EAST AFRICAN COMMUNITY
EAST AFRICAN LEGISLATIVE ASSEMBLY

____

REPORT OF THE COMMITTEE ON ACCOUNTS ON THEAUDITED ACCOUNTS OF THE EAST AFRICAN COMMUNITY FOR THE YEAR ENDED 30TH JUNE, 2018

(ARUSHA, TANZANIA)

27TH OCTOBER – 13TH NOVEMBER 2019 ARUSHA, TANZANIA

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

FEBRUARY , 2020

EXECUTIVE SUMMARY

Hon. Speaker Sir,

During the review and consideration of the Audit Commission report on the Financial Statements of the East African Community Organs and Institutions for the year ended 30th June 2018, issues presented were examined and recommendations were proposed.

The Community had a budget of **USD 115,098,773** and the actual expenditure was **USD 66,918,844,** hence an overall budget performance of **58%**. Suffice to note, is the fact that the donor funding increased from USD 14.000.000 in FY 2016/17 to **USD 17, 752, 708** in FY 2017/18.

n the whole, EAC Institutions, Projects and Programmes continue to face challenges of low budget absorption due to delayed or non-remittance of funds. This calls for proper budgetary planning, coherence and consistency in the budgeting process. It is imperative that the EAC puts in place an EAC Single Projects Coordination Unit to ensure proper managing of the growing EAC projects. Coupled with that, it’s critical that EAC puts in place an annual forum involving all the Institutions, Organs and the Council to appraise and evaluate itself on the performance of its programs and activities. The follow-up process will be a great opportunity for the Institutions and Organs to review the progress being made in the implementation of the integration agenda of the EAC. It will also assess the challenges faced and devise strategies of overcoming them. Management will also seize the unique opportunity to engage the community in an improvement process.

Of great concern to us was the non-implementation of the previous Audit recommendations; non-provision of quarterly reports to the Assembly as recommended in previous reports; delayed recruitment and filling of vacant positions which have remained a persistent challenge.

Another concern is the procurement processes in the EAC Organs and Institutions which continue to contravene procurement procedures. Furthermore, Gross irregularities were noted in recruitment and award of short-term contracts, a process that contravenes EAC Staff Rules and Regulations.

Another concern was the prolonged period of redundancy of the projects of LVBC. The Republic of Kenya purchased a water hyacinth machine and was finally delivered to Kisumu on 12th April, 2016. According to management of LVBC/LVEMP II, this machine has never been put to use bringing the years of redundancy to three (3) and sadly the weed continues to eat away the lake each day that passes.

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

The EAC institutional review process has also been a persistent problem at EAC. It is ten years since the EAC embarked on an Institutional Review Exercise. Many programs of the Institution are dependent on its recommendations yet there is no optimism on when the Council of Ministers will conclude on this very important matter.

Nevertheless, the Accounts presented a fair position in all the material aspects for the EAC Organs and Institutions for the year ended 30th June 2018. Their financial performance and cash flows for the period were in accordance with International Public-Sector Accounting Standards (IPSAS).

LIST OF ACRONYMS AND ABBREVIATIONS

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

IOSCO	International Organization of Securities Commission
TWG	Technical working Group

TABLE OF CONTENTS

A. INTRODUCTION

In accordance with the Provisions of Article 134 (3) of the Treaty for the Establishment of the East African Community (EAC), the Committee on Accounts while in Arusha – Tanzania from 27th November to 13th November 2019 received the Audited Accounts of the following East African Community (EAC) Institutions, Organs, Agencies and Projects for the FY ended 30th June 2018:

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

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

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

- Part I: Key Audit findings on the Financial Statements of the EAC Secretariat, Projects and Programmes for the year ended 30th June, 2018;
- Part II: Audit Findings on the Financial Statements of EAC Organs and Institutions for the year ended 30th June, 2018;
- Part III: General Observations, Recommendations and Acknowledgements.

B. METHODOLOGY

While undertaking this activity, the Committee used the following methodology in analyzing and reviewing the audited accounts for the FY ended 30th June 2018:

1. Document review

   The Following documents were reviewed:

   - The Treaty for the Establishment the East African Community;
   - The 5th EAC Development Strategy;

- The Strategic Plans of the East African Community Organs and Institutions;
- The Rules of Procedure of the East African Legislative Assembly;
- The EAC Financial Rules and Regulations;
- The EAC Staff Rules and Regulations;
- The Audit Commission Reports on the Accounts of the EAC Organs, Institutions and Programmes for the year ended 2018.

2. The Committee interacted with the following Stakeholders:

- Members of the Audit Commission;
- The Council of Ministers of EAC and;
- The Management teams of the EAC Organs, Institutions and Programmes.

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

This section includes findings and recommendations on the weaknesses identified during Audit in the areas that need immediate Management attention for improvement.

1.1 EAC'S BUDGETARY AND EXPENDITURE REVIEW

1.1.1 Funding Sources

The budget of EAC is mainly funded through Partner States' contributions and Development Partners support. The activities of the Community during the year under review were funded by a budgetary appropriation of USD 115,098,773 million (original budget, USD 110,13 million and supplementary budget, USD. 4,97 million) compared to USD 103,52 million in 2016/2017. This was an increase of USD 11.58 million or approximately 11% as shown below:

Table 1: Funding Sources of EAC for 2017/18

Budget Source	2017/2018 Budget (USD)	As %age of total budget	2016/2017 Budget (USD)	Change of Budget in amount (USD)	Change of Budget in percentage
Member States – Annual Contribution	50,226,522	44%	41,890,538	8,335,984	19.90%
Member States – Other Contributions through other Ministries	6,397,685	6%	5,674,839	722,846	12.74%
Member States – Universities	303,435	0%	431,923	(128,488)	-29.75%
General Reserve	120,000	0%	6,354,248	(6,234,248)	-98.11%
Development Partners	57,717,228	50%	48,864,114	8,853,114	18.12%
Miscellaneous Revenue	333,903	0%	305,440	28,463	9.32%
Total Budget	**115,098,773**	**100%**	**103,521,102**	**1,577,671**	11%

The Committee also observed that expected Development Partner's contribution, which accounted for about 50% of the budget, increased by 18% from USD 48.9 million in 2016/2017 to USD 57.7 million in 2017/2018.

1.1.2 Remittance of Annual Partner States Contribution

An amount of USD 20.27 million remained unremitted from Partner States for the F/Y 2017/18 compared to USD 7.85 million in 2016/2017 as depicted below. Out of the total amount, USD 16.89 million or 83.34% was due from the Republic of Burundi and Republic of South Sudan.

Table 2: Remittance of Annual Partner States Contribution

Partner State	Arrears (FY'16/17)	Contribution due 2017/2018	Total Amount Expected	As at 30 June 2018		Total outstanding for 2017/2018
				Contribution paid	%age	
Republic of Kenya	773,466	9,695,577	10,469,043	9,391,391	89.71%	304,186
United Rep. of Tanzania	2,235,515	9,695,577	11,931,092	9,695,600	81.26%	(23)
Republic of Uganda	3,327,966	9,695,577	13,023,543	7,432,921	57.07%	2,262,656
Republic of Rwanda	1,662,981	9,179,159	10,842,140	8,369,827	77.20%	809,332
Republic of Burundi	4,074,340	9,179,159	13,253,499	466,764	3.52%	8,712,395
Republic of South Sudan	-	9,179,159	9,179,159	999,970	10.89%	8,179,189
Total	**12,074,268**	**56,624,208**	**68,698,476**	**36,356,473**	**52.92%**	**20,267,735**

1.1.3 Budget Performance

During the year under review, the total appropriated budget of the Community (inclusive of supplementary budget) was USD 115.17 million. However, the Organs and Institutions of the Community (excluding CASSOA) managed to absorb only USD 62.85 million representing an overall absorption rate of 55%.

The implication was that the Community did not implement more than half of its planned activities during the year under review.

Table 3: Budget Performance by EAC Organs and Institutions

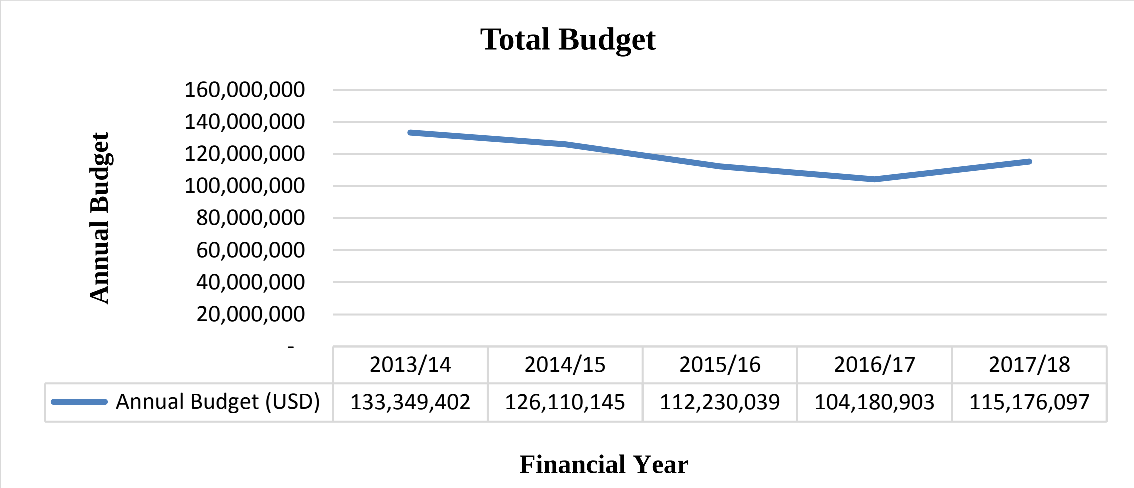
SN	Organ/Institution	Budget (USD)	Actual (USD)	Variance (USD)	Absorption Rate
1	EAC Secretariat	62,436,985	31,080,104	31,356,881	50%
2	East African Court of Justice	4,140,166	3,212,283	927,883	78%
3	East African Legislative Assembly	17,996,959	13,967,077	4,029,882	78%
4	Lake Victoria Basin Commission	14,002,124	4,605,315	9,396,809	33%
5	Inter-university Council of East Africa	6,766,928	4,068,724	2,698,204	60%
6	Lake Victoria Fisheries Organization	2,504,349	1,286,414	1,217,935	51%
7	East African Science and Technology Commission	1,739,791	1,424,001	315,790	82%
8	East African Kiswahili Commission	1,553,098	1,169,501	383,597	75%
9	East African Health Research Commission	2,698,652	1,626,843	1,071,809	60%
10	East African Competition Authority	1,337,045	410,971	926,074	31%

	Total Appropriation	**115,176,097**	**62,851,233**	**52,324,864**	**55%**

1.1.4 Budget Trend Analysis

The gross estimated expenditure decreased over the last five (5) years from USD 133.3 million in 2013/2014 to USD 115.17 million in 2017/2018. This was approximately a decrease of 12% over the last five-year period.

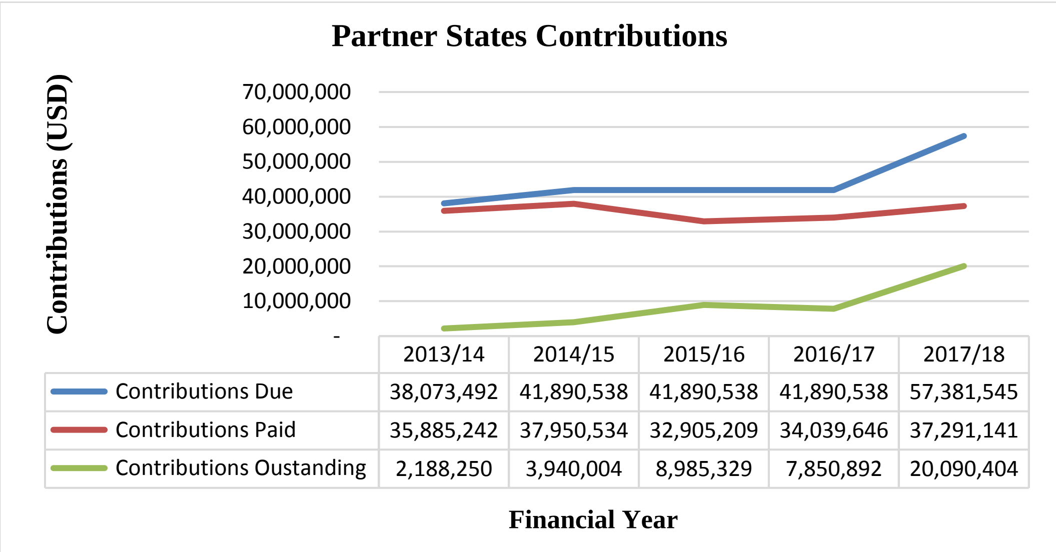
Figure 1: Total Budget trend



1.1.5 Partner States Contribution

The Partner States' due contributions have changed over the last five (5) years with a 34% increase from USD 38.07 million in 2013/14 to USD 57.38 million in 2017/18 as depicted below. However, the Committee observed that the contributions paid have been declining leading to an increase in contributions outstanding from USD 2.18 million in 2013/2014 to USD 20. 267,735 million in 2017/2018. These amounts have been settled in each of the following years, nevertheless, unpredictability of funding implies that the EAC cannot properly plan and implement its activities and which has negative significance effect on delivery of its mandate.

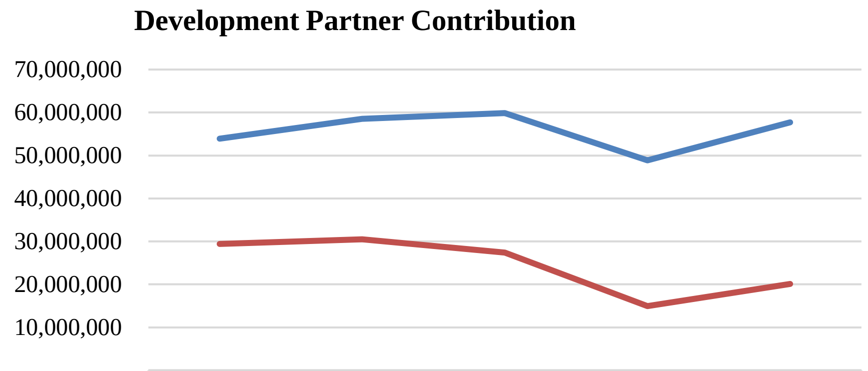
Figure 2: Partner states contributions trend



1.1.6 Development Partners (DPs) Contributions

Receipts from Development Partners have been declining from USD 29.37 million in 2013/14 to USD 20.10 million in 2017/18 representing a 32% decrease in funding. This implies that some of the activities that were to be implemented using donor support have not been implemented. The Committee further observed the low absorption of Development Partners' funds.

Figure 3: Development Partner contribution trend



	2013/14	2014/15	2015/16	2016/17	2017/18
Budget (USD)	53,922,976	58,495,768	59,863,726	48,864,114	57,717,228
Total Receipt (USD)	29,372,353	30,490,170	27,361,027	14,941,385	20,074,154

1.2 STATUS OF IMPLEMENTATION OF PREVIOUS AUDIT RECOMMENDATIONS

During the F/Y period ended 30th June 2018, a total of 201 recommendations relating to the 11 Organs and Institutions audited by the Audit Commission were outstanding. From the assessment of these recommendations, the Committee noted that 73 (36%) of these were fully implemented; 74 (37%) were under implementation; 48 (24%) were not implemented while 6 (3%) were overtaken by events.

The Committee recommends to the Council of Ministers to ensure that all outstanding recommendations are fully implemented such that the deficiencies and weaknesses observed in the Audit reports are addressed.

1.3 HUMAN RESOURCES GAPS IN ALL ORGANS AND INSTITUTIONS

The EAC continues to operate with unfilled positions. Review of six institutions with a total of 173 available positions reported in the financial statements for the period ended 30th June 2018, out of the 11 organs and institutions of the EAC showed that only 79 (46%) of the positions have been filled while 94 (54%) of the positions have not been filled. Thus operating at below 50 % human resource capacity.

Table 4: Human Resources

SN	Entity	Available positions	Appointed	%Age Appointed	%Age Not Appointed
1	EAHRC	34	7	21	79
2	EAKC	31	6	19	81
3	IUCEA	51	35	69	31
4	EASTECO	25	14	56	44
5	EACA	2	2	100	0

SN	Entity	Available positions	Appointed	%Age Appointed	%Age Not Appointed
6	CASSOA	30	15	50	50
	Total	**173**	**79**	**46**	**54**

A number of challenges due to the Human Resources gaps such as lack of segregation of duties, failure to accomplish tasks, low budget allocation to core activities and understaffed Projects Coordination Unit, have been attributed to staff shortage. According to management, the current staffing challenges are largely caused by funding issues facing the Organs and Institutions of EAC.

Whereas the Committee considered the management response, it recommends to the Council of Ministers to prioritize this very crucial human resources matter because it is affecting the operations and performance of the EAC Organs and Institutions.

1.4 LEGAL INSTRUMENTS NOT RATIFIED BY SOME OR ALL PARTNER STATES

During the year under review, the Audit Commission revealed that 9 protocols have not been ratified by some or all Partner States that were brought into force despite having been concluded by the EAC Management. Whereas Management provided an updated position as of 28th November 2018 showing the progress made by Partner States, the Audit observed that even in the updated positions some protocols such as The Free Trade Area Agreement had not yet been ratified.

As matter of urgency, the Committee recommends the Council of Ministers to fast-track the ratification of the legal instruments by all the EAC Partner States.

1.5 OPERATIONALIZATION OF THE PILLARS OF THE EAC INTEGRATION

As reported in its previous reports on the EAC Secretariat, the Audit Commission audited the progress made by EAC in the operationalization of the Pillars of the EAC Integration. The Committee took note of the substantial achievement made by the Community in line with the EAC Development Strategy, but remains concerned about the predominant challenges of the slow progress facing the Community towards the achievements of the set objectives regarding operationalization of the four Pillars of EAC Integration namely: Customs Union, Common Market, Monetary Union and Political Federation.

The Committee recommends that EAC should fast-track and put in place measures for the operationalization and harmonization of all national and regional policies, regulations and laws in order to expedite the full realization of the pillars of EAC integration.

1.6 MANAGEMENT OF LEGAL CASES SUBMITTED TO THE EAC COURT OF JUSTICE (EACJ)

As at 21stNovember 2018, the number of pending cases had increased in the first division and appellate division from 39 in 2017 to 60 in 2018, and these cases were pending for periods ranging from less than 1 year to 5 years. The EACJ employs judges who serve on adhoc basis which has contributed to delays in finalization of cases. The Committee takes note of the Management's initiative to address this challenge by taking measures such as facilitating the Court to conduct extra ordinary sessions for two weeks on a limited budget. This matter has also been brought to the attention of the Council of Ministers for redress.

The Committee recommends to the Council of Ministers that this challenge should be addressed as a matter of urgency.

1.7 STATUS OF ASSENT OF EAC BILLS

As at 30th June 2018, East African Legislative Assembly (EALA) had 27 Bills dating back to 2012 which were pending assent by the EAC Heads of State. The position provided to the Committee by the Office of the Clerk as of 9 October 2019 indicated that:

- 17 Bills have not been assented to by any Partner State;
- 3 Bills have been assented to by 3 Partner States out of 5Partner States;
- 3 Bills have been assented to by 4 Partner States out of 5Partner States;
- 3 Bills have been assented to by 2 Partner States out of 5 Partner States;
- 1 Bill has been assented to by 1 out of 5 Partner States.

Management of EALA informed the Committee that the EALA Commission in its meeting held on 8, November, 2018, discussed this matter with the Ministers responsible for EAC Affairs and agreed that the Ministers will henceforth ensure follow up and give feedback on each Bill submitted to the Heads of State.

The Committee strongly recommends that the EALA Commission should regularly follow up on this matter with the Council of Ministers to ensure that assent of the Bills is done in a timely manner.

1.8 WITHDRAWALS FROM THE GENERAL RESERVE

The General Reserve Fund has declined from USD 3.28 million as at 30 June 2018 to USD 764,400 as reported as at 30th June 2018. The decline is mainly attributed to withdrawals from the fund by the Secretariat and other Organs and Institutions of the EAC; moreover, some of these withdrawals were made without the approval of the Council of Ministers. For example, the withdrawal of USD 1.11 million was effected for EALA on 31st January 2018 without the Council of Ministers' approval. Management explained that these withdrawals subsequently obtained retrospective approval of the Council of Ministers, and refunds were subsequently done.

The Committee remains concerned that the withdrawals coupled with declining reserve funds balances signifies a weak control environment that needs to be improved to ensure that all withdrawals and refunds are done in an appropriate manner.

1.9 EAST AFRICAN DEVELOPMENT BANK

The Audit Commission reported in its previous reports that the East African Development Bank (EADB) with about 90% of its shares are owned by the Partner States has not been audited by the Audit Commission. The Committee took cognizance of the directive of the 17th Ordinary Heads of State Summit which was held on 2 March 2016 in Arusha in which the Council of Ministers were to review the EADB Charter and streamline it into the main structures of EAC. The Audit Commission noted that the 9th Meeting of the Sectoral Council on Finance and Economic Affairs constituted a

Technical Working Group (TWG) to work on this directive. The TWG met in Kampala from 30th September to 4th October 2019. The Committee is yet to release its report.

As a matter of urgency, the Committee recommends that the Council of Ministers should engage the Sectoral Council on Finance and Economic Affairs that forms the Governing Council of the EADB so as to address this issue.

1.10 TAX RECEIVABLES FROM PARTNER STATES TO EAC ORGANS AND INSTITUTIONS

The Committee analyzed and reviewed the tax receivables from Partner States to EAC Organs and Institutions. It noted that Partner States had not granted VAT exemption to the Organs and Institutions in their jurisdiction as required under Article 4 (d) of the EAC Headquarters Agreement. They would subsequently claim the VAT refunds from Revenue collecting Authorities of the respective Partner States. As of 30 June 2019, EAC Organs and Institutions had not received refunds amounting to USD 3,879,237 as indicated below:

Table 5: Tax Receivable from EAC Partner States to the EAC AS AT 30th June

EAC Partner State	Aging 0 – 12 months	>12 – 24 months	>24 – 36 months	> 36 months	Total (USD $)
Tanzania	426,096.61	617,070.63	464,271.91	1,380,385.45	2,887,824.60
Kenya	114,222.48	27,968.16	73,458.56	187,713.86	403,363.06
Uganda	108,173.50	58,347.00	93,647.80	170,069.73	430,238.03
Burundi	31,034.76	16,702.62	26,833.42	12,329.83	86,900.63
Rwanda	32,446.89	15,491.72	8,990.34	10,491.15	67,420.10
South Sudan	1,560.21	337.68	0.00	0.00	1,897.89
Outside EAC	0.00	1,593.59	0.00	0.00	1,593.59
Sub-total (USD $)	**713,534.45**	**737,511.40**	**667,202.03**	**1,760,990.02**	**3,879,237.90**

Table 6: Tax Receivable Analyzed Per EAC Institution per Partner State and Aging Analysis as at 30th June, 2019.

EAC Organ/ Institution	Aging 0 – 12 months	>12 – 24 months	>24 – 36 months	> 36 months	Total (USD $)
Secretariat & Projects:					
Tanzania	262,114.74	455,570.07	312,785.49	121,0214.35	2,240,684.65
Kenya	45,264.84	8,980.61	28,278.84	36,708.10	119,232.39
Uganda	48,198.10	9,680.07	25,899.91	58,240.43	142,018.51
Burundi	22,904.76	969.62	8,045.42	12,329.83	44,249.63
Rwanda	19,301.89	2,636.72	8,809.34	9,346.15	40,094.1

EAC Organ/ Institution	Aging 0 – 12 months	>12 – 24 months	>24 – 36 months	> 36 months	Total (USD $)
South Sudan	1,560.21	337.68	-	-	1,897.89
Outside EAC	-	1,593.59	-	-	1,593.59
Sub-total (USD $)	**399,344.54**	**479,768.36**	**38,3819**	**132,6838.86**	**2,589,770.76**
EALA:					
Tanzania	79,610	69,049	36,344	62,964	247,967
Kenya	-	-	-	-	-
Uganda	-	-	-	-	-
Burundi	-	-	-	-	-
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**79,610**	**69,049**	**36,344**	**62,964**	**247,967**
EACJ:					
Tanzania	43,398.92	59,841.07	49,474.99	104,930.02	3,257.645
Kenya	-	-	-	-	-
Uganda	-	-	-	-	-
Burundi	-	-	-	-	-
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**43,398.92**	**59,841.07**	**49,474.99**	**104,930.02**	**257,645**
LVBC:					
Tanzania	-	-	-	-	-
Kenya	67,623.64	9,140.62	44,404.85	150,257.84	271,426.95
Uganda	-	-	-	-	-
Burundi	-	-	-	-	-
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**67,623.64**	**9,140.62**	**44,404.85**	**150,257.84**	**271,426.95**
IUCEA:					
Tanzania	-	428	94	-	522
Kenya	1,334	9,316	154	-	10,804
Uganda	9,622	41,647	51,896	66,880	170,045
Burundi	65	5,757	-	-	5,822
Rwanda	9,354	11,261	-	-	20,615
South Sudan	-	-	-	-	-
Sub-total (USD $)	**20,375**	**68,409**	**52,144**	**66,880**	**207,808**
EASTECO:					
Tanzania	-	-	-	-	-
Kenya	-	-	-	-	-
Uganda	-	-	-	-	-
Burundi	-	-	-	-	-

EAC Organ/ Institution	Aging 0 – 12 months	>12 – 24 months	>24 – 36 months	> 36 months	Total (USD $)
Rwanda	3,791	1,594	181	-	5,566
South Sudan	-	-	-	-	-
Sub-total (USD $)	**3,791**	**1,594**	**181**	**-**	**5,566**
EACA:					
Tanzania	6,281.95	1,730.43	6,006.37	-	**14,018.75**
Kenya	-	-	-	-	-
Uganda	677.77	-	-	-	**677.77**
Burundi	506.00	-	-	-	**506.00**
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**7,465.72**	**1,730.43**	**6,006.37**		**15,202.52**
EAHRC:					
Tanzania	31,736	13,972	26,041	447	**72,196**
Kenya	-	43	-	-	**43**
Uganda	2,420	432	283	537	**3,672**
Burundi	7,559	9,976	18,788	-	**36,323**
Rwanda	-	-	-	1,145	**1,145**
South Sudan	-	-	-	-	-
Sub-total (USD $)	**41,715**	**24,424**	**45,111**	**2,129**	**113,378**
EAKC:					
Tanzania	2,955	15,541	32,102		50.598
Kenya	-	-	-	-	-
Uganda	-	-	-	-	-
Burundi	-	-	-	-	-
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**2,955**	**15,541**	**32,102**	**-**	**50,598**
LVFO:					
Tanzania	-	939.06	1,424.06	1,830.08	**4,193.2**
Kenya	-	487.93	620.87	747.92	**1,856.72**
Uganda	27,533.87	1,971.93	9,633.55	5,054.66	**44,194.01**
Burundi	-	-	-	-	-
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**27,533.87**	**3,398.92**	**11,678.48**	**7,632.66**	**50,243.93**
CASSOA:					
Tanzania	-	-	-	-	-
Kenya	-	-	-	-	-
Uganda	19,721.76	4,616.00	5,935.34	39,357.64	69,630.74
Burundi	-	-	-	-	-

EAC Organ/ Institution	Aging 0 – 12 months	>12 – 24 months	>24 – 36 months	> 36 months	Total (USD $)
Rwanda	-	-	-	-	-
South Sudan	-	-	-	-	-
Sub-total (USD $)	**19,721.76**	**4,616.00**	**5,935.34**	**39,357.64**	**69,630.74**
Grand Total Tax Outstanding (USD $)	**713,534.45**	**737,511.40**	**667,202.03**	**1,760,990.02**	**3,879,237.90**

Committee observations

i. A lot of money due to the Community is being held by revenue collecting bodies which is denying EAC Organs and Institutions access to the requisite funds to implement their programs.

ii. The VAT refunds vary from one Partner State to another. This has created discrepancies in the amounts the different Organs and Institutions remit to the revenue collecting bodies.

iii. Whereas the Headquarters Agreements guarantees Organs and Institutions of the Community are exempt from paying VAT for goods and services, Governments have insisted for payments of VAT in the anticipation that Revenue Collecting Bodies would reimburse which has not been done. The Committee observes that this is against Article 138 (1), (2) of the Treaty and directly contradicts the Headquarters agreements.

Committee Recommendations

The Committee recommends the following:

i. As a matter of urgency, Council should ensure that Partner States directly and immediately remit the following amounts to the various Organs and Institutions of the EAC:

United Republic of Tanzania	***USD 2, 887, 824.65***
Republic of Kenya	***USD 403, 363. 06***
Uganda	***USD 403, 238.03***
Burundi	***USD 86,900.63***
Rwanda	***USD 67, 420. 10***
South Sudan	***USD 1,897.89***
Outside	***USD 1, 593.59***
Total	***USD 3, 879,237.93***

ii. As recommended in previous and other reports, the Council should ensure that it concludes and ratifies the immunities and privileges protocol such that there is uniform harmonization of the privileges and immunities that are accorded to EAC Organs and Institutions across the Partner States.

1.11 WEAKNESSES IN INTERNAL CONTROLS

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

Furthermore, Management had not ensured the robust use of Information Technology (IT) systems and such that the IT department lacked a governance structure, strategic plan, as well as policies and procedures. The IT systems were also not integrated and the IT structure, placement and staff capacity building had not been harnessed to drive EAC Secretariat's strategic objectives. The above internal control weaknesses undermined Management efforts in the prudent use of financial resources.

The Committee reiterates its previous recommendations on this matter and further adds:

- ***i.*** ***That processes, duties and roles that relate to the core functions in the accounts, procurement and ICT departments are clearly segregated to minimize elements of fraud occurring in these areas;***
- ***ii.*** ***That increased oversight and constant monitoring should be undertaken. Internal controls without oversight is not to the required standards. The Management of EAC has been dormant and has not performed its roles in establishing strong internal controls. Management should therefore diligently perform its functions by ensuring that the various departments of EAC Organs and Institutions are constantly and closely monitored in order to ensure that they are complying with the established guidelines and procedures of EAC.***

2.0 PART 2: CURRENT YEAR AUDIT FINDINGS ON THE FINANCIAL STATEMENTS OF THE EAC SECRETARIAT, PROJECTS AND PROGRAMMES

2.1 AUDIT OF EAC SECRETARIAT

2.1.1 GOVERNANCE ISSUES

2.1.1.1 Status of implementation of the previous year recommendations

The Audit Commission reported that upon thorough assessment of the status on implementation of previous audit recommendations, it revealed that 44% of the audit recommendations made in the financial 2016/2017 were not implemented as at the time of audit.

In addition, the status of implementation of the audit recommendations for the financial year ended 30 June 2017 is presented in the table below:

Status of implementation	No. of recommendations	Percentage
Implemented	29	32%
Not implemented	22	24%
Partially implemented	34	37%
Overtaken by event	6	7%
Total	**91**	**100%**

The implication is that previous anomalies noted by the Audit Commission could have continued to recur hence affecting the operational efficiency of the EAC Secretariat and its projects.

When the management of EAC interacted with the Committee, it reported that the delays in implementation of the Audit/Assembly recommendations was due to the following challenges:

i. Low and delayed disbursements of Partner States contributions which negatively affected the implementation of the recommendations;
ii. Budget with zero or sometimes negative growth and high dependency on the unpredictable support from Development Partners components;
iii. Delay in securing Council Decisions for some recommendations to be implemented and;
iv. Certain recommendations which require input and/or to be implemented by Partner States, whose speed of implementation is out of control of the EAC Secretariat.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General of the EAC Amb. Liberat Mfumukeko takes appropriate action to ensure that audit recommendations are followed up and implemented promptly. This should involve examining all the factors that have hindered the implementation of the Assembly recommendations as mentioned above.

2.1.2 REVIEW OF INTERNAL CONTROLS

a) Weakness in the Fixed Asset Register

The Audit Commission reported that Section 8.1.4 of the EAC Financial procedure Manual, 2013 requires assets to be recorded in a manual asset register. However it was noted that the Audit Commission noted that the EAC fixed asset register was incomplete and lacked the necessary information such as the manufacturer`s serial number, model number, the acquisition date, the expected useful life and depreciation rate.

When the Committee interacted with the management of EAC, it reported that appropriate steps had been taken to upgrade the Assets Management software – the Hardcat to the latest version, train all Estates Management and Administration staff handling Assets. Management has also updated all Assets Location, Conditions, Acquisition Date, and Staff holding those assets. On recommendation from the EAC Board of Survey, it has implemented the procedure that requires that no asset(s) purchased shall be issued to User Departments without being tagged with the Bar Code and scanned into the Assets Management Software.

The Committee was further informed that following the blotted procurement of the CCTV security cameras in which the EAC lost over USD 500,000 to AVETECH, Council decided to disband the estate department.

Committee observation

Having an incomplete fixed assets register is an indication of inadequate fixed assets management controls which may result into difficulties in tracing the respective assets.

Committee recommendation

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

i. ***Should ensure that all details relating to the assets in the Fixed Assets Register are incorporated in the register to enable easy identification, analysis and management of the assets.***
ii. ***As a matter of fact, the function of the estates department should be reinstated into the EAC structures to ensure proper control, tracing, and monitoring of the assets inventory of the EAC.***

b) Expenses not captured in Payroll system

The Audit Commission reported that upon review of the payroll expenses, it noted some differences totaling to USD 296,891 where the figure reported in the financial statements was bigger than total cost.

When the Committee interacted with the management of EAC, it reported that the Audit Commission did not capture salaries totaling to USD 93,684. This made the difference between the payroll and the TB to amount to USD 65,000.

Committee Observations

The Committee observed that:

i. Payroll expenses reported in the financial statements may not be properly monitored in the system;

ii. The differences noted show that there are no proper controls with regard to capturing data from human resources information management system to the SUNSYSTEM;

iii. This could lead to fraudulent transactions and conduit for channeling of illicit funds from the EAC payment system and casts suspicions on the management of EAC.

Committee Recommendations

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

i. All the payroll expenses are captured in the Human resources information management systems;

ii. To institute disciplinary measures against the following officers for failure to ensure the capture expenses in the payroll system
- ***Director of Finance Mr. Juvenal Ndimurirwo,***
- ***Director of Human Resources M/s Ruth Simba***

c) Expenditure incurred after the Commitment cut off Period.

The Audit Commission reported that Section 19.2 (e) of the EAC financial procedures manual, 2013 require creation of new financial commitment to stop on 20th May of the accounting period to allow ample time for proper year end and closure processes. Section 19.2 (f) further emphasizes that only travel related commitments shall be allowed after the date. Consequently, upon review of the expenditure for the period, audit noted that EAC continued to commit expenditure way after the 20th May contrary to the requirements.

When the Committee interacted with the Management of EAC, it reported that the timing execution of activities depends significantly on the level of disbursements made by EAC Partner States. The 20th May cut-off provision for rising of commitments as stated in the EAC Financial Procedures Manual, 2013 makes a cardinal assumption that Partner States disbursements will have been remitted as required which is not the case in most times. Management further reported that as of 30th June 2018, the Status of Partner States contribution stood at only 65% compared to 81.26% for the same period as at 30th June 2017.

Committee Observations

Irregularities caused by non-adherence of the commitments to the expenditure controls are likely to cause budget compliance problems.

Committee Recommendations

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

- ***The Secretary General of EAC Amb. Liberat Mfumukeko***
- ***The Deputy Secretary General Eng. Steven Mlote***
- ***Director of Finance Mr. Juvenal Ndimurirwo and;***
- ***The Principal Accountant Mr. Magadu Godfrey should at all times observe the budget cut off principle prescribed by the Financial Procedures' Manual, 2013.***

d) **Absence of controls on authorization and approval of journal vouchers**

The Audit Commission reported that upon review of journal vouchers at the EAC secretariat, it found no evidence indicating that journal vouchers have specific approval procedures to follow before being posted in the general ledger. This is contrary to Section 4.5.3(M) of Financial Policies and Procedures Manual of the EAC.

In addition, Audit Commission noted that the EAC Rules and Regulations, 2012 and Financial Procedures Manual, 2013 are not comprehensive enough with regard to controls relating to journal vouchers.

When the Committee interacted with the Management of EAC, it concurred with the Audit findings and undertook to put in place controls on authorization and approvals of journals vouchers.

Committee observations

The absence of adequate and effective controls on the journals subject the EAC financial statements to a risk of material misstatements either due to error or fraud.

Committee recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Deputy Secretary General in charge of Finance and Planning, Eng. Stephen Mlote and the Director of Finance Mr. Juvenal Ndimurirwo to put in place proper controls and procedures with regard to journal entries/vouchers so as to enhance and ensure accurateness and reliability of information included in the financial statements.

e) **Payment from the General Reserve without Approval of the Council of Ministers**

The Audit Commission reported that regulation 32(1) of the EAC Financial Rules and Regulations highlight the presence and importance of General Reserve Fund of the Community where any unutilized funds or surplus cash shall be deposited. It further stipulates that the General Reserve Fund may be utilized in accordance with a directive of the Council.

The review by the Audit Commission of the payments that were done out of General Reserve Fund revealed a payment of USD 1,114,803.17 which was made to East African Legislative Assembly (EALA) on 31st January 2018 without obtaining approval from the Council of Ministers.

Audit further noted that borrowings from General Reserve done by Secretariat, Organs and Institutions were not refunded despite being directed to do so by the 36th Council of Ministers when a retrospective approval was granted. As a result, the General Reserve balance had declined significantly to USD 764,400 on 30th June 2018 compared to USD 3,384,930 that was reported on 30th June 2017.

When the Committee interacted with the Management of EAC, it reported that the Secretariat recovered EALA's outstanding borrowings to the Reserve and sent the amount to the Reserve Account. However, due to liquidity challenges, EALA requested to defer the recovery. Management thought it prudent to transfer these funds back to the EALA to enable the Assembly execute her activities without any disruption. The amount recovered was sent to the Assembly as per the justifications supporting the payment.

Management further reported that as at 30th June 2018, the EALA had refunded the USD 1,114,803.17 in a smooth manner that did not disrupt its operations. The only outstanding advance to EALA from the Reserve at year end was USD 1,000,000 borrowed in early June 2018.

Committee observations

The Committee observes that though there may arise urgent and critical factors that might require urgent funding; withdrawal of funds from the General Reserve without approval of the Council of Ministers undermines the effectiveness of controls relating to management of General Reserve Fund. This is likely to create room for malpractices which may be an indication of management override of controls. The resultant effect is that it will undermine the good governance principles set up to ensure the proper functioning of the institution and could be a recipe for causing financial mayhem at EAC.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Secretary General of EAC Amb. Liberat Mfumukeko:

- ***i.*** ***Should comply with available controls with regard to utilization of General Reserve Fund even if there are genuine and deserving reasons for making withdrawals from the General reserve and;***
- ***ii.*** ***Ensure that a retrospective Council decision should always be obtained from whenever withdrawals are made from the general Reserve.***

f) Expenditure/Commitment made without having Funds

The Audit Commission reported that Section 4.2 (3) of the Procurement Policies and Procedures Manual, 2016 requires among other things, a requisition for purchases to have a documentation that funds are available.

However, upon review of Development Partners' funded projects Audit noted that there were expenses incurred before funds were received from respective Development Partners. As a result, a total of USD 699,188 and USD 789,749 stood as commitments without funding from Development Partners as at 30 June 2018 and 30 June 2017 respectively.

When the Committee interacted with the management of EAC, it reported that the expenditure/Commitment made without having funds were occasioned by the following:

- i. The slow processes of finalizations of the projects that took so long to be approved (the case of APSA III).
- ii. Differences in modus operandi of funding operations. USAID disburses funds on a cash paid expenditure and this requires EAC to submit financial reports on cash basis whereas EAC incurs expenses on accrual basis.
- **iii.** Differences in the Accounting system used with certain donors.

iv. Committee Observation

Committing expenditures without having funds to pay might lead to loss of confidence to the Community by the suppliers when not paid timely.

Committee recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Secretary General of EAC Amb. Liberat Mfumukeko and the Deputy Secretary General Finance and administration Eng. Steven Mlote to be held accountable for incurring the above expenses without having funds. EAC is further advised not to incur expenses in the absence of funds as required in the Financial Procedures Manual.

2.1.3 REVIEW OF THE CORPORATE GOVERNANCE

2.1.3.1Risk management

The Audit Commission reported that upon review of the risk management systems at the EAC it noted the following anomalies:

i. Absence of risk management Committee;
ii. Absence of risk management integration in decision making;
iii. Risk identification process not regularly carried out;
iv. Non maintenance of the risk register and;
v. Absence of self-assessment workshops.

When the Committee interacted with the management of EAC, it reported that the first Management Risk Committee was put in place 21^{st} October, 2014 with defined TORs. The Committee convened its 1st Meeting on 20th January, 2015 to deliberate on number of issues related with Risk Management processes.

The Secretariat engaged a Consultant July 2015 to drive the operationalization process of the Risk Management Framework. However, due to financial limitations. The Consultant could not proceed with the assignment.

Management further informed the Committee that it had designated the EAC audit department to champion the risk management while the Adhoc Commission finalizes the institutional review report that will lead to the creation of a risk management function.

A risk Management expert has been procured to support the development of risk registers for the Organs and Institutions. It has also established a risk management Committee which has commenced its activities to guide risk management activities of the Community.

Committee Observation

The Committee observed the following:

i. The EAC Secretariat is prone to potential operational risks as it may not be able to assess and monitor the risks it’s facing.
ii. The risk events may not be tracked and monitored and planning for eventualities may not be.
iii. Different departmental operational manuals may not provide for procedures of detecting, managing, and handling risks. This is likely to lead to penalties and losses out of non-compliance with legislations, regulations and other statutory obligations.
iv. Frauds are likely due to lack of preventive internal controls and;

v. Institutional targets might not be attained due to lack of transparency and good corporate governance.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General of the EAC Amb. Liberat Mfumukeko should:

i. ***Put in place a Risk Management Committee to safe guard the community from potential risks;***
ii. ***Ensure that risk management features in their decision-making process and should provide for monitoring and reporting of risk related issues at various management levels to the audit and risk Committee;***
iii. ***Endeavour to regularly carry out the process of risk identification timely to avoid consequences that the Community might face by failing to identify the risks timely;***
iv. ***Regularly assess the risks to be able to implement appropriate mitigation measures and responses for risks which are facing the Community and;***
v. ***Conducts workshops accordingly as required by the risk management framework so that staff get the required knowledge to address any impeding risks;***
vi. ***EAC should ensure that a risk register is in place for proper monitoring and evaluation.***

2.1.3.2 Review of EAC Development Strategy for the period 2016/17 – 2020/21 and Goals Assessment

As part of contemporary management practices EAC prepared the EAC Development Strategy for the period 2016/17-2020/21 which outlines the broad strategic objectives that the Community will pursue in the five years period in line with the Treaty and the EAC Vision 2050.

The Development Strategy communicates the organization's goals and actions needed to achieve those goals and all of the other critical elements developed during the planning exercise. It is a key document that helps to monitor outputs and assess the success of the organization.

Audit Commission reported that upon review of EAC Development Strategy for the period 2016/17-2020/21 and Annual Progress Report, it revealed the following anomalies:

a) The Development Strategy did not indicate the mechanism for monitoring and evaluating the implementation of different objectives that have been set in it.

b) The absence of objectively measurable activities were noted in the Annual Progress Report of the EAC Secretariat. The activities had been put in narratives without having measurable criteria that would enable them to be compared with Key Performance Indicators (KPIs) to assess performance.

When the Committee interacted with the management of EAC, it was reported that the planning and budget Committee hardly meets and this has affected the planning and budgeting function.

Committee Observations

i. Without having a mechanism for evaluation and monitoring, the Community will not be in a position to effectively assess and take proactive action on undertaken activities.
ii. Furthermore, without having objectively measurable activities in the Annual Plan, it will be difficult for the Community to measure whether it has been efficient on implementing planned activities.
iii. Regulation 14 of the EAC financial Rules and Regulation obligates the EAC to establish the Planning and Budget Committee headed by the Deputy Secretary General in Charge of Planning and Finance as its Chairperson. As reported above, the Committee does not regularly meet, to prepare, direct, review, scrutinize, and recommend the EAC budget process.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General of the EAC, Amb. Liberat Mfumukeko should:

i. as a matter of priority and urgency, the Planning and Budget Committee should play a critical role Committee in the planning and budget process of the EAC;
ii. when planning and allocating resources of the EAC, resources should be aligned to priority activities that are SMART and result oriented;
iii. ensure that it reviews the available Development Strategy and make appropriate improvements to address the noted weaknesses. This will enable the Community to assess itself and take corrective measures for it to achieve the development objectives as set out in the five years Development Strategy; and
iv. Furthermore, the Annual Operation Plan should then be assessed through the Annual Progress Report and should have objectively measurable activities such that the Community can be able to measure the level of success in terms of output rather than money spent. This will enhance the Community's focus on whether it is moving in the right direction in terms of achieving its planned objectives.

2.1.3.4 Review of Planning, Monitoring and Evaluation

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

When the Audit Commission reviewed the EAC Planning, Monitoring and Evaluation function, it revealed that at the time of the audit November 2018, EAC had not finalised its Annual Plan for the year ended 2018. The only report available was for the 3rd quarter ended 30th March 2018. Audit further noted that the report which was tabled to EALA for deliberation was for the year ended 30th June 2016.

The Director for Planning - EAC informed the Audit Commission that the reasons for not completing the report on time include:

i. Lack of efficient computerised system to track all the activities implemented by various departments;
ii. Some directorates and departments delay to submit their reports timely to ensure that they are timely captured by the Monitoring and Evaluation Unit;
iii. The Directorate is critically understaffed to the extent that some key departments and functions such as the Fiscal and Monetary Affairs and the Monitoring and Evaluation Unit each have only one permanent staff who cannot carry out all the activities being implemented by the department. The M&E Unit Budget department has two officials who cannot be able to efficiently handle all budget matters of the Community.

Committee Observations

The Committee makes the following observations

i. The absence of a strong and effective Planning Directorate and Monitoring and Evaluation Unit implies, the Community may not be able to robustly monitor and assess its operations.
ii. The delayed finalisation of the Institutional Review and job evaluation exercise has limited the Community to be able to establish and implement an appropriate organizational structure in order to resolve the current staffing and recruitment challenges it is facing.

Committee Recommendations

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

i. Management of EAC strengthens the Planning Directorate including the Monitoring and Evaluation Unit in terms of staffing to enable it to comprehensively assess the efficiency and effectiveness of all aspects of the Community's operations, functions and its programmes and;
ii. EAC Management produces/ finalises the annual report in a timely manner to enable better thoughtful and informed decision making.

2.1.3.5 Delay in Implementation of Council of Ministers decisions and directives

The Audit Commission reported that upon review of the implementation status of Council of Ministers directives, it observed that some decisions and directives have remained unimplemented by Partner States for so a long time. Audit further noted that EAC Secretariat had not developed a mechanism to closely follow up with Partner States to ensure that these directives are timely implemented.

When the Committee interacted with the management of EAC, it reported that EAC Secretariat has developed a tool to follow-up the directives and decisions of the Sectoral Councils, the Council and Summit.

However, the delay in implementing the directives and decisions of the various ministerial sessions is not necessarily due to the problem of the mechanism, which is already there, but rather to the nature of the decisions and directives these require beforehand a number of procedures such as amendments or ratification of the laws and rules which vary from one Partner State to another in terms of duration.

Committee Observations

Non implementation of Council of Ministers Decisions and directives undermines the essence of fostering integration among the EAC Partner States.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Secretary General of EAC Amb. Liberat Mfumukeko:

i. ***Put in place an effective mechanism to follow up decisions with Partner States for them to implement outstanding decisions and directives of the Council of Ministers and;***

ii. ***Make follow ups with Partner States to ensure that all the outstanding Council and summit of Ministers directives are implemented within the agreed timeframe.***

2.1.3.6 Legal Instruments not ratified by Partner States

The Audit Commission reported that upon review of the 3rd Quarter Report indicated that various protocols have not been ratified by Partner States and brought into force despite being concluded by EAC Management. These include:

S/N	Protocol/Instrument	Status
1	Protocol on Extended Jurisdiction of the East African Court of Justice	Not yet ratified by any Partner State
2	Protocol on Cooperation on Meteorological Services	Not yet ratified by any Partner State
3	Protocol on Immunities and Privileges of the East African Community, its Organs and Institutions	Not yet ratified by any Partner State
4	Protocol on Sanitary and Phyto-Sanitary Measures	Ratified by the Republic of Burundi, Republic of Kenya, Republic of Uganda and Republic of Rwanda
5	Protocol on Peace and Security	Fully Ratified by all EAC Partner States
6	EAC Agreement for Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (DTA)	Ratified by the Republic of Kenya, Republic of Rwanda and Republic of Uganda.
7	The COMESA-EAC-SADC Tripartite Free Trade Area Agreement	Ratified by the Republic of Uganda
8	Protocol on Information and Communications Technology Network	Not yet ratified by any Partner State
9	Accession to the Convention Establishing the Lake Victoria Fisheries	The Republic Burundi, Republic of Kenya, Republic of Uganda and the United Republic of Tanzania have acceded to the Convention

When the Committee interacted with the management of EAC, they gave the following update on the current status of the ratification of the protocols as at 28th November 2018 is as follows:

UPDATES ON STATUS OF RATIFICATION OF PROTOCOLS		
No.	**Title**	**Status**

UPDATES ON STATUS OF RATIFICATION OF PROTOCOLS		
1.	Protocol on Immunities and Privileges	The Republic of Kenya ratified and deposited the Instruments of ratification in October, 2017. Uganda ratified August, 2017. Rwanda ratified on 23rd November, 2018. The Parliament of URT was expected to ratify the Protocol by in April, 2018.RSS ratified by accession upon joining the EAC.
2.	Protocol on the Extension of Jurisdiction of the EACJ.	Republic of Kenya has ratified the Protocol and will deposit the Instruments to the Secretary General.
3.	East African Community Double Taxation Agreement came into force by 30th September, 2015	Kenya, Rwanda, Uganda are enforcing the Double Taxation Agreement. Burundi and URT are still in the process
4.	Tripartite Free Trade Area (TFTA) Agreement	The Republic of Uganda, the Cabinet paper was prepared and forwarded to the Cabinet Secretariat. The Republic of Rwanda has not yet ratified pending the conclusion of Annex on tariff liberalization; The United Republic of Tanzania has initiated the process of ratification. In the Republic of Kenya, the Cabinet memo on ratification of the protocol is ongoing with stakeholder's consultations.
5.	Protocol on Standardization, Quality Assurance, Metrology and Testing	The Protocol is in force (since date of signature)
6.	Protocol on Peace and Security	Fully ratified by all Partner States
7.	Protocol on Information, Communications and Technology	For the Republic of Kenya, the Protocol on ICT is waiting for ratification by the Parliament of Kenya.

Committee Observations

Delay in ratifying the protocols may lead to delayed achievements of the Community's strategic and development goals.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Management of EAC should put in place a close follow-up mechanism on all the concluded protocols to ensure that they are ratified by Partner States within a reasonable timeframe to facilitate the achievements of the Community's strategic and development goals and objectives.

2.1.3.7 Operationalization of the pillars of EAC Integration

Article 5(2) of the EAC Treaty, obligates the Partner States to establish among themselves, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, social, political and other relations of the Partner States in order to have an accelerated, harmonious and balanced development and sustained expansion of economic activities among themselves.

When the Audit Commission reviewed the 5th EAC Development Strategy which covers the period 2016/17-2020/21 with respect to operationalization of the EAC integration it indicated that, despite some challenges as highlighted below, considerable progress was registered during the 4th EAC Development Strategy Plan period.

a) Status of operationalization of the pillars

Customs Union

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

i. The establishment of a Common External Tariff (CET);
ii. The establishment of EAC Rules of Origin (RoO) criteria, including Certificates of Origin and Simplified Certificates of Origin;
iii. The internal elimination of tariffs for goods meeting the EAC RoO criteria; and
iv. The elimination of Non-Tariff Barriers (NTBs).

According to the strategy, major achievements were made including the commencement of implementation of the Single Customs Territory, promotion of EAC as a single investment area and initiation of common trade policy frameworks and reviews.

The Audit Commission reported that a site visit to some of the EAC One Stop Border Posts (OSBP) along the Republic of Burundi and Republic of Rwanda borders was done for the purpose of assessing the performance of the border points regarding facilitation of the integration agenda of the Community especially in areas of trade and transport.

During the visit, Audit observed that there are 5 border points which are situated along Burundi and Rwanda border. The border points are; Gatumba, Ruhwa, Kanyaru, Gasenyi and Kabaro. Out of these five border points, three border points namely; Kanyaru, Gasenyi and Kabaro have been developed and upgraded to the level of One Stop Border Point while the remaining two have not yet been upgraded.

The following gaps were noted from the three upgraded border points:

i. The three points lack parking facilities for large cargo;
ii. Unstable power, which causes disruption during transactions processing;
iii. The border posts are not working effectively 24 hour as required;
iv. There are few staff in some Agencies (Regulatory authorities);
v. Temporary travel documents issued to drivers affect the performance as the documents are issued for only one trip;
vi. Lack of heavy equipment like cranes and forklifts for offloading cargo;
vii. Lack of awareness for some regulations to drivers cause clearance to take longer time than expected;
viii. Other traders especially small, are not aware of the OSBP benefits;

ix. Insufficient sanitary facilities for customers awaiting to be served at the border points;

x. Regulatory Agencies are still working independently; they have not fully been harmonized

The major gap noted from the two Border Points (Gatumba and Kanyaru) were that the points have not been upgraded to allow working as one-stop-border point. The points work in silos each using its own regulations and facilities.

When the Committee interacted with the management of EAC, it provided the following progress while implementing the EAC Customs Union and Common Market Protocols:

i. Progress in the implementation of the Customs Union

Partner States have been implementing the Single Customs Territory (SCT) since 2014, which has registered remarkable benefits. So far, all imports and intra-trade goods are cleared under the Single Customs Territory arrangement. The rollout of exports under the SCT has been successfully piloted and were fully rolled out in January 2019.

Information Communication Technology has been the main driver in the implementation of the SCT and this has resulted in reduction of paper work and duplication of tasks hence reduced costs and time of clearing of goods.

Currently Partner States have three Customs Systems (Asycuda World/ Single Window for Burundi, Rwanda and Uganda, TANCIS for United Republic of Tanzania and iCMS for Kenya) that have been interfaced despite the variance in the systems to facilitate the implementation of the Single Customs Territory.

With the above in hindsight, the Secretariat has proposed to council to develop an EAC Customs integrated system which will consolidate the gained achievements in the implementation of the Single Customs Territory.

ii. Launch of Trade Information Portal

Trade Information Portal have been rolled out and launched in the Republic of Rwanda, Republic of Uganda, and Republic of Kenya. The United Republic of Tanzania is in the final stages of implementing the trade information portal, while the Republic of Burundi has secured funds to develop her portal. The trade information portals provide information and guidance on procedures for export and importation of goods in the respective Partner States. It is a trade facilitation measure to enhance both intra-EAC and extra-EAC trade.

iii. EAC Intra- Trade

EAC intra-regional imports grew by 13.9 percent to USD2.8 billion in 2018 from USD2.5 billion in 2017. Kenya's imports from the rest of the region grew by 14.7 percent to USD676.5 million.

The increase was, to a large extent, driven by higher imports from Uganda and Tanzania. Imports from Uganda were mainly milk, dry beans and raw materials for the preparation of animal feeds. Imports from Tanzania mainly consisted of paper and paperboard, and ceramic products. Uganda’s imports from the Region grew by 40.8 percent to US$ 796.3 while Rwanda’s imports also grew by 14.7 to US$ 549.1 million in 2018. Kenya was Uganda’s main intra-regional trading partner and imports mainly included petroleum products, cement, iron and steel and pharmaceutical products. Rwanda’s intra-regional imports were dominated by imports from Uganda and Kenya mainly composed of salt, fats, cereals, soaps, iron and steel, plastics and paper. Tanzania’s intra-EAC imports increased by 24.5 percent to US$ 302.7 million in 2018 from US$ 243.2 million in 2017. Tanzania's key imports from the EAC partners included pharmaceuticals products, soaps, plastic items and other consumer goods. Burundi and South Sudan's imports from the EAC fell by 11.1 percent and 18.5 percent, respectively in 2018. Burundi main EAC trading partner was Tanzania and imports mainly consisted of chemical fertilizers, cement and textile articles. South Sudan's main trading partners were Kenya and Uganda and imports mainly consisted of maize, sugar and manufactured commodities.

Intra-regional exports grew by 5.6 percent to US$ 3.2 billion in 2018 from US$ 2.9 billion in 2017. Noticeably, exports from all Partner States grew with the exception of South Sudan during the year. Burundi experienced the highest growth in exports during the year. Exports grew by 44.3 percent to US$ 16.6 million in 2018 from US$ 11.5 million in 2017. Exports from Uganda, Tanzania and Rwanda grew by 11.4 percent, 9.5 percent and 6 percent, respectively during the year. Exports from Kenya to the other Partner States experienced a modest growth of 0.1 percent in 2018. This was attributed to declining export of manufactured commodities as a result of corresponding industrial development in the respective Partner States. The growth in intra-regional trade was attributed to favorable weather conditions over the year. This led to increased production of agricultural commodities hence higher exports that are traded among the Partner States especially maize, rice and dairy products; Elimination of Non-Tariff Barriers (NTBs), as well as increased intra-EAC trade in intermediate products like cold rolled iron and clinker.

iv. 3.4 Intra-EAC Investment Flows

Total intra-EAC investments decreased by 20.8 percent to US$ 152.7 million in 2018 from US$ 192.9 million in in 2017. The total value of intra-EAC investments into Kenya amounted to US$ 2.8 million down from US$ 25.3 million in 2017. Investments into Rwanda, Tanzania and Uganda amounted to US$ 29.4 million, US$ 69.4 million and US$ 27.9 million, respectively in 2018.Burundi registered one investment from the other Partner States amounting to US$ 0.4 million. Similarly, the number of projects registered under Intra-EAC investments decreased by 28.8 percent to 42 projects in 2018 from 59 projects in 2017. Uganda registered 18 projects while Tanzania, Rwanda and Kenya registered 16, 6 and 6 projects arising from intra-EAC investments, respectively in 2018.

v. Adoption and implementation of the Standards

A total of 44 standards were approved and declared as East African Standards by SCTIFI in May 2018 and 107 International standards endorsed for adoption by the Partner States. These were gazetted and soft copies were circulated to Partner States to facilitate adoption. This brought to date for the period 2000 to April 2018, a cumulative total number of 1,526 EAC standards with 519 being indigenous standards designated as EAS and 1,007 are international standards agreed upon and endorsed for adoption by the Partner States.

vi. Submission of Revised Schedules of Commitments on the Progressive Liberalization of Trade in Services

All the Partner States submitted to the Secretariat their final revised Schedules of Commitments which complied with the SCTIFI parameters. The Secretariat merged and submitted schedules of commitments for initialing by Partner States.

vii. Issuance of New EA E-Passport

Pursuant to directive of the 17th Ordinary Summit of the EAC Heads of State held on 2nd March 2016, where it was directed that Partner States commence issuance of the New EA e-Passport. The Republic of Kenya commenced the issuance of the International EA e- Passport to nationals on 1st September, 2017; The United Republic of Tanzania commenced issuance of the EA e- Passport on 31st January, 2018 and the Republic of Burundi commenced issuance of the EA e- Passport on 28th May, 2018. The Republic of Uganda also commenced the process in January, 2019 while the Republic of Rwanda commenced issuance of the EA e-Passport in 1st July, 2019. The Republic of South Sudan is studying the requirements of the entire process and will commence issuance at a later date.

The major Challenges facing the implementation of Customs Union and Common Market include;

i. Competition from outside the region on goods produced in the customs territory due to the inadequate protection provided by the CET;
ii. The continued derogation through Stays of Application and Duty Remissions of the EAC Common External Tariff which results in diminished intra-trade;
iii. The use of local content requirement by Partner States for goods originating from other Partner States and subsequent use of discriminatory excise duty structure for products, which do not meet the requirement;
iv. Persistent and re-occurring Non-Tariff Barriers (NTBs);
v. Imposed Restrictions by Partner States hindering Free Movement of Services and services providers;
vi. Low level of awareness by the Private sector and some public sector agencies on issues of the CMP;
vii. Lack of coordination among Investment promotion agencies on joint promotion of investments based on comparative and competitive advantage of partner states, causing unnecessary competition among investors of same products within the EAC market; and;
viii. Delays in the alignment of national policies, laws and regulations

Measures the EAC has put in place to address the challenges of implementation of the Customs Union include the following:

a) Low level of Customs Compliance:
The Secretariat and EAC Partner States have put in place a number of trade facilitation initiatives to ensure high level of compliance. Such include Authorized Economic Operators scheme that allows a trader to benefit special clearance treatment, implementation of Single Customs Territory which has reduced turn- around time, Electronic Cargo tracking system to monitor movement of cargo, execution of a single regional bond that replaced multiple national bonds, institutional framework that allows close monitoring of implementation of Customs related activities.

b) Variance in implementation of Council decisions.
The Secretariat has been monitoring implementation of the decisions and reports progress to the respective Sectoral Councils and Council of Ministers.

c) Existence of different national Customs Systems
On implementation of the Single Customs Territory, Partner States Customs systems (ASYCUDA World, for Burundi, Rwanda and Uganda, TANCIS for United Republic

of Tanzania and ICMS for Kenya) were interfaced to allow seamless exchange of information. Currently a centralized ICT platform that allows sharing of trade and customs information at a regional level is being implemented on pilot basis and so far, Partner States Customs Administrations can push and pull information on intra trade and exports through this platform.

d) Continuous reoccurrence of customs related NTBs arising from administrative and procedural processes:

Customs Administrations and the Secretariat undertakes joint on spot verifications to address a specific NTBS. The Directorate further provide technical guidance on matters relating to implementation of Customs Union and legal interpretation on specific provisions of the Customs legal instruments, National and regional Monitoring Committees on NTBs were established and a time bound programme were put in place to monitor the resolution of the NTBs. Currently the Secretariat and Partner States are undertaking a comprehensive review of the EAC CMA and the CET address any implementation challenges that may arise thereof.

Committee Observations

The Committee observed that apart from the achievements made, EAC has experienced several challenges with regard to implementation of this pillar of integration. The most critical being are:

i. Absence of clear laid down road maps regarding implementation of some of the EAC pillars for integration may result into the Community not prioritizing some of the critical mile stones and deliverables for meeting EAC integration agenda.
ii. A thorough review of the four protocols for EAC integration has indicated that, with exception of the Monetary Union, the other three pillars do not have road maps with specific timelines indicating when the respective mile stones will be implemented.
iii. Some of the gaps at some of the one stop border posts may derail the achievement of the intended objectives with regard to Customs Union and Common Market pillars of integration.
iv. Low levels of Customs compliance by Partner States, slow process of harmonization of domestic taxes and the slow process of developing, enacting and assenting to regional laws;
v. Variance in the pace of implementation of Council decisions by Partner States;
vi. Existence of different national Customs systems that hinder seamless sharing of information and integration of cross-border processes; and
vii. Continuous re-occurrence of Customs-related Non-Tariff Barriers (NTBs) arising from administrative and procedural processes; and
viii. Lack of coordination among Investment promotion agencies on joint promotion of investments based on comparative and competitive advantage of partner states, causing unnecessary competition among investors of same products within the EAC market.

Committee Recommendations

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

i. **Urgent need to develop *a single EAC customs integrated system in order to consolidate the gains under SCT and accelerate the improvements of processing and complying with regional standards and instruments***
ii. ***Institute a robust mechanism aimed at harmonizing all regional national laws and policies including fiscal policies, domestic tax regimes through development of Bills, which would enhance the achievements of the desired goals with regard to EAC integration.***
iii. ***Specific timelines should be set and streamlined in the implementation of the agreed milestones to give management a lead towards facilitating the achievement of EAC integration agenda.***
iv. ***Basing on the gaps noted with regard to One Stop Border Posts (OSBP), it is imperative for the Community particularly Partner States to take necessary actions to rectify the identified gaps to enable the Border Points deliver their given mandate.***
v. ***Investment promotion agencies should develop a mechanism for jointly attracting investments based on the Partner States comparative advantage along the regional value chain.***
vi. ***Fast track the establishment of the long outstanding Trade Remedies Committee***
vii. ***Attract and promote Partnerships between Regional Private Companies to cooperate and establish cross board commodity as well as service exchanges and;***
viii. ***Partner States should expedite avenues and mechanism for eliminating the Non-Tariff Barriers that are a hindrance to trade.***

Common Market

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

A review of East African Common Market Score Card 2016- Tracking EAC compliance in the movement of capital, services and goods was undertaken. It indicated that with regard to free capital movement among the Partners States, only 2 out of the 20 capital operations are free in all Partner States. These are external borrowing by residents and repatriation of proceeds from sale of assets.

All other18 operations have at least one Partner State restricting the operation thus affecting inward investment from other EAC economies and therefore limiting the attraction of region-wide foreign direct investments (FDI) and the participation of all Partner States in the global value chains.

As regards to free movement of services, Audit reported that (professional services, distribution, transport and telecommunication), a number of reforms have been undertaken, which have brought the total number of non-conforming measures down from 63 in 2014 to 59 in 2016. According to the score card, despite this progress, all EAC Partner States remain largely non-compliant in their service trade liberalisation commitments.

Regarding free movement of goods, the Score card indicated that all Partner states have officially adopted the EAC tariff schedule and the revised rule of origin, which include provisions on addressing false claims with respect to origin. However, apart from this legal compliance, there still exists continued use of tariff equivalent measures and the lack of recognition of rules of origin certificates among EAC Partner States.

Committee Observations

The Committee observed that that Partner States have implemented significant reforms in the free movement of capital, goods and services including measures that enhance the region's securities capacities by adding a framework for trading in derivatives in Kenya and Uganda.

The Committee makes cognisance of the major challenges considered to hinder the operationalization of the Common Market and these include: several national laws that are yet to be amended to conform to the Common Market Protocol provisions, varying levels of developments across sectors and institutional frameworks by Partner States, leading to delayed process of harmonisation of systems and procedures towards a flawless single market.

Monetary Union

The Audit Commission reported that the Protocol for the Establishment of the East African Monetary Union (EAMU) was signed by the EAC Heads of State in November, 2013 and entered into force in 2014. The EAMU Protocol covers the entire financial sector, including; banking, insurance, capital markets and the pension sector. To attain and maintain macro-economic convergence, the Protocol provides a set of Primary and Secondary Performance Convergence Criteria to be met by 2021, to enable the introduction of a single currency, and thus, full operation of the Monetary Union in 2024. Specifically, the Protocol requires each Partner State to develop a Medium-Term Convergence Programme (MTCP) to facilitate attainment of the agreed criteria, taking into account each country's economic circumstances.

The institutional framework to monitor and enforce convergence includes the establishment of the East African Monetary Institute, as a precursor to the East African Central Bank; the East African Statistics Bureau, East African Surveillance, Compliance and Enforcement Commission; and East African Financial Services Commission

Audit Commission reported that upon review of the annual progress report with regard to attaining macroeconomic convergence criteria, it indicated that most of the Partner States were progressing on well interms of meeting the relevant macroeconomic convergence criteria except for the Republic of Burundi and South Sudan whose information were not included in the analysis.

The agreed microeconomic convergence criteria include; (i) a ceiling on headline inflation of 8 percent, reserve cover of 4.5 months of import, a ceiling on the overall deficit of 3 percent of GDP, including grants and a ceiling on gross public debt of 50 percent of GDP in net present value terms.

Audit further reported that a further review indicated that, the respective Partner States projections which run through 2020/2021 were to a greater extent within the agreed levels on the three criteria. The only criteria which most of the Partner States were likely not to be able to meet by 2020/2021 was on the ceiling on the overall deficit of 3 percent of GDP, including grants which only the Republic of Uganda was likely to meet.

Audit Commission further noted that a further review of the Progress report with regard to harmonisation of Monetary and exchange rate policies, showed that all EAC Central Banks have agreed to move from reserve money-based framework to a forward-looking price based monetary policy framework by December 2018.

On coordination and harmonization of fiscal policies during the transition to the Monetary Union, two policy documents have been developed to guide the process of tax harmonization; also Partner States have developed a Policy for Domestic Tax harmonization.

Regarding the harmonization of payments and settlement system, Audit reported that the EAC Central Banks have established an East African Payments and settlement System (EAPS) - a multicurrency system which allows settlement in local currencies of the Partner States.

Measures that have been undertaken to address the challenges in the monetary union pillar

When the Committee interacted with the management of EAC, it reported about the following progress that has been made in achieving these preconditions:

i. Establishment of EAMU Institutions

Establishment of a stable monetary union requires a strong institutional framework to monitor and enforce convergence. The EAC Secretariat has since 2014 been working with Partner States to develop legal instruments (Bills) for the establishment of these institutions, but progress has been very slow. For example, according to the EAMU roadmap, the East African Monetary Institute was supposed to be established by December 2015, while the other three institutions were to be established by December 2018. Unfortunately, none of the institutions has been established as of now. Such a slow progress was partly due to the lengthy process of decision making at the Community and also because some Sectoral Councils do not meet as frequently as required to provide guidance to important policy and legal documents necessary to move the integration process ahead. In addition, several meetings of the EAMU Taskforce to negotiate the Bills were stalled for several months due to financial constraints.

The Bill for the establishment of the EAC Monetary Institute (EAMI) was assented to by the 20th Summit, in February 2019, while that of the East African Bureau of Statistics was passed by the Legislative Assembly (EALA) in September 2018 and is waiting to be assented by the Summit. Bills for the establishment of EAC Surveillance, Compliance and Enforcement Commission and the Financial Services Commission have been negotiated by the special Task Force and were considered by the Sectoral Council on Finance and Economic Affairs in May 2019 and forwarded to the Sectoral Council on Legal and Judicial Affairs for legal input.

ii. Attainment of Macroeconomic Convergence Criteria

High degree of economic convergence is important for individual countries planning to form a monetary union. This aspect is important for the stability of the monetary union once formed.

Most of the EAC Partner States are on track towards attainment of the EAMU Convergence criteria by 2020/21 especially on headline inflation, reserve cover in months of imports as well as Net Present Value of Debt to GDP. However, management reported that there is a general challenge on the attainment of the criteria on fiscal deficit including grants with most of the Partner States less likely to meet the threshold of 3.0% on the fiscal deficit including grants.

iii. Harmonization of policies and regulatory frameworks

a) Harmonization of monetary and Exchange rate policies

The EAC protocol provides for coordination and harmonization of the monetary and exchange rate policies during the transition to the Monetary Union. The EAC Central Banks have made good progress in implementing this requirement. In principle, all the EAC Central Banks have so far agreed to move from reserve money-based framework to a forward-looking price based monetary policy framework. The Bank of Uganda and the National Bank Rwanda have taken bold steps towards this direction by replacing reserve money with interest rate as operating target, in July 2011 and January 2019 respectively. Kenya has also taken steps to adopt a more forward-looking approach to monetary policy, with a view to moving towards inflation targeting. Tanzania and Burundi have also initiated a process of transition to an inflation targeting framework with the support from the IMF. In addition, the EAC Central Banks have embarked on building a comprehensive model-based Forecasting and Policy Analysis Systems (FPAS) to facilitate the adoption of a forward-looking interest rate based monetary policy framework.

b) Coordination and Harmonization of Fiscal Policy

The EAMU protocol provides for coordination and harmonization of fiscal policies during the transition to the Monetary Union. Some marked achievements have been made in this front. Two policy documents have been developed to guide the process of tax harmonization: First is the EAC Tax Treaty Policy, which was developed to provide a policy framework for the EAC Model Tax Treaty to guide future treaty negotiations by the EAC Partner States. Second is the EAC Model Tax treaty which is expected to further develop Partner States' economic relationship and to enhance cooperation in tax matters in order to eliminate double taxation without creating opportunities for tax evasion or avoidance. These two documents have been considered and endorsed by the Council. In addition, Partner States have developed a Policy for Domestic Tax harmonization, which identifies possible areas for harmonization, coordination and the approach for coordination. The Policy was approved by the Council in May 2019.

c) Harmonization of payments and settlement systems

The EAMU protocol requires the EAC Partner States to harmonize and integrate their payments and settlement systems progressively starting from 2014. In this aspect, EAC has registered good progress in the harmonization of payments and settlements in the EAC region. So far, the EAC Central Banks have established an East African Payments and settlement System (EAPS) - a multicurrency system which allows settlement in local currencies of the Partner States. The system uses the existing RTGS infrastructure to achieve efficient and safe cross border transfer of monetary value.

d) Harmonization of financial policies

Through the Financial Sector Development and Regionalization Project, the EAC Secretariat has made progress in the following areas:

For the Banking Sector; A Banking Certification Program was developed with the view to create a pool of professionals whose qualifications can be recognized across Partner States. In addition, the Community is in the process of setting up a regional switch to facilitate both cards and cross border mobile payments in the retail payments industry. The stakeholders' discussions in the retail payments have focused on establishing a system space containing national switches that will then be linked to create a regional switch.

In the Pensions Sector: Two years ago, the Council of Ministers approved the EAC Pension and Retirement Benefits Policy which guides the regionalization of the sector. Subsequently, the project facilitated the development of pensions investment guidelines to enable the pensions funds be invested in the region. EAC has also developed principles on extending pension coverage to the informal sector in the EAC region. The principles for the regulation and supervision of the pension sector and the guidelines on consumer protection have also been developed. Furthermore, working on a Draft Social Security Bill on portability of retirement benefits across the EAC region, the development of Risk Based Supervision (RBS) framework tailored to their specific environment and Draft EAC Retirement Benefits Bill is being developed.

In the insurance sector; As regards the pension sector, an EAC Insurance Policy was approved by the Council of Ministers in 2017 to inform the regionalization of the insurance sector. Subsequently a harmonized EAC Insurance Bill and enabling regulations were developed. EAC has also undertook an assessment of the regions legal and regulatory framework against the international standards, commonly known as Insurance Core Principles to ensure that the insurance legal instruments are in compliance with international best practices and standards. In addition, EAC insurance certification program has been developed, akin to the banking certification program mentioned above.

In the Microfinance Sector; With the view to increase financial inclusion through access to finance by the low income earners and small businesses, the project together with the microfinance sector stakeholders developed an EAC Microfinance Policy which will inform the development of a harmonized EAC legal and Regulatory Framework for the microfinance financial institutions as well as financial cooperatives.

For the capital markets sub sector; EAC supported Uganda in undertaking the process of demutualization of the Uganda Securities exchange, For Rwanda, the Automation of the Rwanda Stock Exchange was developed and support has been extended to Burundi to set up her capital market through development of the institutional, legal and regulatory framework. The Law establishing the Burundi Securities Market entered into force in February 2019 and the other legal instruments are in their final stage of legislative process. The EAC Secretariat is now working hard with the stakeholders in Burundi towards the launch of the Burundi Securities Market.

At regional level, EAC has developed a regional legal and regulatory framework through 21 Securities Markets Council Directives and undertaken assessments against International Organization of Securities Commission (IOSCO) principles to ensure that the region's capital markets legal frameworks are in tandem with international best practices and standards.

A working mechanism has been developed with Partner States' stock exchanges, Capital Markets Authorities and central banks on the Capital Markets Infrastructure (CMI) to link the trading platforms of the exchanges in the region. The CMI holds the promise for EAC citizenry who would have easy access to all securities in all markets, giving them a true sense of being part of the EAC. Despite these milestones, EAC is facing the challenges with regards to the implementation of the infrastructure, that would enable seamless trading and settlement of cross border securities in so doing create liquidity in the markets. This will ensure that companies wanting to raise funds from the regional would truly have a single market to raise the funds from.

Cross cutting activities undertaken include the development of a financial education implementation strategy, which is currently procuring training materials (booklets). EAC is also supporting the establishment of a regional database for cross border financial flows to support the conduct of its regional monetary policy in line with the objective of the EAMU protocol of promoting and maintaining monetary and financial stability in the region.

For the Republic of Rwanda and Burundi, the project is supporting the capacity building for the financial sector stakeholders through setting up financial sector academic and professional education programs in Banking, capital markets, insurance, pensions and microfinance at Light University of Bujumbura and University of Rwanda-College of Business and Economics.

Committee Observations

The Committee observes that despite remarkable achievements in the implementation of the Monetary Union, EAC still lags behind the agreed roadmap. For example:

i. The East African Monetary Institute was expected to be established by December 2015 however, the Institute has not been established despite the fact that EALA passed the Bill establishing the East African Monetary. The Bill has just been fully assented to by all Heads of States.
ii. Other Institutes including the East African Statistics Bureau, the East African Financial Services Commission and the East African Surveillance, Compliance and Enforcement Commission all of which were expected to have been established by 2018, are at various stages of implementation.
iii. Despite the above milestones, the Committee observed that the major challenges in the preparation for the Monetary Union relates to inadequate funding and shortage of staff. The Committee was informed that all activities related to the preparation for the Monetary Union are currently coordinated by one Department – Fiscal and Monetary Affairs Department - which is severely understaffed and underfunded. The department has only one staff and is allocated about USD 80,000 per year which is too meagre to implement any serious activity. The Department coordinates all activities related to the Sectoral Council on Finance and Economic Affairs. It is extremely overwhelming for one officer to handle all these activities with such a small budget.
iv. The Committee is deeply concerned with the possibility of the Community achieving the agreed targets. According to the road map most of these mile stones that were supposed to have been attained by December 2018are yet to be put in place one year since the set deadline.

Committee Recommendations

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

i. Establishment of the East African Monetary Institute (EAMI)

Without further delays will provide impetus to the establishment of the East African Monetary Union. The EAMI is expected to carry out the bulk of the preparatory work toward the establishment of the Monetary Union, in collaboration with the National Central Banks of the EAC Partner States. As elucidated earlier according to the EAMU roadmap, the EAMI was expected to have been established in 2015.

In view of the fact that the Summit has assented to the EAMI Bill, the Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Institute is established without further delays.

ii. Sustainable convergence criteria

It is of utmost importance for the success of Monetary Union that a high degree of sustainable convergence should be obtained with regard to price stability, sound fiscal positions, exchange rate stability and the convergence of long-term interest rates for those countries which participate in Monetary Union. These criteria are intended to "level the playing-field" in order to ensure a smooth start for the single monetary policy. Furthermore, the fiscal criteria will continue to apply in the monetary union. Maintenance of the convergence criteria will contribute towards making Monetary Union sustainable in the longer term.

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that it endeavors and continues work relentlessly on the factors that will ensure a high level of Sustainable convergence for the monetary union to be successful.

iii. Exposure of the EAC to financial shocks

Monetary Union is a fundamental driver of economic growth and productive employment. Identifying effective policies that can enhance regional economic integration is an essential component of the new Sustainable Development Goals. The global financial crisis and subsequent slow global recovery brought about a renewed emphasis on Africa's vulnerability to external shocks. Africa recovered quickly from the global crisis and continued to be one of the fastest growing regions in the world. However, African economies and regional economic communities (RECs) exhibited varied degrees of co-movements with the advanced economies.

Monetary integration in the EAC may well have long-term benefits in the form of lower transaction costs, increased trade, and greater macroeconomic and monetary stability. However, the exposure of the region to shocks that affect countries differently raises the risks of adopting a common currency prematurely. This is particularly true if, the necessary pre-conditions are not met. However, this should not dissuade the EAC from deepening collaboration on elements of convergence agenda that can have considerable pay-offs.

In view of the above, the Committee recommends to the Assembly to urge the Council of Ministers to;

a) ***Put in place strong measures to improve macroeconomic coordination, particularly in monetary and exchange rate policies; and***

b) ***Deepen collaboration on reducing restrictions on trade in goods and services – through facilitation, reducing NTBs, and adopting common regulation and standard that would promote regional integration and contribute to regional price stability.***

iv. Staffing challenges

As elucidated above, all activities related to the preparation for the Monetary Union are currently coordinated by one Department – Fiscal and Monetary Affairs Department - which is severely understaffed. The Committee was informed that despite the commitment made by the Partner States to second staff from the respective Central Banks to kick start the establishment of EAMI.EAC has not yet developed the secondment policy.

As a matter of priority, the Committee recommends to the Assembly to urge the Council of Ministers to ensure that it expedites the secondment policy such that staff from the respective EAC Central Banks can be put on board to expedite the establishment of the EAMI.

v. Funding challenges

As earlier elucidated, the Fiscal and Monetary Affairs Department, is allocated only 80,000 USD per annual to implement all preparatory work related to the Monetary Union. The activities and programs in its docket. The funds allocated are not sufficient to implement its activities with a huge and crucial mandate to cover.

As a matter of priority, the Committee recommends to the Council of Ministers to ensure that the budget for the fiscal and monetary department is enhanced to enable it carry out its mandate.

vi. Pending bills

As observed before, the Bill for the establishment of the EAC Monetary Institute (EAMI) was assented to by all the EAC Heads of States. The East African Bureau of Statistics was passed by the Legislative Assembly (EALA) in September 2018 and the bill is waiting to be assented by the Summit. Bills for the establishment of EAC Surveillance, EAC Insurance, EAC Social Security, Compliance and Enforcement Commission and the Financial Services Commission have been negotiated by the special Task Force and were considered by the Sectoral Council on Finance and Economic in May 2019 and forwarded to the Sectoral Council on Legal and Judicial Affairs for legal input.

As observed, these are very important pieces of legislation necessary for the successful operationalization of the monetary union.

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

a) ***Ensure that the above Bills are completed and forwarded to Assembly for consideration and enactment urgently; and***
b) ***EAMI should be fast-tracked so as to expedite the full implementation the Monetary Union.***

vii. Political Federation

The Audit Commission reported that upon review of the 5th EAC Development Strategy, it noted that significant achievements had been registered with regard to EAC Political Federation, and promotion of regional peace and security and development of institutions for political federation.

The EAC Peace and Security draws its mandate in the Treaty establishing the Community, Article 124 and other related articles, such as Article 5, 6 and 123. In the implementation of this mandate, a Strategy on Regional Peace and Security was developed and adopted by the Council of Ministers in 2006, which was reviewed in 2014 and updated to encompass new and emerging security threats.

Regarding promoting regional peace and security and cooperation in defence affairs; a number of milestones were envisaged, and these include (i) establishment of an enabling legal and institutional framework; (ii) implementation of the continental African Peace and Security Architecture (APSA) pillars that encompass development and implementation of a Conflict Prevention, Management and Resolution (CPMR) Framework; (iii) coordination and strengthening of disaster management centres; and (iv) implementation of Small Arms and Light Weapons(SALW) control programs. Other milestones include (v) strengthening of joint measures to combat terrorism; (vi) development of a framework for intelligence sharing on crime management; (vii) development of a framework for cooperation and harmonisation of policing practices in the EAC; and (viii) harmonisation of IDP and Refugee Management Practices across the region; (ix) development and implementation of a multi-regional maritime safety and security initiative; (x) development of a framework for cooperation in the prisons and correctional services; and (xi) implementation of joint measures to combat cattle rustling.

The EAC Peace and Security Protocol was negotiated by Partner States, signed in 2013 and has now been ratified by all Partner States. The operationalization of the Directorate Peace and Security and the recruitment of additional required staff has been halted due to the conclusion of the EAC Institutional Review. Other instruments operationalizing the Protocol such as the CPMR Mechanism; and an EAC Conflict Early Warning Mechanism- EACWARN, were developed, adopted and are in use. The EACWARN National Early Warning Centres are in the process of establishment to support the EACWARN process.

Furthermore, a Modality for the establishment and functioning of the East African Community Panel of Eminent Persons and for the Appointment and Deployment of Special Envoys/Representatives has been developed and approved by the EAC Summit of Heads of State. An initial deployment of the Panel was made in 2015.

An EAC Peace Facility to support peace and security interventions was developed and adopted. An initial USD 500,000 was advanced with directive for annual increment. A modality for the operationalization of the Peace Facility has been developed and is in the process of policy approval. All these instruments enhance collaboration with other RECs in addition to an inter REC MoU that was signed between all RECs and AU in 2008.

To address these issues raised, EAC management is exploring mechanisms directed towards addressing the institutional weaknesses i.e. the absence of an established coordinating mechanism for the Sector at the Secretariat, and a rapid decision-making framework for the Peace and Security sector. In as much as these are being addressed, the pace is slow leading to episodic functioning determined by donor subventions. The onus is with the Council of Ministers to expedite the institutional review such that it can provide long term responses.

As regards the political confederation is concerned, the Committee was informed that the 18th Summit of the EAC Heads of State adopted the Political Confederation as transitional model for EAC Political Federation. Summit directed the Council of Ministers to constitute a team of constitutional experts to draft the constitution for the Political Confederation. All Partner States nominated Constitutional Experts and Drafts Persons who have since started on the initial activities of drafting the Confederation Constitution. The 20th Summit received a report of the Council and directed the council to cause the experts to provide a preliminary report within seven months, and decided that President Yoweri Kaguta Museveni of the Republic of Uganda should provide political guidance to the exercise.

viii. Delayed decision-making processes

The Committee observes that the major challenge facing this pillar has largely been due to delayed decision-making processes in relation to matters of the Political Federation. Peace and Security sector experienced challenges relating to inadequate legal and institutional framework. Furthermore, effectiveness of SALW control programs are still limited due to factors like inadequate capacity to monitor and respond, in a timely manner, to SALW inflow, as well as insufficient cooperation to ensure effective law enforcement.

ix. Peace and security framework in the EAC

The Committee observed that the institutions that are mandated to deal with peace and security are not empowered to efficiently handle internal and external threats to the peace and security in EAC region. This due to the lack of clear decision-making process in the instruments that create those institutions. Lack of sustainable and reliable funding mechanism has also affected the operations of these institutions.

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

- ***i. EAC Peace and security institutions should endeavour to use peaceful means in the settlement of conflicts. Furthermore, EAC should learn from other RECs and set up a uniquely empowered institutions to deal with serious situations. These institutions should be in charge of coordinating other bodies and organs that deal with the peace and security;***
- ***ii. The mandate of this institution should be clear with a sustainable funding mechanism of peace and security operations;***
- ***iii. EAC Treaty be amended to establish the institution with a very explicit provision that allows flexibility to provide the peace and security frame work to undertake necessary measures in order to fill the existing gaps.***

2.1.4 REVIEW OF PROCUREMENT MATTERS

The following weaknesses were reported by the Audit Commission in the procurement process at the EAC:

2.1.4.1 Weaknesses in the reported procurement activities.

The implication is that by not providing accurate information, it led to wrong decisions being made since wrong information was relied on to make decisions. Furthermore, absence of monthly reports hindered timely tracking of procurement activities, identification and rectification of issues within the reasonable period of time.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers that the Secretary General of EAC, Amb. Liberat Mfumukeko and the Deputy Secretary General in charge of Planning Eng. Steven Mlote should ensure that EAC produces accurate information by revising controls on capturing of data to enhance financial reporting. Management should also ensure that proper procedures are adhered to in order to avert EAC from the risk of fraud and errors.

2.1.4.2 Weaknesses in the preparation of Annual procurement plans;

The Audit Commission reported that when it reviewed the annual procurement plan for the year ended 30th June 2018, it noted that there was neither item number nor the budget reference that could enable tracing an activity during the implementation of the plan. This was contrary to section 4.1 of the EAC procurement policies and procedures manual 2016.

Committee Observation

i. The absence of the proper reference makes the monitoring of implementation of annual procurement plans difficult and therefore denying the auditors the opportunity to verify if the executed tenders were actually planned.
ii. This is likely to cause difficulty in tracing the implementation of planned procurement activities.

Committee Recommendations

The Committee recommends that the Deputy Secretary General in charge of Planning Eng. Steven Mlote should ensure that all the planned activities that are in the Annual procurement plan are properly referenced with item numbers and budget reference for easy monitoring and implementation.

2.1.4.3 Lack of performance security for executed contracts

The Audit Commission reported that upon review of the tenders that were awarded in financial year 2018, it noted that the EAC secretariat had never obtained performance security before and during the performance of a contract for procurements worth USD 50,000 and above. From the samples the audit Commission picked, it indicated that procurements worth USD 1, 017, 666 and 262, 320, 000 Tanzania shillings did not have performance securities.

Committee Observation

This puts the operational and financial interests of EAC Secretariat at risk in case of any mishap which may lead to the loss to the Community.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General, Amb. Liberat Mfumukeko, the Deputy Secretary General in charge of Planning Eng. Steven Mlote, and the Director of Finance Director of Finance Mr. Juvenal Nduwumulo should be held accountable for not ensuring that the interests of the Community are protected when dealing with each contract worth over USD 50,000. They should in future secure the interests of EAC as per the requirements of EAC procurements policies and procedures.

2.1.4.4 Weaknesses in the tendering process for property management contract

The Audit Commission reported that upon review of tendering process for property management service contract at EAC that was awarded to Proper Consult Ltd, it noted the following anomalies:

a) There was no evidence indicating that there was pre-bid meeting/site visit as demanded by Clause 7 of the Bid Notice dated 12th October 2016 and;
b) Proper Consult Ltd started to deliver service three months before the contract came into effect. From the evidence reviewed, the service started from August 2017 while the contract was signed on 23 November 2017.

Committee Observations

The irregularities denied EAC Secretariat an opportunity to receive quality services and subjected the EAC Secretariat to risk in case of any dispute regarding services provided prior to signing of the contract.

Committee Recommendation

The Committee recommends to the Assembly to recommends to the Council of Ministers that the Secretary General, Amb. Liberat Mfumukeko, the Deputy Secretary General in charge of Planning Eng. Steven Mlote and the Chairperson of the Procurement Committee Eng Kazahura Kamugisha should be diligent in their actions on matters pertaining to the Community's interests when dealing with suppliers to avoid unnecessary inconveniences or loss to the Community. All procedures should be complied with.

2.1.4.5 Weaknesses in the procurement of consultancy for reconciliation and re-evaluation of assets.

The Audit Commission reported that upon review of the contract for reconciliation and re-evaluation of assets at the EAC Headquarters that was signed between EAC, ARDHI and Real Estates Experts Co. Ltd it revealed the following anomalies contrary to Clause 3 of the same contract:

a) The consultant did not produce a reconciliation report for all assets identified in the fixed assets register, identification of all assets which were not in the fixed assets register and source of funding for the acquisition of assets.
b) There was no report of all the tagged assets of the Community with their identified codes location.
c) There was no any report showing all the activities done by the consultant. This was contrary to Section 6.2(3) of the Procurement Policies and Procedures Manual, 2016 which requires procurements within a range of USD 10,000 and USD 49,999 to use restrictive bidding as a method of procurement.

Furthermore, when Audit Commission reviewed the tendering process for the contract for reconciliation and re-evaluation of assets it identified that EAC Secretariat had used single source as method of procurement. In addition, there was no evidence availed to the Audit Commission indicating that invitation for bids was sent to Ardhi and no evidence of offer from Ardhi for an amount of USD 14,000 that was agreed as contract value.

When the Committee interacted with the management of EAC, it reported that the sourcing of the Services for reconciliation and re-evaluation of assets at the EAC Headquarters that was awarded to ARDHI and Real Estates Experts Co. Ltd was competitively procured. However, during the presentation to the Procurement Committee, the Registrar of the East African Court of Justice pointed out that the scope of the original award had inadvertently omitted review of the Assets in Sub-Registries and those allocated to Ministries of EAC Affairs in the Partner States. It was at this point that EAC Management negotiated with the procured supplier to place a quote for the expanded scope for the review of those Assets in the EAC Partner States and the EACJ Sub-Registries at or below the rate the supplier provided in the main contract. This was the basis for which management received a quotation for the expanded scope of the assignment in the EAC Partner States and EACJ Sub–Registries.

In accordance to provision 6.2.1 (xii) of the EAC procurement Policies and Procedures Manual direct sourcing may apply on condition that the requirements of the initial call for bids are not substantially modified in the contract as awarded and the rate quoted does not exceed that provided in the main contract. These provisions were followed by EAC management in the procurement herein mentioned.

Committee Observations

The procurement malpractices observed above could be detrimental to the Community as EAC may not obtain value for money given limited competition and failure by the consultant to deliver as per expectations.

Committee Recommendation

The Committee recommends to the Assembly to argue the Council of Ministers to ensure that the Secretary General Amb. Liberat Mfumukeko, the Deputy Secretary General in charge of Planning Eng. Steven Mlote, the Chairperson of the Procurement Committee Eng. Kazahura Kamugisha, the Director of Finance Mr. Juvenal Ndimurirwo and the Director of Human Resources Ruth Simba should be held accountable for the string of anomalies for not adhering to procurement procedures so as to protect the interests of the Community.

2.1.5 REVIEW OF THE SYSTEMS CONTROL

2.1.5.1 Weaknesses noted in the SUNSYSTEM and INSPIRO Algorithms

The Audit Commission reported that according to Section 16.1.2(c) of the EAC Financial Procedures Manual, it is a requirement that an appropriate hardware and software system is put in place to operate the accounting system so as to furnish the Secretary General, Council and Assembly with accurate and timely financial management information.

Upon review of the SUNSYSTEM and INSPIRO processes, audit noted that the embedded algorithms revealed the following anomalies:

i. The SUNSYSTEM did not maintain balances for accounts payable and accounts receivable schedules, instead it kept the transaction movements depicted in the ledger which affects the system algorithms with respect to currency valuation and set-off controls when transactions are completed within the system. The system setup brought uncertainty on the accuracy of balances as there were no proper set-off arrangements within the system that would enable control on balances especially for those transacted in currencies other than United States Dollar. Furthermore, under the accounts payables, it noted some instances where payment transactions created receivable balances instead of offsetting outstanding supplier's balances. It also noted that refunds for tax recoverable from tax authorities were just being aggregated together without setting off against specific claims;
ii. Significant differences in the depreciation computations which brought uncertainties on the reliability of system algorithms with regard to depreciation computation.

When the Committee interacted with the management of EAC, it reported that:

i. On a monthly basis after closing a prior period and opening a new period in the Financial Account System, exchange rates between all the Transaction/Reporting currencies of EAC are obtained from the Central Banks of the respective Partner States and updated in the Accounting system and are used in the translation of foreign currency transactions (TZS; UGX; RWF; BIF; KES; or others) to the Reporting Currency of EAC (USD). At the end of a Financial Year, Management executes the Year-end Ledger Revaluation procedure in the Accounting System in which Closing Exchange Rates are used to translate all Transaction currency transactions into the Reporting currency.

   Management further clarified that as much as the procedure should be executed for all Monetary Assets and Liabilities (that is Cash/Bank; Accounts Payable; Accounts Receivable), only Cash/Bank transactions are revalued hence the noted exchange difference noted in the issue raised above. Management undertook to explore applying the above procedure to all Monetary Assets/Liabilities of the EAC.

ii. The VAT Receivable is captured in the ledger when posting transactions involving supply and delivery of goods/services to the Community. The VAT Receivable amount is captured by the accounting system SUN System in both the Base/Reporting and Transaction Currencies. An Aging Analysis for the VAT receivable that has been submitted has two worksheets one in Base Currency and another worksheet in Transaction Currency.

iii. Management with support of a professional Assets Valuer, it reviewed the useful life of a number of Assets whose useful life was approaching the final residual value and as a result gave them a new deprecation rate.

Committee Observations

The anomalies noted within the system affected the accuracy of balances reported in the financial statements and various information produced for decision making.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Director Finance Mr. Juvenal Ndimurirwo ,the Director of Human Resources M/s Ruth Simba and the Principal IT Officer Mr. Daniel Mulenzi should liaise with the two system providers (SUNSYSTEM and INSPIRO) and ensure that they address the noted failures of the systems so that they can be able to produce accurate and reliable information for reporting and decision making. This should be done immediately.

2.2 REVIEW OF PROJECTS

2.2.1 VERIFICATION OF INTER-AFRICAN BUREAU FOR ANIMAL RESOURCES (IBAR) PROJECT DOCUMENTS

The Audit Commission made a follow up on the IBAR project for which there were significant financial anomalies in the financial year 2016/2017. A visit was made to Nairobi and verifications were done accordingly. The verification noted the following anomalies:

a) Payments totaling USD 84,792 were made without approval contrary to Regulation 41of the EAC Financial Rules and Regulations, 2012 which requires every obligation or proposal for incurring expenses to acquire appropriate prior approval before execution;
b) Payments totaling USD 74,813 were made without respective vouchers being stamped 'PAID' contrary to Regulation 41(6) of the EAC Financial Rules and Regulations, 2012 which requires the Director of Finance to ensure all supporting documents for payments are stamped 'PAID' to ensure that payments are not duplicated;
c) All payment vouchers, meeting activities requisitions and travel requisitions worth USD 9,407 were photocopies creating a room for duplicate payments to be made. This is contrary to Regulation 41(14) of the EAC Financial Rules and Regulations, 2012 which requires a cheque not to be issued against a duplicate voucher or invoice;
d) The availed transfer documents for USD 117,000 that was deemed to have been transferred to AU-IBAR were all photocopies while the bank statement for the bank account where the money was deposited was not availed.

During the interaction with the Audit Commission the Secretariat Team showed the relevant documents to the members of the Audit Commission, and confirmed that:

a) All the original payment vouchers for the USD 84,792 were given to AU-IBAR. What was available with EAC were the certified (by AU-IBAR) copies. Indeed, once a payment of imprest confirmed from the Bank Statement and deposit of the unused balance confirmed, in substance the critical document which remained was the accountability for the spent amount. The documents were among the files that were availed to the Audit Team.
b) All the USD 41,738 were banked on the EAC-IBAR bank account.
c) There was no duplication as such: one meeting form included the estimated cost for meetings including per diems for staff and delegates, air tickets, conference costs, etc. The approved meeting forms were multiplied to support original Travel forms used to support individual Payments, as well as original invoices for conference and air tickets.
d) The letter, receipt and Bank statement from AU-IBAR for the USD 117,000 were reviewed together with the audit team.
e) The anomaly of not stamping the Payment vouchers "PAID" arose from an oversight from the Accountant who was managing the project. Management confirmed that this would not happen again.

Committee Observations

With control lapses noted on payments, there was a risk that ineligible and duplicate payments could have been made.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General Amb. Liberat Mfumukeko and the Deputy Secretary General in charge of Planning Eng. Steven Mlote should:

i. ***Give account of the unspent and transferred funds by availing genuine documents such as deposit slips and bank statements indicating the money which were deposited;***
ii. ***Ensure original funds requisition and payment vouchers are availed for audit verification;***
iii. ***Institute displicinary proceedings to the following officers of the EAC for violating EAC financial Rules and Regulations:***

The Director of Finance Mr. Juvenal Ndimurirwo
The Director of Productive Services Mr. Jean Baptist Hajuvimana
The Project Accountant Mr. Basemera Valeria

2.2.2 GZ01: GIZ SUPPORT

2.2.2.1Unapproved supplementary funding from GIZ; USD 35,000

The Audit Commission reported that regulation 20 of the East African Community Financial Rules and Regulations 2012 stipulates that the budget holders shall prepare the re-allocation and supplementary proposals in a form consistent with the approved budget and shall submit such proposals to the planning and budget Committee for consideration. The planning Committee shall review and consolidate the proposals and make recommendations to the Secretary General. The Secretary General shall review, consolidate and recommend the proposals to the Council for consideration and approval.

The EAC Secretariat signed a funding agreement (Agreement No.83253993) to a tune of USD 35,000 on 20thMarch 2017 for the project; GIZ EAC integration support programme/Tanzania, Development and initial support for the Republic of South Sudan Integration Roadmap. The funds were meant to facilitate the Secretariat in procuring consultancy services in respect of the project. USD 35,000 was availed by GIZ in the financial year ended 30thJune 2018 and spent in the same year on the consultancy as approved. However, the funds in issue were never approved by EALA for approval as supplementary budget.

When the Committee interacted with the management of EAC, it reported that the Council of Ministers directed the EAC to speed up the development of the road map for the integration of Republic of South Sudan in the Community. The Secretary General decisions was based on his mandate to source funds for activities already directed by the Council and inform the Council later if the funds were received after the budgeting process was over. The Secretary General managed to obtain funding from GIZ of USD 35,000 for implementation of the activity. The utilization of the resources was fast tracked as the Financing Agreement had a limited window of time having been extended once due to delays in finalizing the contracting.

The Management undertook to submit the GIZ support budget for the RSS consultancy for consideration at the next Finance and Administration Committee for post approval by the Council and EALA.

Committee Observations

Failure by the EAC Secretariat/Accounting Officer to present the supplementary budget undermines the authority of the EALA that is charged with the responsibility of approving budgets. The practice also promotes a culture of obtaining funds and spending without approval of and knowledge of the EALA. Such funds are prone to abuse.

Committee Recommendations

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

i. ***Immediately institute displinary processes to the Secretary General of EAC Amb. Liberat Mfumukeko and Director of Finance Mr. Juvenal Ndimurirwo for failure to present the supplementary budget through the required approved process thus undermining the authority of the EALA;***
ii. ***The Secretary General of EAC Amb. Liberat Mfumukeko is advised to explain the occurrence and desist from this irregular and illegal practice. All supplementary funding should be approved by the EAC Assembly.***

2.2.3 TM01: TMEA SUPPORT TO EAC

2.2.3.1Failure to achieve TMEA Support to EAC Project Objectives

The Fiduciary Risk Assessment (FRA) of the East African Community (EAC) carried out in August 2008 identified a number of areas of weakness which required strengthening of systems and processes. The assessment was carried out to assist EAC in addressing the weaknesses identified, with the objective of ensuring that EAC passes the subsequent FRA. Trademark East Africa (TMEA) agreed a technical support commencing in July 2010 in the areas of Procurement, Internal Audit, Financial Systems, Planning, Human Resources Management and Corporate Governance. In February 2012, TMEA agreed a financial package of assistance to EAC of USD 1,966,400 to run up to June 2013.

Audit Commission noted that, 8 out of 12 Staff who were employed by the project have resigned, while the remaining 4 are still not yet absorbed by the EAC though work on temporary basis.

When the Committee interacted with the management of EAC, it reported that the support from the Trademark East Africa that spanned the period from 2009 – 2014 was very critical for the EAC Capacity Development Action Plan (CDAP). The CDAP was aimed at improving EAC’s operational efficiency and strengthening its Corporate Support functions of Accounting& Finance; Planning; Procurement; Human Resources; Internal Audit and the general administrative functions of the EAC Secretariat. All these initiatives supported and contributed towards the EAC Secretariat passing the EU Fiduciary Risk Assessment between 2015-2016; attaining the much-coveted ISO Certification; to mention but a few.

With regards to issue raised by the Commission on the support to the staff compliment, Trademark East Africa supported a number of staff across a number of programme and support functions of the EAC Secretariat. These have either been absorbed into the Establishment of EAC secretariat/Organs and Institutions on contract or temporary basis while others have since left the service of EAC altogether. Management further reported that of the total staff complement supported by TMEA Project, four (4) staff have been absorbed in the EAC establishment (in Directorate of Customs & Trade and Legal Department), and two (2) staff absorbed into EAC Institutions CASSOA and LVBC, while five (5) are still supported by EAC Partner States and Development Partners as Non-established staff.

Management further reported that until now, EAC has been operationalizing the 2006 Organizational Structure that may not be adequate to support extended mandate of the EAC to achieve the integration agenda of the Community. The EAC Council of Ministers put a halt on recruitment pending the finalization of the Job Evaluations and Workload/Functional analysis exercise by the EAC Ad hoc Service Commission. The terms of service of EAC have also not been reviewed for some time now. Management anticipates that since the Ad hoc Service Commission has now finalized their report and it will present the same to the on-going 38th meeting of the EAC Council of Ministers and decisions will therefrom be taken to commence the recruitment for various Units across EAC so as to have a staff compliment that will support the activities of the Community as a whole.

Committee Observations

i. TMEA Support to EAC capacity building objectives not been achieved.
ii. EAC may fail if the Fiduciary Risk Assessment (FRA) is to be conducted again

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General of EAC Amb. Liberat Mfumukeko should ensure that the objectives of TMEA Support to EAC project are achieved by maintaining the capacity that has been built by the project.

2.2.4 50 MILLION AFRICAN WOMEN SPEAK NETWORKING PLATFORM PROJECT (50MWSP)

2.2.4.1 Late Retirement of Imprest Contrary to EAC Financial Rules and Regulations

The Audit Commission reported that upon review of the advances given to two staff of the project namely staff M/S Winnie Karemera and Generose Minani to facilitate work related meetings, it noted that funds amounting to USD 2,885 failed to retire the advances within the five days' period after execution of the activities.

This was contrary to Regulation 40 (3) and (4) of the EAC Financial Rules and Regulations which provides that imprest taken shall be retired within five (5) working days after the responsible officer returns from an official trip or after the completion of an official activity for which the imprest was designated.

All imprest retired beyond the period provided under Sub Regulation (3) shall be charged 10% of the amount.

Committee Observations

i. There has been persistent non-compliance to the EAC Financial Rules and Regulations in regards to retirement of imprest across EAC organs and institutions and;

ii. This situation may affect the relationship between the Project Management and the funding Organization for further funding.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that Amb. Liberat Mfumukeko should;

i. ***Ensure that the funds which were advanced to M/S Winnie Karemera and Generose Minani are fully recovered and a 10% should be charged on this unretired amount.***
ii. ***50MWSP management be advised to ensure adherence to the Financial Rules and Regulations in retiring the imprest; and***
iii. ***Management should consider surcharging the 10% penalty to the affected individuals so that it deters others from late retiring of advances***.

2.2.5 FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP)

2.2.5.1 Failure to disburse the grant as per agreement

The Audit Commission reported that an analysis for the funding agreement revealed that the total approved grant for Financial Sector Development and Regionalization Project (FSDRP) for the financial year was USD. 4,730,000. However, during the year USD 3,233,947 was received from World Bank leading to underfunding of USD 1,496,053.

When the Committee interacted with the project coordinator of FSDRP, it reported that low disbursement was largely caused by the disbursement method used by the international development Agency whereby IDA disburses funds using Statement of Expenditures method. This is an imprest system where the IDA put an initial deposit to the project account and the project submits monthly claims based on the actual expenditures of the month and not based on the budget.

Committee Observations

Failure by the World Bank to release the entire approved grant negatively affected execution of the planned activities

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Secretary General of EAC Amb. Liberat Mfumukeko be advised to liaise with donors to ensure that the entire approved grant is released on time to enable implementation of all the planned activities.

2.2.6 LAKE VICTORIA EVIRONMENTAL MANAGEMENT PROJECT (LVEMP II)

2.2.6.1Implementation of prior years' audit recommendations

The Audit Commissions reported that upon verification of the implementation of previous years' audit recommendations the project had successfully implemented all the previous audit recommendation.

Committee Recommendations

The Committee commends the management of LVEMP for successfully implementing the previous audit recommendations

2.2.6.2 Review of Payables

a) Unsettled Payables for the Closed Project

The Audit Commission reported that EAC Financial Procedures Manual Regulation 2013 section 4.4.4 (c) requires that all payments of invoices must be made within 30 days of receipts of the invoices. Any delays or likely delays in processing of the payments must be communicated to the Deputy Secretary General (Finance and Administration).

The Lake Victoria Environmental Management Project II (LVEMP II) was implemented with funding from the International Bank for Reconstruction and Development (World Bank) acting as the implementing agency of the Global Environment Facility (GEF), the Swedish International Development Agency (SIDA) and IDA Grant. The funders extended grants to East African Community (EAC) of USD 7,000,000, USD 11,083,089.74 and USD 2,000,000 respectively, thus total of USD 20,083,089. The project start and completion dates were July 2009 and 31 December 2017 following a no cost extension granted by the World Bank.

Included in the financial statements of LVEMP II (period from 1 July 2017 to 30 June 2018) were unsettled obligations (creditors) amounting to USD 21,702 and these obligations were still unsettled at the time of audit in November 2018.

When the Committee interacted with the management of LVBC, it concurred with the Audit Commission observation and reported that the unsettled obligations under LVEMP related to the activities that were undertaken in relation to the preparation of the LVEMP III, as the project transitioned. Management further reported that the funds were absorbed by the Project Preparation Advance (PPA) financed by the World Bank and negotiations were ongoing between the WB and LVBC on how to settle the costs.

Committee Observations

i. The unsettled creditors at project closure may indicate that the project spent above its budget and this created an obligation to LVBC;
ii. LVBC did not adhere to the commitment control system and;
iii. Delayed settlement of creditor's exposed LVEMP III to the risk of litigation this is likely to damage the reputation of the Commission.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the LVBC Executive Director Dr. Ally Said Matano should settle the obligations at the earliest opportunity possible to avoid the associated attendant risks.

2.2.6.3 Physical Verification of the Project

a) Unutilized Water Hyacinths Machine at Lake Victoria Homa Bay Pier

Lake Victoria is the second largest freshwater body in the world by surface area. It is important for the livelihood of people living in the area. The lake is currently facing many problems, one of which is macrophyte encroachment mainly the water hyacinth (eicchornia crassipes). Water hyacinth has become a major invasive plant species in Lake Victoria. While it is native to the continent of South America, human activity has introduced the greenery to Lake Victoria, where it has negatively affected local ecosystems.

The Republic of Kenya purchased a water hyacinth machine and was finally delivered to Kisumu on 12th April, 2016. According to management of LVBC/LVEMP II, this machine was not yet in use by the time of audit in November 2016.

Furthermore, when the audit team visited Homa bay pier it noted that the machine was not in use and recommended to LVEMP II management to make a closer follow up with the Republic of Kenya to ensure that the machine delivered was put in use and serves the intended purpose.

A follow up inspection was carried out by the Audit Commission at Homa Bay Pier on 15 /11/2018 to assess if the Audit Commission's earlier recommendation to operationalize the machine had been undertaken.

Audit Commission observed that the water hyacinths machine was still non-functional bringing the years of redundancy to three (3). See photos below for details:

Photo 1. Taken by audit commission showing water hyacinths machine unutilized over 2 years old on 15/11/2018

Photo 2. Taken by audit commission showing water hyacinths in the Lake in Kisumu covering the Lake on 15/11/2018

When the Committee interacted with the management of LVBC, it reported that the machine in Kisumu port, was procured under IDA loan taken by the Republic of Kenya. It was therefore not under the operational jurisdiction of LVBC. The challenges regarding its underutilization were raised and seized by relevant authorities in Kenya and are being addressed at that level. The machine is covered under the financing agreement between the Republic of Kenya and World Bank which is audited by the Kenya National Audit Office. They further reported that the Parliamentary Committee on regional integration in the Kenyan National Parliament visited LVEMP National Kenya Office and LVBC Secretariat in October 2018 and got the necessary information enabling the government of Kenya to take necessary action to ensure machine is operational.

Committee Observations

i. The acquired water hyacinths machine which is not in use implies that LVEMP II did not achieve value for money as the machine has not served the purpose;
ii. The water hyacinths continue to affect the life of the aquatic creatures and the environment of the Lake;
iii. The EAC is at a risk of losing funding from funding partners like the World Bank since some of its resources are not being utilized effectively;
iv. The weed has affected and interrupted the transportation and local subsistence fishing, blocking access to the beaches;
v. Where the weed is prolific, there has been a general increase in several diseases, as the weed creates conducive breeding grounds for mosquitoes and other insects. There are increased incidents of skin rash, cough, malaria, encephalitis, gastro-intestinal disorders, and bilharzia/schistosomiasis among others;
vi. Water hyacinth also interferes with water treatment, irrigation, and water supply. It can smother aquatic life by deoxygenating the water, and it reduces nutrients for young fish in sheltered bays and;
vii. In the long run, the weed will block supply intakes for the hydroelectric plant thus interrupting electrical power.

Committee Recommendations

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

i. ***Direct LVBC Executive Director Dr. Ally Said Matano to follow up the issue with the Government of Kenyan to have the machine functional, and;***
ii. ***Council should as matter of urgency endeavor to address this matter so as to save the Lake from being eaten away by the devastating effects of the water hyacinth.***

2.2.7 THE EAST AFRICAN COMMUNITY MEDICINES REGULATORY HARMONIZATION (EAC-MRH)

The East African Community Medicines Regulatory Harmonization (EAC-MRH) project aims at improving access to safe, efficacious, affordable and good quality medicines by harmonizing medicines regulation systems, requirements and procedures in accordance with national and international policies and standards.

2.2.7.1Unsupported Payment of Salary USD 67,500

The Audit Commission reported that upon review of the MRHP project it noted that a payment of USD 67,500 to its staff vide payment voucher 004/2018 dated 27.10 2017 and cheque number 1022 dated 25.11. 2017 as shown in the table below:

Table 7: Doubtful payment of Salary USD 67,500

Name	**NMRAs**	**Bank and Branch**	**Account Number**	**Amount**
Appolo Angole	Uganda	KCB Uganda	2201682747	9,000
Alex Gisagara	Rwanda	KCB Tanzania	3301085571	13,500
Bonaventura Nyabenda	Burundi	KCB Tanzania	3301147941	13,500
David Matle	Tanzania	KCB Tanzania	330863864	9,000
Felistas Chepwogen	Kenya	KCB Tanzania	3301142982	9,000
Hidaya Juma	Zanzibar	KCB Zanzibar	3300875137	13,500
Total				**67,500**

Audit further noted that the payment was made through one cheque number 1022 which was withdrawn on 25 November 2017 as shown in the bank statement. However, the payment voucher was not adequately supported with appropriate evidence to show that the above-named officers were entitled to salaries and no authority or contract to support the same were produced. In the absences of all the documents the propriety of these expenses could not be ascertained. The Audit Commission was therefore unable to confirm the legitimacy of the payment as there were no appointment letters and contracts to confirm the terms of engagement and their roles.

When the Committee interacted with the management of MRHP, it was informed that the payments of the above National Medicine Regulatory Officers (NMROs) were paid top up allowance of USD 1,500 per month for coordinating the Project activities in Partner States. The payments were made from 1st January to 30th June 2017 as per the 14th Sectoral Council meeting on health which was held on 28 March 2017.The top up allowances were for six months for well-developed NMRAs of Tanzania, Kenya and Uganda and for nine months for less developed NMRAs of Rwanda, Burundi and Zanzibar.

The employment of the NMROs at P1 Salary scale level started in April 2013 and ended December 2016 and they were responsible for coordinating Project activities in Partners States. For sustainability purposes of the Project at Partners States level it was agreed that each NMRAs should employ the NMRAs to ensure continuing coordination of Project activities. Also, based on the availability of resources the World Bank requested the payment of NMROs at National salary scale estimated at USD 1,500 which would be affordable and manageable by all NMRAs

Committee Observation

Projects goals and objectives were not achieved and the financial statements did not reflect a true and fair position.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold as responsible the Deputy Secretary General in charge of Planning Eng. Steven Mlote and the Director of Finance Mr. Juvenal Ndimurirwo and further to direct them not to entertain similar occurrences.

Therefore, Management should ensure that in future, all the payments are supported by the relevant documentation.

2.2.7.2Unsupported Payment of DSA USD 475,884

The Audit Commission reported that MRHP conducted various meetings during the year under review. However, it was not possible to confirm the number of participants as the annexes referred to were not attached. In the absences of these documents it was not possible to confirm the expenditures of USD 146,367.20 and USD 329,517 for staff and delegates DSA respectively.

Table 8: Conference and Meetings Cost

S/N	Name	Date	Place/ Country	Remark
1	8th Forum of Heads of National Medicines Regulatory Authorities	18th to 19th December 2017	Nairobi/ Kenya	No list of participants
2	11th EAC MRH Steering Committee Meeting	20th to 22nd December 2017	Nairobi/ Kenya	No list of Participants
3	7th Forum of Heads of NMRAs	27th to 28th July 2017	Kampala/ Uganda	No list of Participants
4	10th EAC MRH Steering Committee Meeting	5th to 6th October 2017	Dar Es salaam/ Tanzania	No list of Participants
5	12th Meeting of the Steering Committee of MRHP	6th to 9th March 2018	Entebbe/ Uganda	The project was closed in December 2017
6	13th Steering Committee Meeting of the EAC MRHP	16th to 17th August 2018	Dar Es salaam/ Tanzania	Although it outside the period under Audit, closed in December 2017

Furthermore, the Audit Commission further reported that despite the project closing in December 2017 and the following activities were still ongoing:

i. There were still bank transactions being made up to September 2018; and
ii. Two Meetings took place from 6th to 9th March 2018 in Entebbe/ Uganda and 16th to 17th August 2018 in Dar es Salaam /Tanzania when the project had been closed.

When the Committee interacted with the management of EAC, it informed it that the Medicine Regulatory Harmonization Project (MRHP) was financed under the Trust Fund and the fund was administered by the World Bank. The Project started in 2012 and officially ended on 29th December 2017 with a grace period of four months to clear all payments incurred before December 2017 including the other closure processes. All project transactions ended in May 2018.

i. The Project is still in operation with funding from Bill Gates and Melinda Foundation of USD 185,550 and USAID with funding of USD 700,000.
ii. The Project managed to achieve the planned activities and remained with a balance of USD 323,000 while USD 286,000 remained undisbursed by the World Bank and USD 37,937 remained in the Designated Account with KCB Bank and was refunded back to the World Bank.
iii. The Project closure reports by World Bank – Administer of the fund and Consultant c of Bill Gates and Melinda Gates, the major funder of the Trust Funds were submitted to the Audit Commission.
iv. The Project is in the process of preparing the official letter to the bank to officially close the Project Bank Account after transferring the balance to the Donor and received the bank statement with zero balance, copy given to the Audit Commission

Committee Observations

The legitimacy of all the activities that took place after the project had ended could not be established.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to direct the Secretary General Amb. Liberat Mfumukeko to:

i. Institute disciplinary proceedings to the following staff of the project for the unsupported Payment of DSA USD 475,884:
- ***Ms Jane Mashingia - Project Coordinator,***
- ***Mr. Ruta James Kakoki Project Accountant and,***
- ***M/s Juistine Katesigwa Project Accountant;***

ii. The project administration should ensure that complete closures of the project are carried out appropriately so as to ensure that future relationships with the donor are maintained.

2.2.8 THE EAC PAYMENT AND SETTLEMENT SYSTEM INTEGRATION PROJECT (PSSIP)

The EAC-PSSIP is funded by African Development Bank (AfDB) and aims at complementing the integration of the regional financial market infrastructure to facilitate the undertaking of cross border funds transfer in the EAC region. The Project's overall objective is to contribute to the modernization, harmonization and regional integration of payment and settlement systems.

The EAC Payment and Settlement System Integration Project (PSSIP) is developing a robust environment for both, wholesale and retail payment and settlement systems and facilitate market integration as well as establishing an infrastructure that is sound, efficient and compatible at the regional level. The project is also addressing weaknesses in the legal and regulatory arrangements in the banking and Payment settlement systems. It is also providing capacity building in the area of payment and settlement systems at both the national and regional level.

2.2.8.1Review of the Budget Execution Report

a) Budget Underperformance for the Year Ended 30 June 2018

The Audit Commission reported that Regulation 30 of EAC Financial Rules and Regulation 2012 states that the appropriations approved by the Assembly shall constitute authorization for the Community to incur obligation and make payments for the purposes for which the appropriations were voted and up to the amounts so voted.

When the Audit Commission reviewed of the budget performance, it revealed that there was underperformance of the budget during the year under audit. Audit further noted cases of huge underperformance (below 50%) for various budget lines.

When the Committee interacted with the management of PSSIP it reported that the underperformance was caused by the National Implementing Teams which did not submit the required information leading to delay in developing the bidding documents

Committee Observations

The budget lines for which funds were allocated were not used as required hence the associated objectives were not or were partially attained. This was an indicator of inadequate planning at the time of preparing the budget.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to direct the Deputy Secretary General in charge of Planning Eng. Steven Mlote to take interest in this project and further ensure;

i. ***PSSIP funds budgeted for are used in line with budgeted/ planned activities to avoid budget underutilization and;***
ii. ***Make appropriate follow up and review are done as a means of appropriate execution.***

b) Delayed Booking of Air Tickets

The Audit Commission reported that Paragraph 5.8 (c) of the EAC transport and travel management policy and procedure manual requires that approved travel requisition forms to be received by the travel booking and ticketing desk at least 10 working days before the day of departure.

When the audit Commission reviewed the invoices relating to air tickets, it revealed the following anomalies:

i. Air ticketing bookings were done closer to the travel dates against the requirement of this policy and;
ii. Some of the tickets for which the LPO was raised after the travel date.

When the Committee interacted with the project coordinator of PSSIP, it reported that due to late/short confirmation and acceptance by the host institutions to have the Partner States delegates for site/study led to the delayed booking of air tickets**.** The Management further reported that the other challenges on travel clearance including visa application also contributed to the delayed booking of air tickets.

Committee Observations

i. Delayed booking of tickets implies that EAC has been paying for expensive tickets hence incurring more cost that could have been directed to other activities and.
ii. The absence of LPOs which acts as confirmation that the contract with suppliers indicate what service or goods to be supplied, PSSIP could be paying high cost on the ticket hence no value for money obtained.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to direct the management to;

i. Closely monitor the implementation of the travel policy and ensure that procurement of goods and services and issuing LPOs to suppliers is the basis of agreement for services to be supplied and paid for;
ii. Since the most of the EAC scheduled activities have known dates, the management of EAC should ensure that it puts in place a very stringent policy on ticketing so as to avoid procuring last minute tickets. This will save costs and avoid payments for very expensive tickets.

c) Internal Audit Function Not Conducted

The Audit Commission reported that regulation 3.4.5 of the EAC Internal Audit manual states that "The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization system of internal control and the quality of performance in carrying out assigned responsibilities.

Internal Auditors should:

- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, regulations and contracts which could have a significant impact

on operations, and reports, and should determine whether the organization is in compliance.

Furthermore, Para 4.1.6 of the Project Appraisal Report of October 2012 states that the EAC Internal Audit Department will audit the project at least once annually.

During Audit review of the Governance of PSSIP the Audit Commission noted that Internal Audit unit had not fulfilled its mandate as regards to the audit of the PSSIP as stipulated in the Project Appraisal Report. It was not availed with the audit reports and there was no indication that a review of the control environment of PSSIP was carried out.

When the Committee interacted with the management of the project, it reported that due to the limited human resources it was not possible to carry out the internal Audit Function

Committee Observations

In the absence of adequate internal audit review, PSSIP may be carried out in weak control environment. Hence, risks mitigation and responses may not be working.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to ensure that for the remaining period, PSSIP management should ensure that Internal Audit function carries out its work so as to maintain effective controls by evaluating the project's effectiveness and efficiency in promoting continuous improvement.

2.2.8.2 Review of Project Performance

a) **Performance Report Indicating Low Results Against Targets**

The Audit Commission reported that the PSSIP Project Appraisal Report indicates Result Based Logical Framework which is an extensive, participatory and integral method that delivers a well-structured plan with clearly measurable objectives and well-defined, relevant activities and indicators. The Result Based Logical Framework facilitates the monitoring and Evaluation so that the project can achieve positive and sustainable results.

When an assessment of the performance report on the implementation of the planned activities was done, it revealed that PSSIP project had three components with various activities to achieve two outcomes. However, up to the time of Audit in November 2018 most of the activities were not implemented. 67% of the outcome was not achieved and 69% of the components was not implemented the analysis for the activities which were not implemented.

Committee Observation

Absence of close follow up by PSSIP management may keep on extending the timeline thus delaying the achievements of intended results according to initial timelines. The accrued benefits might not be obtained in time.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that Management of PSSIP is advised to prioritize the activities of the project and ensure that the project completion date is not extended beyond December 2019.

3.0 EAST AFRICAN LEGISLATIVE ASSEMBLY

3.1 REVIEW OF ADMINISTRATIVE FUNCTIONS

3.1.1 Weakness Noted in the Employment of Short-term Staff

The Audit Commission reported that according to the EAC guidelines for recruiting and managing short-term contract staff, temporary staff and interns stipulate that "employees on short-term contracts are employees who hold employment contracts for a minimum of three (3) months but not exceeding twelve (12) months, with terms and conditions of service specified in their contracts".

Contrary to the above provision, Audit Commission reported that EALA staff includes members on short-term contracts who have already significantly exceeded the 12-month period, following multiple renewals of their contracts.

When the Committee interacted with the management of EAC, it reported that the previous two audit reports raised this matter on short term staff and the Assembly and Secretariat are already working towards actualizing the Audit Commission's recommendations. The Council has also already authorized a work load and job analysis for EALA and the activity is ongoing.

Committee Observation

Continuous employment of short-term staff is an indicator of noncompliance with EAC guidelines for recruiting and managing short-term contract staff, temporary staff and interns. This may have a negative impact on the EALA performance.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Clerk to the Assembly Mr. Kenneth Madate and the Deputy Clerk Mr. Obatre Alex be directed to address this anomaly through;

1. ***The existing rules, regulations and guidelines of the Community, including the various directives in place regarding the employment of the short-term staff or refer the same to council for policy guidance; therefore, management of EALA and the Commission should as a matter of priority engage the Council and ensure that this matter is resolved.***

3.1.2 Salary Advances Recovered Beyond 6 Months

Audit Commission reported that regulation 54 of the EAC Staff Rules and Regulations stipulates that:

i. Salary advance may be granted to cover periods of approved local or official travel if the member of staff is expected to be away from duty station on the payday;
ii. In exception and compelling circumstances and where a member of staff's application is supported by justification in writing, the Executive Secretary may authorize salary advance of one month's basic salary, excluding all allowances. It shall be deducted from the member of staff's salary commencing the second month following the date on which the advance was made. The deduction shall be spread over a period of six months.

iii. Any outstanding salary advance at the time of resignation, retirement, termination, dismissal, or death shall be deducted from any salary or gratuity or other benefits due to the member of staff or his beneficiaries and;
iv. Salary advance shall be granted only after previous advances have been fully recovered within the same financial year.

Contrary to the above regulations, Audit Commission noted that some staff were granted salary advances exceeding their basic salary, and sometimes, recovered in a period exceeding six months.

Furthermore, housing advance was granted to short-term staff while the structure of their salary does not include the housing allowance

When the Committee interacted with the management of EALA, it reported that the advances were granted to Staff in line with the standard EAC administrative guidelines. These guidelines prescribe the types of advances namely – Loans, Housing advance and Salary advance. Management further reported that majority of staff are required by their landlords to pay long term rent charges sometimes stretching to annual lump sums and yet this cannot be covered by their monthly payments. It is on this basis that it reverts to the internal standard instruments for advance but it also ensures that the same advances are fully recovered within the financial year.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to direct the Clerk to the Assembly Mr. Kenneth Madate, the Deputy Clerk Mr. Obatre Alex and the Accountant Mr. Ali Dotto to strictly comply and adhere EAC Staff Rules and Regulations and make sure that advances are recovered within six months of the same year.

3.2 REVENUE MANAGEMENT

3.2.1 Outstanding Contributions from Partner States USD 5,518,192

The Audit Commission reported Regulation 25 (4) of EAC Financial Rules and Regulations 2013 requires that contributions from member States be made on 1st July of each financial year and the first installment shall be paid within the first three months and the second by January of the financial year.

For the year under review, the budget of EALA included an amount of USD 17,783,559 representing contributions from Partner States. Audit Commission observed that an amount of USD 5,518,192 had not been remitted by the concerned Partner States as at 30th June, 2018.

Committee Observation

Insufficient remittance of contribution may limit EALA to fully implement its activities on time.

Committee Recommendation

Management of EALA should liaise with Partner States, EAC Secretariat and the EALA members to ensure that there is robust mobilization and collection of contributions from Partner States.

3.2.2 Increasing Trend in VAT Recoverable from Tanzania Revenue Authority USD 168,357

The Audit Commission reported that according to Article 4(4) of the EALA Headquarters Agreement between the East African Community and the United Republic of Tanzania; the Agency, its property, assets, income and transactions shall be exempt from all direct taxation including value added tax and from customs duties and prohibitions, restrictions on imports by the Agency for its official use.

Audit Commission however noted that Tanzania Revenue Authority (TRA) had not issued EALA with a tax exemption certificate. The Organ had to pay VAT on taxable goods and services and subsequently claim the VAT refund from Tanzania Revenue Authority.

It was noted that, the VAT balance had increased from USD 99,308 (2016/2017) to USD 168,357 as at 30 June 2018.

Committee Observations

i. Failure to recover VAT contravenes EAC Headquarters Agreement with the Republic of Tanzania and Rules and Regulations of EALA and it’s likely to affect implementation of EALA Programs.
ii. The amount of VAT not refunded should have been used for the Organ’s priorities and thus meet it objectives.
iii. EALA may not be able to recover the whole amount of tax paid and hence, a loss of funds.

Committee Recommendations

i. Management of EALA should institute measures to ensure that VAT claims are refunded by TRA and;
ii. Council of Ministers should explore avenues for harmonization of tax policies on goods and services procured by EAC through facilitating the tax exemption certificate.

3.3 BUDGET AND BUDGETARY CONTROLS

3.3.1 Budget Performance

The Audit Commission reported that the approved budget for the year under review amounted to USD 17,996,959. Out of this, an amount of USD 17,845,559 was received leaving balance of USD 151,400. An expenditure of USD 15,321,279 was incurred during the year indicating an absorption rate of about 86%.

Committee Observation

Non-absorption of the budgeted funds may indicate failure to implement some of the planned activities.

Committee Recommendation

Management should utilize the funds available so that planned activities are implemented in line with the approved budget.

3.4 PROCUREMENT AND CONTRACT MANAGEMENT

3.4.1 Award of Contract for the Supply and Installation of Laptops

The Audit Commission reported that during the year under review, EALA undertook a procurement process to engage a supplier for the supply and installation of Laptops. Three firms submitted their bids and the Procurement Committee recommended and awarded the tender to SCI Tanzania Ltd.

The Audit Commission noted the following anomalies:

i. Under preliminary evaluation, on the criteria for audited financial statements for the last 3 years 2015-2017, SCI Tanzania Ltd did not submit audited financial statements for 2017. Furthermore, the firm did not submit Tax clearance certificate. Since the firm did not meet the above criteria, it should have been disqualified.
ii. Further scrutiny of the bid documents showed that SCI Tanzania Ltd quoted USD 43,906.20 but the procurement committee awarded it at corrected figure of USD 15,733.40. The same amount is also shown in the Best Evaluated Bidder Notice. However, the firm was issued with an LPO NO PO/0000028 dated 15 June 2018 for an amount of USD 43,906.20. SCI Tanzania invoiced EALA USD 51,809.31 vide invoice no1801-7382 dated 30 June 2018.
iii. The Budgeted amount for the Laptops was USD 16,800.
iv. No contract was availed to the audit commission.
v. In view of these conflicting figures, it was not possible to determine whether EALA would get value for money from this expenditure.

All the above were contrary to:

i. Regulation 6.2.2 of the Procurement policies and procedures manual which states that the contract shall be awarded to the qualified bidder whose bid substantially conforms to the requirements set forth in the solicitation documents.
ii. Regulation 8.1.4(iii) of the same manual which states that all commercial and technical information is submitted in the format required by the bidding documents including trading licenses, Tax certificate, annual audited accounts and;
iii. Regulation 7.5.2.1(2) of the procurement manual states that if a bidder fails to meet any one of the mandatory criteria, its proposal is deemed to be non-compliant and shall receive no further consideration.

When the Committee interacted with the Management of EALA, it reported that it had cancelled this procurement and the company was consequently not paid because the supplier had not met the requirements.

Committee Observations

i. The practice could have led to loss of funds by EALA; and

ii. There was lack of due diligence by the evaluation committee in ensuring that the laid down procurement regulations and procedures were adhered to. This is an indicator of negligence and had to take effort of management to detect the anomaly hence cancellation.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to direct the procurement under the Chairmanship of Eng. Kazahura Kamugisha to adhere to all the laid down procurement procedures. The Procurement Committee should ensure that the evaluation Committees fully comply with the required standards. Furthermore, the procurement unit should also do its proper work and also follow the laid down procures.

3.4.2 Irregularities Noted in Use of Procurement Method

The Audit Commission reported that Regulation 68 (7) of EAC Financial Rules and Regulation states that the choice of procurement method shall be in accordance with the following thresholds:

(a) Open bidding: above USD 50,000
(b) Restricted bidding: USD 10,000 to USD 49,999
(c) Request for quotation: USD 1,000 to USD 9,999
(d) Micro-procurement: below USD 1,000

The Audit revealed that EALA advertised for various items, but the choice of procurement method used was contrary to the above regulation.

When the Committee interacted with the management of EALA, it concurred with the Audit Commission findings and undertook to ensure that in future corrective and rightful procurement methods are used to avoid any procurement anomalies.

Committee Observation

Failure by management to use the recommended procurement method could have limited some of the potential candidates and the benefits of competitive bidding to EALA.

Committee recommendation

The Committee recommends the Assembly to urge the Council of Ministers to direct management of EALA, the Procurement Committee and the Procurement Unit to follow the laid down regulations, procedures and guidelines when handling procurements for EALA.

3.4.3 Lack of Monthly Procurement Report

The Audit Commission reported that upon review of the Procurement Unit function in relation to EALA it revealed that, preparation and submission of monthly reports to the procurement committee including report on micro-procurements were not done.

This was contrary to regulation 42 (10) of EAC Financial Rules and Regulations (2012) which requires the head of procurement to prepare and submit monthly reports to the procurement committee including a report on micro-procurement.

When the Committee interacted with the Management of EALA, it concurred with the Audit Commission's observations and reported that the existing EALA staff structure was lean did not provide a procurement unit which would have been undertaken this technical function separately. Management further reported that Secretariat however, maintains the consolidated general procurement reports of the Organs of the Community since it centrally manages this function.

Committee Observation

Lack of monthly procurement reports may interfere with the procurement planning.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to direct the Management of EALA under the leadership of the Clerk Mr. Kenneth Madate and the Deputy Mr. Obatre Alex to comply with the EAC financial rules and regulations and ensure timely production of monthly procurement reports and hold the responsible officers accountable.

3.4.4 Single Sourcing for Procurement of Official Uniforms

The Audit Commission reported that EALA procured uniforms for various officials through single sourcing. Two firm's M/S Ede &Ravenscroft UK and Manchester outfitters Ltd were awarded the contract after the deliberations of the procurement committee.

Documents availed for audit indicated the invitation date as 14th May 2018. Procurement committee deliberations signed on various dates between 14th and 29th June 2018 show that M/S Ede and Ravenscroft UK was contracted to supply the Speakers Official Attire at a cost of USD12,800 while Manchester Outfitters was contracted to supply 5 clerks, 2 Sergeant's and 2 Commissionaires uniforms.

A scrutiny of the documents availed showed that M/S Manchester Outfitters Ltd was issued with an LPO No 0978 dated 15th May 2018 with quotation Ref No. QO/18/05/330 dated 9th May 2018 for KSH 2,014,632.30 (or USD 20,146.32) while requisition from the user department was dated 15th May 2018. The supporting documents had different dates raising doubt on the chronological flow of the procurement process.

Audit further noted that M/S Manchester Outfitters Ltd was paid an advance payment of USD 10,073 being 50% of the total cost contrary to the financial regulation 39(1) which prohibits payments of advances.

Financial Regulation 68(6) states "An originating Unit or the procurement unit shall not with the intention of avoiding a particular method of procurement, or the benefits of scale, split up procurement requirements which could be procured as a single contract". Contrary to the above regulations EALA split this contract between M/S Ede &Ravenscroft UK and Manchester outfitters Ltd.

When the Committee interacted with the Management of EALA, it gave the following response

- Regulation 39 (1) (2) (3) of the EAC Financial Rules on Advance Payments.
- Annex 4 of the EALA Rules of Procedure on the Dress Code

On the sequencing of dates, the user had already expressed need to procure uniforms vide an earlier approval process granted by management through a requisition memo. It is on this basis that the user department proceeded with the process culminating into a quotation on 9th May 2018. The memo of 15th May 2018 was for the purpose of securing the LPO as can be seen on the date of the memo and LPO.

On the advance payment, management undertook this in line with FRR 39 (1) which specifies the requirements for exceptions. The Accounting Officer also issued the written authority as mandated by FRR 39 (3). Management therefore, does not concur with the Audit Commission on this.

Regarding the need to consolidate the contract, management does not concur with the Audit Commission. The nature of the items is completely different. What was procured for the Speaker was a Robe (goods of specificity only at Ravenscroft) and what was procured for the staff were not Robes but uniforms procured locally.

The Commonwealth Parliamentary practice prescribes the dress code and this is distinctively stated in the EALA Rules. These being parliamentary attire they are manufactured by specific firms.

In addition, Manchester Outfitters Ltd is a Kenya firm located in Kenya distinct from Ede Ravenscroft the UK firm. It would not make any business sense for the two to combine.

Committee Observation

Inconsistences in the flow of the procurement process may lead to loss of funds.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to direct the management of EALA to comply with the EAC Financial rules and regulations and to consider procuring uniforms from within East Africa in the Partner States so as to minimize the costs.

3.4.5 Award for the supply of Mercedes Benz S500: USD 140,400.00

The Audit Commission reported that upon review of purchase of Mercedes Benz S500, it revealed that M/S CFAO Motors Tanzania was awarded a contract to supply EALA a Mercedes Benz S500 at cost of USD 140,400. Contrary to the exigencies of the Standard Bidding Document, no audited financial statements for 3 years, nor no tax clearance certificate was submitted by MS CFAO Motors Tanzania. From the above observations, M/S CFAO should have been disqualified.

Furthermore, the procurement Committee went ahead and awarded the firm the contract. The Evaluation report shows that EALA had budgeted USD 120,000 hence a difference of USD 20,400 above the budgeted amount. It’s not clear why the procurement went ahead to consider this bid.

The Audit Commission further noted that:

i. EALA made full payment of USD 140,400.00 to M/S CFAO motors Tanzania on 27 September 2018. However, the vehicle had not yet been delivered as at the time of audit October 2018, contrary to financial regulation 39(1) above.
ii. Procurement Manual, Regulation 7.5.2.1(2) states that if a bidder fails to meet any of the mandatory criteria, its proposal is deemed to be non-compliant and shall receive no further considerations.
iii. Regulation 39 (1) of the EAC Financial Rules and Regulation states that "Except where normal commercial practice or where the interest of the Community so requires, no contract or purchase order which requires a payment or payments on account in advance of the delivery of goods or performance of contractual services shall be made on behalf of the Community".

When the Committee interacted with the management of EALA, it reported that Regulation 39 of EAC Financial Rules on Advance Payments specifies the requirements for exceptions, notably where normal commercial practice or the interest of the Community so requires. It reported that in this case, the requirement is for an off-shelf vehicle of make – Mercedes Benz (item of specificity only supplied by a particular approved agent of the manufacturer) - only made to the agreed specifications of EALA and manufactured by Daimler. Furthermore, Regulation 39 (2) (3) provides for written authority in the circumstance that the exception rule is undertaken. In this case, the Accounting Officer duly authorized the advance payment and further secured a bank guarantee to protect the resources and therefore, the interest of the Community stated in the same Regulation 39 (1). In addition, the EALA Commission approved additional funds to cater for the total amount for manufacturing the vehicle. It reported that the Benz was a good of specialty.

Committee Observations

i. Lack of non-compliance with financial and procurement regulations can result in misuse of funds.
ii. The procurement procedures had the following irregularities
    - CFAO was the only bidder;
    - CFAO did not provide the tax clearance for 3 years as stipulated in EAC financial rules and regulations.
iii. The bid should have been re-advertised

Committee Recommendations

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

i. Management should comply with financial and procurement regulations;
ii. The Procurement Committee under the Chairmanship of Eng. Kazahura Kamugisha should be held accountable for failures in the discharge of its mandate.
iii. The Procurement Committee should at all times play an adequate oversight role over the procurement unit, the evaluation Committee and contract managers as a means of ensuring that the interest of the community are protected.

3.5 REVIEW OF ASSET MANAGEMENT

3.5.1 Failure to Maintain a Comprehensive Fixed Asset Register

The Audit Commission reported that upon review of fixed assets maintained by EALA, it noted the following weaknesses in the Asset Register:

i. Did not provide all necessary information on assets such as the asset serial number (where applicable), the location of the assets (department and office) and the supplier details, asset useful life, condition,
ii. Was not detailed thus impairing reliability and completeness of the information presented in either financial statements and fixed assets register. The Fixed Assets Register was not detailed enough to provide information of asset such as asset ID, asset serial number, location, date of acquisition, acquisition cost, depreciation rate, asset useful life, annual depreciation, cumulative depreciation, net book value and asset condition.

When the Committee interacted with the management of EALA, it concurred with the Audit finding and informed the Committee that the current EAC Sun System software used to manage records provides for a few fields limiting the maintenance of a comprehensive fixed assets register as required by the standards.

Management noted that notwithstanding these limitations, it has ensured that all assets are prudently managed and those that become obsolete are disposed of.

Furthermore, in future, Management will take corrective action once the systems issues are resolved to enable EALA to maintain a comprehensive fixed asset register as recommended.

Committee Observation

With the absence of a detailed and comprehensive fixed assets register, it becomes difficult to ensure that the assets are sufficiently monitored and serviced to facilitate subsequent maintenance, renewal and disposal.

Committee Recommendation

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

i. The Management of EALA should ensure that the Fixed Assets Register contains all necessary and detailed information for the recorded assets; and
ii. In future, Management should take corrective action once the systems issues are resolved by the Secretariat to enable EALA to maintain a comprehensive Fixed Assets Register as required.

3.6 GOVERNANCE ISSUES

3.6.1 Status of Assent of EAC Bills

The Audit Commission reported that as at 30th June 2018, EALA had 25 Bills dating back to 2012 which are still waiting for assent. Some of the Bills were sent to Partner states for assent while others are awaiting Heads of States Summit.

Committee Observation

The delay in the assent of EAC Bills might lead to non-achieving the objectives of the Community.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that Management of EALA should follow up with the EALA Commission, the Speaker and the Council to compel Partner States to facilitate timely assent of EAC Bills to complete the legitimate processes / cycle of enacting EAC Bills.

4.0 EAST AFRICAN COURT OF JUSTICE

4.1 MANAGEMENT OF LEGAL CASES SUBMITTED TO THE COURT

4.1.1 Delay in the delivery of Cases and References submitted to the Court

Audit Commission reported that Provision 68 (1) of the East African Court of Justice Rules of Procedures 2013 states that judgement shall be delivered within sixty day (60) from the conclusion of the hearing except where the Court is unable to do so; and in line with the best practices that justice must be dispensed fairly and expeditiously.

When the Audit Commission reviewed pending cases as at 21 November 2018 it noted the following:

i. There are a number of cases that have been pending for many years (2 to 5 years) as detailed below:

PENDING CASES		**Less 1yr**	**1 year**	**2years**	**3 years**	**4 years**	**5 years**	**Total**
COURT	**year**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	
1st Division	Number of cases	30	12	5	3	1	1	52
Appellate Division	Number of cases	6	1	0	1	0	0	8

ii. Judges are not permanent staff of the court and deal with cases on session basis as shown in below:

COURT	**Court Session/ Schedule**			
1st Division	March	June	September	November
Appellate Division	February	May	August	November

iii. The court is in operation for less than half of the year and it is likely that the pending cases shall continue to accumulate further every year. For instance, last year comparative pending cases were 39 for both 1st division and appellate division combined.

When the Committee interacted with the Management of EACJ, it reported that the number of cases has been increasing to an extent it's not possible to deliver judgements and rulings as stipulated since the services of Judges are ad hoc. On occasions the Court has been forced to conduct extra ordinary sessions for 2 weeks on a very limited budget.

Management further reported that it has prepared a policy document to be submitted to the forthcoming 38th Council of Ministers meeting for a policy decision on the permanency of the services of the Judges. A cost benefit analysis has been done and is part of the information in the paper to be presented to the 38th Council of Ministers meeting.

It was further reported that of late the number of cases filed has been on the upward trend and with Judges coming for 30 days only meaning they work for 22 days only. This is not sufficient to clear the case backlog. Furthermore, of late cases are taking more than two years to be determined thus eroding the confidence of the Court in the eyes of the public. Currently court has noted a backlog of more than 63 cases pending in the first instance division. There are only 4 seating per year of 21 days which is impossible to dispense quality justice.

It has also been established that the costs of having full time Judges and ad hoc Judges is more or less the same with a difference being only USD 5,000 which is not a substantial amount for the interest of Justice.

Committee Observations

i. Operation of judges on a session basis leads to slow process and lengthy cycle of delivery of Justice and conclusion of cases;
ii. Lengthy conclusion of cases leads to delays in dispensing justice, thus undermining the reputation of the East African Court of Justice which may lead to eroding public confidence in the court systems;
iii. The quality of the judgments is likely to be compromised since the judges do not have ample time to stay in Arusha and do adequate research on the judgments;
iv. Part time Judges are paid allowances and other benefits, which is likely to be more costly than if full time Judges are engaged;
v. EACJ is experiencing serious capacity problem due to the Ad Hoc Services of Judges. The Judges equally serve in the national judiciaries which in itself could pose a conflict of interest.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the EACJ Management under leadership of Mr. Okubo Yufnalis should:

i. Take necessary steps and strategies to expedite the hearing of long pending cases and make efforts to deliver cases in a reasonable time;
ii. Review the plenary performance of the Court by undertaking a cost benefit analysis exercise in line with the recruitment policy of the EACJ to explore the alternative option of having full time judges for the 1st instance Division which is currently having a very heavy work load; and
iii. Council should consider allowing the First Instance division to be working on full time basis in the interest of Justice.

5.0 EAST AFRICAN KISWAHILI COMMISSION

5.1 REVIEW OF FINANCIAL STATEMENTS

5.1.1 Weakness Noted in the EAKC Financing Structure

The Audit Commission reported that that the Commission's core activities were allocated with only 40% of the budget whereas other activities which were not core were allocated with 60% as detailed in the table below:

Table 9: Weakness in the EAKC Financing Structure

Item	Actual (USD)	% of the total
Salaries, Wages and Employee benefits	393,844	36.20%
Administrative expenses	252,024	23.16%
Core activities	435,427	40%
Capital expenditure	6,951	0.64%
TOTAL	**1,088,246**	**100**

When the Committee interacted with the management of EAKC, it concurred with the Audit finding and reported that the Commission always budgets for activities, but it has always been rationalized. Council has set zero increase in budget and the Commission has little leeway for resources to be utilized for core activities.

Committee Observations

The Commission uses big percentage on recurrent expenditure leaving little amount on core activities. Furthermore, the current financing structure may not allow the implementation of 2017-2022 Strategic Plan.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers that the Management of EAKC under the leadership of the Executive Secretary Prof Kenneth Inyani Simala, allocates and refocuses more funds to its core-business so as to achieve its mandate. In turn, this will reduce expenditures on travels and other non-core activities. The trickledown effect will be that it will bring more benefits to the Community.

5.1.2 Unbudgeted expenditure: USD 111,227.82

The Audit Commission reported that according to the IPSAS 24 states that the annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity.

Audit noted that, during the financial year under review, expenses totaling USD 111,227.82 were made without being part of the approved budget for the year. Furthermore, no prior authorization had been given by EALA as analyzed below:

Table 10: Unbudgeted Expenditure

Item	Amount (USD)
Accommodation Delegates	72,720.90
Contracted Professional Services	32,489.73

Photocopying	859.63
Hiring of vehicles	1,557.56
Conference	3,600.00

When the Committee interacted with the Management of EAKC, it reported that it was guided by the 32nd Council of Ministers Decision, giving Heads of Institutions authority to reallocate funds from within approved budgets, the Commission reallocated USD 66,200 to fund some key activities. While EALA had approved the Budget, there were activities that needed to be carried out prior to completion of others. For instance, Capacity Assessment of the development and use of Kiswahili in EAC Partner States was a research activity that went through several processes and stages some of which were not clearly captured in the initial budget planning. This exercise involved training of field researchers at national level and doing fieldwork in all Partner States, and in each there was photocopying of Questionnaires to be filled by respondents.

The approved DSA in the budget could not cater for the above large number of researchers. If the Commission paid DSA, it could not utilize the services of many field researchers and hence could not achieve its goals of Capacity Assessment. It was for that reason that the Commission decided to involve more stakeholders and pay them accommodation and out-of-pocket facilitation during their training and fieldwork.

The Commission further reported that it included the Republic of South Sudan in the Capacity Assessment exercise, although no budget had been provided for any activity in RSS. The Commission decided to include RSS hoping that the request for RSS budget for the whole Community would be available as the matter was with Council.

Without including RSS in Capacity Assessment, the Report would not have been complete and inclusive. The last time a detailed comprehensive study on Kiswahili situation in East Africa was done in 1970. This Capacity Assessment Report therefore was very important baseline study and reference document that used for a very long time to come.

Committee Observations

Spending on unbudgeted items may affect implementation of other planned activities.

Committee Recommendation

Management of EAKC should ensure that all expenditures are incurred in line with the approved budget.

5.1.3 Payments for Air tickets: USD 166,869

Audit Commission reported that it identified payments amounting to USD 166,869, which were made to travel agencies. It was noted that the related supporting documents did not include the copies of the itineraries for which the payments were made.

Committee Observations

Payments may be made for services which were not rendered.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that that the Executive Secretary Prof Kenneth Inyani Simala, and the Principal Accountant Mr. Malesi Joseph should be held accountable for this anomaly and further direct management to at all times include copies of itineraries among the supporting documents of the payments made to the travel agencies.

5.1.4 Irregular payment of Education Allowances: USD 12,000

Audit Commission reported that an amount of USD 12,000 was paid as education allowance to the staff without complying with the above regulations. No birth certificates, nor letters of admission, were attached to the payment vouchers.

Committee Observation

Education allowances can be paid for non-eligible children.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Principal Accountant Mr. Malesi Joseph should abide by the EAC staff rules and regulations governing payment of education allowances.

5.2 REVIEW OF INTERNAL CONTROLS

5.2.1 Absence of the internal audit function within EAKC

The Audit Commission reported that regulation 113 of EAC Financial Rules and Regulations (2012) states that “there shall be an internal audit function charged with providing an independent objective assurance activity and consulting services designed to add value and accomplish the agency’s objectives through a systematic and disciplined approach of evaluation of the risk management, controls and governance processes. It was noted that this function was provided for in the Organization structure of the commission.

The Audit Commission noted that, the recruitment of a key staff under Governance arrangement like Internal Audit has remained vacant since the establishment of the Commission.

When the Committee interacted with the management of EAKC, it reported that due to staff shortages, the Commission uses EAC Secretariat Internal Unit to audit its accounts and ensure there are checks and balances.

Committee Observations

EAKC is lacking checks and balances from the internal audit unit, hence prone to errors and inefficiencies in its operations.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary Prof Kenneth Inyani Simala, expedites the process of establishing an independent Internal Audit function to enable EAKC accomplish its objectives through systematic and disciplined approach for evaluation of the risk management internal controls and governance processes. In the meantime, and in the

absence of the unit, the Executive Secretary should ensure regular and periodic internal audit support from the EAC secretariat.

6.0 LAKE VICTORIA FISHERIES ORGANIZATION (LVFO)

6.1 REVIEW OF FINANCIAL STATEMENTS

6.1.1 Variance Between Creditors Balance per Direct Confirmation and Financial Statements

The Audit Commission reported that regulation 106 (1) of LVFO Financial Rules and Regulations (2018) provides that the organization shall maintain books of accounts and records as are necessary for the proper recording of its transaction. The same Regulation in 2(a) further provides that the books of account and records shall indicate all sums of money received, paid and expected to be paid and received by the Organization and the matter in respect of which the receipt or expenses took place.

Direct sampled confirmations from LVFO creditors by the Audit Commission revealed variances between balances confirmed by creditors and balances reported.

When the Committee interacted with the management of LVFO, it concurred with the Audit observed and pledged to ensure that this does not reoccur.

Commette Observation

The creditors balances reported in the financial statements may not be accurately stated, hence misleading to the users.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary Dr. Shigalla Mahongo and the Director of Finance M/s ….be held accountable and should provide an explanation for the variance or adjust the financial statements to reflect the true position of creditors.

6.2 REVIEW OF REVENUE MANAGEMENT

6.2.1 Delayed Contribution from Partner States

The Audit Commission reported that during the year 2017/18, Council approved USD 1,549,254 to be paid by the Partner States. Audit Commission observed that during 2017/18 the amount received during the year was USD 1,879,681, thus outstanding country contributions from Member States totalizing USD 2,768,785 (USD 1,219,531 for 2016/17 and USD 1,549,254 for 2017/18). See details in the below table:

Table 11: Delayed Contribution from Partner States

Partner State	Approved Contribution 2017/18	Outstanding Arrears 2017/2018	Contributions Received 2017/18	Balance due (USD)
Tanzania	516,418	972,490.19	943,766.31	545,142.88
Kenya	516,418	0	518,439.10	Overpayment of 2,021.10
Uganda	516,418	247,041.20	417,476.15	345,983.05

Total	**1,549,254**	**1,219,531.39**	**1,879,681.56**	**889,103.83**

When the Committee interacted with the management of LVFO, it reported that it has routinely on a quarterly basis been writing letters to Partner States of their respective outstanding Contributions. In some other instances the Executive Secretary makes direct telephone calls to the respective Permanent Secretaries.

Committee Observation

LVFO has not been able to implement the planned activities in relation to its mandate

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary Dr. Shigalla Mahongo should liaise with the Council of Ministers to ensure timely payment of contributions to the LVFO.

6.2.2 Weak Resources Mobilization Strategy

The Audit Commission reported that the Convention for the establishment of Lake Victoria Fisheries Organization was signed on 30th June 1994 by contracting three States (Kenya, Uganda, Tanzania) sharing the Lake. Once the Treaty establishing the East African Community came into force on 30th November 1999, the LVFO became a specialized institution of the Community. The LVFO Convention is accommodated under article 9(3) of the EAC Treaty and provides the framework for the objectives, functions and responsibilities, organs, scope, and legal status of the Organization.

Audit Commission noted that, since its start LVFO had not substantially engaged in preparation of the resource mobilizations strategy or action plan to boost the sources of income or enhance its sustainable funding sources.

When the Committee interacted with the management of LVFO it reported that the LVFO has in place an approved Resource Mobilization Strategy (2016). The implementation of the strategy has been ongoing and has resulted into the realization of the following projects;

i. Responsible Fisheries Business Chains (RFBC) Project on Lake Victoria, totaling to €1,794,000.
ii. EU-EAC True Fish Farming Story in Lake Victoria Basin (TRUE-FISH – under EDF 11) with an equivalent of €10.150M.
iii. The Echo Fish: Management of fisheries resources with a tune of €2M.
iv. University of St. Andrews: Capacity building of the hydro acoustic team in the region, with a tune of £25,000.
v. University of Heidelberg Germany: To Improve compliance to fisheries regulations with a tune of €170,000.
vi. Smart Fish: Economic and financial impact assessment of the fisheries of Lake Victoria with a tune of €25,400

Committee Observation

The absence of a resources mobilization strategy or technical proposal to attract donors implies that the long-term sustainability of the organization is jeopardized as LVFO may not be able to explore more avenues for revenues. Eventually there might be going concern problem in the event member states fail to contribute.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary of LVFO Dr. Shigalla Mahongo to urgently come up with a robust resources mobilization strategy that will delineate the resources needed, external sources and potential donors. The strategy should also include an action plan to link the resources targets and needs of LVFO.

6.3 BUDGET AND BUDGETARY CONTROL

6.3.1 Non- Implementation of Planned Activities

The Audit Commission observed that regulation 14 of the LVFO Financial Rules and Regulations 2018 requires the Planning and Budget Committee to (a) prepare specific planning and budget preparation guidelines for each financial year and (b) scrutinize work-plans and budget proposals of the Organization.

The above review would allow the planning and budget Committee to produce a realistic budget reflecting the needs of the organization. When the Audit Commission reviewed the Financial Statements, it revealed that budgeted programs and expenses amounting to USD 537,170 were not executed.

Committee Observation

Budgeted programs and expenses do not reflect the real underlying economic activities.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary of LVFO Dr. Shigalla Mahongo urgently ensures that budgeted programs and expenses are as realistic as possible.

6.3.2 Non- Execution of Core Activities Constituting the Mandate of LVFO

The Audit Commission reported that the Convention for the Establishment of the Lake Victoria Fisheries Organization (LVFO) was signed in on 30th June 1994 and entered into force on 24th May 1996. It was amended on 12th November 1998 and on 29th January 2016.

Audit Commission noted that during the year under review, LVFO did not adequately execute its core activities relating to its mandate.

Management of LVFO informed the Committee that the overall 14% performance which was achieved was attributed to the late release of funding from the Donors. GIZ released funding in May 2018 against which a number of activities are pegged; the institution received funds from the EAC Secretariat on 29th March 2018 against which the biggest component of the budget (mobilizing donors) was pegged but due to the limited time, the activity was not undertaken.

Nevertheless, management noted that during the FY, the LVFO executed a number of activities directed towards her mandate and which are outside the budget

Committee Observation

Not executing the core activities relating to its mandate may lead to loss of trust by Partner States as well as Development Partners and consequently jeopardize the sustainability of the organization.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to ensure that the Executive Secretary of LVFO Dr. Shigalla Mahongo should prioritize the execution of the core activities relating to the mandate of the Organization.

6.3.3 Slow Operationalization of the Republic of Burundi Accession to the LVFO

The Audit Commission reported that the Convention for the Establishment of Lake Victoria Fisheries Organization, provides that once the Treaty establishing the East African Community came into force on 30th November 1999, the LVFO became a specialized institution of the Community.

The LVFO Convention is accommodated under article 9(3) of the EAC Treaty and provides the framework for the objectives, functions and responsibilities, organs, scope, and legal status of the organization.

Following the Fisheries and Aquaculture Sectoral Council meeting held in Entebbe on March 2018, the Republic of Burundi was officially accepted into the Lake Victoria Fisheries Organization. Correspondence with Ref.No. LVFO/CoM/CA/84/Vol.II/118 dated 28th May 2018 entitled **"Accession of the Republic of Burundi to the Convention for the Establishment of Lake Victoria Fisheries Organization" was** signed by the LVFO Executive Secretary to Burundian Authorities to notify the accession and welcome the Republic of Burundi to LVFO.

Audit Commission noted that in the same correspondence of accession, LVFO called upon the Republic of Burundi for a meeting to assess the current status, identify programs for collaboration and lay out the necessary modalities.

Discussions with LVFO management revealed that since the accession letter there has been slow follow up of the new development towards operationalization of the accession.

When the Committee interacted with the Management of LVFO, it reported that dual engagements between the relevant officials from the Republic of Burundi and the LVFO have been on going to fast track the accession of the Republic of Burundi into LVFO.

Committee Observation

Delay of operationalization of accession to LVFO may deny Republic of Burundi the benefits that come with being a member.

Committee Recommendation

The Committee recommends the Assembly to urge the Council of Ministers to hold the Executive Secretary of LVFO Dr. Shigalla Mahongo accountable for the delays. In addition,

i. ***LVFO management is advised to liaise with competent authorities from the Republic of Burundi and make necessary follow up for the operationalization of the accession to LVFO and;***
ii. ***Management of LVFO should work closely with the Council of Ministers and the Republic of Burundi to ensure that the accession is expeditiously executed.***

7.0 INTER-UNIVERSITY COUNCIL FOR EAST AFRICA (IUCEA)

7.1 REVIEW OF FINANCIAL STATEMENTS

7.1.1 Budget Underperformance for the Year Ended 30 June 2018

The Audit Commission reported that there was low absorption of funds for all the budget lines.

Committee Observation

The budget lines for which funds were allocated were not used as required hence the associated objectives were partially attained. This may also be an indicator of inadequate planning at the time of preparing the budget.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA, Prof Alexandre Lyababaje accountable for the discrepancy. As such, management of IUCEA should;

i. ***Ensure that IUCEA funds budgeted for are used in line with budget plan activities to avoid budget underutilization;***
ii. ***Follow up with Partner States for budgetary contributions to be disbursed timely to enable the implementation of planned activities; and***
iii. ***Make necessary follow up during budget execution and review processes to ensure that the budget is appropriately executed***.

7.2 REVIEW OF EXPENDITURE

7.2.1 Inadequate Planning to Cover Meeting Costs Leading to Improper Cash Handling

The Audit Commission reported that best practice requires that withdrawals of cash should be made to meet identified cash requirements (needs), and when it is inevitable be reduced to the minimum.

Audit noted that due to inadequate budgeting for meeting costs, the cashier sometimes remains with huge cash balance after paying attendees and other venue costs.

When the Committee interacted with the management of IUCEA, it concurred with the audit finding and undertook to ensure that in future it would process payment in two lots, of 50% based on confirmation and the remaining balance after having the exact number of participants that have arrived at the venue.

Committee Observations

i. These big cash balances that remain are at risk of being stolen and is a security risk to the cashier and;
ii. There is a high risk that the cash balance may be misappropriated in a case of untrustworthy cashier.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje and the Principal Accountant Mr. Anywar Stephen personally accountable for the discrepancy. As such, the management of IUCEA should:

i. ***Endeavor to always be accurate and exact on budgeting for its activities to avoid unnecessary overdrawing of cash for the planned activities;***
ii. ***Ensure that all activity participants allowances are directly transferred to their bank accounts; and***
iii. ***Ascertain confirmations from the invitees (participants) before cash is withdrawn for payments.***

7.3 REVIEW OF INVESTMENTS AND ARREARS FUND

7.3.1 Unapproved Borrowing and Non Refunding of the Designated Arrears Fund

The Audit Commission reported that the IUCEA Financial Rules and Regulations Regulation 29 (1) requires establishment of Special Fund within the budget for a special activity. The Secretariat of IUCEA vide the 25th Executive Meeting Ref. IUCEA/EC/RM/25/2017 of 11 December 2017 established further guidelines on Arrears/Special Fund restricting expenditure to capital items only. As per guidelines, the payments of arrears by Partner States would be transferred out from operation bank account to Arrears Fund bank account not later than 5 days after the receipt.

In addition, any expenditure out of the arrears fund would be based on the budget preparation and approved by the Executive Committee or as per MoU of the Special Fund and incorporate it in the overall budget for the financial year.

Review of the financial statements revealed that the designated fund (arrears) account reflected an amount of USD 7,893,435 as 30 June 2018. Out of this amount, the only portion that the Audit Commission team could verify was as detailed below:

Table 12: Unapproved Borrowing and Non-Refunding of the Designated Arrears Fund

Nº	Location of the funds	Amount in USD
1	DFCU Account	2,077,267
2	Stanbic Account	38,602
3	Fixed Deposit	2,065,497
	TOTAL Arrears fund explained	**4,181,366**

This leaves a balance of USD 3,712,069 whose whereabouts was not disclosed in the Financial Statements. However, management explained that the approval for borrowing of USD 1,525,000 for the FY 2017/2018 was obtained under Executive meeting minutes Ref: RECO-EC 27/4 of June 2018.

According to Management, IUCEA had borrowed over time a total of USD, 3,854,833, implying that the total arrears received was USD 8,036,199 and not the stated USD 7,893,435, resulting to undisclosed arrears of USD 142,764.

Management informed the Audit Commission that the USD 3,854,833 was borrowed to finance the Council operations in different periods of time however, only USD 1,525,000 was approved. The remaining USD 2,329,833 was spent at source without any approval from the Executive Board.

The difference of USD 142,764 was the interest earned from Investment of arrears fund from DFCU and Bank of Baroda.

When the Committee interacted with the management of IUCEA, it acknowledged the borrowing from arrears fund to the tune of USD 3,854,833 due to underfunding Budget contribution from Partner States. Management pledged to ensure that a refund to the investment fund is done as soon as Partner States fulfill their obligations.

The difference of USD 142,764 was the interest earned from Investment of arrears fund from DFCU and Bank of Baroda.

When the Committee interacted with the management of IUCEA, they gave the following response.

- Management acknowledged the borrowing from arrears fund to the tune of USD 3,854,833 due to underfunding Budget contribution from Partner States. Management undertook to ensure that the refund as was effected soon as Partner States fulfilled their obligations.
- The difference of USD 142,764 was the interest earned from Investment of arrears fund from DFCU and Bank of Baroda

Committee Observations

i. The unclear accountability of the Designated Fund (arrears) puts into doubt the actual amount disclosed in the Financial Statements;
ii. There was a risk of spending from the Arrears Fund Account without the prerequisite authority as required;
iii. There was a risk of loss or misappropriation of funds as a result of non-refunding of the borrowed amount;
iv. The borrowed amounts of arrears fund was not refunded back and;
v. IUCEA did not get approval from the governing board for spending USD 2,329,833 and;
vi. The whereabouts of 3, 712,089 was explained / established.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje and the Principal Accountant Mr. Anywar Stephen should be held personally accountable for this anomaly; and

i. Management should reconcile the Designated Arrears Fund account with USD 7,893,435 stated in the Financial Statements;
ii. All funds borrowed should be refunded to the respective bank account and;
iii. As a matter of urgency, the Council of Ministers should institute a special Audit into the utilization of the arrears fund. This should be undertaken immediately within six months.

7.4 REVIEW OF BANK BALANCES

7.4.1 Issuing of Cheques in Excess of Available Cash Balances

The Audit Commission reported that Paragraph 4.3.6 sections(h) and (g) of the IUCEA Financial policies and procedures manual (2004) provide that the Assistant Accountant must confirm funds availability before proceeding with the payment process.

When the Audit Commission reviewed the Cash Book, Bank Statement and Bank Reconciliation for account No. 2290482110 (UGX) opened in KCB Bank Uganda Ltd revealed that as at 30 June 2018 the reconciled cashbook had a negative closing balance of UGX 24,800,141.This was converted and reported under Payables as at 30th June 2018 which reflected that IUCEA had an overdraft with KCB of USD 6,392.

Table 13: Table showing IUCEA overdraft with KCB Bank

Opening balance as at 01st June 2018 (A)	Funds received during the month of June 2018 (B)	Payments made during the month of June 2018 (C)	Reported negative cash book balance D=(A+B-C)	Converted negative cash book balance reported under liabilities
UGX	**UGX**	**UGX**	**UGX**	**USD**
61,414,373	3,722,121	89,936,636	(24,800,141)	**(6,392)**

When the Committee interacted with the Management of IUCEA, it observed that the payments for cheques on KCB were raised on 28th June 2018 and cash book posting also captured on the same date, at the same time a request to transfer USD50,000 from Citibank to KCB was completed on 13th July 2018. The cheques had not been issued out until the transfer was effected on KCB. The overdraft was only in the cash book but the cheques were presented when funds were available.

Committee Observations

i. Non-compliance with Paragraph 4.3.6 section (h) and (g) of the existing IUCEA Financial policies and procedures manual (2004) and IUCEA Management is overriding the existing internal controls as stipulated above and;
ii. Unnecessary fines and penalties may be levied on IUCEA in case payments by cheque is effected without sufficient funds on the bank account.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyabablaje and the Principal Accountant Mr. Anywar Stephen for this anomaly. Furthermore, the management of IUCEA is further advised to observe and strengthen internal controls to ensure that payments for any obligations entered in the cashbook have been confirmed with the availability of funds. If not checked this could lead to costly litigation and bank penalties.

7.5 REVIEW OF ACCOUNTS RECEIVABLE

7.5.1 Long Outstanding Contributions from Partner States and Subscription Fees from IUCEA Member Universities and Corporate Members

Audit Commission reported that accounts receivable reported as at 30 June 2018 included USD 14,096,230 due from Partner States and USD 527,999 due from IUCEA Member Universities and Corporate members.

IUCEA Financial Policies and Procedures Manual 2014 paragraph 3.4.2 (b)(i) & (iii) provides that the accounts receivables should be managed effectively, including prompt and vigorous collection to minimize amounts owing to IUCEA and charge of interest on overdue accounts receivable is accurately recorded and reported.

Audit Commission noted accounts receivable reported as at 30 June 2018 included USD 14,096,230 due from Partner States and USD 527,999 due from IUCEA Member Universities and Corporate members. Audit Commission reported that if not urgently and vigorously pursued for collection it may end up being bad debts and uncollectable. A big portion of the arrears has been pending for more than 3 years.

When the Committee interacted with the management of IUCEA, it was informed that IUCEA has adopted several strategies to ensure that members meet their obligations after issue of debit notes, during financial year 2017/2018, Debit notes were issued to member Universities on 4th July 2017, and for Partner States, were sent on 14th July 2017 thereafter:-

i. Partner states arrears contributions were followed up through making of quarterly reports on status of Partner States contribution to IUCEA Executive Committee and to the EAC Council of Ministers. In addition, the IUCEA Executive Secretary carried high level consultations and visits to Partner State capitals to follow up on outstanding payments;
ii. Reminder letters were sent to members with outstanding balances every quarter;
iii. During the IUCEA Governance meetings the status of membership fee was tabled as one of the reports and each of the Board members representing universities in their country was given a list of members not in good standing for their follow-up;
iv. IUCEA support for staff exchange (mobility) was granted to Universities which were in good standing for membership fee payments for the last three years;
v. Eligibility for a member institution to be elected on IUCEA Board or its Board committee is only applicable to members who are fully paid.

Committee Observations

i. Member Universities and Corporate members of IUCEA funds not recovered have been one of the causes behind the slowing down of the operations of IUCEA.
ii. There is a big sum of money in arrears and if not urgently and vigorously pursued for collection it may end up being bad debts and uncollectable. A big portion of 69% arrears has been pending for more than 3 years;

iii. The continued arrears is against the IUCEA Financial Policies and Procedures Manual 2014 paragraph 3.4.2 (b)(i) & (iii) which provides that the accounts receivables should be managed effectively, including prompt and vigorous collection to minimize amounts owing to IUCEA and a charge interest on overdue accounts receivable is accurately recorded and reported.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje and the Principal Accountant Mr. Anywar Stephen should resolve this matter. In addition:

i. ***Management of IUCEA should establish a robust mechanism for following up on members' universities and corporate members to pay their due contributions and take required measures for those failing to pay up their arrears; and***
ii. ***IUCEA should appoint focal points person in the respective Partner States to assist IUCEA in following up the outstanding arrears.***

7.6 REVIEW OF ACCOUNTS PAYABLE

7.6.1 Long Outstanding Deferred Income Balance for Closed Projects

The Audit Commission reported that upon review of the financial statements on note 20 Deferred revenue **-** Grants indicated that there was long outstanding deferred income balance amounting to **USD 31,430** which was carried forward from financial year ended 30 June 2017.

Committee observations

i. Lack of proper management of donor's projects may lead to diversion of donor's funds to activities to which they were not intended for.
ii. Failure of meeting the donor's expectations may result into the donor refusing to advance funds to finance IUCEA activities and;
iii. Lack of documents supporting the reported balance cast doubt on its accuracy.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Executive Secretary of IUCEA Prof Alexandre Lyababaje that;

i. ***Funds amounting to USD 10,871 not transferred to the payee should be reclassified under other payables instead of deferred income;***
ii. ***Projects funded by donors should be properly managed to enable all the agreed activities to be carried as per plan and;***
iii. ***Investigation should be done on the unsupported payable balance to RISP and take action.***

7.7 REVIEW OF CONTINGENT LIABILITIES

7.7.1 Non-Compliance with NSSF Act

The audit Commission reported that IUCEA management did not comply with NSSF Act by remitting monthly contributions to NSSF; and neither did it have a Certificate of Exemption from the Fund that was availed for verification. In 2012, NSSF Uganda placed a claim of USD 3,812,422 (UGX 9,416,682,245) as arrears in respect of contribution to NSSF by IUCEA on behalf of its employees.

IUCEA management sought guidance from the EAC Secretariat on this matter, the EAC Secretariat advised that EAC organs and institutions are not subjected to NSSF requirements. This is because of the host Partner States in line with the respective and immunities and privileges accorded to the organs and institutions as provided in the Treaty.

When the Committee interacted with the management of IUCEA, it reported that given the financial and legal implications of the matter it forwarded it to the Secretary General and Council of Ministers for guidance. Till to date, no response has been communicated to IUCEA.

Committee Observation

The claim may adversely affect the operations of IUCEA in case the matter is not settled and the liability falls due.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to as a matter of urgency within a period of six months, conclude the decision on this issue and bring it to a logical concussion with the Committee and the Assembly.

7.7.2 Unresolved Dispute of Ownership over IUCEA Two Houses on Plot 83/85 Located in Kololo

The Audit Commission reported that IUCEA owns two houses on plot 83/85 Prince Charles Drive Kololo which were valued at UGX 400,000,000 in 2003. The houses were not included in the IUCEA fixed assets Register; instead, they were disclosed under contingent in IUCEA financial statements.

As mentioned in different audits conducted in previous years, there is a dispute involving registered Trustees of Arya Pratindhi Sabha (EA) claiming ownership of the two IUCEA houses.

The matter was referred to the 24th Council of Ministers meeting held on 29th November 2012 in Bujumbura. The Council directed IUCEA and the Government of Uganda to resolve the matter amicably with the view of handing over the two properties back to IUCEA.

The Audit Commission further reported that the Attorney General of Uganda issued a legal opinion to the Ministry of EAC Affairs and advised to pursue the process and compulsory acquire the houses to ensure that the properties legally revert to IUCEA.

In turn, the Ministry of EAC Affairs, Uganda wrote to the Ministry of Lands and Urban Development requesting initiation of the compulsory acquisition process. A meeting between IUCEA, Ministry of EAC Affairs and Lands and Urban Development was scheduled in November 2018 to review progress of the process. However, since 2012 up to the time of the audit in October 2018, the issue had not been resolved.

When the Committee interacted with the management of IUCEA, it reported that IUCEA management has been keenly following up on the case. In June 2018, Ministry of Lands, IUCEA and EAC held negotiations and the government of Uganda, agreed to initiate the process of compulsory acquisition of the property in favor of IUCEA.

Committee Observation

Delay to resolve the issue prevents IUCEA from enjoying the ownership rights and deriving revenue from the houses.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers that the Executive Secretary of IUCEA Prof Alexandre Lyababaje doubles efforts of the IUCEA management in order to get the two houses ownership settled. The matter should further be part of the updates to Council within the next six months.

7.8 REVIEW OF THE STRATEGIC PLAN

7.8.1 Shortfall Noted in Funding the Implementation of IUCEA Strategic Plan

The Audit Commission reported that IUCEA five years strategic plan running from 2016 to 2021 had five strategic objectives with a total budget of USD 43,532,000, meaning an average annual expenditure of USD 8,706,400.

The Audit Commission noted that the IUCEA approved annual budget for the year ended 30thJune 2018 (which is the 2nd year of the strategic plan) was USD 6,766,928 being 22% below the strategic plan average annual budget.

The Audit commission further noted that out of the approved budget, only USD 3,384,934 was received by IUCEA being 50% and from which was utilized at 85%.

When the Committee interacted with IUCEA, it reported that the implementation of strategic objective was delayed due to late disbursement by Partner States. However, when consideration was made of the funds mobilized through development Partners and the anticipated approval to IUCEA resolved to utilize the Arrears Fund for construction of Phase II. This was a significant source of funding of the Strategic Plan, IUCEA is on course to achieve the strategic objectives and the funding targets.

Committee Observation

Not adequately funding the implementation of the strategic plan, planned activities are not carried out thus, making impossible to achieve the strategic objectives included in the strategic plan.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Secretary of IUCEA Prof Alexandre Lyababaje enhances resource mobilization efforts for the plan or to urgently review the plan to realistic levels.

7.8.2 No Clear Linkages Between the Strategic Objectives in the Strategic Plan and IUCEA Operational Plan and Departmental Plans

The Audit Commission reported that the implementation of the strategic plan cascades down from strategic objectives to Annual targets/activities to departmental objectives/activities to employees' targets. For each planned activity, there should be a key performance indicator to monitor its implementation.

When considering the IUCEA Operational plan for the year ended 30 June 2018, Audit Commission was unable to find clear linkages between the strategic objectives from the strategic plan and the objectives that were included in the operational plan.

When the Committee interacted with the Management of IUCEA it reported that since the approval of the current IUCEA Strategic Plan in December 2017 by the governing board, the strategic plan objectives, operational plans and departmental plans have been aligned with the EAC priorities.

Committee Observation

Without the clear linkages between the objectives of the strategic plan and those included in annual operational plans, it makes it hard to track the progress towards the achievement of the strategic plan and thus not being able to assess and monitor the implementation of the mandate of the Council.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Secretary of IUCEA Prof Alexandre Lyababaje urgently resolves the discrepancies sighted and proposed to properly align the strategic plan objectives, operational plans and departmental plans. Any further delays will lead to inordinate, achievements of IUCEA'S mandate and purpose of existence.

7.9 REVIEW OF GOVERNANCE ARRANGEMENTS

7.9.1 Non-implementation of the Audit Committee Recommendations on the Frequency of IUCEA Audit Committee meetings

The Audit Commission reported that IUCEA Financial Policies and Procedures Manual 16.2.2 states that the Head of Finance will ensure the preparation of the following financial reports for onward submission to the EAC Secretariat (a) Quarterly financial statements showing the overall revenue and expenses, sources of revenue and application of funds for presentation to the Executive Secretary (b) Any other financial information for inclusion in the Quarterly Report for use by the EAC Council of Ministers.

Para 5.2 of the Audit Committee charter states that the Audit Committee shall meet as necessary, but at least twice a year to enable it to fulfill its responsibilities. Para 7.0

states that the Committee will review and assess the adequacy of the Charter on an annual basis and may communicate to the Executive Committee changes that it may deem appropriate.

The outgoing IUCEA Audit Committee with term July 2015- June 2017 in its end of term report recommended to the incoming Audit Committee to revise the Audit Committee charter so as to align it to IUCEA Financial Policies and Procedures Manual.

However, up to the time of audit in October 2018, it was noted that there was no any action taken so as to revise the Audit Committee charter as recommended.

When the Committee interacted with the management of IUCEA, it reported that it was taking the matter seriously and had already tabled it to the Executive Committee during its 26th meeting in Nairobi on the 20th of March 2018. The Committee decided that due to financial constraints it was not possible to amend the charter to increase the frequency of meetings as had been recommended. However, Management undertook to ensure that it tries its level best to see how to implement this recommendation in the future.

Committee observations

i. Failure to align the frequency of Audit and Risk Committee meetings to the Council's reporting calendar may impair the Audit Committee responsibilities especially to review the quarterly financial statements leading to errors and misstatements in the financial reports.
ii. Lack of an Audit Committee of the IUCEA board is failure on the governance structure of IUCEA as the internal audit report to the audit Committee functionality is critical for the effective oversight of IUCEA and;
iii. The review of the financial statements by Audit Committee ensures corrective action is undertaken before the IUCEA financial statements are subjected to third party reviews including the EAC Audit Commission and the EALA Committee on Accounts.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje accountable for this anomaly and ensure that the following measures are undertaken;

i. IUCEA Audit Committee charter should be revised as soon as possible as recommended by the outgoing Audit Committee to allow the Audit Committee to fulfill their responsibilities and;
ii. IUCEA should facilitate the Audit Committee to carry out its oversight functions including review of the financial statements.

7.9.2 Lack of Review of Financial Statements by the IUCEA Audit Committee

The Audit Commission reported that Para 6.2 of the Audit Committee Charter requires the Audit Committee among other responsibilities to review the annual financial statements and consider whether they are complete and consistent with information known to them and that they reflect appropriate accounting principles before submission to the Audit Commission for audit.

Audit noted that there was no meeting of the Audit Committee to review the financial statements for the year ended 30June 2018 as required by the Charter. It considers them to ascertain whether they the financial statements for the year ended 30 June 2017 were not reviewed by the Committee before submission to the Audit Commission.

When the Committee interacted with the management of IUCEA, it reported that it had not been the practice in the past to subject the financial statements to review by the Audit and Risk Committee in line with the Audit Charter. They noted that the Audit and Risk Committee usually meets in December after the Audit Commission has already finished its work.

However, management undertook to explore the best way to implement the above recommendation to be in line with the Audit Charter while at the same time remaining faithful to IUCEA's financial rules and regulations.

Committee Observation

Without any reviews of IUCEA Financial statements by the Audit Committee, it is likely that submitted financial statements may contain errors and misstatements. This is also a failure to carry out their oversight responsibilities.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje and the Principal Accountant Mr. Anywar Stephen accountable for this anomaly. Furthermore, management should ensure that it submits its financial statements to the Audit Committee for review before their submission to the Audit Commission. The Audit Committee should also strive to achieve and carry out its assigned responsibilities as per the Audit Charter.

7.9.3 Failure to implement the IUCEA Risk Management Framework

Audit Commission reported that Para 15 of IUCEA Financial Procedures Manual states that in the IUCEA's context risk will represent any event or action that may adversely affect IUCEA in executing its strategies for achieving its strategic objectives. It also emphases that;

i. The main purpose of risk management policies and procedures is to ensure that all risks are properly identified and appropriately managed;
ii. Detailed step by step procedures for identifying, recording and mitigating risks are contained in the approved Risk Management Policy and Strategy;
iii. Detailed Financial risk management policies and processes are outlined in the approved Risk Management Policy and Strategy; and
iv. Details of all identified risks of IUCEA are contained in the Risk Register which is reviewed on a regular basis.

During the Audit review, it was noted that the Risk Management Framework was approved by the Executive Committee during its meeting held in Dar-Es-Salaam on 30 June 2014. The outgoing IUCEA Audit Committee with a term running from July 2015-June 2017 in its end of term report recommended to the incoming Committee to make a follow up on the recommended implementation of the Risk Management Framework.

Audit further reported that during audit exercise it noted that IUCEA had not yet implemented the Approved Risk management Policy. This would help to put in place a strategy which indicates the detailed step by step process to identify, record and mitigate risks. Since the approval of the framework, there was no evidence that the Risk Register was updated to reflect the changes in IUCEA environment.

When the Committee interacted with the management of IUCEA, it reported that IUCEA has been implementing risk management without direct reference to the Risk Management policy. Management pledged to ensure that the recommendations aimed at implementing the risk policy and more strategies are directly undertaken in the near future.

Committee Observations

i. Non – compliance with paragraph 15 of IUCEA Financial Policies and Procedures Manual;
ii. IUCEA may fail to achieve its Strategic objectives once the risks are not properly mitigated and managed and;
iii. Failure to review and update the Risk Register may lead to the design of wrong responses which are not in line with actual IUCEA risks.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje for this anomaly. Furthermore, IUCEA Management is advised to implement the approved risk management framework which will help the Council to provide a road map for identifying, recording and mitigating all the risks facing IUCEA and update the Risk Register accordingly.

7.9.4 Inadequate Number of Staff in Core Departments to Undertake the Council Operations

The Audit Commission reported that IUCEA organization structure was appraised and approved by the Executive Committee on 3rd July 2015, with 47 positions where by up to the time of audit October 2018 only 30 positions (63%) were filled. However, the review of the Approved IUCEA organogram revealed that core job positions linked with the key objectives of the Council were not effectively looked at during the process of filling the structure rather only support units were considered.

When the Committee interacted with the management of IUCEA, it concurred with the Audit Commission finding and undertook to ensure that as soon as Partner States adequately honor their financial contributions, the vacant positions will be filled. Management further noted that IUCEA has been hiring based on prioritized areas given the low contributions from Partner States.

Committee Observations

i. The Council is missing a strategy to fill the IUCEA key positions to ensure that the Council's objectives and priority functions are met and;
ii. There is a likelihood that this may hinder the efficiency in service delivery as a result of inappropriate capacity to meet its objectives.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of IUCEA Prof Alexandre Lyababaje to ensure that the IUCEA Management strive to prioritize its recruitment to ensure that key positions that are relevant with its objectives and functions are filled first.

8.0 THE EAST AFRICAN SCIENCE AND TECHNOLOGY COMMISSION (EASTECO)

East African Science and Technology Commission was established in accordance with the Treaty of the East African Community under the relevant provisions as set out on Chapter 16, Article 103 (a). In that respect, the Partner States, through Article 3 of the Protocol, established the East African Science and Technology Commission (EASTECO) with the role to govern and promote cooperation in the development and implementation of science and technology within the Community.

8.1 REVIEW OF BUDGET

8.1.1 Unsupported Difference Between the Approved Budget by EALA and the Amount Recorded in EASTECO books of Account

The Audit Commission reported that EALA approved and appropriated a budget of USD 1,500,164 to EASTECO for the financial year 2017-18. The funds were expected to be received from contributions from Partner States and EAC General Reserve.

Review showed that there was an unexplained difference of USD 18,000 between the approved budget for the financial year 2017-18 and the amount included in the correspondence sent to EASTECO for recording as funds to be collected from Partner States of USD 1,482,164.

EASTECO Management informed the Audit Commission that they were not aware of the reason for the shortfall, but the EAC Secretariat through the schedule circulated to different EAC institutions indicated that USD 18,000 would be obtained from other revenue sources. However, there was no formal follow up of the shortfall in the approved budget.

Committee Observations

i. Not fully financing the approved activities may end up leaving some activities not being done thus EASTECO may not be able to achieve its mandate and;
ii. Misstatement in the approved budget resulted into EASTECO understating its revenue.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant Mr. Methusela Mbajo personally accountable for this anomaly.

8.1.2 Budget Underperformance for the Year Ended 30 June 2018

The Audit Commission reported that regulation 35 of the Financial Policies and Procedures 2012provides that a budget performance report be prepared and has to indicate the budgetary appropriations, Actual expenses, commitments, balance on the budget and explanations of any variations from the total approved budget amount of the activity. Audit Commission observed cases of huge underperformance of almost all the budget lines.

When the Committee interacted with the management of EASTECOit reported that **t**he under-performance in Staff Costs during the period was mainly due to the delay in staff recruitment caused by a relatively long recruitment process; while under-performance in the Programmatic Expenses was mainly caused by delay in receiving the appropriated funds from the Partner States (a substantial part of USD 539,816 remained outstanding as at 30.06.2018) which affected the institution's performance as it could not commit itself into some of the planned programmes without fund availability.

Committee Observation

The budget lines for which funds were allocated were not used as required hence the associated objectives were partially attained. This may also be an indicator of inadequate planning at the time of preparing the budget.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant Mr. Methusela Mbajo personally accountable for this anomaly. Furthermore, the* Management *of EASTECO should:

i. ***Ensure that funds budgeted for are used in line with budgeted and planned activities to avoid budget underutilization; and***
ii. ***Make necessary follow up with the Partner States and the Secretariat to ensure that funds are remitted in a timely manner.***

8.2 REVIEW OF EXPENDITURE

8.2.1 PerformingActivities Outside the Approved Budget

Audit Commission reported that Regulation 20Para 5 of the EAC Financial Rules and Regulations 2012 states that the Council of Ministers shall consider and refer all supplementary proposals to the Assembly for debate and approval. As per the Para 6, the Assembly shall debate and adopt the supplementary budget proposal for the current year. Regulation 21. 1 (a) states that all expenses should be duly incurred from the approved budget by the Assembly.

The Audit Commission noted that on 10th May 2018, EASTECO signed a financing agreement with UNESCO amounting to USD 30,427 to support a Regional Stakeholder Workshop held in Kampala, Uganda from 18th to 19th June 2018 to review and validate the consultant's interim report on the EAC Regional Science, Technology and Innovation Policy. However, the activity was not budgeted for and funds were incurred without prior approval by EALA.

When the Committee interacted with the management of EASTECO, it concurred with the with the Audit observation and reported that negotiations and signing of Financing Agreement was concluded in May 2018. There was no EAC – F&A Committee under which the procedure would have considered the same for further steps.

The funds were needed to Support the Development of the EAC Regional Policy for Science, Technology and Innovation. In the premise therefore, the request for Retrospective Approval of the Supplementary Budget for the funds received from

UNESCO for FY2017-18 had been aligned for consideration in the next EAC – F&A Committee which was to be held from 13th November 2018.

Management further reported that the agreement was reached towards the end of the financial years and could not get the approval from EALA as required by the EAC financial rules and regulations. A retrospective approval was later obtained.

Committee Observation

The incurring of expenses and appropriations from funds not approved budget by the Assembly is against the existing EAC financial rules and regulations and may lead to misuse of funds as there is no control on expenses not budgeted for.

Committee Recommendations

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to hold accountable the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant Mr. Methusela Mbajo for the discrepancy;***
ii. ***Furthermore, Management of EASTECO should at all times comply with existing financial rules and regulations by carrying out activities which have been approved by EALA and incur expenditures as per the approved budget.***

8.2.2 Unnecessary Cash Withdrawals to Pay Staff Daily Subsistence Allowances

The Audit Commission reported that best practice recommends that handling of cash money should be discouraged and at most when it is inevitable be reduced to the minimum. The Audit Commission observed cases where the cashier withdraws cash from the bank to pay DSA to the Commission's Officers.

When the Committee interacted with the management of EASTECO it reported that all payments accruing to the Commission's employees in the course of their official duties were electronically transferred to their respective bank accounts. However, in these few cases the circumstances necessitated the cashier to be involved.

Committee Observations

i. The practice poses security risk to the cashier and also the withdrawn cash in the event that the cashier is waylaid by bandits before handing over the withdrawn cash to the respective officers.
ii. This is a wastage of time for the cashier who will be required to queue at the bank while he/she could be handling other finance and accounting tasks.

Committee Recommendations

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to hold accountable the Executive Secretary of EASTECO M/s Ngabirano Gertrude for this anomaly;***
ii. ***Moving forward, all allowances and any other payments accruing to the Commission's employees in the course of their official duties should be electronically transferred to their respective bank accounts the same way***

salary is done. This will help reduce frequent movement of the cashier and will help mitigate against the above enumerated risks in respect of the amount withdrawn by the cashier to be given to employees.

8.2.3 Most of EASTECO Expenses Being Spent on Travel Expenses in Form of Air Ticketing and Daily Subsistence Allowances

The Audit Commission reported that analysis of the EASTECO's total expenditure of USD 1,457,154 in the year under review (FY 2017/2108), revealed that EASTECO spent USD 768,649 and USD 638,766 in staff costs and administrative and consultancy expenses respectively (thus a total of 1,407,415).

Within the expenditure of Administrative and Consultancy services of USD 638,766, a total of USD 357,342 was spent on air ticketing and daily subsistence allowances (DSA). This represented 56% of the administrative and Consultancy expenses thus, being more than half of that expenditure.

When the Committee interacted with the management of EASTECO, it reported that there has been zero increment for the budget of EASTECO and as result no money has been allocated for programs instead EASTECO is using donor funding to implement its programs. Furthermore, it has budgeted for procurement of video conferencing equipment in the FY2018/19, which upon implementation will help to reduce expenses on frequent travels.

Committee Observations

i. EASTECO spent more than half of its Administrative and Consultancy expenses on air ticketing and daily subsistence in the year under review. These are not operations (core) activities of the Commission.
ii. Use of donor funding to implement EASTECO core programs will compromise the independence and sovereign of the EASTECO since most of the activities will be dictated by the donors.

Committee Recommendations

i. The Committee recommends to the Assembly to urge the Council of Ministers to hold accountable the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant the Principal Accountant Mr. Methusela Mbajo for the unauthorized diversions;
ii. Since the Commission is mandated to deal with science and technology issues within the whole community, the Committee recommends that EASTECO with the help of the Secretariat should consider investing in video conferencing to reduce these frequent travels and save on the expenses of air ticketing and daily subsistence.

8.3 REVIEWOF THE STRATEGIC PLAN

8.3.1 Failure to Include Key Performance Indicators (KPIs) in the EASTECO 5-year Strategic Plan (2017/18 – 2021/22)

Audit Commission reported that in practice, once an entity has identified critical success factors it follows them by identifying key performance indicators (KPIs) to measure the achievement of these critical success factors.

As highlighted in out prior audit, EASTECO identified 9 critical success factors in its approved 5-year Strategic Plan. However, Audit Commission noted that there was no action taken to include Key Performance Indicators (KPIs) that would indicate how EASTECO is achieving its critical success factors (CSFs) to achieve its mandate.

When the Committee interacted with the management of EASTECO it reported that it received funding from the Partnership fund and have developed the draft Key Performance Indicators in relation to the identified Critical Success Factors and are awaiting Governing Board Meeting for approval.

Committee Observation

Failure to include KPIs may deny EASTECO to identify how much it is achieving in terms of executing its mandate.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Executive Secretary of EASTECO M/s Ngabirano Gertrude to quickly identify key performance indicators and link them to critical success factors so as to monitor their achievements when due.

8.3.2 Failure to Establish Risk Management Framework

Good Governance requires an organization to establish risk management framework which should indicate the Protocol, strategy and Architecture for risk management process.

Audit Commission reported that EASTECO has not established its own risk management framework to ensure effective risk management whereby key responsibilities are assigned to specific people in areas of their work to ensure proper identification, assessment, recording and maintaining register, monitoring and reviewing the risks. Communication and consultation as well as training of other team members so that everyone in the organization should be informed and aware of the risk management process.

When the Committee interacted with the management of EASTECO it reported that the risk management function is being centrally managed at the EAC secretariat where a risk management Committee was set up to oversee it. Nonetheless EASTECO undertook to customize/establish its own risk management framework for identifying, recording and mitigating all risks facing EASTECO.

Committee Observations

i. Failure to have risk management framework in place may result into having no roadmap for risk management;
ii. Without risk register, EASTECO may fail to identify and design appropriate responses for the risks.
iii. EASTECO may fail to achieve its strategic objectives once the risks are not properly mitigated and managed.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to advise the Executive Secretary of EASTECO M/s Ngabirano Gertrude to ensure that EASTECO quickly establishes its own risk management framework whereby it can identify the protocol, strategy and architecture for risk management so as to provide road map for identifying, recording and mitigating all risks facing EASTECO.

8.4 REVIEW OF GOVERNANCE

8.4.1 Failure to Establish Management Committee to Oversee Operational Activities

Good Governance requires an organization to establish Management Committees which should comprise of heads of departments who are held accountable for activities and ensuring the Organization is well run and delivers the outcome for which it was established.

When the Audit Commission reviewed of the Governance structure at EASTECO, it revealed that there was no Management Committee to oversee the vision, mission and values of the EASTECO and supervise the implementation of strategic and operational plans in order to achieve the four priorities of EASTECO within the specified period with the scarce resources available to it.

When the Committee interacted with the management of EASTECO, it concurred with the audit observation and undertook to ensure that the Management Committees are formed as per Assembly's recommendation.

Committee Observation

Lack of a management committee in the Commission can result into:
i. Ineffective management of the organization and its activities and;
ii. Failure to monitor and timely evaluate the activities of the Commission to ensure they are keeping with the priorities, vision, mission and values of the Organization.

Committee Recommendation

i. The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant Mr. Methusela Mbajo responsible for this anomaly;
ii. As a matter of priority, the Management of EASTECO should establish a Management Committee which should be responsible for the daily activities of the Commission. These Committees should meet at least once in a week to discuss different issues regarding EASTECO. The meetings should be

chaired by the Executive Secretary or his Deputy when the Executive Secretary is not around.

8.5 REVIEW OF INTERNAL CONTROLS

8.5.1 Weakness in the Travel Requisitions by EASTECO Executive Secretary

Best practices in issuance of staff imprest require that one cannot approve his/her imprest. The Audit Commission observed that requisition memos for the Executive Secretary (ES) travelling outside for official duties were done by her personal secretary and then they are addressed to the ES for approval by her for herself.

When the Committee interacted with the Executive Secretary, she undertook to comply with the Assembly recommendation.

Committee Observation

There is no independent examination of the process of getting imprest for the Executive Secretary for travel and for other official engagements as longer as she approves her own imprest.

Committee Recommendation

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Secretary of EASTECO M/s Ngabirano Gertrude and the Principal Accountant Mr. Methusela Mbajo accountable for this discrepancy;***
ii. ***For more accountability and transparency in the Executive Secretary trips abroad the Project Coordinator or in her absence, the in charge of Administration can do the requisition memos and be approved by the Board Chairperson. The Deputy Executive Secretary can also approve the memos as it is done in other EAC institutions***.

8.6 REVIEW OF PROCUREMENT PROCESS

8.6.1 Absence of the Suppliers Register

Paragraph 5.2.7(1) of the East African Community (EAC) Procurement Policies and Procedure Manual of 2011, provide that EAC Secretariat, its Organs, and Institution shall maintain register of suppliers for sourcing the supply of goods, services, and works.

Further paragraph 5.2.7(5) of the manual states that the procurement unit is responsible for administering the register of suppliers including co-ordination of evaluation of suppliers' registration applications and advising the Procurement Committee on the status of evaluation.

Audit Commission observed that during the year ended 30 June 2018, the EASTECO had no register of pre-qualified suppliers as required by the provisions quoted above.

When the Committee interacted with the management of ESTECO, it reported that it had a list of running contracts approved by the Procurement Committee at EAC Secretariat. It pledged to ensure that it establishes a register of pre-qualified suppliers for various goods and services as per Procurement Manual.

Committee Observations

i. The obtaining situation of non-existence of suppliers' register is against the above quoted paragraphs of the EAC Procurement Policies and Procedure Manual and;

ii. There is a probability that the Commission did not receive value for money for the procurement in 2017/2018 for lack of the said register.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Commission to immediately put in place a register of pre-qualified suppliers since it has recruited a procurement specialist. This will ensure competitive and transparent procurement of works, goods and services for the Commission and guarantee value for money in the procurement process.

9.0 THE EAC COMPETITION AUTHORITY

East African Competition Authority was established in accordance with the provisions of the East African Community (EAC) Treaty. Article 75 (i) of the EAC Treaty provides that Partner States will establish a Customs Union contained in a Protocol which shall include Competition, among other issues. It is a semi-autonomous institution of the East African Community mandated to promote and protect fair trade and ensure consumer welfare in the Community.

9.1 REVIEW OF THE BUDGET EXECUTION

9.1.1 Under Absorption of Budgeted Authority Funds

Regulation 30 of EAC Financial Rules and Regulation 2012 states that the appropriation approved by the Assembly shall constitute authorization for the Community to incur obligation and make payments for the purposes for which the appropriations were voted and up to the amounts so voted.

Committee Observation

The underperformance of the budget means that many of the activities that were planned to be undertaken in the year were not done. This may mean that the budget was unrealistic or enough effort was not put to achieve the planned objectives.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Registrar of the Authority M/s Mukoronia Lilian to implement the planned activities in line with the budget. Furthermore, she should ensure that all steps are taken to offer the intended services to the Community.

9.1.2 Irregularities in the Annual Work Plan Against Performance Report

Audit Commission reported that an annual operation plan is a management tool that helps an institution to monitor its performance against the plans for a specific period. At the end of each period, an Annual Performance Report is prepared and provides a holistic presentation of recent accomplishments in comparison with the performance targets, estimated budget for each activity; resources allocated; challenges and risks; and final level (percentage) of performance and milestones that support the Strategic Plan goals and objectives.

When the Annual Work plan was compared against the Annual Performance Report, it noted the following:

i. The performance report submitted did not indicate the amount spent to implement activities against the budgeted amounts so as to identify under/over absorptions in the budget.
ii. The activities reported in the performance report do not indicate percentages of achievement.
iii. The Annual Operation Plan indicated four (4) activities for which there were no allocation of budget for their implementation;
iv. There were two (2) activities which indicated the source of fund as USAID and RISP partnership Fund however no amount was received in that respect,

furthermore no agreement was availed to Audit to verify the amount which was to be reimbursed by the donors to cater for the mentioned activities and;

v. Three (3) activities were not implemented including two of which were to receive funds from RISP and USAID.

Committee Observations

i. Performance report without indicating level of achievement may not assist the institution in performance evaluation;
ii. Planning activities without reliable source of funds may hinder implementation of the activities; and
iii. Un-realistic planning and budget may result to failure to achieve the intended objectives.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Registrar of the Authority M/s Mukoronia Lilian accountable for this discrepancy. Furthermore, she is advised to prepare viable plans and a realistic budget to facilitate achievement of the planned objectives.

9.2 REVIEW OF REVENUE

9.2.1 Late Disbursement of Contributions from Partner States

The Audit Commission reported that regulation 23(5) of the EAC financial Rules and Regulation states that contributions by Partner States shall be considered due on 1st July of each year and shall be paid within first six months of the financial year.

Review of Partner States contributions noted that there was late submission of Partner States' contributions to finance the Authority's annual budget. It was noted that the amounts received in each quarter was less than the amounts required to finance the respective quarter budget and planned activities.

Committee Observation

Delay in disbursing funds to the Agency may affect smooth implementation of the planned activities.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Registrar of the Authority M/s Mukoronia Lilian to liaise with the Secretariat to follow up with Partner States for timely remittances of the agreed contribution.

9.3 REVIEW OF EXPENDITURE

9.3.1 Most of Administrative Costs Incurred in Air Tickets and Daily Subsistence Allowance (DSA) Towards the Year End

The Audit Commission reported that a high percentage of the administrative costs were incurred in Air ticketing and Daily Subsistence Allowance (DSA). 32% of the total administrative, meetings and consultancy expenses (USD 292,532) was incurred in air ticketing and DSA in the last quarter (May to June 2018).

Committee Observation

There may be incurrence of unnecessary expenditures for the sake of exhausting the allocated budget.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Registrar of the Authority M/s Mukoronia Lilian accountable for the anomalies.

9.3.2 Expenditure Incurred after the Commitment Cut off Period

Audit Commission reported that Section 19.2(e) of the EAC Financial Procedures Manual, 2013 requires creation of new financial commitment to stop on 20th May of the accounting period to allow ample time for proper year end closure processes.
Section 19.2(f) further emphasizes that only urgent travel related commitments shall be allowed after the date.

Review of EACA expenditure for the period noted that EACA continued to commit expenditures after 20th May 2018 contrary to the referred to requirement.

Committee Observation

The irregularity above has caused budget compliance problems as there are payments whose expenditure have to fall in the year 2018/2019 despite the fact that they were absorbed the 2017/2018 budget.

Committee Recommendation

- ***i. The Committee reiterates its previous recommendations and recommends to the Assembly to urge the Council of Ministers to hold the Registrar of the Authority M/s Mukoronia Lilian and the Director of Finance at EAC Mr Juvenel Ndimurirwo for this continued anomaly;***
- ***ii. EAC Secretariat Management is urged to observe the budget cut-off prescribed by the Financial Procedures Manual, 2013.***

10.0 CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY (CASSOA)

10.1 REVIEW OF BUDGET AND BUDGETARY CONTROL

10.1.1 Outstanding Contributions from Partner States

The Audit Commission reported that Regulation 25(4) of CASSOA Financial Rules and Regulations 2013, requires that contributions from member states be made on 1 July of each financial year and the first instalment shall be paid within the first three months and the second by January of the financial year.

CASSOA had budgeted to collect revenue of USD 2,600,908 from the following sources:

Revenue from	Budget (USD)	Actual (USD)	Excess/ (shortfall) (USD)	Excess/ (shortfall) (%)
Contribution from Partner States	2,400,702	1,969,967	(430,735)	(18)%
Funding from Reserve	183,707	183,707	0	0
Other receipts	16,500	11,404	(5.906)	(31)%
TOTAL	**2,600,908**	**2,165,078**	**(435,830)**	**(17) %**

However, Audit review indicated that there was a shortfall of USD 435,830.00 or 17% as shown in the above analysis.

For the financial year under review, CASSOA budgeted USD 2,400,702 as contribution from Partner States. However, only USD 1,969,969.00 was realized. This was as a result of South Sudan Civil Aviation Authority not paying its contribution of USD 430,735 as required. By the time of Audit in October 2018, the payment was still outstanding.

Committee Observations

Insufficient remittance of contributions limits CASSOA to fully implement its activities on time.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director of CASSOA Mr. Nguza Arao Emile should liaise with respective Partner States to ensure that they remit their respective commitments.

10.2 EXPENDITURE MANAGEMENT

10.2.1 Non-compliance with the EAC CASSOA Staff Rules and Regulations in Payment of Education Allowance

Audit Commission reported that contrary to Regulation 40 of the EAC CASSOA Staff Rules and Regulations, an analysis of the payroll record revealed that USD 48,000.00 was paid during the year under review as education allowance. However, scrutiny of records held revealed that the birth certificates of the children to whom the payment relates to were not in the payroll file as required by the regulations.

The dates of birth of these children were only indicated by the concerned staff in the Education Allowance Claim Form and accepted as such by the Accounting Department without requiring any proof.

Committee Observation

There is a risk of payment of the Education Allowance for non-eligible children.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Director Mr. Nguza Arao Emile and the Senior Accountant M/s Wanjiru Mwita personally liable for this anomaly.

10.2.2 Excessive Administrative and Consultancy Expenses: USD 1,149,207

Audit Commission reported that the Financial Statements for the year under audit reflected an amount of USD 1,149,207 under administrative and consultancy expenses. A scrutiny of the records revealed that an amount of USD 779,009 was incurred under travel and subsistence expenses (USD 525,543) and conference and meetings costs (USD 253,466) respectively, which is approximately 68%.

This reduced the current operating expenses on the core functions of the Agency to only 32% of all administrative and consultancy expenses.

Audit Commission had recommended in the previous year that Management of the Agency should use cost effective method of teleconferencing to reduce travel and subsistence allowances, as well as conference and meeting cost, but the said expenses increased during the financial year under review.

Committee Observation

The sustainability of CASSOA may be compromised.

Committee Recommendations

i. ***The Committee reiterates its previous recommendation and urges the Assembly to ensure that the Executive Director Mr. Nguza Arao Emile and*** *the Senior Accountant M/s Wanjiru Mwita are personally held accountable for this anomaly;*

ii. ***Furthermore, Mr. Nguza Arao Emile should minimize travel and subsistence allowances, as well as conference and meetings costs by using the video conferencing tools available in all EAC Member States.***

10.2.3 Absence of Copies of Itinerary to Support Payments for Air Tickets USD 107,801.03

The Audit Commission reported that payments totaling USD 107,801.03 were made to the Travel Agencies for provision of air tickets. A scrutiny of documents availed revealed that no copies of itineraries were attached to support payments for the tickets issued.

Committee Observation

Payments may be made for services which were not rendered.

Committee Recommendation

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to instruct the Executive Director Mr. Nguza Arao Emile to direct the Senior Accountant M/s Wanjiru Mwita and the Head of Procurement Office M/s Buke-Buke Emily comply with the EAC Financial Rules and regulations;***

ii. ***Management should ensure that all payments are fully supported*.**

10.2.4 Funds Not Used to Implement Planned Activities: USD 67,827

Audit Commission reported that, as at 30th June 2018, none of the activities which were financed had been executed. These activities were part of the approved annual work plan and the funding which had been expressly requested by Management of CASSOA was availed.

Committee Observation

Non-timely use of funds from Development Partners may lead to the Agency not attaining its goals and objectives.

Committee Recommendation

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to hold the Executive Director Mr. Nguza Arao Emile personally accountable for the non-utilization of available funds;***

ii. ***Furthermore, Mr. Nguza Arao Emile should make every effort to use all the funds made available by its Development partners in a timely manner to prevent their cancellation and thus affecting the implementation of planned activities.***

10.2.5 Under-staffing of CASSOA

Audit Commission reported that upon review of the current CASSOA organizational structure and the filled posts, it showed that the Agency did not have sufficient human resources. Out of 30 positions provided by the current structure, only 15 were filled by full time staff. This negatively impacted on the implementation of the annual activity plan.

Furthermore, Audit further noted that 4 contracts out of 15 of the existing staff members were due to expire not later than 31December 2020. Thus, the achievement of CASSOA strategic objectives was doubtful due to these continuous human resources deficiency.

Committee Observation

Due to the insufficient human resources at CASSOA, planned activities may not be carried out, thus strategic objectives may not be achieved. The existing staff may be overloaded to carry out tasks that should be undertaken by other potential staff.

Committee recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to direct CASSOA Board and the Executive Director Mr. Nguza Arao Emile to fill the vacant positions for which funds are budgeted for annually.

10.2.6 Lack of Segregation of Duties in the Accounts Section

Audit Commission reported that Financial Rules and Regulations of CASSOA Regulation 31(2)(a), requires the Executive Director to maintain a system of internal controls which shall provide for an effective review of financial management and operational transactions in order to ensure the proper receipting, recording, custody and disposal of funds and other financial resources of the Agency.

A review of the operations of the Agency revealed that there is no segregation of roles and duties in the Accounts Section as the Accountant receives cash, does the banking and makes bank reconciliation statements.

Committee Observation

There might be no checks and balances which may lead to errors going unnoticed by Senior Management.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers the Executive Director Mr. Nguza Arao Emile to immediately address the reported concern. Furthermore, as a matter of urgency, the separation of duties in the Accounts Section should be improved and the management should as matter of concern recruit a cashier.

10.2.7 Issuing Imprest to Staff with Previous Outstanding Ones

Audit Commission reported that according to regulation 40 (5) of CASSOA financial rules and regulations 2013, no imprest shall be given to an Officer before the previous imprest is fully accounted for.

During the audit it was noted that staff were issued with one or more imprests without retiring the previous ones.

Committee Observations

CASSOA may be at risk of losing funds which are important in achieving its objectives of better development projects.

Committee Recommendation

i. ***The Committee recommends to the Assembly to urge the Council of Ministers to personally hold the Senior Accountant M/s Wanjiru Mwita personally accountable for this discrepancy;***
ii. ***Furthermore, CASSOA management should adhere to the financial regulations and ensure that no fresh imprest is issued to a Staff who has not retired the previous ones. The Executive Director should take keen interest in resolving this anomaly.***

10.3 REVIEW OF ASSET MANAGEMENT

10.3.1 Lack of Title Deeds for Land and Buildings

Audit Commission reported that included in the financial statements of the Agency as at 30 June 2018 was an amount of USD 786,120 under Property, Plant and Equipment. Out of this amount USD 334,770 and USD 400,172 relate to Land and Building respectively. However, the Audit Commission noted that CASSOA does not have title deeds for the land on which its premises are constructed.

Committee Observation

The propriety of the amount of USD 786,120 disclosed in the statement of financial position as at 30 June 2018 could not be confirmed.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to direct the Executive Director Mr. Nguza Arao Emile to resolve this issue and report progress to Council and the Assembly within six months.

10.4 PROCUREMENT AND CONTRACT MANAGEMENT

10.4.1 Repair of EAC-CASSOA Compound Wall not Completed Within the Agreed Time Frame

Audit Commission reported that EAC-CASSOA entered into a contract for the construction of a compound wall under contract NO CAS/WRKS/001/2017/2018 at a contract sum of UGX 43,622,830 equivalent to USD11,695 vide purchase order no PON/CAS/000460 dated 29 June 2018. The work was to take 8 weeks with commencement date been 29 June 2018 with the completion date being 2 September 2018. As at the time of Audit in October 2018 work was still in progress. Information available indicates that the contract was entered on 29 June 2018 two days before the closure of the financial year.

In addition, a scrutiny of the financial statements revealed that the commitment of USD11,695 was not disclosed in the notes to the financial statements under commitments.

Committee Observations

i. The Budget for 2018/2019 will be affected by contracts entered in 2017/2018 which have not been committed.
ii. Failure to complete the planned activities in time may result into cost overruns.

Committee Recommendation

i. The Committee recommends to the Assembly to urge the Council of Ministers to personally hold accountable the Senior Accountant M/s Wanjiru Mwita, for his discrepancy;
ii. Management should also enter into contracts within reasonable time within the financial year and ensure that any contracted work is completed within the agreed time frame. Unplanned procurements and contracts are a source of flagrant abuse of processes and EAC resources.

10.4.2 Purchase of 30 KVA, 3 Phase-Ups without putting them into use

A Requisitioning form for the above items to furnish to office was done on 26February 2018 by the Principal Human Resource Administration officer. A procurement committee meeting was held on 9 March 2018 to deliberate on the issue where it was agreed due to the urgency to do retrospective approval for reduced number of days. As a result, the minimum for restricted biding of 20 days was shorten to 12 days.

Invitation to tender REF CAS/SUPLS/003/2017-2018 dated 13 March 2018 was issued. The tender was valid up to 26 March 2018. Seven firms bid for the supply. After evaluation Service and Computer Industries (U) Limited was awarded the tender at the cost of USD 31,907.20 vide local purchase order number POA/CAS/000007 dated 29 June 2018.

Audit commission was provided with a delivery note number DN/2887/2018 dated 2October 2018. A physical verification was carried out by the Audit commission on 23rd October 2018 and the following observations made: -

i. The items purchased and delivered were still in boxes, hence not in use.
ii. No installation or commissioning as required in the contract was done.

From the above observations, it is not clear why procurement procedures were changed due to urgency, yet as at the time of audit in October 2018 the items were not in use.

Furthermore, it is noted that the Agency did not comply with the 3Es thus efficiency, effectiveness and economy and did not get value for money from this transaction. The same was not disclosed in the notes of the financial statement under commitments.

Committee Observation

The supplier may refuse to take back the UPS in case it will be found not usable and the Agency will have to pay according to the contract, hence loss of funds.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to personally hold accountable the Executive Director Mr. Nguza Arao Emile for this anomaly.

Furthermore, management should resolve this problem as soon as possible and should take keen interest in its procurement procedures to avoid unnecessary losses to the Agency.

10.4.3 Planned Activities not implemented

Audit Commission reported that upon review the annual plan of activities and budget and fourth quarter performance reports sent to the board of Directors it noted that, 33 of the planned activities that were to be implemented during the year 2017/2018, were unimplemented. Reasons given were that the activities were dropped during reallocation.

Committee Observations

i. There is a likelihood of missing out on key activities which may ultimately prevent the Agency from meeting its objectives.
ii. The procurement plan was unrealistic

Committee Recommendations

i. The Committee recommends to the Assembly to urge the Council of Ministers to personally hold accountable the Executive Director Mr. Nguza Arao Emile take keen interest in implementing all the planned activities;

ii. ***Furthermore, the Agency should plan for activities that are achievable and within the Budget lest it may need to review its local purchase orders and drop all those activities it may not work on.***

11.0 EAST AFRICAN HEALTH RESEARCH COMMISSION

11.1 GOVERNANCE AND INTERNAL CONTROL SYSTEM MANAGEMENT

11.1.1 Rules and Regulations not customized to the Commission

Audit Commission reported that EAHRC is a semi-autonomous Institution of EAC established through a protocol signed on 13th September, 2008. Having been established as a semi-autonomous institution EAHRC it ought to have its own Rules and Regulations customized from EAC Rules and Regulations.

The Audit Commission noted that up to the time of audit, EAHRC was still using the Rules and Regulations of EAC without having customized the same to cater for its needs.

When the Committee interacted with the management of EAC, it concurred with the Audit finding and noted that was a delay in commencing the customization of the rules and regulations due to limited staff at EAHRC. The Commission undertook to ensure that customization process of the Rules and Regulations would be undertaken up by the responsible units in the current year.

Committee observation

The Rules and Regulations if not customized might not suit the environment of EAHRC.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson rolls out customization of the Rules and Regulations to suit EAHRC environment. The delay could be a means of circumventing existing EAC regulations to the benefit of a few individuals in management.

11.1.2 EAHRC Lacks Its Own Headquarters Building

Audit Commission reported that EAHRC relocated from Arusha to Bujumbura in February 2018. According to the lease agreement signed on 22nd May 2017, the Commission rents an office building at a cost of USD 3,000 per month, translating to USD 36,000 annually. Additional costs on the rented building were also incurred. For the financial year under review, an amount of USD 32,947 was spent for a number of works necessary to make the building ready for use as an office building. The total annual amount spent on the building is thus USD 68,947.

Audit Commission noted that the cost of renting EAHRC office building is quite high and the Commission would benefit from getting its own permanent office building.

In the process of having a permanent Headquarters, the Government of Burundi gave the Commission a land of approximatively 7,176.00 square meters which is approximatively USD 60,530 as land service fees in order to get the land.

The 17th Ordinary Meeting of EAC Sectoral Council of Ministers of Health held on 26th October 2018 in Kigali- Rwanda requested the Council to request the Government of Burundi to exempt the Commission from paying the land service fees for the allocated plot. Indeed, article II (a) of the Headquarters Agreement between the Government of the Republic of Burundi and the East African Community for the EAHRC signed on 27th June 2015 provides that "the permanent seat which will be donated to the Commission by the Government of the Republic of Burundi, free of rent and any encumbrances whatsoever and shall be based in the city of Bujumbura in the Republic of Burundi"

When the Committee interacted with the management of EAHRC, it concurred with the Audit finding and undertook to ensure that it continues to liaise with the relevant authorities in the Republic of Burundi such that the issue related to the land for the EAHRC HQ can be expedited and closed out.

Committee Observation

The Commission is not getting value for money if it continues renting space for its office.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson liaises with the relevant authorities from the Government of Burundi to expedite the process of getting the allocated land and thereafter the process of getting its own office Headquarters.

11.2 BUDGET AND BUDGETARY CONTROL

11.2.1 Failure to Execute Planned Activities

Audit Commission reported that the budget performance was very low and for some activities, it stood at 0 %, thus a number of planned activities were not executed.

Committee Observation

Non-execution of the planned activities may affect the Commission from delivering on its mandate

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson as a matter of priority liaises

with relevant EAC organs and other concerned partners to have the required staff recruited within six months for effective service delivery.

11.2.2 Activities Under USAID RDOAG Budget but not Executed Worth USD 430,067

Audit Commission reported that the upon review of Budget Performance Report, it showed activities that were planned to be implemented under USAID RDOAG Budget, but they had not been executed at all. The rate of execution was 0% for almost all planned activities.

Committee Observation

Non-execution of Development Partners funded activities did not only impede EAHRC to deliver according to its mandate, but it also had negative impact on the donor commitment to continue funding the Commission.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson is held accountable for mobilizing resources he intended not to use. Therefore, as a matter of priority the Commission should optimize budget execution.

11.2.3 Annual Operation Plan Not Satisfactorily Executed USD 491,374

Audit Commission reported that the upon review of Budget Performance Report, showed that activities totaling USD 491,374 from Partner States Budget, USAID and GIZ were not executed as budgeted.

When the Committee interacted with the management of the EAHRC, it reported that the above scenario was occasioned by the following factors;

i) For 09 months of FY17-18, the EAHRC was based in EAC HQ Arusha. Consequently, there were savings realized on most of the operational expenses which was no longer an issue now that the Commission has fully relocated to its HQ in Bujumbura.
ii) The FY17-18 budget included 03 staff salaries and allowances (Senior ICT Officer, Principal Health Officer and Principal Human Resource Officer) who had been expected to be in board but due to the challenges associated with recruitment are yet to brought on board; and
iii) The EAHRC has only 07 staff so far so quite stretched on ground given the activities. Hence staff did not get the opportunity to go on home leave.

Committee Observation

Non execution of the budgeted activities could impede EAHRC to deliver according to its mandate.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson liaises with the concerned officers at the secretariat to secure the approved resources for the implementation of the AOPS. Or should review the budget and prepare a realistic budget.

11.3 REVIEW OF PROCUREMENTS

11.3.1 Procurement of ICT Equipment not in Use

Audit Commission reported that during the year under review, EAHRC acquired LCD Smart Board 65″ for USD 3,170 and Cisco Telepresence MX 300 "Video conferencing" for USD 13,950.

Upon inquiry from management revealed that the acquired equipment had not been put to use its since acquisition due to not having been installed and configured.

Committee Observation

ICT equipment were not utilized to support EAHRC Business Strategy. Non installation and utilization expose the ICT equipment to obsolescence.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson liaises with EAC Headquarters IT department to expedite the installation process for the equipment and to oriented them to the users to get the best use of the ICT resources.

11.3.2 Absence of a Procurement Unit and Failure to Pre-qualify Suppliers

Audit Commission reported that EAHRC had no properly constituted Procurement Unit hence all activities relating to procurement were done by use of the prequalified suppliers of EAC Secretariat at Arusha which was in violation of EAC Financial Rules and Regulations 67 which states that the entity should have a prequalified lists of suppliers for the purpose of identifying suitable suppliers, obtaining information about products and specifications, and determining methods of solicitation and procurements methods to be used.

Management reported that due to human resources challenges they have not been able to recruit a procurement officer hence the absence of a Procurement Unit.

Committee Observation

Absence of a Procurement Unit may result in violation of procurement procedures and also cause EAHRC not to attain the benefits that may accrue with presence of a Procurement Unit.

Moreover, in line with corporate social responsibility, EAHRC should empower the local business by having the prequalification from the host Partner State.

Committee Recommendation

The Committee recommends that the Executive Director Prof. Kibiki Gibson is held to for this discrepancy. Furthermore, management of EAHRC is advised to ensure that a Procurement unit is established so that all procurements are done efficiently and effectively as per requirements of the Regulation. EAHRC management is also advised to constitute a list of prequalified suppliers for the different services the Commission may require.

11.4 REVIEW OF HUMAN RESOURCES MANAGEMENT

11.4.1 Non-Adherence to Provisions of EAC Staff Rules and Regulations

Audit Commission reported that upon review on individual files of EAHRC staff revealed a number of irregularities such as absence of staff performance appraisal for some staff, oath of allegiance found in some individual files, the period of performance appraisal differed from one staff to another. Audit Commission also noted that for some staff, the performance appraisal was not done on an annual basis.

When the Committee interacted with the management of EAHRC, it reported that Commission currently does not have a Human Resource Officer on board. However, performance appraisals have been conducted for all relevant staff as is expected. In addition, the Commission holds a Management Committee Meeting with all staff on a weekly basis on Fridays and during this time the performance of the staff is reviewed, and corrective action taken immediately.

Committee Observation

Not assessing the performance of individual members of staff denies them the opportunity for performance improvement and may fail to recognize good performers for purposes of reward.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson abides with the EAC Staff Rules and Regulation and ensure regular appraisal of all staff.

11.4.2 Understaffing

Audit Commission reported that upon review of the organizational structure of EAHRC, the Commission is supposed to have 34 staff. However, review of the staffing position revealed that the Commission had only 7 staff comprised of 2 executive staff, three professional staff and two general staff.

Committee Observation

Non-recruitment of required staff is impacting negatively on the execution of planned activities of the Commission.

Committee Recommendation

The Committee recommends to the Assembly to urge the Council of Ministers to ensure that the Executive Director Prof. Kibiki Gibson liaises with relevant EAC organs and other concerned partners to have the required staff recruited for effective service delivery.

12.0 PART III: GENERAL OBSERVATIONS AND RECOMMENDATIONS

12.1 Tax Related Matters

To date Partner States have not granted VAT exemption to the EAC Organs and Institutions in their jurisdiction as required under Article 4(d) of the EAC Headquarters Agreement. As earlier elucidated, the total VAT refundables currently stand at USD 2, 589,770.76

Committee Recommendations

- ***i.*** ***As a matter of urgency, Council should ensure that Partner States directly and immediately remit VAT refunds to the various Organs and Institutions of the EAC;***
- ***ii.*** ***As recommended in the numerous reports, reiterate its previous recommendation and conclude and ratify the immunities and privileges protocol such that there is uniform harmonization of the privileges and immunities that are accorded to EAC Organs and Institutions across the Partner States.***

12.2 Legal Instruments Not Ratified by some or All Partner States

The Committee observed that a number of legal Instruments have not been ratified by some or all Partner States as highlighted and detailed in this report. Non-Ratification is delaying and denying the Community from implementing the integration agenda because some of the agreed milestones contained in these protocols and instruments remains unimplemented.

Committee Recommendations

As a matter of urgency, the Committee recommends to the Council of Ministers to fast-track the ratification of the legal instruments by all the EAC Partner States

12.3 EAC Annual Forum

It's critical that EAC puts in place an annual forum involving all the institutions, Organs and Council to appraise and evaluate itself on the performance of its programs and activities. The follow-up process will be a helpful opportunity for the Institutions and Organs to review the progress being undertaken in the implementation of the integration agenda.

12.4 Delay Finalization of the Institutional Review Exercise

The Committee noted that it is over ten (10) years since the EAC embarked on an Institutional review Process. A lot of the programs of the EAC are dependent on its recommendations and yet there is no indication on when the Council will conclude with the exercise. The Committee observed that this had resulted into delays in the implementation of a number of key programs expected of the EAC.

Committee Recommendations

The Committee recommends to the Assembly to urge Council to fast-track the conclusion of the Institutional Review Exercise to be completed by 30th November 2020.

12.5 Irregular Employment for Short Term Contracts Staff.

The Committee noted that whereas "short term contracts" in the EAC were used to fill manpower gaps arising from the continued increase in the number of Institutions and the delay in conclusion of the Institutional Review Exercise, Audit revealed weaknesses in the management of short-term contracts including:

i. Lack of approvals on hiring of short-term contract staff from the Council as required by the Regulations;
ii. Lack of guidelines on the engagement of the short-term staff such as competitive recruitment processes and unclear determination of emoluments and benefits for short term staff;
iii. Continued engagement of same staff on short term contracts for up to ten years in some cases despite the maximum three months Regulation.

The Committee observed that this is a recurrent and long outstanding audit finding that had not been addressed by the Council of Ministers. The main cause being that the Institutional Review Exercise meant to solve it along with other associated human resource challenges that have dragged on for too long.

Committee Recommendations

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

i. Direct the Management of EAC to phase out short term contracts by establishing the positions in the EAC structure and draw a road map to subsequently fill them and;
ii. Expedite the completion of the Institutional Review Exercise such that the short-term staff are phased out of the EAC structures.

12.6 Delayed, Static and Non-Disbursement of Partner States' and Development Partners' Contributions to Various Organs, Projects and Programs of the EAC.

The Committee observed that some Partner States only remitted a portion of their budgetary contributions for some EAC projects while others did not entirely send their contributions as at end of the FY 2017/18.

The Committee observed that this had narrowed the resource envelope resulting in the EAC Organs and Institutions being unable to fully and smoothly implement planned objectives in the FY to achieve their different mandates. As a result, a number of planned projects had either been partially implemented, delayed or not implemented at all.

Committee Recommendations

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

- ***i.*** ***There is enhancement of follow up on the outstanding contributions through timely and continuous reminders; and issuance of demand and receipt notes to the respective Partner States of what is outstanding to the EAC;***
- ***ii.*** ***It explores other avenues for resource mobilization by soliciting other donors to join the funding EAC programs;***
- ***iii.*** ***It enhances EAC donor relations and resource mobilization;***
- ***iv.*** ***It further explores the possibility of enforcing penalties on the Partner States defaulting on remittances of contributions to the EAC.***

12.7 Delay in the conclusion of the 'Alternative Financing Mechanism'

The Committee noted the static and sometimes reducing contributions from Partner States and Development Partners towards the EAC Budget, Management of EAC developed and presented to the Sectoral Council of Finance and Economic Affairs, a proposal for Sustainable/Alternative Financing Options for the EAC Projects and Programs. The proposal is being considered by the EAC Partner States Ministers responsible for Finance. However, the Committee observed that the conclusion of this process had delayed and there were no proposals approved to that effect.

The Committee further observed that as a result, there were still zero-increment in the total budget of the EAC over the years yet the Institution has continued to expand its mandate through the creation of new Organs and Institutions. The Committee noted that this was crippling the exercise of the EAC mandate.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to expedite the conclusion and consequent approval of the Alternative Financing Mechanism. A progress report should be availed to the Assembly at the next budget reading event.

12.8 Low Absorption of Funds

The Committee observed that the Organs and Institutions of the EAC had unspent funds at the end of the Budget Year. The Committee noted that this led to planned activities not being implemented and consequently low service delivery. Furthermore, the Committee observed that this reduces the confidence of Development Partners over time resulting in non-renewed agreements to finance EAC development initiatives.

Committee Recommendations

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

i. ***Adopts a well-coordinated budget formulation mechanism that will ensure that budgeted resources are utilized in the implementation of planned activities;***
ii. ***Concludes the Institutional Review Exercise in order to recruit sufficient staff and absorb more funds;***
iii. ***Engages Partner States and Development Partners to ensure timely remittances of funds to the EAC.***

12.9 Non-Implementation of the Previous Assembly and Audit Recommendations

The Committee observed a low implementation of recommendations made by the Assembly and the Audit Commission across the EAC Organs, Institutions and Agencies. This is in spite of the Assembly's recommendation that the Secretary General should produce a quarterly report to the Assembly on the status of the implementation. As a result, a number of Audit queries have continued to appear in the successive Audit Reports which underlined weaknesses in EAC Management's efforts to adhere to the EAC Financial Rules and Procedures, Policies and resolutions.

Committee Recommendations

The Committee recommends to the Assembly to recommend to the Council the following:

i. ***To put in place a proper mechanism which will enable the Assembly to receive periodical reports on the status of implementation of its recommendations from the Council of Ministers;***
ii. ***Council should ensure periodic updates the Assembly on the status of implementation of previous Audit recommendations on a quarterly basis.***

12.10 Weak Internal Audit Function at the Community

The Committee observed weak audit mechanisms within EAC and its Organs and Institutions characterized by understaffing within the Audit Units. The Committee noted that some Organs and Institutions were without fully a fledged Internal Audit function and continued to rely on support from the EAC Secretariat Internal Audit which was also not fully fledged.

Committee Recommendations

The Committee recommends to the Assembly to urge the Council of Ministers to strengthen the EAC Internal Audit function by ensuring that it acquires the necessary personnel particularly for the unmanned organs and institutions

12.11 Lack of A Coordinated Approach to Management of EAC Projects and Programmes

The Committee observed that there was no mechanism in place to address coordination, learning, sustainability and resource sharing between the various projects and programmes that were implemented by the EAC and its Organs and Institutions. As a result, there was duplication of activities, failure to share lessons; and resource wastage.

Committee Recommendations

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

i. ***institute a coordinating mechanism for all projects and programmes of the EAC by establishing a Project Management Unit to coordinate and monitor EAC projects and programmes;***
ii. ***draw sustainability plans for all projects and align them with the EAC objectives and mission to enhance effectiveness and delivery of the initiatives during and after project/programme closure.***

12.12 Understaffing and human Resources matters at the EAC

The Committee observed that most of the EAC Organs and Institutions are grossly understaffed which has led to non-segregation of duties and violation of staff rules and Rregulations. The Committee further noted that is partly due to the delay in the conclusion of the Institutional Review Exercise that has taken more than seven years.

Committee Recommendations

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

i. ***ensure that the Institutional Review Exercise is quickly concluded and its recommendations adopted to allow for the recruitment of vacant positions within EAC departments; and***
ii. ***cause a review in the emoluments structure at the EAC to harmonize it with the changing costs of living and minimize conflict of interest.***

12.13 Large Governing Councils/ Boards

The Committee noted that the membership of the Governing Councils of EAC Commissions are big resulting into huge expenditures on allowances, leaving limited resources for core activities. The Committee observed that this trend was unsustainable given the limited resources available to these Institutions to carry out their mandate.

Committee Recommendations

The Committee recommends the Assembly to urge the Council of Ministers to review the respective EAC protocols establishing Governing the Councils/ Boards by amending them to provide for a sizeable number of representatives from the respective Partner States. The Committee recommends 2 members from each Partner State. This will make them lean, affordable effective and efficient.

12.14 Lack of a sustainable financing mechanism

The Committee noted that the proposed sustainable financing mechanism which is before Council has stalled and yet the EAC continues to face dire funding challenges.

The Committee recommends to the Assembly to urge the Council of Ministers to fast-track the finalization of the financing mechanism such that funding for EAC activities is much more sustainable and predictable.

12.15 Human Resource Matters

The Committee notes with concern that EAC continues to experience dire human resources gaps and uncoordinated decisions of the Council on Human Resources matters hence, leading to a moratorium on recruitments, failure to fill vacant positions and failure to carry out due diligence on newly recruited positions especially those falling under projects. These and other challenges have therefore, led to serious staffing gaps as well as irregularities arising from actions of the EAC Adhoc Service Commission some of which may lead to litigation. Furthermore, The Human Resource gaps are further compounded by inexplicable levels of absenteeism as complained by the Secretary General of EAC when he met the Committee since there is lack of an adequate monitoring mechanism.

In light with the above gaps cited in the Human Resources Management of the Community, the Committee recommends to the Council the following:

- ***i. To finalize the Institutional Review exercise as well as regularize the EAC Adhoc Service Commission which continues to operate in the absence of a legal framework;***
- ***ii. Regularly enforce / carry out due diligence to confirm suitability and authenticity of documents tendered by job applicants and job holders. These should be attached to the copy of the appointment letters and placed in the Individual Staff files for ease of reference; and***
- ***iii. Put in place a comprehensive mechanism to ensure that members of EALA and staff clock in and out every time they report and exit for duty. This system should be linked to the payroll across all the EAC Organs and Institutions such that noncompliance is surcharged at 10% for any inexplicable or justifiable cause.***

12.16 Delayed Air tickets

The Committee notes that most of the air tickets procured for activities in EAC are costly arising from late bookings and cancellation of meetings.
As a result, EAC is spending more in travel than engaging in strategic investments in programmatic areas that seek to deepen the EAC integration agenda.

The Committee recommends that as a matter of urgency, management should develop a travel policy that seeks to procure tickets at least two weeks before the travel dates

ACKNOWLEDGMENTS

The Committee wishes to thank the Rt. Hon. Speaker, the Clerk, the Audit Commission and the Management of the various Organs and Institutions for the excellent facilitation accorded to it while executing its mandate. It is however my pleasure as chairperson to state that in future more time is required to dispose of Audit items.