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Twentieth Meeting of the Sub-Committee on

Audit and Budgetary Matters

28 October – 1 November 2019

Lusaka, Zambia

**STATUS IMPLEMENTATION REPORT ON COUNCIL DIRECTIVES ON 2017 COBEA FINDINGS**

**(AGENDA ITEM 2.1)**

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# **Context**

1. Secretariat is hereby submitting a Report, ***annexed at [….],*** on status of implementation of the directives given by the Council on 2017 COBEA Report. The issues are outlined in the following attachments: -
2. Report of the 7th Extraordinary Meeting of the Council held on 5 April 2019;
3. Report of the Select Ministerial Meeting held on 18 January 2019;
4. COBEA Report on 2017 Secretariat financial statements; and
5. COBEA Management Letter on 2017 Secretariat financial statements.
6. The Council at its 7th Extraordinary Meeting held on 5 April 2019 **(para 57)** decided to adopt the reports of the Ministerial Select Committee and 2017 COBEA report, as an internal report. Council directed the Secretariat to implement the 2017 COBEA audit report recommendations. The implementation report to be submitted to the Council until all matters, are fully addressed.
7. The Secretariat has approached the matter of implementation of audits, internal and external findings, in a holistic manner, with the aim of addressing root causes.

# **Implementation Status – 2017 COBEA Report Issues**

1. The issues are addressed, as follows: -

##

## Part 1: Instruments to facilitate audit of COMESA Organs and other COMESA Institutions by Auditors General

## 1: Instruments to facilitate audit by Auditors General

*Preparation, finalisation and submission of instruments to facilitate the audit of COMESA Organs (Secretariat and Court of Justice) and other COMESA Institutions (Competition Commission; FEMCOM; Regional Investment Agency; Africa Leather & Leather Products Institute). These instruments to preserve the 7-pillar status of COMESA, as well as facilitate preparation of 2019 EU instituted 7 (now updated to become 9) pillar institutional assessment.* ***(Para 49; Report of Council of 5 April 2019).***

***Status****: Issue is addressed in* ***Agenda Item 8.2.***

## Part 2: Issues that led to a qualified opinion

## 2: Fixed assets (FA)

***The Select Ministerial Committee (SCM)****: stipulated that in future, the Secretariat should ensure that all documents are timely availed to the external auditors with evidence kept, to facilitate any post-audit review that may be necessary; and that based on SCM interrogation, auditors to re-examine the 2017 fixed assets inventory during the audit of the 2018 financial statements.*

***Action****: Documents submitted to the auditors carrying out audit of 2017 COMESA Secretariat financial statements (Pack 2.2: FA), included the following: -*

* *FA 2017 (and 2018) Inventory Listing* ***[attached]***
* *FA 2017 Inventory Revaluation Reports and Listing*
* *FA 2017 (and 2018) Ledger detail*
* *FA 2017 (and 2018) physical counts*
* *Reconciliations between FA inventory; vis-à-vis FA counts; FA ledger*
* *Management reviews carried out by Board of Survey.*

***Status****: Implemented/ closed (2017 financial statements, which also indicates status of fixed assets are under Agenda Item 3.1).*

## 3: Submission of documents to facilitate auditors review of consultants’ acquisition and contracts

***SCM****: stipulated that in future auditors to avail the draft audit report and give ample time to the Secretariat to avoid similar circumstances. Auditors to follow up this issue (38 original contracts for consultants hired during 2017) during the audit of the 2018 financial statements. In future the Secretariat should ensure that all information requested by the external auditors be availed immediately.*

***Action****: Documents submitted to the auditors carrying out audit of 2017 COMESA Secretariat financial statements.*

***Status****: Implemented/ closed (Agenda Item 3.1).*

## 4: Non-economical investment in equity (ATI) and absence of current value

***SCM****: stipulated that in future, auditors to examine the issue of investment in line with COMESA Treaty and Council decisions.*

***Action****: n/a*

***Status****: Implemented/ closed, as carrying value is in line with IAS 39.*

## 5: EU funded Maritime Security (MASE) project - Unaudited financial statements for the period starting June 2015 to December 2017

***SCM****: stipulated that the issue of unverifiable opening balances (of MASE – EU funded project) be addressed in the context of 2018.*

***Action****: 2016, 2017 and 2018 MASE audited financial statements are available. Late audits were due non-provision of a budget towards grant external audit. This was addressed through an addendum.*

***Status****: Implemented/ closed.*

## 6: Staff remuneration (salaries, allowances and benefits)

***SCM****: examined instances, as follows: -*

## 6.1: Non-recovery of cash paid in staff in lieu of leave

***Issue 5.1****: Non-recovery of cash paid to staff* ***(cases: 10)*** *at separation in lieu of leave days, which are in excess of 60 days. These were based on exigencies of duties, as staff could not take their earned leave days prior to the separation. Such payments (of cash in lieu of leave) had been a practice at separation. Council in November 2017 directed that all such payments be refunded by former staff. Auditors qualified 2017 financial statements, as this decision could not be implemented by Secretariat.*

## 6.2: Staff basic salary placed in entry salary step (within a Grade), which is higher than Step 1

***Issue 5.2****: Staff basic salary placed an entry salary step (within a Grade), which is higher than Step 1. These were based on application/submission from staff (as permitted by Staff Rules); approval by the Secretary General and these were not approval by the Committee on Administrative and Budgetary Matters (as permitted by Staff Rules);* ***(cases: 2).***

## 6.3: Responsibilities allowances

***Issue 5.3****: Letters issued to staff, awarding responsibility allowances.*

*These were based on Secretary General’s evaluation of additional responsibilities vis-à-vis existing job and not in accordance with Staff Rules. Auditors qualified 2017 financial statements for Secretariat but did not qualify for RIA.*

*For*

* *professional posts: Secretary General, should have implemented based on re-classification of the jobs and* ***prior-approval*** *of the Council. Re-classification of jobs within professional posts category is not within the mandate of Secretary General.* ***No. of cases: 1 at RIA; 2 at Secretariat.***
* *general service posts: Secretary General, should have implemented based on re-classification of the jobs and then inform (as opposed to seeking Council’s prior approval). Re-classification of jobs within general service category is within the mandate of Secretary General.* ***No. of cases: 2 at Secretariat.***

**Status**: A detailed paper on staff remuneration, emanating from employment contracting and contract management processes to be submitted to the Committee on Administrative and Budgetary Matters, which is holding its meeting from 13 – 15 November 2019. The comprehensive paper shall identify all past and present issues, examine root causes and then propose measures, including on the amounts already paid and handling of such contracts’ variation, based on HR and labour practices, as directed by SCM **(para 33)**. This paper is intended to address this issue in a holistic manner. A separate legal analysis shall also be prepared.

## 7: Receivable: Non refunding of salaries paid in advance for the CEO of RAERESA

***SCM****: stipulated that the matter was attributed to a timing difference. SCM directed Secretariat to comply with its Financial Rules and Regulations.*

***Action****: Salary of CEO of RAERESA is a legal obligation of the Secretariat (which is in the interim operationalising RAERESA), from the EU cash contribution to RAERESA. With RAERESA spending low at the commencement of its implementation, salaries paid were less than the matching cash earned. Situation, is as follows: -*

* *EU accepted a pre-financing of the CEO salary, as Secretariat faces low remittance levels of assessed Member States contributions; and*
* *RAERESA Board, has with effect from 2019, increased the co-financing (to 25%) of its CEO salary, with EU cash contribution taking up the remaining 75%.*

***Status****: Implemented/ closed.*

## 8: Payables and creditors management, control and reporting

## 8.1 Non-settlement of long-over trade payables

***SCM****: stipulated that the auditors should follow-up this issue (of long outstanding payables) during 2018 audit and the COMESA Secretariat to implement automated internal control systems to ease the management of payables and that the Secretariat accelerate this automation to achieve real time reporting.*

***Action****: Work processes, as well as reporting formats availed to the vendor (Ultimate Technology) to achieve automation of payment processes and reporting thereof, including use of creditors’ system to requisition payments.*

***Status****: Outstanding*

***Time****-****frame****: 30 November 2019.*

## 8.2: Duplicate payment to Kenya Airways

***SCM****: Noted the finding, as well as evidence availed by Secretariat that refund had been obtained for the duplicate payment made to Kenya Airways.*

***Action****: n/a*

***Status****: Implemented/closed*

## 8.3: Unrefunded VAT incurred in Member States of COMESA

***SCM****: stipulated that a paper on VAT refunds be prepared. The paper be submitted for guidance and direction of Council, based on the Agreement on Privileges and Immunities.*

***Status****: Item to be presented as a Separate Item […]*

***Time****-****frame****: November 2019.*

## Part 3: Issues under emphasis of matter and other matters

## 9: Grant contracts and projects

## 9.1: Advances from RISM project under sub delegation

***Action****: Grant and budget utilisation has improved, as Member States have been engaged and all required human capacity has now been contracted. As of 31December 2018 and 30 September 2019, the following can be noted:*

## 9.2: Low budget absorption – AfDB 50 million women

***SCM:*** *directed Secretariat to address utilisation of the grant and budget.*

***Action****: Grant and budget utilisation has improved, as Member States have been engaged and all required human capacity has now been contracted. As of 31December 2018 and 30 September 2019, the following can be noted:*

| *Description* | *US$* |
| --- | --- |
| *AfDB Grant*  | *5,386,200.01*  |
|  |
|  |
| *Cash Received to-date [30 September 2019]* | *3,941,934.63*  |
| *Remaining grant [30 September 2019]* | *1,444,265.38*  |
|  |  |  |
| *Spent: Jan – Dec, 2017* | *1,886,938.00*  | *55%* |
| *Spent: Jan – Dec 2018*  | *1,682,377.75*  | *69%* |
| *Spent: Jan – Sep, 2019* | *1,356,593.25*  | *55%* |

***Status****: Implemented/closed, with 50 million financial statements for period, Jan to Dec 2018 submitted for approval* ***(Agenda Item 4.2).***

## 9.3: Low budget absorption – Rockefeller foundation

***SCM****: noted that unutilised grant was due to 6 Member States not participating in the implementation of the activity, as planned and budgeted for.*

***Action****: n/a*

***Status****: Implemented/ closed*

## 10: Loss of 22 laptops

***SCM****: noted that unutilised grant was due to 6 Member States not participating in the implementation of the activity, as planned and budgeted for.*

***Action****: The insurer (NICO) has transferred US$7,150 (less excess of US$715) towards reimbursing the Secretariat of the loss of 22 laptops.*

***Status****: Implemented/closed*

## 11: Loans and asset disposals to staff

## 11.1: Loans to staff

***SCM****: recommended that the Secretariat establishes a Committee and procedures for the management of staff loans and that the COMESA Secretariat finalises a paper on establishing of Staff a revolving fund be established for the issuance of loans to staff, as decided by Council in November 2018 and address irregularity of obtaining funds from the reserve fund****.***

***Action****: Paper, proposing the Staff Revolving Fund is presented as* ***Agenda Item […].***

## 11.2: Disposal of assets to staff

***SCM****: recommended that 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.*

***Action****: Review of Procurement and Disposal Rules and Regulations planned for 2020. In the interim, existing Rules and Regulations apply regarding disposal of assets. These allow for bids to come from staff.*

***Status****: Issue implemented/ closed, as compliance of current disposal Rules and Regulations is enforced by Board of Survey.*

## 12: Budgetary expenditure control

## 12.1 Expenditure above approved appropriations

***SCM****: noted that unutilised grant was due to 6 Member States not participating in the implementation of the activity, as planned and budgeted for.*

*Based on recommended of the SCM, the Council ratified the spending.*

***Action****:*

* *Sun system accounting version, up-dated to a* ***version 6.3****, which has an* ***advanced platform providing for full automation of budget management processes, including e-authorisations, e-budget checking and e-delivery of expenditure budget reports.*** *Status: Work in progress.*
* *Re-configured the sun systems set-up into multi business units, based on uniform chart of accounts and common analysis dimensions. Status: Implementation completed.*
* *Work flow process and description provided by Secretariat to the vendor (Ultimate Technology). Coverage include, E-budgetary appropriations, as approved availability in budget ledger; spending requisitioning; authorisation; control; monitoring; and reporting. Status: Work in progress.*

***Time-frame****: October – December 2019.*

## 12.2: Budget not fully consumed

***SCM****: recommended that COMESA Secretariat addresses budget implementation controls, including automation of processes, with effect from the second quarter of 2019.*

***Action / Status / Time-frame****: As in Item 12.1*

## 12.3: Re-allocations not complying with Rules

***SCM****: recommended that COMESA Secretariat addresses budget implementation controls, including automation of processes, with effect from the second quarter of 2019.*

*Based on recommended of the SCM, the 7th Extraordinary Meeting of the Council (in para. 57) held on 5 April 2019 ratified the relocations, as recommended by the SCM.*

***Action / Status / Time-frame****: As in Item 12.1*

## 12.4: Expenditure above approved appropriations – capital expenditure

***SCM****: recommended that COMESA Secretariat addresses budget implementation controls, including automation of processes, with effect from the second quarter of 2019.*

*Based on recommended of the SCM, the 7th Extraordinary Meeting of the Council (in para. 57) held on 5 April 2019 ratified the spending on capital expenditure beyond the approved the approved limit, as recommended by the SCM.*

 ***Action / Status / Time-frame****: As in Item 12.1*

## 13: Payment controls

## 13.1: Vouchers not stamped “PAID”

***SCM****: directed strengthening of control measures over payments to prevent duplicate payments*

***Action****: Payments vetting checklist enforced.*

***Status****: Implemented/closed*

## 13.2: Consultancy payments made before contract signature

***SCM****: directed strengthening of control measures over consultancy contracting and payments.*

***Action****: Contracting and payments vetting check lists enforced.*

***Status****: Implemented/closed*

# **Conclusions**

1. The Secretariat has an internal review mechanism, which ensures that responsible Divisions and Units provide regular implementation reports to the Secretary General through the relevant Assistant Secretary General. In keeping in line with best practice, the audit findings are re-examined in detail to ascertain the root cause. The aim is to address the issues in a holistic manner.
2. Matters raised in the 2017 COBEA Management Letter are being implemented.

# **Recommendation**

1. The status implementation report on Council directives on 2017 COBEA Report is submitted for the consideration of COMESA Policy Organs Meetings.