they attempted to reconcile the Financial Statements; first in Kampala, then in Arusha and finally in Nairobi where the Senior Accountant conceded to the Audit Commission and the IUCEA Management that she is unable to reconcile the accounts; the Senior Accountant was allowed to take leave from work at a time when the IUCEA Management had to meet with the Accounts Committee to clarify their Financial Statements.

Realizing that IUCEA attained qualified status of accounts in the audit for the FY ended 30th June, 2011.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to commission a forensic audit and report to the Assembly by March 2014.

GENERAL OBSERVATIONS:

The Committee recommends to the Assembly to urge the EAC Council of Ministers to urgently address the following challenges in the EAC Organs and Institutions.

1. ***Non refund of VAT and WHT by the Partner States who host the EAC organs and institutions and non issuance of exemption certificates.***
2. ***Lack of linkages, uniform systems and interconnectivity of EAC organs and institutions.***
3. ***Inadequate staffing across EAC organs and institutions.***
4. ***Lack of investment strategy for EAC, especially on the reserves.***
5. ***Lack of sufficient supervisory role by the EAC Secretary General over the institutions of the Community.***
6. ***Unauthorized use of gratuity by some EAC institutions.***
7. ***Non implementation of Treaty Provisions especially Article 9 (3).***
8. ***Non installation of imprest recovery system across EAC organs and institutions***.

9. ***Alarming trend of donor dependency that has led to decline of Partner States contribution to the integration process.***

10. ***Delay of institutional review process leading to decline of human resource capital.***

Evident from the above mentioned challenges, the Committee notes laxity of the Council of Ministers to fulfill their mandate hence breaching article 14 of the Treaty for the establishment of the East African Community.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the Council of Ministers to revisit their functions clearly spelt out in the Treaty and as directed by the Summit to execute their mandate.

PART VII

7.0 ACKNOWLEDGEMENTS

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.

MEMBERS OF THE COMMITTEE ON ACCOUNTS

Consideration of the Audited Financial Statements for the EAC for the Year ended 30th June, 2012

BUJUMBURA, BURUNDI

	Name	**Signature**
1.	Hon. Straton Ndikuryayo	....
2.	Hon. Pierre-Celestin Rwigema	....
3.	Hon. Abdullah Mwinyi	....
4.	Hon. Adam Omar Kimbisa	....
5.	Hon. Nderakindo P. Kessy	....
6.	Hon. Yves Nsabimana	....

7. Hon. Emmanuel Nengo ....

8. Hon. Amb. Jeremie Ngendakumana ....

9. Hon. Sara T. Bonaya ....

10. Hon. Mumbi A. Ng'aru ....

11. Hon. Saoli Ole Nkanae ....

12. Hon. Bernard Mulengani ....

13. Hon. Chris Opoka-Okumu ....

14. Hon. Susan Nakawuki ....

Annex 1

LISTS OF PARTICIPANTS

Members:

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

Members of the EAC Council of Ministers:

15.	Hon. Shem Bageine	-	Chairperson, EAC Council of Ministers
16.	Hon. Leontine Nzeyimana	-	Member of EAC Council of Ministers
17.	Hon. Jacqueline Muhongayire	-	Member of EAC Council of Ministers

EAC Secretariat:

18.	Amb. Dr. Richard Sezibera	-	Secretary General
19.	Jean Claude Nsegiyumva	-	Deputy Secretary General, Finance & Administration
20.	Wilbert T. K. Kaahwa	-	Counsel to the Community
21.	Juvenal Ndimurirwo	-	Ag. Director of Finance
22.	Evariste Habimana	-	Internal Auditor
23.	Aggrey Nkondola	-	Principal Information Technology Officer
24.	Charity Musiimire	-	Snr HR Officer
25.	Richard Karamagi	-	Procurement Officer
26.	Neema Mzava	-	Ticketing Officer

East African Court of Justice (EACJ):

27.	Stanley Mono	-	Accountant

Lake Victoria Basin Commission (LVBC), Kisumu:

28.	Patrice Niyongabo	-	Deputy Executive (F&A)
29.	Barbara Muchilwa	-	Principal Internal Auditor
30.	Samuel Kamya Kavubu	-	Internal Auditor
31.	Richard Kezimana	-	Accountant

Civil Aviation Safety & Security Oversight Agency (CASSOA):

32.	Ruth Mtoi Simba	-	Principal HR & Admin Officer
33.	Wanjiru Muita	-	Senior Accountant

Inter University Council for East Africa (IUCEA):

34.	Prof. Mayunga H. H. Nkunya	-	Executive Secretary
35.	Prof. Joseph Obua	-	Regional Coordinator, Lake Victoria Initiative
36.	Gertrude Lutaaya	-	Internal Auditor
37	Reuben Tumbwene	-	Accountant
38.	Nightingale M. Ssenoga	-	Programme Assistant

Lake Victoria Fisheries Organization (LVFO):

39.	Godfrey Monor	-	Executive Secretary
40.	Olive Mkumbo	-	Deputy Executive Secretary
41.	Suzan Serwadda	-	Finance Administration Officer

Members of the Audit Commission:

42.	Alex Rugera	-	Deputy Auditor General, Kenya
43.	Benjamin Mashauri	-	Assistant Auditor General, Tanzania
44.	Fidele Kayiranga	-	Snr Principal Auditor, Rwanda
45.	Erisa Muhereza	-	Snr Principal Auditor, Uganda
46.	Arthemon Muhitira	-	Principal Auditor, Burundi
47.	Sylvester Kibona	-	Principal Auditor, Arusha Regional Office

East African Legislative Assembly (EALA):

48.	Alex Obatre	-	Deputy Clerk
49.	Stephen Mugume	-	Snr. Clerk Assistant/Accts Committee Clerk

50. Priscilla Amoding - Committee Secretary