REPUBLIC OF RWANDA

**OFFICE OF THE AUDITOR GENERAL
FOR STATE FINANCES**

REPORT OF THE AUDITOR GENERAL TO PARLIAMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

Objectivité
IndépendAnce
IntéGrité

INTRODUCTION

1. Mandate of the Office of the Auditor General

According to article 183 of the Constitution of the Republic of Rwanda, the responsibilities of the Auditor General include the following:

- auditing objectively whether revenues and expenditures of the State as well as local government organs, public enterprises and parastatal organizations, privatised State enterprises, joint enterprises in which the State is participating and government projects were in accordance with the laws and regulations in force and in conformity with the prescribed justifications;
- auditing the finances of the institutions referred to above and particularly verifying whether the expenditures were necessary and in conformity with the law and sound management;
- carrying out all audits of accounts, management, portfolio and strategies which were applied in institutions mentioned above.

In addition, Article 184 of the Constitution stipulates that the Auditor General shall submit to each Chamber of Parliament, a complete report on the implementation of the State budget of the previous year indicating the manner in which the budget was utilised, unnecessary expenses which were incurred or expenses which were contrary to the Law and whether there was misappropriation of public funds.

Accordingly, I now submit to Parliament a report on the audits concluded during the period January to October 2004, which includes the following:

a.	Ministries and other Central Administration units	7
b.	Government Projects and Programs	12
c.	Local Administration	12
d.	Autonomous and Semi – autonomous Public Enterprises	15
Total		46

Appendix lists all the institutions audited

In addition to the above individual audits, in June 2004, a report on the certification of the State Consolidated Financial Statements for the year ended 31 December 2003 was prepared and submitted to Parliament.

In view of the above provisions of the Constitution, I wish to point out the following reservations:

a) The periods audited for the various entities are not consistent with the Government financial year. The periods range from January 1995 to April 2004. Therefore, we cannot say that the report is entirely on the financial year ended 31 December 2003. This is mainly due to the following reasons:

- As a young institution, the Office of the Auditor General still has limited capacity. Therefore, in order to maximize benefits of the audits, the office adopted an approach where audits are extended beyond the Government year end to cover the period subsequent up to the time of audit fieldwork. This is done since it takes long before the next audit is done.
- Proper books of account have not been kept by most public entities audited leading to an increase in the time taken to complete audit assignments.
- Capacity constraints in public enterprises have resulted in delays in preparation of financial reports. This has contributed to delays in commencement of audit assignments.

- Most of the audited institutions neither have books of account nor financial statements. The audits essentially involve a review of bank statements and supporting documentation.

This situation will take at least 2 years to correct considering that even some of the audits that are expected to be completed within this year still have that inconsistency. It will also depend on the capacities in the various institutions in the field of accountancy.

b) In my opinion, the reporting dates stipulated in Articles 79 and 184 of the Constitution should be harmonised. Article 79 states that, "every financial year and before June 30th of the following year, the cabinet shall submit to the Chamber of Deputies the finance bill for the concerned financial year with a report on the implementation of the budget certified by the Auditor General of State Finances". Article 184, on the other hand, stipulates that, "the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the implementation of the State budget of the previous year".

Practically, it is not possible to audit all the budget entities before certification of the consolidated financial statements per Article 79. This implies that the Office is in a situation where the certification of the State Consolidated Financial Statements is done before audits of the various budget entities are done. The risk is that significant audit and accounting issues may arise during the audit of the budget entities, which may have an impact on the opinion on the State Consolidated Financial Statements. Furthermore, the period between January and March is too short for Ministry of Finance and Economic Planning to prepare consolidated financial statements given the problems noted above.

2. Financial Audits

One of the mandates of this office is to carry out financial audits. During the period January to October 2004, the Office carried out and finalized 46 audits of public entities as detailed below:

		No. of Entities	Audits Carried Out
a.	Ministries and other Central Administration units	32	7
b.	Government Projects and Programs	*	12
c.	Local Administration	106	12
d.	Autonomous and Semi – autonomous Public Enterprises	50	15
e.	Public schools (including subsidised schools)	271	-
f.	Embassies	14	-

* Actual number not known

At the time of reporting, there are audits in various stages of completion, including 24 for which management comments on draft reports have been received and are awaiting finalization and 18 for which draft reports are yet to be submitted to the audited entities for comments. In the previous years, the annual reports have been submitted at the end of December following the year under review. It was not possible to achieve full coverage of the public entities mainly because proper books of account have not been maintained by most of the entities audited leading to increased audit risk. Therefore, we had to extend our extent of testing to minimize the audit risk resulting in increased audit work and the time taken to complete the audit assignments.

The following initiatives will lead to increased coverage:

- Timeliness in the preparation of financial reports – this can be achieved by training of accounting staff in the public entities.
- The public entities should be required to prepare complete financial statements and submit them to the Office of the Auditor General before commencement of the audit assignments.
- Government should consider a project to help public entities to update their books of account and prepare financial statements while doing on the job training for the entities staff.
- Hire private firms to clear the backlog of audits.
- Establishment of effective internal audit departments
- Improved audit techniques including sampling, strategic planning of audits and the use of the work of internal auditors and the Inspector General of MINECOFIN.
- Interim audits will be introduced when the public entities have put in place adequate systems of internal control, proper books of account are maintained and their audits are up to date.
- The audits of some autonomous and semi – autonomous public entities should be sub -contracted to private audit firms. The audit firms will be hired by the Office of the Auditor General, paid by the entities, and report to the Auditor General. The Auditor General will then own and issue the reports.
- Currently, audits of projects with counterpart contributions are carried out separately by my office and other audit firms appointed by donor agencies. I propose that one auditor be appointed for both counterpart sources of funding. It is possible to have one audit as long as terms of reference are agreed on with respective donors.

3. Future strategies of the Office of the Auditor General

- Recognizing that training its staff in new audit techniques is important to cover its mandate, the Office of the Auditor General has trained its auditors in performance audit and information technology systems audit during the year 2004. Performance audits will permit the measurement of Government's achievements in relation to its objectives. Information technology systems audits will enable the audit of the information systems controls set up in public entities.

- The Office of the Auditor General benefits from the financial support of the Governments of Sweden and Netherlands. In this context, the OAG is cooperating with the Office of the Auditor General of Sweden and Netherlands Court of Audit. The co-operation with the two institutions will continue up to August 2006.
  During this period, the donors will continue to finance the crucial technical assistance and professional training programme, which will be delivered by international audit firms selected by way of competitive bidding.
- To address the need for professional accounting qualifications for the Office of the Auditor General staff, the Association of Chartered Certified Accountants (ACCA) training program, which commenced in early 2003, continued during the year and has registered success. About forty-five staff members participate in the program that is 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. However, there will be need for government support for this program to continue after August 2006 when the support from Sweden and the Netherlands ends.

Evelyn Kamagaju Rutagwenda

AUDITOR GENERAL

KIGALI

28TH OCTOBER 2004

General Observations

We carried out our audit assignments in accordance with generally accepted auditing standards. Those standards require that the audits be planned and executed to give reasonable assurance that the financial statements of the individual public entities and the state consolidated financial statements presented are free from material misstatement.

To ensure that the execution of the State Budget was in conformity with the provisions of prescribed regulations and procedures, the audits essentially covered budget procedures, the management of bank accounts and the internal control systems set up by the audited entities. In the absence of books of account and financial statements for most of the audited entities, the audits covered only a review of bank statements and supporting documentation. The following general observations were noted in most of the audits carried out during the period:

1 Consolidated State Accounts

At national level, the Ministry of Finance and Economic Planning (MINECOFIN) handles all matters relating to budget execution. 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 is the Principal Accountant of the State.

However, it is apparent that the accounting officers at the Ministries do not systematically submit financial reports for funds disbursed to them to the Director of Public Accounts responsible for centralizing the financial statements of ministries to facilitate the preparation of the consolidated State accounts. In addition, uniform reporting methods are not applied at the ministries. Coupled with the capacity problems the Ministry of Finance and Economic Planning is facing in terms of public accounting, the consolidated State accounts were not prepared.

Public accounting, as it is currently maintained, constitutes a weak area of the State financial management system. One of the major obstacles faced by MINECOFIN is the absence of opening balances due to the fact that State accounts have not been prepared in the past.

As a solution to this problem, the Ministry of Finance and Economic Planning is proposing to initiate a law on accounts that will decide that known or computed balances at a specified date will be adopted as the opening balances for the current period. To achieve this, the Ministry of Finance and Economic Planning has set up an action plan to facilitate the preparation of the State consolidated financial statements.

2 Implementation of previous recommendations

During our audit visits to various public entities, we assessed the implementation of our previous audit recommendations. We noted that significant irregularities persisted in these entities. These include:

2.1 Financial Statements

Most public entities did not have financial statements for the year ended 2003. This is contrary to the provisions of article 30 of Decree No. 39/75 on the political and administrative organization of Public-owned establishments which stipulates that public establishments exerting as per the terms of their statutes, a commercial, financial or industrial activity present an approved income statement and a balance sheet not later than March 31 of the subsequent year. It is also contrary to Presidential Order No. 21/01 of 12/07/2003 instituting a manual of procedures for financial management of the Central Administration and Ministerial Decree No. 01/07/06 of 13 January 2004 establishing general regulations governing financial management and accounting for districts, towns and the City of Kigali.

These entities had not yet put in place adequate financial accounting systems to facilitate the preparation of financial reports at the end of each financial year. Some did not have basic books of account like cash books and ledgers while others had the books but did not update them regularly. Generally, there are no adequate controls to ensure completeness and accurate reporting. Therefore, capacity building training programs for accounting staff in the public entities should be held. Public entities also need to recruit qualified accountants with commensurate experience in the finance departments.

We recommend that the government assists staff responsible for accounting to undertake professional training since there is a shortage of trained accountants in the country.

2.2 Bank Reconciliation Statements

Most of the public entities audited did not prepare bank reconciliation statements neither were there adequate controls over cash. This is a serious control weakness given that errors and/or irregularities may pass undetected or may not be detected in good time. In the absence of bank reconciliation statements, completeness of the accounting records cannot be established.

We have recommended in our reports to management of the various entities audited that bank reconciliation statements should be prepared regularly, at least monthly, and reviewed for correctness by a senior official of the entity separate from the one who prepared them.

2.3 Management of Fixed Assets

Control over public assets is weak, as most entities do not maintain fixed assets registers. Some entities maintained incomplete asset registers. The physical location, condition and existence of public assets cannot be easily ascertained in the absence of comprehensive fixed assets registers.

We have recommended in our reports to management of the various entities that complete inventories of the entities' assets should be undertaken and comprehensive registers maintained. The registers should include the following details for each asset:

- Description
- Location
- Identification codes
- Date of acquisition
- Cost
- Date of disposal
- Depreciation (rates, annual and accumulated depreciation)
- Net value
- Condition of the asset

The assets registers should be updated regularly and reconciled to the general ledgers. Periodical physical verifications should be carried out and results compared to the register. Any unexplained differences should be promptly investigated.

2.4 Lack of segregation of duties

For some of the entities audited, we noted that staff handle several incompatible duties, for example over cash management. This is a weakness in the internal control system, which does not allow for errors and other irregularities to be detected.

2.5 Revenue Collection

The following control weaknesses were noted over tax collection in some of the local governments audited:

- From a comparison of original receipts issued to tax payers and the respective counterfoils at the respective entities to ascertain the completeness of revenue, we noted that amounts indicated on original receipts by tax collectors differ from those indicated on the respective counterfoils. Therefore, revenue from tax collection was not fully accounted for. We could not quantify the total amount of revenue lost due to the falsification of receipts as our tests were conducted on a sample basis.

- Revenue collection is not banked intact in certain instances. Some of the revenue collection is used to cater directly for expenditure.
  There is a risk of misappropriation of revenue collected. This may also not facilitate accurate tracking of revenue collection.
- Revenue from tax collection was misappropriated by cashiers in certain instances.
- We noted that receipt books are not properly controlled. Some officials could not account for receipt books which had not been issued to tax collectors. We were unable to establish the amount of lost revenue arising from the missing receipt books.
- From a review of some receipt books, we noted that they were returned to the revenue collection department before being fully used up. There is a risk of unauthorized use of receipts if not properly controlled.

We have recommended in our reports to management of the various entities the following:

- A comprehensive list should be maintained for all taxpayers indicating the amount assessed. This should then be reconciled to the tax revenue collected on a regular basis.
- Revenue collections should be banked intact.
- The tax amount should be imprinted on individual receipts depending on the nature of the tax.
- Receipt books should be properly accounted for and monitored on a regular basis. Registers for the movement of receipt books should be maintained.

2.6 Execution of Expenditure

2.6.1 Public Tendering Procedures

In order to ensure transparency in awarding public contracts and to benefit from advantages of competitive bidding (quality, quantity and price), public expenditure execution procedures in force in 2003 stipulate that tenders worth more than Frw 3,000,000 are awarded by the National Tender Board (NTB) while tenders worth between Frw 20,000 and Frw 3,000,000 are awarded by the internal tender committees of the public entities. The decisions of the tender committees should be documented in reports signed by all members present.

Contrary to these procedures, public entities audited during the period January to October 2004 awarded tenders amounting to Frw 3,418,903,269 without the approval of the NTB and Frw 1,191,891,780 and US$ 8,182 without the approval of the internal tender committees of the respective entities.

2.6.2 Unsupported Expenditure

Public expenditure execution procedures require that all expenditure be adequately supported with documents, which should be sequentially filed and properly referenced. Contrary to these procedures, public entities incurred expenditure amounting to Frw 1,774,883,026 and US$ 59,160 that were not supported by any verifiable documents. In the absence of adequate and verifiable documentation, it was not possible to confirm the nature and validity of the expenditure.

For better management of public funds, expenses incurred by all public entities should be supported by the necessary documents detailing their utilisation. These documents ought to be well kept for future reference.

2.6.3 Justification of Expenditure

On 19 July 2002, OCIR-CAFE paid Mr MUGABO Justin Frw 4,613,787 for information on the existence of a bank account in BCR belonging to Pilot Coffee Project (*Project Pilote Café*). OCIR-CAFE management were not aware of the existence of this account neither was it included in the accounting records. The account had a balance of Frw 46,137,873. This payment is not justified and those who took the decision should be held responsible. The payment was not even authorised by the Board of Directors. The same person has drawn money from other public entities under similar circumstances for example from MINISANTE and ORINFOR.

We noted also that most of the public entities audited incurred expenditure that was not budgeted for.

2.7 Tax Compliance

Law number 15/98 of 31 December 1998 requires public institutions to deduct 3% of amounts payable to suppliers as withholding tax and remit it to the Rwanda Revenue Authority by the fifth day of the month following the month of deduction. Most of the Public enterprises audited did not comply with this requirement. Those that complied did not remit the tax to the Rwanda Revenue Authority within the required period.

2.8 Debt Collection

We noted poor debt collection in some of the entities audited. Some of the public entities audited had old outstanding debt balances from staff and third parties in the books of account. Recoverability of some of the balances is in doubt either due to the passage of time or lack of supporting information. In some cases, the debtors went into liquidation or the employees had left the institutions. Provision for bad and doubtful debts should have been made in the financial statements of the respective entities.

2.9 Award of Contracts

Some of the public entities audited granted advances to contractors without any advance payment guarantee. We noted cases where some contactors were paid advances but did not deliver the goods or services contracted for.

Appendix: AUDITED INSTITUTIONS

Ministries and other Central Administration Units

- Office of the President
- Ministry of Internal Affairs
- Ministry of Youth, Sports and Culture (MIJESPOC)
- Ministry of Gender and Family Promotion (MIGEPROF)
- Ministry of Labour, Skills Development and Vacational Training (MIFOTRA)
- Ministry of Lands, Environment and Forests (MINITERE)
- Ministry of Local Administration, Community Development and Social Affairs (MINALOC)

Government Projects and Programs

- Agricultural and Rural Markets Development Project (ARMDP)
- Food Security Support Project /Food Security Information System Project (PASAR/SISA
- Revival of Urgent Agricultural Production Activities (PRAUPA) Project
- Rural Sector Support Project (RSSP)
- Eduation III Project
- Emergency Project for the Rehabilitation of Secondary Schools and the Institute of Agriculture and Animal Husbandry (PRESISAE)
- Support to the Capacity Building and Civil Service Reform Project
- Integrated Protection and Management of Critical Ecosystems (IPMCE)
- Third Project of Rural Water and Sanitation (PEAMR)
- Water, Evironment and Sanitation Program (WES)
- Decentralisation Management Unit (DMU)
- Rural and Urban Development Component Program (UGM)

Local Administration

- Gikongoro Province
- Kigali Ngali Province
- Gikongoro Town
- Kacyiru District
- Nyarugenge District
- Rulindo District
- Nyamata District
- Kicukiro District
- Nyamirambo District
- Butamwa District
- Gikondo District

- Gisozi District

Autonomous and Semi-autonomous Public Enterprises

- National Coffee Authority (OCIR CAFE)
- Rwanda Office of Tourism and National Parks (ORTPN)
- Kigali Health Institute (KHI)
- Regie de l'Imprimerie Scolaire (IMPRISCO)
- Kigali Institute of Education (KIE)
- University Hospital Center of Kigali (CHUK)
- Muhima Hospital
- National Office for Public Transport (ONATRACOM)
- Rwanda Utilities for Regulatory Agency (RURA)
- Regie des Aeroports du Rwanda (RAR)
- Rwanda Demobilisation and Reintegration Commission (RDRC)
- National Poverty Reduction Program
- National AIDS Control Commission (CNLS)
- National Unity and Reconciliation Commission (NURC)
- Joint Commission for Repatriation and Reintegration of Rwandan Refugiess