EAST AFRICAN COMMUNITY

EAST AFRICAN LEGISLATIVE ASSEMBLY

REPORT OF THE COMMITTEE ON

ACCOUNTS ON THE AUDITED ACCOUNTS OF THE EAST AFRICAN COMMUNITY

FOR THE YEAR ENDED 30TH JUNE, 2013

(7TH – 17TH JANUARY 2015, ARUSHA – TANZANIA)

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

January 2015

ACRONYMS

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

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PART I

1.0 INTRODUCTION

In accordance with the provisions of Article 134 (3) of the Treaty for the establishment of the East African Community (EAC), the Chairperson of the EAC Council of Ministers on 24th October, 2014 in Kigali, Republic of Rwanda laid before the Assembly the following reports of the Audit Commission:

i) The Audited Consolidated Financial Statements of the EAC organs for the year ended 30th June, 2013;

ii) The Audited Financial Statements of the Lake Victoria Basin Commission (LVBC) for the year that ended 30th June, 2013;

iii) The Audited Financial Statements for the Lake Victoria Fisheries Organization (LVFO) for the year ended 30th June, 2013;

iv) Audited Financial Statements of the Inter University Council for East Africa (IUCEA) for the year ended 30th June, 2013; and

v) The Audited Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the year that ended 30th June, 2013.

In accordance with *Rule 77, Rule 79* and *Annex 5 (A)* of the Rules of Procedure of the Assembly, the Rt. Hon. Speaker referred the reports to the Committee on Accounts for review. The Committee met for this purpose and produced a report.

The report covers the Committee's findings and recommendations on the main issues raised. This report is sub-divided into seven (7) parts.

Part I:	Introduction
Part II:	Audit Findings on the Consolidated Financial Statements of the EAC Organs for the Year Ended 30th June, 2013
Part III:	Audit Findings on the Consolidated Financial Statements of the Lake Victoria Basin Commission (LVBC) for the Year Ended 30th June, 2013
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Part VII	Acknowledgements

Executive Summary

Finalization of the institutional review of the EAC has been delayed and this has had major setbacks regarding the operations of the EAC especially in the areas of the structure and recruitment. Accordingly, the EAC has several unfilled staff positions and to bridge the gap, management has been forced to offer short term renewable contracts which have several disadvantages to both the staff and the organization.

The EAC Secretariat Internal Audit function still has major capacity challenges and consequently performance gaps.

The Community spent beyond budget on several budget lines without seeking approval of Council for re-allocation as required under Regulation 19(4) of the EAC financial rules and regulations. The most notable over expenditure was on international air tickets and daily subsistence allowances (DSAs) with expenditure reaching 300% of the budgeted amount.

The Audit noted excessive payment of DSAs, with some staff receiving up to 200 nights a year. Some of the meetings were purely administrative e.g. evaluation of bids and did not guarantee holding meetings outside the EAC premises. Also excessive salary deductions for payment of loans and advances went up to 80% for some staff.

Payment in lieu of leave was done contrary to staff regulations and with no evidence that officer requested for leave earlier. Invitation of disqualified candidates for interviews; huge gaps in the management of air ticketing are all issues to be addressed.

It was also found that the Community advanced a total of USD.384,834 to staff at the close of the financial year for activities which were to be undertaken in the subsequent year; however, this amount was inappropriately captured in the books as expenditure for the year under review, contrary to the accrual basis of accounting that was adopted by the Community.

More to the above, some institutions are not meeting their mandates and there was Doubtful expenditure of $60,000 in LVFO.

During the Audit review, documentation relating to the construction of the EAC HQ building, a number of contract management weaknesses were found. Notable among these was the failure to prepare the project final statement within the stipulated time, with the resultant implication that management is unable to establish the total project cost.

The Audit Commission noted instances where Partner States were sending inappropriate delegates for technical meetings, arranged by the Community resulting in little or no value addition during the meetings as well as a risk of failure to implement resolutions in the Partner States.

Partner States have continuously failed to honor their obligations in time and as such, the EAC Institutions continue to be underfunded. This has had a direct effect on their capacity to effectively deliver on their respective mandates.

Nevertheless, the Accounts presented fairly, in all material respects, the financial position of EAC Organs and Institutions for the year ended 30th June, 2013; its financial performance; and its cash flows for the period in accordance with the International Public Sector Accounting Standards (IPSAS). This was done in compliance with the Treaty for the Establishment of the EAC and Regulation 80-85 of the EAC Financial Rules and Regulations (2006).

PART II

AUDIT FINDINGS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE EAC ORGANS

2.0 CURRENT YEAR AUDIT FINDINGS

2.1 Significant Issues

2.1.1 Over Expenditure (*Appendix 1 of Management Letter on the Audit of the Financial) Statements for the East African Community for the Year Ended 30th June 2013 at Page 68 of 95*)

The Audit Commission reported that Regulation 12(1) of the EAC financial rules and regulations, 2012 required that all commitments and disbursements must strictly be in accordance with the appropriations of the budget of the community which has been passed by the Assembly.

On the contrary, the Audit revealed that the Community had spent beyond budget on several budget lines without seeking approval of Council for re-allocation as required under Regulation 19 (4) of the EAC financial rules and regulations. The most notable over expenditure was on international air tickets and daily subsistence allowances.

The EAC Management responded that it has addressed this matter, by correctly posting the budget. Indeed there was no overspending on the budget, which is activity based, and any un-spent funds were transferred to the General Reserve Fund. The Audit Commission confirmed this by reviewing the Adjusted Ledger, Budget Performance, and Financial Statements.

The Committee observed that whereas the Assembly passes the budget at the line item level, the EAC Management spends the budget at the activity level especially on daily subsistence allowances and air tickets. It is clear that funds are diverted to pay items that were never budgeted for, resulting into wide variances of expenditure and actual expenditure. This indicates weaknesses in budgetary controls and undermines the intentions of the appropriating authorities.

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

i) ***direct EAC Management to always adhere to the provisions in the Financial Rules and Regulations and avoid incurring over expenditures on budget lines without the requisite approvals.***

ii) ***direct EAC Management to table before this Assembly measures taken to ensure budgetary controls.***

2.2.2 Expenditure Cut Off - USD 384, 834

The Audit Commission reported that the EAC Financial Rules and Regulations as passed by Council, state that appropriations shall only be available to meet obligations incurred during the financial year to which they relate and shall remain available for three months following the end of the financial year to discharge obligations in respect of goods and services rendered during the financial year which have not been settled.

The Audit review revealed that the EAC Management was overriding this control by making substantial advances to staff at the close of the year for activities not undertaken. For example, during the year under review, a total of **USD 384, 834** was advanced to staff in this manner. The activities would then be undertaken in the new financial year but presented in the financial statements of the preceding year, making it appear as if an obligation existed by the close of the Financial Year**.**

The EAC Management responded that it recognizes that in some instances, meetings cross-over the financial year (eg. Meetings held from the last week of June 2013 but continued to 1st week of July 2013). In addition, some other meetings which were scheduled to take place in May or June 2013 were postponed due to reasons beyond EAC Secretariat's control, and they took place in July or August 2013.

Management further commits to comply with the cut-off point in closing the current and coming Financial Years by circulating in time clear Year End Closing Guidelines approved by the Secretary General.

The Committee observed the irregularity of advancing funds on weekends (Saturday and Sunday) to several accounts staff at the yearend which constitutes an unauthorized budget roll over. The act may have been done to circumvent the involvement of the Assembly to approve funds when put in reserves. To this end, the institutional capacity of managing finances is weak, and breaches Financial Rules and Regulations.

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

i) ***stop advancing funds to the Staff at the Year End for activities not undertaken, but rather comply with the Financial Rules and Regulations;***
ii) ***invite the Audit Commission for a re audit based on Management response.***

2.2.3 Anomalies in Accountabilities for Imprest Advances *(Appendix 2 Management Letter on the Audit of the Financial Statements for the East African Community for the Year Ended 30th June 2013)*

The Audit Commission reported that from the review of the imprest accountability records, the following matters have been noted:-

i) In cases of advances for meetings and conferences both within and outside Arusha, Audit Commission noted that the majority of the accountability records do not have invitations for such meetings; this limits the extent of our review procedures since we are not able to establish the funding arrangements for such meetings.
ii) Where invitations are filed, there is no formal communication from responsible recipients indicating the names of officers who have been formally nominated by the person to whom the meeting request has been addressed. As a result, the same persons keep attending most of the meetings organized by the Secretariat.
iii) In addition, minutes of what was discussed and any resolutions arrived at (apart from those recommending subsequent meetings) are not filed.
iv) There are no signed attendance registers filed.
v) There were several incidences of unutilized tickets which had been paid for by the Secretariat.
vi) Not all imprests are fully accounted for although they are retired.

The EAC Management responded that participation from Partner States is coordinated by the respective Ministries of EAC Affairs with consultation from the EAC Secretariat to ensure that the appropriate delegates attend the meetings they have been invited. For those meetings for which tickets have been issued though not utilized, EAC makes payments first and then seeks for refund of the same from the service provider. The refunds for the same are usually obtained and offset from subsequent payments to the supplier.

All EAC meetings have meeting reports that as an appendix, have the list of all invited participants supported by a daily attendance register, which control was introduced later in the FY of audit. All meetings now have attendance lists signed off daily.

The Committee observed laxity of EAC accountability practice, irregularities in accountabilities of imprest and lack of seriousness to ensure that meetings attain the intended purpose.

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

i) ensure that EAC meetings are appropriately attended to achieve the intended purpose;
ii) exercise proper accountability of imprest; and
iii) ensure strict actions are taken against those who fail to comply.

2.2.4 Institutional Review of the EAC

The Audit Commission reported that at its 24th meeting held on 26th November, 2011, the Council directed the Secretariat to engage a consultant to undertake a detailed institutional review of the EAC (EAC/CM24Directive 38). This arose from the fact that the EAC mandate had greatly evolved since the establishment of the Permanent Tripartite Commission in 1993 including the progression into deeper levels of integration of the Common Market and Monetary Union.

Accordingly, a contract was signed on 24th January 2013, between the EAC and a consultancy firm, to undertake a detailed Institutional review of the EAC at a contract sum of USD 116,500 excluding reimbursables. The consultancy was to be concluded within a period of four (4) months from the effective date with the following deliverables:-

Deliverables by the Institutional review Consultancy

	Details	**Timeline**
1	Acceptable Inception Report (IR)	2 weeks after effective date
2	Acceptable Draft Report	2 months after submission of IR
3	Validation workshop	1 month after submission of draft report
4	Acceptable Final Report	2 weeks after validation workshop

However, the following matters have been noted:-

i) There have been delays in finalization of this review. The consultant submitted an Inception Report to the Secretary General on 20th March 2013 (i.e over one-month late) and also the first draft report on 4th June 2013 (i.e. about two months late). This despite the fact that the contract period expired in May 2013.
ii) There is no evidence that a validation workshop has been held although the draft report was issued nine months ago.
iii) There is no evidence to show that the contract period has been formally extended, since, by the time of audit in February 2014, the consultant has not yet been given a green light to proceed to the next stage of the consultancy.

The EAC Management responded that there are pending policy issues on which Partner States must pronounce themselves before the Consultant can proceed with Phase Two of the exercise. In November 2013, the summit directed the Council to conclude the EAC institutional review and report to the Summit at the 12th extra-ordinary meeting in April 2014. At its 29th Extraordinary meeting the Council directed:-

i) Partner States to finalize the consultation and submit the comments to the Secretariat by 30th May, 2014 (EAC/EX/CM 29/Directive 08);
ii) Secretariat to convene a Meeting of Experts comprising one Expert per Partner State by early June 2014 (EAC/EX/CM 29/Directive 09);
iii) Secretariat to submit the Report of the Experts to the Sectoral Council of Ministers Responsible for EAC Affairs and Planning scheduled for June 2014 and thereafter report to the 29th Meeting of the Council scheduled for August 2014 (EAC/EX/CM 29/Directive 11)

It is therefore expected that the Institutional Review will be completed after the Consultant receives the harmonized policy guidance and Submit Final Report for consideration by Council in November 2014. This was also accepted by the Summit which on April 30, 2014, considered the Report of the Council on Institutional Review. The Summit noted that more work and consultations are to be done by Partners States and the Council of Ministers.
The Summit directed the Council of Ministers to finalise and report at its 16th ordinary Summit in November 2014.
It is imperative to note that the Institutional Review exercise has cost the Community a lot of money characterized by overspending over and above the budget.

The Committee observed unnecessary delays in finalization of Institutional Review and was concerned about the endless costs of the exercise on the Community.

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

- ***i) expedite processes and activities for Institutional Review and treat the same with the attention it deserves; and***
- ***ii) table the addendum of the contract with the contractor before the Assembly.***

2.3 OTHER MATTERS RELATING TO THE EAC SECRETARIAT

2.3.1 Payment in Lieu of Leave

The Audit Commission reported that Regulation 71 of the staff rules and regulations prohibits a member of staff from accumulating leave days beyond 30 days and the accrual should be done under special circumstances approved by the Secretary General. The rules further provide for payment in lieu of accrued leave with approval of the Secretary General.

However, documentation revealed that a total of USD 35,651 was paid to officers in lieu of leave. In all instances, there was no evidence that special permission to accrue the leave had been obtained as is required by the regulations. The personal files for the officers in question had no evidence that such officers were denied leave due to the office exigencies.

Further noted was that there was no budget provision for such expenditure; instead, this was charged to salaries and wages as indicated in ***Annex I****.*

The EAC Management reported that full approval from the SG's delegate – the DSG (F&A), was given on recommendation for all the above payments; recommendation by the Department of Human Resource prior to the payments above being made was also sought but the extra information required about the leave applied but denied will be provided in similar subsequent payments.

The fact that the approved EAC budget is an accrual in nature, and it has an amount "Payment in Lieu of Leave", the principal of paying staff that have accrued leave days and which leave needs to be paid off before start of a new contract, such approval has been given in principal.

The Committee noted the anomaly and observed that approvals were given in breach of regulation 71 of the staff rules and regulations.
The Committee further observed that EAC has no sufficient staff leading into budgeting for payments in lieu of leave to Senior staff, leaving out the junior staff, a practice that indicates institutional discrimination.

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

- ***i) direct the EAC Management to always adhere to the regulations in place; and***
- ***ii) direct the EAC Management to develop leave roaster to enable all staff attain their leave.***

2.3.2 Excessive Salary Deductions

The Audit Commission noted that Regulation 55 of the staff rules and regulations allows staff to get salary and housing advances as well as bank loans but with deductions not exceeding 50% of the employee's salary. However, review of the secretariat payroll revealed a number of staff whose deductions exceeded 50% with some reaching as high 80%.

The EAC Management reported that a number of staff have negotiated loan/credit facilities with banks whose monthly repayment consumes up to 50% of their Gross Salary payments. The extra deduction (more than the 50%) usually happens when Accounts department makes other deductions like unretired imprest which subsequently increases the staff total deductions percentage of their Gross pay. This though is usually for a period of a month or two and then percentage deductions revert to the 50% which is mainly that of the loan/credit facilitates.

The Committee noted with concern that extreme deductions of staff salaries may affect the performance of staff and may lead to staff resorting to finding other irregular ways of survival, such as unjustified allowances.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to always comply with the staff rules and avoid authorizing advances and guaranteeing loans in instances where the ensuing deductions will exceed 50%.

2.3.3 Performance of the Internal Audit Department

A review of the Internal Audit Unit revealed the following significant matters:-

a) Capacity Gaps in the Department

The Department is currently manned by an Acting Principal Internal Auditor who was recruited as an Internal Auditor, assisted by two Internal Auditors who are engaged on short term contracts (annual contracts) that have been renewed several times since their initial engagements in 2010.

b) Approved Work Plan

The audit Commission was not provided with evidence that the following activities included in the annual work plan for the Internal Audit department for the year under review were undertaken:-

a) Carry out Quarterly internal audit of all Organs, Institutions, Projects and Programmes
b) Financial processes reviewed bi-annually
c) Draft Financial Statements reviewed before submission to the Audit Commission
d) Processes over the Acquisition, Recording, Maintenance and Disposal of Assets reviewed
e) Controls over cash and cash equivalents reviewed
f) Controls over receivables and other current assets reviewed
g) Physical and financial control over Fixed assets reviewed
h) Train 30 professional staff on Risk Management Strategy
i) Undertake investigation as and when required
j) Servicing the Accounts Committee of EALA

k) Sensitization of Executive and Professional Staff on Risk Management Framework carried out
l) Risk Management Operational Manual produced
m) Follow up on previous assessments of systems and processes in the Community

It was further noted that critical activities to the organization such as the review of the SUN System and the review of the performance measurement systems within the organization had not been planned to be undertaken by the Internal Audit unit during the year under review:-

The EAC Management responded as follows:-

a) Absence of an Approved Structure and Clear Reporting Lines

Management reported that at its 12th Meeting of Council of Ministers held on 25th August 2006, the position of the Internal Audit Structure was approved and the Position of the Chief Internal Auditor (P4), which position was later on frozen by the 13th Meeting of the Council of Ministers.

b) Approved Work plan

Management further reported that the Unit had a work Plan which was approved by the EAC Audit and Risk Committee in October 2012 during its 1st Meeting. Performance is evaluated through the performance contracting process.

The Committee noted that the Internal Audit Unit lacks sufficient capacity to effectively undertake its plans and relevant reviews. The understaffing may not justify non review or implementation of any of the approved work plan. This could have exposed the organization to a risk of errors and omissions going undetected for a long period.

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

i) direct the EAC Management to ensure the Internal Audit Unit to implements its activities and provide the organization with the requisite guidance for improvement of the internal control systems to enhance security of its resources.
ii) direct the EAC Management to undertake a holistic organizational review to establish the number of staff adequate to man the department and ensure proper recruitment.

2.3.4 Performance Contracting Process

The Audit Commission reported that following the directives of the 21st and 23rd meetings of the Council of Ministers, the East Africa Community (EAC) Secretariat initiated and introduced a process of performance contracting for all professional staff across the EAC Organs and Institutions with a view to direct EAC staff's attention towards the EAC agenda, objectives and expected outputs and to ensure that all individual action plans are in tandem with these broader goals.

During the audit, it was observed that nine departments did not present their performance reports to the Committee for review. It was further noted that there was no action taken by management on performance contracting evaluation process, especially for the poorly performing directorates or those that did not submit their results for evaluation by the committee.

The EAC Management responded that performance contracting had been implemented in EAC starting with the Professional staff and eventually to the General staff. A program had been designed to roll out the exercise to the EAC Institutions. It was further reported that a retreat for Executive and Senior staff held in February 2014 came up with a number of resolutions aimed at addressing issues related to the process.

The Committee appreciates performance contracting initiatives but non participation by some Directors/Heads of Department implies noncompliance to the Council's directive. The Committee also noted lack of commitment to the performance contracting process.

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

- ***i) take action on those who have not complied to the new requirements of performance contracts;***
- ***ii) show commitment to the performance contracting process as it provides an independent and objective assessment of staff performance; and***
- iii) ***implement the recommendations of the committee regarding the way forward for the performance contracting process***.

2.3.5 Unfilled Staffing Positions

The Audit Commission observed that staffing position for the EAC revealed several unfilled positions within the Secretariat as indicated in ***Annex II***

The EAC Management responded as follows:

- i) Many of the positions being referred to, particularly the positions at Assistant Director Level were created and frozen in 2006. They can only be filled with the express approval of the Council. Unless, the Secretariat is given both the approval and the resources to fill in the positions in question, there is not much that can be done, for now.
- ii) The position of Senior Librarian was advertised and a candidate recruited. However, the candidate who was appointed turned down the offer. Management will present to the Council Meeting a request to consider the second best candidate for the position.

The Committee observed that the Community may not perform to the expectation given the gaps in staffing positions.

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

- ***i) ensure the filling of the unfilled staffing positions;***
- ***ii) follow up on the restructuring process of the EAC to establish the relevancy/justification of such vacant positions on the approved structure.***

2.3.6 Short-term Renewable Contracts

Staff regulation 22(2) (c) provides that temporary employment can only be for up to a maximum of three (3) months. During the audit, it was noted that the staffs in ***Annex III*** have been maintained on short term contracts for prolonged periods including the year under review.

The audit further revealed the following:-

i) Some of these staff have held temporary positions for more than 3 years.
ii) Some staff who are employed on temporary positions are paid at higher rates than those on permanent arrangements.
iii) there is no formal appraisal of a staff's performance prior to renewal of these contracts.
iv) It is also not possible to establish whether these temporary staffs are recruited in a fair, equitable and transparent manner.
v) Some positions are on very short term contracts; however, the nature of their work is such that their roles will be required for a long time. It may also be expensive if the same persons work for several years on 3 month renewable contracts.

The EAC Management responded that given the lengthy recruitment processes at EAC compels the Secretariat maintain some temporary staff to fill the capacity gaps. It was further reported that the Human Resources Advisory Committee was instituted by the Secretary General in March 2013 to advise on staff matters including the issues raised by the Audit Commission. New contracts (not renewal) are issued if required. The Committee was also informed that the position of Senior Documentation Officer was competitively filled. However, the retirement of the Principal Internal Auditor leaves the Internal Audit Unit with only one established Staff at P1 level. The current capacity gaps in the Unit are so acute that even the hiring of the 2 temporary staff is not sufficient to meet the current needs of the Unit.

The Committee noted irregularities in hiring all short-term renewable contracts since there is no indication of how the staff are initially identified. The Committee further observed that there are no proper recruitment procedures aimed at ensuring that one is technically competent and professionally qualified. The process is subject to abuse and nepotism is clearly evident.

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

i) put the vice to an end;
ii) ensure proper recruitment to avoid promotion of short term contracts; and
iii) initiate and put in place appraisal procedures for holders of short term contracts.

2.3.7 Un-authorized Budget Roll Over

The Audit Commission took note of a meeting with stakeholders to the design of Arusha-Voi road, an activity which had been budgeted the financial year 2011/2012 at USD 47,400. The activity was not undertaken in that financial year and was subsequently rolled over to the subsequent financial year 2012/13.

It was further noted that this meeting was rolled over without Council authorization. Besides the requesting officer varied the budget to reflect the new rates of subsistence allowance which had been passed for the new year, hence increasing the budget from USD 47,400 to

USD 70,600. The new activity budget was never approved, the requesting officer also acted as the budget officer and confirmed availability of the budget.

The EAC Management responded that the said activity had been planned for in the FY 2011/12. The failure of the meeting to take place was also because the officer had exhausted his budget. Finance advised the officer-in-charge of the project to use his budget of a similar activity in the FY 2012/13. Officer did as advised and since the DSA rates in the new FY 2012/2013 had been reviewed, the implementation of the activity in the new FY 2012/2013 had to use the new DSA rates.

The Committee noted the comment of the Audit Commission and observed laxity and irregularities in the management of funds of the Community**.**

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

- ***i) always adhere to the approved budget and work plan to avoid misuse of funds;***
- ***ii) always seek for authorization before rolling over of the budget; and***
- ***iii) avoid the practice of advancing such big amounts of funds to individuals and always directly pay the beneficiaries whenever possible.***

2.3.8 Wasteful Expenditure during Staff Interviews

The Audit Commission reported that the Secretariat entered into a contract with M/S Crown Agent for undertaking a short listing exercise for the twelve (12) vacant project positions at a total cost of USD 40,854.

The Consultant submitted a report to EAC Secretariat containing a summary of all applications received and a list of qualified candidates. The consultant further made a recommendation of the qualified candidates whom the Secretariat could consider for the final interviews. Accordingly, the interviews were undertaken from 19th to 20th March 2013 from East African Community Headquarters in Arusha. However, the candidates who were disqualified by the Consultant were called to appear for the interviews and the Secretariat paid for their travel expenses as detailed in ***Annex IV***.

The EAC Management responded that there was an error in submitting the short listing report. The Auditors requested for the Report of the Short listing Exercise for donor-funded positions. However, the document which was provided at first was a Draft Report. The Secretariat later submitted the final report from the Consultant containing the names of the shortlisted candidates from which the final list of candidates who were invited for the interviews were drawn.

The Committee observed glaring inconsistencies in policy implementation by the EAC Management that always led to misuse and wasteful expenditure of Community funds. The Consultant could always be given clear terms of reference.

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

- ***i) Always call and facilitate only qualified candidates for interviews;***

ii) ***Always engage consultants with clear terms of reference for desired results and avoid decisions that are at variance with the consultant reports.***

2.3.9 Inappropriate Delegates for Technical Meetings

During the period under review, it was noted that some technical meetings organized by the EAC are frequently attended by delegates whose positions and job descriptions are not suitable such meetings as they would not make meaningful contributions. It was further noted that the meetings are attended by officers from country Ministries responsible for East African Affairs other than technical experts from the countries in question. Besides, invitation letters to the respective Permanent Secretaries did not detail the purpose as well as the caliber of delegates expected. Also missing were nomination letters, meeting agenda or even reports of proceedings. For example, there are several meetings where secretaries were nominated to attend as technical experts.

The EAC Management responded that participation from Partner States is coordinated by the respective Ministries of EAC Affairs with consultation from the EAC Secretariat to ensure that the appropriate delegates attend the meetings they have been invited.

The Committee observed that same delegates from Ministries of EAC affairs in Partner States have been attending almost all technical meetings and the EAC Secretariat has not done anything to avoid inappropriate delegates for technical meetings. Many times, such delegates do not add value to the meeting deliberations.

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

i) ***always include in the invitations details regarding the technical capabilities of the potential delegates to be nominated by Partner States;***
ii) ***develop and put in place a policy on EAC technical meetings to be enforced while EAC Ministries nominating delegates***

2.3.10 Expenditure on DSAs

During the audit, two sampled projects (PAF and RISP II) revealed that certain staff were paid up to almost 200 nights in one year. Although all expenditures were properly authorized, the payments appeared to be excessive, given that a year has 250 working days and staff also have to undertake desk work at their stations in addition to 30 days leave.

The EAC Management responded that EAC activities are implemented in the five Partner States and the Calendar of activities clearly indicates where meetings should be held. To this effect, The Council directed that save for self-accounting EAC Institutions, EALA, and EACJ, statutory/policy and technical meetings for Organs and Institutions of the EAC should rotate and be shared between Headquarters and Partner States on a ratio of 50/50 basis; subject to further review and finalization of the Study on Equitable Sharing of the Costs and Benefits of the Community (EAC/CM 25/Directive 12). It was reported that EALA for example has six (6) Sittings a year of for 14 days each. Furthermore, a number of Committee meetings have to be facilitated by members of Staff from EAC Secretariat to provide information or defend submissions tabled to the Assembly. It was further noted that facilitation of staff attending training, results as well into payment of DSA. From the above, it is clear that one should not simply count the number of days spent out of duty station, but rather the purpose of the trip as well as the results thereof.

The Committee noted both the Audit Commission and EAC Management comments**.**

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to place a limit on the number of days for which an officer can be away from his/her duty station, and only lift such a limit in exceptional circumstances.

PROCUREMENT IRREGULARITIES

2.3.11 Procurement of Air Tickets

The Audit Commission reported that the Secretariat spent a total of USD 3,469,083 on air travel, which translates to about 10% of its total expenditure for the year under review. Such a category of expenditure is a critical cost item on which management is expected to institute strong internal controls to guard against any possible abuse. A review of the travel arrangements and payments for air tickets revealed a number of control weaknesses as outlined below:-

a) **Lack of Authorization**

i) names of people to whom air tickets were issued differed from those on the authorization forms;
ii) staff were issued with tickets based on meeting authorization forms rather than travel authorization forms;
iii) tickets were issued to destinations different from the venue specified on the authorization forms.

b) **No clear Channels of Information Flow**

The Secretariat sends invitations to delegates from Partner States through the Ministries of East African Community Affairs. A review of the ticketing process revealed that the official responses from Partner States regarding the nominated officers were not availed to the air ticket officers, as such, it was not easy to confirm if tickets were issued to the rightful delegates.

c) **Lack of Competition at Procurement Stage**

Despite several firms shortlisted by the Secretariat for provision of air tickets, the booking officer requested for a quotation from only one travel agent as opposed to a minimum of at least three, which is irregular as repeated single sourcing has the risk of unfair prices and poor quality of service due to absence of competition.

d) **Non-Authorized Changes** in tickets, which resulted into extra costs to the Secretariat, not authorized by the responsible officer.

e) **Other irregularities noted include;** staff destined for the same meeting and traveling from the same location had different routings, duplication of tickets as well as procurement of very expensive tickets(out of range for given routes). *(**See Appendix 3** of the Management letter for the East African Community for the year ended 30th June 2013 at Page 75 0f 95)*

The EAC Management responded as follows:

i) There was confusion of titles as some members of staff cut and paste an old email and use it for a new booking request. The information presented on the travel requisition is therefore not the same as that provided on the itinerary provided.

ii) This also happens for travels which require visas. Most visa applications are done in staff respective countries because the visa issuing countries require the officers to present themselves for physical verification and presence.

iii) The meeting being referred to was distributed around different countries since they were national activities and officers had to go to the countries hence the different routing provided.

iv) The case being referred to the individual was booked on direct flight, and due to exigencies of the assignment, the individual missed that flight and a new ticket issued through a different routing while the old ticket was put up for refund.

v) This is a normal occurrence in the airline industry whose business dynamics dictates that prices increase with the advancement of time the earlier you book the cheaper the ticket and the closer you book to the travel date the more expensive it is. This is because the airline industry has developed different prices for different seats in the same class the cheaper tickets are booked earlier. This is determined by the forces of demand and supply. This happens because of last minute booking and issuance of ticket.

vi) In many cases staff/delegates are very particular on their mode and time of travel (e.g. this airline/ at this time).

vii) A travel policy will be developed to address the weaknesses.

viii) The ticketing office is a procurement office and which is in the process of being strengthened. An institutional review of structures is being conducted and this will be considered.

The Committee noted the irregularities and misuse of funds with concern.

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

i) investigate all irregularities and the individual issues raised in the audit report;
ii) sanction value for money audit in the matter;
iii) develop a travel policy to address the weakness;
iv) institute and enforce prompt recovery measures for unutilized tickets; and
v) always book staff and delegates to the most direct and economic flight routes.

2.3.12 Disposal of Old Motor Vehicles

The Audit Commission reported that on 13th June 2012, two valuers i.e. M/S Tanzania Electrical, Mechanical and Electronics Services Agency (TEMESA) who are the government valuers, and M/S Peterson Estate Agency and Property Consultancy Co. Ltd, a private company, issued valuation reports for five vehicles of the East African Community. The Secretariat then internally advertised for their disposal on 10th September, 2012 where they stated that the vehicles will be given to the best evaluated bid. The adopted reserve price was the higher of the two reserve prices.

Bids were received on 24th September, 2012 and evaluated on the 18th March 2013 by the EAC procurement committee who found that in four out of the five cases, the best evaluated bid failed to meet the reserve price as shown below:-

Disposal of old vehicles

No	Vehicle	TEMESA Reserve price (Us$)	Peterson Estate Agency"s Reserve price (B)	Best offered price (Us$)
1	Toyota Station Wagon	1,389	5,384	2,000
2	Mercedez Benz	4,743	11,538	4,500
3	Mercedez Benz	5,715	25,000	4,500
4	Mercedes Benz	6,411	730	5,625
5	Toyota Station Wagon	2,295	5,385	5,625

Following the above, a decision was made not to proceed with the disposal on the basis that the bids received were generally not sufficient in number and recommended that the tender be cancelled and re-advertised. Accordingly, the procurement committee sitting on the 17th May 2013 recommended that a fresh valuation of the assets be carried out.

The EAC Management responded that it has noted the recommendation of the Audit Commission and will adopt it.

The Committee noted inefficiency and delays on the part of the EAC Management to advertise and dispose old vehicles in good time. This will certainly result into a huge loss.

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

- ***i) swiftly attend to the sale and disposal of old vehicles to avoid more losses;***
- ***ii) open up the disposal to the public and include the non-staff as recommended by the Audit Commission; and***
- ***iii) present progress of the matter to the Audit Commission for verification in the subsequent audit.***

2.3.13 Payment to M/s New Safari Hotel without a Valid Contract

The Audit Commission reported that the EAC Secretariat had a contract with M/s New Safari Hotel for provision of office space to EALA, which expired on 30th July, 2011. However, a total of USD 36,556.80 was paid to the same company vide cheque no.013758 dated 29th January, 2013, in respect of rent for EALA offices from July to December 2012. There is no evidence that a binding contract was in existence for the period in question.

The EAC Management responded that EALA rented the New Safari Hotel premises till December 2012 when they moved to the EAC Headquarters Wing. EAC Management had decided that the rent for the period July – December 2012 be paid by the Secretariat through its Partner States budget and this is evidenced by the approved memo from the DSG (F&A) to the Clerk of EALA. The approval for payment of the same was given by the same DSG (F&A). Though the advice of the Audit Commission is taken and next time on all similar payments, such approvals by DSG (F&A) will be supported by signed agreements.

The Committee noted noncompliance with regulations as big sums of money were paid irregularly.

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

- ***i) always ensure that all renewable contracts and agreements are renewed on time; and***
- ***ii) provide justification for the payment in question.***

2.4 ENGINEERING AUDIT ISSUES

2.4.1 Unsatisfactory Finishes in Some Parts of the Building

The Audit Commission reported that during a physical inspection of the completed works to verify whether the auditors‟ recommendations to fix the noted defects had been properly implemented, it was noted that the quality of the finishing is still not good. Walls have swelling paint spots both internally and externally and wall tile works in the wet rooms have not been properly done. Furthermore, the general inspections conducted during the site visit to EAC building revealed the following:-

- i) The painting works generally for both walls and concrete ceiling were not satisfactorily done. Walls were not adequately prepared (skimmed and sanded) before painting. It was also observed that most of the internal and external walls have patches of colours that bring an undesired look for the newly constructed EAC building.
- ii) Tilling works to wet areas and at the edge of skirting were not well grouted which leaves the surface unfinished and allows dirt to settle.
- iii) For the joinery work especially to door frames, the contractor’s work was unsatisfactorily done. It was observed that frames plugged to the wall leaves spaces between walls and door frames.
- iv) Trunking for services (ICT and electrical installations) was not properly mounted to the walls.
- v) Eaves filling at the summit were not properly done.
- vi) Screeding at the top of the summits have a lot of fair cracks and pot holes that may result to leakage and hence increase maintenance costs.
- vii) Roof leakage was also observed in some areas such as roof sky light.

2.4.2 Inadequate Workmanship on External Works

The Audit Commission reported that physical inspection revealed that external works at both main entrances of the EAC Building were unsatisfactorily done. Stone slates have not been properly placed, leveled, and grouted. Kerbstones were not aligned properly and some were defective and need to be replaced.

On the Staff’s Parking Lot, it was observed that there is no drainage outlet. These weaknesses have been observed despite the fact that the contractor has done some improvements. This poor work done may allow water to percolate underneath and destabilize the underneath layers (soil) and finally result into damage to the whole work.

The Management reported that basing on the Inspection Report of 5th October, 2012, the snags observed by the Project Management Team (PMT) are captured in the final snag list.

The main contractor was also tasked to repair all the identified defects under the snag list before final payment could be made by KfW.

The Committee noted that there is a risk that the Community will incur higher maintenance costs than expected due to the poor workmanship.

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

i) ensure that the works which were noted to be of unsatisfactory quality are properly rectified; and
ii) deduct payment during the final account preparation from those which could not be rectified to the satisfaction of the Engineer.

2.4.3 Planning for Construction Works

The Audit Commission reported that the planning for the construction works for the EAC HQ Building appears to have been inadequately done as evidenced by the following:-

i) The financial analysis conducted prior to the commencement of the project was not satisfactorily done. This is evidenced by the fact that two different financing agreements were entered between EAC and KfW (Project Donor Agency). The one dated 17th March, 2005 with amount of EUR.8,000,000 was replaced by another agreement with amount of EUR.14,000,000 which was entered on 25th September, 2008 and signed on 10th February, 2009;

ii) Final design report recommends the use of **raft foundation** but in Bills of Quantities (BoQ), the foundation used was **pile foundation**. This indicates that the brief design and actual works contradicts with one another. The Construction drawings and BoQ were quantified on pile foundation which was contrary to the brief design report. Therefore there is a possibility that the EAC building foundation was over designed and hence contributed to cost escalation of the building.

iii) The other main reasons cited for inadequate planning of the construction work at the EAC include:-

iv) EAC has got no building policy. This policy could guide the Secretariat to plan and manage the construction work (buildings). The Senior Estate Management Officer acknowledged that EAC has been asked to prepare the building policy but this is still not in place;

v) A Procurement Manual and Procurement plan were not in place during the planning and execution of the project. The Secretariat was lacking clear procurement plan to guide the procurement of Main Contractor, sub-contractors and suppliers. Similarly, the audit commission learnt that the exercise of preparing the procurement plan is now underway; and

vi) The nominated subcontractor delayed in executing the assigned works due to delays in obtaining registration certificate from the Contractors Registration Board of Tanzania, yet this was one of the requirements of the bidding documents.

Furthermore, it is however acknowledged that as a matter of fact, best practice was employed in administering the project using FIDIC conditions of contract and member state guidelines.

The Management reported that cost escalation of the project from 8.0 million EURO to 14.0 million EURO is related to the escalation of the hosted staff. However, Management (through GBC introduced a non-standardized state of the art foundation method which is the Combined Piled Raft Foundation (CPRF), a method that combines load bearing features of a raft foundation with those of a piled foundation, whereas the load on the subsoil from the raft activates additional bearing capacities of the friction piles.

The Committee took note of the fact that the over designing of the foundation of the EAC Headquarter Building contributed to cost escalation, which could have been avoided was unnecessary.

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

i) ***ensure that a Building Policy and a Procurement Manual for the EAC Secretariat are developed ready for use; and***

ii) ***ensure that in future building projects, the EAC Secretariat should revisit the designs by involving independent experts to safeguard the interest of the Community.***

2.4.4 Questionable Payments - TShs. 180,811,457.74 (TShs. 180.81 Millions)

a) Preliminary Item on Provision of Offices, Stores, etc - TShs.104,805,251.33

The Audit Commission observed that in the preliminary Item D3 bill number 1 on page 5/1/6 in the contract for the main contractor, there was a provision for offices, stores etc. and all other buildings required to be used by the Main contractor and Nominated Sub Contractors. The same item for provision of offices, stores etc. were found in the sub contracts and were paid.

This is despite of the fact that the preliminary item was supposed to be charged only once since the Main Contractor was supposed to provide office space, stores etc, for themselves and all other nominated subcontractors. In the main contractors contract the item was priced at TShs.175,000,000 (175 Millions*).* ***Annex V*** shows the breakdown for the rate in the Nominated Subcontractors‟ BoQ under preliminary item.

The Management concurs with the audit finding and recommendation to investigate the matter.

The Committee took note of the anomaly incurred on additional costs of TShs.104,805,251.33 (104.8 Millions) for the preliminary item (shed, stores, offices etc) which could be avoided.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to recover TShs.104,805,251 from the subcontractors. The recovery can be made during the preparations of the Final statement (Account) of the project.

b) Payment for Work not Performed Though Provided for in the BoQ - TShs.3,654,050.00

A review of the Bills of Quantities (BoQ) and the site visits showed that an item of architrave which is provided in the Main Contractor Bills of Quantities and paid for has not been executed at the following areas: Plenary Hall, VIP block, Kitchen, Restaurant, Conference, Courts, Library, and Archives blocks. The table below shows the detail of the item of the EAC building which has not been executed though provided in the BoQ.

Item, not Executed but Paid for

Verified Item	Description of item in the BOQ	Amount in BOQ (TShs.)	Observed Weaknesses
35x19mm architrave with two labours plugged	Item F Bill number 3 page 5/3/13 (588,000) Item C Bill number 4 page 5/4/11 (582,050) Item E Bill number 8 page 5/8/14 (1,188,000) Item C Bill number 9 page 5/9/10 (930,000) Item E Bill number 10 page 5/10/15 (366,000)	3,654,050.00.	Despites of the item being included and paid for to the main contractor, no architrave has been fixed to flush doors. This problem occurred to the following blocks: Plenary Hall, VIP block, Kitchen, Restaurant, Conference, courts, library and Archives blocks. A total of TShs 3,654,050.00. was priced for Architraves in the Bills of Quantities (BoQ).

It was further observed that the subcontractor, M/s Furniture & Carpet World Ltd, who was subcontracted to manufacture, supply, deliver and install furniture to the newly constructed EAC HQ Building was paid TShs.72,352,156.41 vide Certificate No.4 with no clear justification. This amount was set aside as a contingency and its utilization and payments ought to be supported by clearly defined tasks. This was contrary to the contract requirement which specified that the contractor was to be paid according to the work done. But in this aspect the contractor was paid the lump sum amount as appeared in the BoQ.

The Management reported that it concurs with the Audit Commission recommendation and undertakes to set up a team of officers to analyze and review all the documents that were used to pay the amount.

The Committee took note of the Audit Commission concern of the risk of overpayment to the subcontractor since the amount was paid as lump sum (contingency amount as in the BoQ) rather than as per detailed work done.

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

i) ***to ensure that the amounts paid for the unexecuted works are recovered; and***

ii) ***to set a deadline for the team of officers who will analyze and review the documents that were used to pay the amount.***

2.4.5 Inadequate Description of Some Items in the Main Contractor's BoQ

The Audit Commission reported that the Bills of Quantities for the Main Contractor's contract showed that some items were not properly described. The weaknesses noted were on the descriptions which were found to be vague and items especially reinforcement bars not measured identifying sizes as per standard method of measurement requirements.

The EAC Management noted the recommendation and undertook to raise the matter with the GBC Consultants and the Contractors in a meeting scheduled in June, 2014 so that the matter of the replacement of flush doors can be addressed.

The Committee noted the Audit Commission's concern that:-

i) The contractor might execute the construction works according to his understanding and the final product might be different from what is desired.

ii) The final price/cost of the constructed work might not match the final product of the executed work.

The Committee recommends to the Assembly to urge the EAC Council to direct the EAC Management to ensure that:-

i) ***For any future projects, the BoQ should be reviewed by independent experts before implementation so as to safeguard the interest of the Community.***

ii) ***flush doors are replaced with hardwood doors which last longer so as to minimize maintenance costs.***

2.4.6 Project Final Statement

The Audit Commission reported that the Project Final statement for the EAC HQ Building project has not been prepared. The defect liability period ended on 4th October 2013, but by the time of audit (14th February, 2014), this was yet to be submitted. According to the FIDIC General Conditions of Contract clause 14.11, within 56 days after receiving the performance certificate, the contractor shall submit to Engineer, six copies of draft statement with supporting documents showing in detail in a form approved by an Engineer.

The Committee was concerned that in the circumstances, **t**he EAC Secretariat cannot establish the total project cost until the final statement (final account) is in place. The Committee also noted a breach of FIDIC general conditions of contracts.

The Committee recommends to the Assembly to urge the EAC Council to direct the EAC Management to ensure that a detailed Final statement for the EAC Headquarters Building is prepared with all supporting documents such as instructions, valuations, approvals etc. This will enable the EAC Secretariat to understand whether the project has savings or require more money to its completion.

2.4.7 Variations of TShs.1,173,197,392 for Subcontractors and TShs. 599,078,158.17 for the Main Contractor without Supporting Documents

The Audit Commission observed that a review of the payments made to the subcontractors revealed that there were variations amounting to TShs.1,173,197,392.00. These variations were raised from the payments made to seven (7) different subcontractors. The following matters were noted in the review of payments certificates:-

1. Variations were not detailed but also instructions and approvals for the same were not availed for audit review. The instructions, details and approvals are necessary for justifying the adequacy of any variation raised during the construction work. ***Annex VI*** shows the details of the variations for each subcontractor:

2. A review of payments made to the main contractor (M/S ARECO) revealed that it has variations worth TShs.599,078,158.17. The table below provides the details of the payments made to the main contractor.

Variations with no supporting documents Contractor's

Name	Contract Price (TShs.)	Gross payment (TShs.)	Interim Certificate No.	Variations (TShs.)
M/s ARECO	20,741,506,735.22	12,536,693,720.53	11	599,078,158

EAC Management reported that it took note of the issue and undertook to ensure that GBC consultants will be requested to prepare a detailed variation account as recommended during the preparation of the final statement.

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

i) during the preparation of the Final statement, a detailed variation account is prepared and attached with relevant instructions and approvals to minimize unnecessary costs of paying for variations which lack merit; and

ii) the Final Account is prepared as soon as possible in order to check and verify this issue as computed by the Audit Commission.

2.4.8 Notice of Intention to Commence Arbitration

Audit Commission reported that the Contractor claimed prolongation costs for 435 days amounting to Tshs. 3,847,587,690 which involves site administration, equipment, operator costs and financial charges. Regardless of several clarifications on which consultants tried to resolve the matter, it reached a point where the Main Contractor decided to refer the matter to arbitration. However, the position of the arbitration still remains unclear.

The EAC Management reported that a meeting was held in March, 2014 to resolve the matter amicably, and the Consultants requested the Contractor to provide more documentary proof before the matter was resolved. On March 06, 2014, a meeting with regard to an amicable settlement of the dispute was conducted in Arusha. The content of the meeting was captured in the minutes of meeting, forwarded to the Main Contractor, ARECO, on 13th March, 2014. On 21st March, 2014 ARECO gave notice that he had some reservations with the minutes. However, he did not deliver comments on the items where he had reservations.

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

i) ***expeditiously explore options of getting the contractor's reservations on the minutes and try to resolve the case amicably; and***

ii) ***look for ways to handle the case amicably so as to minimize cost overruns of the project.***

2.4.9 Weaknesses in the Project Administration for the EAC Buildings

The Audit Commission reported that most of the information employed during the contract administration was either missing, partially present or scattered in various places. They could not go further to assess whether EAC complied with the contracts. This was due to difficulties in obtaining various contractual records. For example, they failed to establish how the Client managed to assess and approve the variations without making reference to various contractual documents. Further analysis of site meeting minutes revealed the following:-

i) Delay of approving contractor addendum for fence works; the Contractor submitted his quotation in November 2011 but it was approved five (5) months later, in April 2012;

ii) Delay in approving addendum for a transformer with ODD-MAC subcontractor; the addendum was submitted on 24th January, 2012 but signed in June 2012, five (5) months later;

iii) Delay in approving additional works for ICT subcontractor. The addendum was signed on July 2012;

iv) Delays in the Contractor's payments: Payment Certificate No.3 of the Main Contractor was delayed for two month, from 23th August, 2010 to 27th October, 2010;

v) Pending approval of Addendum No.3 for consultancy from September 2011 to 31st July, 2012; and

vi) Delay in issuance of Import duty and VAT exemption for 23 days, from 30thJanauary,2010 to 22ndFebruary, 2010

The EAC Management acknowledged the existence of some weaknesses in administering the project. They noted that in most cases the development and history of events, additional contracts etc was captured in the monthly reports, showing very clearly reasons why certain decisions could not be forced to an immediate result. For example:

i) The process of the approval of the originally omitted item of the fencing works took 5 months. The reason was that the first quotation of the Main Contractor could not be accepted;

ii) The delay in approving the additional works for the ICT subcontractor was due to the fact that the scope of works had to be financed from other sources than the KfW funds. In addition the value of additional works was higher than the original contract value; and

iii) Some payments, not only to the Main Contractor, experienced delays, but this were rather exceptions. According the to the conditions of the Contract, the Consultant had 28 days for the processing. And as all Payments had been paid from KfW directly to the Contractors, there was a granted time frame of 4 weeks for KfW. This issue was discussed in many meetings and all Contractors were aware that the processing of a payment might take up to nearly 60 days.

The Committee reiterates the Audit Commission observation that weaknesses in project administration may cause delays in the completion of the project, increase in costs, and failure to meet the intended objectives of the project.

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

i) ***strengthen the Estate Management Office, so as to enable them to perform the estate functions more effectively; and***

ii) ***ensure that the Head of the Estate Management Office has all the information regarding the EAC Building project compiled in soft copy as well as hard, so as to make it easily accessible whenever needed.***

2.4.10 Unclear Payments to Subcontractors

The Audit Commission reported that two different payments were made to subcontractors (M/s Odd-Mac Engineering Ltd for the Electrical installation and M/s Furniture & Carpet World Ltd for the supply and installation of furniture) that were each found to have two different figures as explained below:-

a) Payment to M/s Odd-Mac Engineering Ltd

The review of the two Interim Certificates (Nos.8 & 9) to M/s ODD MAC subcontractor revealed that Certificate No.8 showed that the subcontractor was paid TShs.126,426,160.32. n. However, for certificate No.9 (On the side of previous certified amount), it was noted that the amount for Certificate No.8 was reflected as TShs.100,242,160.32 as opposed to the correct amount of Tshs.126,426,160.32.

Below are details of the two Certificates:-

i) Certificate No.8 was certified by the Engineer on 31st October, 2012, forwarded to German on 2nd November, 2012, with letter of reference No.F&A/210/4. The amount due to the subcontractor was TShs.126,426,160.32; and

ii) Certificate No.9 was certified by the Engineer on 26th April, 2013, and forwarded to German on 3rd February, 2014 with letter of reference No.F&A/210/4. The amount due to the subcontractor was TShs.373,858,268.40. On summary of previous certified amount for certificate No.9, it shows certificate number No.8 was wrongly quoted as Tshs.100,242,160.32 instead of Tshs.126,426,160.32

b) Payment to M/s Furniture & Carpet World Ltd

A review of Certificate No.4 (Final Certificate) showed that two different final certificates were certified by the Engineer and forwarded to German for payment. The first certificate amounting to TShs.144,653,771.32 and the second one has TShs.140,413,559.32, as detailed below:

i) Certificate No.4 was certified by the Engineer on 21st January, 2014 and was forwarded to German on 28th January, 2014 with letter of reference No. F&A/210/4 costing TShs.144,653,771.32; and

Another Certificate No.4 was certified by the Engineer on 21st January, 2014 and was forwarded to German on 3rd February,2014 with letter reference No. F&A/210/4 costing TShs.140,413,559.32

The EAC Management responded that payments to M/S ODDMAC Engineering is correct and that the Engineer's Interim Certificate of Payment No. 8 shows an amount of TZS 126,426,160.30 to be paid to the Contractor. Unfortunately KfW had a reservation on the envisaged amount and on 16th Jan 2013 only transferred TZS 100,242,160.32. Evidence being Certificate No. 9. F&CW have so far been paid a total amount of TZS. 140,413,55.32.

The Committee is concerned on the risk of irregular payments**.**

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

i) ***reconcile the figures noted above for verification and provide clarification as to why that occurred; and***

ii) ***initiate recovery measures in case of overpayment.***

2.5 EAST AFRICAN COURT OF JUSTICE (EACJ)

2.5.1 Wasteful Expenditure

The Audit Commission reported that a total of USD 116,000 was spent on Daily Subsistence allowances at the rate of USD 350 per person for meetings to evaluate bidding documents and review the strategic plan among others. The meetings were held in Moshi which is two hours' drive from the duty station.

No proper justification was availed for holding such meetings in Moshi yet they could have been held in-house at minimal cost. In case management wanted to maximize concentration for officers, then they would have booked all officers in a hotel nearby the duty station.

The EAC Management responded that a retreat out of office was found inevitable and the Court budget envisaged this situation by making relevant provisions to cater for the said undertakings out of office.

The Committee observed that although the activity was genuine, Moshi does not seem the only place to hold such meetings. Alternative place that does not require payment of DSA could have been sought.

The Committee considers the above expenditures wasteful as they could have been avoided and funds expended on more critical purposes, had propriety been exercised.

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

i) ***amend Financial Rules and Staff Regulations with the aim of discouraging meetings in Moshi and put an exception clause to really justify the necessity; and***

ii) ***always exercise prudence while authorizing expenditure*****.**

2.5.2 Accounts Receivable

The Audit Commission reported that an increase in the receivables figure of USD 368,299 due from EAC PAF. It was also observed that the figure had more than doubled when compared to last year, implying an upward trend. During the audit, the Management did not provide evidence of recoverability of these amounts.

The EACJ Management reported that collectability evidence will be availed to the Audit Commission.

The Committee observed that although the EAC Management claim that the receivable incurred has been paid since 16th June 2014, the current audit shows no indication of how the receivable was incurred.

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

- ***i) always share evidence of collectability of such monies; and***
- ***ii) avail proof of payment of receivables to the Audit Commission in the next Audit exercise.***

2.5.3 Non Compliance with the Human Resource Rules and Regulations Criteria

The Audit Commission reported that Regulation 60, of the EAC Staff Rules and Regulations, stipulates that acting in a position shall not exceed six months before the post is substantively filled. However, a total of USD 9,144 was paid as Acting Allowance to the Court Accountant who has been acting as the Court Administrator since November 2011.

The EAC Management reported that the position of Court Administrator has been held by Mr. Stanley Mono in acting capacity to-date due to delays by the Council of Ministers to approve recruitment of a substantive position holder. The Management also concurs with the audit finding that acting for such a long time may compromise the efficiency and effectiveness of the officer as a result of an excessive workload but the Court has no alternative solution but to rely on Mr. Stanley Mono until such time when the Council of Ministers will recruit a substantive position holder.

The Committee observed that the Accountant has also acted as the Court Administrator for over three (3) years. The officer also confessed before the Committee that the workload is indeed much.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to expedite the recruitment process aimed at filling the staff positions.

2.5.4 Vacant Posts within EACJ

A review of the EACJ staff establishment revealed the vacant positions indicated in **Annex VII** have been vacant for the last four (4) years**.**

The EAC Management is in agreement with the concerns of the Audit Commission that having vacant positions implies having inadequate human resource which may negatively impact on the effectiveness and efficiency of the organ.

The Committee observed that the EAC Council of Ministers is yet to approve the recruitment process.

***The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to coordinate and expedite the recruitment process*.**

2.5.5 Delays in Banking of Case Filing Fees

Fees received as income are supposed to be banked immediately as per Financial Regulation 47(3), which stipulates income received shall be banked immediately and receipts shall be recorded in the books of accounts on the date the remittance is received and deposited in the bank not later than the next working day.

The Audit Commission reported that filing fees charged by EACJ were not being banked promptly. In some instances balances were banked after 13 to 98 days. Failure to promptly bank all fees collected, they get exposed to risk of misuse or loss.

The Management concurs with the auditors observations. However, it should be noted that the same observation was pointed out in the previous audit which concluded in March, 2013.

The Management of the EACJ assured the meeting that mechanism is now in place for instant banking.
The Committee observed that most of the anomalies are caused by understaffing.

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

- ***i) recruit more staff for the Court; and***
- ***ii) avail the status of Audit report and recommendation compliance during the next audit, for verification.***

2.5.6 Training

The Audit Commission reported that the EACJ paid USD 33,350 for training various members of staff as follows:-

Training Expenditure at EACJ

DATE	Cheque NO.	NAME OF COURSE	Amt (Us$)
31/01/2013	004108	Training in Advanced Management – in Swaziland from 18/02-16/03-2013	4,575
17/05/2013	004288	IPSAS and Accrual basis of accounting-Swaziland from 17/06-12/07/2013	4,950
24/05/2013	004297	Advanced program for senior executives and professionals.	4,575
24/04/2013	004241	Training of 11 Jurists on interpreting EAC Treaty and Protocol at International Law Institute	19,250
TOTAL			**33,350**

The audit revealed that EACJ had no approved training plan during the FY under review. Besides, the training needs and the training to be undertaken were identified by the staffs themselves.

The Management reported that during the period under review, the Court had set aside in its budget funds for the training of Judges and the Registrar on Treaty and Protocol Interpretation. This planned activity was carried out as per budget implementation plan, but not all funds were spent as the Court negotiated with the Institute. Since the funds were budgeted for training, the management decided to use the realized savings by allowing training of few support staff in their respective areas of duties after assessing the needs.

The Committee observed that EACJ had not set down criteria and so the training was irregular.

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

- ***i) always undertake needs assessment trainings and seek approvals to avoid building slacks in the budget to enable diversions; and***
- ***ii) issue circular or develop and initiate policy on adherence to approved plans and budgets of the Community.***

2.6 EAST AFRICAN LEGISLATIVE ASSEMBLY (EALA)

2.6.1 Irregular Payment of Perdiem to Facilitate Attendance of Funeral Ceremonies

The Audit Commission reported that the EAC Staff Rules and Regulations only provide for a paid leave of nine days in case a member of staff loses a close relative with no other benefits. Although it can be justified for the EAC to send an official representative in case a member of staff passes on, a review of accountability documents revealed instances where facilitations were extended to staff to attend funeral ceremonies of different categories of persons, with one such instance where a total of USD 9,084 was paid as Subsistence Daily Allowances of up to nine days as shown below:-

Irregular Per diem paid by EALA

Cheque No	Voucher Amt (Us$)	Amt Queried (Us$)	Reason
8136	8,900	5,200	Paid as perdiem to EALA MPs and staff
7530	3,775	1,634	Paid as perdiem to EALA MP and staff
	3,040	2,250	Paid perdiem for 9 days to driver; no justification provided
Total		**15,715**	**9,084**

The Management reported that authorization was granted on a compassionate basis and after nomination by the EALA leadership. The EALA Management concurred with the proposal by the Audit Commission to refer this matter to the Commission for guidance on representation at funerals. The driver remained on official duty with the speaker in Uganda and had to be facilitated.

The Committee observed that although the EALA Management justified the expenditure, it was wrong to approve it without proper guidelines.

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

i) ***direct the EAC Management to form guidelines on death related expenditure for all EAC Organs and Institutions; and***

ii) ***urge the EALA Commission to finalize the proposal before them*****.**

2.7 PAF PROJECT:

2.7.1 Flouting of Procurement Regulations

a) Printing of the East African Community Partnership Fund Annual Report

The Audit Commission reported that a tender for printing of the EAC Partnership Fund Annual Report was awarded to M/S Majestic Printing Works ltd at a contract price of USD 2,517.35. Several inconsistencies were noted regarding this procurement as shown below:-

i) The evaluation committee report was dated 16th May 2013 but signed on 12th May 2013;

ii) M/S Majestic Printing Works ltd was awarded the tender for the job although they were not the lowest in terms of price rating for the same works. Majestic was paid USD 2,517.35 Vide cheque No.005209 for the works; and

iii) Further review of the payment voucher revealed that the procurement requisition was dated 13th May 2013, and the LPO Ref: PON/SEC/002456 is dated 21st May 2013. However, the invoice for the works was dated 16th May 2013, which was the same day as the receipt of funds by supplier.

The above analysis points to the fact that the evaluation report was made on the same day that the invoice was raised and settled.

The Management reported that under the Evaluation report there was a mix-up of dates as the report was finally prepared on the 16th of May while the Committee had sat on the 12th of May 2013. That is why the signatures reflect the 12th of May. Further it was reported that the contract went to the second bidder due to the fact that Majestic work that had been seen earlier was more striking than Speedy.

The Committee observed inconsistencies in the tender awarded to M/s Majestic Printing Works Ltd who was not the lowest bidder. The transaction is occasioned by inconsistent dates as observed by the Audit Commission.

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

i) always adhere to the Procurement Regulations and Procedures;

ii) always prepare documents and present them properly to avoid suspicion of the process; and

iii) implement the recommendations of the Audit Commission.

b) Procurement of Promotional Materials

The Audit Commission reported that the EAC procured promotional materials for the observer mission expected to run from the 24th February to the 8th March, 2013 in Rwanda.

The contract was awarded to M/S Creative Media Ltd to supply branded promotional materials at a cost of USD 10,920.90. It was further noted that Delivery Note No.0179 from M/S Creative Media revealed that goods were delivered on 5th February 2013; although the Goods Received Note No.2454 by the Secretariat reflects that goods were received on the 29th June, 2013, and that the LPO No.07449 was issued on 28th June, 2013, months after the activity had ended.

Further noted was that Invoice No.221 was presented on 29th June, 2013 and as such remained unpaid as at the end of the financial year. The entries on the General Ledger do not reflect the expenditure charge for this purchase, neither was there a reflection of a liability for the same.

The Management reported that the goods were received as per the delivery note. These items were t-shirts and jackets for the election observer team, which were actually used for the event. The expenditure is captured correctly as per JN 28794.

The Committee noted the inconsistency and non-adherence to the proper posting of accounts.

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

- ***i)*** ***consider seriously the issue of accounts posting and keeping of the books; and***
- ***ii)*** ***adjust the transaction for verification by the Audit Commission in the next exercise.***

c) Irregularity in Conduct of Procurement Committee Meetings

The Audit Commission reported that on 13th November, 2012, the 19th Extra-ordinary Procurement Committee meeting was held at Lake Turkana Hall - KICC Nairobi. Included on the Agenda were deliberations on the Procurement of logistical items for the F&A, Council, Summit and opening of the New EAC Headquarters Complex. A review of this transaction showed that there was no quorum for the meeting. Despite lack of quorum, the meeting went on to discuss and approve the procurement methods and also award contracts for the supply of various items, works and services for an amount of USD 91,677 as shown in ***Annex VIII*****.**

Further, there was no justification provided as to why the procurement committee had to sit in Nairobi whereas their station is in Arusha.

The EAC Management reported that there was a Council meeting on-going during those dates and majority of the members on the Procurement Committee were involved in those meetings. For this reason it was prudent for the meeting to be held in Nairobi.

The Committee noted that the Procurement Committee meetings were irregular since they lacked quorum. Given the amount of money involved, such an oversight and contempt of rules could not have been allowed to happen.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to always avoid such breach of rules and regulations.

2.7.2 Training in Microsoft Office in Dubai - USD 15,507.6

The Audit Commission revealed that a sum of USD 15,507.6 was spent to facilitate two staff for training in Microsoft Office Specialist,, running from 7th to 16th October 2012 in Dubai as shown below:-

Training of Staff in Microsoft Office IN Dubai

Description	Base Amount (Us$)	Transaction Reference	Remarks
DSA w/inEAC- Staff Training for Microsoft Office Specialist	3,000.00	IMP/SEC/001861	Training for MOS specialists7-19th Oct, 2012 (12 days).
DSA w/inEAC- Staff Training for Microsoft Office Specialist	3,000.00	IMP/SEC/001860	Training for MOS specialists7-19th Oct, 2012 (12 days).
Training Fees in Microsoft Office Specialist for Helen & Caroline	7,200.00	PON/SEC/001679	Wasteful expenditure to travel to Dubai for a course in Microsoft Office Windows- 2010
Training Fees-Visa fees	520.00	PON/SEC/001684	Wasteful expenditure to travel to Dubai for a course in Microsoft Office Windows- 2010.
Return AirTicket -Staff	1,787.60	PTT/SEC/001795	Wasteful expenditure to travel to Dubai for a course in Microsoft Office Windows- 2010.
Total	**15,507.6**		

It was further noted that this training had not been planned for. Besides, there was no evidence that the Human Resource Department was involved in the approval process. There was no proper needs assessment to establish the skill gaps. Given that basic nature of the training in question, this could have been locally provided to avoid unnecessary costs of travelling to Dubai.

The EAC Management reported that there was an approval and the Director of Human Resource and Administration under whom the Docket of HR falls, recommended the training and the approval of the training course outline were availed to the Audit Commission.

The EAC Management take note of the deficiencies in planning for training, a matter that is being handled by the Human Resources Advisory Committee (HRAC) which will advise the Management on requisite changes. It was further noted that all training requests are now considered by the HRAC, which makes recommendations to the Management.

The Committee observed misuse of funds on trainings not planned for. The training in question did not justify flying to Dubai without requisite approvals.

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

- ***i)*** ***stop such misuse of funds; and***
- ***ii)*** ***always undertake planned and approved activities and seek proper approvals where unplanned activities are considered very necessary.***

2.7.3 Purchase of Two Mobile Phones - USD 1,791

The Audit Commission observed that a total of USD 1,791 was spent to acquire two mobile phones: (1) a Samsung Galaxy SIII at USD 769 on 31/7/2012, and (2) an iPhone at USD

1,022 (Tshs.1,640,200) on 23rd January, 2013. No evidence was availed to justify that these items had been properly budgeted for; besides the iPhone was purchased using part of the imprest which was meant to facilitate Donor Mission while in Dar es salaam. This action can be construed as a diversion of funds.

The EAC Management reported that the phones were purchased to aid in the effective implementation of activities.

The Committee observed that the EAC Management breached the Financial Rules and Regulations by spending on unbudgeted for funds on unnecessary items.

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

- ***i) recover the amount in question from the responsible officer and report to the Committee on the implementation of the directive by June 2015; and***
- ***ii) develop a policy on acquisition of assets for use in the service of the Community.***

2.8 FSDR PROJECT

2.8.1 Avoidable Expenditure on Planning Meeting to Restructure the Project – USD 8,750

The Audit Commission reported that the Project Accountant was advanced USD 8,750 (vide reference no.IMP/SEC/001683) to cater for perdiem and other sundry expenses during the Planning Meeting to Restructure the Project held from 28th to 29th August, 2012, in Moshi, Tanzania. Given that the meeting was for only eight (8) people, it was not justifiable to hold such a meeting outside Arusha.

The EAC Management concurs with the audit recommendation on prudence and value for money activities. It was argued that the meeting under discussion was both a retreat for the project staff that needed bonding to enhance teamwork, and secondly was to give the team an opportunity to review the project activities given the challenges the project had gone through since its effectiveness.

Considering the two objectives of the meeting, the EAC Management was of the view that they could be fully achieved outside duty station environment where the team could have a maximum concentration. Apart from bonding, the Project Administration Team was also tasked to concentrate on project redesign and restructuring and to have justifiable output especially in the Executive Committee recommended areas of:

- i) Re-prioritization of project activities;
- ii) Review the project activities costing;
- iii) Restructure the project to consider the extension of the project life span; and
- iv) Revisit the project to reallocate or cancel the funds that may not be required in the first phase of the project.

The output of the meeting was shared with the EAC Management, Project's Executives and Steering Committee, and the World Bank. It was further noted that the EAC Management has indeed put more controls to implement the Audit Commission's recommendation on enhancing the achievement of value for money. In March 2014, the Secretary General issued a Circular emphasizing that "no EAC meetings should be held in Moshi without his clearance".

The Committee observed that the expenditure was indeed wasteful because the same objectives could have been achieved by holding such meeting in a nearby hotel and only paying for meals and venue.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to desist from causing financial loss to the organization.

2.8.2 Project Budgetary Performance for the Year under Review

During the audit, it was noted that the project had been planned to be implemented in phases and phase one had six (6) components which were to be completed by end of the FY 2012/13. The committed amount by the donors from inception to completion of phase one is USD 16,000,000. Further analysis of specific activities under the six (6) components revealed that the project planned to undertake a total of 44 key activities with a total budget of USD 7,495,000, during the year under review, out of which only 17 were carried out. The actual expenditure amounted to USD 2,013,214 translating into a meager 27% of the budget.

The EAC Management agrees with the audit observation and recommendation and further reported that the Project Management faced a number of challenges from the project inception as hereunder:-

i) Changed factors since the design of the project that include costing figures adopted for budgeting; some of the amounts were too low to support regional consultancy work;
ii) The evolving regional Agenda which necessitated a need for restructuring of the project ;
iii) In appropriate design of some components (e.g. the IOSCO activity under component 3) which led to implementation difficulties;
iv) Delay in recruitment of key personnel; and
v) Long procurement processes, in particular the long drawn out negotiation processes among others.

The EAC Management reported that the Project Administration Team has since taken the following steps to ensure that the project is brought on track:-

i) Re-costed all the project activities to reflect the market rates;
ii) Develop mechanisms for reducing the long procurement process;
iii) New technical staff recruited; and
iv) Have agreed with the World Bank for a project extension for 15 months to give the project team a chance to achieve the project development objectives.

The Committee observed the slow pace of implementing project objectives and took note of the Management’s undertaking.

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

i) ***Always plan realistically and ensure implementation of planned activities; and***
ii) ***Present progress and improvement for verification to the Audit Commission in the next audit exercise.***

2.8.3 Unjustified Procurement of Fixed Assets

During the auditing, it was noted that the project paid M/s Compucat Technologies USD 40,790.00 vide cheque No.00320 with LPO Ref: POA/SEC/001542 for the supply of 15 Toshiba satellite C850-B890 laptops, 16 Ipads and two printers. The audit further noted that this procurement of extra laptops and Ipads was not justified, considering the number of staff under this project. The fixed asset register and distribution schedule also showed anomalies of some staff being issued with several IT related equipments such as a desktop computer, HP laptop, Toshiba laptop and Ipad.

The EAC Management reported that the procurement of the 15 laptops and 16 Ipads was to meet the staff needs of the project. The staff complement of the project currently stands at 14 after two members of staff, Joseph Rugari and Dr. Sigei resigned for greener pastures. Currently two positions are at the short listing stage and staff expected to report on duty before the end of the current fiscal year.

The EAC Management however agrees with the audit observation that the distribution shows some anomalies and confirmed to the Committee that the anomalies have since been corrected as shown in the adjusted Asset distribution list available for verification by the Audit Commission.

The Committee observed that the Project Management has unnecessarily procured fixed assets where for instance laptops outnumbered the staff of the project.

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

i) ***avoid unjustified procurement of fixed assets;***
ii) ***withdraw laptops from those who received more than one and ipads; and***
iii) ***present the adjusted asset distribution list to the Audit Commission for verification.***

2.9 USAID-CSERI PROJECT

2.9.1 Project Budgetary Performance for the Year under Review

The Audit Commission reported that the EAC/USAID project comprises four components with each having a distinct budget in line with the identified activities. During the year under review it was noted that the overall budget utilization was low with only one component being above 50%. The entire expenditure for the year was USD 819,355 against a budget of USD 2,201,386 resulting into a meager 37% utilization, as detailed below:-

Budgetary Performance under USAID-CSERI Project

Donor activity analysis code/ department	Donor activity description	Budget - $	Actual - $	Variance – $	Variance in %

US01	Establishment Of The East African Common Market	518,362.00	325,748.79	192,613.21	63

The EAC Management responded that **t**he under spending was as a result of limited technical and administrative capacity arising from non-recruitment of 3 project staff mainly for US02, US03 and US04. These staffs were on board from July 2013, there has since been a notable improvement in the project activities implementation.

The Committee observed low budget utilization, caused by the delay to recruit project staff. It was further noted that low utilization could limit the Community from receiving more donation.

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

- ***i) improve on budget performance in all projects; and***
- ***ii) present the progress of implementation of activities to the Audit Commission for verification.***

2.10 HIV-AIDS PROJECT

2.10.1 Poor Budget Performance

A review of the project budgetary performance by the Audit Commission revealed that the project performed poorly in utilization of budgeted funds and only managed to spend 47% of total funds earmarked for its programs during the year under review.

The EAC Management noted the audit find and highlighted the following reasons that led to poor budget performance:- This is noted by the Management.

i) The HIV and AIDS project did not implement most of the planned activities for the period under review due to unavailability of funds. Attempt to borrow funds within the organization were futile. So the unit was unable to achieve the desired budget utilization due to none or low implementation. Funds from SIDA were received on 2nd December, 2013, which was rather late for implementation.

ii) During the period under review, due to none availability of funds, the project was able to mobilize technical support inform of consultants from the UN agencies (UNDP and UNAIDS). The consultants have been hired by UNAIDS and UNDP to write the EAC Annual HIV Epidemic; and conduct a comprehensive analysis of HIV and AIDS Laws, policies, strategies of the EAC Partner States and develop a Regional HIV Legal and Policy reform framework, respectively. This work is in advanced stages. We had budgeted for these expenses under the EAC HIV and AIDS project and they form part of the analysis. Since these are not incurred by EAC they are not reflected in the EAC accounts but under the accounts of the supporting organizations. This has contributed to the observed low budget utilization. The project team undertook to improve in the budget performance during the current FY 2013/14.

The Committee observed that poor budget performance undermines credibility of the EAC as an Institution.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to always ensure that activities planned for are executed at all costs.

2.11 APSA PROJECT

2.11.1 Budget Performance

During the period under review, the analysis of APSAs budget performance by the Audit Commission revealed over expenditure on the following budget lines:-

Budget Performance under APSA Project

Item	Budgeted Amount (USD)	Actual Amount (USD)	Amount Available	Budget Utilization
Salaries and other related costs	69,900	81,732	(12,132)	117%
Promotion of Dialogue, Tolerance &	72,800	82,501	(9,701)	113%

There is no evidence that over expenditures noted above was properly authorized by way of approved reallocations as is provided for under Regulation 20 of the Financial Rules and Regulations.

The EAC Management reported that salaries and related costs were under budgeted and hence the over expenditure. Management however concurs with the recommendation and undertook to ensure that there will be no budget overruns in future.

The Committee observed that there was spending beyond budget and breach of Regulation 20 of the Financial Rules and Regulations.

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

- ***i) adhere to the financial rules and regulations; and***
- ***ii) always budget appropriately and seek approval for re-allocation from appropriate authorities.***

2.12 ARNM PROJECT

2.12.1 Weaknesses in Consultancy Contract Management

a) Contract Agreement No. P&P/1/1/4(01)

The Audit Commission reported that Contract Agreement No. P&P/1/1/4(01) for the provision of Consultancy Services for Feasibility Studies and Detailed Engineering Design of the Multinational Arusha – Holili/Taveta - Voi Road was signed between the East Africa Community (The Client) and M/S Egis Bceom International (The Consultants) on 27th August, 2009 for Euro.1,400,052.98 and Local Currency of KSh. 32,916,743. The effective contract date was noted to be the date of contract signing as per Clause 2.1 of the Specific Conditions of Contract (SCC); commencement of services was to be within thirty (30) days from the contract effective date as per Clause 2.2 of the SCC. In addition, Clause 2.3 of the SCC specified that the contract period shall be eighteen (18) months.

During the audit, payments totaling USD 929,282.41 were made by the project. However, the following matters were noted:-

a) The technical contract performance reports/minutes, invoices, Certification and acceptance of work done were not availed; and
b) The Consultant's report was submitted in March, 2013 having delayed for more than 40 months. It is worth noting that there was no clause included in the contract for penalties in the event of delays by the consultants.

The EAC Management concurred with the audit finding and held that the matter in question was similar to the Malindi – Bagamoyo project but in reverse order. The scope of works was for full design on the Tanzanian side and design review on the Kenyan side. However, when the consultant (Egis BCEOM) was reviewing the Kenyan side of the design, it was discovered that the previous design had serious shortcomings that required full re-design. A contract addendum was negotiated, with additional costs sourced from Grant savings, and the consultant was granted extension of time to do the new designs. In addition to the re-design, environmental issues with regard to the Tsavo National Park took time to resolve. Several stakeholder workshops were held in order to reach consensus with regard to the section of the road passing through the National Park.

The Committee noted probable laxity in the Contract management which may negatively affect the achievements of the set objectives. The Committee further took note of Management claims that an addendum was negotiated and signed and so the delay was agreed upon.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to avail a copy of the addendum for verification by the Audit Commission.

2.12.2 Weaknesses in Managing Receivables and Payables

a) Receivables and Payables

The Audit Commission revealed that the Statement of Financial Position as on 30th June, 2013 reflects outstanding receivables detailed in the table below:-

Receivables under ARNM Project

Description	Year ended 30th June 2011 (Us$)	Year ended 30th June 2012 (Us$)	Year ended 30th June 2013 (Us$)
Staff imprest for Activities		16	16
Receivables, Tanzania Roads Authority	40,383	40,383	40,383
VAT Claims		100	100

Further review of these receivables revealed that they have been outstanding for more than one year and they are not supported. The respective invoices and efforts made by the management on follow up and recovery of these receivables were not availed.

b) Payables

A review of this project, by the Audit Commission, revealed that the Statement of Financial Position as on 30th June, 2013 reflected accrued expenses of USD 2,480 and other current liabilities of USD 11,028 as shown in the table below:-

Payables under ARNM Project

Description	Year ended 30th June 2012 (Us$)	Year ended 30th June 2013 (Us$)
Accruals	2,480	2,480
Contributions received in Advance, Kenya	11,028	11,028
TOTAL	**13,508**	**13,508**

The EAC Management undertook to liaise with the concerned National Road Authorities and make the necessary reconciliations to be reflected in the subsequent financial year Financial Statements.

The Committee observed that receivables and payables have not been claimed and settled as required.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to initiate and follow up the claiming of receivables and settlement of payables and avail the evidence of action to the Audit Commission for verification.

2.13 IBAR PROJECT

2.13.1 Unsupported Receivables and Payables

A review, by the Audit Commission, of the Project Receivables and Payables Accounts revealed a total of USD 11,878.92 and USD 7,989 respectively that were not supported. In addition, no breakdown was provided for the amounts in question.

The EAC Management reported that supporting documents for receivables and payables in questions were availed to the auditors who verified them accordingly.

The Committee observed that the EAC Management does not cooperate with the Audit Commission during the audit exercise.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to always exercise maximum cooperation during the audit exercise and implement the audit Commission Recommendation without any hesitation.

2.13.2 Unsupported Expenditure

A review of Project expenditure revealed unsupported transactions totaling to USD 20,678.69. The relevant payment vouchers were not provided for audit review.

The EAC Management reported that all relevant documents were availed for review to the auditors.

The Committee noted non-compliance by the EAC Management during the audit exercise.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to recover all the monies spend without requisite supporting documents and avail the implementation of the directive to the Audit Commission.

2.13.3 Overpayment of Daily Subsistence Allowances

A review by the Audit Commission revealed that a payment for daily subsistence allowances (DSA) of total USD 815 was overpaid during the year under review.

The EAC Management took note of the finding and promised to institute recovery of funds.

The Committee noted with appreciation the undertaking by the EAC Management.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to avail evidence of recovery to the Audit Commission in the next audit.

2.13.4 Debit Note to M/S Wing Link Travel Agent neither Recovered nor Recorded as Receivable

The Audit Commission reported that during the year under review, the IBAR Veterinary Governance Project paid for an unutilized ticket amounting to USD 668 to M/s Winglink Travel Agent and a corresponding debit note of USD 668 was prepared on 19th April 2013 for a refund by the firm. The Accounts Assistant explained that for any unutilized ticket a debit note would be prepared by EAC to M/S Wing Link Travel Agent so that the later can refund to EAC the amount involved.
At the time of audit, in February 2014, no refund had been made by the travel agent and debit note was not recognized in the books of account as a receivable as on 30th June, 2013.

The Contract between the EAC Secretariat and M/s Winglink Travel Agent was also not availed for confirmation of payment in the event of unutilized tickets.

The EAC Management noted the audit concern and undertook to follow up with the supplier to ensure recovery of USD 668.

The Committee observed that the EAC Management does not pay attention or follow up recoveries for the community.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to recover all receivables and present evidence to the Audit Commission for verification.

2.14 MRH PROJECT

2.14.1 Unaccounted for Advances and/or Allowances to Staff

The Audit Commission reported that imprest amounting to USD 18,288 vide cheque No.000075 was paid to Mr. Eric Sanga to cater for the Technical Working group held in Kigali from 3rd to 5th December, 2012, but no document was availed to support the retirement.

The Committee noted that the file that contained the retirement of the funds in question had been misplaced but later discovered, verified and cleared.

2.14.2 Poor Budget Performance and Project Implementation

Performance budgets use statements of missions, goals and objectives. It is a way to allocate resources to achieve specific objectives based on program goals and measured results. Hence the level of implementation of the project is expected to closely correspond to the percentage of utilization of funds allocated to the activity. ***Annex IX*** attached reveal poor budgetary performance of MRH project.

The following matters arose from the analysis:-

a) Although the overall percentage utilization was 62%, the Project had overspent on two budget lines up to 215% and 306% of the allocated amounts; there was no evidence that the over expenditures in question was properly approved as is required by the financial regulations.

b) Many planned activities were not undertaken at all.

The EAC Management reported that the budget spending level of about 62% resulted from a number of factors beyond the Project Management control, such as:-

i) Delay of fund disbursement from the World bank, while the funding agreement was signed on 21st March 2012, the first disbursement came 26th September 2012 (6 months later);

ii) Delay in recruitment of 10 Project Staff, namely six National Medicines Regulatory Officers (NMROS and 4 staff at EAC Secretariat namely Senior Health Officer, e-Health and Informatics Officer, Accountant & Pharmaceutical Program Assistant. The six National Officers were recruited in April 2013 (3 months before year end) while four staff at Secretariat were recruited on 1st July 2013 (soon after year end); and

iii) With no staff at National level no substantial activities were implemented apart from three months staff salaries.

The EAC Management further reported that the Project Management was currently reviewing the current Project performance especially the analysis of the amount spent against the budget, spending per the components as preparation for the **Project mid-term review** planned mid-March 2014. The review team involving all stakeholders (Donors, EAC & other Partners like WHO, NEPAD and Bill gate & Melinda Foundation) will review all spending against budget and suggest the reallocation of funds among budget lines, activities and project components.

The Committee noted poor budget performance and overspending on particular budget lines without approvals.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to always seek proper approvals to spend the EAC funds.

2.15 RISP PROJECT

2.15.1 Unbudgeted Expenditure - USD 6,900

The audit review showed that on 29th July 2012, the East African Community signed a contract with Amanda Magamba to monitor and report on behalf of EAC the electoral process towards ending the Somalia transitional Federal Government. The contract was scheduled to be undertaken from 22nd July 2012 to 20th August, 2012 at a fee of USD300 per day while on the mission.

The audit further revealed that a total of USD 6,900 was paid to the Consultant vide Cheque No.000898 from the RISP Fund. Further scrutiny of the RISP annual work plan and the approved budget revealed that such an activity had not been budgeted for**.**

The EAC Management reported that expenditure was occasioned by the emergency nature of the transition in Somalia, a country that had applied to join the Community and in view of the EAC obligation this should have been reflected under RISP work plan. The Management however undertook to ensure that such lapses do not occur in the future.

The Committee observed the anomaly and consistent abuse of funds by the officers who take decisions to revise work plans and create activities outside the EAC Management.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to recover the said funds from the officers involved and report back to the Audit Commission.

2.15.2 Irregular Payment of VAT - USD 12,379.35

The Audit Commission reported that Article 4 Sect. 7 (f) of the MOU between the COMESA and EAC states that the Project Funds shall not be considered eligible for taxes, duties and charges (unless the implementing party is not able to claim them and if allowed by the applicable regulatory provision of the European Union).

However, the Audit Commission noted that VAT paid to suppliers was fully expensed with no evidence provided of any efforts by the EAC Management to submit claims for refund of the amount spent. Failure to recover VAT contravenes the provisions of the Agreement between EAC and the United Republic of Tanzania. Besides, RISP may not be able to recover the whole amount of tax paid.

The EAC Management reported that it concurs with the audit finding and reported that the matter is being handled by the EAC Administration Office to set up a modality that will ensure that EAC is able to claim Taxes from the other EAC Partner States.

The Committee noted with concern lack of efforts by the EAC Management to claim VAT levied on EAC transactions in all the EAC Partner States.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to adopt a prompt measure of claiming refundable VAT in all the EAC Partner States.

2.16 MISCELLANEOUS PROJECTS

2.16.1 Miscellaneous Projects Dormant Funds

The Audit Commission reviewed the use of funds for Miscellaneous Projects and noted dormant funds totaling to USD 2,063,679.81 for six projects. These funds were on the bank account from the beginning up to the end of the year under review. It was also noted that EAC Secretariat under absorbed the funds of six of the Miscellaneous Projects as it utilized only 10% of the available funds during the year under review.

The EAC Management reported that the unutilized funds from the Miscellaneous Projects was from SIDA- EPA negotiation. Most activities did not take place because of technical challenges within Partner States. Some funds were transferred directly to Partner States, but eventually returned to EAC Secretariat. The unutilized funds (USD 2, 121,000) were transferred back to Sweden on 29th April, 2014, as the project phased out on 30th June, 2013.

The Committee noted that the dormant funds were mainly donated by SIDA to facilitate EPA negotiations which EALA refused to approve owing to the fact that the competitor being our funder, would compromise the negotiating power. The funds were consequently transferred back to Sweden.

COMMITTEE RECOMMENDATIONS

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

- ***i) always provide conclusive information with evidence to the Audit Commission;***
- ***ii) show evidence of monies transferred to Partner States and Sweden; and***
- ***iii) change the account name to EAC General Project Account.***

2.16.2 Unsupported Receivables and Payables

A review, by the Audit Commission, of the Receivables and Payables Accounts for the Miscellaneous Projects revealed a total of USD 228,349.10 and USD 1,084,184.40 respectively was not supported.

The EAC Management reported that total payables under the Miscellaneous Project as on 30th June, 2013, was USD 217,509.65. This include unpaid air ticket and amount due to consulting (MA Consulting Group) and total amount receivable was USD 372,102; this amount includes inter-project/Secretariat indebtedness of USD 361,083 from Secretariat to SIDA- EPA negotiation Project. Relevant documents were presented to the Auditors for verification.

The Committee took note of Management’s response.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to ensure that such issues are settled with the auditors by provision of relevant documents for verification.

2.16.3 Weaknesses in Procurement Management

The Audit Commission reported that procurements of office equipment, office furniture and computer equipment worth USD 14,575.03 (vide Chq.100386 of USD 7,660.13 and Chq.100399 of USD 6,914.90) were made from the Miscellaneous Project Account. However, the procurement was authorized by the 10th Extra Ordinary Procurement Committee Meeting held on 29th June, 2012 which lacked the required quorum of members from all five Partner States as per item No.3.4.1.4 of the EAC Procurement Policies and Procedures Manual, 2011.

The Committee noted the procurement anomaly.

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

- ***i) stop breaching EAC procurement policies and procedures manual 2011; and***
- ***ii) always endeavor to avail requisite documents for verification by the Audit Commission.***

2.16.4 Unsupported Transactions on the Miscellaneous Projects Account

A review, by the Audit Commission, of the cash book of the Miscellaneous Projects, revealed other unsupported transactions as detailed in the table below:-

Unsupported Transaction on Miscellaneous Projects Account

Project code	Base Amount	Transaction Amount	Currency Code	Journal No.	Transaction Date	Transaction Reference
NA01	36,690	36,690.00	USD	3097	8/24/2012	Nordic Africa/RFB/3752-22356
FA01	-135,513	-135,513.00	USD	2161	9/28/2012	100363 - Correction of A/C
UN06	-170.38	-267,500.00	TZS	2162	9/28/2012	
ID01	1,000	1,000.00	USD	4728	11/9/2012	100332
SI01	-180	-180	USD	10967	5/9/2013	100451
GC01	100,000	100,000.00	USD	21130	6/30/2013	065JV/JUN'13

The Auditors could not confirm the validity of the above transactions due to absence adequate supporting documents although EAC Management claims to have availed documents to the Audit Commission.

The Committee observed that EAC Management failed to fully account for the transactions.

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

- ***i) always provide documents supporting all financial transactions to the Audit Commission for verification; and***
- ***ii) hold officers involved accountable for non-adherence to the requirement.***

2.17 CLIMATIC CHANGE PROJECT

2.17.1 Budget Performance

The Audit Commission reported that the Climatic Change Project had been budgeted to spend a total of USD 676,88. By close of the period under review a paltry USD 297,570 (44%) had been spent, with some activities having 0% outrun.

The EAC Management reported that the under spending due to delays in recruitment of 5 project staff to constitute the Program Management Unit which had only 1 staff out of the 6 projected staff. Although interviews were held in November 2013, the process of recruiting the staff is yet to be concluded as the project also experienced difficulties in terms of disbursements. Successful candidates will be appointed as soon as funds are remitted by the Development Partners supporting the project.

The Committee observed that poor budget performance is caused by understaffing of the project staff.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EAC Management to devise strategies to ensure that all planned activities are always implemented within the set timelines.

2.15.2 Refundable VAT not claimed

Article 4 Section 1 Sub-Section (d) of the EAC Headquarters Agreement with the United Republic of Tanzania provides for exemption of EAC from all taxes, including withholding tax (WHT) and Value added tax (VAT). A review, by the Audit Commission, of the Receivable Ledgers of several projects revealed that VAT totaling to USD 18,781.93 had not been claimed from Tanzania Revenue Authority as detailed in ***Annex X***.

The Committee noted the delays by EAC Management to claim refundable taxes from EAC Partner States.

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

i) always submit claims for VAT paid by the project promptly; and

ii) ensure that all the related transactions recorded in its books of Accounts are fully supported.

PART III

LAKE VICTORIA BASIN COMMISSION (LVBC)

3.0 CURRENT YEAR AUDIT FINDINGS

3.1 Weaknesses in Management of Accountable Imprest

The Audit Commission reported that the review of the trial balance, imprest registers and notes to the financial statements revealed that imprest amounting USD 115,136 remained unaccounted as at 30th June, 2013, contrary to ***Section 6.5 (e), (h)*** and ***(j)*** of EAC financial procedures manual. The audit further noted that imprest is still being issued to staff with unretired balances from previous years in total disregard of the above requirements. The table below shows the details:-

The EAC Management reported that measures have already be taken to recover outstanding imprest from the payroll while other imprest holders have since made cash refunds for outstanding balances. Reallocation of recovered amounts will be done to the properly analyzed codes and respective projects.

The Committee observed laxity in the Management of Accountable imprest but was informed that the outstanding imprest at end of FY 2012/13 was recovered in full from staff salaries and subsequently accountability has been greatly enhanced and as a matter of fact, as at close of FY 2013/2014 outstanding imprest is less than 40,000 and is mainly attributed to activities that were due to take place in the subsequent month of July 2014.

Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to present progress to the Audit Commission for verification in the next audit.

3.2 Poor Budget Performance

A review, by the Audit Commission, of the activities of the Commission revealed that there was a low level of budget performance during the year under review as shown in the table below:-

Budget Performance by LVBC

PARTICULARS	Budget Utilization
LVBC Secretariat	43%
Partnership Fund	60%
LVEMPII	42%
Overall Budget Utilization	**44%**

The above analysis reveals that the Commission performed poorly in utilization of budgeted funds and only managed to spend 44% of total funds earmarked for its programs during the year.

The Management reported that there was a delay in release of funds for various activities from Development Partners. LVWATSAN program budget was inclusive of funds sent directly to Partner States by the donor which were contributing about 88% of the budget. Out of the 12% of the budget to LVBC, over 65% was for Training and Capacity Building (TCB) – a program component that was contracted to UNHABITAT. The TCB component was paid to UNHABITAT and therefore treated as spent, and overall, the budget component to LVBC spent was about 92%.

The Partner States budget allocated was pegged on the expectation that various procurements would be completed to facilitate expenditure, but the same were delayed and expenditure was slowed. Given the larger contribution of the Partner States' budget in the overall budget, the aggregated expenditure significantly reduced resulting to the low absorption rate.

It was further held that strategies employed to regularly monitor progress on project work plans have changed this trend. All the Implementing Agencies (IAs) in each Partner State have contracted national consultants for design and supervision of works in majority of the cases. With the engagement of consultants and contractors, heavy goods and construction works, where the bulk of the budget lies will be consumed. We therefore expect a total shift in the consumption trends in the immediate past and coming months.

The Committee noted poor budget performance but was informed in addition to the response that funds disbursed to Partner Sates directly no longer included in the Commission is budget performance is expected to improve.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC management present budget performance progress to the Audit Commission for verification in the next audit.

3.3 Excessive Payment of Travel and Daily Subsistence Allowances (DSA)

The Audit Commission reported that the Commission spent USD 1,597,208 as DSA during the FY 2012/2013. Analysis of the DSAs paid during the year revealed that some Commission staff were out of the office for between 100 to 272 days as shown in ***Annex XI***

The above analysis reveals that:-

i) Some Cadres of staff (for example Accounts Department staff) were out of the office for unreasonably many days while their main job description may not involve a lot of work being done out of the office; and

ii) The Commission's Senior Management has been out of the Working Station for significantly many days.

The Management responded that the primary mandate of the Commission is to coordinate all actors within the lake region with a view to implementing planned activities in a coordinated and sustainable manner. The activity of coordination to a large extent involves organizing and facilitating workshop and seminars. LVBC does not per se directly implement field activities but has a key role in monitoring and facilitating the implementation of those activities which mainly involves workshops and seminars.

To enable the Commission carry out its mandate as a Secretariat, it assembles teams with various specialties to help validate reports from the various consultancies before submission to the relevant Sectoral Councils for approval.

Furthermore, the LVBC is funded at 90% by Development Partners and this requires management to keep networking exercise in different international forums for resource mobilization purpose. There is obviously cost effectiveness between the resources used to undertake these missions and the outcome of the same missions that is continuous support by Development Partners the Commission enjoys.

However, the Commission will always be stringent to ensure that only relevant key staff attends meetings to ensure value for money in all expenditures

The Committee observed that much as LVBC Management attaches the excessive payment of DSAs on the nature and mandate of the organization, wrong computation, directive to distribute activities to the EAC Partner States, it was noted that DSAs are still excessive. This is therefore an indicator of poor performance.

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

i) ***immediately develop travel guidelines and reduce excessive payments of DSAs;***
ii) ***present progress implementation of the directive to the Audit Commission for verification; and***
iii) ***rectify the system to avoid wrong computation if the claim of wrong computation is indeed true.***

3.4 Weaknesses in the Management of the IT Function

The Audit Commission reported that a review of sustainability of services of the Commission revealed that the IT Officer resigned from the post on 31st October, 2013. IT functions were then contracted to M/S Bygrace Technologies vide an addendum to a prior contract with the firm for maintenance services for computers and IT equipment signed on 1st July, 2013.

It was noted that Contract Clause No. 1 (7) provides that "*In case the spare parts that need to be replaced, the client shall be responsible for buying and availing the spares to the service provider"*. Under the current arrangement, the service provider will be the one to suggest the spare parts to be procured and what is to be fitted or replaced, pointing to a possible conflict of interest since it's the same person maintaining the IT system as well as overseeing its function.

Although Management has in place an ICT Steering Committee, no minutes of its meetings were availed for audit review.

The Management took note of the Auditors' concern and reported that the Commission has advertised the position of ICT Officer to be filled in before the end of the current financial year. This will help in effective and efficient operations of the IT functions with regard to segregations of responsibilities.

It was further reported that the Commission currently has only one (1) established position in IT department, which fell vacant following the resignation of the previous office occupant. The ICT Steering Committee activities were negatively affected by the absence of the IT Officer and will be reactivated to help guide the ICT functions.

The Committee observed that IT function at LVBC has had significant challenges. The LVBC management however informed the Committee that recruitment of the ITO was concluded and his appointment has been approved by Council.

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

i) ***Effectively render the best management of the IT function by increasing the number of IT staff; and***

ii) ***Revitalize the management of the IT function and present report of improvement to the Audit Commission for verification in the next audit.***

3.5 Fixed Deposit Accounts

A review of the Commission's investments records revealed the following:-

i) The Commission had two Fixed Deposits investments accounts namely; LVBC FDR Account (Kshs)-KCB Kisumu with a balance of USD 300,000 and Gratuity FDR Bank Account-NIC Bank with a balance of USD 299,984 as at 30th June, 2013. It was however noted that the Commission does not maintain an investment register, contrary to the EAC Financial Rules and Regulations. Also, Fixed Deposits certificates were not availed for audit verification.

ii) It was noted that the Gratuity FDR (NIC) bank statements had a nil balance as at 30th June 2013, although the financial statement reflected USD 299,984.

iii) It was further observed that all the interest earned from the two investments accounts are posted to an interest earned account number 4900001 which consolidates all interests earned from all the Commission's bank accounts. This made it difficult to ascertain from the interest account which interest earned relates to which investment accounts. No reconciliations on the same account were being done to ensure that all the fixed deposits have earned their correct interests as per the rates specified in the certificates and also at the correct time.

The LVBC Management took note of the audit concern for necessary action and reported to the Committee d that an Investment register will be opened to keep track of all investments and the interest earned from fixed deposits will be segregated from other interests received and a reconciliation done. It was further reported that Management is following up on the Certificates of Fixed Deposits with the Bank.

Adjustment has been done in the gratuity account in the financial statements to reflect the balance of USD 310,475.93 as supported by the bank certificate of balance.

The LVBC management also reported that the fixed deposit certificate has also been secured and in the custody of the Senior Accountant.

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

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

i) ***always carry out proper reconciliations to confirm fixed deposit balances with their respective interest earned; and***
ii) ***present the fixed deposit certificate to the Audit Commission for verification in the next Audit.***

3.6 Imprest Accounting and Management

During the period under review, the system for managing accountability documents for imprest was found inadequate in that the documents were filed in different files other than being attached to payment vouchers used to advance the money to staff for different activities.

Another weakness observed was that reference numbers allocated to imprests accountability documents could not be traced to the original payment vouchers. In such circumstances, the files or individual supporting documents could be misplaced. Furthermore, the audit trail is lost as these documents are not properly referenced to the payment vouchers through which the imprest was paid.

The LVBC Management reported that it concurs with the audit recommendation to reorganize the filing system accordingly, to enable cross-referencing of imprest advances and corresponding accountability documents.

The Committee observed that the LVBC filing system on imprest accounting is faulty and requires reorganization.

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

- ***i) develop a proper system of filing imprest accounting that would easily enable audit trail; and***
- ***ii) present the undertaking in their response to the Audit Commission for verification.***

3.7 Fuel Management

During the audit, records verified indicated that during the FY 2012/2013, the Commission drew fuel worth USD 3,312.75 from M/S Desnol Investments Limited. However, the following internal control weaknesses were noted with regard to fuel management:-

a) The Tender Committee in its Minutes No.05/15/06/2012 dated 15th June, 2012 recommended that the Commission procures the services of M/S Total Fuel station for the provision of petrol, diesel, oils, lubricants and cooking gas for the FY 2012/2013. However, the Commission single sourced M/S Desnol Investments Limited to supply fuel, contrary to the recommendations of the Tender Committee;

b) M/s Desnol Investments Limited is situated 13kms from the Commissions offices; and

c) There is no contract between the Commission and the said company.

The LVBC Management agrees with the Audit Commission observation and reported that the Commission entered into Contract with Total Fuel station for the services provisions as per the Tender Committee recommendation, but the effectiveness of its Service Provision took long due to delayed process of getting Fuel Cards by Total, an element that had trigged their selection for purpose of economy and efficiency in fuel management.

The Management also held that there have been limited instances whereby drivers who were used to fuel from Desnol Investments kept procuring fuel from the same. The Fuel Cards were eventually provided by Total and now fuel is fully being procured from the selected Services Provider. Such oversight will not occur again.

The Committee observed inconsistencies in fuel management at LVBC, as Fuel is not only drawn from the approved service provider. In addition to usage of Bon Voyage cards, imprest is still issued to drivers to buy fuel, although this is justified for drivers who facilitate activities in places where total petrol station does not exist.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to streamline fuel management and present progress report to the Audit Commission for verification.

3.8 Avoidable Expenditure on Evaluation of Tenders and Prequalification

The Audit Commission reported that LVBC paid a total of USD 13,705 for DSA , fuel and conference cost on evaluation of tenders and pre-qualifications for 2013/2014 done in Gisambai and Vihiga, instead of paying sitting allowances only had the exercise been carried out at LVBC Headquarters or within Kisumu City.

The LVBC Management reported that it concurs with the Audit Commission observation and is at the forefront towards rationalized use of the financial resources. The LVBC Management also reported that some activities are very demanding in terms of time and require a high level of secrecy and concentration. The activity in question related to annual pre-qualification whereby the committee had to open and evaluate numerous tender documents for various categories of Commission's services provision needs. It was not possible to undertake this exercise in the Office already constrained with space.

The Committee noted that the expenditure was indeed avoidable as observed by the Audit Commission.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to discourage payments of DSAs where necessary.

3.9 Facilitation for the Scientific Conference

The Audit Commission reported that during the period under review, the Commission spent a total of USD 100,350 on the Scientific Conference under Partnership Fund Project, incurring an additional cost of USD 40,350 over and above the activity budgeted cost of USD 60,000 that was to be financed under this component. The source of the extra funds has not been explained. The payments were made as analyzed in **Annex XII.**

The analysis implies that the Commission makes unnecessary provisions in its budget and the excess funds are subsequently used to pay for unplanned for activities, contrary to budgetary control procedures.

The LVBC Management took note of the audit recommendation and reported that the scientific conference was funded by several projects. Each project was allocated the amounts and activities to be funded. The amount of USD 40,350 was paid by Partnership Fund to be refunded from the other projects. The anomaly in charging the allocation to Partnership Fund is noted and relevant reallocation and refund from other projects will be done.

The Committee took note of the management's response but concurs with the audit finding that evidence is required to show that overcharge from Partnership Fund refunded.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to present evidence of refund to the Partnership Fund budget for audit verification.

3.10 Payroll Management - Donor Funded Staff

The Audit Commission reported that during the audit it was observed that the LVBC Management did not maintain a separate payroll for the projects' staff but instead lumped-up all projects' staff emoluments under one line item-project costs. The audit team was not able to verify projects' payroll and the related cost of staff emoluments and thus could not ascertain whether payments were made to bona fide staff and within the approved rates.

The LVBC Management upheld the Auditors' recommendation and reported that the payroll for Projects staff is prepared like the one for established/core staff though the Projects' staff costs were posted to the general projects costs account.

The LVBC Management also held that effective July 2013, the posting will be done to each segregated expenditure account. The Chart of Account has been redesigned to enhance this. This will facilitate expenditure reporting based on expense line items and hence, facilitate variance analysis.
The Committee observed that LVBC Management was wrongly posting staff emoluments. The Committee was however informed that a new GFS Chart of Accounts that comprehensively segregates all activities is currently being implemented. This will enhance the reporting functionality of the Sun Accounting System.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to present the new GFS Chart of accounts to the Audit Commission for review and verification in the next audit.

3.11 Weaknesses noted in Service Contracts

The Audit Commission reported that the review of LVBC contracts with service providers revealed the following unsatisfactory matters:-

a) Provision of security services Contract No.LVBC/SRVC/001/2011-2012 – Riley Falcon Security Services LTD:-

- The contract was entered on 3rd September, 2012 but was indicated under Item 4 of the contract agreement to commence on 1st July, 2012 and ends on the 30th June, 2013. There was therefore no valid contract between 1st July, 2012 to 2nd September, 2012
- The contract reference is for the prior FY 2011/2012.

b) Provision of Office Cleaning Services Contract No.LVBC/2012-2013 – Metro Cleaners & Renovators LTD:-

- The contract was entered on 14th December, 2012 but was shown under Item 3 of the contract agreement to commence as 1st July, 2012 to 30th June, 2013. There was therefore no valid contract from 1st July, to 13th December, 2012
- The contract reference is not indicated other than the financial year.

c) Provision of Air Ticketing Services Contract No. Srvs/Air Ticketing/2011-12–PEL TRAVELS Ltd:-

- The submitted contract is an addendum entered on 2nd November, 2011 to the previous contract signed on 9th July, 2011 which expired on 31st October, 2011. The contract was extended to 30th June, 2012. This implies that the Commission did not have any contract with the said company during the year under review yet it continued doing business with it.

The LVBC Management took note of the Auditors recommendation and reported that the position of Legal Officer fell vacant, following the resignation of the office holder, which led to poor drafting of the contracts including such types of errors in dates and references. However the contracts awards were notified to the successful bidders with correct reference, which is also legally binding to the same, and therefore the risk of legal challenges is mitigated. The aforementioned contracts will be reviewed in consultation with the other parties to the contracts to correct the errors.

The Committee confirmed weaknesses in the previous contracts between LVBC and service providers but was assured that contracts with service providers have been reviewed to ensure consistency.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to exercise prudence while engaging service providers.

3.12 Risk Assessment

The Audit Commission reported that the Commission has a Risk Management Policy but no Risk Assessments have been done in the year under review. In the absence of this practice, Commission may not be able to estimate the likelihood and significance of the risks it is exposed to.

The LVBC Management reported that it has already embarked on development of Results Based Management System (RBMS) which embeds Risk assessment component in its implementation. The RBMS was presented to the 12thLVBC Sectorial Council of Ministers for approval and the final draft is currently being reviewed by Partner States for inputs before its adoption. Furthermore, the Risk Assessment is currently being piloted at EAC Secretariat and the Commission will immediately scale it up. It is planned to undertake staff training on risk assessment up to departmental level.

The Committee observed a shortfall on Risk Assessment at LVBC but was informed that comments on the Initiated Based Result Management System (IBRMS) by the Partner States are pending. However, LVBC is undertaking an exercise to harmonize LVBC with the EAC Risk Management Policy framework.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to present evidence of risk assessment management tools for audit verification during the next audit.

3.13 Accounts Payable

a) Purchase Invoices

The Audit Commission revealed that during the period under review, the following observations were made on accounts payables records:-

i. The Commission uses cash basis of accounting for its payables whereby all invoices are expensed upon being received. This contradicts proper accounting treatment for payables as stipulated in the EAC Financial Procedures Manual that payment of all invoices for creditors must be made within 30 days of receipt of the invoice.

ii. Also noted was that all unsettled invoices for the various suppliers that are yet to be expensed at the end of the financial year are all lumped in an Accrued Expenses Account. There are no individual ledgers maintained for each supplier.

iii. No aging analysis is done for the creditors therefore making it difficult to know how long the creditors have been outstanding in the Commission's books.

iv. Included in the accounts payable figure is an amount of USD 9,671 relating to unapproved purchase invoices. These invoices relate to services already consumed by the Commission but were lacking all the required approvals. Existence of unauthorized invoices raises doubts on validity of the Commission's creditors

The LVBC Management informed the Committee that currently, LVBC is accruing all creditors, the lump sum accrued expenses was utilized in transition. Individual supplier ledgers were subsequently created.

The Committee noted improper accounting for payables and poor reconciliation of invoices.

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

i) always comply with the EAC Financial procedures manual; and

ii) present implementation of the Audit Commission recommendations for review and verification in the next audit.

3.14 Staff Imprest

The Audit Commission observed that included in the Creditors and Accrued expenses figure is an amount of USD 67,399 relating to Staff Imprest. These amounts are reflected as payables in the Financial Statements since they are to be refunded to staff who presented their accountability documents after recoveries for unaccounted for imprest were effected from their salaries, contrary Section 6.5 (0) of the financial rules and regulations.

The LVBC Management responded that when deductions were made from staff salaries, there were cases of over-deduction for some staff. Therefore, refund of imprest from recovery will only be done in cases of over-deduction. For imprest retired after the deduction was effected, no refund will be affected as a deterring measure for late retirement. Management undertook to adjust the creditors figure to reflect the correct position.

Meanwhile, the imprest figure of USD 81,916 was adjusted by USD 14,517 to USD 67,399. The adjustment relates to proper donor and project analysis in financial statements. USD 67,399 will be reconciled against receivables of USD 115,236.

The Committee observed that LVBC Management erroneously recovered unaccounted for funds contrary to section 6.5 (o) of the EAC financial rules and regulations. The creditors figures was not adjusted to reflect the correct position LVBC Management informed the Committee that credit balances were adjusted and accountabilities which were submitted subsequent to the deductions are not eligible for refund.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to present the adjusted credit balances to the Audit Commission for verification in the next audit.

3.15 Accounts Receivables

The Audit Commission reported that the statement of financial position as at 30 June, 2013 reflected an amount of USD 1,521,999 relating to account receivables and prepayments. The amount comprised of unpaid Partner States' contributions, unaccounted for advances to projects implementing agencies and outstanding imprest and staff advances.

Further review of the advances to projects implementing agencies revealed that USD 6,050 advanced to TACAIDS/UNFPA had not been accounted for as at 30 June, 2013 this amount, relates to the year 2011/2012. However, no effort appears to have been made by the management on follow up and recovery of the long outstanding advances.

The LVBC Management reported that outstanding amount of USD 103,229 has been accounted for in full and the accountability availed to the Audit Commission for verification.

The LVBC Management further reported that efforts have been made to recover the outstanding amount of USD 3,200 advanced to NFP Uganda. However, the officer who took the imprest passed on. The Management will consider ways addressing the issue, including possibility of writing off as per the existing Financial Rules and Regulations of EAC.

The Committee noted that the outstanding advance of USD 6,050 advanced to TACAIDS/UNFPA is still outstanding and LVBC Management has not initiated the recovery.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC management to recover the USD 6,050 advanced to TACAIDS/UNFPA and report evidence to the Audit Commission for verification.

3.16 VAT Claimable

The Audit Commission reported that although Article IV Point (4) of EAC Headquarters Agreement with the Republic of Kenya provides for exemption of the Commission from Value Added Tax (VAT) and all taxes, it was noted that the Commission has not taken any initiative to recover from Kenya Revenue Authority (KRA) VAT outstanding balance amounting to USD 87,238 as at 30 June, 2013 as analyzed here below:-

VAT Claimable

Type	Outstanding balance as at 30/06/2012	Net movement during the year	Outstanding balance as at 30/06/2013
	USD	USD	USD
VAT	66,707	20,531	87,238
Total	**66,707**	**20,531**	**87,238**

According to the ledger entries, some of the amounts relate to June, 2009 and no evidence was made available to confirm that the Management has made efforts to recover VAT outstanding.

The LVBC Management reported that arrangements have already been made to claim for the amount of VAT due. Exemption is on case by case basis. KRA does not give a blanket exemption. This issue is being addressed at the level of EAC Secretariat and discussions with all Partners States on VAT exemption treatment are underway. The Management will ensure that all claims are lodged when due.

The Committee observed that refund of VAT claimed from EAC Partner States where EAC Organs and Institutions are housed has been made impossible.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to convene a meeting with tax bodies of the Republic of Uganda, Republic of Kenya and the United Republic of Tanzania to iron out issues of claimable VAT and other taxes.

3.17 Deferred Income from Donors

The Audit Commission reported that a figure of USD 3,301,677 being reported as deferred income from donors in the consolidated statement of financial position cannot be confirmed as included within the figure is a deferred asset of USD 541,041 under Partnership Fund which has not been explained. Besides, note 14 of the financial statements related to this component have not clearly explained how the asset or the liability arises.

The LVBC Management took reported that funds received by PF were less than actual expenditures of the year. Funds expected during the year for implementation of activities were received after the year under review while PF had already borrowed funds of USD 297,272 for the implementation of its activities as reflected in the accounts. This is the cause of a debit balance of USD 297,995 under deferred income. Management further reported that the amount had been refunded in the current FY 2013/14.

The Committee was however informed that the borrowing that gave rise to negative deferred income on PF has been refunded. There is no outstanding balance between the two projects. LVBC management undertook to exercise diligence in future to avoid such incidences.

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

i) always adjust their financial statements; and
ii) present adjusted financial statements to the audit Commission verification in the next Audit.

PART IV

LAKE VICTORIA FISHERIES ORGANISATION (LVFO)

4.0 CURRENT YEAR AUDIT FINDINGS

4.1 Doubtful Expenditure - Us$.61,547

The Audit Commission reported that expenditure amounting to Us$.61,547 was not properly accounted for, contrary to the financial regulations; examination of the accompanying supporting documents revealed several inconsistencies that point to a possibility of misuse.

Management agreed with the audit findings and promised to further investigate the transactions.

The Committee noted doubtful expenditure but was informed that only USD8,450 was found doubtful and recovered.

The Committee recommended to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to come to report to the Audit Commission for verification in the next audit.

4.2 Irregular Out of pocket Allowance Us$.2,980

The Audit Commission reported that during the audit, it was noted that in a number of instances, LVFO officers were invited for workshops and conferences and the organizers categorically stated that they would provide air tickets and subsistence allowances in cash form, implying that the officers were not entitled to an out of pocket allowance. Audit review revealed that a total of Us$.2,980 was irregularly paid to officers in form of out of pocket allowance.

LVFO Management responded that LVFO Staff Rules and Regulations, Rule No.9.3 (i) provide that where staff is travelling on duty and his travelling expenses including board and lodging paid for by another organization, the Executive Secretary may authorize 20% of the DSA Allowance up to a maximum of 15 days to cater for incidental expenses. This has been the practice over the years. The US$2,980.00 is a total of different allowances in this category paid to staff.

The Committee noted that the LVFO Management misinterpreted Rule No. 9.3 of the Staff Rules and Regulations for double benefit. The misinterpretation continues to be a practice, which signifies incompetence and fraud.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to put an end to the practice and recover the amount spent irregularly from the officers involved.

4.3 Wasteful Expenditure - Us$ 7,850

The Audit Commission reported that the audit review revealed a number of instances where the organization spent funds that could have been saved; such expenditure could have been avoided had management been more prudent in the utilization of the organisations resources. The highlights of the instances in question are shown below:

A three day budget workshop attended by three officers was held in Seeta, which is located only one hour's drive from the Jinja office; each officer was paid full perdiem for the three nights at a rate of Us$.300 per night, which amounted to Us$.3,000 in total. There is no justification for the payment of such an allowance, given that ordinarily, the participants would have been provided full board accommodation in the hotel which would even be cheaper than paying officers the full daily perdiem of Us$.300.

Having six people, including the executive secretary, to accompany two auditors for a field visit and all the six staff are paid allowances for two nights at a rate of Us$.300 per night.

Invitation for a workshop for which an air ticket is paid for by the organizers but the officer opts to travel by road to a venue more than 800 km away. A total of Us$.300 plus cost of fuel was expended in the process

The LVFO Management responded as that:-

Submission of the budget to EAC for approval was running late and the team needed to get off site to make the preparation without interruption. During the time, the team put in effort till late in the night in order to submit the budget on time.

Management has noted the wasteful expenditure and will ensure that in future such cases will not arise again.

The staff travelled to Kisumu by road and then flew to Nairobi, and returned to Jinja from Kisumu by road.

The Committee observed that LVFO Management understands the mistake and undertakes to avoid the practice in future**.**

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to ensure that all unnecessary expenditures are avoided at all costs.

4.4 Unclaimed VAT - Ugshs.5,903,331

The Audit Commission reported that Section (1) subsection 1(e) of the Annex to the convention establishing the LVFO and assented to by cabinet Ministers of the three partner states exempts the Organization from any kind of direct or indirect taxes. In this regard, the organization is expected to pay for only goods taken or services provided and in case taxes are paid directly or indirectly the organization should claim for a refund from the tax body.

Audit review revealed that in the year under review the organization paid a total of Ugshs.**5,903,331** in taxes. However, there is no evidence that any attempt to reclaim these funds from the tax body have been made.

LVFO Management reported that it acknowledges the audit observation and has already embarked on the procedure to claim the taxes in arrears.

The Committee observed that LVFO Management has not put any effort to enforce the Headquarters Agreement.

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

i) Seek and convene a Meeting with URA Commissioner in charge of tax exemptions and institute a mechanism of timely refund of taxes, and report progress to the Committee;
ii) Ensure enforcement of the Headquarters Agreement.

4.5 Budget Performance

a) Delayed approval of the annual budget

The Audit Commission reported that the LVFO convention requires the organization's budget to be approved by the Sectoral Council Ministers before execution of the activities. The essence of such a provision is to provide a chance for the ministers to have an input into the activities to be implemented in the subsequent period.

The audit noted that the budget for the financial year 2012/2013 was approved in November 2013, five (5) months after the close of period to which the budget relates. This denied the ministers a chance to have an input into the organizations activities and translates into approval as a mere formality.

The LVFO Management reported that it acknowledges the audit observation. The convention stipulates that the Council of Ministers (CMs) will be sitting once every two years. The next sitting was scheduled for 3rd to 7th December 2013 in Jinja, Uganda (letter LV2009/CM/1/99 of 23rd November 2012) but did not take place because Kenya was preparing for her elections which were due in March 2013; due to logistical issues, the earliest the event was held was November 2013.

The Committee observed that elections in the Republic of Kenya led to the delayed approval of the Annual Budget. The LVFO Management could have however overseen the schedules of other activities in Partner States and schedule the meeting conveniently.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to always consider Partner States activities while planning for annual meetings to avoid coincidence and disruption.

b) Revenue performance

The Audit Commission noted that the entity budgeted to receive a total of Us$.3,191,891 of which Us$.810,150 was expected from Partner States and Us$.2,381,741 from development partners. However, by the close of the year no revenue had been realized from the Partner

States in respect of the current year and Us$.172,775 had been received from the donors. This represents a paltry performance of 5%. With such a poor revenue performance the entity had challenges in implementing planned activities and indeed a number of planned activities were not undertaken.

The LVFO Management reported that it concurs with the audit observation and reported that several and timely reminders about the contribution arrears in form of letters, telephone calls and visits have been made to the Permanent Secretaries of the respective countries. Corrective actions or adjustments can only be undertaken following the CM's decision.

The Committee observed that non remittances of the committed funds by Partner States and donors are a challenge to LVFO.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that committed remittances are indeed paid on time.

c) Budget control

The Audit Commission reported that during the audit, it was observed that comparison of amounts approved in the budget for each budget line with amounts actually spent under each budget line revealed expenditure beyond budget in particular line items as shown in the table below (all figures relate to recurrent expenditure) :-

Overspent budget lines

Budget Line	Budget (Us$)	Actual (Us$)	Variance (Us$)
Subsistence allowances	12,200	108,776	96,576
Motor Vehicle repair	5,850	36,771	30,921

The LVFO Management acknowledged the audit observation and reported that the budget for LVFO for the FY 2012/2013 was restricted to zero increment as communicated by F&A. This compelled management to under budget in order to fit within the ceiling. The vehicles used by LVFO were old and this necessitated frequent repairs. Also, the process of mainstreaming of LVFO to EAC called for more frequent travels to EAC to attend meetings which were not envisaged during the planning. The LVFO Council of Ministers raised the Country Contribution from US$270,050 to US$320,000 starting from FY 2014/2015 in their meeting of November 2013. In the process of coming up with a realistic budget, Management has prepared a supplementary budget for 2013\2014 to be presented be presented to F&A.

The Committee observed non adherence to the budget lines, explanations notwithstanding.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to always seek reallocations from competent authorities and comply with the budget ceilings.

4.6 Gratuity Contributions

The Audit Commission reported that the organization makes gratuity contributions to its staff at a rate of 25% of the basic pay. The gratuity contributions are transferred on a monthly basis to a gratuity account thereby accumulating the asset and the liability. A review of the gratuity operations however revealed a number of shortcomings highlighted here below:-

a) Asset not matching Liability

Whereas the liability due to be paid has accumulated to Us$.464,800, the asset to match this liability stands at Us$.109,514 as of 30th June 2013. The situation was created by excessive borrowing from this account during the current and previous years without corresponding refunds; It was noted that in the year under review a total of Us$.40,000 was actually borrowed to pay salaries and was not refunded.

The LVFO Management concurs with the audit observation and further held that the borrowings were made to meet the gap arising from countries' failure to honour their annual obligations. As at 30th June 2013, a total of US$.1,627,593 was still outstanding. Management however will refund the borrowed funds upon receipt of the contributions which are in arrears.

The Committee noted the LVFO management undertaking to refund the borrowed monies from gratuity.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to refund money borrowed from gratuity account and always follow up Partner States contribution to avoid continuous borrowing.

b) Interest Earned on Fixed Deposit Accounts

The Audit Commission reported that during the period under review, it was noted that management decided to transfer idle gratuity funds to fixed deposit accounts so as to earn some revenue in form of interest. By June 2009, management had accumulated Us$.103,650 and Ugshs.28,763,324 on these accounts. The following matters have however been noted:-

i) Thereafter the Uganda shilling account has not earned any interest for 4 years now; interest amounting to shs.8,544,080 supposed to have been earned on this account requires explanation.

ii) The interest earned on both accounts is being subjected to withholding tax at source; however, since the organization is tax exempt this amount can be recovered; however, the organization has not made any attempt to recover such monies since inception.

iii) The interest earned is disclosed in the financial statements on cash basis rather than accrual basis. This contradicts the accounting policy adopted by the organization.

The LVFO Management reported that the bank routinely credited the interest directly to the Operations Account, and therefore management thought it prudent to recognize it on a cash basis. However, in future, the treatment will be recorded on an accruals basis. Management undertook to notify the bankers of the anomaly in the failure to deposit interest on to the shilling account and also reclaim the tax deducted at source.

The Committee noted the LVFO management undertaking.

COMMITTEE RECOMMENDATIONS

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

i) Always record and keep books of accounts properly and professionally;
ii) Claim the interest earned on the Uganda Shillings account and tax deducted from both accounts.

4.7 Unserviceable Motor Vehicles

The Audit Commission reported that during the audit, it was noted that the annual board of survey for the year ended 30th June 2012 declared 10 vehicles grounded and beyond repair. Also noted was that the 2013 board of survey maintained the same status for these vehicles. Further audit revealed that during the year under review, invoices amounting to Ugshs.16, 061,000 were presented for repair and servicing of grounded vehicles.

The LVFO Management reported that the disposal process was concluded at the beginning of the FY 2013/14 and there was no successful bidder for the 3 vehicles which are still on ground. Management intends to start on the process of reselling these vehicles once funds are secured.

It was further reported that although the organization retained 5 Vehicles for routine operations, such vehicles were also not in the best condition and therefore used to break down more often. Moments when such vehicles were in the garage, pending activities needed to be continued which prompted temporally use of the boarded off vehicles and hence the repairs.

The Committee observed that LVFO Management lack proper planning and efficiency. It is indeed logical to suspect 16,061,000 UGX spent on repair of vehicles that were declared unserviceable and grounded.

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

i) ***Immediately dispose off the three grounded vehicles;***
ii) ***Always execute LVFO mandate prudently and diligently.***

4.8 Honoraria

The Audit Commission reported that during the audit, it was noted that the organization paid a total of Us$.17,500 in the year under review without the express permission of Council yet all the payments were in excess of Us$.1,000 and were made to employees, contrary to rule *5.6 (c) of staff rules and regulations.* The audit also noted instances where the justification given appeared unsatisfactory; for instance paying accounts staff honoraria for preparation of yearend financial statements, yet this is supposed to be part of their normal schedule of duties. The details are shown in the table below:-

Unjustified payments for honoraria

Date	Reference	Description	Beneficiary	Amount (Us$)
8/16/2012	091231	Honoraria for preparation of LVEMP Financial statements	Various staff	2,500
2/1/2013		Honoraria for Implementing the IFMP W/shop. Vr 212		4,500
3/15/2013	083379	Honorarium for successful implementation of the pr	Various staff	8,000
3/15/2013	083380	Honorarium for successful implementation of project. vr 9034	Various staff	2,500
		Total		17,500

The LVFO Management reported that the honoraria was given to staff for handling project activities and responsibilities outside their normative responsibilities. Management however concurs with the audit observation and promised to seek express permission of Council such expenses are made in future before.

Although LVFO Management informed the Committee that payment of Honoraria is no longer a practice, the Committee noted breach to rule 5.6 of the staff rules and regulations.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to put to an end irregular expenditure of institution funds and breach of regulations.

4.9 Receivables

The Audit Commission reported that included in the receivables amount is Us$.1,627,593 due from Partner States. The figure has been increasing over the years. Management did not provide evidence of recoverability of these amounts.

The LVFO Management reported that although reminders in form of letters, telephone calls and personal visits have been made to the responsible personnel of the respective Partner States, the amount outstanding has continued to grow. The Partner States have not shown any indication that they will not settle their obligations. In the 8th Regular Session of the LVFO Council of Ministers meeting in November 2013 in Arusha, Tanzania, they requested Partner States to pay outstanding balances of country contributions. Writing off such debts would call for the decision of LVFO Council of Ministers for management to act accordingly.

The Committee appreciates the reminders done by the LVFO Management but proof of recoverability is important and an obligation on the part of LVFO.

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

i) ***follow up and recover the receivables;***
ii) ***always keep records of such monies owed to the institution.***

4.10 Payment in lieu of leave

The Audit Commission reported that a total of Us$.28,800 was paid to all staff as compensation for leave not taken in the previous calendar year ended 31st December, 2012. The justification given was that all staff could not go for leave due to the heavy schedule of duties. However, it is worth noting that for the major part of that year, the entity was very underfunded with less than 50% of the activities running. In addition, a review of the personal files showed no evidence that any staff had requested for leave and had not been approved.

The LVFO Management responded that initially, the organization employed an additional staff of more than 6 running on projects and when the LTTA who were handling some of the activities of the IFMP Project departed, it was foreseen that the remaining staff on ground (2 executives and 6 professionals) would be handling activities and responsibilities outside their normative ones. The situation was further made worse the terms of office for 1 executive staff and 1 professional staff ended, leaving only 3 professional staff with 1 Executive on ground. This left the team without any option of being away on leave. Management will however ensure that in future, all staff take their respective annual leave days and if possible in a fragmented manner.

The Committee noted that payment in lieu of leave was irregular for it never observed any procedures and did not have any justification. The payment also breached staff rules and regulations.

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

i) ***always justify such payments;***
ii) ***put in place a leave roster;***
iii) ***recover the amount in question or write off the figure from the books of accounts***.

4.11 Consultancy Services

a) Overpayment

The Audit Commission reported that during the year under review, it was noted that LVFO hired a Consultant Mr. OTIENO OKOTH Richard for preparation and development of Terms of reference for the study on formation of the East Africa fisheries Commission at a contract price of Us$.20,000. However, LVFO paid a total of Us$.20,200 by the cheque numbers 000016/18/29.

The LVFO Management reported that it concurs with the audit recommendation to recover US$.200 which is over and above the contract amount paid as transport refund to the Consultant. Management intends to recover the same from the staff who approved the payment.

The Committee observed that the overpayment was irregular and noted the LVFO undertaking.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to recover the overpaid amount and report evidence to the Audit Commission for verification.

4.12 Non-compliance with Procurement laws

The Audit Commission reported that audit review revealed that LVFO incurred costs amounting to US$.3,781 for purchase of air tickets, by way of direct procurements, contrary to Section 10.6 of the financial rules and regulations of the LVFO. This practice if not checked will undermine the fundamental principles of transparency, efficiency, economy and fairness in the management of public funds.

The LVFO Management reported held that the purchase of air tickets through direct procurement arose as a result of the provider being able to issue the organization with tickets on credit, given the financial situation on ground. Management has since embarked on soliciting quotations from at least three providers for any service/goods requested.

The Committee observed that the purchase of air ticket breached section 10.6 of the financial rules and regulations of LVFO.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to always comply with procurement regulations.

4.13 Weaknesses in Procurement

The Audit Commission reported that a review of the procurement function within the organisation revealed that the tender committee has never been fully reconstituted after the departure of the two members that is the former Deputy Executive secretary and the former head of Finance and Administration.

The LVFO Management concurs with the audit observation and undertook to reconstitute the tender committee immediately.

The Committee observed that LVFO does not have a procurement committee, creating a very strong weakness in procurement.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to constitute the tender committee and report evidence to the Audit Commission for verification.

4.14 Convention Establishing LVFO

The Audit Commission reported that the Convention establishing LVFO was signed in 2001 by the EAC which by then only included the three (3) Republics of Kenya, Uganda and Tanzania. Currently, the EAC is comprised of five (5) member states, after it was expanded to include the two (2) Republics of Rwanda and Burundi. However, the Mandates, Objectives and activities of LVFO are still limited to the first 3 partner states.

The risk noted is that the other two member states are denied benefits that accrue from the organisation. Conversely, the organisation may also be missing out on the positive contributions of the other two member states.

The LVFO Management reported that the mainstreaming Rwanda and Burundi is in progress. A meeting was held on 22nd January 2014 where the three Partner States unanimously agreed to mainstream Rwanda and Burundi into LVFO and Kenya being the chair of LVFO Council will sponsor the process to amend the plan.

The LVFO management also informed the Committee that the LVFO convention was amended to include the Republics of Rwanda and Burundi and submitted to the depository of FAO who is its Director General. The FAO Director General passed over the proposed amendments to the Legal Department for inputs.

The Committee commends progress and recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to urgently follow up the conclusion of amendments.

4.15 Mandate of the Organization

The Audit Commission reported that the Convention creating the LVFO stipulated that the Organisation will be headed by a Council of Ministers, under whom are several committees that is; the policy steering committee, the executive committee, the scientific committee and the Fisheries Management committee, each with well-defined roles, collectively meant to achieve the objectives of the Organisation.

The Convention further provides for a permanent Secretariat headed by the Executive Secretary whose function is to organize sessions and meetings of all the other bodies of the organization and to disseminate the outcomes of such meetings to the different stakeholders.

A review of the LVFO activities for the year, revealed that all expenditure was in relation to Secretariat staff, who apparently attempted to undertake the roles of the above bodies of the organization. Given that the secretariat only has three professional staff who are so thin on the ground, they cannot effectively accomplish these roles. There was no evidence that the Secretariat organized any meeting or session for any of the Committees of the organisation.

The LVFO Management held that the formal meetings of the LVFO Statutory Committees for the FY 2012/2013 were not convened mainly because of budget constraints. It was further held that the Secretariat maintained its coordination role through support from other collaborators; the Regional Working Groups and members of the Scientific Committee, Management Committee and Executive Committee who were actively involved to provide technical and management guidance. Some of the activities which LVFO Secretariat coordinated and brought together the members of the sub-Committees and the Committees included Activities coordinated under ACP FISH II, Activities supported under LVEMP II, EALP HIV/AIDS Project, Activities under Smart-Fish Project, Support to strengthen the LVFO – RISP 2 funding through EAC Secretariat, etc.

The Committee noted that the mandate of LVFO is not efficiently executed.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO management to immediately rejuvenate its committees to promote segregation of duties and effective execution of their roles.

4.16 Inconsistencies in Procurement Process

The Audit Commission reported that the organisation procured printing services for two publications that is; the LVFO convention (38 pages) and the LVEMP regional action plan (23 pages) at a unit cost of Ugshs.15,000 and Ugshs.12,000 respectively. The total cost amounted to Ugshs.15,930,000 (equivalent to Us$.6,527). The procurement method used was restrictive bidding where three suppliers i.e. M/s Intersoft Business Services Ltd, M/s The leading edge Ltd and M/s Kanstrac Business System ltd, were invited to provide quotations. The tender was awarded to Kanstrac Business System ltd. A review of the proforma invoices presented revealed the following irregularities:-

It was noted that M/s The leading edge Ltd, issued pro-forma Invoice No.13294 on 5th April 2012 for printing the LVFO convention books and pro-forma No.13293 on 19th April 2012 for preparation of a regional action plan.

M/s Intersoft Business Services Ltd, also issued two pro-forma invoices No.2029 and No.2026 on 4th April 2012 and 18th April 2012 respectively for printing the LVFO convention and the regional action plan.

It is not conceivable how two independent companies can both consistently issue proforma invoices in reverse order.

The above inconsistencies create doubt as to whether the proforma invoices from the two companies are genuine and creates suspicion that this was a direct procurement from M/s Kanstrac Business System Ltd.

The LVFO Management reported that the reversing Pro-forma Invoice numbers was an oversight which was not noticed at the time. Management promised to be keen ion such anomalies n future.

The Committee noted the inconsistency claimed to be an oversight.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to investigate the source of invoices and report the outcome to the Audit Commission for onward reporting to the EALA Committee on Accounts.

PART V

INTER-UNIVERSITY COUNCIL FOR EAST AFRICA (IUCEA)

5.0 CURRENT YEAR ISSUES -2012/13 FINANCIAL YEAR

5.1 SHORTFALLS IN FUNDING OF IUCEA

The Audit Commission reported that during the review of the financial statements, it was noted that the amount of contributions collected from Partner States was Us$.2,856,466 while the total expected was Us$.4,015,560. In addition the arrears from the Partner States as at 30th June 2013 amounted to Us$.12,853,915 as shown in Annex XIII.

Failure by member states to promptly remit their annual contributions negatively affects performance of the Council to fulfil its mandate. It was also noted that increased non-remittance raises uncertainties regarding the capacity of the Council to survive as a 'going concern'.

The IUCEA Management responded that:-

i) The Secretariat issues debit notes to Partner states only after EALA approval of the budget;
ii) According to the practice of funding to EAC, *Partner States are required to have remitted 50% of the approved budget by end of Q2.*

The Committee was informed that to improve the situation, some Partner States have started to channel their contributions through the Ministries of East African Community Affairs.

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

i) Follow up, verify and ensure that channeled through the Ministries of AC Affairs;
ii) Verify and ensure from Partner States are included in the budgets of respective Partner States annually;
iii) Follow up with reminders on debit notes.

5.2 DOUBTFUL RECOVERABILITY OF CONTRIBUTION ARREARS-US$.12,853,914.80

The Audit Commission reported that pursuant to section 4.1.11 of Financial Rules and Regulations of IUCEA, a review of contribution history for the last two financial years revealed that all member states, with exception of Rwanda, had accumulated arrears to the tune of Us$.12,853,914.80 as at 30th June 2013. Further noted was that there is no policy in respect of recoverability as well as any enforcement provisions.

IUCEA Management reported that several reminders and letters have been written to Partner States, backed by EAC Council directives to the effect. Besides, the matter has been presented and discussed in several meetings including the 24th Meeting of the EAC Council of Ministers where directive EAC/EX/CM24 was issued, directing Partner States to timely remit their contributions.

The Committee was informed that later, the EAC Council of Ministers directed Partner States to pay their arrears and the Republic of Kenya complied by remitting USD3,367,280.

The Committee observed that IUCEA lacked the policy on the usage of recovered funds; importing the risk of misuse.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to:-
i) ***direct Partner States to enforce the Council directive on payment of arrears;***
ii) ***direct IUCEA management to develop and put in place a policy on recoverability of arrears and remittances due;***
iii) ***direct IUCEA management to develop guidelines on usage of recovered funds/arrears.***

5.3 OUTSTANDING BALANCES OF ANNUAL SUBSCRIPTIONS FEES

The Audit Commission reported that subscriptions from member Universities and Corporate Institutions as defined in the IUCEA Act 2009 are accounted for on an accrual basis. The revised membership fees structure with effect from 1st July 2010 shows the following:-

Student Population	Annual Fee for Full Membership (Us$)	Annual Fee for Associate Membership - (Us$)
1-1000	2000	1500
1001-5000	4000	2000
5001-10000	5000	2500
10001 and above	6000	3000

During the audit review, it was noted that the total amount of fees collected from Public Universities, Colleges and Private Universities as members of IUCEA was Us$.244,314 while the total budgeted amount was Us$.331,000 occasioning an outstanding balance of Us$.86,686.

The audit further noted that the total outstanding arrears of annual subscription fees for the financial year ended 2011/2012 was Us$.145,408 giving total outstanding balance of Us$.232,094 for financial year 2012/2013 as analyzed in the table below:-

Item	Arrears b/f 1st July 2012	Membership fees towards arrears	Arrears c/f as at 30th June 2012	Expected Membership fees for F/Y 2011/2013	F/Y 12/13 Membership fees received	Current years outstanding as at 30.6.13	Total arrears c/f as at 30.6.13
	A	B	C=A_-B	D	E	F=D-E	G=C+F
Membership Fees	145,408	-	145,408	331,000	244,314	86,686	232,094

The IUCEA Management reported that quarterly reminders have always been sent to members and during IUCEA Governance Meetings the status of membership fee subscription is presented with an analysis of the aging of each outstanding amount. Management further undertook to review the current guidelines where members who are in arrears for 4years are expunged from being members of IUCEA and present a proposal for review to the Executive Committee in June 2014.

The Committee was informed that IUCEA Management has written to Member Universities reminding them of their dues and the balances are being received from Member Universities.

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

i) ***formulate a policy on usage of recovered arrears from Member Universities;***
ii) ***present progress reported and implementation of the directive to the Audit Commission for verification.***

5.4 RISK MANAGEMENT

The Audit Commission reported that during Assessment of internal controls, it was revealed that IUCEA Management has not evaluated the significance and the likelihood of business risks that may affect the achievement of its targeted objectives. Such risks could include:-

i) Employees related problems (training, attitudes, misconduct, and grievances)
ii) Assets protection incidents (inadequate system, untrained personnel),
iii) Natural disasters (tornados, floods, severe weather),
iv) Information system difficulties (lack of back up), and
v) Other events and incidents.

The Audit Commission was not provided with any evidence of risk assessment processes to mitigate risks. This was attributed to absence of a risk management policy at IUCEA.

The IUCEA Management acknowledged the importance of the Risk Management Framework and importance of this document. It reported that there was a plan to engage a Consultant to customize the EAC Secretariat Risk Management Framework. The activity however was not undertaken due to lack of resources. Management plans to get funds for this year 2013/2014 to carry out the activity as a priority.

The Committee was informed that a risk management framework has been developed and approved by the 16th Executive Committee Meeting. A report on the progress of implementation of the framework will be presented to the Executive Committee in June 2015.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA Management to report progress on the matter with evidence to the Audit Commission in the next audit for verification.

5.5 BANK RECONCILIATIONS

a) Unsupported Bank Balances

The Audit Commission reported that a review of bank reconciliation statements revealed three bank account balances which were not supported by bank certificates to confirm them as shown in the table below:-

Account	Adjusted Balances as per F/S (Us$)
National bank of Kenya - Nairobi	14,362.00
National Bank of Commerce – Arusha	178.00
National Bank of commerce – DSM	73.00
TOTAL	14,613.00

There is a likelihood that the certificates were not obtained from the respective banks and Confirmation of the balances as appearing in the bank statements is therefore impossible.

The IUCEA Management responded that it is in discussion with these banks to have the said accounts closed.

The Committee observed that IUCEA does not have a policy on its banks accounts – causing dormancy. The IUCEA Management justified the matter that the balance in National Bank of Kenya – Nairobi has been supported by a bank statement as of 30th June 2014 and that the account in Arusha and Dar es Salaam are dormant and management is in the process of closing them.

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

i) ***Initiate a policy on bank accounts***
ii) ***present evidence of the closure of dormant accounts to the Audit Commission for verification in the next Audit.***

b) Non - clearance of Long Outstanding Elements

The Audit Commission reported that the review of the bank reconciliation statements revealed some long outstanding elements/ transactions which are not cleared up by the close of the financial year. These are as listed below:-

Transaction Details	Transaction date	Transaction amount (Us$)	Bank
Outstanding – ref 2682	16/8/2012	893	Citi bank - $
TOTAL		893	

It was noted that there appears to be absence of review of bank reconciliations to identify such exceptions.

IUCEA Management concurred with audit recommendation and promised to investigate and make adjustments accordingly.

The Committee noted the anomaly but was informed that adjustments have been made by reversal. The long outstanding item has been cleared in the FY 2013/14.

The Committee recommends the Assembly to urge the EAC Council of Ministers of to direct IUCEA management to present evidence of cleared long outstanding element to the Audit Commission for verification in the next Audit.

c) Withholding Tax deductions

The Audit Commission reported that from the review of the bank reconciliations, it was observed that there is a withholding tax charged to the interest earned on the deposits held by the IUCEA with the bank. These taxes are remittable to the Uganda Revenue Authority and are to be supported with a withholding tax certificate to show confirmation of remittances and fulfillment of tax obligations.

It was noted that these withholding tax certificates were not availed for audit confirmation. Besides, since the Council as an entity of the EAC is tax exempt, such deductions are meant to be claimed from URA.

The IUCEA Management reported that the Secretariat is making a follow up with Stanbic bank to provide tax certificates; a letter had been written to the bank to demand these certificates. In addition IUCEA staff (Bank Agents) have been following up through visits to the bank.

The Committee observed breach of Headquarters agreements by EAC Partner States housing EAC Organs and Institutions but was informed that with difficulty, IUCEA obtained a credit certificate of UGX13,926,498 out of a total UGX 47,042,594 withholding tax payable to URA. The certificate of the balance is being followed up, assisted by the Ministry of EAC Affairs which is handing the tax exemption certificate.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct tax bodies of the EAC Partner States to comply with the Headquarters Agreements.

d) Unsupported Differences in Fixed Deposit Accounts

The Audit Commission reported that the Council maintains fixed deposit accounts with different banks for purposes of investment. These deposits are subject to earning interest for the period that they are held. Some differences were noted in the financial statements as detailed below:-

Bank	Balance at 01.07.12 (Us$)	Balance at 30.06.13 (Us$)	Difference (Us$)	Remarks
National bank of Commerce – DSM	1,923	1,923	0	No supporting documentation availed for audit review.
Stanbic Uganda	461,430	454,979	6,451	Reason for such a decrease was not explained
Stanbic Hqts	430,444	271,839	158,605	The reason for such decrease was not explained.

In addition, the summaries of the fixed deposit account held at Stanbic bank in US$ had some variances as shown below:-

Account No.	Date invested	Maturity date	Amount invested (Us$)
9030004317395	12/4/2013	14/10/2013	70,439.69
9030003966800	15/1/2013	15/7/2013	100,647.40
9030003968854	12/10/2012	12/7/2013	100,646.94
Total			271,734.03
Balance at 30th June 2013			271,839.00
Variance			104.97

As per the above table, an amount of Us$.271,839 was reflected in the financial statement thus giving a difference of Us$.104.97 which needs to be explained. There was no proper monitoring through regular reconciliation of the outstanding balances.

IUCEA Management responded as follows:-

NBC-DSM funds held having the same opening balance with the end balance is because this account is inactive. The Executive Committee approved the closure of this account and management is processing closure of the account.

The reduction on balance of the UGX Stanbic account from US$.461,430 at 30.06.2012 to US$.454,979 at 30.6.2013 is due to a system GL Revaluation which resulted in a book loss (unrealized) entry of US$.6,451.

The variance (US$.158,710) shown between US$ Stanbic Headquarters fund of Us$.430,444 and Us$.271,734, represents the amount retired to meet the expenses of work in progress for the project.

The variances on Stanbic bank of US$.104.97 is the overstatement of interest earned from Stanbic FDR computed manually and recognized in the books and the actual interest earned and credited on account by the bank on maturity of the FDR. Management proposes to adjust as indicated below:

Adjustment:-

Dr. 1410102	104.97
Cr. 6320709	104.97

The Committee noted that the misstatement is the source of confusion and an adjustment has to be done.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA management to process and confirm adjustment and present to the Audit Commission in the next Audit.

5.6 ABSENCE OF COMPREHENSIVE FIXED ASSET REGISTER

The Audit Commission reported that during the audit, a review of the fixed assets register revealed that the register lacked significant asset details such as Date of acquisition, Type of the assets, Description, Manufacture part no, IUCEA assets code Number, Cost of the assets, original and addition, location, expected useful lifetime, Depreciation rate charge for the year, accumulated Depreciation to date and Net book value.

The IUCEA Management concurred with the audit recommendation and further reported that information on fixed asset register are maintained by two units: Administration (date of acquisition, type of the assets, description, manufacture part no, IUCEA assets code Number, location), the Accounts unit records show cost of the assets, any additions, expected useful lifetime, depreciation rate charge for the year, accumulated depreciation to date and net book value. It was also noted that in May 2013, the Secretariat acquired a Fixed Assets module which will be implemented during 2013/14 and all those features mentioned shall be put in place.

The Committee discovered non-compliance with section 12.6 of the IUCEA staff rules and regulations.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA management to update the register using the acquired module with all the required details and present to the Audit Commission for verification in the next Audit.

5.7 CONSTRUCTION OF THE IUCEA HEADQUARTERS

The Audit Commission reported that a review of the documentation in respect of the above project revealed the following observations:-

Delayed construction and Co-ownership of Land Title

The Committee was further informed that the construction contract was signed on the 10th June 2014 and construction started on the 1st July 2014 and is expected to be completed by the end of March 2015.

The Committee noted that the delay was caused by architectural designs and other negotiations before entering into the contract. The IUCEA Management later produced a letter from the Uganda Land Commission confirming transfer of ownership to IUCEA.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to present progress of construction and land title to the Audit Commission for verification in the next audit.

5.8 INADEQUATE STAFFING

The Audit Commission reported that during the audit for the financial year 2012/2013, it was noted that, IUCEA has a significant staff shortage which adversely affects the Councils' capacity to deliver according to its mandate.

The IUCEA Management held that the cost of recruitment for the priority positions was not budgeted for in the financial year 2013/14 except for the Chief Principal Planning, Finance and Administration for whom interviews are scheduled to take place on 17th February 2014. Other positions to be subject to the availability of funds.

The committee observed that there is indeed inadequate staffing at the IUCEA causing non-segregation of duties.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to expedite review of the structuring, prioritize recruitment and present progress to the Audit Commission for verification in the next audit.

5.9 WEAKNESSES IN HUMAN RESOURCE FUNCTION

The Audit Commission reported that a review of the Councils' Human Resource functions revealed the following matters:-

It was noted that the Council does not have a fully staffed Human Resource (HR) Department. Currently, the HR functions of the Council are undertaken by an administrative officer with no requisite experience to handle such assignments.

The Executive Meeting at its 5th meeting held in Kampala, Uganda in September 2011 approved the IUCEA salary structure that is aligned to the framework of the East Africa Community (EAC) effective 1st July 2012. This exercise however was not properly undertaken by the Council since it lacked the requisite HR personnel to manage the process.

The Committee noted that applications for the post of Principal HR Officer have been received, awaiting shortlisting and interviewing.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA Management to expedite the recruitment of a Human Resource Officer.

5.10 WEAKNESSES IN BOOK KEEPING

The Audit Commission reported that a review of the general ledger supporting the financial statement balances revealed anomalies noted below:-

The references used/quoted in the general ledger were not consistent since several reference notations were used. For instance the references for expenditure were by payment voucher numbers, system generated numbers, bank transaction reference numbers, Journal voucher number, reference numbers, invoice numbers, LPO numbers and in some instances the reference numbers were not defined. Sampled transactions without reference numbers are listed below:-

Date	Debit (Us$)	Credit (Us$)	Account	Detail of transaction
12/4/2012	208.00	0.00	2210502	Accommodation for Workshop Part
5/23/2013	600.00	0.00	2210502	Accommodation for Workshop Part
3/5/2013	282.26	0.00	2210509	Training Fees
3/5/2013	141.13	0.00	2210509	Training Fees
12/4/2012	398.00	0.00	2210513	Hiring of Training Facilities
1/8/2013	420.26	0.00	2210806	Photocopying & Binding Service
12/4/2012	600.00	0.00	2230106	Road Transport (i.e Buses, Pri
5/23/2013	600.00	0.00	2230106	Road Transport (i.e Buses, Pri
12/4/2012	1,600.00	0.00	2240105	Honoraria
5/23/2013	0.00	2,400.00	6310401	Staff Imprest (EAC Activities)
6/28/2013	0.00	30.00	6310401	Staff Imprest (EAC Activities)
12/4/2012	0.00	5,306.00	6310401	Staff Imprest (EAC Activities)
12/31/2012	0.00	389.75	6320101	IUCEA Petty Cash Imprest (Shs)
7/31/2012	539.06	0.00	7110101	Accounts Payable Control
3/5/2013	0.00	423.38	7110101	Accounts Payable Control

There were several reversals in the general ledger, implying improper data capture and absence of counter checks or controls before posting to the general ledger.

The Committee noted the weaknesses but was informed that the matter has been resolved in the Accounts of 2013/2014 and that there are no more reversals as compared to the previous year.

For the case of Citibank, with an online banking system, PV Numbers are now the only reference used as control measure while for the other Accounts, the Cheque Numbers are the references used as control measures.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to present with evidence the correction of the anomaly in the next audit for verification.

5.11 ANOMALIES IN SALARY ADVANCES

The Audit reported that reconciliation of the Salary Advances Register and the Financial Statements with the General Ledger revealed that for some staff, the amounts reported in the Financial Statement as salary advance differs from the amounts recorded in the Salary Advance Register. Details are as presented below:-

Staff Name	STAFF I.D	Salary Advance (Us$)	Salary Retired (Us$)	Outstanding From Financial Statement(Us$)	Register Issues
Ms Irene Wassawa	EST-P-053	1,443.00	1,888.00	-445.00	Zero balance seen, credit bal per ledger
Fiddy Dungutse			166	-166.00	Not seen in the register, credit bal per ledger
Rose Nasanga	EST-P-118	1,529.00	1,516.00	13.00	Zero balance
Benedict Mtassiwa	EST-P-144	305.00	0.00	305.00	Advanced on 20/8/13

Balyagati Wihelemia	EST-P-145	4,727.00	0	4,727.00	Zero balance
Reuben Tumbwene	EST-P-150	3,658.00	3,408.00	250.00	Zero balance
	Total	10,219.00	6,978.00	4,684.00	

It was noted that there was no evidence of regular reconciliation of the salary advances ledger.

The Committee observed a mismatch reported in the Financial Statements and the Salary advance register an indication of incompetence and lack of training. The IUCEA Management informed the Committee that the matter has been resolved in the Accounts of 2013/2014.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to present the corrected financial statements and the Register to the Audit Commission for verification.

5.12 EFFECTIVENESS OF THE INTERNAL AUDIT UNIT

The Audit Commission reported that a review of internal audit reports for the year ended 30th June 2013 and the annual work plan revealed that some planned activities were not undertaken or concluded within the planned timelines since there are no reports to that effect.

The IUCEA Management informed the Committee that recruitment of two temporary Internal Auditors is underway, investigations on Citibank direct payment system has been completed and a Risk Management framework has also been developed and approved by the 16th Executive Committee meeting.

The Committee observed that there is understaffing, ambitious planning, lack of resources to execute planned activities, weak systems and controls and delay of submissions of financial statements to the Internal Audit Unit.

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

i) ***procure audit tools and improve on systems and controls;***
ii) ***always plan realistically and in consideration of availability of resources and time;***
iii) ***present the status of implementation of the Audit Commission and Committee recommendations in the next audit.***

5.13 REVIEW OF CONTROL ENVIRONMENT

The Audit Commission reported that several weaknesses that include lack Risk Management Policy, lack of proper segregation of duties and lack of proper records of staff engaged on temporary basis.

The Committee noted the report by the Audit Commission but IUCEA informed the Committee that a Risk Management framework has been developed and approved by the 16th Executive Committee meeting, a VICRES Project Accountant has been recruited since

1st April 2014, job definitions and specifications for all established positions are provided for in the functional job analysis report as at March 2013 and new furniture has been acquired.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to always strengthen internal controls and present progress of implementation of the directives and recommendations to the Audit Commission for verification in the next audit.

5.14 VICRES ACCOUNT ADVANCES FOR RESEARCH FUNDS

The Audit Commission reported that a review of the accountability for research funds advanced revealed that there are still some weaknesses which need to be addressed. These include the following:-

There were delays in accountability for funds advanced; this was particularly noted for researchers who had received their last instalments. This puts the Council at risk of having to repay unaccounted for funds to SIDA when such researchers fail on their obligation of submission of accountability.

Some researchers still do not follow the agreed accountability format while accounting for funds. Some researchers only submitted activity reports without financial accountability format as provided in the VicRes Operations manual. This has made the analytical review based on comparison of budgeted and actual expenditure figures impossible as it is difficult to establish the extent of deviations (if any). The sampled cases are shown below:-

Researcher	Amount accounted for US$
Walter Odongo	16,209
Omari Amuka	8,381
John Radull	16,827

It was noted that the agreement between SIDA and the IUCEA states under article 4, that deviations in the researchers plan presented and budgets can lead to SIDA having to claim from IUCEA wholly or in part the amount so advanced.

The audit noted instances where funds advanced were accounted for in good time only to be expensed in another period. Such cases included the following:-

Researcher	Host Institution	Accounted for	Expensed	Amount (Us$)
Deogratius Ojiambo	Mbarara University of Science and Technology	8th of July 2011	30 June 2013	10,952
Francis Kariuki	Kenyatta University	24th Nov 2011	30 June 2013	20,586
Grace Kyeyune	Nkumba University	10th Dec 2008	21st Dec 2012	12,923

The Committee observed inadequate and late accountability of research funds. The IUCEA informed the Committee that so far imprest has reduced from US$3,093,538 to US$493,690 as at 31st December 2014.

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

i) ***always ensure measure are in place to enforce accountability of research funds;***
ii) ***ensure the recovery of the said accountabilities with emphasis on quality;***
iii) ***present the recovered accountabilities to the Audit Commission for verification in the next Audit.***

5.15 ABSENCE OF FUNDS RECOVERABILITY GUIDELINES

The Audit Commission reported that the Council does not have a policy in place to ensure recoverability of funds or accounting thereof in the case of a demise of a researcher. Funds are advanced to a researcher on a tripartite agreement involving the researcher, the IUCEA and the host institution. There are no provisions for recoverability of funds should the situation warrant it. A case in point is when a researcher from Sokoine University of Agriculture passed away; the researcher had been advanced funds to facilitate his research project but had not accounted for funds amounting to Us$.5,455 by the time of his death.

The Committee observed the existence of the weakness occasioned by lack of recoverability guidelines. IUCEA however updated the information on policy and steps taken on the case of the deceased researcher and informed the Committee that a Research and Innovations Policy has been developed and approved in June 2014, guidelines on implementation, recoverability, accountabilities or unused funds are also being developed.

On the issue of the death of the Research Officer, the project Investigator/Team Leader was contracted but replied that he does not have any information regarding the funds.

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

i) ***Urgently develop the policy on funds recoverability;***
ii) ***Present the tools developed to the Audit Commission for verification.***

5.16 LONG OUTSTANDING CURRENT LIABILITIES

The Audit Commission reported that the review of staff creditors shows a balance of Us$.318 due to a staff which has appeared in the general ledger from the beginning of the financial year 2011/2012. It is not clear why it was not cleared during the financial year. In addition, among the creditors for the year, there are some which have been outstanding for quite a long period and the reason for their non-settlement was not given, as listed below:-

Creditors as at 30th June 2013	Amount (Us$)
Publications Nyakaana	1,200.00
Reviewers	1,140.00
Karibu	615.00
Kibazohi	117.00
Totals	3,072.00

It was further noted that the project management does not carry out ageing analysis for the creditors.

The Committee noted long outstanding liabilities and observed irregular procurement.

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

i) ***always exercise due diligence while procuring for the Institution; and***
ii) ***present course of action to the Audit Commission for verification in the next audit.***

5.17 UNCLEAR REGULATION ON SALARY DEDUCTIONS

The Audit Commission reported that Regulation 9.4 on salary deductions states that 'deductions from salary shall be made with regard to loans/advances, any pecuniary loss caused by the employee to the Council (if an employee has no reasonable defence), and PAYE, as required by the Income Tax Act: all deductions should not exceed 50% of employee's take home pay'. The observation is that the regulation is ambiguous.

The Committee observed that Regulation 9.4 on Salary deductions is indeed ambiguous and may not be interpreted to serve the purpose it was intended for but the IUCEA Management informed the Committee that amendments to correct the regulation were tabled and approved by the executive Committee in June 2014.

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA Management to present the amended Staff Rules and Regulations to the Audit Commission for verification in the next audit.

PART VI

THE CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY (CASSOA)

6.0 CURRENT YEAR AUDIT FINDINGS

6.1 Non-disclosure of Assets in the Financial Statements

The Audit Commission reported that the Agency owns land and buildings in Entebbe town, in Uganda, where its offices/headquarters are located. According to documents availed, the land and buildings thereon was leased to CASSOA. However, the Agency does not hold title to the land, but has gone ahead to erect another office block which is now operational. A review of the balance sheet however revealed that the land and buildings were not reported as noncurrent assets, contrary to the provisions of IPSAS 1 and 17.

CASSOA Management responded that the lease offer was given to CAA Uganda for use by CASSOA. However, this is contrary to the Council directive that the title must be in the names of CASSOA. The Agency has brought this to the attention of CAA Uganda. The Agency is also in the process of valuing the land and buildings in anticipation of the transfer of title to enable proper disclosure in the financial statements.

The Committee was informed that a meeting was held between CASSOA, CAA and MEACA in the presence of CTC to follow up the matter. The meeting will be reconvened again in the last week of January or first week of February 2015.

The Committee noted that CASSOA erected buildings on the land whose title is yet to be transferred in its name. The Committee was however informed that CASSOA had been given the lease offer.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to expedite acquisition of the Certificate of Title to avoid ambiguities.

6.2 Irregular Budgeting For Reserves

The Audit Commission reported that a review of the statement of comparison of budget and actual amounts for the year revealed the following anomalies:-

The original budget of Us$.1,520,346 is inclusive of Us$.266,346 being transfers from reserves, implying that the budget team had anticipated the transfer.
The specific nature of related expenditure was not described to determine whether it falls under Regulation 22-4 above.

CASSOA Management reported that the original budget was approved by the Board and the Council in April 2012. However in July 2012 it became apparent that the CAAs could not contribute the whole amounts passed in the budget. The Board at its 6th Extraordinary meeting approved the budget of US$.1,520,346 and the use of reserves of US$.266,346, to fund the budget deficit arising. This was in line with Regulation 22(2) which allows utilization of the Reserve Fund in accordance with a decision of the Board. Mindful of the going concern of the Agency, the Board took note of the adverse effect the use of reserves would have and directed the Agency to review the strategic plan to be able to carry out only activities that could be funded by the available funds. The Strategic plan was reviewed and subsequently in FY2013/2014 and FY2014/2015 the Agency has not budgeted for the use of reserves to fund the budget. Since the reserve was used to fund the budget deficit in its entirety it is not possible to isolate transactions for which funds were drawn.

The Committee noted the Audit Commission report and CASSOA response.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to improvise alternative budget deficit.

6.3 Idle funds on the Reserves Account No.6003614873

The Audit Commission reported that a review of the bank statements for the year revealed that at the close of the financial year, the above account had a credit balance of Us$.120,929.62, deposited on 2nd October 2012. There were no other credits or debits on the account during the year, apart from the bank charges.

CASSOA Management held that the Reserves account was opened in June 2012 and remained dormant until October 2012 when the balance of reserves of Us$.120,929.62 was transferred from the US$ current account No.6002220456. The reserve account is exempt from charges. All fees that had been charged to the account were reversed by the bank.

The Committee noted that CASSOA has not greatly considered investing the idle funds on both accounts to earn interest.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to expedite the process of identifying a suitable financial institution where idle funds can be safely invested to earn interest.

6.4 Idle funds on Account No.6002376715 CASSOA US$ – Staff Gratuity

The Audit Commission reported that during the period under review, it was noted that this account had a balance of Us$.155,848.26 as at 30th June 2013. The account is credited with staff gratuity every month and has an increasing credit balance. It was further noted that this account also does not earn any interest, yet the money is only withdrawn to pay the staff gratuity at the end of the contract.

The Committee noted that CASSOA has not greatly considered investing the idle funds on both accounts to earn interest.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to expedite the process of identifying a suitable financial institution where idle funds can be safely invested to earn interest.

6.5 Irregular Recognition of Accumulated Leave - Us$.14,144

The Audit Commission reported that the Agency recognized accumulated staff leave to the tune of Us$.14,144, contrary to Regulation 71(1) of the EAC Staff Rules . However there was no evidence to show that authority was sought for accumulating leave as provided for under staff regulations.

CASSOA Management responded that Regulations 71 of the Staff Rules and Regulations allows staff to accrue up to 30 days for Executive and Professional staff and 21 days for General Staff. The amounts accrued were for amounts within this provision except for three staff in the amount of US$.3,278. The Agency will adjust the expenditure to correct this overstatement.

The Committee observed that CASSOA had indeed irregularly recognized accumulated leave. CASSOA Management however informed the Committee that the irregular recognition was done in error but later corrected.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to expedite always exercise diligence in the management of financial statements and adhere to staff rules and regulations.

6.6 Service Delivery by the Agency

The Audit Commission reported that review of the CASSOA activities for the year revealed that 51% of the total expenditure was in relation to personnel emoluments to secretariat staff, who apparently undertook the above roles of the Agency.

However, given that the secretariat has only six professional staff that is so thin on the ground, this implies that they may not effectively accomplish these roles. This happened at the expense of the coordination role and in the year under review, there was no evidence that the secretariat made efforts in the development of harmonized regulations in the area of air navigation services as well as developing applicable technical guidance materials and assisting the Partner States in re-certification of the existing operators and personnel to the harmonized regulations.

CASSOA Management reported that the Agency is financially constrained and hence is not able to increase its staffing levels. Furthermore, attraction and retention of technical aviation personnel is a big challenge globally. That notwithstanding, the Agency has been using the available technical expertise from the Partner States to perform its functions. For the year under review the Agency carried out all the planned activities as per its mandate.

The Committee observed that although CASSOA is using CAA's technical staff and the innovation to engage technical on consultancy basis, the CASSOA technical arm is not perfectly executing its role.

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

i) ***initiate steps to get out of the EAC main structure and scale up salaries of technical personnel to attract experts;***
ii) ***initiate and negotiate with CAAs and agree on an appropriate and sustainable funding mechanism.***

6.7 Control Environment Issues

The Audit Commission reported the following matters in respect of the agency's operations and systems:-

Staff Recruitment

For the financial year under review, the Agency's organization structure provided for the recruitment of key staff, including: Director Resource management, a Principal Internal Auditor, Principal legal officer, Principal Information Technology officer and Senior Monitoring and evaluation officer among others. However, the Audit Commission noted that management had failed to recruit the mentioned staff.

Segregation of Duties

Segregation of duties is an internal control measure, which ensures that critical functions in a process are not concentrated to an individual, with a view of minimizing the risk of any mistakes or deliberate action going undetected.

It was however noted that the Agency's management arrangements at the time did not favour the existence of a good internal control environment. There were no segregation of duties among staff. For instance, the Principal Human Resource and Administration officer, apart from exercising the function of human resource management, also doubled as the procurement officer in the Procurement department and the respective departmental heads act as stores personnel.

The CASSOA Management responded that due to financial constraint the Agency has been unable to recruit additional support staff. Furthermore, attraction of technical staff has also been a big challenge because of the EAC rates paid for technical staff cannot compete with market rates paid within the industry. The Agency is compelled to engage technical staff, who are critical to the execution of the Agency's mandate, on consultancy basis to be able to attract them and to make the support function leaner until a more sustainable funding mechanism is identified.

The Agency currently has a complement of 10 staff, three of which are general support staff and the Executive Director. This leaves only six staff to be able to form the various procurement teams. Out of the six, two are accounts personnel who are not allowed to engage in procurement issues while the others are in the Procurement Committee/ Board of Survey and hence restricted to perform only limited functions pertaining to the requirements of the committee membership. In the absence of additional staff, the issue of segregation of duties becomes a challenge. The Agency has endeavored to ensure that the procurement process includes several parties (originating officer/accounts/ procurement) before the approval by the accounting officer.

The Committee noted lack of budget to recruit additional staff in CASSOA to ensure segregation of duties.

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

i) ***direct the CAAs of Partner States to source for more funds for CASSOA;***
ii) ***direct CASSOA Management to initiate resource mobilization activities.***

6.8 Information Technology (IT) Issues

The Audit Commission reported that the organization does not have an IT steering committee.

The CASSOA Management responded that the Management and the IT Officer are carrying out this role. Where additional expertise is needed the Agency co-opts members from the CAAs or other EAC organs and institutions. In the year under review there were no major IT projects to warrant steering committee meetings.
The Committee was informed that CASSOA has now put in place the Steering Committee. The Committee commends this progress.

The Committee recommends to the Assembly the urge the EAC Council of Ministers to direct CASSOA Management to present progress to the Audit Commission for verification in the next audit.

a) Inadequate IT Continuity Plan (ITCP)

The Audit Commission reported that CASSOA has not developed, maintained, communicated, and tested an IT continuity plan to ensure continuous IT services in case of disaster. It was further noted that although regular backups of system data are taken and kept at an offsite location for safety in case of disaster, there is no formally communicated plan in place to restore services in case a disaster that involves breakdown of major hardware infrastructure struck.

The CASSOA Management reported that the Agency requires expertise in risk management to develop an organization business continuity and disaster recovery plan and intends to use expertise from the CAAs and EAC organs and institutions to develop it by Dec 2014. The Agency requires expertise in risk management to develop an organization business continuity and disaster recovery plan and intends to use expertise from the CAAs and EAC organs and institutions to develop it by Dec 2014.

The Committee observed that IT Continuity Plan is very crucial for CASSOA yet the plan is yet to be put in place. The Committee was informed that CASSOA is highly dependent on Partner States where CASSOA is housed. Understaffing is also still a challenge.

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

i) ***enhance IT Continuity Plan;***
ii) ***recommend on strengthening of incidents and accidents units in CAAs of the EAC Partner States and also create such unit in CASSOA.***

GENERAL OBSERVATION:

The Committee observed that a number of avoidable issues which were raised in the previous audits were again raised in the current audit.

To this end, the Committee recommends to the Assembly to urge the EAC Council of Ministers to urgently address the following recurrent and current challenges in the EAC Organs and Institutions.

1. ***Consorted efforts should be put in place to enforce refund of VAT and Withholding Tax (WHT) by the Partner States who host the EAC organs and institutions and expedition of issuance of exemption certificates.***

2. ***All disbursements to EAC Organs and Institutions should be channeled through Ministries in charge of EAC affairs and the Ministries should ensure follow up to remit the contributions on time.***

3. ***EAC Staff Rules and Regulations are inadequate in nature and need up scaling to empower the Secretary General to reprimand indiscipline staff members.***

4. ***EAC Council of Ministers' Rules of Procedure require amendment to dissolve Council into a Board of Directors to enable them follow up of EAC activities.***

5. ***EAC Council of Ministers should recommend that Audit Commission undertake value for money audit in the next audit exercise.***

6. ***EAC Council of Ministers should urgently decide on alternative funding mechanism to thwart the alarming trend of EAC donor dependency.***

7. ***EAC Council of Ministers should fast track institutional review process to enhance human resource capital and provide job security to the staff of the Community by providing pensionable terms of service.***

8. ***EAC Council of Ministers should follow up implementation of Assembly recommendations and Summit decisions and submit quarterly reports to the Assembly.***

PART VII

7.0 ACKNOWLEDGMENTS

The Committee wishes to thank the Rt. Hon. Speaker, the Clerk and the entire Management of EALA for the excellent facilitation accorded to it while executing its mandate. Despite limited time, the Committee finalised the bulky and demanding exercise within the financially dictated timeframe.

The Committee further wishes to thank the Audit Commission for fulfilling their mandate bestowed on it by *Article 134* of the Treaty.

Finally, the Committee commends the EAC Secretariat and other EAC Organs and Institutions for the continued cooperation.

MEMBERS OF THE COMMITTEE ON ACCOUNTS

Consideration of the Audited Financial Statements for the EAC for the Year ended 30th June, 2013

7TH – 17TH JANUARY 2015, ARUSHA - TANZANIA

	Name	Signature
1.	Hon. Amb. Jeremie Ngendakumana	....
2.	Hon. Bernard Mulengani	....
3.	Hon. Bernard Murunya	....
4.	Hon. Celestin Kabahizi	....
5.	Hon. Emmanuel Nengo	....
6.	Hon. Margaret Nantongo Zziwa	....
7.	Hon. Mumbi A. Ng'aru	....
8.	Hon. Nderakindo P. Kessy	....
9.	Hon. Peter Mathuki	....
10.	Hon. Pierre-Celestin Rwigema	....
11.	Hon. Saoli Ole Nkanae	....
12.	Hon. Shy-Rose Bhanji	....
13.	Hon. Straton Ndikuryayo	....
14.	Hon. Nusura Tiperu	....
15.	Hon. Yves Nsabimana	....