GOLDEN RULES FOR FINANCIAL MANAGEMENT AND ACCOUNTABILITY AT THE AFRICAN UNION

PROPOSALS FOR CONSIDERATION BY F10 MINISTERS

JANUARY 2018

A. BACKGROUND

1. The Assembly decided in Addis Ababa in January 2017 (Assembly/AU/Dec.635(XXVIII)) that the Committee of Ten Finance Ministers will assume responsibility for oversight of the African Union budget and Reserve Fund and develop a set of 'Golden Rules', establishing clear financial management and accountability principles.

2. These rules are the basic principles that need to be adhered to for the AU to ensure credible budgeting and effective financial management. The Golden Rules define the role of Member States, Co-operation Partners and the African Union institutions.

3. The paper identifies 9 Golden Rules, identifies the budgeting and management areas that ought to be covered by each Golden Rule and defines the implementation that is required for the effective implementation of each area.

B. GOLDEN RULE ONE: MEMBER STATES' CONTRIBUTIONS SHOULD COVER A MINIMUM THRESHOLD OF THE BUDGET

4. At the core of the Financing of the Union (FoU) decisions is the need for Member States of the AU to ensure the Union's self-sufficiency and sustainability by decreasing dependence on external funding for its Programmes and Peace and Security budgets. This is in line with the Johannesburg decision that Member States should fund 100% Operational, 75% Programmes and 25% Peace and Security budgets over five years, starting in 2016 to 2020.

5. To ensure that implementation of the decision is affordable for Member States, it is proposed that increases should be staggered into increments of 10% per annum for AU Programmes and 5% per annum for Peace and Security.

C. GOLDEN RULE TWO: REVENUE MUST BE PREDICTABLE

6. Three key factors changes must be made to ensure that revenues are predictable. The first is that assessed contributions should be paid in full by Member States. Secondly, the collection of assessed contributions and partners' contributions should reflect forecasts and commitments. Finally, revenue streams and fund raising should be centrally co-ordinated.

D. GOLDEN RULE THREE: BUDGETS MUST BE CREDIBLE

7. The AU budgeting system must be based on a fully integrated and automated financial management system.

8. The AU has historically recorded a low budget outturn. Over the past three years, 50% of the total budget was spent in 2014, 51% in 2015 and 48 in 2016. However, on available funds, the execution was 87%, 82% and 69% in 2014, 2015 and 2016, respectively. Developing a credible budget will require amendments in five key areas.

9. First, budgets must reflect priorities and approved medium-term plans. Developing budget guidelines that contain criteria for departmental and directorate budget submissions will

assist in informing these priorities and plans. Budget guidelines should be submitted by the Chair.

10. Second, there must be a single budget process. This should apply to both the programme and operational budgets.

11. Third, there must be an acceptable variance between budgets and expenditure outturn, as well as revenue forecast and income. To achieve this, a baseline for the past three years must be produced. The variance for the year t-1 must be known prior to the start of the budget process.

12. Fourth, there should be a medium-term budget and standardized format for budgets for all AU organs. There should be a mid-year review of budget institutionalized. There should be annual work plans linked to an approved budget.

13. Fifth, approved budgets should include revenue for Member States' assessed contributions and development partners' contributions. Forecasts for these contributions should be proposed at the start of the budget process.

14. Recurrent costs associated with capital expenditure must be included in the annual budget. This should be accompanied by calculations of the medium-term estimates.

E. GOLDEN RULE FOUR: EXPENDITURE CEILINGS SHOULD BE SET

15. There should be an annual budget ceiling, communicated by the Chair, before Department and Organs submit their budget proposals.

16. The Operational Budget including salaries should not exceed 30% of the total budget. This ratio will be calculated based on the expenditure outturn for the past three years. Implementation of this this threshold may need to be staggered.

F. GOLDEN RULE FIVE: ALL EXPENDITURE MUST BE AUTHORISED

17. There have been problems with unauthorised expenditure, which has led to frequent virements, surplus budgets and spending that exceeds budgets. The Golden Rule on authorised expenditure must therefore cover three areas.

18. First, budgets should only be adjusted to cover unforeseen and unavoidable expenditures. Therefore, dates for the adjustment budget will have to be scheduled with clear criteria developed. The adjustment budget will cover virements above 5%, shifts within and across Directorates, Departments and Organs. This can increase or decrease the budget.

19. Second, any spending that exceeds the approved budget will be considered unauthorised. Heads of Departments and Organs will be held accountable for expenditure that exceeds the budget allocation, in accordance with the AU's disciplinary procedure for financial mismanagement.

20. Third, an enterprise risk management policy must be put in place to mitigate exposyre to risks and enhance consequence management for non-compliance to financial rules and regulations.

21. Fourth, arrears should be avoided. Available funds and expenditure approvals must be obtained before commitments are made.

G. GOLDEN RULE SIX: RESOURCE FLOWS AND TRANSACTIONS MUST BE RELIABLE AND EFFICIENT

22. First, cash must be provided to Departments and Organs in the agreed amounts at the agreed times. This requires an overhaul of the cash management system and a review of this system is recommended.

23. Second, staff salaries should be paid on time. A staff audit may be required to ensure that all staff on the AU's payroll are accounted for and the budget allocation is commensurate with the number of identified staff.

24. Third, goods and services must be procured according to plan, while quality and price should also be pre-determined. A revision of procurement procedures and the inherent process flaws that lead to delays in procurement, inflated prices and poor quality is required.

25. Contracts should be paid on time. A review of the average time it currently takes to pay contracts must be conducted to identify and eliminate the bottlenecks in the process.

H. GOLDEN RULE SEVEN: THERE MUST BE INSTITUTIONAL ACCOUNTABILITY

26. First, the flow of funds should be tracked to service delivery units. This may require harmonisation between the current SAP and AMERT systems used, or agreement on the use of one system.

27. Second, financial reports must be comprehensive, timely and allow for comparison between planned and actual expenditures. Implementation of this goal will be achieved by aligning the preparation of financial statement and audits. An investigation of a single audit of a similar organisation is required.

28. Third, there must be independent assurance of value for money. Reviews must be aligned every three years.

29. Fourth, Commissioners and Directors must be held directly accountable and responsible for the presentation of their budgets before policy organs.

I. GOLDEN RULE 8: REPORTING SHOULD BE AN INTEGRAL PART OF THE FINANCIAL MANAGEMENT PROCESS

30. Despite the requirement in the Financial Rules and Regulations that Departments and Organs should report all activities for which funds have been received, the compliance rate is very low. Departments and Organs tend to request additional fund releases without submitting the requisite quarterly performance reports.

31. Therefore, payments to departments and organs must be triggered by quarterly reports. Any failure to submit a report will result in funds not being released to the relevant Department or Organ. This will strengthen result based management, measurement of impact of programmes against strategic priorities, and ensure cost-effective utilisation of resources.

32. Standard operating procedure must be developed for the implementation of the Golden Rules.

J. GOLDEN RULE 9: THERE SHOULD BE A CENTRALISED PROCESS FOR ENGAGING PARTNERS

33. Currently, Departments and Organs unilaterally engage partners and agree to partner-funded programmes.

34. First, the External Resource, Partnerships and Planning units should device a strategy for partner engagement.

35. The three units should establish a central office that will be the central co-ordination point for partner engagement. No Department or Organ may sign contracts or receive partner funds without the permission of the central office.