Ministry of Finance and Economic Planning (MINECOFIN), Government of Rwanda

Simplified Public Financial guidelines for Chief Budget Managers

July 2011
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The Government of Rwanda’s 5-year Public Financial Management (PFM) Reform Strategy (2008-2012) was rolled out in 2008. The aim of the PFM Reform is to have an “Enhanced Public Finance Management System” which is efficient, effective, transparent and reduces opportunities for corruption.

This reform process is being implemented under four pillars and reinforced by twelve distinct but complementary components that encompasses the whole range of activities including planning and budgeting, budget execution and expenditure control, audit and inspection (internal and external), reporting and accountability, and oversight arrangements.

A mid term review of the strategy implementation that was done in early 2011 revealed that a lot has been achieved. Indeed various reviews indicate that the basic structures, legal and regulatory framework, systems and procedures are now in place to support public financial management system. The Government has invested heavily in setting up this PFM system, including training and capacity building programmes. However, the reviews have also indicated that a lot still needs to be done. For example, while the latest report of the Auditor General presented to Parliament in June 2011 showed marked improvement in use of public resources, the report also highlighted critical weaknesses that require urgent attention.

The Chief Budget Managers play a central role in the implementation of the PFM Strategy, and contribute directly to its success. According to the Organic Budget Law No 37/2006 of 12/09/2006 on State Finances and Property, they are the chief accounting officers with the overall responsibility for financial management in their respective institutions. As part of the capacity building programme, MINECOFIN holds annual training workshops for the Chief Budget Managers. These trainings, together with other capacity building initiatives, have led to marked improvement in public financial management, particularly with respect to budgeting and financial reporting.

Following the last training for Chief Budget Managers in June last year, MINECOFIN made a commitment to prepare condensed financial management guidelines for Chief Budget Managers to be published in form of a pocket size booklet, for quick reference. This booklet provides the basics in the broad areas of public financial management, and also provides references and links to relevant materials for further reading.

Accordingly, my fellow Chief Budget Managers, I have the pleasure to present you this booklet as a token of appreciation for your participation during this training workshop. I trust you will find it useful in your day-to-day duty as a Chief Budget Manager. I take this opportunity to thank the PFM Secretariat and Component Managers who have assisted in putting the booklet together. Please do not hesitate to contact myself or other senior management staff at MINECOFIN should you require any clarifications.

Sincerely,

Pitchette Kampeta SAYINZOGA
Permanent Secretary & Secretary to the Treasury
kampeta.sayinzoga@minecofin.gov.rw
1 Introduction


In September 2008, MINECOFIN formulated the Public Financial Management Reform Strategy (2008-2012) of the Government of Rwanda (GoR), which was approved by Cabinet in December 2008. By 2012 the aim of the PFM Reform is to have an “Enhanced Public Finance Management System” which is efficient, effective, transparent and reduces opportunities for corruption.

The ultimate goal, contained within the Vision 2020, is to:

“...ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. This therefore requires strengthening budget execution and as well as strengthening external audit in the medium term...”

The PFM process encompasses the whole range of activities including planning and budgeting, budget execution and expenditure control, audit and inspection (internal and external), reporting and accountability, and oversight arrangements. Some of these are managed or implemented by line ministries, Ministry of Finance and Economic Planning [MINECOFIN], Ministry of Local Government (MINALOC), Ministry of Public Service and Labour (MIFOTRA), the districts, Rwanda Revenue Authority (RRA), the Rwanda Public Procurement Authority (RPPA), the Office of the Auditor General (OAG) and Parliament.

The PFM Reform Strategy implemented under four pillars and pillars and twelve distinct complementary components.

The Government later took an initiative to incorporate Public Investment Policy as a component under Economic and Budget Management Pillar. As a result, there are now twelve components as opposed to eleven proposed by the PFM Reform Strategy 2008/09-2012/13

1.2 The Public Financial Management cycle

The Organic Budget Law, which was adopted by Parliament on 12th September 2006 and the Financial Regulations, which were adopted by Cabinet in 2007 lay down in fair details procedures for the control and use of public funds.

Strategic planning, budgeting and MTEF form an integral part of the public financial management cycle. This cycle identifies the process through which public resources are allocated, disbursed, and accounted for, in order to meet national object as shown in the diagram below. A weak link in the cycle will undermine the system as a whole.
The whole cycle described above generally covers a three year period. Therefore at any one point in time, three budgets are at different points in the cycle: for example in, in October of any year, the budget of the previous year is being audited, the budget of the current year is being executed, and next year’s budget preparation has already started. Each phase of the PFM cycle is explained further in Sections 4 – 9 of this booklet.

1.3 Sections of this booklet

Section 1: Introduction (this section)
Section 2: PFM regulatory framework
Section 3: Role and responsibilities of a Chief Budget Manager
Section 4: The planning process
Section 5: Budgeting
Section 6: Budget execution (expenditure plans, procurement plans, cash flow plans)
Section 7: Accounting and reporting
Section 8: Internal control system and procedures
Section 9: Managing the external audit process
the Auditor General is required to submit an annual audited financial report to Parliament. The audit report indicates the manner in which the budget was utilized, unnecessary expenses which were incurred or expenses which were contrary to the law and whether there was misappropriation or general misuse of public funds. Parliament reviews, debates and provides oversight function on the executive.

The Auditor General submits a copy of the report to the President of the Republic, Cabinet, the President of the Supreme Court and the Prosecutor General of the Republic. The Parliament, after receiving the report of the Auditor General referred to in this article, examines the report and takes appropriate decisions within six months.

2.4 The Cabinet

Under Article 97 of the Constitution, all executive power is vested on the President and the Cabinet. The Cabinet is accountable to both the President and Parliament in accordance with the Constitution. The Cabinet, through the Minister of Finance retains the overall financial accountability.

Article 79 of the Constitution gives broad guidelines for determination and utilization of State finances. It stipulates that, every financial year and before the commencement of the session devoted to the examination of the Budget, the Cabinet, through the Minister of Finance, prepares and presents to Parliament the budget estimates and finance bill. The Minister also submits the financial report for the previous financial year, which is accompanied with the Auditor General’s audit report.

The Cabinet also submits the budget execution report for the first semester of the current year.

2.5 Law No 37/2006 of 12/09/2006 on State Finances and Property

The Organic Law on State Finances and Property was published on 12th September 2006, and implements the constitutional provisions of Articles 79 and 183. In order to harmonise the budget to the EAC fiscal calendar, there were minimum amendments vide Law No. 65/2008 of 11/09/2008. This resulted in preparation of half year budget for the six months ended 30th June 2009. Since then, the government fiscal year runs from 1st July to 30th June.

The OBL (as it’s popularly known), regulates the implementation of budgets of central administration, local administrative entities and other public entities which receive funding from the general budget of state finances. The law focuses particularly on the principal responsibilities of those involved in preparing and implementing the central government budget and sub national governments, and on issues relating to management of State Finances and Property.

The OBL provides the legal basis of the role and responsibilities of a Chief Budget Manager, and it’s important that he/she is thoroughly conversant with each article. To help break it down, below is an overview of the seven chapters of the OBL and related articles.
2 PFM Legal and Regulatory Framework

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<th>Chapter</th>
<th>Coverage</th>
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<td>Article 1 – deals with definition of terminologies of public financial management, their roles and responsibilities.</td>
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<td>II – Powers for establishment and management of budget</td>
<td>Articles 10 – 27 elaborates the specific powers and responsibilities of Parliament, Cabinet of Ministers, Ministry of Finance and Economic Planning, PS/ST, Chief Budget Managers, and the Chairperson, Executive Secretary, Executive Committee of a local administrative entity and other heads of public entities.</td>
</tr>
<tr>
<td>III – Procedures of preparation, presentation and approval of budgets.</td>
<td>Articles 28 – 45 describes in detail the procedures for preparation, content, presentation and approval of both the central government and local administrative entities, including supplementary budget.</td>
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<td>IV – Budget Execution</td>
<td>Articles 46 – 53 deals with procedures and authorities in budget execution. The Chapter also deals with approvals and limits for the virement of the budget.</td>
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<tr>
<td>V – Government borrowing, lending, debt management and banking mechanisms</td>
<td>Articles 54 – 60 sets out the policies, a list of banks, and accounting for borrowing by public entities. The Chapter also deals with public investment and management of bank accounts for public entities.</td>
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<td>VI – Accounting, financial reports and auditing</td>
<td>Articles 61 – 73 elaborates accounting matters, including responsibilities for financial reporting, type and content of reports. Article 74 deals with audit arrangements, and building on the provisions of Articles 183 and 184 of the Constitution.</td>
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<tr>
<td>VII – Transitional and final provisions</td>
<td>Articles 75 – 79 these last articles make some transitional and final provisions. Article 76 states that persons who contravene this organic law shall be punished in accordance with the Penal Code in force in the Republic of Rwanda.</td>
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A full copy of the OBL Organic Law on State Finances and Property can be obtained from MINECOFIN website.

2.6 The Ministerial Order N° 002/07 of 09/02/2007 Relating to Financial Regulations

The Ministerial Order N° 002/07 of 09/02/2007 relating to financial regulations elaborates the implementation arrangements for the Organic Law No. 37/2006 of 12 September 2006 on State finances and property. The Regulations were issued in accordance with Article 66 of the OBL, which provides that the Minister in charge of finance shall determine the accounting standards in the central Government, local administrative entities, other public enterprises and extra budgetary funds.

Chapter VII explains budget execution procedures in further detail including preparation and submission of cash flow plans, procedures and timeframes for commitments and payments and expenditure reallocations. Chapter XI elaborates on the accounting standards and reporting procedures, and stipulates the basis of accounting. It also clarifies financial report submission dates as elaborated further in Section 6 of this booklet.


In addition to the Financial Regulations, MINECOFIN also issued a detailed manual detailed operational policies and procedures for financial management and accounting which provide guidance at the transaction level. The Manual is applicable throughout government and replaced similar instruments; namely the Manual on financial management and accounting procedures for local governments issued in 2003 and the Presidential Order No 21/01 of 12/7/2003 setting out similar rules in the central government, both of which were superseded.

This Manual is presented in four separate volumes as follows:

Volume 1 – Financial policies and procedures
Volume 2 – Uniform Chart of Accounts
2.8 Law N° 12/2007 OF 27/03/2007 on Public Procurement

The Rwanda Public Procurement Authority is a Public body established on February 20, 2008 by the law N° 63/2007 of 30/12/2007. It was created to replace the National Tender Board during a reform process in Public financial management launched by the Government of Rwanda (GoR), in which Public procurement reform was one of the most important components.

The Law on Public Procurement signed in 2007 decentralized public procurement to government institutions and established the Rwanda Public Procurement Authority (RPPA) as a procurement regulatory authority in the country and to provide procurement oversight. Among others, the RPPA is responsible for setting procurement standards, guidelines, and procedures to ensure transparent, effective and efficient public procurements and also to monitor procurements. The law also provides for the establishment of Independent Review Panels.

More details on procurement law and other reference documents are provided in Section 5 of this booklet. These documents can also be accessed on RPPA website http://www.rppa.gov.rw/
3 Role and responsibilities of Chief Budget Managers

3.2 Duties and responsibilities of the Chief Budget Manager

The role of Chief Budget Manager basically revolves around the PFM cycle. Although not necessarily in linear sequence, the broad tasks can be demonstrated as follows:

- Exercise control over the execution of the budget of his or her Agency, in respect of all related provisions of the Organic Law on State Finances and Property as well as all regulations issued by the Minister of Finance;
- Maintain accounts and records of the budget agency in the format prescribed by the Minister of Finance;
- Prepare and transmitting to MINECOFIN, all reports on budget execution and Financial Reports;
- Prepare, maintaining and coordinating the use of financial plans and managing revenues and expenditures in consultation with MINECOFIN;
- Manage effectively, efficiently and transparently the financial resources meant for the budget Agency with an aim of achieving the objectives of this organic law;
- Provide any other information as may be required by MINECOFIN and the Auditor General of State Finances;
- Ensure sound internal control systems in the budget agency;
- Ensure the professional development of their budget agency’s staff in related disciplines, which are required to discharge the responsibilities imposed on him/her by the Organic Law and this Order;
- In cooperation with the Public Service Ministry, ensure that staff are made aware of the availability of professional training and of the positions for which they may apply upon successful completion of such training;
- Appoint a Public Officer in charge of Finance to assist the Chief Budget Manager carry out his/her technical responsibilities under these Ministerial Orders as they relate to overall budgetary management and control;

Article 21 and 25 of OBL

The responsibilities of the Chief Manager are specified in Article 21 and 25 of OBL and further elaborated under Article 9 of the Financial Regulations as follows:

- Prepare the annual budget and the medium-term budget framework for his or her budget Agency;
3 Role and responsibilities of Chief Budget Managers

(xii) Appoint an Accountant in consultation with the Accountant General, to assist the Chief Budget Manager carry out his/her technical responsibilities under this Order as they relate to the establishment and operation of an accounting system;

(xiii) Appoint a procurement officer and members of the proac- cordance with the Organic Law and the Public Procurement Law.

Accordingly, the Chief Budget Manager is responsible for all the phases of the PFM cycle. These simplified guidelines will act as quick point of reference on a day-to-day basis in dealing with various aspects of financial management in their respective Budget Agencies.

4 The Planning Process

Theoretically, the PFM cycle starts with the planning process. The planning function is coordinated by the National Development Planning & Research (NDPR) at MINECOFIN. The department is also responsible for ensuring that planning function in both central and local government is aligned to national priorities, and informs the budgeting process. The department is also in charge of monitoring and evaluation to assess achievement of EDPRS targets. In turn, each Ministry and some of the large agencies have a planning department.

In 2008, NDPR developed a comprehensive “National Planning, Budgeting and MTEF Guidelines” for use by officials in charge of planning and budgeting in the various line ministries. Their responsibility includes the coordination and elaboration of the sector strategic plan, preparation of the medium term budget and Medium Term Expenditure Framework (MTEF), and organisation of the sector review process.

4.1 Key planning documents

The NDPR department has developed a number of important planning instruments, such as the Vision 2020; the Long Term Investment Framework; the Economic Development and Poverty Reduction Strategy; sector strategic plans, District development plans; the Medium Term Expenditure Framework; and the Annual Actions Plans and District Performance Contracts.
The Planning Process

The linkages and hierarchy between these different planning instruments is demonstrated in the diagram below.

At the top of the hierarchy is the Sector Strategic Plan, which spells out the broad orientations for the sector based on national documents such as Vision 2020 and the EDPRS. Sector Strategic Plans and District Development Plans generally cover a 3 to 5 year period. Therefore, they are not elaborated every year. Nevertheless, they provide the context in which the MTEF is updated every year and the Annual Budget prepared (see Section 5 of this booklet). Based on these, Annual Action Plans, performance contracts (imihigo), unit level work plans and individual actions plans should be produced, as indicated in the above diagram.

4.2 Overall planning and budget cycle

The annual planning and budgeting process can roughly be divided into three consecutive phases: national priority setting (months 1-4), strategic planning (MTEF) (months 4-8), and development of the National Finance Law (months 9-12). Simultaneously, during the whole year, a budget is being executed with regular in year reporting. The overall planning and budgeting calendar can be demonstrated as follows:

<table>
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<th>PERIOD</th>
<th>NATIONAL LEVEL</th>
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<tr>
<td>July</td>
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<td>June</td>
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The year in which budget preparation takes place is N; the year for which the budget is being prepared is N+1; the following two years, for which medium term expenditures are projected, are N+2 and N+3.

4.3 Key steps in planning and budgeting

Preparation of the budget involves 4 key steps as summarised in the diagram below.
4 The Planning Process

Step 1: Determination of National priorities

At the national level, the first step in budget planning and preparation is the forecasting of government revenues and expenditures in the country’s macroeconomic framework, together with the determination of the national priorities of government as expressed in its Economic Development and Poverty Reduction Strategy (EDPRS) and as approved by the Cabinet. This phase constitutes the review period where the previous year’s performance is assessed and national priorities are set for the coming year. It also includes joint sector and budget support reviews with external financing partners. The activities involved are as follows:

<table>
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<th>Level</th>
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<tr>
<td>National (MINECOFIN)</td>
<td>Macroeconomic Review &amp; medium term projections</td>
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<td>EDPRS annual progress report</td>
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<td>Sectors</td>
<td>Joint Sector Review</td>
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<td>Report on Annual Action Plan &amp; Budget Execution</td>
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<td>Districts</td>
<td>Report on imihigo</td>
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<td>Joint District Review</td>
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<td>Development Partners</td>
<td>Joint Budget Support and PFM review</td>
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<td>Proceeding this, DPs make tentative commitments for the following year</td>
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<tr>
<td>Cabinet/Parliament</td>
<td>Government Retreat where national priorities for the coming year are decided</td>
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Step 2: Preparation of the National MTEF

The second step is the allocation of forecasted expenditures to sectors and budget agencies consistent with the national priorities and the macroeconomic framework. The forecasts of these allocations for the budget year under preparation (N+1) and the following two years (N+2 and N+3) constitute the national Medium Term Expenditure Framework (MTEF).

Step 3: Preparation of Agency budget and MTEF

Preparing the national MTEF is the responsibility of the National Budget Department of MINECOFIN while the Macroeconomic Framework for the medium term is determined by the Macro Department of MINECOFIN. The Macroeconomic Framework incorporates the tentative donor commitments for budget support and project aid. The National Priorities are used to produce initial sector ceilings which are consistent with the Macroeconomic Framework.

Next, budget agencies, i.e. government institutions that receive appropriation of funds in line with the Finance Law, plan their expenditure allocations to their programmes and sub-programmes based on their strategic priorities and the national MTEF that is communicated to them in the Budget Call Circular (BCC). The programme and sub-programme allocations for the budget year under preparation and the following two years constitute each budget agency’s Medium Term Expenditure Framework (MTEF).

Budget agencies exercise budget discipline by preparing budget proposal and forecasts within the budget envelopes communicated to them by MINECOFIN in the BCC and the national MTEF. The preparation of the annual budget involves joint consultations between budget agencies and MINECOFIN, based on the agency’s strategic priorities, proposals for the budget year under preparation (N+1), expenditure projections for N+2 and N+3, i.e. the budget agency MTEF, and the national MTEF.
4 The Planning Process

Step 4: Preparation and submission of Finance Law to Parliament

When budget consultations are finalised, the Minister of Finance submits to Cabinet the proposed national budget for the year N+1 as well as the expenditure projections for N+2 and N+3, i.e. the national MTEF, including budget agency budget proposals and MTEFs. On approval by the Cabinet, the Minister transmits to Chamber of Deputies the proposed Finance Law for N+1 accompanied by related budget documentation including the national and budget agency MTEFs.

5 Preparation of the Budget

Section 4 above covers the overall planning process, and shows the linkage with the budget process. This section details specific steps in the budget preparation process, as it’s one of the core functions of the Chief Budget Manager. The budget preparation process is coordinated by the National Budget Department at MINECOFIN and all the budget related documents are posted at their website http://www.minecofin.gov.rw/ministry/directorates/nb.

5.1 The First Budget Call Circular

The budget preparation call circular is triggered by the issuance of the First Budget Call Circular (BCC). The BCC is issued in accordance with Article 28 of OBL, and provides information to guide the Chief Budget Managers in the preparation of the budget. The 1st BCC is normally issued in October and it is important that Chief Budget Managers start using it from October.

The 1st BCC is not intended to seek budget submissions from budget agencies but is rather aimed at giving advance information to facilitate timely coordination and effective planning within the sectors to allow formulation of policy based budgets within individual budget agencies at a later stage. The 1st BCC is aimed at inducing discussions at the sector level on priority activities to be funded through the Government budget for the following financial year. These priorities should be reflected in joint sector review report and should be the basis for submission of the budget requests in response to the 2nd BCC, normally issued in early December.
5 Preparation of the Budget

5.2 The Second Budget Call Circular

As indicated above, the 1st BCC issued in October is meant to provide advance information to budget agencies to better prepare and make informed plans and budgets. The 2nd Budget Call Circular is issued in early December requiring budget agencies to prepare detailed budget submissions for the following financial year. The 2nd BCC, which is also prepared by National Budget Department, includes:

(a) The total indicative resource envelope derived from the macro-fiscal framework consistent with the broad policy objectives. The indicative ceilings are issued at high level at line ministries, provinces and other high level government institutions. This is to allow coordination and prioritization of activities at the high level of Government programmes. The parent institutions (Ministries and other high level institutions) that have been allocated ceilings are required to immediately undertake consultative process with all affiliated agencies to agree on individual agency ceilings that shall be the basis for the detailed budget estimates to be entered in the budget system (SmartFMS).

(b) Budget submission formats (Annexes) to be submitted by each budget agency to assist in preparation of the Finance Law (including externally and internally financed projects, internally generated revenues, earmarked transfers to districts, Agency MTEFs, Strategic Issues Papers (SIPs).

5.3 Strategic Issues Papers (SIPs)

The Strategic Issues Papers (SIPs) and Agency MTEFs are prepared by line ministries after consultation with their affiliated agencies, projects and districts. At this stage, information is gathered regarding projects support and sector budget support.

The SIPs and agency MTEFs are submitted to MINECOFIN and analyzed by NBD. Budget consultations are then held between line ministries and MINECOFIN (in March) to agree on final ceilings to submit to Cabinet & Parliament.

As indicated above, budget preparation is one of the most important responsibilities for a Chief Budget Manager. Chief Budget Managers should ensure that the contents of the guidelines are strictly adhered to and all issues therein are addressed in their draft budget estimates.

5.4 Submission and approval of budgets

As indicated in Section 2.5, the procedures for preparation, presentation and approval of budgets are provided for under Chapter III Articles 28-45.

It should be noted that no budget should be provided for urgent and unforeseen expenditures with a budget of a central government agency as provided in article 31 of the OBL. Such a budget is only provided under the budget of Ministry of Finance and Economic Planning. However, each district may provide for such expenditure in its own budget as provided under article 32 of the law.

Article 35: Expenditure estimates shall be prepared by budget Agencies, based on the available resources and the guidelines issued by the Minister. Each budget Agency shall have a separate budgetary line (vote) in the budget. Expenditure estimates of each budget Agency are
5 Preparation of the Budget

organized in a programmatic, economic and functional classification, in line with international classification standards.

Article 6 of the OBL obliges government institutions to reflect all the revenues including grants and all expenditures within their budgets. Chief Budget Managers should ensure during budget preparation that this requirement is respected.

In order to meet the constitutional obligation as per Article 79 to submit the draft budget estimates and MTEF to parliament before commencement of the budget session, the draft estimates of Budget Agencies should reach MINECOFIN not later than January 28th, in hard copies and electronically through SmartFMS. This gives NBD time to analyse the budgets and conduct Budget Hearings for all Sector Ministries. In months 8-9 (February/March), the detailed draft budget is prepared by MINECOFIN along with accompanying Budget Framework Paper (BFP).

The BFP sets out the macroeconomic context of the draft budget as well as the key policy choices underlying the proposed resource allocation. The BFP is discussed by Cabinet and recommendations are incorporated. The BFP and draft Budget is discussed with donors at the second Joint Budget Support Review. It is at this point that Development Partners make firm commitments for the coming year.

In accordance with article 79 of the Constitution of the Republic of Rwanda of June 4, 2003 as amended to date, the Cabinet shall submit the draft budget to the Chamber of Deputies before the beginning of the budget session. This is further elaborated in Article 42 of OBL. The Minister presents the draft estimates and BFP to Parliament in the 10th month of the financial year (April).

The Parliamentary Committee on Budget and State Property in collaboration with other sectoral committees scrutinizes the BFP and the draft budget estimates and submits a report to plenary containing recommendations to the Executive for improvement of the BFP and draft budget estimates. This report is normally submitted before the end of May and becomes the basis for revising the BFP and preparing the draft Finance Law.

After the approval of the draft finance law by Cabinet around the first week of June, the draft finance is submitted to Parliament and is officially laid before the Parliament by the Minister of Finance and Economic Planning during the second week of June. The budget is ordinarily voted and approved by Parliament before commencement of the next fiscal year.

5.5 Preparation and approval of Local Government Budgets

The Intergovernmental Fiscal Relations Unit (IGFR) in MINECOFIN acts as the coordinating unit between the district and national budget cycle.

Districts carry out their own review of last year’s performance which is discussed at the Joint Action Forum in month 2 (August). During budget preparation, districts participate in consultations with line ministries on Earmarked Transfers. MINECOFIN (IGFR) sends out the District Budget Call Circular for Districts to prepare their budgets. Following the finalization of the BFP at the national level, districts prepare their
5 Preparation of the Budget

detailed budget based on final resource envelopes agreed at Districts’ Joint Action Forum and transfers from Central Government communicated by the Ministry of Finance and Economic Planning.

As required under article 43 of the OBL, the draft budgets of local administrative entities shall be submitted to the executive committee of such an entity for further analysis before submission to the local council of such an entity for examination and approval. When the draft budget of local administrative entities has been approved by Council, they shall make it public to the general meeting of the residents convened by the Executive Committee of the local administrative entity, in each sector.

5.6 Revised Budget

Article 45 of OBL provides for revision of budget after six months of implementing the budget. The proposed changes shall be consistent with the approved medium-term strategies and budget framework; and if they are different from the approved budget framework, the reasons thereof shall be notified to the Parliament or to the local Council of such an entity.

Accordingly, the Chief Budget Managers are required to monitor closely the implementation of their budget by keeping a close eye on issues that might require revision after six months of implementing the budget. These should be the issues that cannot be handled through budget re-allocation like information on project funds that has just been communicated by the donor, under-spending of a project that might require some adjustment in the procurement plan and thus budget revision etc.

5 Preparation of the Budget

Requests for budget revision should be communicated to the Ministry of Finance and Economic Planning by the first week of December to have an informed decision of whether a budget revision is warranted or not by the end of December.

5.7 Annexes to 2nd Budget Call Circular

The Annexes to the 2nd BCC are as shown below. These may vary slightly from year to year but most are the same. Note that the Annexes for Local Government are customised to reflect their peculiarities. It is very important for the Chief Budget Manager to be familiar with these Annexes and to personally get involved in completing and reviewing them before submission to MINECOFIN. The accuracy of the budget depends on the completeness of these annexes.
Annexes to the 2nd Budget Call Circular

Annexes to 2\textsuperscript{nd} Budget Call Circular - Central Government

\begin{itemize}
\item ANNEX 1: PRIORITIES TO GUIDE RESOURCE ALLOCATION
\item ANNEX 2: CEILINGS
\item ANNEX 3: GUIDELINES ON IMPLEMENTATION OF REVISED UNIFORM CHART OF ACCOUNTS
\item ANNEX 4 (A): CLASSIFICATION OF REVENUES
\item ANNEX 4 (B): CLASSIFICATION OF EXPENDITURES
\item ANNEX 5: SECTOR FOCAL POINTS
\item ANNEX 6: MTEF FORMAT FOR CENTRAL GOVERNMENT
\item ANNEX 7: NEW EARMARKED TRANSFER
\item ANNEX 8: BUDGET PROGRAMS AND SUB PROGRAM STRUCTURE OF THE CENTRAL
\item ANNEX 9: UNBUDGETED ITEMS
\item ANNEX 10: JOB CLASSIFICATION
\item ANNEX 11: CONTRACTUAL STAFF
\item ANNEX 12: ACTION PLAN
\item ANNEX 13: PROCUREMENT PLAN
\item ANNEX 15: PUBLIC INVESTMENT PROGRAMMING 2011/12-2013/14
\item ANNEX 16: INSTRUCTIONS FOR THE PREPARATION OF A GENDER BUDGET STATEMENT
\item ANNEX 17: SECTOR SPECIFIC GUIDELINE FOR ENVIRONMENTAL MAINSTREAMING
\item ANNEX 18: STRATEGIC ISSUES PAPER FOR THE 2011/2012 FINANCIAL YEAR
\item ANNEX 19: SUBSCRIPTION FEES TO REGIONAL AND INTERNATIONAL ORGANISATIONS
\item ANNEX 21: EARMARKED TRANSFERS GUIDELINES FOR 2011/2012 BUDGET PREPARATION
\item ANNEX 22: CEILINGS FOR DISTRICTS
\item ANNEX 23: MODEL PROGRAMS AND SUB-PROGRAMS FOR LOCAL GOVERNMENT
\item ANNEX 24: 2011/12 PROVISIONAL NATIONAL BUDGET CONSULTATIONS CALENDAR
\end{itemize}

Annexes to 2\textsuperscript{nd} Budget Call Circular - Local Government

\begin{itemize}
\item ANNEX 1: PRIORITIES TO GUIDE RESOURCE ALLOCATION
\item ANNEX 2: DISTRICT BUDGET CEILINGS
\item ANNEX 3: 2011-2014 EARMARKED TRANSFERS AND BLOCK GRANTS BUDGET CEILINGS BY
PROGRAMMES AND SUB-PROGRAMMES
\item ANNEX 4: GUIDELINES ON IMPLEMENTATION OF REVISED UNIFORM CHART OF ACCOUNTS
\item ANNEX 4 (A): CLASSIFICATION OF REVENUES
\item ANNEX 4 (B): CLASSIFICATION OF EXPENDITURES
\item ANNEX 5: DISTRICT FOCAL POINTS
\item ANNEX 6: MTEF FORMAT FOR LOCAL GOVERNMENT
\item ANNEX 7: MODEL PROGRAMS AND SUB-PROGRAMS FOR LOCAL GOVERNMENT
\item ANNEX 8: JOB CLASSIFICATION
\item ANNEX 9: CONTRACTUAL STAFF
\item ANNEX 10: DISTRICT ANNUAL ACTION PLAN
\item ANNEX 11: DISTRICT PROCUREMENT PLAN
\item ANNEX 12: DISTRICT INVESTMENT PROGRAMMING
\item ANNEX 13: INSTRUCTIONS FOR THE PREPARATION OF A GENDER BUDGET STATEMENT
\item ANNEX 14: SECTOR SPECIFIC GUIDELINE FOR ENVIRONMENTAL MAINSTREAMING
\item ANNEX 15: STRATEGIC ISSUES PAPER FOR THE 2011/2012 FINANCIAL YEAR
\item ANNEX 16: SUBSCRIPTION FEES TO LOCAL, REGIONAL AND INTERNATIONAL ORGANISATIONS
\item ANNEX 18: EARMARKED TRANSFERS GUIDELINES FOR 2011/2012 BUDGET PREPARATION
\end{itemize}

On the next page is the budget calendar extracted from the 1st BCC of 8th October 2010. The full document is available on MINECOFIN website http://www.minecofin.gov.rw/node/227.
Budgeting Execution is spread across the entire year, from July to June (as indicated in the diagram on Section 4.2). Provisions relating to budget execution are found under Chapter IV, Articles 46-53.

The budget is executed on the basis of the Finance Law, the Action Plan’s of budget agencies and cash flow plans. Cash Flow plans permit spending on a quarterly basis. No payments shall be made without prior commitment to pay has been established, except for permitted expenditures. In accordance with the authorization issued, budget Agencies shall make commitments and shall request for funds for payment.

It is VERY IMPORTANT for the Chief Budget Manager to ensure that the action plans and the procurement plans being implemented are the ones updated to match with the approved budget that is communicated by the Minister of Finance and Economic Planning during the first week of July.

### 6.1 Integrated Financial Management system (SmartFMS)

Since September 2009, MINECOFIN has been developing an Integrated Financial Management System (IFMS) as part of the wider PFM reforms aimed at enhancing and harmonising budget preparation, execution, financial management and reporting across government agencies. The system, known as SmartFMS, an in-house developed software that has been developed specifically for GoR.
6 Budgeting Execution

SmartFMS has a separate Budgeting functionality under Budget Master and currently has three core modules in active use namely:

- General Ledger
- Accounts Payable, and
- Revenue management

On 1st July 2010, MINECOFIN rolled out the core modules of the SmartFMS to 87 budget agencies. The roll out to these budget agencies is the first phase of the roll out. The second phase, which was planned for 1st July 2011 was postponed to 1st July 2012 due challenges experienced in Phase I roll-out.

SmartFMS is an Integrated Financial Management Information System (IFMIS) used throughout government for budget execution. During budget preparation, budget data is entered into the system, and during execution, spending commitments are recorded in SmartFMS to track execution.

### 6.2 Procurement - important activities for Chief Budget Managers

Budget Agencies are required to submit their draft procurement plans as part of the budget submissions in the required format and consistent with the estimates and format provided. For example, the procurement plan was included as Annex 13 (refer to Section 5.6 above). The procurement plans inform the preparation of cash flow plans and are the basis of spending.
6.3 Cash flow plans

Article 46: After the adoption of the annual budget, the Minister or the Chairperson of the Council of the local administrative entity shall inform the Chief Budget Manager of each budget Agency of its approved budget, and shall request from him/her a detailed annual expenditure plan of the Budget.

The Minister shall issue to each Chief Budget Manager, authorization for execution of the budget basing on the amount the entity received and after examining the annual expenditure plan of the budget. Authorization shall be issued on a quarterly basis and on each budgetary line. Depending on the State Budget revenues, the Minister may issue the authorization on a monthly basis.

Effective cash management implies the efficient utilization of the limited budgetary resources available to the Government of Rwanda. The introduction of a cash flow planning system is a first step towards improved cash management.

What are the basic requirements for effective cash management?

(i) A realistic budget
(ii) Clear procedures for the release of budget appropriations (communicated in advance to the budget agencies)
(iii) Clear action Plans & Procurement Plans
(iv) Strict observance of the budget execution rules
(v) Clear guidelines in relation to government borrowing
(vi) Good coordination between the planning department, the accounting unit and spending units at the budget agencies
(vii) Accurate preparation of cash flow forecasts as a basis for cash planning

Single Treasury Account

GoR uses a Single Treasury Account (STA) - a system for the concentration of bank balances on the main treasury account, whilst giving budget agencies increased control over their payments through direct payment & sub accounts. The underlying principle is that payments on all accounts are reimbursed from the main treasury account at the end of each business day to restore all accounts to a nil balance. Thus, the main treasury account is debited on the same day as outgoing payments to suppliers. This is more efficient than funding budget agency accounts.

6.4 Commitment and payment process

The only acceptable mode of committing expenditure is a duly issued “purchase order”. The purchase order is recorded in the IFMS (or automatically generated by the IFMS) thus triggering the accounting process. Before delivery of the associated services/goods, the issued purchase orders are reflected as “commitments” in the routine financial reports thus indicating that the allocated budget has been partially “consumed” by that amount.

After the delivery of the goods/services & supplier invoice, the commitments convert into actual charge to government expenditure, and therefore a liability if not yet paid. If a purchase order is subsequently duly cancelled, the “commitment” should be correspondingly cancelled, meaning that the amount is again available as part of the alloca-
6 Budgeting Execution

6.5 Reallocation of budget

Article 51 of the OBL puts limitations on budget re-allocations and it is therefore important that Chief Budget Managers take adequate care to ensure that the allocations to budget lines submitted to Parliament are the ones they would like to implement. It is ridiculous for a budget agency to ask for re-allocations within one month after the approval of the budget. Detailed rules of what is allowed, what can be requested from the Ministry of Finance and Economic Planning and what requires the approval of Cabinet and Parliament are contained in the budget re-allocation guidelines at http://www.minecofin.gov.rw/ministry/directorates/nb.

6.6 Budget execution reports

Article 72: Chief Budget Managers are responsible for preparing the respective financial reports of their respective institutions and shall explain their budget execution relative to objectives to be achieved and estimates, and especially emphasizing on the reasons why budget achievements differ from those planned.

In reality, the current focus is on financial reporting but there is a need to improve on quarterly and annual budget execution reporting which should also relate financial inputs to performance targets. This is the essence of Programme Based Budgeting (PBB) which the Government has implemented.

6.7 Borrowing and Investment in Shares

Article 55 limits the authority of Government Agencies to borrow for whatever reasons to prior approval by the Minister of Finance and Economic Planning. This requirement applies to all budget agencies. The permission to borrow has to be communicated officially and in writing and has to be kept carefully for audit purposes.

Article 59 limits the authority of Agencies to participate in shares or purchase of shares as a means of investment to prior approval by the Minister of Finance and Economic Planning. Like borrowing, authority to invest has to be communicated officially and in writing and has to be kept carefully for audit purposes.
7 Accounting and Reporting

Accounting and reporting is closely linked to the budget execution process.

7.1 The accounting cycle

Accounting and Reporting is one of the major processes in public financial management. The key elements of accounting and reporting include the following tasks:

- Revenue collection: Rwanda Revenue Authority is mandated to correct revenue on behalf of GoR. This revenue is then deposited at Central Treasury and appropriated to Budget Agencies.
- Procurement of service and goods is carried out in accordance to procurement plans and budget.
- Data entry is carried out in the accounting system.
- Verification of data entry and reconciliations.
- Generation of trial balance.
- Preparation of financial statements in the prescribed format. The format is issued by MINECOFIN.
- Review by CBM and submission of report (monthly, quarterly, annual – refer to statutory deadlines).

7.2 Key Reporting Deadlines and Sanctions

The key dates with respect to submission of financial reports are well elaborated in Financial Regulations are as follows:

<table>
<thead>
<tr>
<th>Reporting deadline</th>
<th>Report required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 32: With 10 days of the end of each month</td>
<td>The Chief Budget Managers shall submit monthly financial reports to the Accountant General in the prescribed format.</td>
</tr>
<tr>
<td>Article 35: Within 30 days of the fiscal year end</td>
<td>All Chief Budget Managers shall submit their budget agencies financial reports to the Accountant General.</td>
</tr>
<tr>
<td>Article 35: By 30th September of the following year</td>
<td>Public entities shall prepare their annual financial statements and submit them to the Auditor General.</td>
</tr>
</tbody>
</table>

Sanctions for non compliance

Article 39: Non Compliance with the provisions of the Organic Law on State Financial and Property and these Ministerial Orders, states:

Any officer who:

1. without a reasonable explanation, fails to comply with any of this Order; or
2. without a reasonable explanation fails to perform any of the duties or functions assigned to him/her by the Organic Law, commits an offence and is liable to disciplinary action according to Law Number 22/2002 of 9/7/2002 on General Statutes for the Rwanda Public Service.

Any budget agency which, without a reasonable explanation, fails to comply with financial reporting requirements prescribed by this Order is liable to disciplinary measures, which may include withholding of treasury transfers to such agency.
7 Accounting and Reporting

7.3 Financial reports

A standard financial report for a Budget Agency should comprise:

(a) Financial Statements

(i) Statement of revenue and expenditure;
(ii) Statement of financial position;
(iii) Notes to the financial statements; and
(b) Budget execution report.

Key emphasis regarding submission of financial reports:

- The financial report should cover the period between 1st July and 30th June with comparatives of previous financial year;
- The reports should be submitted in the prescribed format as laid out in the Standard Reporting Template issued by MINECOFIN;
- The reports should be submitted in a soft copy and a hard copy; and
- The report should be duly signed by the Chief Budget Manager, Director of Finance, Accountant and Budget Officer.

7.4 Key accounting terms defined

- Standard Reporting Template – this is a reporting template issued by MINECOFIN for reporting purpose.
- Statement of revenues and expenditure / income statement – A statement showing the surplus or deficit during a reporting period.
- Financial Assets and Liabilities / Balance sheet – Statement of liabilities
- Trial Balance – a summary of the general ledger.
- General ledger – a detailed account of all the transactions carried out during a financial period.
- Bank reconciliation statement – a statement explaining the variances between balance reported by the cashbook and that reported under the bank statement.
- Cash count certificate – a certificate showing evidence of cash balance reported at the reporting date (end of the year).
- Accounts payable – these are the creditors for the Budget Agency as at the reporting date.
- Accounts receivable – these are the debtors for the Budget Agency as at the reporting date.
- Inter entity transfers – these are transfers to and from reporting entities. A reporting entity is an agency that is mandated to provide an independent financial report to MINECOFIN.
- Budget execution report – this is an analysis of period budget against actual expenditure.

7.5 Quality Review of Financial Statements

Pursuant to Article 69 of OBL, before the end of the fiscal year, the Minister shall issue directives concerning the procedures of closing the books of accounts and preparing annual reports of central Government organs, all budget recipient entities, public institutions and local administrative entities.
The year end closing procedures provide instructions remind the Chief Budget Managers of their responsibilities with respect to preparation and submission of financial reports.

It is very important for the Chief Budget Manager to review the financial report before submission to MINECOFIN, the line Ministry and the Auditor General as the case maybe. Below are some 10 tips to guide the Chief Budget Manager to review financial statements.

<table>
<thead>
<tr>
<th>Ref no.</th>
<th>Quality review area. Ensure that:</th>
<th>How does this help you?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The accountant has provided a trial balance from the accounting system for the twelve months ending 30 June.</td>
<td>Ensures that the financial statements are adequately supported.</td>
</tr>
<tr>
<td>2</td>
<td>The trial balance includes all the bank accounts maintained by the institution.</td>
<td>Ensures the financial statements are complete</td>
</tr>
<tr>
<td>3</td>
<td>All bank accounts (cashbooks) are supported by a bank statement and a bank reconciliation statement with no errors.</td>
<td>Ensures the cashbooks are accurate.</td>
</tr>
<tr>
<td>4</td>
<td>The petty cash balance is supported by a petty cash count certificate attached to the financial statements.</td>
<td>Ensures the cash balance is accurate</td>
</tr>
<tr>
<td>5</td>
<td>Opening balances on the standard reporting template match the ones on the report for previous year signed by the CBM. Any changes should be explained in a note to the financial report.</td>
<td>Ensures no changes were made in the previous year without CBM approval.</td>
</tr>
<tr>
<td>6</td>
<td>Inter-entity account balances are reconciled and confirmed with the counterpart institution and a reconciliation statement provided for any differences.</td>
<td>Ensures inter-entity transactions have been properly accounted for.</td>
</tr>
<tr>
<td>7</td>
<td>Accounts payable and receivable (debtors and creditors) are explained in a note to the financial statements and a detailed listing of debtors and creditors provided as an appendix.</td>
<td>Ensures accuracy and completeness of accounts payable and receivable.</td>
</tr>
<tr>
<td>8</td>
<td>Budget Execution Report (BER) is included in the financial statements with explanations for major variances. The total income and expenditures in the BER should agree to the income and expenditure statement.</td>
<td>The budget vs. actual analysis shows budget line items with major variances and explanations for the same.</td>
</tr>
<tr>
<td>9</td>
<td>Financial statements are prepared in accordance with the format issued by MINECOFIN and notes to the financial statements are accurate and correspond to the main financial statement.</td>
<td>Ensures the financial statement figures are well supported and explained by way of notes.</td>
</tr>
<tr>
<td>10</td>
<td>The financial statements are prepared on time for review by the CBM to allow for timely submission to the Accountant General and the Office of the Auditor General.</td>
<td>Ensures compliance to statutory deadlines and ownership of the financial statements by the institution</td>
</tr>
</tbody>
</table>
8 Maintaining a Sound Internal Control System

8.1 Legal Basis

- Article 7 of Organic Law N° 37/2006 on State Finances and Property provides in par 7 that the Minister has the responsibility of "ensuring the adequacy of internal control and internal audit arrangements ... ."

- Article 21 of Organic Law N° 37/2006 provides that the Chief Budget Manager shall be responsible for “exercising control over the execution of the budget of his/her agency...”

- Article 9 of the Ministerial Order No. 002/07 of 09/02/2007 relating to Financial Regulations, the responsibility to establish and maintain an effective internal control system rests with the Chief Budget Manager.

- Article 9 of the Ministerial Order No 002/09/10/GPIA of 12/02/2009 setting out regulations for Internal Control and Internal Audit in Government which provides that The head of the internal audit unit in a government entity shall regularly evaluate the internal control system at the entity and, on the basis of the audit evidence gathered, make an annual independent statement about the overall adequacy and effectiveness of the internal control system at the entity.

8.2 Internal Controls in brief

Internal control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. In other words, Internal Controls consist of the policies, processes, tasks, behaviour and other aspects of a Budget Agency that taken together:

- Facilitate its effective and efficient operations,
- Help safeguarding its assets and records,
- Ensure reliable reporting both internal and external,
- Help compliance with applicable laws, regulations, and policies.

As per article 21 of the Organic Law N° 37/2006 and to Article 9 of the Ministerial Order No. 002/07 of 09/02/2007 relating to financial regulations, the responsibility to establish and maintain an effective internal control system rests with the Chief Budget Manager.

This responsibility is restated by Art 5 of Ministerial Order No 002/09/10/GPIA of 12/02/2009 setting out regulations for Internal Control and Internal Audit in Government which provides that “It shall be the responsibility of the chief budget manager and other personnel in the entity to establish and implement the effective internal control system in the entity”.

The Chief budget Manager must ensure that effective controls are in place covering receipts, expenditures, bank accounts, fixed assets, accounting records, etc.

Article 3 of the above Ministerial Order No002/09/10/GPIA of 12/02/2009 states that an internal control system shall be deemed to be effective if it provides reasonable assurance that:
Maintaining a Sound Internal Control System

1° Government resources at the entity are used with economy, efficiency, effectiveness, and consistent with the mission of the entity;  
2° Government assets at the entity are safeguarded against waste, loss, misuse, damage or mismanagement;  
3° The government programs executed by the entity achieve intended objectives, goals and targets;  
4° The entity complies with laws and established regulations, policies, plans and procedures; and;  
5° The entity’s management information and financial reporting are reliable and of high integrity.

The role of management and internal audit in risk management is stipulated by Article 4 of the above Ministerial Order No002/09/10/GPIA of 12/02/2009, states that the internal control system shall consist of … controls including the risk assessment and mitigation practices..., and Article 11 states that the objective and mission of internal audit shall be to provide an independent objective assurance and advisory about the effectiveness of an entity’s risk management governance … processes. Risk management guidelines will be issued to assist budget agencies in implementing risk management frameworks.

8.3 Role of Internal Audit Function

The mission of the Internal Audit units in Government is to help Ministries, Districts and other Budget Agencies satisfy their statutory and fiduciary responsibilities and use public resources efficiently and effectively through a systematic evaluation of their risk management, control and governance processes.

As stipulated in Article 29 of the above Ministerial Order No002/09/10/GPIA of 12/02/2009 the Minister, on the proposal of the Government Chief Internal auditor, the Minister shall publish an internal audit charter which will outline the role of internal audit in detail. Put simply, Internal Auditors are there to help budget agencies to achieve set goals and objectives. The mission of Internal Audit is best summarised in the diagram below.

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**Mission of Internal Auditor**

- **Risk based approach**
  - Risk assessment: Identify, Evaluate grade, Tolerance levels/appetite, Recommend responses
  - Systems audit: Integrity & adequacy of IT, Financial systems, Internal control systems, etc.
  - Financial audit: Integrity, entirety ... of financial records and reports
  - Performance audit: Economy, efficiency, effectiveness of operations
  - Compliance audit: Adherence to laws, policies, procedures ...
  - Forensic audit: Investigation of irregularities
Maintaining a Sound Internal Control System

The Government of Rwanda has adopted a “Risk based audit approach” which can be summarised as follows: Using a risk based audit approach, Government Internal Auditors shall provide two types of services: assurance services and advisory or consulting services.

- **Assurance services**
  Internal audit provides an objective examination of evidence for the purpose of providing an independent assurance on governance, risk management, and control processes by conducting the following types of audit work: financial, compliance, systems audits, etc.

- **Advisory Services:**
  Government Internal Auditors also provide advisory services to assist management in meeting its objectives. Examples of such services include training facilitation, research services on prospective issues facing the entity and assisting in improving internal control and governance structures.

As stipulated in Article 15 and the Code of conduct and ethics for internal auditors, Government internal auditors shall conduct themselves with integrity, objectivity, confidentiality, competency, professional independence, and shall, at all times, take precautionary measures to avoid conflicts of interest which can interfere with their audit work.

### 8.4 Key Internal control procedures

Internal Controls are classified in 3 main categories:

- **Preventive:** designed to prevent undesirable outcomes before they happen.
- **Detective:** designed to identify undesirable outcomes when they happen.
- **Corrective:** designed to ensure that corrective action is taken to reverse undesirable outcomes or to see that they do not recur.

Below are some examples of internal controls:

#### Key internal control issues under Revenues:

- Revenue collected must be supported by receipts
- Collect revenue through direct deposit, electronic transfer, cash or bank certified cheque
- All revenues must be banked in a BNR bank account
- Revenues must be reconciled regularly
- Verify completeness of revenue data while reporting

#### Key internal control issues under Expenditures:

- Expenditure must be as per approved national budget
- “Value for money”
- Ineligible expenditure are prohibited and officers found guilty are liable to disciplinary measures
- Budget agencies are not allowed to prepay for goods and services before delivery
- Full support for all expenditures through source documents such as receipts as well as internal documents such as purchase orders
Maintaining a Sound Internal Control System

– file documents safely

Key internal control issues under **Cash**:  

- Cash at hand must be kept in a secure safe at all times  
- Surprise cash counts done regularly by two officers other than cashiers  
- Regular reconciliations must be done for money in safe and balance in petty cash records  
- Cash certificates must be prepared and approved as required

Key internal control issues under **Bank**:  

- Opening of new bank accounts must be approved, even of the accounts are not in BNR  
- Bank reconciliations must be prepared regularly as per law and in a timely manner  
- Bank reconciliations must be reviewed by the DAF and approved by the CBM

Key internal control issues under **Fixed assets**:  

- Inventory report should be reviewed by CBM at least quarterly  
- No asset may be relocated from its original location without prior specific permission of the Chief Budget Manager  
- Any disposal of government assets: competitive bidding to ensure the best return to government

Key internal control issues under **Information systems**:  

- At least daily back up of financial data  
- Back up of final financial data supporting the consolidated financial statements  
- Storing data back-ups securely
8.5 Boards and Internal Audit Committees

In the 2009 session of the Government Leadership Retreat, it was decided that Audit Committees be set up to strengthen both the external and internal scrutiny of public financial management. Audit Committees are independent committees of public entities, local government entities and autonomous as well as semi-autonomous public entities set up to provide oversight on the financial management of the entity. They assist the Board of Directors, District Councils and top management in fulfilling their responsibilities for the financial reporting process, the Internal Control System, the internal and external audit process, and the government entity’s process for monitoring compliance with laws and regulations. Ministerial Instructions N°004/09/10/MIN of 01/10/2009 for the establishment of the audit committees in public entities, local government entities and autonomous and semi-autonomous public entities provides the legal basis for setting up audit committees.

While Audit Committees have the responsibilities and powers set forth in this Ministerial Instructions, it is not the duty of the Committees’ members to conduct audits or review accounts of government entities. They have an oversight role; not day to day management responsibilities. The Chairman shall periodically report to the Minister, District Council or Board of Directors, as appropriate, about Committee activities, issues, and related recommendations.

In May 2011, the Office of Government Chief Internal Auditor, MINECOFIN, issued a model Audit Committee Charter, which was developed to elaborate on the roles and responsibilities in order to assist the Committees in fulfilling their oversight responsibility. It is applicable to all government agencies. A copy of the Charter can be accessed on http://www.minecofin.gov.rw/webfm_send/2126.

Composition of Audit Committee

- Three (3) but not more than five (5) members.
- One of the audit committee members shall have significant and recent experience in accounting and financial management.
- Some members of audit committees shall have relevant experience in public administration.

Role of Audit Committee

- Provide oversight to the financial management
- Analyze and review of the financial statements of the entity focusing on their overall credibility, unbudgeted expenditure and any other unusual transactions;
- Analyze and approve the annual action plan of the internal audit unit;
- Consider and review of internal audit and Auditor General’s reports and recommend appropriate actions to be taken in connection with issues raised in the reports;
- Follow-up management to ensure the implementation of the agreed recommendations within the agreed timeframe.
Managing the External Audit Process

9.1 Mandate of the Auditor General

The PFM cycle ends up with the annual audit of the financial records of the Budget Agency. The Office of the Auditor General of State Finances (OAG) was established by the law no. 05/98 of 04/06/1998 specifying its financial and administrative autonomy as one of the pillars of good governance. With the enactment of the new Constitution on 4th June 2003, OAG attained the status of the Supreme Audit Institution (SAI) of Rwanda reporting to Parliament.

OAG is an independent national institution responsible for the audit of state finances. The Parliament is the institution which controls activities of the Government. The public institutions are thus responsible to the Parliament on the use of the allocated resources and powers vested in them. The Auditor General submits each year to each Chamber of Parliament a complete report on the implementation of the State Budget of the previous year. The Auditor General carries out independent examination and in his reports he expresses an audit opinion on the financial affairs of the Budget Agencies and the Government Consolidated Financial Statements.

9.2 What is an external audit?

An audit is an independent analysis and the formulation of an opinion on the financial statements of an institution. The audit seeks to answer the following questions:

(i) Does the Government correctly keep accounts and registers, and is the information presented in its financial statements accurate?
9 Managing the External Audit Process

(ii) Does the Government collect or spend the authorized amounts, and for purposes envisaged by the Parliament in the Appropriation Law?
(iii) Was an internal control system set up to safeguard the receipt, custody and adequate use of public goods?
(iv) Were the programs implemented with economy and efficiency? Does the Government have means to measure their effectiveness?

Article 184 of the Constitution, as amended to date, stipulates that the Auditor General shall submit each year to each Chamber of Parliament, its audit opinion on the consolidated state financial statements for the previous year. That report must indicate the manner in which the budget was utilised, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

The audit process is in 3 broad audit phases – planning, execution of the audit strategy, and conclusion and reporting. The auditors prepare a report thereon, discuss with management and request for management comments before finalisation of the audit. The Auditor may express an unqualified audit opinion or a qualified audit opinion.

Unqualified Audit Opinion – means a clean audit report in layman’s terms, which implies that the Auditor did not find material findings during the audit. However, the Auditor will provide any findings and recommendations in the report.

Qualified Audit Opinion – means that the Auditor came across materials findings in the course of the audit. These findings and recommendations are included in the report.

9 Managing the External Audit Process

After presentation of the reports to Parliament, the audit reports become a matter of public record. The Public Accounts Committee (PAC), the Parliament Committee responsible for public finances, will scrutinise the reports and where necessary, make recommendations including referring the cases to the Prosecutor General for investigation and prosecution where there is suspected misuse of public funds.

9.3 Summary audit cycle and process

(i) After submission of the annual audit report to Parliament, OAG develops an annual audit plan for the next financial year through assessing risky institutions and allocation of resources;
(ii) Letters are sent to respective institutions informing them of the planned audit exercise in order to prepare themselves accordingly;
(iii) An opening meeting kicks off the start of the audit exercise with the communication of the overall audit process and requirements of the audit exercise. The auditors also make enquiries on the status of implementation of prior year audit findings and recommendations;
(iv) As the audit progresses, preliminary audit findings are provided to the client, and where need be, meetings are held to facilitate common understanding of the issues raises and timeframes agreed on when to avail additional information that maybe required;
(v) Closing meeting ends the audit process with communication of the final findings and expectations of the final audit report;
(vi) Draft report sent to the client to validate the findings and to provide management comments. The management comments are included in the audit report.
(vii) Final report signed by the Auditor General and sent to the client;
Managing the External Audit Process

At the end of the year, OAG compiles an annual audit report from the respective individual audit reports. The annual report is submitted to Parliament by 30th April as per the Constitution.

The Auditor General then presents the report to Parliament. The latest report was presented to Parliament in June 2011 and is available on OAG website on the following link:

Responsibility of the CBM with respect to the audit process


“....Budget agencies, local administrative entities and other public agencies shall submit their annual financial reports to the Auditor General of State Finances not later than 30th September of the following year.”

As the head the chief accounting officer in the institution, the Chief Budget Manager is personally responsible for facilitating the audit process, providing the necessary information and explanations, and implementing the audit recommendations.

The Chief Budget Manager has at his/her disposal the following officers to assist in the audit process:

(i) The Director of Finance
(ii) Accountant
(iii) Budget Officer
(iv) Procurement Officer
(v) Internal Auditor
(vi) Other relevant staff in the organisation.

10 tips in managing the external audit process

In the context of performance contracts, one of the key performance measures for a Chief Budget Manager should be obtaining a clean audit report. This requires advance planning for the audit. The following 10 tips will assist you in this process:

(i) A commitment to resolve all prior audit findings and recommendations (internal audit, RPPA and OAG). Study past audit reports and formulate an action plan to address them. Assign responsibilities to various staff and require monthly feedback on each issue.
(ii) For each and every procurement/payment, insist on complete documentation before signing. Never sign documents in a hurry. Ensure there is proper filing of procurement documents and payment records.
(iii) Make use of your internal auditor in establishing and regular review of internal controls within your organisation.
(iv) Quality review of the financial statements before submission to MINECOFIN and later OAG. Refer to the year-end closing procedures issues by MINECOFIN and in particular the 10 quality control review procedures for Chief Budget Managers.
(v) Submit the final signed report to OAG by 30th September. Where the auditors highlight accounting differences, seek the support of the Accountant General’s office where necessary.
Managing the External Audit Process

(vi) Consider pre-audit by internal auditor before OAG audit. It will help a lot if the Internal Auditor can go through all the procurement and payment documents to ensure completeness before the audit. Any missing support documents should be brought to the attention of the CBM.

(vii) Engage the OAG auditors more proactively. Clear as many audit issues as possible on-site. Hold regular meetings with the auditors during the audit. Weekly meetings are recommended, but at a minimum, attend the opening and closing conference.

(viii) Detail one person, preferably the Director of Finance to be the focal person during the audit. All information requests should be formally addressed to the focal person and copied to you. Any information outstanding should be reported in the weekly meetings.

(ix) Provide factual management comments that demonstrate appreciation of the issue and management action plans to resolve the issues. Maintain a positive tone.

(x) Qualified, competent and well motivated finance officers (Director of Finance, Accountant, Budget Officer, procurement Officer and Internal Auditor) are a pre-condition for quality financial management and report – and a clean audit report!

(xi) And of course implement the latest audit recommendations on a timely basis, rather than waiting for the next audit.

For more information on the OAG, and the audit reports published to date, you may visit their official website http://www.oag.gov.rw/