REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

Introduction

The Office of the Auditor General for State Finances was created by law no 05/98 of 4 June 1998. According to the Constitution of Rwanda of 4 June 2003, in its article 183 and 184, the Office of the Auditor General is the country's Supreme Audit Institution. The Office of the Auditor General is in charge of the audit of state finances and reporting to Parliament on the stewardship of Government and the management of pubic funds.

In accordance with these legal provisions, we carried out, during the year 2003, the audit of various public entities which for audit administration were classified under Central and Local Administration, Programs & Government Projects and Public semi autonomous institutions.

I have the honour to present the report of the Auditor General for the financial year ended on 31 December 2002. This is the fourth report since the beginning of the Office's activities in 2000. The report covers 62 public entities, regrouped as follows:

A. Ministries and other Central Administration units

1. Office of the Prime Minister,
2. Supreme Court,
3. Ministry of Defence,
4. Ministry of Foreign Affairs and Regional Cooperation,
5. Ministry of Finance and Economic Planning,
6. Ministry of Justice and Institutional Relations,
7. Ministry of Education, Science, Technology and Scientific Research,
8. Ministry of Youth, Culture and Sports,
9. Ministry of Health,
10. Ministry of Infrastructures,
11. Ministry of Agriculture, Husbandry and Forests,
12. Ministry of Public Service, Skills Development, Vocational Training and Labour,
13. Embassy of Rwanda in Nairobi (Kenya),

14. Embassy of Rwanda in New Delhi (India),
15. Kigali Court of Appeal,
16. Kigali Court of First Instance,
17. Gisenyi Hospital,
18. Ruhengeri Hospital.

B. Local Administration

1. City of Kigali,
2. Gisenyi Province,
3. Ruhengeri Province,
4. Umutara Province,
5. Gikondo District,
6. Gisozi District,
7. Butamwa District,
8. The District of Kicukiro,
9. Nyarugenge District,
10. Kacyiru District,
11. City of Kabuga,
12. City of Gisenyi,
13. City of Nyagatare
14. City of Ruhengeri.
15. City of Umutara.

C. Autonomous and Semi- autonomous Public Enterprises

1. King Fayçal Hospital,
2. Institute of Agriculture and Animal Husbandry (ISAE Busogo - Rubirizi),
3. Kigali Institute of Science Technology and Management (KIST),
4. Rwanda Revenue Authority (RRA),
5. Central Public Investment And External Finance Bureau (CEPEX),
6. Genocide Survivors Assistance Fund (FARG),
7. Rwanda Institute of Administration and Management (RIAM),

8. National Electoral Commission,
9. National Census Service,
10. Rwanda Investments Promotion Agency (RIPA),
11. Rwanda Health Insurance (RAMA),
12. Rwanda Bureau of Standards,
13. Secretariat of Privatisation,
14. Rwanda Demobilisation and Reintegration Commission,
15. Caisse Sociale du Rwanda,
16. Cements of Rwanda (CIMERWA),
17. National Post Office.

D. Government projects and programs

1. Community Reintegration and Development Project,
2. Social Infrastructure Project,
3. Micro realisations Program,
4. Dairy Cattle Development Support Project (PADEBL),
5. Project on Support in Capacity Development and Reform of Public Service in Rwanda,
6. National Programme Against Malaria,
7. Umutara Community Resource Project,
8. Support Program on Decentralisation and Participative Economic Development (PADDEP),
9. Competitiveness and Enterprise Development Project,
10. Nyanza dumping ground rehabilitation project,
11. Job creation priority project,
12. Human Resources Development Project (HRDP).

The above-mentioned entities were audited in an independent and objective manner in accordance with generally accepted audit standards. The related individual reports were prepared; opinions were expressed and discussed with the different heads of audited entities, highlighting the main findings.

Kindly note that for the first time this year, the Office initiated the performance audits of three major institutions, the Caisse Sociale du Rwanda, King Faycal Hospital and the National Post Office. The performance audits analysed in detail the organisation and the functioning of these entities with a view to assessing their operational effectiveness, efficiency and economy. The results of our audits are promising and this type of audit will be pursued further and applied to more public entities.

Recommendations designed to improve the management of public funds were proposed. The auditee comments and observations were taken into consideration in the drafting of the individual final reports.

As we strive to maintain and raise the quality of audits, especially on the technical and professional aspects, we continue to pursue the capacity building policy in terms of human and material resources.

Development of human resources at the Office of the Auditor General

The recruitment of staff at the Office of the Auditor General experienced a constant progression. In 2003, the Office recruited 16 new graduate auditors. This brings the number of auditors to 60 out of a total staff establishment of 89 including support staff.

To master international public sector auditing standards, auditors participate in continuous training throughout the year, either through in-house training at the Office or through attachment to other Supreme Audit Institutions in countries such as South Africa and India.

The Office of the Auditor General continued to benefit from the support of the Office of the Auditor General of Sweden and the Netherlands Court of Audit. The Co-operation with the two institutions will be extended for a further period of three years, in accordance with an agreement signed in September 2002 in Stockholm.

During this period, the donors will continue to finance the crucial technical assistance and professional programme, which will be delivered by international audit firms, selected by way of competitive bidding.

Previously, in-house training sessions to auditors were organised and conducted solely by private audit firms. Now on, the training is delivered jointly with a team of trainers from the Office of the Auditor General. Our own trainers are therefore preparing to takeover the technical assistance in the near future.

Furthermore, professional accounting qualifications, which are rare in our country, are necessary especially in the certification of entities' financial statements. To address this need, the Office organised, starting early 2003 from this year, a training program in ACCA (Association of Chartered Certified Accountants).

About twenty staff members participated in the program that was conducted by a professional trainer. The objective is to provide the Office of the Auditor General with highly qualified auditors with professional accounting qualifications, which are recognised internationally.

The Office of the Auditor General will also recruit other profiles such as sociologists, experts in languages and communication, IT officers, etc. This will enable us to carry out effectively another type of audit that is performance audit.

In fact, this type of audit is part of the Auditor General's mandate as it deals with efficiency and economy in public funds management and with the evaluation of objectives achievement.

In this context and following the affiliation of the Office of the Auditor General to INTOSAI (International Organisation of Supreme Audit Institutions), the Office decided to prepare a manual detailing its audit methodology. This is and will be carried out with the assistance of consultants from the international audit firm " Ernst & Young" and a consultant from the Swedish National Audit Office. The existence of this manual will permit the Office of the Auditor General to conduct its audits in accordance with international auditing standards. In tandem, the Office of the Auditor General will be having in the near future a code of ethics.

Acquisition of technical equipment

In addition to financing of professional training programs, the Government and the above-mentioned donors also finance the acquisition of technical equipment essential for the functioning of the Office of the Auditor General.

Currently, each audit team of 4 to 5 auditors has at least two computers, a laptop and a desktop. These facilities contribute greatly to the execution of audit work and to the drafting of reports. Receipt of IT equipment whose order is pending will allow further improvement of the auditors work in the near future.

General observations of the Auditor General on the management of public finances during the financial year 2002

In our audit assignments, we carried out tests, verifications and enquiries we considered necessary to obtain reasonable assurance to express the appropriate audit opinion, in conformity with generally accepted auditing standards.

As in the past, our audits focused on the financial aspects and the adherence to procedures and regulations in force, ensuring at the same time that set objectives were achieved by the different entities.

To ensure that the execution of the State budget was in conformity with the provisions of prescribed regulations and procedures, the audit essentially covered budget procedures, the management of bank accounts and the internal control systems set up by the audited entities.

To assess the implementation of audit recommendations contained in our previous reports, many public institutions were audited again, some for the fourth time.

In spite of some significant improvements made, a lot is yet to be done. Significant irregularities persisted in the audited entities as shown in this fourth annual report of the Auditor General.

In fact, on the 62 individual reports, which summaries compose the annual report, no clean opinion was expressed.

I. CENTRAL ADMINISTRATION

The audit for the financial year 2002 of the Central Administration covered 11 Ministries, 2 Embassies, the Supreme Court and 2 Kigali tribunals (First Instance and Appeals Court).

As in the past, the audit focused on the financial aspects, that is, adherence to existing procedures and prescribed regulations in the execution of the State budget. In addition, we verified that the allocated budget was utilised in order to attain the missions and objectives of each entity.

Comparing to previous years, significant improvements have been noted but some weaknesses still remain:

A. Improvements in the management of public funds

With the implementation of audit recommendations from our past reports, the finance departments of the central administrations started to maintain books of account, such as cashbooks and to file the documents supporting transactions chronologically.

In particular, the following areas recorded of significant improvements:

(i) Delegation of powers by the Paymasters

In the Ministries, the paymaster powers were delegated to the Secretary Generals by the respective Ministers. Consequently, Secretary Generals make commitments and authorise payment of all expenses, whereas Ministers oversee the Ministry's general policy and the implementation of Government's policies.

(ii) Harmonisation of procedures

To harmonise the financial management procedures, the Government prepared a manual of financial management procedures for the central Administration. The manual was formalised by the Presidential order no 21/01 of 12/7/2003.

A financial procedures manual has been prepared for the Local Administration taking into account its specificities. It should be formalised and issued through a Minister's order soon.

The two manuals constitute a valuable guide in financial management for the users in central and local government. Their implementation will enable a significant reduction of deficiencies noted in the past.

(iii) Strengthening of the internal control system

Following the recommendations contained in our previous reports, Government commissioned, in all ministries, auditors to be in charge of the constant review of the Ministries' financial operations and to report to the authority. It should however be noted that the responsibilities and scope of work of the internal auditors have not yet been clarified.

(iv) Institution of the State budget management legal framework

Government has initiated laws that should govern the State budget. These are the Budget Organic Law and the Law on Public Accounts, whose approval is currently awaited. Once passed, these laws will constitute an appropriate framework for sound management of public finances.

(v) Computerisation of the budget execution system

A computerised system for the State budget (SIBET) was introduced in the various central administration entities, networking them with the Ministry of Finance and the Central Bank (BNR), which is the State's banker. This allows a daily follow up of the execution of the State budget so as to prevent spending in excess of the budget and ensure correct and timely recording of the State's transactions.

B. Persistence of weaknesses

B.1. Compliance with procedures related to public finances

During the year, it was noted that some administrative entities circumvented the procedures and regulations established for the management of public funds.

(i) Compliance with public tendering procedures

In spite of the existence of a public institution (NTB) in charge of the supervision of the awarding of tenders for the State, many entities continued to contravene procurement procedures and regulations set by the National Tender Board. The awarding of tenders and granting of contracts by mutual agreement not only constitutes a breach of transparency and equity that should characterise the process of awarding public tenders, but also deprives the State the opportunity to acquire highest quality goods and services at competitive rates.

(ii) Unbudgeted expenses

Some Public entities, mainly the diplomatic missions collected non-tax revenues from the services they offered to the public or in the case of Embassies from transfers received for third parties. We noted that often these funds were utilised to cater for unbudgeted expenses. Sometimes, these funds are kept in bank accounts, which are not known by the Ministry of Finance.

In other instances, important external financing to some State institutions was transferred directly to relevant bank accounts. The normal State budget execution procedures were not applied over these funds.

(iii) Management of assets and human resources

As in the past, shortcomings persisted in the stock count of fixed assets purchased by or allocated to the various administrative entities. The absence of inventory registers and a system of coding assets exposes the State to uncontrolled movements and potentially undetected theft.

State vehicles also continue to be subjected to lax management, given that in many cases, they are used by persons who are not the ones entitled by law.

Finally, management of human resources is still characterised by the absence of identification numbers for the Civil Servants and the irregular evaluation of staff.

B.2. Difficulties in the centralisation of budget operations by the Ministry of Finance and Economic Planning

(i) Consolidated State Accounts

At national level, the Ministry of Finance and Economic Planning organises all matters relating to public accounting. This includes recording the financial transactions of the State to ascertain its financial status and preparation of the consolidated accounts of the State. This responsibility rests with the Director of Public Accounts, who acts as the principal accountant of the State.

It appears, however, that the accounting officers at the Ministries do not systematically report their financial affairs to the Director of Public Accounts in charge of centralising and coordinating the financial statements of ministries to enable him establish the Consolidated State Accounts.

Similarly, budget accounting, which consists of recording transactions related to the execution of the General State budget, is done partially, considering that the Ministry of Finance does not control the execution of the capital budget. Further, a part of the state budget is financed by Government funds while the rest comes from development programs or projects.

(ii) Proliferation of bank accounts: hindrance to the efficient management of the State treasury

One of the major difficulties encountered by the managers of the State treasury is the multiplicity of bank accounts for public sector entities held with various banks in the country (National Bank of Rwanda and other commercial banks).

A study on the management of state bank accounts carried out by an independent audit firm estimated the number of accounts at 1,468 as at 31 December 2001. This multitude of accounts implies unnecessary bank charges and logistical problems in the follow up. More so, a separate cashbook and a bank reconciliation statement would be required for each bank account. We however noted that the Public Accounts Department, which should in principle organise this work, is not informed of the opening, transactions effected or the eventual closure of the bank accounts. In fine, the management of government accounts is not included in the consolidation of the Treasury operations. Consolidation of State Accounts should allow a more rational management of the Treasury in an orderly basis.

Furthermore, important external financing does not pass through the prescribed procedures for the State budget execution. Donors often require the opening of a bank account for each financing agreement.

In accordance with Presidential order n° 21/01 of 12/07/2003 domestic or international bank accounts held by a public institution should not be opened without the authorisation of the Minister for Finance. Transaction effected on these accounts should be brought to the knowledge of the Public Accounts Department to facilitate consolidation of the State accounts.

The Ministry of Finance and Economic Planning should update the 2001 study to know the exact number of bank accounts held with banks by public institutions.
Upon this study, unnecessary and inactive bank accounts and those existing contrary to existing regulations should be closed and balances transferred to the Paymaster account no 110.00.00 held with the National Bank of Rwanda.

The Government of Rwanda should also agree with donors on specific exceptions that can discourage the opening of bank accounts for new financing in addition of the ones already existing.

(iii) Accounting for assets

The procedure for the inventory of assets was set up in all institutions. However, consolidated fixed assets accounts for the State are not centralised at a higher level. The division in charge of fixed assets accounting, which was established after the revision of the organisation structure (*cadre organique*) of the Ministry of Finance, should co-ordinate the inventory taking and recording of the Government's fixed assets (codification, value, computerisation, etc).

(iv) Management and follow-up of the State Investment portfolio

According to the statement prepared by the officer in charge of the Government Investments division at MINECOFIN, on basis of information collected from various entities and from the Ministry of Commerce, the State's investments in 19 companies amounted to Frw 5,849,207,648. The investments of public enterprises in the equity of 24 companies totalled Frw 1,817,146,727.

The information provided did not give a complete statement of dividends receivable as at 31st December 2002.

In addition, the division did not maintain documents supporting the ownership of these investments. We could therefore not ascertain that the information provided was reliable and complete.

We appreciatively noted that the government had indeed appointed members of management boards and control bodies (Board of Directors and government appointed auditors). However, we were not provided with the reports, minutes or other documents related to their duties.

(v) Management and follow up of the public debt

The Rwandese public debt comprises external debt (multilateral and bilateral) and internal debt. The public debt is managed by MINECOFIN together with the other concerned services the Central Bank and the Central Public Investment And External Finance Bureau (CEPEX).

However, coordination between the institutions should be reinforced to avoid the production and publication of divergent statistics and reports.

This is also the case for the coordination of the different departments in charge of the negotiations for debt alleviation and refinancing. A reinforced coordination would permit to produce timely the necessary data to accomplish these tasks.

For the daily management of debt, a regular accounting of debt especially retroceded loans should be maintained to have at anytime an updated statement.

This daily management should be extended to the domestic debt, which includes in principle State debt held at any title from either public or private organisations and individuals. In this context, arrears of invoices from State suppliers should be included in the internal debt statistics.

B.3 Weaknesses in the follow up of cases transmitted by the OAG to the judiciary

When the Office of the Auditor General notes cases of suspected misappropriation during the audit of the use of public funds, it submits the cases immediately to the concerned authorities so that the State, which is the victim of these breaches, recovers its dues and that the guilty persons are punished in accordance with prevailing laws.

In this context, 44 cases have been transmitted to date to the Ministry of Justice and Institutional Relations and to the Prosecutor General. The Office of the Auditor General follows up these cases from their commencement until closure by the competent authorities.

The cases relate to misappropriations of different nature, mainly embezzlement of funds committed by public servants in charge of the management of the audited entities. These officers colluded with other employees or businessmen supplying goods and services to the public entities. There were also cases of falsification and forgery from some civil servants, such as tax collectors whose degree suggests systematic misappropriation of public revenue.

The 44 cases transmitted to date relate to various amounts totalling to more than Frw 1.7 billion.

As elsewhere in the Public administration, judiciary was shaken by the 1994 genocide such as it is actually difficult to ensure a prompt process of all the cases transmitted before the courts.

In fact, from the total cases transmitted, 75% are still at the Prosecution level while 20% and 5% are pending prosecution and are settled respectively.

This situation has direct and indirect consequences on public finances:

The fact that these investigations and trials are seen to take long before determination by the tribunals can lead to the banality of this kind of offences, and diminish the dissuasive element of penalties provided by law.

For the cases already judged, we have noted that judicial rulings do not take into account the impact of these offences and do not grant to the facts the appropriate weight.

The responsible of offences get minimal sentences and in most cases benefit from suspended sentence that grant them liberty.

Others are acquitted to the motive that facts brought before the Court and having permitted to embezzle public funds only constitute an administrative misconduct or mismanagement not reprimanded by penal law.

The legislature should review the legal provisions to reprimand more efficiently this kind of infractions and above all introduce the notion of lack of good faith and abuse of public property in the penal law as it is elsewhere.

II. LOCAL DECENTRALISED ADMINISTRATION (PROVINCES AND DISTRICTS)

Financial decentralisation is a reality in the country: the cities and districts have their own budget prepared and voted by their structures, the city council being the supreme organ.

The resources of decentralised administrations are comprised of budget allocations from the central government and revenue originating from tax and rates allocated according to pre-established ratios. For Kigali City for example, revenues collected by districts are allocated as follows: 40% of revenue collected is allocated to the City of Kigali, 50% to the districts and 10% to the district’s sectors.

A. Irregularities in the execution of cities’ and districts’ budgets

The districts and cities audited prepared budgets, which were submitted to their elected officials (councils) for approval. However, it was noted that budgets are prepared and approved just to comply with the prescribed procedures. In fact, in most cases, expenses incurred do not take into account the related budgets while revenues collected do not comply with existing laws and regulations.

The audit has revealed the following irregularities:

(i) At the expense level of districts and cities

a) Budget execution follow-up

Many cities and districts audited did not maintain documents relating to budget commitment, which are necessary for the follow up of the budget according to its different items. Periodical reports on the execution of the budget were therefore not prepared, making the budgets for these entities symbolic documents to be prepared and filed.

b) Compliance with tendering procedures

In most cities and districts audited, goods and services were procured directly and paid by cash as the need for them arose.

Though internal bids commissions were set up in most entities, they are not functional. Due to the absence of procurement plans and weaknesses in organisation, purchases are made directly by cash and contracts are generally granted by mutual agreement. This contravenes with prescribed financial management procedures.

c) Lack of supporting documents

In principle, each public entity’s expense should be supported by sufficient documentation as provided for in the procedures manual for cities and districts. Contrary to provisions ruling public expenditure, the audit noted that more often than not, payments were processed on verbal orders or on basis of a short note attached to the funds withdrawal documents. Every withdrawal of funds should be authorised and supported by accounting documents provided by the law and the cities and districts should comply with it.

(ii) At the collection of revenue level by the districts and cities

The resources of cities and districts are composed of tax and non-tax revenue collected directly from taxpayers.

Verifications carried out revealed a deficient organisation in the collection of public revenue and the use of documentation. The existence of this weakness does not permit to ensure the security of public funds against abuse and misappropriation at different levels:

a) Organisation of collection

Public funds in cities and districts are collected by appointed tax collectors but also, in most cases, by cashiers or coordinators (former councillors) whose functions and tasks are not clearly defined. Some tax collectors perform several functions, which are by nature incompatible and present conflict of interests.

b) Reliability collection documents

The following weaknesses were evident:

Collection documents used by cities and districts are not reliable and constitute a source of misappropriation of public funds. In fact, receipts books are ordered by districts without any control on the quantity and their origin.

Some tax collectors were able to produce their own receipt books that were used for the collection of funds for their own use. Districts were thus deprived of crucial budgeted resources.

Some tax collectors forged receipts and possibly misappropriated collections by writing on the original receipts amounts different from the counterfoils.

In principle, tax collectors are obliged to submit receipt counterfoils to the cities' and districts' accounting departments to justify deposits made. This control is also necessary before the remittance of new receipts books. The audit however revealed that this procedure has been purposely avoided in most audited districts, probably with the consent of the accountants in charge of the control of the appropriate use of the documents.

It should be noted that the methods used by the districts tax collectors to misappropriate funds are similar to those used by the former Provincial accountants.

The Government should act fast to take the necessary actions to put an end to these misappropriations. One measure would be to grant the management of collection documents of public funds to one institution that will ensure the control and will be accountable.

iii) Internal and external control

The financial decentralisation was implemented fast. Adequate control mechanisms, either internal or external, were not set up by the Government to ensure the efficient use of cities' and districts' funds.

a) Absence of petty cash control

The audit noted that neither the accountant nor the head of financial services of the districts review transactions recorded by the cashier to ensure that recording of all revenue collected and expenses incurred by cash was complete and correct.
Revenue collected was deposited in the cash till or used directly for the procurement of goods and services. As it was not recorded in the petty cashbook or deposited in a bank account, it was difficult to determine the exact balances for a period or to identify the expenses incurred.

The cash transactions should be entirely recorded on a daily basis and the control of cash regularly made to ensure that funds are adequately used.

b) Accounting for bank transactions

The cities and districts operated bank accounts in their names at commercial banks.

In almost all cities and districts audited, auditors were not able to find the cash books on which bank transactions were recorded. In the absence of cashbooks, the city or district accountant were not able to prepare bank reconciliation to confirm the exact funds balances of the city/ district and correct any recording errors and omissions. The government should set up a system of control to can enable the cities and districts to organise themselves and to prevent all these financial malpractices noted at this level.

B. The Common Development Fund (CDF)

To fulfil the objectives of decentralisation, notably enhancing the responsibility and mobilisation of the population in the execution and follow up of development programs, the Common Development Fund was set up. The entity was established by law no 20/2002 of 21/05/2002. Its objectives are, in addition to the mobilisation and the sensitisation mentioned above, to finance development projects, to allocate the funds allocated to districts, cities and the City of Kigali and to ensure the proper distribution of resources between these entities.

CDF started its activities on 15 October 2002, Its operating expenses during the latter part of 2002 amounted to Frw 8,459,627 while capital expenses amounted to Frw 1,054,377,574. These expenses related to the construction of districts offices in the country.

In 2003, operating expenses amounted to Frw 191,288,500 whereas expenses related to development projects including the construction of markets, bridges and rehabilitation of roads amounted to Frw 642,280,780.

A review of operating expenses incurred by CDF at the headquarters level did not reveal any significant irregularities. However, a review of transfers in favour of districts and cities for the financing of their activities showed the following:

i) Project conception and terms of reference

CDF receives requests for funding, which, should be based on the annual action plans of each district or town. These plans of action should be approved by the respective Province to ensure that they correspond to regional and national priorities.

However, it was found that some districts had not prepared development plans to help in establishing their needs and priorities. Some districts claimed not to have capable personnel and local expertise to conceive projects and establish the terms of reference according to the requirements of CDF and the National Tender Board.

ii) Compliance with technical specifications and contractual terms

To enable us assess the execution of construction works at sectors especially with respect to technical specifications by the contractors, we carried out visits to some districts in the provinces of Ruhengeri, Gisenyi, Butare, Gitarama, Gikongoro, Kigali Ngali, Kibungo, Umutara, Kibuye and the City of Kigali.

The results of our visits are summarized below:

Foundations of the offices of certain sectors were not strong since they were made out of soil.
Certain districts rehabilitated already existing offices instead of constructing new offices as stipulated in the funding agreement with CDF. In certain places, the construction materials used in rehabilitation work did not conform to the technical specifications, which does not guarantee durability of the works already carried out.

The offices constructed should comprise of four rooms to serve as an office, a conference room, a store, and a balcony. However, some districts did not conform to the plan given by CDF in relation to the dimensions and other specifications.

iii) Low degree of completion of construction works of sectors

According to the activity reports of CDF, construction work at 208 sectors was initiated on various dates after December 2002. The 15 October 2003 report on the state of work showed that only 42.31% of sectors were close to finishing works while constructions at only 8.17% of the sectors had been completed and officially handed over. A number of sectors had not yet started the work of levelling their construction sites despite having received funds in 2002.

iv) Follow up mechanisms for financed activities

CDF procedures and the law establishing it require that, during the execution of projects, CDF and Provinces should jointly follow up the activities funded. This did not effective yet because it was found that Provinces were not sufficiently involved in the follow up of district activities funded by CDF.

III. AUTONOMOUS AND SEMI AUTONOMOUS ESTABLISHMENTS

This category includes public establishments of commercial nature and autonomous and semi autonomous constitutional bodies under the supervision of Ministries. For the audit period, 17 institutions exhibited similar interlinked irregularities.

Autonomous institutions have in accordance with the laws establishing them an administrative and financial autonomy. They have their own budget and should prepare financial statements ending at latest on 31st march following the precedent year.

During 2002, the following shortcomings were noted:

i) Reliability of financial statements

The audit of some autonomous and semi autonomous institutions, revealed that the balance sheet, profit and loss account and appendices did not present a true and fair view of the state of financial affairs and results of operations. It was the case for the National Post Office and the King Faycal Hospital for example.

The annual accounts of these establishments are not approved for issue by a competent control body which could guarantee their reliability.

In some cases, the financial statements were not prepared in accordance with generally accepted accounting principles. For instance, notes to the financial statements were not sufficiently detailed to permit comprehension of items in the balance sheet and the profit and loss account. Further, the notes did not indicate the accounting principles used in the preparation of financial statements, the methods of accounting for fixed assets and transactions in foreign currency, stock valuation, the procedures for determining provisions for doubtful debts and other prescribed disclosures.

The disclosure of accounting policies and principles used in the preparation of financial statements is a financial reporting obligation, non-compliance with which may lead to qualification of the audit opinion.

ii) Compliance with tendering procedures

The State of Rwanda has set up instruments to prevent corruption and waste of public funds. Hence, a budget execution manual was produced and a specialised institution in the management of public tenders, NTB was created.

Nevertheless, the audit noted that autonomous and semi autonomous establishments continued to circumvent the guidelines issued by the National Tender Board by awarding contracts by mutual agreement without any competitive bidding, probably due to personal interest of the different responsible officers. This practice, which is generalised, may be used to misappropriate public funds using kickbacks and should be dealt with no delay.

Public contracts should be granted in accordance with written procedures ruling the mechanism of procurement of public goods and services.

iii) Compliance with universal budget principle

Some institutions received funds allocated to them through the State Budget in addition to revenues generated from their activities. The revenues collected were allocated to unbudgeted expenditures.

Further, though these institutions have management autonomy, they should comply with the general rules and management procedures for public funds, since the funds provided to cover their expenses are included in the State budget. According to the universal budget principle, all revenues and all expenses should be mentioned in the budget and into the accounts.

iv) Common salary policy

The salary scales applied by the different public institutions vary from one institution to another. As it was the case for development projects, it is suitable that the State set up the salaries that should be paid to public establishments officers. This harmonisation of salaries should contribute to avoid the actual differences between remunerations.

v) Follow up by supervising Ministries

The Ministries supervising autonomous and semi autonomous institutions should control and follow up the activities of these institutions. This was not always the case with the audited institutions and it appeared that the lack of control led to mismanagement. The State may face serious financial consequences on the management of public funds.

vi) Privatisation of State Enterprises process

The audit of the Privatisation Secretariat has showed that the Government should pay particular attention to the valuation of privatised entities.

The audit revealed that some assets sold (fixed assets, bank account balances) were not taken into account in the valuation of the entities' assets, resulting in a under valuation of sold companies.

The total assets not included in the value of privatised companies amount to Frw 2.4 billion of Frw as detailed in the audit report of the Privatisation Secretariat.

IV GOVERNMENT PROJECTS AND PROGRAMMES

During the financial year 2003, the Office of the Auditor General for State Finance carried out 12 audits of development projects and programs.

These audits covered essentially the financial statements for 2002, in addition to the transactions effected through bank accounts, which were examined from the date of opening of these accounts.

The audits also covered the management systems, internal controls and included an evaluation of the projects' achievements. The audit sought to ensure that the management of resources allocated to these projects was transparent, efficient and effective.

The audits of development projects and programs highlighted weaknesses described below that are worth mentioning and for which solutions should be sought in the near future for the projects to attain better performance.

i) Projects management and control bodies

The audited projects are mostly headed by Coordinators appointed by the supervising Ministries. The Coordinators are chosen among the officers of these Ministries, usually the Directors.

Often the agreements signed between the Government and the donors determine the responsibilities of the two parties, allocate tasks and set the conditions for commitment of expenses.

The fact that coordinators, who are in principle responsible for the management of the projects, are not systematically appointed by the Government as it happens with other high ranking officers of the Central Administration or autonomous public institutions, makes these officials so dependent on the supervising Ministries that initiative, decision making and the pace of execution of the project's activities are hindered. Absence of autonomy frequently obstructs the sound management of the project, given that for instance, the purchase of goods and services must be approved and allocated by the Ministries' internal bids commissions while cheques and payment orders must bear the signature of an official of the supervising Ministry.

Besides, projects do not have management (board of directors or management committee) and control (Government appointed auditor or Oversight board) bodies, to ensure their sound management and follow up of their activities.

Considering the fact that projects often hold, if not always, more funds that those allocated to other public institutions, the Coordinator should be appointed by the Government, like other senior Civil Servants.

Further, the management and control bodies of each project should provide the supervising Ministry with periodical reports on the state of the projects and the level of achievement of the objectives as measured by predetermined performance indicators. This should be compared to the funds already disbursed.

The supervising Ministry should then report regularly to the Government, so that the latter can ensure that the project is effective and that is executing properly the objectives assigned to it.

If the project evaluation reveals that the realised project outputs or goods and services paid for are not proportional to the funds disbursed or that the achievements are not aligned to the project's objectives, the Government should re-evaluate the performance indicators and renegotiate them with the donors or put an immediate end to the project instead of continuing to spend without any concrete results.

The Government should also provide development projects and programs with a legal and regulatory framework defining clearly the legal status and their functioning rules.

ii) Tax on remuneration arrears dues to RRA

Cabinet decision Number 2 of 25 July 2001, relating to the harmonisation of salaries for officers working in State projects, states that the computation of salaries should consider the tax on remuneration as the Government's contribution to the project's cost.

However, in enforcing law number 8/97 of 26/06/1997 on direct tax on profits and professional incomes, Rwanda Revenue Authority continued to require from the project the computation, deduction and remittance of the tax on remunerations in spite of the cabinet decision mentioned above. The Government should clarify this situation to avoid the accumulation of arrears for which late payment penalties are applied.

iii) Overlapping of projects in the realisation of activities

Weaknesses subsist again at the level of the coordination of the financial support of different donors. In fact, different donors support the country via different development projects in the same sector. These projects are not defined by the technical Ministries in charge of orienting all the efforts of the Government and donors according to sector priorities set by this latter. This lack of coordination and orientation of the financial support leads to the fact that efforts are dispersed and do not attain the optimal output that could result of the coordination of this support.

Opinion of the Auditor General

We conducted our audit in accordance with the provisions of the Constitution of the Republic of Rwanda, the generally accepted professional audit standards, the budget execution procedures and the prescribed regulations on public tenders. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts, and the overall budget execution reports are free from material misstatement and present fairly the operations of years then ended. The financial audit of 62 public institutions and the performance audit of three public sector entities provide a reasonable basis for our opinion.

1. In our opinion, the execution of the overall budget of the state for the year ended 31 December 2003 significantly improved through the setting up of an appropriate regulatory framework and strict procedures of control. Our view is based on the following facts: the implementation of audit recommendations by public institutions, the publication of financial management procedure manuals for both central and local administrations, appointment of internal auditors in each Ministry and the progressive implementation of computerised system of state budget. All these regulations and procedures will be soon completed by the release of the Organic Budget Law and the Public sector accounting Law.

2. Without qualifying the opinion expressed above, we draw attention to the following material irregularities.

2.1 Despite the regulations governing public tenders awarding and guaranteeing transparency and the acquisition of goods and services by the Government at the best and competitive conditions, the audit noted the existence of various techniques set by some officers in charge in order to circumvent the prescribed procedures. These techniques consist on putting forward as an excuse the state of emergency or the fact that expenses were unpredictable and the division of orders to avoid public tenders procedures. Consequently, tenders and contracts worth several billions of Rwanda francs were awarded to contractors not selected through regular procedures but, most likely, because of the relation maintained with some civil servants or by the payment of commissions.

2.2 The audit of budget execution by Cities, Districts, Ministries and the other public organizations revealed instances of embezzlement and fraud. The nature and the large number of these actions are indicative of the insufficient review and the lack of control over the officers in charge and the entities under supervision. Consequently, 44 cases amounting to Frw 1.7 billions have been transmitted to date to the prosecutor general.

2.3 In the absence of adequate and relevant internal control procedures at the public entities levels which enable the prevention and detection of the occurrence of irregularities, fraud and potential errors, sound and transparent management of public funds and protection of public assets are not guaranteed. The most frequent and systematic irregularities in some cases are stated as follow: Non-compliance with public tender procedures by circumventing the rules or not simply applying them; accounting records not in conformity with regulations, incomplete record of cash disbursements, reception and commitments, inappropriate maintenance and filing of books of accounts and support documents. It was also noted the absence of a reliable system of actual performance measure for public organization in line with the set goals and objectives.

2.4 The consolidated accounts of the state were not prepared by the Ministry of Finance and Economic Planning in line with article 78 of Law no.23/79 of 31 August 1979 on public sector accounting due to non-transmission of management reports by Ministries. Therefore, the audit standards required could not be planned and performed in order to detect potential material misstatement and errors.

2.5 The financial and performance audits conducted revealed that despite the financial and administrative autonomy and the legal status granted to some public entities, appeal to government remains constant and systematic, notably for King Fayçal Hospital and the National Post Office. Those organizations have specifically been instituted to enable equally the creation of wealth and the provision of public service. However, the absence of clear strategy set to meet objectives, strict management of Government grants and incomes and reliable financial reports and books of operations were noted.

Because of the significance of the matters discussed above, we are satisfied that measures related to the reinforcement of the legal and regulatory framework of budget execution procedure and public sector accounting policies are necessary and helpful for the sound and transparent management of public funds. However, the guarantee of an adequate budget management is bound to the reinforcement of internal and external controls over officers and entities responsible for the management of the budget execution and reporting and to the application of the appropriate and strict measures toward the offenders to the regulations and procedures applicable in matter of expenses of public funds and awarding of public tenders.

The original version of this report is in French.

Kigali 23/12/2003 **NTAGANDA Gervais**
Auditor General