AFRINIC BOARD OBSERVATIONS TO THE COMMUNITY

1. The AFRINIC Board met on 31 May 2015 and received a report from its Audit Committee on the 2014 annual audit and also received the draft 2014 Financial Statements (FS). The Board reconvened on 1 June 2015 to further consider the reports from the Audit Committee.

2. The Board has found it necessary to send this statement of its observations so that the community has time to consider the details in preparation for the AGMM.

3. The Board also attaches the final draft of the 2014 Financial Statements as a follow up on its first release of a preliminary draft provided on 25 May 2015.

4. The Board notes that its Audit Committee met as scheduled on 20 May 2015 to consider the Audit Report from the AFRINIC external auditor, KPMG, that was due on 15 May 2015. This was followed up by another meeting on 29 May 2015 that was designed to prepare a report for the Board.

5. The Boards notes that the 2014 audit was to be conducted and monitored based on a time-line that was agreed by the Board through its Audit Committee, AFRINIC secretariat coordinated by the Finance Director and the Auditor, KPMG.

   The Board observes that:
   a. The first submission by KPMG on the deadline of 15 May 2014 was incomplete and was submitted in bits and pieces in a random order with many missing pages.
   b. The Board then determined that the FS from KPMG was hence not fully delivered on time as required according to the time-line, thus KPMG missed the deadline
   c. KPMG is hence determined as not being compliant.
   d. The Board is unhappy with the process followed by KPMG as well as with the quality of the submission by KPMG following the assessment in the Board meetings as well as meetings with the secretariat.
   e. The Board observes that the Audit Committee following its meeting of 20 May 2015 then required KPMG to make a better quality, full and well ordered submission of the FS by a new deadline of 25 May 2014 and observes that KPMG made this improved submission.

f. Even then what KPMG submitted on the 25 May, they were simply re-bundled documents with some pages still having the original water marks of “DRAFT”. The Board observes with grave concern that the data and figures in some of the pages had also been changed significantly.
g. The Board observed that the Audit Committee raised detailed questions to KPMG on the changing data / figures and queries on what methodology KPMG followed on the audit, whether KPMG conducted the audit seriously on the premises of AFRINIC using data supplied by AFRINIC. The Board observed that the Finance Director clarified that the audit was indeed carried out on AFRINIC premises. The Finance Director clarified that he did indeed supplied data to KPMG, however, he was surprised to see that the data in the first FS draft from KPMG did not match what he submitted to KPMG. The committee then decided to raise this with KPMG on the 29 May in a WebEx teleconference.
h. An e-mail with queries and requests were sent to KPMG on the 21 May 2014 and a reply was received from KPMG on the 25 May 2015 with an updated draft FS. A similar query was sent to AFRINIC with queries raised specifically on issues that involved AFRINIC.
i. The Board conducted a discussion on its mailing list on whether to release the draft FS to the community and a majority vote decision was made to release the draft FS. The draft FS was released on the instructions of the Board on the AFRINIC members e-mail list on a few days ago.

6. The Board observed that its Audit Committee, in its meeting of the 29 May 2015 carried out a detailed review of documents received from KPMG on 25 May together with those received from AFRINIC on the 2014 Audit. Its findings were discussed with KPMG via WebEx on the same day.

The Board makes the following observations:

a. The document that the Board released to the community was still in draft form with the word “DRAFT” appearing on certain pages and as such could not be signed by the board. KPMG would still need to submit a clean copy.
b. They observed that KPMG submitted an updated FS after the the Audit Committee meeting of 29 May 2014.
c. The Board received a detailed report on this updated FS at the Board meeting of 1 June 2015 in Tunis.

d. The Board hereby submits this updated FS to the community as attached and with the following observations:

i. The Board observes that KPMG has confirmed that the figures in the updated FS are stable and also received confirmation from the AFRINIC Finance Director that the figures correspond to the ones from AFRINIC during the audit.

ii. The Board informs the community that because of the significant changes made by KPMG following the observations of its Audit Committee, the updated FS presented here is significantly different in pages and numbering from the FS that the Board circulated to the community. The community should therefore use the updated FS when reading the following observations.

iii. Plant and Equipment: A query has been raised on what new equipment was bought for $88,160. A list of equipment has been requested to help understand usage of the USD 88,160 which is a significant amount of money for purchasing computer equipment. It has been recommended that an explanatory note on this should be included in Note 4.

iv. Cash and cash equivalents: It was suggested that it should be clearly stated in the FS about who owns what cash and differentiate between cash held for projects and that differentiation exist in the books presented for example with cash held for the FIRE project. It was noted that those who provide such cash for projects may want to see that it is accounted for separately. Although the separation has now been made, it appears that there are still errors in amounts in the note when cross checked with figures on bank statements.

v. A request was made to explain the Revenue Reserve and the Board noted that the Revenue Reserve was not a reserve with cash in a bank account, but an accounting term showing revaluation of assets. KPMG was requested to explain the revenue reserve in the FS in Note 8 to clarify and avoid creating any confusion. The Board observes that this is still outstanding.

vi. Lease obligation: A query was raised on what this was covering and the Board received the explanation from AFRINIC that this was partly covering lease expenses for a car used by the COO. It was noted that that car is now “parked” and cannot be returned for fear of breaking the lease agreement which would cost more than just parking it. The Board agrees with the recommendation that the car should be used to defray other office use..

vii. Trade and other payables: For impairments entertained, the Board agrees to the recommendation that this should always be accompanied by a Board Resolution for each current and future impairment.

viii. In order to show more clearly whether the company is making surplus or deficit, it was recommended that that the financials be presented with a split showing the actual operational surplus made by AFRINIC and splitting it from the Forex gains. This has now been addressed in the FS.

ix. The Board observes that a Call Deposit as appearing in the FS needed an explanatory note since it appeared that the money came from nowhere as shown in Note 7 of the FS. The Board requested and received an explanation from the Finance Director. The Board has instructed the CEO to trace the bank records and verify the explanation received.

7. IT audit: The Board observes that KPMG was tasked to carry out an IT audit and observes that KPMG was reminded about this on a number of occasions during the audit process. The Board observes, however, that KPMG submitted a management letter called an IT Audit report and the Board observes further that the management letter submitted is grossly inadequate as an IT audit report.

   i. The Board hence agrees with the observation that KPMG did not respect the terms of reference of the IT Audit and did not reflect the requirements of the TOR.

   ii. The Board notes that, the Audit Committee, even then, still proceeded to consider some key issues. The Board hereby tasks the CEO to put in place and enforce a policy for BCP (Business Continuity Plan) for operations including IP address allocations, key services and also one on internal Operational Business Continuity. The Board observes that these are urgent.

8. The Board received a report from the Audit Committee on the Webex teleconference with external auditors where the Audit Committee raised its concerns to KPMG verbally. The Board observes the following:

   i. Key points raised above were discussed with the external auditors and KPMG was asked to act on the issues raised and resubmit the FS

ii. The Board observed that the Audit Committee queried KPMG on what methodology and approach were followed and adopted by KPMG for the financial report. The Board received a report that the Audit Committee found the answers unsatisfactory and it appears that not even the KPMG methodology was followed on this FS
iii. The issue of ever changing figures on the drafts was raised on specific FS areas and KPMG confirmed that the current figures are now stable and accurate – this was confirmed by the AFRINIC Finance Director.
iv. Requested notes and changes/additions were discussed
v. The Board observed that members of the Audit Committee voiced clear concern over the presentation of the financial statement, so far, and unhappiness with the presented work.
vi. The Board observed that the person who was assigned by KPMG to conduct the audit has now resigned from KPMG. It was observed that an attempt was made to talk to the person who would be taking over the AFRINIC account since the person who resigned indicated that the 29 May was his last day. The Board observes that the Audit Committee is gravely concerned to find that the person taking over is barely aware of the AFRINIC audit and issues concerned. He hence will most likely not be able to resolve any anomalies in a timely manner. There is hence doubt if there will be a satisfactory hand over process.
vii. The Board observes that the IT audit report was also discussed with KPMG with a clear sentiment of unhappiness of the work so far. It was indicated to KPMG that the IT audit was important and that 4000 USD of their fees was allocated to the IT audit. The Board observed that the Audit Committee expressed grave dissatisfaction that what KPMG delivered was not worth the 4000 USD paid. The Board was informed that the person who conducted the IT audit at KPMG was not in the office on the 29 May and hence the Audit Committee was unable to get any explanations from him.

9. The Board observes that the Audit Committee checked, through the Management Letter on 2014 FS, to see if KPMG had ensured that issues raised in last year's audit had been attended to. The Board observes that it was found that the Management Letter did not fully cover the required controls of the E&Y management letter and hence is concerned as to whether these controls were ever carried out.

10. Appointment of next external auditor for 2015 audit: – The Board observes that KPMG performance has indeed not been satisfactory . It has been determined that KPMG did not meet the key requirements set. The Board agrees with the recommendation that KPMG not be up for appointment for the 2015 Audit exercise and recommends to proceed as follows:
    a. In line with the above the Board recommends to the AGMM that the results of the 2014 RFP be used in order to recruit the next external auditor.
    b. The Board recommends that Deloitte be appointed as the next external auditor contracted to carry out the 2015 audit exercise.
    c. The Board observes that it appears that the Financial Auditors are not able to give a proper IT Audit. It is therefore recommended that the external auditor should be requested to make a proposal for a Financial Audit and a separate proposal for an IT audit. The IT audit could for example be sub contracted to a more competent firm by the Financial Auditor.
    d. It is recommended that, in order to get a better audit for all the AFRINIC IT, the IT audit proposal be called a more specific title such as Governance Risk and Compliance Audit (GRC) for the IT/Enterprise Architecture

11. In the light of these process and methodology flaws as outlined above the Board recommends that the external auditor KPMG be given an extra 60 days to revise and complete the audit report.

12. The Board recommends that payment to KPMG be withheld due to lack of compliance.

13. The Board recommends that a comprehensive audit be scheduled to be carried out later in 2015. The primary purpose of the comprehensive audit will be to ascertain the economy, efficiency and effectiveness of the organization's operations and use of resources. The comprehensive audit also called "value for money" audit will be designed to be wide ranging and thorough, integrating financial auditing, corporate compliance, operational audit procedures and management reviews.