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African Telecommunications Union
(ATU)

Audit report for the year ended
31 May 2004

Audit & Risk Advisory Services
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Document review and approval

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1 Introduction

1.1 Background

African Telecommunications Union (ATU) (formerly Pan African Telecommunications Union – PATU) was established on 7 December 1977 as a specialised agency of the Organization of African Unity (OAU) in the field of telecommunications. OAU was transformed to the African Union (AU) in July 2002.

ATU was formed to promote telecommunication development in the continent and assist AU member countries in projects geared towards improvement of telecommunication facilities. ATU achieves this objective by performing feasibility studies and providing expertise in evaluating projects for member countries and by organising events for consensus building and exchange of experiences, knowledge and 'best practice'.

ATU moved offices to Nairobi, Kenya in 1997 from Kinshasa, the Democratic Republic of Congo (DRC), where it had been based since inception. The move was primarily triggered by instability in the DRC but in addition Nairobi was seen as a suitable location due to communication and airline hubbing facilities. In December 1999, it changed its name from Pan African Telecommunications Union to African Telecommunications Union to signify the additional role as a public/private sector partnership between governments, regulators and telecommunications industry.

ATU's:

- Mission is to promote the rapid development of info-communications in Africa in order to achieve universal access and full inter-country connectivity.
- Vision is an African continent that is empowered as a full and active participant in the Global Information and Knowledge Society.

ATU relies on contributions from member countries to finance its operations and also from private sector operators/service providers in the associate member category. From time to time programme budgets are supplemented by grants from bilateral and multi-lateral development partners.

1.2 Budget

The contribution to ATU from member countries as per the budget amounted to US\$ 833,635 in 2004 (2003-US\$ 833,635). Out of this, US\$ 289,854 was received in the current year, US\$ 62,301 had been received in advance in 2003 and the balance of US\$ 481,480 was outstanding at year-end.

2 Statement of the management's responsibilities

Management is responsible for preparing financial statements that reflect a true and fair view of the organisation's state of affairs. It is also responsible for the maintenance of adequate accounting records and internal controls, the selection and application of suitable accounting policies, and safeguarding the assets of the organisation.

Management accepts responsibility for the financial statements presented in Section 4 of this report, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the requirements of the organisation.

Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the organisation and of its operating results. Management further accepts responsibility for the maintenance of the accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The financial statements have been prepared on a going concern basis on the assumption that the members will continue to provide financial support to ATU in the foreseeable future to enable it to meet its obligations as they fall due.

Secretary General

Finance & Administration Co-ordinator

Date

3 Auditors Report

Independent Auditors report to the Members of African Telecommunications Union

We have audited the financial statements of African Telecommunications Union (ATU) set out in section 4 for the year ended 31 May 2004. We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of the Administrative Council and auditors

As stated in section 2, the Administrative Council of ATU is responsible for the preparation of financial statements that give a true and fair view of the state of affairs of ATU and of its income and expenditure. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of accounts have been kept and the financial statements, which have been prepared on the basis of the accounting policies set out in section 4.5.1, present a true and fair view of ATU's financial affairs as at 31 May 2004 and of the income and expenditure and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 4.5.2 to the accounts. ATU relies on members' contributions for its operations. However, a majority of the contributions have not been honoured for a considerable period of time. As a result, the organisation has been faced with cashflow difficulties and has not been able to fully implement all its planned activities. This condition casts doubt on the organisation's ability to continue as a going concern.

Date:

4 Financial statement

4.1 Income and expenditure statement for the year ended 31 May 2004

	Notes	2004 USD	2003 USD
Income:			
Annual budgeted contribution.	4.5.3	833,635	833,635
Contribution by associate members.		47,955	45,870
Sundry income.	4.5.4	<u>392,062</u>	<u>120,167</u>
		<u>1,273,652</u>	<u>999,672</u>
Expenses:			
Basic salaries		197,703	194,716
Temporary assistance		8,455	9,239
Fixed allowance		660	660
Leave commuted		2,897	-
Seconded staff emoluments		70,802	-
Common staff costs		341,454	219,884
Travel on official mission		96,812	79,706
Rental and maintenance costs		14,259	6,343
Communications		45,538	60,127
Miscellaneous supplies and expenses		22,967	25,800
Conferences and meetings		25,623	46,482
Depreciation		17,649	8,141
Assets write-down		-	3,965
Loss on disposal of fixed asset		-	1,224
Contracted projects		11,778	17,958
Sponsored services		21,838	18,945
Contributions written off		<u>17,674</u>	<u>-</u>
Total expenditure		<u>896,109</u>	<u>693,191</u>
Surplus for the year		<u>377,543</u>	<u>306,481</u>

The notes set out on pages 8 to 11 form an integral part of these financial statements.

4.2 Balance sheet as at 31 May 2004

	Note	2004 USD	2003 USD
Property and Equipment	4.5.5	53,434	67,897
Current assets			
Contribution receivable	4.5.6	1,984,215	1,708,837
Other debtors		3,430	10,820
Bank and cash balances		<u>13,685</u>	<u>12,343</u>
		<u>2,001,330</u>	<u>1,732,000</u>
Current liabilities			
Due to staff	4.5.8	944,523	1,040,474
Contributions received in advance	4.5.9	148,139	195,973
Sundry creditors		<u>76,223</u>	<u>55,114</u>
		<u>1,168,885</u>	<u>1,291,561</u>
Net current assets		<u>832,445</u>	<u>440,439</u>
Net assets		<u>885,879</u>	<u>508,336</u>
Financed by:			
General fund balance		<u>885,879</u>	<u>508,336</u>

The financial statements on pages 4 to 11 were approved by the Administrative Council of African Telecommunications Union (ATU) during the meeting held on: _____ and signed on its behalf by:

Secretary General

Finance and Administrative Coordinator

Date

The notes set out on pages 8 to 11 form an integral part of these financial statements.

4.3 Statement of changes in funds for the year ended 31 May 2004

	USD
2003:	
At 1 June 2002	201,855
Surplus for the year	<u>306,481</u>
At 31 May 2003	<u>508,336</u>
2004:	
At 1 June 2003	508,336
Surplus for the year	<u>377,543</u>
At 31 May 2004	<u>885,879</u>

The notes set out on pages 8 to 11 form an integral part of these financial statements.

4.4 Cash flow statement for the year ended 31 May 2004

	2004	2003
	USD	USD
Cashflows from operating activities		
Surplus for the year	377,543	306,481
Adjustments for:		
Depreciation	17,649	8,141
Loss on disposal of fixed assets	-	1,224
Write-down of fixed assets	<u>-</u>	<u>3,965</u>
Operating profit before working capital changes	395,192	319,811
Increase in debtors	(267,988)	(339,272)
(Decrease)/increase in creditors	<u>(122,676)</u>	<u>66,057</u>
Cashflows from operating activities	<u>4,528</u>	<u>46,596</u>
Cashflows from investing activities		
Purchase of fixed assets	(3,186)	(60,662)
Proceeds on disposal of fixed assets	<u>-</u>	<u>2,260</u>
Net cash used in investing activities	<u>(3,186)</u>	<u>(58,402)</u>
Net increase/(decrease) in cash and cash equivalents	1,342	(11,806)
Cash and cash equivalents at 1 June 2002 and 2003	12,343	24,149
Cash and cash equivalents at 31 May	<u>13,685</u>	<u>12,343</u>

The notes set out on pages 8 to 11 form an integral part of these financial statements.

4.5 Notes to the financial statements

4.5.1 Significant accounting policies

The main accounting policies relevant to the financial statements are as follows:

(a) Accounting convention

The financial statements have been prepared under the historical cost convention.

(b) Income

Income comprises annual budgeted contribution and the value of free services (or sponsored services) received from members.

Annual contributions due from members are recognised as income upon determination of the respective amounts in accordance with the budget.

The value of free (sponsored) services provided to the union by the member countries are recognised on the basis of actual cost incurred by the respective country. These sponsored services comprise salaries of seconded staff, office rent and telephone expenses.

(c) Voluntary and special contributions

Voluntary and special contributions are recognised as income on a receipts basis.

(d) Taxation

The subscription income received by ATU is not subject to tax since ATU has been granted exemption from any form of tax by an agreement between ATU and the Government of Kenya.

(e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into US Dollars at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

(f) Depreciation

Depreciation is charged on a reducing balance basis using the following annual rates estimated to write-off the assets over their estimated useful lives:

■ Office equipment	30%
■ Motor vehicles	25%
■ Furniture & fittings	15%

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances and deposits held with banks.

4.5.2 Going concern

ATU depends on contributions from its members, the majority of whom have not honoured their contributions for a considerable period of time. As at 31 May 2004 the unremitted members' contribution amounted to US\$ 8,895,436 on which a provision of US\$ 6,911,221 has been made in the financial statements for possible non-recovery. The net amount reported on the balance sheet is therefore US\$ 1,984,215, which includes a balance of US\$ 1,479,800 that has been outstanding for more than one year.

The financial statements have been prepared on a going concern basis on the assumption that members will continue to provide financial support in the foreseeable future to ATU to enable it to meet its obligations as they fall due.

4.5.3 Annual budgeted contribution

	2004	2003
	USD	USD
Contribution received	352,155	461,536
Contribution receivable	<u>481,480</u>	<u>372,099</u>
	<u>833,635</u>	<u>833,635</u>

4.5.4 Sundry income

	2004	2003
	USD	USD
Voluntary contributions	76,661	89,553
Recovery of contribution arrears, previously provided for	292,159	-
Other income	<u>23,242</u>	<u>30,614</u>
	<u>392,062</u>	<u>120,167</u>

4.5.5 Property and equipment

	Motor vehicles	Furniture, Fittings & Equipment	Office Equipment	TOTAL
Cost:	USD	USD	USD	USD
As at 1st June 2003	55,312	7,379	15,997	78,688
Additions	-	-	3,186	3,186
As at 31st May 2004	55,312	7,379	19,183	81,874
Accumulated depreciation:				
As at 1st June 2003	3,924	2,303	4,564	10,791
Depreciation charge for the year	12,847	761	4,041	17,649
As at 31st May 2004	16,771	3,064	8,605	28,440
Net book value:				
At 31 May 2004	38,541	4,315	10,578	53,434
At 31 May 2003	51,388	5,076	11,433	67,897

4.5.6 Contributions receivable

	2004	2003
	USD	USD
Contributions arrears	8,763,991	8,797,622
Contributions arrears - restructuring fund	96,000	100,000
Contribution due from associate members	35,445	14,596
Provision for doubtful contribution	<u>(6,911,221)</u>	<u>(7,203,380)</u>
	<u>1,984,215</u>	<u>1,708,837</u>

During the year, contribution arrears amounting to USD 292,159 that were previously provided for were recovered.

The Contribution arrears - restructuring fund relates to amounts due from member countries for their share of cost towards the restructuring of ATU as agreed during the organisation's conference held in Uganda in August 1994. Each member was to contribute USD 4,000.

The provision for doubtful contributions comprise:

	2004
	USD
Contributions arrears 1978 – 1999	6,815,221
Contributions arrears - restructuring fund since 1994	<u>96,000</u>
	<u>(6,911,221)</u>

4.5.7 Special contribution

At the organisation's conference of Plenipotentiaries held in South Africa in December 1999 each member was requested to pay a voluntary contribution of at least US\$ 50,000. The outstanding amount receivable in 2004 of US\$ 1,638,288 (2003- USD 1,714,961) has not been recognised in these financial statements as per the accounting policy described in section 6.1 (c). This amount is due from the countries listed in appendix 5 in accordance with Resolution no. 02/4SE-CPL/99.

4.5.8 Due to staff

	2004	2003
	USD	USD
Staff salaries	289,046	367,137
Dues to former employees	413,500	445,057
Staff pension contribution	<u>241,977</u>	<u>228,280</u>
	<u>944,523</u>	<u>1,040,474</u>

4.5.9 Contributions received in advance

	2004	2003
	USD	USD
Member states	147,959	195,793
Associate members	<u>180</u>	<u>180</u>
	<u>148,139</u>	<u>195,973</u>

4.5.10 Related party transactions

	2004	2003
	USD	USD
Remuneration to senior management	<u>263,889</u>	<u>279,179</u>
Outstanding liabilities to senior management	<u>489,501</u>	<u>570,678</u>

4.5.11 Legal form and domicile

ATU was established in 1977 as a specialised agency of the AU in the field of telecommunications by a resolution of the 12th Session of the Organisation African Union (OAU), now AU, assembly of heads of states and government.

The Union has been domiciled in Kenya from 1997 by MOU with KP&TC and formalised in September 1999 through an agreement with the Government of Kenya. The agreement recognises the Union as a body corporate and grants it (Union) and its staff privileges as those granted to diplomatic mission.

4.5.12 Financial instruments

The organisation does not have any interest earning financial assets or interest bearing financial liabilities at the balance sheet date.

4.5.13 Currency

The financial statements have been presented in United States dollars (US\$).

