

**The Republic of Rwanda  
Ministry of Finance and  
Economic Planning**

**Manual of Policies and Procedures:  
Financial Management & Accounting**

**VOLUME 4  
Financial Reporting**

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### The structure of this Manual

This Manual is presented in four separate volumes as follows:

- 1° **Volume 1:** Setting out financial policies and procedures.
- 2° **Volume 2:** Prescribing the uniform chart of accounts and the books of accounts.
- 3° **Volume 3:** Dealing with the policies and procedures for initiating, authorising, processing, and recording financial transactions, assets, liabilities, as well as the required internal controls.
- 4° **Volume 4 - This Volume:** Dealing with financial reporting requirements and procedures including the required government consolidated financial statements.

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**Definitions of key terms**

- 1° **Accrual basis of accounting:** this basis of accounting recognises transactions at the time they occur regardless of the timing of the associated cash flows. This means that the financial statements prepared under the accrual basis of accounting include not only the transactions settled in cash but also outstanding liabilities and provisions for probable liabilities. Besides, under this basis of accounting non-current assets are capitalised and depreciated over their estimated useful lives, prepaid expenses are recorded as assets until the related services/goods have been received, in which case those assets are written off.
- 2° **Appropriation:** the authority granted by parliament to incur State finances. This is usually in form of Budget Votes for specific line items in the annual State budget.
- 3° **Autonomous Budget Agency:** is a government Body, Department, Office, Commission, Board, Agency, Council, not being a local government council, or other similar government entity, not being a public enterprise, which meets the following criteria:
  - (a) Is established by a specific legislation;
  - (b) Is fully or partially funded from the central government Consolidated Fund; or
  - (c) Is fully or substantially funded from the self-raised resources but is primarily established to perform government function.
- 4° **Budget Agency:** is a government entity/unit for which, either a budget Vote has been appropriated in accordance with the provisions of the Organic Law, or is a beneficiary of a government subsidy defrayed from the Consolidated Fund.
- 5° **Cash basis of accounting:** the cash basis of accounting recognizes transactions only when the associated cash is received or paid by the entity. The measurement focus in the financial statements prepared on cash basis is balances of cash and changes therein. Thus, primarily financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. Under the cash basis of accounting, non-current assets are not capitalised hence no depreciation charges – the assets are recorded as “expenses” during the period of purchase. Furthermore, no accruals are made for unpaid or probable liabilities, and prepaid assets are not recorded as such but are instead recorded as “expenses” at the time of payment.
- 6° **Complementary period - otherwise called “13<sup>th</sup> month”:** this is a period after the close of the financial year (31<sup>st</sup> December) during which commitments relating to the closed year are paid and reported as expenditure for that year. Uncompleted collections would also be recorded similarly but hitherto, the practice is limited to expenditure. The 13<sup>th</sup> month transactions supplement the cash basis record, thus ensuring comparability between reported transactions and the corresponding approved budgets.

- 7° **Commitments:** in general terms, this refers to legally binding obligations by virtue of signed contracts for future delivery of goods or services. Technically, these are not “recordable financial transactions” until the goods/services have been delivered. Commitments are specific to a particular budget year even if paid after that year has been closed. This is necessary for comparability between budget execution reporting and the corresponding approved budget. Thus, any duly issued Purchase Orders are recognised as commitments for the purposes of financial reporting. Note that the Organic Law prohibits any expenditure commitments after the 15<sup>th</sup> November of each financial year. This assumes that between that date and the end of the financial year, the commitments would have translated into “recordable financial transactions” by delivery of the goods/services, and therefore reported as outstanding liability.
- 8° **Chief Budget Manager:** is the public officer in a Budget Agency entrusted with the responsibility to account for the State finances and property at the disposal of that Budget Agency. The Chief Budget Manager is synonymous with the term “accounting officer”.
- 9° **Consolidation Group:** is the group of the General Government entities, excluding the Extra-budgetary Funds, which are required to be consolidated in the preparation of the government consolidated financial statements.
- 10° **Extra budgetary fund (EBF):** consists of State financial resources, which are not part of the Consolidated Fund by virtue of a specific legislation or agreement with donors for such exclusion. The EBF should not be confused with funds accruing to Autonomous Budget Agencies from alternative sources. For example, advertising fees payable to ORINFOR. Such funds may hitherto be outside the annual budget but for incorrect reason. They should be included in the budget and thus consolidated financial statements.
- 11° **Financial assets:** consist of those assets directly resulting from cash transactions. In this Manual, these include bank and cash balances, short-term deposits at banks, recoverable cash advances and loans. Accordingly, non-financial assets consist of the assets other financial assets. Prepaid expenses are excluded from financial assets because ordinarily they are not recoverable/receivables.
- 12° **Financial liabilities:** consist of those liabilities directly resulting from cash transactions, and in this Manual they include loans (but excluding related interest payable), overdrafts, and treasury bills/bonds sold by government.
- 13° **General Government:** Adopting IPAS<sup>1</sup> and GFS<sup>2</sup> system terminology, General Government consists of the entities/units that fulfil the functions of government as their primary activity. In this context, the functions of government entail the provision of goods and services for the collective consumption of the community/population as a whole on a non-market & non-exclusivity basis, or redistribution of income and wealth to the population mainly through taxation & compulsory levies, and/or social security schemes.

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<sup>1</sup> IPAS = International Public Sector Accounting Standards promulgated by the International Federation of Accountants.

<sup>2</sup> GFS = General Financial Statistics, A framework of national accounting recommended by the International Monetary Fund.

- 14° **Organic Law:** means the Law No ... of ... 2006 on State Finance and Property, including the associated financial regulations.
- 15° **Public Enterprise:** is an entity meeting the following criteria:
- (a) Is established by a specific Statute and has the power/authority to enter contracts, borrow, acquire assets, sue or be sued in own name;
  - (b) Sells goods and/or services in the normal course of its business at a profit or full cost recovery - aim to break-even;
  - (c) Is not reliant on continuing government funding to remain a going concern – though it may occur, government subsidy is secondary; and
  - (d) Is controlled by government, whether directly or indirectly through another public entity. **Control** means the ability to exercise any of the following powers to govern the financial and operating policies of an entity:
    - i. To appoint or remove all or the majority of the members of its governing body/board of directors;
    - ii. To appoint or remove the entity's chief executive;
    - iii. By virtue of equity ownership, to cast a majority vote at the meetings of the entity.
- 16° **Public sector:** consists of the General Government and the public enterprises.

## Chapter 1. Introduction

### 1.1 Background

1.1.1 For over two decades, there have not been auditable consolidated financial statements of the Government of Rwanda (GoR) and various Auditor General's reports on individual ministries and agencies have revealed the existence of inadequate accounting practices across GoR. These facts are of major concern. Consequently, GoR has embarked on building its public financial management systems. As part of the programme, the Organic Law was enacted in ... 2006. The Organic Law together with the associated financial regulations are expected to bring about important changes in the way the public finance management system operates. The cornerstone of the Organic Law is the decentralisation of most elements of public financial management from the Ministry of Finance and Economic Planning (MINECOFIN) to the various budget holders/reporting entities – Central Government Ministries, Commissions, Agencies, Boards, and Local Government districts and provinces. However, the Public Accounts Department in MINECOFIN, under the direction of the Accountant General, retains the responsibility for preparing GoR's consolidated financial statements basing on financial reports obtained from the various reporting entities. In addition, the Public Accounts Department is responsible for the performance of the accounting system in Government, including the development and implementation of appropriate written policies and procedures to nurture sound accounting practices in Government, hence this Manual.

### 1.2 The purpose and scope of this Manual

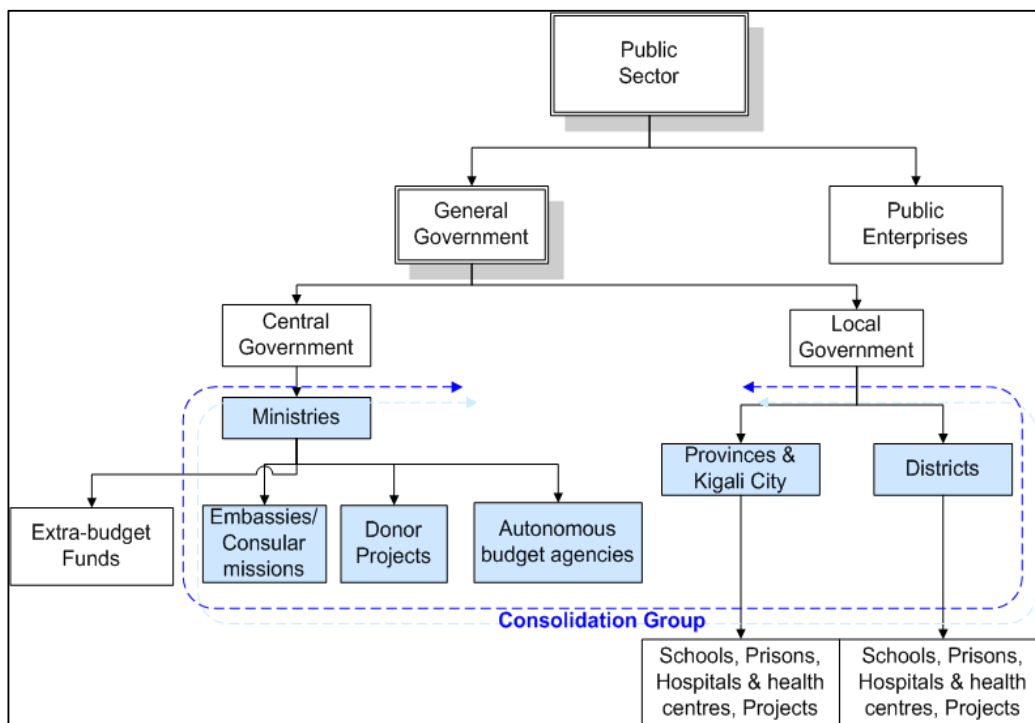
1.2.1 The primary purpose of this Manual is to facilitate:

- 1° Uniform financial policy and accounting framework at each of the reporting entities.
- 2° Appropriate internal controls at each of the entities to enable sound management of State finance and property.
- 3° High standards of financial accounting and reporting as the basis for sound decision-making by the various stakeholders namely; Parliament, Government Executives, taxpayers, the citizens in general, donors and lenders to Government.
- 4° To provide a handy workbook for the personnel entrusted with the accountability for the State finance and property.

1.2.2 Broadly, the policies and procedures for financial management and accounting entail several interdependent functional areas; namely budgeting, procurement of goods/services, management accounting, financial accounting, internal controls including associated internal audit, financial reporting including external audit, as well as the associated accounting systems environment and human resource competences. These matters are best treated in separate dedicated Manuals to ensure appropriate depth and breadth of the contents. Consequently, the scope of this Manual is limited to financial policies and procedures, financial accounting and reporting, associated internal controls, and the underlying books of account and accounting records.

1.2.3 All entities in General Government, which are summarised in Figure 1 below, are required to implement the provisions of this Manual. The full list of the General Government entities is obtainable from the Accountant General in MINECOFIN.

**Figure 1: The structure of the public sector**



1.2.4 Though technically within the scope of General Government because primarily they exist to fulfil government functions, certain entities sell some or all their services/goods at market prices or on the basis of significant cost recovery. Thus, such entities have the characteristics of both General Government and public enterprise. The dividing line will depend on the extent to which the entity relies on central government subsidies. If the entity is largely financially self reliant, it should be classified as a public enterprise, otherwise it would remain under General Government classification. Examples of those entities include the Office of Tourism and National Parks (ORTPN), National Office of Information (ORINFOR), the National Bank of Rwanda (BNR), the National Social Security Fund (CSR), and similar others.

### 1.3 The effective date of the Manual

1.3.1 This manual is effective from the financial statements for the fiscal year beginning 1<sup>st</sup> January and ending 31<sup>st</sup> December 2006. The Manual will be revised from time to time in response to changes in circumstances and the basis of accounting. Consequently, the second edition of the Manual is expected in 2008 in preparation for the launch of the accrual basis of accounting.

## Chapter 2. Statutory financial statements

### 2.1 The legal framework

2.1.1 The Organic Law, which builds from the requirements of the 1995 Constitution of the Republic of Rwanda, prescribes government financial reporting requirements as follows:

- 1° Article 68: requires the preparation of government-wide monthly and quarterly management accounts in the format and content prescribed by the Minister of Finance and Economic Planning. It is thus implied that this requirement concerns each budget agency. The Law does not prescribe a specific deadline but it would be most logical to assume the 15<sup>th</sup> to allow ample time between two consecutive months.
- 2° Article 70: each Budget Agency is required to prepare annual financial statements covering the transactions of the entity for the concluded financial year and submit the statements to the Minister of Finance and Economic Planning by 31<sup>st</sup> January of the following. In practice, the financial statements are submitted to the Accountant General on behalf of the Minister. The financial statements, which are accompanied by reconciliation statements of the bank accounts operated by the Agency, must be in the prescribed format only.
- 3° Article 71: the Minister consolidates the annual financial statements from the budget agencies and submits government-wide consolidated financial statements to the Auditor General by the 31<sup>st</sup> March. In practice, the Accountant General prepares the consolidated financial statements on behalf of the Minister.
- 4° Article 72: the financial statements must show the amounts for the comparative approved budgets together with explanations for the budget variances.

### 2.2 The purpose and qualities of financial statements

2.2.1 The sole purpose of preparing financial statements is to provide accountability to the stakeholders in State resources. There are several stakeholders with varied expectations and abilities to comprehend financial statements. Consequently, certain minimum qualities are expected of the financial statements as it is practically difficult to prepare individual stakeholder specific financial statements. Those qualities are as follows:

- 1° **Relevance:** the financial statements are prepared to provide information about the financial performance and financial position of Government, to be able to assess its stewardship and for making economic decisions regarding the delivery of its programmes/ obligations to the population. Financial information is relevant if it has the ability to influence those decisions.
- 2° **Reliability:** the financial statements should provide financial information that is reliable. Financial information is reliable if it reflects the substance of transactions (and not simply the form) and other events which have taken place, is free from bias and material error, is complete and accurate, and under conditions of uncertainty has been prudently prepared.

- 3° **Comparability:** the financial statements of a Government entity should provide information, which is capable of meaningful comparison with similar information about other Government entities for the same reporting period. Similarly, financial statements should provide information that is meaningfully comparable from one reporting period to another. Furthermore, the financial statements should provide information to enable comparison with similar financial statements from other governments. Meaningful comparability is achieved through uniform and consistent application of the approved accounting rules as well as disclosures in the financial statements throughout Government. For this reason, any changes in the accounting rules or principles must be subject to prior approval of the Accountant General and issued under a specific Ministerial Instruction by the minister of MINECOFIN.
- 4° **Understandable:** the information provided by the Government's general purpose financial statements should be capable of being understood by the diversity of users with interest and reasonable knowledge of the affairs of the public sector and its economic activities. Thus, the financial statements should be able to be linked with the underlying government programmes and activities. One of the ways to achieve this objective is to ensure consistence between the financial statements and the corresponding approved national budget not only in format but also in content.
- 5° **Materiality:** due regard should be given to materiality in deciding the information to be contained in the Government's financial statements. An item of information is material if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements. Whether the information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case. The following factors should be taken into account in deciding whether an item of information is material:
- The item's size is judged in the context of the financial statements as a whole as well as other information available to users, which would affect their evaluation of those financial statements.
  - Consideration should be given to the legality, sensitivity, normality, and potential consequences of the item, the identity of the parties involved, and the particular disclosures in the financial statements.

## 2.3 The prescribed financial statements

2.3.1 The prescribed financial statements, which are illustrated in Appendix 1, are as follows:

- 1° Monthly/quarterly financial statements – **each budget agency:**
- (i) Statement of Revenue and Expenditure
  - (ii) Summary expenditure by programme
  - (iii) Statement of financial position – balance sheet
  - (iv) Statement of cash flows
  - (v) Cash flow projections – 3 three months forecast

- (vi) Bank reconciliation statements
  - (vii) Statement of commitments
- 2° Monthly/quarterly financial statements – **government-wide consolidated financial statements**
- (i) Statement of Revenue and Expenditure
  - (ii) Summary expenditure by programme
  - (iii) Statement of financial position – balance sheet
  - (iv) Statement of cash flows
  - (v) Statement of commitments
- 3° Annual financial statements – **see appendix**
- These are full scope financial statements to be submitted for audit and eventual publication.

## 2.4 Government-wide consolidated financial statements

2.4.1 The preparation of government-wide consolidated financial statements entails the following procedures.

- 1° Obtaining written confirmation of inter-entity transactions and balances on inter-entity control accounts. This should be done as soon as possible after the end of the period being reported using a uniform confirmation template to ensure consistence. Inter-entity transactions and balances are equal and opposite and therefore cancel out on consolidation. The examples of inter-entity transactions/balances include the following:
- (i) Cash transfers from the Treasury to the budget agency.
  - (ii) Expenditure paid by the Treasury on behalf of the budget agency.
  - (iii) Revenue remittances from the Rwanda Revenue Authority to the Treasury.
  - (iv) Subsidies and grants from the Treasury to budget agencies.
  - (v) Balances on the inter-entity control accounts.
  - (vi) **Value Added Tax (VAT):** technically, VAT paid by government via suppliers of services/goods (included in invoice prices) recycles to government in form of VAT collections by the Rwanda Revenue Authority – thus some form of inter-entity transactions. Therefore, accurate reporting of revenue and expenditure would require cancelling out the VAT “collected” from government. However, in the final analysis the consolidated net financial performance is neutral because the overstatement in VAT revenue has an equal overstatement in expenditure lines, yet the process of “cancelling out” would be cumbersome. For this reason, there is no requirement to “cancel-out” the VAT transactions.

- (vii) Payroll deductions such as taxation and social security contributions – which are revenue yet at the same time expenditure (in gross salaries). These are treated in a similar manner as VAT explained above. However, related government contributions to FARG, Social Security, RAMA, etc must be eliminated to avoid double counting.
- 2° Line by line horizontal summation of the balances of expenditure, revenue, assets, and liabilities reported by the individual budget agencies, excluding the inter-entity balances and transactions.
- 3° In the event that the financial statements of the public enterprises are included in the government-wide consolidation, a distinction is made between those on which has got control (see definition 15°) and those without. The assets, liabilities, expenditure, and revenue of the controlled enterprises are consolidated line by line to the like balances in the general government, and any inter-entity transactions are eliminated on consolidation, such as dividends, profit taxes etc. The minority shareholders' proportionate share of those assets, liabilities, and net operating results are stated as "minority interest" in the government-wide consolidated financial statements.
- 4° **Basis of accounting:** the individual entity financial statements to be consolidated should be prepared using uniform accounting policies. This means that the entities in the consolidation group are expected to prepare their financial statements on same basis of accounting ("cash basis or accrual basis").

**Appendix 1: Model financial statements**

- 1° Monthly management accounts**
- 2° Annual financial statements**