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**COMMON MARKET FOR EASTERN
AND SOUTHERN AFRICA**

Meeting of the Ministerial Select Committee of the Council of Ministers

COMESA Headquarters
Lusaka, Zambia
18 January 2019

**REPORT OF THE MEETING OF THE MINISTERIAL SELECT COMMITTEE
OF THE COUNCIL OF MINISTERS**

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PART I: INTRODUCTION

1. The Meeting of the Ministerial Select Committee of the Council of Ministers was held at COMESA Headquarters in Lusaka, Zambia on 18 January 2019.

PART II: ATTENDANCE, OPENING OF THE MEETING, ADOPTION OF THE AGENDA AND ORGANISATION OF WORK**Attendance**

2. The Select Committee is constituted by the following Member States: Sudan (Chairperson) ; Uganda (Vice-Chairperson) ; Kenya, Mauritius, and Madagascar. In attendance, were COMESA Secretariat and COBEA (Burundi; Egypt; Eritrea; and Ethiopia). The list of participants is at Annex I.

Adoption of the Agenda and Organisation of Work

3. The Meeting held their deliberations based on the following Agenda: -

1. Opening of the Meeting
 - 1.1. Introductory Remarks
 - 1.2. Organisation of Work
2. Understanding the Terms of Reference of the Select Committee of the Council
3. Interrogation of the 2017 COMESA Secretariat audit report
4. Adoption of the Report and Closure of the Meeting

4. The Meeting considered and agreed on the Organisational Plan for their work, which included the following start and end times: -

1. Morning: 09.00 – 13.00 hours

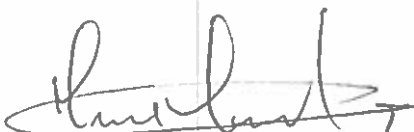
PART III: ACCOUNT OF PROCEEDINGS**(A) OPENING OF THE MEETING (Agenda Item 1)**

5. The Chair, Hon Dr. Musa Karama from Sudan called the meeting to order and welcomed the delegates to the Meeting of the Select Committee of Council.

6. The Chair invited the Members to actively participate in the deliberations intended to continuously contribute to improving good corporate governance, accountability and transparency in the management of COMESA resources.

7. The Chair recognised the presence of the COMESA Secretary General, staff of the COMESA Secretariat and COMESA Board of External Auditors (COBEA), represented by Auditors' General and Officials. For 2017 to 2019, COBEA is composed of Auditors General of Burundi (Chair); Egypt; Eritrea; and Ethiopia.

8. The Chairperson commended the commitment of COBEA Auditors General, noting their busy schedules at the national level.



9. The Chairperson thanked the Secretariat for organising the meeting and availing all necessary facilitation.

(B) UNDERSTANDING THE TERMS OF REFERENCE OF THE SELECT COMMITTEE OF THE COUNCIL (Agenda item 2)

10. The Meeting recalled the mandate given to the Select Committee by Council at its meeting held in Lusaka, Zambia in November 2018, of which context and mandate is re-stated below: -

Context

11. The Council of Ministers at its meeting held in Lusaka, Zambia received 2017 Financial Statements of COMESA Secretariat and Auditors Report. The Meeting noted that these were submitted to the Council for adoption in line with the provision under Article 169 (4).

Council's decision

12. After deliberations on the matter, the Council decided (para. 66): -

- (i) To constitute a Select Committee of Council consisting of the Chair, Vice Chair and three others, other non – members of COBEA namely Kenya, Mauritius and Uganda to interrogate the 2017 COMESA Secretariat Audit Report;
- (ii) That the Select Committee be convened in the second week of January, 2019;
- (iii) That the report of the Select Committee be submitted to an Extra Ordinary meeting of Council of Ministers to be held in February, 2019;
- (iv) A status report on the implementation of Council decision for the last 5 years be circulated to Member States before presentation to IC at its next meeting; and
- (v) The Audit Charter for COBEA be developed.

13. As part of understanding of their mandate, the Meeting received submissions from the COBEA (*the auditor*) and COMESA Secretariat (*the auditee*), which are summarized below.

Statement from COBEA (Auditor)

14. The Meeting received a submission from the COBEA Chair, attached at Annex II, which outlined the following key points: -

- i. Background of the 2017 COBEA Audit report
- ii. Methodology and Scope of the Audit;
- iii. Responsibility of COMESA Management;
- iv. Conduct of the Audit; and



- v. Summary of Major Findings contained in the Management Letter and Audit opinion on Financial Statements of COMESA secretariat for the year ended 31st December 2017; and
- vi. Conclusions of COBEA.

15. COBEA welcomed the interrogation of its Report by the Select Committee.

Statement from COMESA Secretariat (Auditee)

16. The Meeting also received a submission from the Secretary General which noted the following key points: -

- i. Prior to appointment of Auditors General for the audit of 2017 Financial Statements, the COMESA Secretariat has been audited by private audit firms;
- ii. Prior to 2017 Holistic Financial Statements, the COMESA Secretariat prepared and separately submitted audited financial statements based on each source of funding.
- iii. Based on the above significant changes, the Secretary General noted that a Draft Auditors Report, if prepared and submitted to COMESA Secretariat would have given an opportunity to the auditee to address matters in line with ISSAI 1705 and ISSAI 1706, which might have led to a Modified Opinion.

17. The Secretary General noted that the interrogation will help to identify matters to address expectations of both the auditee and auditor, which should be consolidated in an Audit Charter.

Discussions

18. In the deliberations that ensued the Meeting satisfied itself of the following: -

- (i) That its mandate is clear; and
- (ii) That the issues raised in the statements of both COBEA and COMESA Secretariat were adequately deliberated upon by the Council in November 2018. These informed the decision that Council took in constituting a Select Committee.

19. The Meeting requested both COBEA and COMESA Secretariat to provide all support required for the Select Committee to carry out its mandate in an expeditious manner.

20. The Meeting noted that whilst relevant Standards and principles govern the activities relating to the responsibilities of both auditee (COMESA Secretariat) and auditor (COBEA), the COMESA Treaty further mandates the Council to: -

- (i) Make regulations for the better carrying out of the provisions of this Article and without prejudice to the generality of the foregoing, such regulations may provide for the terms and conditions of service and the powers of the External Auditors (Article 169(5)); and



- (ii) Make financial regulations regarding application of financial provisions under the Treaty (Chapter 30) - (Article 170 Financial Regulations)

Conclusion

21. The meeting concluded that based on the mandate given by Council, the information availed during the meeting would facilitate their interrogation.

(C) INTERROGATION OF THE 2017 COMESA SECRETARIAT AUDIT REPORT (*Agenda Item 3*)

22. The Meeting agreed to proceed with the interrogation of the COMESA 2017 audit report (10 Issues: Basis of Qualified Opinion; 10 issues: Basis of Emphasis of Matter and 3 issues: Other matters) as follows: -

- (i) Obtaining understanding of the issues giving rise to the Modified Audit Opinion. The Meeting undertook this understanding by reviewing the Auditor's report;
- (ii) Obtaining clarifications from COBEA on the issues raised;
- (iii) Obtaining and assessing the clarifications made by the Secretariat, as appropriate and where applicable;
- (iv) Received status of implementation of audit report issues; and
- (v) Making recommendations based on the above.

23. The Meeting also agreed to propose overall recommendations, which will: -

- (i) Enhance cooperation between auditee and auditor;
- (ii) Strengthen good corporate governance, accountability and transparency; and
- (iii) Address issues, which are specific and respond to the unique operations of COMESA.

Issues Under Basis of Qualified Opinion

Discussions

Issue no. 1 (under Basis of Qualified Opinion) – The inventory of fixed assets has been determined by management and under its responsibility and we have not disclosed the inventory.

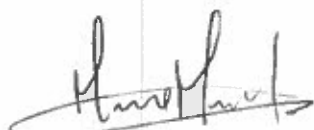
24. The Committee took note of the following: -

- i. The Secretariat was in possession of the following
 - a) Fixed assets ledger balances
 - b) Detailed Fixed Asset Register
 - c) Board of Survey Report on year-end fixed assets listing, reviewing condition
 - d) Fixed Assets Valuation Reports adopted by Council in November 2017
 - e) Proof of ownership of Land & Buildings and Motor Vehicles

- ii. The Secretariat availed to the Select Committee the above documents and stated that these were in existence at the time of the audit.
- iii. The financial statements availed to the Select Committee showed that fixed assets (Net Book Value of COM\$ 26,458,135) consisting of Land and buildings: COM\$ 25,456,667; Motor vehicles COM\$ 316,048; Furniture and Fittings COM\$ 296,094; Information Technology COM\$ 190,004 and Office Equipment COM\$ 199,322. Based on non-observation of the year end fixed assets survey and count and non receipt of inventory of fixed assets, COBEA was unable to verify that the amounts reported under fixed assets exist and their values are fairly stated.
- iv. Some of the above documents, specifically Fixed Assets Valuation Report was approved by Council in November 2017 through the normal Policy Organs meetings (Committee on Audit, Administrative and Budgetary matters, the Intergovernmental Committee and Council). The decision of the Council is provided below
- "Council approved: -**
- (i) ***the revalued figures for land and buildings and that they be brought into the Secretariat books of accounts, from 1st January 2017 and that buildings be depreciated accordingly***
- (ii) ***the movable assets of the Secretariat be amended with the market value of the assets, effective 1st January 2017 and that the assets be depreciated over their remaining useful economic life; and***
- (iii) ***the assets acquired in 2016 be brought into the books in 2017 at their net book value, i.e. price less depreciation.***
- v. That COBEA stated that they did not observe the physical fixed assets inventory count, as they were not yet appointed. COBEA also stated that the report of the inventory count was not availed at the time of the audit. COBEA had undertaken alternative audit procedures which did not satisfy COBEA to close this matter. COBEA were not provided with the inventory count sheets.

Recommendations

25. ***On the audit finding on the fixed assets, the Select Committee recommends to Council as follows;***
- i. ***That in future, the Secretariat should ensure that all relevant documents are timely availed to the external auditors with evidence kept, to facilitate any post-audit review that may be necessary; and***
- ii. ***Based on interrogation, COBEA to follow up the 2017 fixed assets inventory during the audit of 2018 Financial Statements***



Issue no. 2 (Under Basis of Opinion) – 52 original contracts for consultants hired during 2017 not submitted by management

26. The Committee took note of the following:

- i. The Secretariat had not provided 52 consultancy contracts selected by COBEA from the 2017 COMESA procurement plan.
- ii. That the Secretariat acknowledged that a communication gap occurred resulting in the delay in the submission of the requested contracts as the request for the contracts was made by COBEA through the Procurement Officer who was out of station at the time. The matter came to the attention of management during the audit exit meeting.

In the year 2017, COMESA signed 38 consultancy contracts which were available during the audit. However, the 52 contracts requested by COBEA were derived from the 2017 procurement plan.

- iii. The 38 contracts and communication on that matter were availed to the Meeting.

Recommendations

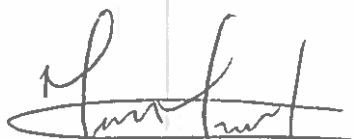
27. On this audit finding, the Select Committee recommends to Council, as follows;

- i. In future COBEA to avail the draft audit report and give reasonable time as per practice to the Secretariat to avoid similar circumstances*
- ii. COBEA to follow up this issue (38 original contracts for consultants hired during 2017) during the audit of the 2018 financial statements.*
- iii. In future the Secretariat should ensure that all relevant information requested by the external auditors be availed immediately.*

Issue no. 3 – Non economical Investment in Equity (African Trade Investment) and absence of current value.

28. The Committee took note of the following:-

- i. That the matter was raised due to the absence of financial returns on the investment and a verifiable current value.
- ii. The clarification of the Secretariat that ATI was created by a decision of the COMESA Council as a strategic investment aimed at providing political and commercial insurance to enhance regional trade as this insurance was unavailable on the market. The investment was not made for speculative purposes.



- iii. The Secretariat valued the ATI investment at cost of the initial investment due to the absence of a market price in adherence with IAS 39 and the COMESA policy as contained in the notes to the 2017 financial statements.
- iv. That ATI declared a dividend in May 2018 of COM\$2.8 Million of which COMESA shall receive COM\$1,707.33 for its one share.
- v. COBEA clarified that the declaration of the dividend by ATI needed to have been disclosed in the 2017 financial statements and this had not been done resulting in the matter being raised.

Recommendation

29. *On this audit finding, the Select Committee recommends to Council: -*

- (i) ***In future, COBEA to examine the issue on investment in line with the COMESA Treaty and Council decisions***

Issue no. 4 (Under Basis of opinion) – Maritime Security - Unaudited financial statements for the period starting June 2015 to December 2017

30. The Committee took note of the following:-

- i. The Maritime Security Programme (MASE) has not been audited by any external auditor since its start on 3rd of June 2015 up to 31st December 2016. Consequently, the opening balance of the statement of the financial position of the year ending 31 December 2017 could not be verified by COBEA. The financial position of the COMESA Secretariat as at 31 December 2017 includes asset and liabilities of MASE Project with a total value of COM\$ 1,191,305 and expenditure of COM\$ 886,177 respectively and is fully funded from the EU grant.
- ii. The Secretariat clarified that the draft financial statements for MASE for the years 2015 and 2016 were availed to COBEA during the audit. An external audit had been commissioned under the COMESA Financial Rules and Regulations following deliberations with the donor and that this audit was being undertaken concurrently with the 2017 audit of COMESA Secretariat. These audits for the year 2015 and 2017 were completed during the post audit period of the 2017 audit. The only difference between the draft financial statements submitted to COBEA and the final audited financial statements was an adjustment of USD1,912.

Recommendation

31. ***On this audit finding, the Meeting recommends that the issue of unverifiable opening balances at the closure of the audit be addressed in the context of the external audit of the 2018 financial statements.***

Issue no. 5 – (Under Basis of Opinion) Not refunding cash paid in lieu of over 60 days leave

32. The Committee took note of the following: -



- i. That the matter related to non-refunding of all the payments of leave in excess of 60 days by the beneficiaries
- ii. The Secretariat presentation of the following:
 - a. List of payments made in excess of 60 leave days: This list included all staff paid leave in excess of 60 days and includes staff whose payments were approved by Council.
 - b. Legal opinion from the COMESA Legal Counsel: The legal opinion highlighted the fact that there are legal implications that would have to be taken into consideration in order to recover the funds from staff (both currently employed and separated from Secretariat).
- iii. The clarification from COBEA that the matter relates to adherence to the COMESA Rules and Regulations and the international standards require them to report non-adherence to Rules and Regulations. Conflicts between a decision of Council and existing Rules and Regulations ought to be resolved. COMESA may seek a solution for the resolution of such matters including amendments to its Rules.

Recommendations

33. ***The Select Committee recommends to Council, as follows: -***
- i. ***That COMESA reviews all staff related issues (issue 5: Not refunding cash paid in lieu of over 60 days leave, and issue 6: Salary increment not complying with the COMESA Staff Rules and Regulations) raised in the audit report and prepare a comprehensive and legal paper on the course of action for consideration by Council.***
 - ii. ***The Secretariat should review its staff payment system to enhance and ensure compliance with the Regulations.***

Issue no. 6 (Under Basis of Opinion)– Salary increment not complying with the COMESA Staff Rules and Regulations

34. The Committee took note of the following;-
- i. The salary increment granted to the Director of Budget and Finance did not comply with the COMESA Staff Rules and Regulations because it was not submitted for approval to Council through the Sub Committee on Administrative and Budgetary matters.
 - ii. The Secretariat's presentation of the Legal opinion on the increment that the officer correctly made an application in line with Rule 34 (3) of the COMESA Staff Rules and Regulations which provide that salary adjustment shall be considered by way of reclassification only in exceptional circumstances when, upon the request of the staff member it is the opinion of the Committee on Administrative and budgetary Matters for the professional category and the



appointments and promotions Committee for the General Service Category that he/she was under graded in relation to his/her duties at the time of appointment. Such reclassification can take place within one year of appointment.

- iii. The Secretariat acknowledged that the approval process was not in line with Rule 34 (3) of the Staff Rules and Regulations because it was not submitted to the appointments and promotions Committee and the Committee on Administrative and budgetary Matters for consideration.
- iv. Management's action to apply the correct grade as per the COMESA Staff Rules and regulations following receipt of the audit finding.
- v. The Secretariat has since reversed the increment and reverted to the original scale.

Recommendation

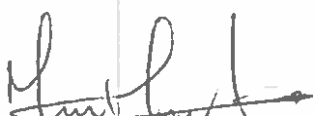
35. ***The Select Committee recommends to Council, as follows: -***

- i. ***The corrective actions undertaken by the Secretariat; and***
- ii. ***The Committee recommends to the Council of Ministers to take note of the various actions the Secretariat has taken in the preceding paragraphs.***

Issue no. 7 – Non refunded amounts of salaries paid in advance for the CEO of REARESA

36. The Committee took note of the following:-

- i. That an advance of COM\$38, 057, made by COMESA Secretariat to REARESA, which is an institution of COMESA, had not been recovered in accordance with the agreement terms.
- ii. Clarification by the Secretariat that the amount advanced to REARESA was a pre-financing made to support the Institution in the implementation of an EU funded project. The salary was funded under the overhead budget of the which was recoverable from the project. The salary expenditure incurred was part of the 2017 budget of REARESA approved by Council.
- iii. The delay in recovery was borne by insufficient overhead recovery under the project which prompted the Secretariat to reengage the EU who approved a budget reallocation and repayment of the advance to the Secretariat.
- iv. The Secretariat had recovered the advance during the post audit period following the approval by the EU to fund the expenditure under an activity budget line instead of the overhead.
- v. COBEA clarified that while the circumstances leading to the delay were noted, there was non-adherence to the payment terms of the



agreement between COMESA and REARESA resulting in the inclusion of the matter in the audit report.

Recommendation

37. ***The Select Committee recommends to Council as follows :-***

- i. **On this audit finding, while noting that this matter was attributed to a timing difference, the Committee recommends that COMESA should comply with its Financial Rules and Regulations**
- ii. **The Committee further recommends that consideration be given to this issue during the 2018 audit.**

Issue no. 8 -- Non-settlement of long over-due trade Payables

38. The Committee took note of the following:-

- i. That the current liabilities of US\$1,162,232, had not been settled, contrary with COMESA Financial Manual 2014 (Article 132), which states that all obligations are met as far as possible, in the year in which they are incurred. Also, there was no aging list for these payables.
- ii. The status of payment of the liabilities at the time of the audit as contained in the management letter, was provided to COBEA during the audit (As at 30/08/2018 COM\$93,039).
- iii. The updated status of payments of the liabilities as at the date of the meeting showing that an amount of COM\$ 64, 144 had been settled, leaving a balance of COM\$28,895.

Recommendation

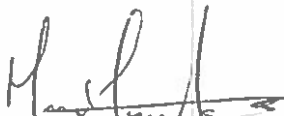
39. ***On this audit finding, the Select Committee recommends to Council, as follows: -***

- i. ***That COBEA should follow up this issue (long outstanding payables) during the 2018 audit of 2018 Financial Statements; and***
- ii. ***That the COMESA Secretariat should implement automated internal control systems to ease the management of payables and that the COMESA Secretariat accelerate this automation to achieve real time reporting.***

Issue no. 9 – Duplicate payment to Kenya Airways and non-receipt of VAT claim

40. The Committee took note of the following: -

- i. Only one payment was duplicated. This was a payment of US\$3,031 effected to Kenya Airways. This was subsequently recovered and evidence availed to COBEA.



- ii. COBEA indicated that they could not find any evidence to ensure the recovery of the duplicated payments and VAT. This finding was based on a sample.
- iii. Amounts in respect of payments to EAPP (USAID Grant - US\$6,811); COMESA VAT - US\$4,963.73; and ACTESA VAT (USAID Grant: US\$1,069) relate to COMESA Secretariat taking a responsibility for, which was not refunded by Member States.
- iv. The Secretariat requested the Meeting to provide guidance in dealing with the VAT issue so that it can either be part of assessed contributions or no activities should be carried out in Member states where there is no VAT exemption in line with the Treaty and the Council decision on the matter.

Recommendation

41. The Committee recommends that a paper on VAT refunds be prepared and submitted for guidance and direction of Council, based on the Agreement on Privileges and Immunities.

Issue no. 10 (Under Basis of Opinion): Allowances paid to staff not in line with Staff Rules

42. The Committee took note of the following:-

- (i) Clarification of the Secretariat that a responsibility allowance, as recorded by COBEA, was paid to some staff assigned additional responsibility, based on contractual communication from former Secretary General.
- (ii) The clarification of COBEA that the above allowances are irregular;
- (iii) That the new Secretary General obtained a legal advisory, which supports her decision to suspend payments of these allowances not provided under Staff Rules. The Secretary General also noted that since the payments were made based on a contractual communication, the matter shall be submitted to the Council for: -
 - (a) Guidance on handling what was already paid out to staff
 - (b) Possible grading re-classification, based on a holistic review of all cases.

Recommendation

43. **The Select Committee recommends to Council: -**

- (i) **The adoption of suspension of continued payments of allowances not covered by the Staff Rules;**
- (ii) **That the Secretariat should put in place measures to ensure that officers responsible for approval of irregular payments should be surcharged.**




- (iii) ***That the Secretariat should put in place measures that will ensure the recovery of funds that were irregularly paid.***
- (iv) ***That a submission be made by the COMESA Secretariat to COMESA Policy Organs to address the underlying circumstances in a holistic manner, including proposing relevant rules and regulations.***

Issues Under emphasis of matter

Issue no. 1 – (Under emphasis of matter) Advances under Sub- delegation not Expensed

44. The Committee took note of the following; -

- i. That Advances under sub delegation account of COM\$7,629,933 as at 31 December 2017, include the amount of COM\$ 6,041,204 representing unsettled disbursements contrary with the sub delegation project agreement which is supposed to be complete by the end of 2018. These funds are available by the European Union under RISM.
- ii. COMESA Secretariat clarified that: -
 - a. Amounts transferred to Member States are intended to support implementation of COMESA programs. These amounts are recognised as expenditure for Member States, which are eligible to budget support. For other Member States, the amounts are recorded as advances under sub delegation pending expenditure retirement/and or liquidation. The expenditure retirement/and or liquidation is carried out based on the outcome of an independent external audit;
 - b. That the RISM project is one of the very unique projects the Secretariat has as it receives funds from the EU for onward disbursement to the Member States and this is done following various assessments that are conducted by the EU on Secretariats ability to handle huge sums of money
 - c. Secretariat informed the meeting that implementation agreements exist between the projects and the respective Governments and therefore risk of not accounting for the funds is not there.

45. COBEA highlighted that the management response was not clear on what Secretariat was going to do with regards to the outstanding advances. The sub delegation agreement states that advances should be expensed or recalled and it's on this basis that the issue is being evaluated. What would be the impact on the financial position of COMESA, if the above funds are recalled?

46. The Meeting was briefed on the exceptional situation relating to 2017 financial statements, regarding advances under sub delegation: -

- (i) Prior to 2017, audit of COMESA Secretariat and all projects, including RISM, were carried out by private audit firms.



- (ii) From 2017, the audit of COMESA Secretariat is carried out by Auditors General. To avoid conflict of interest, the funds disbursed to Member States under sub-delegation are audited by private auditors. The sub delegation external audit framework was established in May 2018, upon the finalization and approval of the COBEA framework.
- (iii) Funds disbursed to projects in Member States under sub delegation (under RISM Calls) have been treated as receivables in all prior years in accordance with EU-COMESA Agreements.
- (iv) Accordingly, at the time of COBEA audit of 2017 financial statements, the funds disbursed under sub delegation to projects in Member States are recorded as receivables.

47. The Meeting also noted that at the end of January 2019, independent audits have been completed on all the funds provided under sub delegation, with the exception of Sudan. Although funds were disbursed, there were no activities in Sudan in 2017.

Recommendation

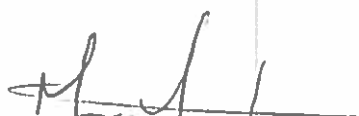
48. ***The Select Committee recommends to Council: -***

- i. To note that the safeguards provided under the Implementation Agreements are adequate to prevent risk of loss of funds being borne by COMESA. Each implementation partner is responsible for refund of ineligible spending, as well as unutilized funds. This is enforceable under the Grant Implementation Agreements.***
- ii. That implementation of projects, based on funds provided under sub delegation is a responsibility of both Member States and COMESA Secretariat.***
- iii. That Member States should strengthen their implementation capacity.***

Issue no. 2 – (Under emphasis of matter) 22 COMESA Secretariat Laptops stolen without insurance indemnity

49. The Select Committee took note of the following; -

- (i) That 22 COMESA Secretariat Laptops had been stolen without insurance indemnity of \$7,766 and without conducting an official investigation. These were lost, whilst in transit from Lusaka, Zambia to Madagascar.
- (ii) The COMESA Secretariat clarified that: -
 - (a) All assets, included laptops are insured. The insurance coverage extends to assets that are moved outside the COMESA Secretariat Headquarters. A claim was thus submitted to the insurers.



- (b) Indeed, an investigation should have been carried out speedily when the loss was identified. This is an omission on the part of management.
- (c) Investigation on the loss of these 22 laptops will be conducted by the COMESA Secretariat in 2019.

Recommendation

50. The Select Committee recommends as follows: -

- (i) That investigations should be initiated immediately, whenever losses occur. These will strengthen controls over safeguarding of assets;**
- (ii) That the COMESA Secretariat speedily concludes the investigation into the loss of the 22 laptops within six months; and**
- (iii) That the COMESA Secretariat follows-up with the insurance.**

Issue no. 3 – (Under emphasis of matter) Reserve fund used in giving loans to staff contrary to financial rules

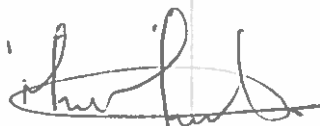
51. The Select Committee took note of the following; -

- i. That COMESA Secretariat used the Reserve Fund to give loans to its staff which reached COM\$103,819.44 at the end of year 2017 while such utilization is not included among the authorized use of funds.
- ii. COBEA stated that the amount paid out for staff loans was not in the 2017 budget and therefore it could be considered that the funds were obtained from the Reserve. It was also stated that the use of the Reserve Funds is restricted as per rule 46 of the COMESA Financial Rules and Regulations and that approval should be sought from the Bureau.
- iii. COBEA asked the meeting who determined and approved 3% as basis for the interest rate.
- iv. COMESA Secretariat indicated that loans are given to staff based on Staff Rule 44.

Recommendations

52. The Select Committee recommends to Council: -

- i. To note that the Secretariat has put in place a Committee and procedures for the management of staff loans.**
- ii. That the COMESA Secretariat should finalise a paper on the establishment of a Staff revolving fund to be used for the issuance of loans to staff, as decided by Council in November 2018. The secretariat should submit the paper to the next meeting of the Council of Ministers.**



iii. That in future the Secretariat should comply with the Regulations concerning the Reserve Fund.

iv. The Terms and conditions for staff loans should be developed and approved by Council. A detailed mechanism on disbursement of loans be put in place.

Issue No 4,5,6 and 7 – (Under Emphasis of matter) Expenditure beyond approved budget ceiling

53. The Committee took note of the following; -

That issues; Issue 4: That expenditure beyond the approved budget for certain items against the appropriations made by Council of Ministers; issue 5: Approved budget not fully consumed; issue 6: Reallocation contrary with COMESA Financial Rule 23 in relation to limits of Reallocations and issue 7: Newly procured fixed assets during 2017 which has hit to USD 335,102.00 was higher than the 2017 approved Capital Budget by USD 152,602.00 were presented together as they were all budget control related issues.

54. **Issue 4. That expenditure beyond the approved budget for certain items against the appropriations made by Council of Ministers.**

55. The Secretariat accounts are maintained and prepared on an accrual basis as per International Accounting Standard 37(IAS 37) all contingent liabilities must be accounted for. As the name implies, Contingent Liability is not known for budgeting purposes, the actual amount is only known when it materializes. However, prudent financial management principles, which is the spirit of IAS 37, require that such liabilities be provided for in the Financial Statements.

56. The excess expenditure was noted in the following budget lines

- a. **Terminal benefits** – excess due to leave pay at end of staff contracts. Actual amounts paid were more due to the reality on ground. However, Secretariat mentioned that proper reallocations should have been done.
- b. **Chairman's coordination and Travel expenses** – excess was due to an unanticipated visit to Tunisia following Tunisia's request to join COMESA.
- c. **Consultancy budget** – at business unit level, there were reallocations to the originally budgeted amounts. However, at Secretariat level, the overall consultancy budget line was not over spent.

Recommendations

57. **On this audit finding, the Select Committee recommends to Council that the Secretariat to ensure that they adhere to the approved budget and COMESA Regulations on budget reallocations prior to incurrence of expenditure.**

Issue 5. Approved budget not fully consumed

58. Secretariat informed the Meeting that a budget which is underspent by between 5% to 10% is recognized as a fully consumed budget as per international



practice. The approved 2017 budget was COM\$13,841,996.00 and the underspend was 2%.

Issue 6. Reallocation contrary with COMESA Financial Rule 23 in relation to limits of Reallocations.

59. The Secretariat indicated that up to December 2017, Rule 23 was applied without recognition of the financial procedure, there was therefore over-reallocated amounts of USD 2,000 and USD 1,000.

Recommendations

60. *On this audit finding, the Committee recommends to Council that the COMESA Secretariat addresses budget implementation controls, including automation of processes, with effect from the second quarter of 2019.*

Issue 7. Newly procured fixed assets during 2017 which has hit to USD 335,102.00 was higher than the 2017 approved Capital Budget by USD 152,602.00.

61. The Secretariat informed the Meeting that assets procured in 2017 were higher than the approved budget amount. This was as a result of challenges in moving allocations from 2016 to 2017 budgets. In 2016 funds were erroneously not carried over to 2017, thus not accrued resulting in an expenditure above budget for assets procured in 2017.

62. The Secretariat requested to take the issues to Council as they are budget related and were not done in line with the rules and further requested for condonement and condonation.

63. COBEA advised that the Secretariat should have requested authority from Bureau on procurement related issues to over spend. Furthermore, they recommends an automated system to easily manage the budget.

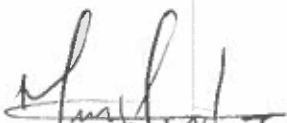
Recommendations

64. *On this audit finding, the Committee recommends to Council that the COMESA Secretariat addresses budget implementation controls, including automation of processes, with effect from the second quarter of 2019.*

Issue No 8 - (Under Emphasis of Matter) Irregular Restricted Bidding to COMESA Secretariat staff for assets disposal

65. The Committee took note of the following; -

- i. That COMESA Secretariat had sold part of its assets comprising consumable items, furniture, IT equipment and vehicles to its staff (Ref: Minutes of the board of Survey that was held in Administration on Monday, 22nd November, 2016 with details on the sold items and staff winner attached to the minutes) without opening the bidding to external bidders which could have allowed COMESA Secretariat to get the best prices for assets to be disposed.



- ii. COBEA informed the meeting that procedure followed by Secretariat was not in compliance with rule number 71. Furthermore, they advised that in order to avoid loss of organizational property and funds, the Secretariat should comply with the rules with regards to disposal of assets.

Recommendation

66. On this issue, the Select Committee recommends to Council that the COMESA Secretariat should also review all rules and regulations, regarding disposal of assets to keep them in line with good corporate governance and principles of accountability, transparency and sound financial management.

Issue No 9 - (Under Emphasis of Matter) – Low budget absorption (50 million women grant from AfDB)

67. The Committee took note of the following; -

- i. That the total budget of the year 2017 was USD 3,012,279, the actual total budget used was USD 221,669 which constitutes nearly 7.4 % of the budget. The project started late in June 2017 although the grant agreement was signed in September 2016 and became effective in December 2016 which is a non-compliance with the terms of the grant and threatening not to achieve its objectives by the end of the grant period. No measures have been availed to COBEA to assure the full use of the Grant of the project".

This is a tripartite project being implemented by COMESA, EAC and ECOWAS and COMESA was requested to lead the group

- ii. During a supervisory mission undertaken by the AfDB in 2018, AfDB expressed satisfaction with progress made by the project thus far.
- iii. That the protocol of Agreement only came into force in September 2016, and the project implementation staff were recruited in July 2017, with the first disbursement being received in September 2017.

The Secretariat highlighted that since the project is governed by AfDB rules, there is a need to understand that there are challenges encountered in the implementation as the project is not entirely under COMESA.

- iv. COBEA informed the meeting that this issue was raised in order to bring it to management's attention and ensure COMESA takes appropriate measures to ensure Cooperating partner funds are adequately utilized.
- v. Secretariat informed the Committee that, funds were received in September 2017. These funds could only be utilized on establishment of PIU, whose establishment was delayed due to a lengthy contracting process.

Recommendations

68. ***On this audit finding, the Select Committee recommends to Council as follows: -***

- (i) ***Secretariat to engage Member States within one year from January 2019, to ensure that there is efficient utilization of funds and achievement of project objectives;***
- (ii) ***COBEA to follow up the performance of the project during the 2018 audit;***
- (iii) ***That Secretariat, in collaboration with all relevant partners should implement measures to ensure programme objectives are delivered, within the grant time-frame.***

Issue No 10: (Under Emphasis of Matter) LOW budget absorption ROCKEFELLER FOUNDATION

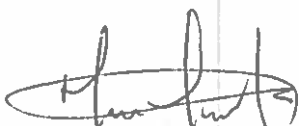
69. The Committee took note of the following; -

- i. That Low budget absorption of Rockefeller Foundation Project funds. The budget was not totally used for the intended activities as agreed in the grant agreement. COBEA noted that a big part of the grant was used for paying salaries, consultants, communications, conferences/meetings and others. Thus, planned activities for the project were not executed. As a matter of fact, actual expenditure has reached COM\$ 181,260 while the amount refunded to the funding organization "Rockefeller" is US\$ 48,740, such a situation constitutes a loss for not having consumed the total grant."
- ii. COBEA highlighted that the main issue was the fact that the project duration was very short with only a total of USD 230,000. Only part was used and USD 48,740 was transferred back to the to the donor. COBEA mentioned that the cause of refunding was due to lack of proper planning of the project and also highlighted that the core objective of the project was not achieved.
- iii. The Secretariat indicated that funds were disbursed specifically for the academy, however, six (6) member states did not attend the meeting therefore funds could not be used for other activities without acquiring a no objection from the cooperating partner, hence the low absorption.

Recommendations

70. **The Select Committee recommends to Council, as follows:**

- i. ***to note that 6 Member states had not attended the academy as planned resulting in lower absorption of funds;***
- ii. ***to note the challenges that the Secretariat encounters in the implementation of programmes funded by Cooperating Partners;***



- iii. ***That the Secretariat to ensure that implementation is undertaken in accordance with the project agreement.***

Issues Under Other Matters

Issue no. 1 – (Under other matters) Payment to RAERSA Expert not supported by service rendered report

71. A payment of COM\$27,000 was made to the Senior Energy Expert of ESREM Project for the services rendered from March to May 2017. However, COBEA was not provided with a contract agreement for the services rendered nor evidence of submission of a report of the services rendered to COMESA for the year 2017.

72. *The COMESA Secretariat accepted that there had been a lapse in consultancy contract issuing processes.*

Recommendation

73. ***The Committee recommends to Council to note the COMESA Secretariat commitment, to put in place control measures to ensure: -***

- i. ***Rules and Regulations regarding contracting of consultants and expenditure are adhered to all times***
- ii. ***That all existing contracts should be reviewed and aligned with rules and regulations governing the institution by the end of second quarter of 2019***

Issue no. 2 – (Under other matters) Payment vouchers and accompanying documents not stamped "PAID"

74. *COBEA noticed some payment vouchers were not stamped "PAID" and some goods received were not inspected or recorded in goods received notes (GRN). Management is invited to take suitable procedures to increase the effectiveness of internal controls in the future and encourage organizational culture of compliance with the financial manual and regulations.*

75. *The COMESA Secretariat accepted that there had been a lapse.*

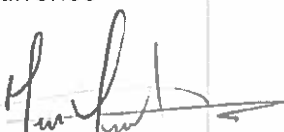
Recommendation

76. ***The Committee recommends to Council to note the COMESA Secretariat commitment to immediately put in place control measures to ensure rules and regulations regarding avoidance of duplicate payments are adhered to at all times.***

Issue no. 3 – (Under other matters) Payments to consultants before signature of consultancy contract

77. *COBEA noticed that some payments to consultants were done before signing contracts with them or before submitting reports on time.*

78. *The above issues were presented to the meeting and Secretariat agreed with the findings and advised that measures were being put in place to ensure non-recurrence.*



79. *The COMESA Secretariat accepted that there had been a lapse in consultancy contract issuing processes.*

Recommendation

80. *The Select Committee recommends to Council to note COMESA Secretariat commitment to put in place control measures to ensure rules and regulations regarding contracting of consultants and expenditure are adhered to all times.*

Conclusions

81. Based on the interrogation, the Meeting noted a number of underlying issues, which should be dealt with to ensure smooth external audits, as well as strengthening overall governance, accountability and transparency.

Overall recommendations

82. *That the draft Audit Charter be developed in consultation with COBEA for the approval of Council.*

83. *The Audit Charter to address mechanisms for enhancing the auditor and auditee relationship.*

84. *In light of the outcome of interrogation exercise and since COMESA has successfully been assessed under the seven (7) pillars' standards, both COBEA (Pillar 3: External Audit) and COMESA Secretariat (Pillar 1: Internal Control; Pillar 2: Accounting; Pillar 4: Grants; Pillar 5: Procurement; Pillar 6: Financial Instrument (Not applicable); Pillar 7: Sub Delegation), should adhere to the requirements of these Pillars to enable it to use its own procedures.*

85. *The Secretariat to come up with a comprehensive programme to strengthen its capacity in a holistic manner in order for it to deliver on its mandate.*

86. *The Committee recommends that the Council adopts the 2017 COBEA audit report on the COMESA Secretariat Financial Statements and the matters raised in the audit report be followed up in the 2018 external audit.*

87. *Given the need for a reconciliatory outcome envisaged by Council through the Select Committee, it was the view of Mauritius that where this was not achieved, the matter should be referred to higher Organs of COMESA.*

**PART IV: ADOPTION OF THE REPORT AND CLOSURE OF THE MEETING
(Agenda Item 4)**

88. The Meeting adopted its Report, with amendments.

89. The Vice Chairperson, Hon Amelia Kyambadde thanked the Secretariat for the meeting and the hospitality extended to the delegations. She commended the Secretariat for implementing the Council decision by convening COBEA to undertake the audit. She thanked COBEA for conducting the assignment and stated that the decision of Council to engage COBEA is meant to improve Financial Management. She condemned the malpractices revealed in the report and requested all staff to



abide by the COMESA legal regime in order build a solid reputation for the organisation.

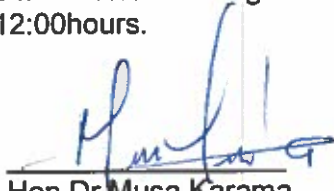
90. Furthermore, she pointed that in the past decisions of the Council will be distorted and or omitted in the Report. In this regard, she called on the new Secretary General and management of the COMESA Secretariat to make amends to such anomalies. She pledged her personal and that of Uganda to the Secretary General and her management team.

91. She reiterated the resolve of the Council to implement the recommendations of the audit report in order to give COMESA a fresh start in a rapidly changing global environment.

92. The Chairperson thanked the Secretariat for organizing the meeting and the Government of Zambia for hosting. He stated that this exercise is meant to enhance the performance of COMESA in order to deliver viable results to the Member States. He also thanked COBEA for their effort in conducting the audit and that the inefficiencies and lapses identified in the report will be streamlined. He reiterated that COMESA makes a fresh start to build a strong institution that we wish to see managed in a better way. He pledged the support of the Council to the new Secretary General pointing out that she has the capacity, caliber and capability to manage the organisation.

93. The Secretary General thanked all the distinguished delegates for their time and effort and for the successful deliberations and conclusions reached. She pledged commitment to strengthen the financial controls and the control environment in the organization as well as the overall management of financial resources entrusted to COMESA by the Member States and Cooperating partners. She thanked COBEA and reflected that going forward, lessons learnt would be used to ensure adherence to the Rules and Regulations and Controls of the Secretariat as well as adherence to international standards.

94. There being no further business to discuss the meeting was closed at 12:00hours.



Hon Dr Musa Karama
Chairperson



Hon Amelia Kyambadde
Vice-Chairperson

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