EAST AFRICAN COMMUNITY
AUDIT COMMISSION

AUDITED FINANCIAL STATEMENTS OF THE FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30TH JUNE 2017

ARUSHA, TANZANIA
DECEMBER 2017

LIST OF ABBREVIATIONS

Throughout this financial report unless otherwise stated, the abbreviations in the first column have the meanings stated opposite them in the second column. These descriptions and explanations, however, serve to clarify this report and are not intended to be authoritative

CM	- Common Market
DSG	- Deputy Secretary General
EAC	- East African Community
FSDRP	- Financial Sector Development & Regionalization Project
KSH	- Kenya Shilling
LPO	- Local Purchase Order
RWF	- Rwanda Franc
SG	- Secretary General
TMEA	- Trade Mark East Africa
TSH	- Tanzania Shilling
USH	- Uganda Shilling
VAT	- Value Added Tax

TABLE OF CONTENTS

AUDITED FINANCIAL STATEMENTS OF THE FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30th JUNE 2017

1. STATEMENT OF PURPOSE

1.1. Introduction

The financial Sector Development and Regionalization Project is an East African Community regional project supported by the World Bank. The purpose of the project is to support the development of the financial sector integration through the establishment of a single market in financial services among EAC Partner States.

The first phase of the project became effective on 20th June 2011 with a total Grant of $16 million. In September 2016, the World Bank provided additional financing of $ 10.5 million to support the project to September 2019.

The original grant was structured into six components. These are:

a) Financial inclusion and strengthening market participants
b) Harmonization of financial laws and regulations
c) Mutual recognition of supervisory agencies
d) Integration of financial market infrastructure
e) Development of the regional bond market
f) Capacity building

Project goal

The project goal is to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC Partner States with a view to making a wide range of financial products and services available to all at competitive prices

Project Objectives

The development Objective is to establish the foundation for financial sector integration among EAC Partner States. The higher level objective of the program is to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC Partner States, with a view of making a wide range of financial products and services available to all at competitive prices

1.2. Human Resource

As at 30th June 2017, the FSDRP had the following human resource capacity:-

EAC- FSDRP	30/6/2017	30/6/2016
Project Staff	11	14
Subtotal	**11**	**14**

1.3. The Budget

The Budget of the EAC - Financial Sector Development and Regionalization Project for the financial year 2016/2017 was USD 3,663,975

1.4. Achievements during the year

The following are the Project's achievements during 2016/2017:

- Resource mobilization strategy and communication policy for Light University and CBE developed and adopted;
- Four (4) Council Directives were developed and approved by the SCFEA
- The EAC Microfinance implantation strategy and adopted by MAC
- Four(4) study reports(promotion of interoperability of card switches, financial education, banking certification program and microfinance policy and implementation strategy) were presented to MAC for consideration and adoption
- Negotiated and received additional financing of $10.5 million for the next three years

2. CORPORATE GOVERNANCE STATEMENT

The implementation of the project activities is vested with the Steering and Executive Committees. The FSDRP Steering Committee is responsible for providing Policy and strategic oversight to the project, while the Executive Committee is responsible for overseeing project operations. Meetings of the two committees will continue to regularly consider budgetary strategy, assess project outcomes, monitor risks, make policy and resourcing decisions, and review requests for changes in project scope.

Internal Auditor reports to the Audit and Risk Committee on, among other things, the status of compliance risk management in EAC and significant areas of non-compliance.
The impact of new and proposed legislation and regulations (IF ANY) is assessed by management and material regulatory issues and legislative developments are escalated to the Audit and Risk Committee.

3. RISK MANAGEMENT AND INTERNAL CONTROL

3.1. Overview of EAC's risk management framework

The East African Community (EAC) is responsible for the risk management and internal control system of the project. EAC is committed to a process of risk management that is aligned to the principles of sound corporate governance recognizing that the management of risk is an important strategy for the achievement of the EAC Mission and supporting objectives. The project management is task to ensure that the adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations
- The safeguarding of the project assets
- Compliance with signed grant agreement and other applicable laws and regulations
- Reliability of accounting records
- Responsible behavior towards all stakeholders

3.2. Approach to Risk Management

A description of EAC's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is included in the EAC Risk Management Framework, Policy and Strategy (2011) and expounded as below.

The EAC's risk management framework is based on a well-established governance process, with different lines of defense and relies both on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process.

The EAC's internal audit function independently audits the adequacy and effectiveness of the EAC's risk management framework. The head of Internal audit reports and provides independent assurance on the same to the audit and Risk committee and has unrestricted access to the Secretary General and the chairman of the Audit and Risk Committee.

3.3. Operational risk

Operational risk is the potential for loss resulting from the inadequacy of, or a failure in internal processes, people, systems or external events. The Project recognizes the significance of operational risk, and the fact that it is inherent in all business units.

3.4. Occupational health and safety

The health and safety of our employees, our partners and other stakeholders continues to be a priority. The Project seeks to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The Project continues to focus on ensuring compliance with

current legal and regulatory framework and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

3.5. Reputational risk

Safeguarding the Project's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events.

The Community's strong reputation is dependent upon the way in which it conducts its business, but it can also be affected by the way in which its clients, to whom it provides services, conduct themselves.

Effective management of all operating activities is required to establish a strong internal control framework to minimize the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken.

4. STATEMENT OF THE SECRETARY GENERAL'S RESPONSIBILITIES

The Treaty for the Establishment of the East African Community and the Financial Rules and Regulations require the Secretary General to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Community. These annual financial statements have been prepared in accordance with International Public Sector Accounting Standards, under the Accrual Basis of Accounting.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgment and estimates. They have been presented to ensure comparability with the EAC annual financial statements of previous periods and with financial statements of other entities.

The statements have been prepared as general-purpose financial statements intended to provide information about the financial position, financial performance, and cash flows of the EAC that is useful to a wide range of users.

The Secretary General is responsible for establishing and maintaining a system of effective internal control designed to provide reasonable assurance that the transactions recorded in the books of accounts and reported in these annual financial statements are within the statutory authority and reflect with reasonable accuracy the receipt and use of public financial resources by the EAC.

The Secretary General is responsible for and acknowledge the ultimately responsibility for the system of internal financial control established by the EAC and place considerable importance on maintaining a strong control environment. To enable the Secretary General to meet these

responsibilities, the Secretary General sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures, and adequate segregation of duties to ensure an acceptable level of risk. To ensure that theses controls are monitored throughout the EAC and all employees are required to maintain the highest ethical standards in ensuring the EAC business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the EAC is on identifying, assessing, managing and monitoring all known forms of risk across the Community. While operating risks can be fully eliminated, the Community endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The Secretary General is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. To the best of my knowledge, the system of internal control has operated adequately throughout the reporting period.

The financial statements set out on the pages below which have been prepared on a Going Concern Basis, were approved by the Secretary General on the date indicated below.

The Secretary General accepts responsibility for the integrity of the financial statements and all the information contained therein for the period under review.

Liberat Mfumukeko
Ambassador
SECRETARY GENERAL

Hon. Jesca Eriyo
Deputy Secretary General
(Finance and Administration

5. REPORT OF THE AUDIT COMMISSION

To The Honorable Chairperson of the Council of Ministers
East African Community Headquarters,
1EAC Close /Afrika Mashariki Road,
P.O Box 1096
Arusha,
United Republic of Tanzania

Opinion

We have audited the financial statements of the Financial Sector Development and Regionalization Project (FSDRP) set out on pages 14 to 26, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects the financial position of the Financial Sector Development and Regionalization Project (FSDRP) as at 30 June 2017, and of its financial performance and its consolidated and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Financing Agreement **No.D1410-3A** Financing Agreement (Additional Financing for East African Community Financial Sector Development and Regionalization Project I dated November 11,2016.

Basis for Opinion

The audit was conducted in accordance with International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements of International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants and Article 134(4) of the Treaty for Establishment of the East African Community, 1999 and we have fulfilled our ethical responsibilities in accordance with these requirements and the ISAs. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon,

and we do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the audit addressed the key audit matter
1.	**Inappropriate revenue recognition - Receipts from development partners**	
	The Financial Sector Development and Regionalization Project (FSDRP) has received a grant of SDR 7,600,000(**USD10, 500,000**) whose use is spread over 3years. Notes 10.6 to the financial statements reflect receipts from the International Development Association of **USD 121,697** received during the current year. We considered this to be a key audit matter since there is a risk that the revenue is inappropriately reported to achieve desired budgetary performance. We assessed that the opportunity to misrepresent revenue creates a heightened risk where the receipts from development partners are recorded in the improper period by not observing the matching principle.	The audit approach included performing substantive procedures included: • Reviewed the funding agreement • Testing grant funding to assess if revenue had been recognized in accordance with the agreement and conditions set and IPSAS 23. • Matched the expenditure incurred to revenue
2.	**Underutilization of donor funding**	
	Each project has a definite grant period within which the agreed activities must be completed. The financing agreement dated November 11, 2016 for the Financial Sector Development and Regionalization Project (FSDRP) indicates the project will be completed	The following audit procedures were performed in response to this matter: • Reviewed the financing agreement and annual work plans • Reviewed the progress reports and compared with the budgets and work plans

No.	Key Audit Matter	How the audit addressed the key audit matter
	by 30 September 2019. There is a risk that the project activities will not have been completed on time and donor money will be refunded back to the donor. There is also a risk that the overall Community will not be achieved due to non-implementation of the project activities	

Other Matter Paragraph

1. Refund of Ineligible Expenditure

Section 7.5.4 (in third paragraph) of FSDRP Operational Manual 2014 states that funds budgeted shall not be used for purposes other than those provided for in the budget without approval of the International Development Assistance (IDA). Section 7.06 (a. 1) of IDA General Conditions for credits and grant, 2006 states that a prompt refund will be made for a withdrawn amount used to make a payment for an expenditure that is not an eligible expenditure.

Our review revealed that an amount paid to three consultants of USD 63,000 were not eligible as there was no activities planned for these positions under the Additional Financing Agreement hence was to be refunded to the donor. However, management has not refunded the amount to date. The project risks penalties including stoppage of disbursements due to the delayed refund.

2. Delayed and incomplete Contract on Capital Markets Infrastructure Project

Section 4.1 of FSDRP of Operational Manual 2014 provides that the purpose of contract management is to ensure service providers fulfill their contractual obligations, of delivering quality service in a timely manner. EAC Secretariat signed a contract on 3rd November 2014 with Infotech Private Ltd for the supply and installation of smart Order Router, Central Depository System Interface, and Messaging Platform for Securities worth **USD2,395,180** (USD 1,944,123 for contract execution and USD 451,057 for 3 years' recurrent expenses). The completion and acceptance of the system was supposed to take place on 29th April 2015 but was extended to 29th February 2016.

The implementation of the project stopped after the delivery of some hardware and software licenses but without reaching the stage of Testing and Go Live although 60% of the contract amount equivalent to USD **1,166,473.80** has been paid to the supplier as at November 2017.

In consequence, it has not been possible to ascertain that the EAC has obtained value for the expenditure of USD1,166,473.80 incurred on the project and the delay impacts negatively on achievement of project goals.

Responsibilities of Management for the Financial Statements

The Secretary General and the Project Coordinator are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards and Section II.C (1-3) of the financing agreement and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management are responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management intends to cease operations of the Project, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Audit Commission's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The part that follows below can be taken to an appendix as permitted by paragraph 40 of ISA 700

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Project to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mr. Edward R. O. Ouko Auditor General of the Republic of Kenya	**Mr .John F.S. Muwanga** Auditor General of the Republic of Uganda	**Prof. Mussa J. Assad** Controller and Auditor General of the United Republic of Tanzania
Date 12/12/2017	Date 12/12/2017	Date 12 DEC 2017
Mr.Obadiah.R.Biraro Auditor General of the Republic of Rwanda	**Ms. Générose Kiyago** State Inspector General of The Republic of Burundi	**H.E Amb. Steven W. Kiliona** Auditor General of The Republic of South Sudan
Date 11/1/	Date 19.12.2017	Date 19/12/17

6. FINANCIAL STATEMENTS FOR FSDRP FOR THE YEAR ENDED 30 JUNE 2017

6.1. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

		2016/17	2015/16
ASSETS	**NOTES**	**USD**	**USD**
CURRENT ASSETS			
Cash and Cash Equivalents	1	75,530	578,246
Taxes Recoverable	2	26,225	20,590
TOTAL CURRENT ASSETS		**101,755**	**598,836**
NON CURRENT ASSETS			
Property, Plant and Equipment	3	99,914	171,640
Intangible Assets	4	777,247	0.00
TOTAL NON CURRENT ASSETS		**877,161**	**171,640**
TOTAL ASSETS		**978,916**	**770,476**
LIABILITIES AND NET ASSETS/EQUITY			
CURRENT LIABILITIES			
Payables	5	430,768	564,383
TOTAL CURRENT LIABILITIES		**430,768**	**564,383**
TOTAL LIABILITIES		**430,768**	**564,383**
Net Assets/Equity			
Total Net Assets/Equity		**548,148**	**206,093**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**978,916**	**770,476**

Liberat Mfumukeko
Ambassador
SECRETARY GENERAL
Date..19/02/2018...

Hon. Jesca Eriyo
Deputy Secretary General
(Finance and Administration)
Date...07/12/2017...

6.2. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

REVENUE		**2016/17**	**2015/16**
Revenue from non-Exchange Transactions	**NOTES**	**USD**	**USD**
Special funds from Development Partners	6	121,697	3,702,726
Total Revenue		**121,697**	**3,702,726**
EXPENSES			
Salaries, Wages and Employee Benefits	7	1,005,000	1,125,590
Administrative, Meetings & Consultancy Expenses	8	41,778	2,648,398
Finance Cost	9	(191)	626
Depreciation and amortization Expenses	10	82,216	100,010
TOTAL		**1,128,803**	**3,874,624**
SURPLUS / (DEFICIT) FOR THE PERIOD		**(1,007,106)**	**(171,898)**
Attributable to:			
Development Partners		***(1,007,106)***	***(171,898)***

6.3. STATEMENT OF CHANGES IN NET ASSETS/EQUITY AT 30 JUNE 2017

	Capital Contribution / Grant	**Accumulated Surplus**	**Total Net Assets / Equity**
Description	**USD**	**USD**	**USD**
At 1 July 2015	23,898	286,233	310,131
Prior year adjustment	-	67,863	67,863
Surplus / (deficit) for the year	147,743	(320,125)	(172,382)
At 30 June 2016	171,641	33,971	205,612
At 1 July 2016	**171,641**	**33,971**	**205,612**
Prior year adjustment	787,736	561,907	1,349,642
Surplus / (deficit) for the year	(82,216)	(924,890)	(1,007,106)
At 30 June 2017	**877,161**	**(329,012)**	**548,148**

6.4. CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

Description	2016/17	2015/16
	USD	USD
Cash flows from operating activities		
Surplus / (Deficit) at the end of the year	(1,007,106)	(171,898)
Adjustment for:		
Depreciation and Amortization	82,216	100,010
Changes in working Capital		
(Increase) / Decrease in Receivable	(5,635)	(6,360)
Increase / (Decrease) in Other Current liabilities	427,806	496,174
Net Cash flows from operating activities	**(502,719)**	**(415,926)**
Cash flow from investing activities		
Acquisition of fixed assets	0.00	(247,753)
Cash generated from investing activities	**0.00**	**(247,753)**
Net increase in cash and cash equivalents	**(502,719)**	**168,175**
Cash and cash equivalents at beginning of period	**578,246**	**410,071**
Cash and cash equivalents at end of period	**75,530**	**578,246**

6.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

Description	Budgeted Amounts in USD		Actual Amounts in USD	Difference: Final Budget and Actual (in USD)	Explanation of variances
REVENUE	Original	Final			
Special funds from Development Partners	3,663,975	3,663,975	121,697	3,542,278	Delay in the approval of work plan by the World Bank
Total Revenue	**3,663,975**	**3,663,975**	**121,697**	**3,542,278**	
EXPENSES					
Salaries, Wages and Employee Benefits	1,476,000	1,476,000	1,005,000	471,000	Three staff were not recruited as planned
Administrative, meetings & consultancy Expenses	1,787,975	1,787,975	41,778	1,746,197	Delay in the approval of work plan by the World Bank
Financial costs			(191)		
Capital Expenditure	400,000	400,000	0.00	400,000	Due to delay in remittance, the activity could not be undertaken
TOTAL	**69,636,849**	**70,931,510**	**1,046,587**	**39,542,368**	
SURPLUS / (DEFICIT) FOR THE PERIOD	**0**	**0**	**(924,890)**		

6.6. STATEMENT OF SPECIAL ACCOUNT ACTIVITY FOR THE PERIOD ENDED 30TH JUNE 2017NOTES TO THE FINANCIAL STATEMENTS

Description	2016/17	Cumulative
	USD	USD
Opening balance as at 1st July 2016	578,246.46	578,246.46
Add:		
Total amount Deposited by World Bank	121,696.50	699,942.96
Deduct		
Total amount withdrawn	618,250.26	(618,250.26)
Closing Bank Balance as at 30th June 2017 as per Bank Statement		81,692.70
Deduct		
Un-presented cheques		(6,162.21)
Balance as per cash book as at 30th June 2017		**75,530.49**

7. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

7.1. Basis of Accounting

The accompanying financial statements have been presented on an accrual basis of accounting while the budget has been prepared using cash basis of accounting.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Accrual accounting allows for revenue to be recognized when earned and expenses to be recognized when incurred. Budgetary accounting allows for compliance with the requirements for and controls over the use of Partner States Approved Budgeted funds.

7.2. Basis of Preparation

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB).

When the IPSASB does not prescribe any specific standard, IFRSs and IASs are applied.

The financial statements have been prepared on a going concern basis.

The measurement base applied is historical cost.

The accounting policies have been applied consistently throughout the period. The principal accounting policies adopted are set out below.

7.3. Adoption of new and revised standards

From July 2016 to 30 June 2017, there was no new IPSAS standard having an impact on these financial statements.

8. KEY JUDGEMENTS AND SOURCES OF ESTIMATION

The preparation of financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses in conformity with IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

The key judgements management made in preparing the financial statements are as follows:

- The lives of intangible assets and property, plant and equipment are at least that set out in notes number 5.5 and 5.6.

Key estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the period of revision and future periods.

9. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Donations and Grants

The financial statements in conformity with IPSAS 23 – Revenue from Non-Exchange Transactions, require management to recognize liabilities from transfers with restrictions and/or conditions over the period of which economic benefits will be received from such transfers, with disclosure of such restricted contributions from Development Partners.

Most of the assistance given to EAC- FSDRP receives funds from World Bank which is considered as restricted contributions.

Restricted contributions are recognized as Revenue over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

On the Financial Statements for projects, receipts to financial annual budget are recognized as revenue for the year, and then Expenses are deducted. The surplus to the donor, which is Net Asset/equity for the Project, is thereafter disclosed on the Statement of Financial Performance as "attributable to Development Partners", reported as deferred revenue on the Statement of Financial Position and adjusted from Net cash flow from operating activities on the Cash flow statement.

Grants related to assets are presented in the statement of financial position as deferred revenue, which is recognized as revenue on a systematic and rational basis over the useful life of the asset.

Foreign Exchange rates

The financial statements are prepared in conformity with IPSAS 4 – The Effects of Changes in

Foreign Exchange Rates which requires management to disclose effects of foreign currency transactions in their financial statements.

In accordance with IPSAS 4 and related definition, the Presentation Currency of EAC, the currency in which its financial statements are prepared, is the United States Dollar. The United States Dollar is also the operating currency of EAC-FSDRP

The Functional Currency (ies) of EAC, the currency (ies) of the primary economic environment in which an entity operates – a country in which an entity primarily generates and expends cash is (are) the United States Dollar and the following currencies – Burundian Francs, Kenyan Shilling, Rwandan Francs, Tanzanian shilling and the Ugandan Shilling, for the five (5) EAC Partners States of Republic of Burundi, Republic of Kenya, Republic of Rwanda, Tanzania - United Republic of and the Republic of Uganda respectively.

EAC- FSDRP has its Presentation currency, the United States Dollar, as its functional currency and hence uses the following procedure to translate its foreign currency transactions into the Presentation currency for reporting purpose –

1) monetary assets/liabilities are translated at current exchange rate

2) non-monetary assets/liabilities measured at historical cost are translated at historical exchange rate

3) non-monetary assets/liabilities measured at current value are translated at the exchange rate at the date when the current value was determined

4) Owners' interest accounts are translated at historical exchange rate

5) Revenues/expenses other than those expenses related to non-monetary items (as in (i) (b) above) are translated at the exchange rate that existed when transactions took place (for practical reasons, average rates may be use)

6) Expenses related to non-monetary assets, such as depreciation (fixed assets) and amortization (intangible assets) are translated at the exchange rate used to translate the related assets.

Both realised and unrealised gains and losses resulting from the settlement of such transactions, and from the retranslation at the reporting date of assets and liabilities denominated in foreign currencies, are recognised in the Statement of Financial Performance.

The exchange rates used for the following reporting dates are as follow:

Currency	30/6/2017	30/6/2016
1 USD/KES (Kenya Shillings)	103.20	100.5
1 USD/TZS (Tanzania Shillings)	2,218	2,170
1 USD/UGX (Uganda Shillings)	3,602	3,375
1 USD/BIF (Burundi Francs)	1,708	1,640
1 USD/RWF (Rwanda Francs)	838	770
1 USD/EURO	0.901	0.90

Total amount of loss on foreign exchange was debited to the Statement of Financial performance.

b. Property, Plant and Equipment

Property, Plant and equipment are carried in the Statement of Financial Position at their historical cost.

Expenditure incurred to replace a component of item of property, plant and equipment is accounted for separately and capitalized while the major replaced component is derecognized. All other expenditure items which do not meet recognition criteria are recognized in the statement of Financial Performance as expenses as they are incurred.

EAC-FSDRP derecognises items of Property, plant and equipment and/or any significant part of an asset upon disposal or when no economic benefits or service potential is expected from its continuing use. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognised.

c. Depreciation

The financial statements in conformity with IPSAS 1 – Presentation of Financial Statement and IPSAS 17 – Property, Plant and Equipment recognize depreciation in the Statement of Financial Performance. Management charges depreciation to the Statement of Financial Performance on a straight-line basis to write off the cost of property, plant and equipment to their residual values over their expected useful lives.

Depreciation for Property, Plant and Equipment purchased during the year is apportioned proportionately to the remaining period of the year. Property, plant and equipment acquired during the year is depreciated from the date when it is available for use and cease to be depreciated at earlier of the date that the asset is derecognized.

Annual depreciation rates applied are as follows:

	FY16/17	FY15/16
Computer equipment	33.33%	33.33%
Telecommunication equipment	33.33%	33.33%
Office equipment	25.00%	25.00%
Office furniture	12.50%	12.50%

d. Impairment of tangible and intangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the Statement of Financial Performance in the year concerned.

e. Intangible Assets

Intangible assets relate to computer software. Software is amortized at 20% per annum on a straight-line basis if in use. Generally, costs associated with maintaining computer software programs are recognised as expenses when incurred.

f. Taxation

Article 4 Section (1) subsection (d) of the Headquarters Agreement between East African Community and the United Republic of Tanzania states that: "The Secretariat, its property, assets, income and transactions shall be exempt from all direct taxation including sales tax and from Customs Duties and prohibitions, restrictions on imports and exports in respect of articles imported or exported by Secretariat for its official use.

The Secretariat shall also be exempt from any obligation relating to payments, withholding or collection of any tax or duty provided that such assets and other property shall not be sold within the United Republic of Tanzania except in accordance with conditions agreed to with the Government".

The EAC- FSDRP activities comply with the Headquarters agreement

g. Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

h. Presentation of Budget Information

The financial statements in conformity with IPSAS 24 requires management of a public sector entity to show comparison of budget amounts arising from execution of the budget to be included in the financial statements of the entity which are required to, or elect to, make publicly available their approved budget for which they are, therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between budget and actual amounts.

The EAC- FSDRP Budget was approved on cash basis, with classification by nature, for a period of one year, i.e. 1st July 2016 to 30th June 2017.

AC prepares its financial statements clearly indicating the actual expenditure in comparison with the approved budgetary provisions and in so doing fully complies with this Standard.

i. Related Parties

The financial statements in conformity with IPSAS 20 requires EAC- FSDRP to show the aggregate remuneration of key management personnel and the number of individuals, determined on full time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class and the total

amount of all other remuneration and compensation provided to key management personnel and close family members itemized separately.

During the year to 30th June 2017, the remuneration paid to Professional experts was US$. 957,000,

Financial Risks

EAC-FSDRP is exposed to a variety of financial risks, including market risk (foreign exchange and price), liquidity and credit risks. EAC-FSDRP does not make use of financial derivatives to hedge its risk exposures.

i. Foreign-exchange risk

EAC- FSDRP receives donor grants in US Dollar and is thus not exposed to foreign-exchange risk arising from fluctuations in currency rates.

ii. Liquidity risk

EAC- FSDRP may not negotiate and use uncommitted short term bank credit facilities in the event of liquidity requirements. It can only seek assistance from the EAC Secretariat.

j. Provisions, Contingent Liabilities and contingent Assets

Provisions are constituted when EAC- FSDRP recognises a liability arising from a past event, for which it will probably have to bear the cost. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the date of the Statement of Financial Position.

There were neither contingent liabilities nor contingent assets as at 31 December 2015.

k. Related-Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. In the case of EAC- FSDRP related parties have been taken to be:-

i. key Project management personnel, and close members of the family of these key management personnel,

ii. Key EAC management including the members of Executive and Steering Committees.

There was no material transactions with related parties during the financial year ended 30 June 2017.

l. Events After The Reporting Period

There were no events after the reporting date that warrants disclosure in the financial statements.

10. ARTHIMETICAL NOTES TO THE ACCOUNTS

10.1. CASH AND CASH EQUIVALENTS

Particular	2016/2017 (USD)	2015/2016 (USD)
WB-FSDRP	75,530	578,246
Total	75,530	578,246

10.2. TAXES RECOVERABLE

Particular	2016/2017 (USD)	2015/2016 (USD)
VAT Recoverable: EAC- FSDRP is a tax-exempted entity. Where goods and services are invoiced including tax, an Application for Tax Refund is filed with the relevant Revenue authority	**26,225**	**20,590**
Total	**26,225**	**20,590**

10.3. Property, plant and Equipment as at 30 June 2017 (USD)

Description	Computer & Telecommunication Equipment	Office Equipment	Office Furniture	Total
	USD	USD	USD	USD
As 1 July 2016	340,323	2,640	37,607	381,118
Additions	0	0	0	0
Disposal/Adjustment	0	548		0
As at 30 June 2017	**340,323**	**3,188**	**37,607**	**381,118**
Accumulated Depreciation:				
As 1 July 2016	172,232	2,052	23,704	197,988
Depreciation for the year	76,606	475	5,134	82,2.16
As at 30 June 2017	**248839**	**2,527**	**28,839**	**280,204**
Net carrying amount:				
As at 30 June 2017	**90,485**	**661**	**8,768**	**99,914**

10.4. Intangible Assets

Description	Software Acquired	Total
	USD	*USD*
As 1 July 2016	0	0
Additions/ Adjustment	777,247	777,247
Disposal	0	0
As at 30 June 2017	**777,247**	**777,247**
Accumulated amortization:		
As 1 July 2016	0	0
Amortization for the year	0	0

Description	Software Acquired	Total
	USD	*USD*
Adjustments to accumulated amortization	0	0
As at 30 June 2017	0	0
Net carrying amount:		
As at 30 June 2017	**777,247**	**777,247**

10.5. PAYABLES

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
Salary Payable	300,000	-
accrued expenses Payable	-	563,796
Refund to EAC Secretariat for salaries	129,000	-
Palace hotel Arusha	1768	-
SUB TOTAL	**430,768**	**564,383**

10.6. SPECIAL FUNDS FROM DEVELOPMENT PARTNERS

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
WB, FSDRP (These are revenues from Non Exchange transactions)	121,697	3,702,726
Total Income from Development Partner	**121,697**	**3,702,726**

10.7. Salaries

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
Salaries	1,005,000	1,125,590
Total	**1,005,000**	**1,125,590**

10.8. ADMINISTRATIVE, MEETINGS & CONSULTANCY EXPENSES

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
Leased Communication lines	29,807	-
Logistics for meetings	1,609	29,387
Air tickets	1,234	809,901
DSA Facilitation - Staff	4,200	1,351,251
Contracted professional Services, Consultancy	4,928	1,768,863
Total	**41,778**	**3,959,402**

10.9. FINANCE COST

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
Loss on exchange	191	-

Total	191	-

10.10. DEPRECIATION AND AMORTIZATION EXPENSES

PARTICULARS	2016/2017 (USD)	2015/2016 (USD)
Computer & Telecommunication Equipment	76,606	93,852
Office Equipment	475	1,023
Office furniture	5,135	5,135
	82,216	**100,010**