

Paper Laid
By the Leader of the Majority Party
5/10/2016



**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, 2015

(9TH - 20TH AUGUST 2016, ARUSHA - TANZANIA)

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

August, 2016

ABBREVIATIONS AND ACRONYMS

APSA	-	African Peace and Security Architecture
BMS	-	Budget Management System
BOQ	-	Bills of Quantity
CAAT	-	Computer Assisted Auditing Techniques
CASSOA	-	Civil Aviation Safety and Security Oversight Agency
EAC	-	East African Community
EACJ	-	East African Court of Justice
EALA	-	East African Legislative Assembly
IPSAS	-	International Public Sector Accounting Standards
IUCEA	-	Inter University Council of East Africa
KNCP	-	Kenya National Cleaner production Centre
KRA	-	Kenya Revenue Authority
LVBC	-	Lake Victoria Basin Commission
LVFO	-	Lake Victoria Fisheries Organisations
LWATSAN	-	Lake Victoria Water Supply and Sanitation
MEREC	-	Mountain Elgon Regional Eco-System Conservation Project
MoU	-	Memorandum of Understanding
MTEF	-	Medium Term Expenditure Framework
NSSF	-	National Social Security Fund
OSNP	-	Operations Save Nile Perch
PHE	-	Population Health and Environment
PMU	-	Project Monitoring Unit
RPSC	-	Regional Policy Steering Committee
SMEs	-	Small and Medium Scale Enterprises
SRR	-	Staff Rules and Regulations
TMEA	-	Trademark East Africa
TRA	-	Tanzania Revenue Authority
TWG	-	Technical Working Group
URBRA	-	Uganda Retirement Benefits Regulatory Authority
VAT	-	Value Added Tax
VRMIS	-	VicRes Research Management Information System
WHT	-	Withholding Tax

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EXECUTIVE SUMMARY

Mr. Speaker Sir,

During the review and consideration of the Audit Commission report on the Financial Statements of the East African Community Organs and Institutions for the year ended 30th June 2015, issues presented were examined and recommendations have been proposed.

The Community had a budget of USD **125,643,894** and the actual expenditure totalled to USD **81,349,607** hence an overall budget performance of 65%. Overall, the financial position of the Community remained reasonably healthy, with sufficient liquid assets to meet its maturing liabilities as they fell due.

Largely across the EAC Institutions, projects and programmes have a big issue of budget absorption requiring proper budgetary planning and coherence and consistency in the budgeting process. An EAC single projects unit is required to harness Projects Coordination of growing EAC projects.

EAC Organs and Institutions did not recover from Revenue Authorities of Partner States accumulated VAT refund, leading to forfeiture of activities that could have been undertaken using the unrefunded VAT refunds.

Finally, gross irregularities were noted in recruitment and award of short term contracts, a process that contravenes Staff Rules and Regulations and the Treaty. Similarly, many procurement processes in the EAC Organs and Institutions contravene procurement procedures.

Nevertheless, the Accounts presented fairly, in all material aspects, the financial position of EAC Organs and Institutions for the year ended 30th June 2015; their financial performance and cash flows for the period were in accordance with International Public Sector Accounting Standards (IPSAS).

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 May, 2016 in Arusha, the United Republic of Tanzania laid before the Assembly the following reports of the Audit Commission:

- i) The Audited Financial Statements of the EAC organs, projects and programmes for the year ended 30th June, 2015;
- ii) The Audited Financial Statements of the Lake Victoria Basin Commission (LVBC) for the year ended 30th June, 2015;
- iii) The Audited Financial Statements of the Lake Victoria Environmental Management Project II (LVEMP II) for the ended 30th June, 2015;
- iv) The Audited Financial Statements of the Lake Victoria Basin-Partnership Fund for the year ended 30th June, 2015;
- v) Audited Financial Statements of the Inter University Council for East Africa (IUCEA) for the year ended 30th June, 2015;
- vi) The Audited Financial Statements for the Lake Victoria Fisheries Organization (LVFO) for the year ended 30th June, 2015; and
- vii) The Audited Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the year ended 30th June, 2015.

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

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

- Part I:** Introduction
- Part II:** Audit Findings on the Financial Statements of the EAC Organs, Projects and Programmes for the year ended 30th June, 2015
- Part III:** Audit Findings on the Financial Statements of the Lake Victoria Basin Commission (LVBC) for the year ended 30th June, 2015
- The Audited Financial Statements of the Lake Victoria Environmental Management Project II (LVEMP II) for the year ended 30th June, 2015
- The Audited Financial Statements of the Lake Victoria Basin-Partnership Fund for the year ended 30th June, 2015
- Part IV:** Audit Findings on the Financial Statements of the Inter – University Council for East Africa (IUCEA) for the year ended 30th June, 2015
- Part V:** Audit Findings on the Financial Statements of the Lake Victoria Fisheries Organization (LVFO) for the year ended 30th June, 2015
- Part VI:** Audit Findings on the Financial Statements of the Civil Aviation Safety and Security Oversight Agency (CASSOA) for the year ended 30th June, 2015
- Part VII:** Acknowledgements

PART II

AUDIT FINDINGS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE EAC ORGANS, PROJECTS AND PROGRAMMES

2.0 CURRENT YEAR AUDIT FINDINGS AND RECOMMENDATIONS

2.1 EAC SECRETARIAT

2.1.1 Accounting Function at EAC

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

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

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

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

COMMITTEE RECOMMENDATIONS

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

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

2.1.2 Lack of EAC Projects Coordination Unit

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

During the review of the Audit Commission report, the EAC Management informed the Committee that the EAC Projects Coordination Unit has already been established and in place. Terms of reference are being drafted for both the staff and the unit.

The Committee observed laxity on the part of the EAC Management in projects management and coordination. Had it not been a wakeup call by the Audit Commission, establishment of the projects coordination unit would still be far-fetched. Also as stated by the Audit Commission, lack of a coherent projects management structure may lead to critical synergies and opportunities being missed or unexploited. Dysfunctional management of the projects may also occur, leading to non-realization of value for money.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Management to finalize the establishment and operationalization of the EAC Projects Coordination Unit by December 2016.

2.1.3 Outstanding VAT Claimable - USD 847,183

The Audit Commission reported that Article 4 Section 1 Sub-Section (d) of the EAC Headquarters Agreement with the United Republic of Tanzania provides for exemption of EAC from all taxes, including withholding tax (WHT) and Value added tax (VAT). However, it was noted that the Community did not recover from Tanzania Revenue Authority (TRA) VAT accumulated balance amounting to USD 847,183. The balance was only decreased by USD 67,631 from last years as described in the table below:

Table 1: Unclaimed VAT

Description	Outstanding as at 30 th June, 2014 in USD	Debit movement during the FY 2014/15, in USD	Refunds during the FY 2014/15, in USD	Decrease	Outstanding as at 30 th June, 2015, in USD
VAT	914,814.44	294,142.92	(369,739.82)	67,631.45	847,182.99

Total	914,814.44	294,142.92	(369,739.82)	67,631.45	847,182.99
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The Committee observed persistent failure of EAC Management to negotiate conclusive and thorough Headquarters agreement to enable EAC enjoy its privileges.

COMMITTEE RECOMMENDATIONS

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

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

2.2 REVIEW OF EXPENDITURE

2.2.1 Payments to short term contract staff

The Audit Commission reported that as per the Staff Rules and Regulations (2006), Regulation 22 (1& 2), there are two (2) types of appointments, Fixed Term Appointment and Temporary Term Appointments, where the later shall be appointed for a period not exceeding three (3) months. Regulation 23(14), states that all appointments shall be subject to interviews.

It was noted that some members of staff are appointed on 'Short Term' contracts which is not covered under the Staff Rules and Regulations, and whose contracts vary from six (6) months to one (1) year. In nowhere has 'Short Term' appointment been taken to mean temporary appointment.

In addition, there is no evidence of interviews for these positions casting doubt on the recruitment process. The organization incurred costs amounting to USD 677,707 as salaries paid to employees who were appointed on short-term contracts as tabulated below:

Month	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Paid Amounts USD	28,283.00	56,431.00	57,664.00	56,987.00	60,787.00	61,987.00

Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Total
59,995.00	58,438.00	58,438.00	58,438.00	58,438.00	61,821.00	677,707.00

The EAC Management informed the Committee that short term contract staff were employed as a stop gap measure awaiting recruitment of fixed term staff. With the Service Commission in place, short term contract staff shall cease to exist.

The Committee observed breach of Staff Rules and Regulations by EAC Management and noted its undertaking to cease irregular recruitment in the guise of stop-gap measures.

COMMITTEE RECOMMENDATIONS

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

- i) comply with EAC staff rules and regulations 2006 and stop recruitment and renewals of short term contracts in all departments of the EAC Secretariat; and*
- ii) convene the Service Commission to phase out short term contracts and draw a road map to fill all positions that were previously held by short term contract holders if necessary.*

2.2.2 Payment of Overtime Allowances

The Audit Commission reported that Regulation 48 (4) of the Staff Rules and Regulations (2006) on overtime allowance, states that the Secretary General shall be required to issue guidelines for eligibility, nature of work, and other requirements for payment of overtime allowance.

The Secretariat paid **USD** 108,203 to various staff as overtime allowances without the Secretary General's guidelines on eligibility and nature of work that qualifies for the payment of the allowance.

The Committee observed that EAC Management has consistently and grossly breached the Staff Rules and Regulations (2006), causing financial loss to the institutions they serve.

COMMITTEE RECOMMENDATIONS

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

- i) direct EAC Management to stop breaching the Staff Rules and Regulations; and
- ii) hold the approving authority responsible for breach of regulations and causing financial loss to the institution; and
- iii) take necessary action.

2.2.3 Irregular Payment in Lieu of Leave

The Audit Commission reported that a review of the documentation revealed that a total of USD 53,795 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 authorization on file from the Secretary General.

Transaction Date	Cheque No.	Journal No.	Description	PAYEE	Transaction Amount USD
6/30/2014	110855	37568	Payment in lieu of Leave	Perpetua Miganda	5,806.00
8/7/2014	111057	40150	Payment for Lieu of leave	Moses Mutaasa	1,758.00
8/22/2014	111150	40034	Payment in Lieu of Leave	Jean F. Akunyo	1,830.00
8/26/2014	111164	36744	Leave	Adam Guma Terence	1,000.00
11/24/2014	111697	44490	Payment on accumulated leave days	Tharcisse Kadede	12,127.00
2/4/2015	112016	46697	Untaken leave compensation	Hon Wilbert TK Kaahwa	18,058.00
5/12/2015	112559	53535	Untaken leave compensation	Jean Claude Nsengiyumva	13,216.00
	TOTAL				53,795.00

The Committee observed that the Secretary General irregularly approved payments in lieu of leave contrary to regulation 71 of the Staff Rules and Regulations (2006). The payments were therefore illegally incurred. This intentional non-compliance with regulations, encourage staff to avoid taking leave in anticipation of securing payments in lieu.

COMMITTEE RECOMMENDATIONS

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

- i) stop breaching the EAC rules and regulations;*
- ii) always effect payments with supporting documents;*
- iii) hold the approving authority responsible for irregular payments; and*
- iv) take necessary action.*

2.2.4 Wasteful Expenditure-USD 76,180

The Audit Commission reported that the Community funds should be spent with due regard to probity and propriety. Audit review revealed a number of instances where EAC Secretariat spent funds that could have been avoided had management been more prudent in the utilization of its resources.

A total of **USD 76,180** was spent on daily subsistence allowances, conference facilities, fuel, and accommodation for various meetings. The meetings were held in Ngurdoto and Marangu without justification.

The EAC Management responded that all travels outside duty station are guided by Staff Rules and Regulations (2006), reg. 43 (1); on approval by the Management.

Further, Regulation 5 of the Staff Rules and Regulations (SRR) 2006 under "Definitions" defines a duty Station to mean "the assignment location on appointment or re-assignment". It does not define duty station in respect of distance.

The expenditure being referred to was fully approved by management after carefully considering the provisions of the regulations and the appropriateness of these assignments to be done away from the duty station.

It is worth noting that the department in question, is manned by only two (2) officers who coordinate the budget process for the entire Community and hence the need to coopt other officers to assist in the budget review and consolidation, which task can conveniently be done out of duty station.

The above explanation notwithstanding, the Management appreciated the recommendation of the Audit Commission. This has already been addressed by the Secretary General's Circular dated 9th Feb, 2015 on "Enhancing Controls in Managing Funds", which requires that meetings involving only staff members should be held in EAC premises and conference rooms/halls within the duty station, and if exceptional approval to retreat outside duty station is granted, full board accommodation and facilitation of 1/4 per diem should apply.

The Committee noted the wasteful expenditure.

COMMITTEE RECOMMENDATIONS

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

- i) direct EAC Secretariat and other organs to put an end to wasteful expenditure; and*
- ii) hold the approving authority liable;*
- iii) always emphasize value for money in the EAC affairs; and*
- iv) take necessary action.*

2.3 REVIEW OF PROCUREMENT

2.3.1 Irregular Procurement of Hotel Services

The Audit Commission reported that During the year under review, the Community under Secretariat procured hotel services worth **USD 163,763** with no justification as they did not meet the criteria for usage of direct procurement as per Regulation 69 (1) of the Financial Rules and Regulations (2012) and Section 6.6 (3) and (4) of the EAC Procurement Policies and Procedures Manual (2011).

The EAC Management responded that Hotels and conference services are procured through a framework contract. The Management agrees with the Auditors recommendation to ensure that all services are acquired competitively in accordance with the procurement procedures and guidelines of the Community.

The Committee observed the anomaly and indeed established that most of the hotels used did not appear on the prequalified list of suppliers and service providers. There is no regular update of the list of hotels since 2012. EAC acts in total breach of its own rules and regulations especially Chapter 6.4.1 of the EAC Procurement Policies and Procedures Manual (2011) and regulation 80 (5) of the Financial Rules and Regulations (2012).

COMMITTEE RECOMMENDATIONS

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

- i) stop irregular procurement of hotels and other related services; and*
- ii) always update a prequalified list of suppliers and service providers.*

2.3.2 Procurements exceeding approved thresholds.

The Audit Commission reported that the EAC Procurement Policies and Procedures Manual (2011) provides the thresholds for procurement methods as follows:

Reference	Procurement method	Threshold USD
Chapter 6.1	Open bidding	Equal or Above 50,000
Chapter 6.2	Restricted tendering	From 10,000 to 49,999
Chapter 6.3	Request for quotation	From 1,000 to 9,999
Chapter 6.4	Direct procurement	Less than 1,000

It was observed that tenders totaling **USD 83,000** awarded to seconded experts from Partner States public institutions using single source instead of restricted and request for quotation.

The EAC Management responded that direct procurement is a method of procurement under section 6.6 of the Procurement Policies and Procedures Manual. The Conditions under which direct procurement may be used are provided and the relevant justifications were approved by the Procurement Committee. The use of the method is therefore not in breach of the guidelines and the circumstances for use of this method of procurement were complied with.

The Committee observed non-compliance with the EAC Procurement Procedures and Policies by the EAC Management. Worse still, experts were engaged without any resolution by relevant bodies and the Secretary General had not authorised the procurement in question.

COMMITTEE RECOMMENDATIONS

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

- i) direct EAC Secretariat to regulate secondment of experts from EAC public institutions; and*
- ii) direct EAC Management to always comply with procurement rules and regulations.*

2.3.4 Tender Approved by Procurement Committee without Quorum

The Audit Commission reported that during the audit exercise, it was noted that there was no quorum for various meetings of the procurement committee. Despite the lack of quorum, the meetings went on to discuss and approve the procurement methods and also award contracts in contravention of Chapter 2.10.1 of EAC Procurement Policies and Procedures Manual.

To make matters worse, cases were noted where the evaluation reports were signed by a number less than the number of evaluators as indicated in the table below:

Contract Reference	Contract Description	Supplier	Contract amount USD	Comment
EAC/SRVCS/14-14/000109	Study on Harmonization of Regulations Impacting on the Development of Small and Medium Scale Enterprises (SMEs) in the EAC	MegaDev Consultancy Firm	150,000	Report signed by only 2 members out of 4 members participated in the evaluation
EAC/SRVCS/14-15/00085	EVENT MANAGEMENT FOR SCIENTIFIC CONFERENCE	Executive event ltd	25,499	Report of Evaluation Committee was signed by 2 out of 3 members participated in the evaluation

The EAC Management responded that quorum for procurement committee meetings has been identified as a challenge for the EAC Procurement Committee due to members often being out of station while carrying out activities under their respective departments.

To deal with the challenges, written approvals are now being circulated to members who append their signatures to approve/reject by circulation on a written background and analysis of the application. These are ratified in a meeting. This has sorted out the issue and procurements decisions are now made expeditiously.

The Study on Harmonization of Regulations Impacting on the Development of Small and Medium Scale Enterprises (SMEs) in the EAC was signed by the Chairman and the Secretary. However, all the members signed the attendance list and the declaration of Impartiality and Confidentiality.

The Committee noted the anomalies and challenges thereof.

COMMITTEE RECOMMENDATIONS

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

- i) always declare irregular, all procurement meetings without quorum;*
- ii) always comply with the procurement rules and regulations;*
- iii) always replace members who miss procurement meetings three times in a financial year;
and*
- iv) amend the procurement rules so as to cover the issue of quorum and allow appointment of an adhoc Procurement Committee to deal with procurement of specialized equipment.*

2.4 REVIEW OF INTERNAL AUDIT FUNCTION

2.4.1 Performance of the EAC Internal Audit Unit

The Audit Commission reported that a review of the performance of the Internal Audit Unit was undertaken and discovered that the department is currently Operated by Principal Internal Auditor who was recently recruited (May 2015) and is assisted by 3 other auditors: one (1) Internal Auditor, with fixed term contract, and two (2) Internal Auditors who are engaged on short term contracts (annual contracts) - that have been renewed several times since their initial engagements in 2010.

The EAC Management responded that the Auditor's observation is valid taking into account that the Community is continuously expanding its mandate but with an unchanging human resource in the Internal Audit Unit. This has been a challenge for the Unit to be able to execute the available Audit Universe and provide objective assurance in the areas of Risk Management Internal Controls and Governance.

The Committee noted the challenge.

COMMITTEE RECOMMENDATIONS

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

- i) direct EAC Management to recruit and increase the number of internal auditors to the desired level; and*
- ii) implement the Assembly's previous recommendation to upgrade the Internal Audit to a directorate.*

2.4.2 Audit Management Software not fully used by the EAC Internal Auditors

The Audit Commission reported that with the development in the use of Information Technology and automation of processes in the day to day operations necessitated the EAC Internal Audit Function to have a tool that can assist to interrogate those applications.

In July 2013, EAC (Internal Audit Unit) through Trademark East Africa (TMEA) received an Audit Management Software (Pentana) with computer assisted auditing techniques (CAAT).

Costs associated to this project are as follows:

S/N	Contract Date	Reference	Description	Supplier	Amount in USD	Comment
1	20 th Dec, 2012	PO/20120642	Agreement for supplying, installation and commissioning of internal audit software with CAAT to EAST AFRICAN COMMUNITY	AH Consulting	153,771	Contract was signed between TMEA and AH consulting, contract period is for 60 days starting from 20/12/2012 to 20/02/2013
2	05 th Nov, 2014	PO/20140398	Audit training and license renewal EAC internal Audit	AH Consulting	35,942	Contract was signed between TMEA and the consultant.. Contract period is for 12 months starting from 03th Nov, 2014 up to 02 nd Nov, 2015
3	23 rd March, 2015	PON/SEC/005023	Audit Management Software technical advisor Fees	AH Consulting	17,500	A Local Purchase order was raised by EAC to the consultant (AH) on 23 rd March, 2015
TOTAL					207,213	

The Audit Commission further reported that the review of the availed documentation revealed the following;

- There no evidence to confirm that the need assessment and readiness assessment were carried out and approved by the EAC Management before starting the procurement process of the software
- The documentation about the appreciation process of the procured software (pentana) and its relevance to the EAC environment was not availed when requested for review
- On 23/03/2015 the EAC entered into contract with AH consulting Ltd through Local Purchase Order PON/SEC/005023 for provision of technical advisory on Audit Management software at USD 17,500. The Overall objective of this contract was to assist the internal audit team to conduct internal audit through the audit management software and produce the reports.

Among the deliverable, at least 4 audit reports/audit assignments should be carried out and completed within the duration of the contract.

- It was further noted that AH consulting had another valid contract PO/20140398 of USD 35,942 for a period of 12 months starting from 3rd Nov, 2014 up to 2nd Nov, 2015. The overall objective of this contract is to undertake training for the EAC Secretariat internal audit staff as well as undertake for maintenance and support service for a year through service renewal.

However, the reasons of entering in contract with the same consultant while the later had another contract of the same nature which was still ongoing was not availed when requested for review.

- The certificate of project completion for supply installation and commissioning of the audit management system was issued on 16th July, 2013. The system was recognized in the Non-current asset (28 months after the certificate of completion has been issued (Intangible asset was recognized in the books of account in November 2015 after passing an adjustment).
- Although the Internal Auditors have received the licenses and trained on how to use the system through various trainings, there is no evidence to ensure that they are currently conducting their audit work using the procured audit management system (pentana).

It's worth noting that the documentation availed revealed that the EAC is in the process of procuring the same Audit Management Software to other EAC institutions i.e LVBC and IUCEA at cost of USD 40,000, though there is no evidence that value for money was assessed on the previous project before launching the system in other EAC institutions.

The EAC Management responded that it concurs with all the Audit Commission findings on the matter, indeed the EAC Management is also concerned about the delay of the project and has started revisiting the whole process of implementation of the Management Audit software to the current stage, the goal is to assess and establish the gaps which have caused the project not to be completed timely and put the Management software into use.

The Management had directed the Internal Audit Unit to provide detailed report explaining the stages completion of the project, all shortcomings and propose the way forward. The report has been submitted to the management for action. Subsequent to receiving the detailed report the Management has directed the Internal Audit Unit to suspend any further new activity on the project until the existing challenges highlighted in the report are resolved, this include rolling out the Audit Management Software to other Institutions i.e. LVBC and IUCEA.

The outcome of the above measure will go along the way addressing the auditor's finding and recommendations.

The Committee noted that some procurement at the EAC is done without due diligence and needs assessment.

COMMITTEE RECOMMENDATIONS

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

- i) direct EAC Management to always carry out due diligence and needs assessment before such procurement is done;*
- ii) direct EAC Management to ensure having one integrated system, one comprehensive network and one license; and*
- iii) direct EAC Management to always ensure that procurement of equipment and services are demand driven rather than supply driven.*

2.5 THE EAST AFRICAN LEGISLATIVE ASSEMBLY (EALA)

2.5.1 Uncollected Receivables USD 1,470,552

The Audit Commission reported that at the close of the financial year 30th June 2015, the receivables balance was **USD 1,470,552** (compared to **USD 782,509** as at 30th June, 2014). The receivables consist of mainly un-paid contributions from Partner States. Included in the receivables figure of **USD 1,470,552** are outstanding balances of **USD 1,047,509** due from Republic of Burundi, **USD 297,112** from the United Republic of Tanzania, and **USD 19,075** from the Republic of Uganda.

None remission or lack of implementation of the recovery plan contravenes regulation 22, 23 and 23 (5) of the EAC Financial Rules and Regulations (2012) which points out that, the financial resources of the community shall be supported by various sources of revenue including the Partner States where by each Partner State should undertake to contribute its share of the budget as approved by the Council of Ministers and not later than 30 days after the Assembly has adopted the budget. The Partner States contributions are due on 1st July of each FY and should be paid within the first six months of the FY.

The Committee observed that the Secretary General does not issue demand notes to the Partner States of their share of contribution to the budget for remittance of budget contribution as required by the regulation and no recovery plan or any efforts in place. This will not only lead to cash flow problems but also ultimately affect the implementation of the planned activities.

COMMITTEE RECOMMENDATION

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

- i) direct the EAC Secretary General to issue demand notes as required by the regulation; and*
- ii) direct EAC Management to draw and implement a recovery plan.*

2.5.2 Irregular Recruitment of Short Term Contract Staff

The Audit Commission reported that a review of the organ's Personnel Function for the period under review revealed that, EALA employed 18 short term contract staff.

It was noted that EALA kept renewing the contracts on expiry without going through the recommended recruitment procedure. There was no any evidence in personnel files to show how the staffs were recruited.

The EALA Management responded that Regulation 18 to 22 of the EAC staff rules and regulations 2006 provides as indicated. It should however be noted that the category of staff mentioned are not temporary staff in the meaning of the regulation as indicated. These are staffs who have been

employed on short term contracts as a stop gap measure awaiting the finalization of the institutional review.

The Committee observed contravention of the EAC Staff Rules and Regulations (2006) especially regulations 20 (3), 22 and 22 (2). The EALA Management also agreed with the Committee that the practice is irregular. Therefore, the EALA Management response that Regulation 18 to 22 of the EAC staff rules and regulations 2006 provided for the "irregularity" is misleading. It should however be noted that the category of staff mentioned are not temporary staff in the meaning of the regulation as indicated. The Committee noted that holders of the temporary vacancies, have occupied them for over six (6) years.

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly to urge the EAC Council of Ministers to establish the posts and direct the EAC Secretary General to:-

- i) comply with staff rules and regulations and stop recruitment and renewals of short term contracts in all departments of the EALA; and*
- ii) Convene the Service Commission to phase out short term contracts and draw a road map to fill all positions that were previously held by short term contract holders if necessary.*

2.5.3 Irregular Payment of Overtime Allowance USD 53,025

The Audit Commission reported that a review of the organ's payroll for the period under review revealed that a total of **USD 53,025** was paid to as over time allowance yet it was not provided for in their appointment letters, their illegal appointments notwithstanding.

The EALA Management responded that it is true that the contracts of the concerned staff do not mention overtime as an automatic payable to the said staff. Overtime allowance is one that is paid only as and when it is necessary. In any case the said contracts do not specify that they are not payable.

The Committee observed non implementation of the Assembly recommendations as enshrined in the report of the Committee on Accounts on the Audited Accounts of the East African Community for the year ended 30th June, 2014 as debated and adopted in December 2014.

COMMITTEE RECOMMENDATION

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

- i) stop breaching the Staff Rules and Regulations;*

- ii) hold the approving authority responsible for breach of regulations and causing financial loss to the institution; and*
- iii) take necessary action.*

2.5.4 Irregularities noted in the Procurement of Goods and Services

Un-planned procurements, payment for workshops, direct procurement of hotel services and procurements from un-prequalified firms.

The Audit Commission reported that:

- a) a review of the list of all procurements approved by the procurement committee showed that procurement of hotel services were not among the approved procurements implying that there were not planned for or they were not included in the procuring entity's Annual Work Plan.
- b) a review of the General ledger revealed that EALA made payments worth **USD 281,460.87**, to various firms in lieu of various procurements. However, these firms were not appearing on the list of prequalified provider's. This was a breach of procurement regulations which require use of firms on the prequalified list of suppliers.
- c) EALA procured hotel services worth **USD 48,690.08** and **Tshs 27,939,961** using direct method of procurement, contrary to the provisions of the procurement guidelines. None of the hotels appeared on the prequalified list of suppliers and service providers for the period.

The EALA Management responded that for events relating to high profile guests of the Speaker, mostly other Speakers of National Parliaments, Government Ministers and even members of parliament, only particular hotels can be used at any given time due to security reasons on the approval by EALA Management. Some of these events may not necessarily have been anticipated hence may not appear in the procurement plan.

With specific reference to Garden Restaurant, dealings with it relate to the plenary meeting held in Dar-es Salaam in August/September 2014. As a standard practice, whenever EALA meets in a Partner State, its allowed to use the service providers approved by the respective National Assembly. We cannot impose any other service provider on their premises. Garden restaurant was the approved service provider for the Tanzania Parliament.

The Committee observed breach of paragraph 4.2.1 and chapter 6.4.1 of the EAC Procurement Policies and Procedures Manual (2011) and regulation 67 of the EAC Financial Rules and Regulations (2012). There is also abnormal and exorbitant expenditure on refreshments and car hire to Garden restaurant, pizza point and smart point protocol and car hire respectively.

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EALA Management to always comply with EAC Procurement Policies and Procedures Manual (2011) and EAC Financial Rules and Regulations.

2.6 AUDIT OF THE EAST AFRICAN COURT OF JUSTICE (EACJ)

2.6.1 Irregular Procurement USD 177,132

The Audit Commission reported that during the year under review, the Community under Court of Justice procured hotel, vehicle hire, security and fuel services worth **USD 177,132** with different suppliers. The following anomalies were noted:

- Both Palace Hotel and JR Electronics Ltd were not prequalified as per the list availed by the procurement unit.
- Clock Tower Service Station Ltd was not prequalified for fuel provision and there was no framework contract or agreement evidently on file.
- Though Serena Car Hire & Tours Limited and Kenya Kazi Security (T) Ltd are prequalified, there were no evident contractual agreements between the Community and the companies for provision of car hire and security services.

The above services were procured directly though they did not meet the criteria for usage of direct procurement as per Regulation 69 (1) of the Financial Rules and Regulations (2012) and Section 6.6 (3) and (4) of the EAC Procurement Policies and Procedures Manual (2011).

The procurements were further not included in the Annual Procurement Report for FY 2014/15. These services were therefore not approved by the Procurement Committee as there were no contract agreements contrary to Regulation 80(5) of the Financial Rules and Regulations (2012).

The EACJ Management concurred with Auditors' recommendations and promised that efforts will be made to ensure compliance with the EAC's procurement procedures and guidelines of the Community.

The Committee noted negligence and observed breach and non-compliance with EAC Procurement Policies and Procedures Manual (2011) and EAC Financial Rules and Regulations (2012).

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct EACJ Management to always comply with EAC Procurement Policies and Procedures Manual (2011) and EAC Financial Rules and Regulations.

2.6.2 Payments to short term contract staff

The Audit Commission reported that some members of staff are appointed on 'Short Term' contracts which is not covered under the Staff Rules and Regulations, and whose contracts vary from six (6) months to one (1) year. In nowhere has short term been taken to mean temporary.

Worse still, there is no evidence of interviews for these positions casting doubt on the recruitment process. The organization incurred costs amounting to **USD \$ 49,700** as salaries paid to employees who were appointed on short-term contracts as tabulated below:-

Month	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Amount (USD)	3,500	3,500	3,500	3,500	4,200	4,500

Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Total
4,500	4,500	4,500	4,500	4,500	4,500	49,700

The EACJ Management responded that due to delay in recruitment process the Court had no other alternative than relying on the short-term staff. **THE PROCESS OF HAVING THEM ON BOARD WAS DONE BY HR ADVISORY COMMITTEE OF EAC SECRETARIAT.**

The Committee observed gross contravention and breach of the EAC Staff Rules and Regulations (2006) especially regulations 20 (3), 22, 22 (2). It is evident that there has been sustained perpetual illegal recruitments in the disguise of the EAC slogans of "Institutional Review" and "Stop gap measure". There has therefore been unfairness and disservice to the Community by maintaining this practice.

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly to urge the EAC Council of Ministers to establish the posts in question and direct the EAC Secretary General to:

- i) comply with staff rules and regulations and stop recruitment and renewals of short term contracts in EACJ; and*
- ii) convene the Service Commission to phase out short term contracts and draw a road map to fill all positions that were previously held by short term contract holders if necessary.*

2.7 PROJECTS AND PROGRAMMES

2.7.1 AUDIT OF PARTNERSHIP FUND

2.7.2 Failure to Prepare Financial Statements

The Audit Commission reported that Partnership Fund financial statements had not been completed in December 2015 contrary to paragraph 12.2 of the Memorandum of Understanding between the EAC and Development Partners on the EAC Partnership Fund which states that the Secretariat will submit to the Partnership fund steering committee an annual progress report including a financial report at the end of October of every financial year.

The EAC Management reported that the financial statements have been prepared and availed to the Audit commission. The EAC Management, however, later informed the Committee that financial statements awaited the Steering Committee which later convened and had the statements signed in May 2016. The EAC Management owned the mistake and apologised.

The Committee noted non-compliance with the MoU on the part of EAC Management. Lack of seriousness will certainly lead to non or low level achievement of objectives and poor performance, hence displeasure to the donors.

COMMITTEE RECOMMENDATIONS

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

- i) always avail financial statements as required;*
- ii) institute a neutral team to verify the qualifications of the Project Accountant and Accounts Assistants and report to the Assembly by December 2016; and*
- iii) submit to the Assembly, due diligence report on staff qualifications earlier requested by October 2016.*

2.7.3 Irregularities noted on the short term/temporary appointments.

The Audit Commission reported that Review of staff contracts particularly short term staff were appointed without any evidence of vacant position caused by circumstances provided in the Regulation 22(2) (a) of EAC Staff Rules and Regulations. It was also noted that, staff under short term contract are appointed to fill various positions for the period of six to twelve months renewable several times to infinity contrary to regulation 22 (2) (c) of the staff rules and regulations.

The EAC Management responded that the services of short-term staff are needed on longer term than the three months provided for in the Staff Rules and Regulations to enable the EAC Organs function until such a time when a new structure will be approved and positions filled.

The Committee observed gross contravention and breach of the EAC Staff Rules and Regulations (2006) especially regulations 20 (3), 22, 22 (2). The so called short term or temporary appointments should not exceed three (3) months in accordance with the regulation. The Committee regrets to note and inform the House that the holders of the temporary vacancies have occupied them for over six (6) years.

It is evident that there has been sustained perpetual illegal recruitments in the disguise of the EAC slogans of "Institutional Review" and "Stop gap measure". There has therefore been unfairness and disservice to the Community by maintaining this practice.

COMMITTEE RECOMMENDATIONS

The Committee recommends to the Assembly to urge the EAC Council of Ministers to establish the posts and direct the EAC Secretary General to:-

- i) comply with staff rules and regulations and stop recruitment and renewals of short term contracts in all EAC projects and programmes; and*
- ii) Convene the Service Commission to phase out short term contracts and draw a road map to fill all positions that were previously held by short term contract holders if necessary.*

2.7.4 Non-compliance with procurement Rules and Regulations USD 95,710.30

The Audit Commission reported that Partnership Fund incurred costs amounting to **USD 95,710.30** for purchase of various goods and services by way of direct procurements hence violating effective and efficient procurement procedures with emphasis on maximization of value for money through free and fair competition by practicing transparency and accountability and sections 2.4.2 (1) and 3.4.7 (v) of the EAC Procurement Policy and Procedures Manual.

The EAC Management insisted that the practice was regular.

Although the EAC Management insisted that the practice was regular, the Committee observed that the practice was irregular and noted breach and non-compliance with EAC procurement policies and procedures manual 2011 and EAC Financial Rules and Regulations 2012.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to compel his staff to always comply with EAC Procurement Policies and Procedures Manual 2011 and EAC Financial Rules and Regulations.

2.7.5 Doubtful contract for the study on Harmonization of regulations impacting on the development of small and medium enterprises in EAC region USD 150,000

The Audit Commission reported that on 6th November, 2014, both Technical and financial proposal for the study on Harmonization of regulations impacting on the development of small and medium enterprises in EAC region was submitted to EAC. All bids were opened between 11th November 2014 and 16/12/2014 and evaluated accordingly. The final results were as follows:

- MegaDev Consultancy Firm score 86.6 with price of **USD 138,600**
- DCMD Advisory services score 82.5 with price of **USD 150,000**
- KPMG score 69.7 with price of **USD 239,283.72**

On 16th Dec, 2014 Evaluation committee of EAC recommended to the Procurement committee to award the consultancy services for the study on Harmonization of regulations impacting on the development of small and medium enterprises in EAC region to MegaDev Consultancy firm who met the technical and Financial qualification at a total cost of **USD 138,600** (inclusive of staff remuneration of **USD 95,500** and reimbursable costs of **USD 43,100.**)

It was revealed that the Procurement committee at its 12th ordinary meeting held on 10th Jan, 2015 approved the recommendations of evaluation committee to award the contract to MegaDev consultancy firm. However, contrary to the price quoted by consultant and approved by evaluation committee, the tender committee awarded the tender to MegaDev consultancy on total cost of **USD 150,000** (inclusive of staff remuneration of **USD 125,000** and reimbursable costs of 25,000) which was over and above the financial proposal bid submitted by consultancy and approved by evaluation committee by **USD 11,400**. Contract was signed by both parties on 17th Feb, 2015. Instead, the cost of **USD 150,000** was quoted by the second bidder DCMD Advisory services.

The EAC Management responded that the Consultant quoted and was evaluated excluding Tax. However, he indicated the tax element to be **USD 153,880** in its financial proposal. MegaDev Consultancy Firm score 86.6 was arrived at based on the Financial Proposal of **USD 138,600**. This Proposal excluded the tax element which had been provided in the Financial Proposal as **USD 15,280** in its financial proposal. This amounts to **USD 153,880**. The figure excluding tax was used for evaluation purposes since the two other proposals quoted exclusive of tax.

The Committee observed irregularities of non-advertisement of the consultancy work and non-availability of the resultant report.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to always comply with EAC Procurement Policies and Procedures Manual (2011) and EAC Financial Rules and Regulations.

2.7.6 Improper payments of Reimbursable expenses USD 27,576

The Audit Commission reported that on 7th Oct, 2014, EAC entered into contract with ABS CONSULTING GROUP LTD for provision of consultancy services to conduct a pillar pre assessment of EAC. The consideration for this contract was Consultancy fee of **USD 48,800** and Reimbursable Expenses of **USD 27,576** where by the consultancy fee was supposed to be paid in two installments of 30% of **consultancy** fee **USD 14,520** upon submission of acceptable inception report and 70% of the consultancy fee **USD 33,880** after submission and approval of final report.

Contrary to Clause 2.3 of the contract, EAC paid Reimbursable expenses amounting to **USD 27,576** without supporting documents and before the contract was in force. The payments to the consultant were made through cheque numbers 1901 and 1929 amounting to **USD 22,792.80** and **USD 53,183.56** respectively.

The Committee observed that the cost that was paid may not have been incurred.

COMMITTEE RECOMMENDATIONS

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

- i) always submit any or all required documents to auditors; and*
- ii) recover the irregularly spent amount and report to the Assembly by October 2016.*

2.7.7 Payments made to suppliers without contract USD 60,000

The Audit Commission reported that EAC through Partnership fund engages expert to carry out various Assignments regarding monetary affairs for the consideration of **USD 60,000** without contract. However, the following irregularities were noted:

- No evidence regarding the origination of these activities contrary to Reg. 66 (1&2)
- These activities were not advertised
- There was no competitive selection processes

- There was no evidence regarding the submission of the bids or any kind of quotations hence the basis of the amount paid is unknown
- No evaluation was conducted for their suitability
- Approval for the final reports is also not available.

The Committee noted that the act was an outright breach and violation of regulation 80(5) of EAC financial rules and regulations (2012) that prohibits any service or works to commence, or goods ordered until a contractual obligation between the Community and the supplier has been established by signature of both parties to the contract.

COMMIITTEE RECOMMENDATIONS

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

- i) always submit any or all required documents to auditors; and*
- ii) recover the irregularly spent amount and report to the Assembly by October 2016.*

2.7.8 Avoidable expenditures USD 30,337.80

The Audit Commission reported that on 22nd September 2014, EAC signed a contract with Deloitte & Touche, CPA (T) for carrying out an audit of EAC Partnership fund for the year 2013/2014 for a total contract price of USD 25,710 including USD 3,885 for reimbursable expenses. Article 1.3 stipulates that at the end of the audit, the consultant must submit an audit report to EAC. Further, Article 2.4 says that EAC shall reimburse only costs incurred by the consultant after the entry into force of the contract.

The Audit unearthed the following irregularities:

- The award of the tender for external auditors is not in compliance with the partnership funding agreement which states that the Partnership funds shall be audited by EAC Audit Commission. In addition, no special request was availed to prove that the Partnership Fund steering committee had requested the special external audit of Partnership fund.

In addition, for the same financial year this project was audited by the Audit Commission as per requirement of MoU cited above hence two external audits were conducted for the same financial year for the same project.

Further, the purpose of this audit did not add any value to the project as the audited report produced by Deloitte & Touche stated that the audited financial statements are restricted as internal report and not suitable for any other purposes.

- EAC paid Deloitte & Touche USD 30,337.80 through chq no 1926 and 7416 to carry out an audit of EAC Partnership fund for the financial year 2013/2014. The review of this payment noted that included in the amount paid is reimbursable expenses totalling USD 3,885. However, no supporting documents were availed to prove that they were expenses incurred in the course of delivery of the audit service.

The Committee noted breach and violation of para.18 (1) and (3) of MoU between East African Community and the development partners on the EAC Partnership Fund.

COMMITTEE RECOMMENDATIONS

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

- always comply with rules and regulations; and*
- recover the irregularly paid monies and report to the Assembly by October 2016.*

2.7.9 Non-compliance with procurement Rules and Regulations USD 11,275

The Audit Commission reported that audit review revealed that PAF incurred costs amounting to USD 11,275 for purchase of various goods and services by way of direct procurements hence effective and efficient procurement procedures with emphasis on maximization of value for money through free and fair competition by practicing transparency and accountability was violated. On the other hand, it was also observed that goods are purchased without being requested by user and without being in the procurement planning. The details of these purchases analysed here under:

Ref	Chq	Payee	Amount USD	Remarks
POA/SEC /001673	7806	JR Electronics ltd	6,360	Eight Ipad was budgeted for and requested by user department. Quotations of 8 Ipad was done and evaluated but procurement department through LPO no POA/SEC/001673 ordered 9 Ipad @USD 795.
POA/SEC /001645 71649	1900	JR Electronics ltd	4,915	Single source procurement of computer equipment.
Total			11,275	

The Committee observed non-compliance with procurement procedures in force.

COMMITTEE RECOMMENDATIONS

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

- i. always ensure that EAC regulations are complied with; and*
- ii. recover the irregularly spent monies and report to the Assembly by October 2016.*

2.7.10 Doubtful supporting documents for supply of printer and computer equipment USD 11,245

The Audit Commission reported that on 4th June 2013, a request for quotations for the procurement of printer and computers was sent to JR electronics, MICA computer services and Mfi office solution Ltd. The quotations were received on 7th June 2013 and evaluated by the evaluation committee of EAC and the final results were as follows:

- JR Electronics was ranked to Number 1 with price of USD 7,492.96 VAT inclusive
- MICA Computer services ranked number 2 with price of USD 7,668 VAT inclusive
- Mfi office solution Ltd ranked no 3 with price of USD 10,912.82 VAT inclusive

Evaluation committee of EAC recommended to the Procurement committee to award the procurement contract to JR Electronics the firm which met all requirements by being the lowest evaluated bidder with the total price of USD 7,492.96 VAT inclusive.

The following irregularities were noted:

There is no proof that all the bidders were requested to submit their quotations. In addition, whereas the quotation of JR electronics and MICA computer services mentioned the request for quotation, Mfi Office solution did not mention it.

Contrary to the recommendations, procurement department ordered goods from the highest evaluated bidder with the price of USD 10,912.82 all tax inclusive. Consequently, awarding the tender to the highest bidder (Mfi office solution) cost EAC **USD 3,419.86** more than what it would have paid if purchased from the right supplier.

In addition, it was noted that EAC established the LPO no POA/SEC/001555 for USD 12,495.02 all tax inclusive to Mfi office solution instead of USD 10,912.82 quoted by Mfi office solution. Whereas the delivery note was not availed, the goods received note mentioned the value of goods received to be USD 10,589 excluding USD 323.82 of VAT as stated in the quotation of Mfi office solution.

Further, the documents availed do not mention any serial number or any other ID for the equipment supplied. Consequently, the audit failed to verify physically the existence of the equipment said to have been supplied.

It was also revealed that, the invoice paid for was submitted by MFi document solutions instead of Mfi office solution that was awarded the LPO. In addition, the invoice amount was USD 11,245 different from neither **USD 10,912.82** quoted by Mfi office solution nor **USD 12,495.02** quoted in the LPO. The invoice of USD 11,245 was paid for through cheque no 6530 dated 14th July, 2014. Hence, EAC made an excess payment totaling **USD 3,752.04** which is the difference between the amount paid (**USD 11,245**) and the price quoted by the successful bidder JR electronics (**USD 7,492.96**). Further, on bank statements, the cheque no 6530 was withdrawn by MFI Development solution which is again different from any of the above companies.

The Committee observed the arrogant irregularities performed in the transaction.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to recover the irregularly spent funds from responsible officers and report to the Assembly by October 2016.

2.8 AUDIT OF HIV PROJECT – MIXED FUNDING FROM HIV/AIDS GROUP

2.8.1 Under Utilization of Budgeted Funds

The Audit Commission reported that a review of the 2014-2015 project budget performance report showed the following instance of underutilization of the budget. Some of the planned activities were not implemented as shown in the table below;

Activity description	Budget (USD)	Actual (USD)	Unutilised amount (USD)	Unutilised (%)	Comment
Procure office supplies, stationary and equipment	12,000.00	1,692.82	10,307.18	85.89%	Some of the costs for office supplies for meetings have been covered by implementing Partners including: IAVI, FHI 360, IOM, UNDP RST who assist with printing of project documents and Reports. Thus contributing the low expenditure under this line.
Pay for Office Utilities and administrative costs	13,000.00	3,060.59	9,939.41	76.46%	EAC secretariat under Partner States funding covers general cost on telephone bills for project land lines, and also includes internet

Activity description	Budget (USD)	Actual (USD)	Unutilised amount (USD)	Unutilised (%)	Comment
					<i>fees. Therefore, the observed expenditure was mainly relates to vehicle repairs and maintenance, and bank charges for the whole year. Thus the low expenditure.</i>
Conduct end of programme Evaluation of 2012/14 Plan and Develop the regional HIV and AIDS Strategic Plan for 2014/2016	25 100,00	-	25 100,00	100%	<i>No expenditure incurred under this budget line because activity could only be conducted after the project strategic plan period ends. It's the process is of bringing on board a consultant is on-going and implementation of this activity will take place in this current Financial year. This is because the project was granted a cost extension, and will be winding up this current Financial year 2015/2016.</i>
Hire Consultant to develop a regional EAC Legal Reform Action plan to address the gaps	8 500,00	-	8 500,00	100%	<i>The cost for developing a regional EAC legal reform action plan to address the gaps was covered by UNDP RST</i>
Convene a regional meeting to assess progress on implementation of the legal reform action plan	47,000.00	17,700.47	30,199.53	63.05%	<i>This was actual expenditure incurred on country validation of the draft report on the comprehensive analysis report on HIV & AIDS laws, policies and strategies and the proposed legal and policy framework. Initially we had anticipated to have a comprehensive analysis report approved by July 2013 and therefore be able to assess its implementation in the 2014. This was not possible so the resources were used for validation. Assessment of implementation will be in 2016 /2017.</i>
Convene regional Partnership Forum(s) for Key HIV and AIDS stakeholders	12,950.00	-	12,950.00	100%	<i>The activity was scheduled for June 2015, but could not take place because most partners were engaged and the activity</i>

Activity description	Budget (USD)	Actual (USD)	Unutilised amount (USD)	Unutilised (%)	Comment
					<i>was rescheduled on 9th and September 2015</i>
Develop a regional eMTCT strategy and roadmap for fast tracking its implementation - Validation Workshop	37,100.00	-	37,100.00	100%	<i>This was deferred to the later date by the Technical working group, and the team also advised that there was no value for money in developing the strategy while developing the HIV and AIDS TB STI strategic plan 2015 – 2020 was still ongoing. This will be implemented during the course of 2016 – 2017.</i>
Develop a regional resource Mobilisation and sustainability strategy	18,000.00	2,653.00	16,147.00	85.89%	<i>This was deferred to the later date by the Technical working group, and the team also advised that there was no value for money in developing the strategy while developing the HIV and AIDS TB STI strategic plan 2015 – 2020 was still ongoing. This will be implemented during the course of 2016 – 2017.</i>
Disseminate the resource mobilization strategy and operationalization plan to the EAC Partner States	38,250.00	17,549.50	20,700.50	54.12%	<i>This is based on actual expenditure.</i>
Develop and validate a regional framework for intervention for key populations	12,700.00	5,745.00	6,955.00	54.76%	<i>Part of the expenditure was covered by FHI 360 and the framework has been considered by the Sectoral Committee on health and will be approved by the Sectoral Council of Ministers of health in March 2016</i>

The Committee observed poor budgeting and general lack of precision in planning and coordination in activities implementation.

COMMITTEE RECOMMENDATIONS

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

- i) always declare and table the unused and in-tray funds for supplementary budget approval;*
- ii) always attain a highest degree of precision in determining donor disbursements;*
- iii) request Partner States to always endeavour to attend meetings; and*
- iv) always plan procurement in advance to avoid delays.*

2.9 AUDIT OF THE AFRICAN PEACE AND SECURITY ARCHTECTURE (APSA) PROJECT

2.9.1 Under Utilization of Budgeted Funds

The Audit Commission reported that a review of the project budget performance report showed that the projects utilised only 27% of the total budgeted funds during the year. Some of the planned activities were not implemented.

The EAC Management responded that Project Management has had some challenges when it comes to the project budgeting as a result of different budget cycles between the donor and EAC. For the year in question, the donor therefore didn't fund some of the activities which were prepared and submitted.

During the Committee interaction with the Deputy Secretary General Political Federation, the Committee was informed of lack of funds and the proposal to close the project despite the importance of peace and security department at this critical time. So far, termination letters have been issued to 11 staff members.

The Committee observed unrealistic project budgeting, late disbursement of funds and different budget cycles as a major cause of budget performance. Poor budget performance was also observed in other projects of EMERGENCY FUND FOR BURUNDI ELECTION OBSERVATION, USAID, CLIMATE CHANGE, RAILWAYS SECTOR ENHANCEMENT, FINANCIAL SUPPORT DEVELOPMENT AND REGIONALISATION, MARITIME SECURITY, PUBLIC FINANCIAL MANAGEMENT AND UNFPA SUPPORT FOR SEXUAL REPRODUCTIVE HEALTH. If not addressed, the projects objectives will never be achieved.

COMMITTEE RECOMMENDATIONS

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

- i) *always draw realistic budgets to attain accurate implementation of planned activities;*
- ii) *supervise, follow up and pressurise disbursement of funds;*
- iii) *aim at the highest degree of accuracy in strategic planning of activities;*
- iv) *institute a Committee to probe and come up with solutions to end poor budget performance;*
- v) *always provide proper and accurate information to the Audit Commission;*
- vi) *improve and work towards self-sustainability.*

2.9.2 Weaknesses noted in Imprest Management

The Audit Commission reported Delay in banking unspent imprest by a non-finance staff where USD 11,104 was banked eleven (11) months after the activity was carried out, contrary to regulation 40 (3&4) of EAC financial Rules and Regulations 2012; and moreover the non-finance staff had carried USD 21,200, USD 25,110, USD 24,680 on different dates contrary to regulation 40 (6) of the same rules.

The Audit Commission further reported long outstanding imprest where some officers did not retire imprest for over one year, and in other instances more imprest was paid to staff with outstanding balance.

The EAC Management concurred with the Audit observation and assured that measures will further be enforced to ensure non reoccurrence of such incidences. However, it should be noted that the issued imprests was fully retired by the respective officers.

The Committee observed that EAC Management has made it a habit to violate its own rules and procedures leading to loss of funds.

COMMITTEE RECOMMENDATIONS

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

- i) *ensure that EAC rules and regulations are adhered to;*
- ii) *strengthen control measures; and*
- iii) *recover all outstanding imprest from responsible staff and report to the Assembly by October 2016.*

2.10 AUDIT OF THE MEDICINES REGULATORY HARMONISATION (MRH) PROJECT

2.10.1 Deduction of advances beyond the required limit

The Audit Commission reported that the perusal of Payment voucher revealed that one staff of the EAC was granted Rent advance of USD 3000 to be deducted within the period of six months. However, the total of deduction made of 65% of the salary exceeded the required limits of 50%. This was done contrary to regulation 55(2) of EAC Staff Rules and Regulations.

The EAC Management conceded to the mistake.

The Committee noted the anomaly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to revive compliance to EAC rules and regulations.

2.10.2 Avoidable expenditures in hiring External Auditors

The Audit Commission reported that on 25th March 2015 the EAC Procurement Committee awarded the contract for consultancy services for the external audit for MRH project to M/s Innovex Auditors. The contract was for the audit of the Financial Statements for the years ending 30th June 2014 and 30th June 2015 for a contract sum of USD 14,000. However, the following weaknesses were noted:

As at the time of the award of this contract, the Audit Commission was auditing the financial statement of the Community which included the Project for the financial year ending 30th June 2014. Contrary to the EAC Treaty, MRH project hired external auditors other than the Audit Commission to audit its financial statements for the year ended 30th June 2015.

Innovex Auditors was directly contracted without any procurement procedure on pretext that Innovex auditors audited also the prior year financial statements for another project under EAC. Single sourcing of Innovex Auditors was done contrary to the EAC procurement procedures.

The EAC Management responded that it will consult with a view of having Audit Commission to audit the projects and issue a report thereon before 31st December as required by the financing agreement.

The Committee noted contravention of Section 2.07 (b) of the standard conditions for World Bank projects which requires the recipient to have the Financial Statements periodically audited by independent auditors acceptable by the World Bank and article 134 of EAC Treaty.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to renegotiate the already signed agreements with donors to recognise EAC Audit Commission as the external auditor eligible to audit EAC projects and programmes.

PART III

3.0 THE LAKE VICTORIA BASIN COMMISSION (LVBC)

3.1 LVBC SECRETARIAT

3.1.1 Unsupported Expenditure of USD 56,397

The Audit Commission reported that during the year under review, it was noted that expenses amounting to USD **56,397** were not supported by any verifiable documents.

The LVBC Management responded that the relevant documentation supporting the expenditure would be availed for review. The LVBC Management also claimed that lack of a records and documentation officer was the cause for the misplacement of the documents and that the process is ongoing to recruit one.

The Committee observed irregular documentation system at the LVBC.

COMMITTEE RECOMMENDATIONS

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

- i) improve on the records keeping and documentation; and*
- ii) provide the Audit Commission with the documents in question during the next audit exercise.*

3.1.2 Weaknesses in retirement of imprest

The Audit Commission reported that there were delays in retirement of imprest of USD 17,900 contrary to Regulation 40 (3) of the EAC Financial Rules and Regulations (2012) which requires that, all imprest to be retired within five (5) working days after the completion of an official activity for which the imprest was designated. Some of the retirements delayed from 20 days up to 165 days.

The LVBC Management appreciated the issues raised by the Audit Commission and further reported that there is noticeable improvement in the imprest management. However, they will continue to enhance the controls as per the rules and procedures.

The Committee observed that LVBC Management violated its own rules and procedures which will certainly lead to loss of funds.

COMMITTEE RECOMMENDATIONS

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

- i) ensure that LVBC rules and regulations are adhered to;*
- ii) strengthen control measures; and*
- iii) recover all outstanding imprest from responsible staff and report to the Assembly by October 2016.*

3.1.3 Unutilized imprest not retired - USD 1,050

The Audit Commission reported that the Legal officer was given an imprest on 21st October, 2014 in order to attend the Sectorial council on legal and judicial affairs and meeting of the High level Task Force on amendment of the Treaty, then scheduled on 22nd October- 1st November, 2014 in Arusha. He only spent 9 nights instead of 12 nights as detailed in the table below:

Departure date as per request	Departure date as per boarding pass	Return date as per Request	Return Date as per Boarding Pass	Nights not spent on official duty
21 st Oct, 2014	24 th Oct, 2014	2 nd Nov, 2014	2 nd Nov, 2014	3

Further review noted that, the officer filled out the retirement form on 22nd April, 2015 without sufficient information; dates of travel and amount received was not mentioned in the form. The senior Accountant checked and approved the retirement form and its attachment on the same day despite lack of key information such as dates and amount accounted for. With that consideration the three nights not utilised amounting to USD 1050 was not retired by the beneficiary.

The LVBC Management noted the anomaly and undertook to immediately recover the unutilised funds. Management will also ensure enforcement of internal control systems to prevent such oversight in future.

The Committee observed that LVBC Management violated its own rules and procedures which will certainly lead to loss of funds.

COMMITTEE RECOMMENDATIONS

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

- i) ensure that LVBC rules and regulations are adhered to;*

ii) strengthen control measures; and

iii) recover all outstanding imprest from the responsible staff and report to the Assembly by October 2016.

3.1.4 Failure to file for VAT refunds on Qualifying Expenditure

The Audit Commission reported that Article IV Point (4) of EAC Headquarters Agreement between LVBC and the Republic of Kenya provides for exemption of the Commission from Value Added Tax (VAT) and all taxes. However, it was noted that the Commission did not recover from Kenya Revenue Authority (KRA) VAT outstanding balance amounting to **USD 143,281**. The amount had increased from last year as analyzed below:

Description	Closing 30/06/2015	Net movement during the year	Outstanding balance as at 30/06/2014
	US\$.	US\$.	US\$.
VAT	143,281	2,883	140,398

The LVBC Management responded that it had discussions with the Chief of Protocol in Ministry of Foreign Affairs and the Kenya Revenue Authority on modalities of obtaining tax exemption and was subsequently agreed that at the beginning of each financial year, the Commission should avail signed contract of long term service providers and proforma invoices of the values of services to be provided, to enable acquisition of tax exemption certificates. This avenue was a result of not being able to get the refunds despite the filing of returns. We believe this will solve the VAT issues and the current period returns are to be filed.

The Committee observed failure of LVBC Management to decisively follow up VAT refunds. Because of this reluctance, VAT refunds have not been effected.

COMMITTEE RECOMMENDATIONS

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

- i) conclusively negotiate an agreement on VAT refund with Kenya government and report to the Assembly by December 2016; and*
- ii) always comply with the VAT Act 2013 requirements.*

3.1.5 Contract for the maintenance and Repair of IT equipment

The Audit Commission reported that Regulation 41(4) of the EAC Financial Rules and Regulations 2012 requires that payment shall only be made on the basis of duly certified invoices and other supporting documentation, which indicate the goods or services which have been received in

accordance with the documents establishing the obligation. Audit Commission noted that on 1st July, 2014 LVBC signed a contract with Ms By-Grace Technologies for repair and maintenance of IT equipment at a contract sum of **USD 13, 596** per annum (equivalent to USD 1,133 per month) to cover the period commencing 1st July, 2014 to 30th June, 2015. However, all payments made for maintenance and repair of IT equipment totaled to **USD 21,778** instead of **USD 13, 596** as per signed contract. Further the payments lacked crucial supporting documentation such as schedule of work done certified by serviced unit to warrant the payment. Some of the monthly payments were made to a tune of **USD 1,500** instead of **USD 1,133**.

The LVBC Management reported that the contract between M/s By-Grace Technologies and LVBC for maintenance and repair of ICT equipment covered 2 aspects of services:

1. Preventive maintenance and support – this is a scheduled maintenance that is carried out quarterly on all ICT equipment to reduce instances of equipment breakdown at a fixed annual rate payable either monthly or quarterly (USD 13, 596 per annum equivalent to USD 1,133 per month). During the period when LVBC ITO had not been recruited, the Commission renegotiated with the service provider to provide additional day-to-day support to the commission users on all issues relating to ICT functions at a new monthly rate of USD 1,500 instead of USD 1,133 as per the addendum.
- 2 Corrective maintenance – this is an ad hoc process only carried out when there is need (when there is equipment breakdown or malfunction) whose charge is dependent on the nature of repair or supply done. This cannot be predetermined and scheduled since equipment failure is unforeseen and the nature of repairs differs a great deal. This kind of charge is normally based on either delivery notes or job cards signed for services rendered.

The payments therefore varied depending on nature of work done e.g.

- a. July 2014 to February 2015 – USD 1,500 was a revised rate combining both preventive maintenance and support during the period when ITO had not reported.
- b. March – July 2015 – differed since they were based only on the corrective aspects of maintenance save for March 2015 which combined both corrective and preventive maintenance charges (ITO had reported during this period).

The Committee observed poor contract management and negotiation and lack of coherence in periodical maintenance. LVBC did not provide documentation to the Audit Commission.

COMMITTEE RECOMMENDATIONS

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

- i) always provide required documentation to the Audit Commission; and*
- ii) improve in contract negotiation and management.*

3.1.6 Weaknesses noted in Internal Audit Function

The Audit Commission reported that the Internal Audit Unit managed to produce all of its quarterly internal audit report as per plan. However, further review revealed that the Unit does not maintain the engagement of current audit files where the audit evidence and relevant information can be kept to substantiate the work done; contrary to Section 16.6 and 16.7 of the EAC Internal Audit Manual (2011).

The LVBC Management reported that current audit working paper files with audit evidence to support internal audit findings are kept as a result of which Management does not dispute them. However, they sometimes do not include prints of some work done electronically. In future, these will be printed and also included.

The Committee was not convinced with the Management response.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to ensure that the current audit files are maintained and well indexed as per EAC Internal Audit Manual (2011) to substantiate the work done.

3.1.7 Irregularities in operations and Performance of the Procurement Committee and lack of monthly procurement reports.

The Audit Commission reported that EAC Procurement Policies and Procedures Manual (2011) Section 3.4.1.1 (i) details that the Procurement Committee (PC) shall be composed of seven (7) voting members, including the chairperson and shall be appointed in their individual capacities and shall not include DSGs, the Internal Audit staff and Staff of Procurement Unit. Sec.3.4.1.4 (ii) states that the quorum for the meetings shall be any 5 members, provided that the requirement for quorum is met, decisions of a subset of the full Committee are as valid and binding decisions of the full Committee.

Further, Section 3.4.1.6 of the Manual states that; the committee shall meet once in a month in ordinary session. However, the Committee may meet in extraordinary sessions when necessary.

Section 3.4.1.8 (ii) states that the minutes of each procurement meeting shall include the code of ethics, signed by all members and other persons attending the meeting. A review on the operations and performance of the LVBC Procurement Committee revealed the following shortfalls:

- 1 Late Appointment of Procurement Committee Members.
 - One member Ms. Odeth Bateta left the Commission on 30th September, 2015 but she had not been replaced up to the time of audit in November 2015.
- 2 Some meetings held without attainment of the Quorum
 - Minutes of the Procurement Committee held on 30th June, 2014 at 9.00 am to discuss the evaluation report of provision of staff medical insurance, air ticketing and life insurance for the year 2014/2015 had four members;
 - Minutes of the Procurement Committee held on 19/06/2014 to discuss evaluation report with regards to pre-qualification of firms for the supply of goods and services for the year 2014/2015 had only four members;
- 3 There was no evidence on whether the members who attended all Procurement Committee meetings done during the year had signed the Code of Ethics Declaration.

Further, Regulation 42 (10) of the EAC Financial Rules and Regulations (2012) requires the head of procurement to prepare and submit monthly reports to the procurement committee including a report on micro procurement. However, a review of the Procurement Unit function in relation to LVBC affairs noted that, preparations and submission of monthly reports to the procurement committee including report on micro procurement were not done.

LVBC Management took note of the anomaly and promised to ensure compliance. A Consolidated procurement report for January to June 2015 was provided. It's also important to note that the Procurement Unit only acquired a Senior Procurement Officer in the middle of the financial year under review and therefore most of these requirements are in the process of being implemented.

The Committee observed non-compliance with procurement rules and regulations.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to always comply with financial rules and regulations.

3.1.8 Lack of PAID stamp on paid document

The Audit Commission reported that all supporting documents including invoices and payment vouchers during the year under review were not stamped "PAID", contrary to Regulation 41 (6) (a) of the EAC Financial Rules and Regulations (2012).

The LVBC Management appreciated the importance of this control measure and reported that it was an oversight which has since been rectified and will continually be enforced.

The Committee observed a weakness in the LVBC accounts department.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the LVBC Management to always comply with accounting principles.

3.2 MOUNT ELGON REGIONAL ECO-SYSTEM CONSERVATION PROJECT (MERECP)

3.2.1 Noncompliance with Donor agreement.

The Audit Commission reported that MERECP (Mountain Elgon Regional Eco-system Conservation Project) bridging phase project closing period was 31st Dec, 2014 with all activities ending by that date. Further reviews revealed that LVBC asked for a no-cost extension in a letter dated 18th Nov, 2014 to finalize its activities but the donor declined the request in a letter dated 19th November 2014. The donor only permitted payments to contractual obligations that were entered into before 31st Dec, 2014 whose works could spill over the project end date and those contractual obligations only included two running contracts namely; Eco Agriculture Partners and a contract with Mr. Henk Hoefsloot.

The unspent balance by the close of 31st Dec, 2014 was **USD 210,361**. The total obligation as agreed upon with the Donor was **USD 146,834**. A balance of **USD 71,297.5** was supposed to be refunded to the Donor. However, during the audit, it was noted that this amount had not yet been refunded to the Donor. In addition, LVBC has continued to spend this amount to the tune of **USD 11,460** without the donor's consent.

The LVBC Management reported that much as it takes note of the observation, most activities highlighted as unauthorized expenditures are directly related to the execution and validation processes of the two contracts - Eco Agriculture Partners and - Mr. Henk Hoefsloot which were still ongoing. Following the Commission's engagement with the Donor they were subsequently accepted. In addition, the other transactions and services highlighted were incurred before the

effective date of 31st Dec, 2014 and appropriately accrued. It's the payment which occurred after the date but in effect the services were rendered in the relevant period.

During the interface with the Committee, the LVBC Management confirmed that it successfully finalized the matter with the donor and that the balance has already been refunded. Soon, the Commission would be initiating the third phase.

The Committee noted the progress.

COMMITTEE RECOMMENDATION

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

3.2.2 Irregularities in expenditure used for workshops

The Audit Commission reported that three workshops were organized by MERECP amounting to USD 52,470 as shown in the table below;

Date	Cheque No.	Description	Amount USD
07/10/2014	001414	validate Community Markets Based Approach (CMBA) to conservation & Livelihood security in the Mt. Elgon Landscape at the Imperial Hotel in Kisumu, Kenya	23,940
07/10/2014	001415	Explore the applicability of a Green Growth & Green Economy to Dev't in Mt. Elgon Regions at the Imperial Hotel in Kisumu, Kenya	11,490
24/11/2014	001468	Mapped Mt. Elgon Transboundary Ecotourism Routes using the GIS Approach at Kitale Golf Club	17,040
		Total	52,470

Audit review revealed the following;

1. Included in the Hotel bills were meals & refreshments amounting to **USD 161** consumed by participants outside the workshop activity time that should have been covered by the per diem that was given to the participants. Project funds were used to cover personal participants' expenses.
2. Included in the payments, were allowances amounting to **USD 3,330** paid to participants that did not participate in the workshop, Audit Commission reviewed the attendance register and could not trace their attendance.
3. Drivers were registered as participants and received night allowance at the same rates as the participants amounting to **USD 4,160**. This was found to be irregular since Government

Drivers on official duty are always facilitated from their respective agencies while transporting officers on duty.

The LVBC Management responded that there was a meeting between MERECP PMU and Eco-agriculture consultants on 11th October before the date of the meeting to review what should be covered during the meeting and another meeting took place after the conclusion of the meeting to put together the issues comments that were raised by the participants. It is at these side meetings that the expenditure of USD 161 was incurred for refreshments.

All participants paid had registered and are reflected in the attendance list as shown to the auditors. Most of the meetings on MERECP were held on field whereby only road transport was the only possible mode. Drivers carrying technical officials could not be paid by their respective Governments since such meetings were fully funded by LVBC. Drivers' facilitation and fuel refund was paid in lieu of air tickets which would have applied for delegates if they were to travel by air.

The Committee observed an irregularity caused by lack of policy on per diem administration for non-staff members.

COMMITTEE RECOMMENDATIONS

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

- i) put in place a policy on per diem administration for non-staff members;*
- ii) always clarify terms of engagement in invitation letters; and*
- iii) always furnish the Audit Commission with requisite documentation during the audit exercise.*

3.2.3 Avoidable Expenditure

The Audit Commission reported that a sum of USD 11,835 was spent to facilitate staff as per diem to carry out official duties outside their duty station.

Audit review revealed that:

1. A reasonable number of the travels did not require the staff to leave their duty stations as this was purely related to their day to day operational activities;
2. In some instances, the number of days spent on these travels was unreasonably high.

The LVBC Management responded that it agrees with the audit observations on management of activities outside the duty station and has already taken corrective decisions in this regard via a circular issued by the Secretary General dated 9th Feb, 2015. However, the exercise of

formulating the MERECP II proposals included other stakeholders and the exercise could not be held at the office.

The Committee noted absence of policy which encourages wrong practice.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to put in place requisite policies and put an end to such practice.

3.3 USAID-PHE PROJECT

3.3.1 Delayed contract and overpayment on Consultancy Services

The Audit Commission reported that LVBC/PHE (Population Health and Environment) entered into agreement with AESA East Africa Ltd on 31st July, 2014 for provision of “consultancy to conduct studies on inter linkages between population, dynamics, health, environmental conservation and sustainable development in Lake Victoria Basin and studies on rapid assessment of family planning, reproductive health, maternal, new-born, child health and nutrition needs of communities with the Mt. Elgon regional ecosystem conservation program” for contract amounting to **USD 65,000**.

The execution of contract registered the following weaknesses;

- i) Section 1(IV) of the contract states that the consultant should submit to the client the final reports in soft and hard copies within six (6) weeks upon the receipt of the first installment that was made on 8th Aug, 2014, the final report should have been submitted on 19th September 2014; instead, the final report was submitted on 8th June, 2015.
- ii) Section 4. of the contract states that USD 25,000 out of the total contract will be paid as reimbursable fee; reviews of the payments made to the contractor revealed an overpayment of **USD 4,378** to AESA East African Ltd. For details refer to the table below:

Date	Reference	Description	Amount (USD)
08/08/2014	1647	1st payment	20,000
12/09/2014	1689	2 nd payment	11,596
17/11/2014	1752	3rd payment	9,926
24/11/2014	1784	4th payment	19,856
09/06/2015	2012	5th payment	8,000
Total amount paid			69,378
Total amount per contract			65,000
Excess Payment on contract amount			4,378

The LVBC Management reported that the consultancy was completed, draft report received by LVBC and validated by the Partner States in February 2015. The consultant incorporated input from the Partner States and submitted the final report to LVBC. The report was validated by the PHE Regional Technical Working Group (TWG) in early July 2015 and considered by the PHE Regional Policy Steering Committee (RPSC) in late July 2015 and finally approved by the 14th Sectoral Council of Ministers for LVBC in September 2015. The slight delay in completion of the assignment by the consultant was occasioned by the numerous observations and input received from the Partner States during the validation workshop. These necessitated further analysis of the data by the consultant and authentication of some for the data received from the Partner States. Summarily the final report was of the required standard hence value for money.

The Committee observed weaknesses in contracts negotiation and management at LVBC. The Consultant should have shouldered his or her own delays and LVBC should have been able to foresee and consider all factors that could have led to the delay of contract execution.

COMMITTEE RECOMMENDATIONS

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

- i) improve on contracts negotiations and management;***
- ii) ensure Partner States submit comments on time; and***
- iii) always improvise to mitigate and minimize such expenditures.***

3.4 THE LAKE VICTORIA WATER SUPPLY AND SANITATION (LVWATSAN) PROJECT

3.4.1 Physical verification of project activities

3.4.2 Keroka County

The Audit Commission reported that a contract for construction of water supply and sanitation facilities (Public toilets, treatment plant, transmission and distribution storage and offices) was awarded to Zhongmei Engineering Group Ltd and Nyana Engineering Company Ltd for contract amount of **USD 3,300,000**.

During the site visit by the Audit Commission on 10th Nov, 2015 at Keroka County the following challenges were noted:

- a) The contract was signed in June 2014 but actual works started in February 2015, seven months after the due date. The contract ends June 2016, by November 2015 or 16 months into the contract only 40% of works had been completed. There were indicators of contract completion delay and possible escalation of costs;
- b) The Fecal treatment plant had not been built due to family disputes on land acquired by the county government. The family dispute had taken more than one year to resolve hence the risk of not completing the project in the specified period;
- c) According to the activity report of LVWATSAN (Lake Victoria Water Supply and Sanitation), the County was provided with two (2) tractors; however, the Audit Commission did not see any of them at the designated site.
- d) Out of the twelve (12) public toilets to be built in the community only seven (7) had been built at the time of site visit in November 2015.

3.4.3 Kericho

The LVBC Management reported that rehabilitation of Sewerage Treatment Plant, Sewa Extension and Construction of Ablution blocks contract was awarded to *Stansha Ltd* for an amount of **USD 2,200,000**, the following were noted:

- The Contract was signed in May 2014 and expired on 25th Nov, 2015. Works started in October 2014, five months after contract signing and only 63% of works had been done. Onsite works were still at their beginning stages at the time of site visit in November 2015.
- The Initial BOQs left out major elements of rehabilitating, a major anaerobic pond that needs to be rehabilitated and replacing of pipes that will cost another amount totaling to **USD 500,000**. This money was yet to be approved by the donor.

- Out of the four Public toilets to be built only one toilet block had not been built due to land disputes between the locals. Others were still undergoing construction.
- Laboratory equipment bought by LVWATSAN were not engraved by the project initials but by the County tags which presented a risk of double funding since the audit was unable to establish which equipment were bought by the county and those by LV WATSAN Project.

The LVBC Management reported that LVWATSAN Coordination Team has been following the works closely and will enhance the same to ensure completion of the works on time. Management also informed the Committee that the level of absorption was increased and extension sought for up to December 2017.

The Committee observed that works may not be completed on time despite claims by LVBC management that Coordination Team has been following the works closely to ensure timely completion.

COMMITTEE RECOMMENDATIONS

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

- i) avail progress reports of works by December 2016; and*
- ii) list all on-going projects, their budgets and status of implementation and submit to the Assembly in November 2016 during the 3rd Meeting of the 5th Session of the Third Assembly.*

3.5 THE LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT II (LVEMP II) FOR THE YEAR ENDED 30TH JUNE 2015

3.5.1 AUDIT FINDINGS

3.5.2 Avoidable Expenditure

Audit Commission reported that in a number of instances where the LVBC/LVEMP II spent funds amounting to **USD 5,250** that could have been saved or such expenditure avoided if reasonable care had been exercised in the utilization of the LVBC/LVEMP II resources. The expenses are mainly made up of the Daily Subsistence Allowances (DSA), conference and fuel costs for a meeting of 3 people held at Kakamega. In addition, the team had to meet with staff from Kenya National Cleaner production Centre (KNCPC) for technical and financial review performance. However, there was no evidence that KNCPC attended the meeting.

Furthermore, there is no evidence that the conference costs were fully paid to the Hotel where the meeting was held. For details refer to table below:

Date	Reference	Description	Amount(USD)
11/09/2014	Chq 000770	Meeting at Kakamega to review technical and financial performance with KNCP	1,000
11/09/2014	Chq 000769	Meeting at Kakamega to review technical and financial performance with KNCP	1,000
11/09/2014	Chq 000767	Meeting at Kakamega to review technical and financial performance with KNCP	1,400
11/09/2014	Chq 000769	Meeting at Kakamega to review technical and financial performance with KNCP	1,400
11/09/2014	NA	Fuel costs	100
11/09/2014	NA	Conference costs	350
		Total	5,250

The above expenditures may not be eligible as they could have been avoided.

The LVBC management concurred with the audit observations on management of activities outside the duty station and has already taken corrective decisions in this regard via a circular issued by the Secretary General dated 9th Feb, 2015.

The Committee observed the anomaly.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to exercise due care and desist from spending LVBC resources on avoidable expenditure.

3.5.3 Overpayment of USD 4,600 on lump-sum contract for Consultancy services

The Audit Commission reported that LVEMP II signed a lump-sum contract amounting to USD 65,000 with Research East Africa Consultants and later made an overpayment of USD 4,600 for evaluation of equipment to be used for the training on oil Spill pollution preparedness.

The LVBC Management responded that the 4,600 was not part of the original contract of provisional training. The equipment was brought from Denmark and it was important that before the training the equipment be tested. It was for this reason that additional costs were incurred.

The Committee noted management explanation and weaknesses in contracts management and internal control systems.

COMMITTEE RECOMMENDATIONS

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

- i) direct LVBC Management to always factor-in all possible costs and activities of the project to avoid such overpayments that could be abused;*
- ii) always ensure proper management of contracts and proper internal control systems; and*
- iii) always avoid effecting full payments to consultants and other works before completion and delivery in all aspects.*

3.5.4 Failure to file for VAT refunds on Qualifying Expenditure

The Audit Commission reported that the LVBC project did not recover from Kenya Revenue Authority (KRA) VAT outstanding balance amounting to **USD 18,529.3** contrary to Article IV Point (4) of EAC Headquarters Agreement between LVBC and the Republic of Kenya.

The LVBC Management reported that it had discussions with the Chief of Protocol in Ministry of Foreign Affairs and the Kenya Revenue Authority on modalities of obtaining tax exemption and subsequently agreed that at the beginning of each financial year, the Commission should avail signed contract of long term service providers and proforma invoices of the values of services to be provided, to enable acquisition of tax exemption certificates. This avenue was a result of not being able to get the refunds despite the filing of returns. This would solve the VAT issues.

The Committee observed that VAT refund is persistently becoming a problem in all Partner States housing EAC organs and institutions.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to ensure that VAT owed to EAC Organs and Institutions is refunded promptly.

3.6 LAKE VICTORIA BASIN COMMISSION PARTNERSHIP FUND

3.6.1 Avoidable Expenditure

The Audit Commission reported that a sum of Us\$50,948 was spent to facilitate finance staff as per diem to carry out official duties outside their duty station. It was clear that a reasonable number of travels did not require the staff to leave their duty stations as this was purely related to their day to day operational activities and in some instances, the number of days spent on these travels were unreasonably high.

The LVBC Management noted the concern of the Audit Commission and reported that the situation was partially necessitated by lack of office space for meetings at the LVBC premises. However, with the anticipated move to better and bigger premises, the space shortage will be alleviated. Additionally, management has already put in place measures to ensure that internal meetings outside the duty station are minimized and facilitation mode to be on full board basis in few cases of such meetings. This is also in line with the SG's circular on meetings management. The circular is now fully implemented since its issuance in February 2015.

Furthermore, the management team meeting was a retreat for management to engage in an out of office environment to enable resolve many pending issues at the Commission given the nature of the Commission work.

The exercise conducted by finance staff entailed not only the review of the financial statements for audit but also included the finalization of the mapping of the new GFS chart of accounts and BMS MTEF codes to the Sun system. This was necessitated to take the staff to an uninterrupted environment to complete the task in time as the harmonization of EAC financial systems was to kick off that financial year and the activities were to commence in the new format.

The Committee observed that LVBC staff had not done their job as mandated and waited to do it later at the cost of the institution.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVBC Management to always exercise prudence and take decisions that enhance the achievement of value for money.

3.6.2 Failure to file for VAT refunds on Qualifying Expenditure

The Audit Commission reported that the LVBC did not recover from Kenya Revenue Authority (KRA) VAT outstanding balance amounting to **USD 11,819.71** contrary to Article IV Point (4) of EAC Headquarters Agreement between LVBC and the Republic of Kenya.

The LVBC Management responded that it had discussions with the Chief of Protocol in Ministry of Foreign Affairs and the Kenya Revenue Authority on modalities of obtaining tax exemption and was subsequently agreed that at the beginning of each financial year, the Commission should avail signed contract of long term service providers and proforma invoices of the values of services to be provided, to enable acquisition of tax exemption certificates. This avenue was a

result of not being able to get the refunds despite the filing of returns. We believe this will solve the VAT issues and the current period returns are to be filed.

The Committee observed that VAT refund is persistently becoming a problem in all Partner States housing EAC organs and institutions.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the EAC Secretary General to ensure that VAT refund owed to EAC Organs and Institutions is refunded promptly.

PART IV

4.0 THE INTER UNIVERSITY COUNCIL OF EAST AFRICA

4.1 CURRENT YEAR AUDIT FINDINGS

4.1.1 IUCEA SECRETARIAT

4.1.2 Shortfall in funding of IUCEA

The Audit Commission reported that although efforts have been made to recover the outstanding balance, it was noted that the outstanding balance from the Partner States stood at USD 9,687,078 an equivalent of more than two years' contribution as detailed in the table below.

COUNTRY	Arrears before 1 st July, 2014	Expected contribution for FY 2014/15	FY 2014/15 contribution received	Current year outstanding as at 30 th June, 2015	Total arrears c/f as at 30 th June, 2015
	A USD	B USD	D USD	E=B-D USD	A+B-D USD
BURUNDI	1,922,305	817,400	-	817,000	2,739,705
KENYA	3,070,265	817,400	2,646,010	(1,828,610)	1,241,655
TANZANIA	4,460,936	817,400	3,207,602	(2,390,202)	2,070,734
UGANDA	3,919,410	817,400	1,517,921	(700,521)	3,218,889
RWANDA	(401,306)	817,400	-	817,400	416,094
Closing	12,971,610	4,087,000	7,371,533		9,687,078

The shortfall contravenes regulation 24 point (2) of Financial Rules and Regulations of IUCEA which stipulates that assessments on Partner States shall be based on the principle of equal contributions as stipulated in Article 134(4) of the EAC Treaty.

The Inter University Council of East Africa reported that-

- i) Reminders have been sent;
- i) Matters relating to arrears have been addressed by IUCEA Board, and through EAC Council of Ministers level; and
- ii) Visits to Partner States have been made as follow up missions of arrears.

In 2012 the matter was taken to the Council of Ministers where it was agreed that the debt will be paid. In 2013 the Council considered writing off the debt but the Partner States agreed again that it will be paid. The Council still does follow up and some Partner States are now honoring their obligations.

The Committee took note of the information and appreciated the improvement so far made

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to engage the Ministries of Higher Education in their respective Partner States to clear their arrears.

4.1.3 Late Notification and Lack of follow up on Subscription Fees due from Member Universities

The Audit Commission reported that the Universities were informed of their payment of membership fees for the FY 2014/2015 on the 18th August 2014, 48 days into the FY 2014/15. The Audit further revealed that 41% (44 out of 107) of the members did not remit their membership contributions during the year under audit hence casting doubt on their commitment to the Council. Consequently, the arrears from membership fees have increased from USD 252,535 to USD 342,920. There is no evidence to indicate that the Council has taken the necessary action to ensure that the requirements of the Act have been implemented.

The Inter University Council of East Africa management reported that it acknowledges the finding. This was due to the number of member universities. It was not possible to manually raise debit notes on time. However, with the adoption/migration to Sun system, this will be generated automatically. Reminders are usually sent to the respective member universities by 11th July, October and March. The Accounts department also follows up on the matter.

The Committee noted that Inter University Council of East Africa has improved follow up mechanisms.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to handle the matter and report to the Assembly by October 2016.

4.1.4 Utilization of Funds Paid as Outstanding Contributions from Partner States.

The Audit Commission reported that a review of the Executive Committee minutes showed that the Committee in its meeting held on 30 March 2015 in Dar es Salaam approved the utilization of USD 800,000 from arrears, contrary to regulation 22 (6, 7 and 8) which provides that all supplementary budget proposals must be approved by the East African Legislative Assembly.

The IUCEA Management responded that the Executive Committee gave a go ahead for the utilization of the funds as it was urgently needed for the Headquarters construction and that IUCEA is in the process of seeking retrospective approval from EALA and that a submission was made to F & A in November 2015.

The Committee noted that IUCEA lacks policy to guide utilization of arrears and as such, the Executive Committee acted in contravention of regulation 22 (6, 7, and 8).

COMMITTEE RECOMMENDATION

The Committee recommends to Assembly to urge the EAC Council of Ministers to direct IUCEA Management to customize the EAC Secretariat policy on the use of reserve funds and apply the same on utilization of arrears and excess funds.

4.1.5 Over expenditure on Administrative Meetings & Consultancy Expenses

The Audit Commission reported that a review of budget against the actual expenditure for the IUCEA for the year under review, revealed that a total of USD 508,992 were overspent on various items, yet the approved budget for the shown items were USD 1,505,145 against actual expenditure of USD 2,014,137.

The IUCEA Management responded that it agrees with the observation and that the over expenditure was as a result of the following circumstances:

- i) While budgeting IUCEA uses guidelines with fixed prices yet the prices vary during the Financial Year.
- ii) There are a number of unplanned meeting from the EAC which are not in our budget that arise during the course of the year that require the representation of IUCEA.

The Committee observed inappropriate reallocation in violation of regulation 12 (4) of the IUCEA financial rules and regulations which limits financial resources of IUCEA to be utilized in accordance with the appropriation made in the budget of IUCEA.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA to always seek approval for reallocation.

4.1.6 Expenditure not properly supported

The Audit Commission reported that during the year under audit the Council paid USD 49,539 vide payment voucher no. 4075 dated 21/10/2014 for the Academia Public Private Partnership Forum held in Kigali Rwanda in October 2014. The following anomalies were noted;

- i) The invoices raised by the service provider were unreferenced and not signed.
- ii) Some bills were not endorsed by IUCEA representative to substantiate the authenticity of the claims in the invoices.

The IUCEA Management responded that the findings in i) and ii) have been noted, and undertook that in future Management will ensure that the bills from service providers are thoroughly verified.

The Committee observed weaknesses in the department which led to the breach of regulation 44 (3) of the IUCEA Financial Rules and Regulation requiring payments to be made on the basis of duly certified Invoices and other supporting documents. It was further noted that invalid documents create invalid records and ultimately invalid payment.

COMMITTEE RECOMMENDATIONS

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

- i) direct IUCEA management to strengthen its internal controls and always comply to its rules and regulations; and*
- ii) ensure that the Audit Commission revisit the matter in the next audit exercise to determine culpability.*

4.1.7 Unutilized Tickets not Refunded USD 7,442

The Audit Commission reported that IUCEA booked air tickets for delegates during the academia Public-Private Partnership Forum and Exhibitions 2014 held in Kigali Rwanda. A total of USD 26,386 was paid to the airline for the tickets. However, it was noted that 22 delegates whose tickets cost USD 7,442 cancelled their flights and their tickets were not utilized for the forum. There was however no evidence of refund for unutilized tickets.

The IUCEA Management responded that it has initiated a memorandum of understanding with the airline to be able to use the cancelled tickets in future. IUCEA Management will also continue to follow up on the refund of cancelled tickets with Rwanda Air.

The Committee noted IUCEA efforts to recover the funds and commends the initiative.

4.1.8 Delay in securing VAT Exemption on Qualifying Expenditures

The Audit Commission reported that IUCEA continued paying VAT on the expenses in disregard of the provision of the Treaty and no claim for refunds had been filed by the council in respect of the VAT paid. A total of **USD** 163,472 had been paid at the time of audit. The ES of the IUCEA however informed the Committee that a total of 200 million UGX had since been recovered from URA and 180 million UGX was being expected.

The IUCEA Management responded that it has started filing VAT returns on the qualifying expenditure effective April 2015 and also applied for VAT exemption certificate by the Uganda Revenue Authority.

The Committee observed laxity on the part of IUCEA to follow up VAT refunds and application for VAT exemption certificate from URA.

COMMITTEE RECPMMENDATIONS

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

- i) direct IUCEA management to always apply for VAT refunds on time;*
- ii) engage Partner States Revenue Authorities on the matter; and*
- iii) compel Partner States to comply with article 138 (3) of the Treaty for establishment of the East African Community.*

4.1.9 Non Compliance with the NSSF Act

The Audit Commission reported that in the previous financial year the Council did not comply with NSSF Act by not effecting monthly contributions to NSSF considering that a Certificate of Exemption from the Fund was not availed for verification. In 2012 NSSF Uganda had placed a claim of **USD** 3,812,422 as arrears in respect of contribution to NSSF by IUCEA on behalf of its employees. Although IUCEA was advised by EAC Secretariat that EAC organs and institutions are not subjected to NSSF requirements in their host Partners States, the matter has not been resolved with NSSF Uganda. Although IUCEA has disclosed this as a contingent liability in the financial statement no provision has been made.

The IUCEA management responded that it has been following the NSSF issue with the Ministry for East African Community Affairs Uganda as directed by the Council of Minister on 31st Aug, 2013. The Uganda Retirement Benefits Regulatory Authority (URBRA) is handling the issue of exemption of IUCEA from the payment of NSSF contribution.

The Committee noted that the issue has persisted for a very long time and NSSF may claim much money in line with Article 8 of Headquarter Agreement which requires its interpretation and implementation to enable the Council to carry out its duties fully and efficiently and to reach its goals in accordance with the existing laws and regulations of the Republic of Uganda.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Minister to direct the EAC Secretary General to convene a meeting with NSSF, the Ministry of EAC Affairs and other relevant stakeholders to negotiate and dispose of NSSF contributions.

4.1.10 Irregular Single Sourcing of suppliers

The Audit Commission reported that during the year under review, IUCEA entered into a contract for the evaluation services for the Governing board of the IUCEA with M/s ABS consulting Group. The reported expenditure during the year was USD 12,000. A review of the supporting documentation showed that the supplier was single sourced contrary to Regulation 61 of the Financial Rules and Regulations (2014). In addition, it was not clear why the payments to M/s ABS consulting Group were made to a personal account and not to the company's account that was awarded the contract.

The IUCEA Management acknowledged the observation and pledged to adhere to the set regulations in future.

The Committee noted the irregularity.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA Management to always adhere to the set regulations to ensure an efficient procurement process.

4.1.11 Irregularities in Procurement of Office Furniture and Equipment

The Audit Commission reported that during the year under review the Council procured office furniture from M/s Nina Interior Limited at total cost of UGS 40,750,000 an equivalent of USD 15,348 contrary to Regulation 46 (3, 4) of the IUCEA Procurement manual.

The IUCEA acknowledged the observation and promised to adhere to the set regulations.

The Committee noted the anomaly and appealed to the IUCEA to comply with their undertaking.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct the IUCEA to always adhere to the set rules and regulations.

4.1.12 Irregularity in the Recruitment of Procurement Officer

The Audit Commission reported that during the year under review, the Council recruited a procurement officer contrary to Regulation 19 (4) of the IUCEA Staff Rules and Regulations because recruitment process showed that a number of applicants were not shortlisted for interview for not being affiliated to any membership institutions. This short listing criterion was however not stated in the advertisement for the position.

The IUCEA Management responded that it agrees with the audit observation and explained that the criterion was used to reduce the candidates to the required three per Partner State because there were so many qualified candidates. IUCEA Management undertook to ensure that in future, recruitments will be carried out in accordance with the regulations.

The Committee observed that there was non-compliance with Staff Rules and Regulations and inconsistency in advertising and shortlisting.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct IUCEA Management to always comply with set rules and regulations and observe consistency in shortlisting mechanisms.

4.1.13 Refund of Tuition Fees contrary to the IUCEA Staff Rules and Regulations

The Audit Commission reported that during the year under review, the Council refunded a staff un budgeted for funds amounting to USD 7,030 vide payment voucher number 3940 dated 15th August 2014 for undertaking training at the ESAMI. It was not clear whether the training was based on result of training needs analysis in accordance with Regulation 52 (1) of IUCEA Staff Rules and Regulations.

The IUCEA Management responded that the training was undertaken before the harmonization of IUCEA rules and regulations with the EAC secretariat in June 2014. In future, management will

ensure that training and development expenditure is based on the requirements of the IUCEA Regulations.

The Committee noted the irregularity and learnt that the beneficiary together with other staff members who secured tuition fee refund are still employees of the IUCEA.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to always comply with the set rules and regulations more so on staff development matters.

4.2 THE LAKE VICTORIA RESEARCH PROJECT (VICRES)

4.2.1 Irregularities in the Implementation and Procurement of Equipment & software to operationalize the VicRes Research Management Information System.

The Audit Commission reported that on 13th Dec, 2014 the Council entered into a contract with University Computing Centre (UCC) of University of Dar es Salaam to develop Research Management Information System for VicRes Project at a total contract sum USD 33,087.20. The developer was paid USD 9,926.16 on 18th Dec, 2014 consisting 30% of the contract on the submission of the Inception Report.

In the same year, the Council paid M/s International Business Solutions Ltd **USD 28,668.10** vide cheque no 101540 dated 18th Dec, 2014. This payment was a 50% advance payment in relation to the purchase of equipment & software to operationalize the VicRes Research Management Information System. The total value of the contract was **USD 57,336.20**.

The procurement of the above suppliers contravened IUCEA Financial Rules and Regulations and contractual obligations were not complied with. There was late delivery of equipment and the research management system.

The IUCEA Management responded as follows:

- i) Minutes of the tender committee provided reasons for single sourcing the supplier. In addition, Agreement Partners had directed that funds for implementation of VRMIS be utilized by 31st Dec, 2015 as per the minutes
- ii) The supplier on responding to our call for quotation, provided that he should be paid 50% down payment in advance and balance on delivery, this was effected. Management has noted this weakness and will comply with regulations.

- iii) The delay in delivery of the hardware is was explained by the letter from the supplier.
- iv) The supplier of the hardware, was competitively sourced for the supply of phase 1 of the hardware development plan for IUCEA data center. The Equipment purchased for VRMIS was phase 2 of the implementation plan which provided for the availability of application on the Internet.
- v) The IUCEA Procurement and Tender Committee recommended using Direct Procurement as this was a genuine urgency as per the Minutes of 12th Dec, 2014

The Committee noted that the Auditor was not convinced with IUCEA management explanations and while before the Committee, IUCEA management agreed with the audit findings.

COMMITTEE RECOMMENDATIONS

- The Committee recommends to the Assembly to urge the EAC Council of Ministers to:*
- i) direct IUCEA Management to always comply with its Financial Rules and Regulations;*
 - ii) ensure proper contract management and execution; and*
 - iii) always emphasise value for money in the discharge of the Commission duties.*

PART V

5.0 THE LAKE VICTORIA FISHERIES ORGANISATION

5.1 CURRENT YEAR AUDIT FINDINGS

5.1.1 Poor performance of Save Nile Perch project

The Audit Commission reported that, a review of utilization of the funds availed to save Nile Perch was not used in accordance with Minute No. 5 of the 2nd Emergency Session Report of 6th November 2009 at Laico Regency Hotel Nairobi. The audit revealed that 98% (USD 1,175,384.02) of the availed funds were diverted and used in operational activities. Only **USD** 20,695.98 were utilized in Save Nile Perch project activities. Hence a performance of 2%.

The LVFO Management responded that Remittances from Partner States had not been released in a timely manner and during the period 2010-2013, LVFO utilized the Operations Save Nile Perch (OSNP) funds to run her operational activities with the intention of refunding the same when Partner States released the outstanding contributions. This position was communicated in the 2012/2013 report.

Several reminders on outstanding contributions in form of telephone calls and written letters are routinely sent to Partner States. The releases from Partner States in the FY 2014/15 improved greatly (67%) compared to the previous years (less than 35%). LVFO managed to refund US\$234,833 towards the outstanding Operation Save Nile Perch (OSNP) liability in the FY 2014/15.

At national level, enforcement measures to save the Nile Perch are ongoing, and therefore, the product cannot 'disappear totally' from the lake.

It is also important to note that all the travels made by the LVFO Secretariat are intended to represent the institution in the related meetings/workshops against which LVFO would neither be abreast with the fisheries related nor EAC matters, and therefore affecting her mandate. In a number of cases, the institution has failed to be represented due to funds constraints.

The Committee observed that reallocation was done without approval and the effects of reallocation affected the project negatively.

COMMITTEE RECOMMENDATION

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

- i) urge EAC Partner States to always remit contributions on time;*

- ii) *direct LVFO Management to ensure that Save Nile Perch activities are undertaken as planned and report progress in the next audit; and*
- iii) *direct LVFO Management to stop reallocating funds without approval.*

5.1.2 Receivables not supported by obligations to settle by EAC Secretariat - USD 44,711.96
 The Audit Commission reported that a review of the receivable ledgers noted **USD 44,711.96** debts due from EAC Secretariat. These are DSA and Air tickets paid to participants of different meetings during the year under review. The LVFO management explained that the expenditure was incurred on behalf of EAC Secretariat. However, no commitment to refund or correspondence to initiate these activities from EAC secretariat was availed.

The LVFO management reported that the mentioned activities were budgeted from Partnership Fund (with the view that the balance of **USD 194,600** will be released by the end of the FY) but due to unavoidable circumstances, the resource mobilization office, EAC communicated that LVFO funds the activities and the office will have to refund against the outstanding balance on budget not yet remitted. (Copy of email communication availed to the Audit Commission). Indeed, on 10th August, 2015, the EAC remitted **USD 14,789.03** to LVFO being part refund towards the mentioned activities.

The Committee observed that the funds in question may never be fully settled since it's not recognized as payable in the books of accounts of EAC Secretariat and lacks commitment correspondences.

COMMITTEE RECOMMENDATIONS

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

- i) *direct EAC Secretariat to transfer the balance due to the LVFO;*
- ii) *direct LVFO Management to always ensure presence of commitment correspondences in such transactions; and*
- iii) *direct EAC Secretariat to reflect the balance in its accounts as payable.*

5.1.3 Expenditures over and above budget limits USD 102,391

The Audit Commission reported that a review of the statement of comparison of budget and actual included in the financial statements for the year under review revealed expenditure beyond budget in most line items.

The LVFO Management reported that the gross under-budgeting for the FY 2014/15 portrayed unrealistic figures which resulted into the budget lines to be overrun and that this was caused by the required zero budget increment imposed by the EAC Council of Ministers. The adverse expenditures are against operational activities.

The Committee observed unrealistic budgeting, weaknesses in budget controls in the LVFO and the explanation by LVFO Management.

COMMITTEE RECOMMENDATION

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

- i) direct LVFO Management to always budget realistically and reasonably comply with the budget; and*
- ii) consider lifting zero increment of budget principle to cater for market prices.*

5.1.4 Delayed and insufficient contribution from Partner States

The Audit Commission reported that a review of the Organizations' books of accounts records revealed that the Partner States are reluctant to settle arrears totaling USD 1,305,603 of contributions including USD 603,920 for Operation Save Nile Perch due from the year ended 30th June, 2013, and a deficit of USD 437,702.

The LVFO management reported that it has continuously engaged the Partner States to settle their respective outstanding contributions. Management further reported that 67% of the contributions for FY 2014/15 were remitted compared to 34% for the FY 2013/14.

The Committee observed non remittances of contributions by EAC Partner States.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to ensure that Partner States remit their contributions on time.

5.1.5 Wasteful Expenditure - USD 21,100

The Audit Commission reported that the review revealed a number of instances where the organization unnecessarily spent USD 21,100 on meetings convened in Kampala and Entebbe instead of LVFO offices.

The LVFO Management responded that the decisions to hold meetings in Kampala and Entebbe was most of the time occasioned by proximity to other regional and international stakeholders who attended the meetings.

The Committee observed lack of prudence in the utilization of the organisation's resources.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to always exercise prudence in the Management of funds.

5.1.6 Missing Revenue Earning Receipt Book

The Audit Commission reported that audit of revenue received by LVFO from various sources revealed ineffective internal control over accountable documents where by the accountable

documents has no counterfoil register or any kind of register for easiest movement control. Auditors were able to find and examine revenue receipt books no 401 to 450, receipt book no 451 to 500 and 551 to 600 all used in the year under audit. They could not be able to audit Revenue receipt book with serial no. 501 to 550 due to the fact that the said book was not availed used or unused contrary to Chapter 6.2.1.1 of the LVFO financial manual.

The LVFO Management concurred with the audit observation and later established that there was no misappropriation of funds as evidenced by the close dates between the two books. An 'Accountable documents register' has since been opened to avert such anomalies.

The Committee noted the anomaly.

COMMITTEE RECOMMENDATIONS

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

- i) always exercise prudence and avoid possible misuse of financial documents;*
- ii) ensure that the missing revenue receipt book is traced and produced for audit verification in the next audit; and*
- iii) investigate and publish to dishonor any transaction relating to the missing receipt book.*

5.1.7 Lack of Insurance Cover on fixed assets

The Audit Commission reported that LVFO has no insurance cover for all of its fixed assets worth **USD 1,654,822** presented in the financial statement excluding two Motor vehicles with registration number CD 114 23 U Toyota L/C Hardtop and CD 114 01 U BMW saloon with total Net book value of **USD 15,696** contrary to Policy 8.1.3(d) of EAC Financial Procedural Manual (2013).

The LVFO Management responded that due to an unfunded budget, the LVFO failed to secure for an insurance cover for the organizations assets. However, in the FY 2015/16, an Insurance cover for the assets has been secured.

The Committee noted progress report by LVFO on secured insurance for its fixed assets.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct LVFO Management to avail evidence of secured insurance cover to the Audit Commission in the next audit exercise.

PART VI

6.0 THE CIVIL AVIATION SAFETY AND SECURITY OVERSIGHT AGENCY

6.1 Internal Audit Function

The Audit Commission reported that a review of the audit function revealed that CASSOA does not have an established audit function contrary to regulation 110 & 111 (3) of CASSOA Financial Rules and Regulations (2013).

The CASSOA Management agreed that the function is critical and that the EAC Secretariat is no longer able to provide the function of Internal Audit effectively. The Board had approved the outsourcing of an Internal Auditor but the EAC Audit and Risk Committee of the Council felt that this approach would jeopardize the independence of the Internal Audit function. Under the current funding constraints, the Agency is unable to employ an Internal Auditor as the critical staff requirement is in the Technical areas. The Agency is exploring the option of outsourcing from a different source while a sustainable funding mechanism is established to enable filling of established vacant positions and the matter will be considered again at the next Technical Committee on Audit and Risk for recommendation to the Board.

The Committee observed that owing to meager contributions and late or non-remittances from Partner States, CASSOA's budget is constrained. However, during the interface, the CASSOA Management accepted to convince the Board to allow recruitment of the Internal Auditor in the current financial year.

The Committee commends the undertaking by CASSOA management undertaking.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct CASSOA Management to avail evidence of progress on recruitment an internal auditor to the Audit Commission for verification during the next audit exercise.

6.1.1 Management of the Procurement processes

The Audit Commission reported failure to prepare monthly procurement reports, failure to integrate the procurement plan into the budget and strategic plan and non-adherence to procurement procedures despite requirements of regulations 51, 42(9) of EAC CASSOA Financial Rules and Regulations (2013) and EAC Procurement Policies and Procedures Manual (2011).

The CASSOA Management reported that monthly procurement reports are submitted to the procurement Committee, the procurement plan was developed from the FY 2014/15 and has been revised in the current FY in accordance with the budget. The procurement officer is maintaining the procurement documentation and this may be confirmed by the Audit Commission during the next audit exercise.

The Committee commends progress by CASSOA management.

COMMITTEE RECOMMENDATION

The Committee recommends to the Assembly to urge the EAC Council of Ministers to direct CASSOA Management to avail evidence of progress on recruitment of the procurement officer to the Audit Commission for verification during the next audit exercise.

GENERAL RECOMMENDATIONS

1. THE COMMITTEE NOTED THAT ALL THE PREVIOUS YEAR ASSEMBLY RECOMMENDATIONS NAMELY: -
 - a) EMPOWERING THE OFFICE OF THE SECRETARY GENERAL TO SANCTION MEMBERS OF STAFF WHO CONTRAVENE THE TREATY AND THE FINANCIAL RULES AND REGULATIONS;
 - b) INSTITUTING A SPECIAL AUDIT TO NAME INDIVIDUALS BEHIND IMPROPER SUPPLY, DELIVERY AND INSTALLATION OF SECURITY EQUIPMENT WORTH \$ 582,485.93;
 - c) CARRYING OUT A COMPREHENSIVE REVIEW OF THE PROCUREMENT MANUAL IN ORDER TO BRING IT IN LINE WITH THE FINANCIAL RULES AND REGULATIONS, 2012;
 - d) PUTTING IN PLACE A MECHANISM FOR IMPLEMENTATION OF COUNCIL DECISIONS AND ASSEMBLY RECOMMENDATIONS;
 - e) ADOPTION OF THE PROPOSAL TO ASSENT TO BILLS DURING THE MEETINGS OF THE EAC HEADS OF STATE SUMMIT; AND
 - f) CARRYING OUT COMPREHENSIVE REVIEW AND HARMONIZATION OF EAC HEADQUARTERS AGREEMENTS AMONG OTHERS;

WERE NOT FULLY IMPLEMENTED.

THE COMMITTEE RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO DIRECT THE SECRETARY GENERAL TO TABLE IMPLEMENTATION MATRIX OF THE CURRENT AND PREVIOUS ASSEMBLY RECOMMENDATIONS BY OCTOBER 2016.

2. THE EAC SECRETARIAT PASSED A TOTAL OF 1146 ADJUSTMENTS TO THE TRANSACTIONS IN THE GENERAL LEDGER AFTER THE SUBMISSION OF THE FINANCIAL STATEMENTS.

THE COMMITTEE RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO DIRECT THE EAC SECRETARY GENERAL TO STRENGTHEN EAC INTERNAL CONTROLS MECHANISMS OF ENSURING THAT FINANCIAL TRANSACTIONS ARE ACCURATELY AND TIMELY POSTED IN THE FINANCIAL INFORMATION SYSTEM, ENHANCE CAPABILITIES OF FINANCE AND INTERNAL AUDIT STAFF AND PREVAIL OVER THE DIRECTORATE OF FINANCE TO RENDER ITS SUPERVISORY ROLE OVER THE ACCOUNTANTS.

3. THE COMMITTEE NOTED IRREGULAR PAYMENT OF OVERTIME ALLOWANCES ACROSS EAC ORGANS.

THE COMMITTEE RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO DIRECT EAC SECRETARY GENERAL TAKE NECESSARY ACTION AND STOP BREACHING THE STAFF RULES AND REGULATIONS BY HOLDING APPROVING AUTHORITIES RESPONSIBLE FOR BREACH OF REGULATIONS AND CAUSING FINANCIAL LOSS TO THE INSTITUTION.

4. THE COMMITTEE OBSERVED IRREGULAR EMPLOYMENTS DUBBED “SHORT TERM CONTRACTS”.

THE COMMITTEE NOTED THAT THE TERM “SHORT TERM CONTRACTS” IN THE EAC IS USED TO PROMOTE CORRUPTION, NEPOTISM AND SECTARIANISM. THE COMMITTEE WARNS THAT SUCCUMBING TO SUCH A VICE WOULD BE HARMFUL TO THE REGIONAL INTEGRATION PROCESS AND RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO DIRECT THE SECRETARY GENERAL TO IMMEDIATELY PUT AN END TO SUCH A PRACTICE.

5. THE COMMITTEE OBSERVED THAT IRREGULAR PROCUREMENT OF GOODS AND SERVICES AT EAC CREATE OPPORTUNITIES FOR FRAUD AND EXORBITANT PRICES.

THE COMMITTEE RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO DIRECT THE EAC SECRETARY GENERAL TO STOP IRREGULAR PROCUREMENTS IN ALL ASPECTS.

6. NON REMITTANCES OF CONTRIBUTIONS BY EAC PARTNER STATES.

THE COMMITTEE RECOMMENDS TO THE ASSEMBLY TO URGE THE EAC COUNCIL OF MINISTERS TO ENGAGE ALL STAKEHOLDERS ON THE MATTER AND ENSURE CONTRIBUTIONS ARE REMITTED TIMELY.

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 finalized 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.

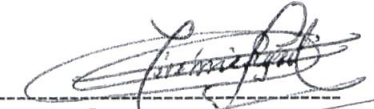
Finally, the Committee commends the EAC Council of Ministers, EAC Secretariat and other EAC Organs and Institutions for the continued cooperation.

MEMBERS OF THE COMMITTEE ON ACCOUNTS

Consideration of the EAC Audited Financial Statements for the Year ended 30th June, 2015

9TH – 21ST AUGUST 2016, ARUSHA - TANZANIA

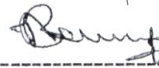
1. Hon. Amb. Jeremie Ngendakumana -



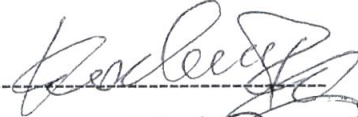
2. Hon. Bernard Mulengani -



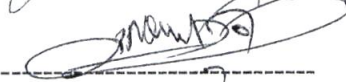
3. Hon. Bernard Murunya -



4. Hon. Fracois Xavier Kalinda -



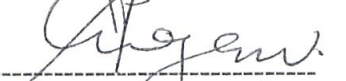
5. Hon. Emmanuel Nengo -



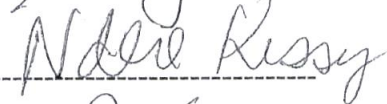
6. Hon. Margaret Nantongo Zziwa -



7. Hon. Mumbi A. Ng'aru -



8. Hon. Nderakindo P. Kessy -



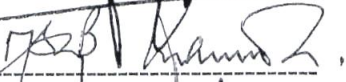
9. Hon. Peter Mathuki -



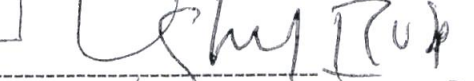
10. Hon. Pierre-Celestin Rwigema -



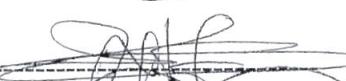
11. Hon. Saoli Ole Nkanae -



12. Hon. Shy-Rose Bhanji -



13. Hon. Straton Ndikuryayo -



14. Hon. Nusura Tiperu -



15. Hon. Yves Nsabimana -

