

REPUBLIC OF RWANDA



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

**REPORT OF THE
AUDITOR GENERAL
TO PARLIAMENT**

**FOR THE YEAR ENDED
31 DECEMBER 2004**



1. Introduction

1.1 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 revenue and expenditure 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 audit 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 November 2004 to 4 October 2005, which includes the following:

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		No. of entities	Audits carried out
a.	Ministries and other Central Administration units	32	12
b.	Government Projects and Programs	*	10
c.	Local Administration	106	12
d.	Autonomous and Semi – autonomous Public Enterprises (includes two reports for OCIR THE)	50	20
e.	Public Schools	271	2
f.	Embassies	14	1
Total			57

* Actual number not known

In addition, during the same period, I submitted to Parliament a Report on the Certification of the State Consolidated Financial statements for the year ended 31 December 2004.

In my last year's report, I stated that the periods audited are not consistent with the Government financial year. Although I have taken steps towards having audits done for periods consistent with the Government financial year, the current report still has reports for periods outside the reporting period of 1 January 2004 to 31 December 2004. I had mentioned that this situation will take at least 2 years to correct but it will heavily depend on the capacity in the various audited institutions in accounting and internal audit.

Evelyn Kamagaju Rutagwenda

AUDITOR GENERAL

KIGALI

4 OCTOBER 2005

1.2. General Observations

I carried out my 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 a review of the internal control systems set up by the audited entities.

Most of the public entities audited did not maintain proper books of account or prepare financial statements for the year ended 2004. In the absence of books of account and financial statements, the audits covered only a review of bank statements and supporting documentation. To address this problem in future, I propose that only public entities with financial statements will be audited. I also propose that public entities that have not yet put in place adequate financial accounting systems to facilitate the preparation of financial reports at the end of each financial year be penalized for non compliance with the law. The following general observations were noted in most of the audits carried out during the period:

During the audit of various public entities, I assessed the implementation of our previous audit recommendations. I noted that as much as some had been implemented, significant irregularities persisted. In summary these include:

- (i) Non preparation of financial statements*
- (ii) Absence of Bank Reconciliation Statements*
- (iii) Poor Management of Fixed Assets*
- (iv) Lack of segregation of duties*
- (v) Deficient Revenue Collection Systems in Local Governments*

(vi) Execution of Expenditure:

(a) Public Tendering Procedures

In order to ensure transparency in awarding public tenders and to benefit from advantages of competitive bidding (quality and price), public expenditure execution procedures in force up to September 2004 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. In October 2004, the thresholds were revised upwards.

Contrary to these procedures, the public entities audited awarded tenders amounting to Frw 1,401,723,041; US\$ 72,511 and Euros 12,524 without the approval of the NTB and Frw 1,622,642,061 ;US\$ 71,798 and Euros 4,118 without the approval of the internal tender committees of the respective entities.

(b) Unsupported Expenditure

Public expenditure execution procedures require that all expenditure be sufficiently supported with documents, which should be sequentially filed and properly referenced. Contrary to these procedures, public entities incurred expenditure amounting to Frw 4,440,031,661 and US\$ 227,176 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 should be well kept for future reference.

(vii) Entertainment allowances

Presidential decree no. 01BIS/01 of 14/03/01 modifying presidential decree no. 28/01 of 08/07/1998 on travel allowances provides that Cabinet Ministers and those having the rank of

Ministers receive an advance of USD 100 per day for entertainment expenses when they are on mission abroad and the utilization of the allowance should be accounted for.

During the audits, I noted that many beneficiaries did not account for the advances.

(viii) Non-compliance with contractual terms

The audit of projects and other Government institutions revealed several cases of non compliance with contractual terms in relation to construction works.

I noted that the contract durations had been exceeded and the works were not completed as per the agreements. I have noted that some of the contracts were terminated after the audit period. I also noted that contractors are not always required to provide advance and performance guarantees before contracts are signed. There were also cases of overpayment.

- The National Tender Board should be informed of such cases so that in future, such Contractors can be blacklisted.
- Contracts should always include a provision on the requirement for advance and performance guarantees.
- Amounts overpaid should be recovered from respective contractors.

(ix) Ineffective internal audit functions

Most of the audited entities do not have internal audit functions and where internal auditors are in place, their work is neither effective nor reliable.

2. Reporting Requirements per the Constitution of the Republic of Rwanda

- (i) Article 79 of the Constitution stipulates that the Auditor General shall certify the report on the consolidated financial statements before June 30th of the following year. This report should be prepared by Cabinet and submitted to the Auditor General by 31st March. Besides the capacity constraints in accounting within MINECOFIN in meeting these deadlines, the three months provided for the Auditor General are not enough for the audit and certification of the consolidated financial statements since it entails audit of all the institutions (budget agencies) before the said certification can be done.

On the other hand, Article 184 of the Constitution stipulates that the Auditor General shall submit to Parliament a report on the implementation of the State budget, before the commencement of the session devoted to the examination of the budget of the following year (5 October).

My opinion is that Parliament should consider an amendment to the constitution harmonising articles 79 and 184 so that every financial year, the Auditor General produces one annual report to be submitted before 5 October of the following year.

The annual report of the Auditor General will therefore include findings from audits of various budget agencies as well as an opinion on the State consolidated financial statements. Such a report will provide Parliament with better information for monitoring and follow up of government performance. It will benefit Parliament, the taxpayer and ourselves if the inconsistencies can be ironed out by passing necessary amendments to the constitution earliest possible.

I am pleased to report that subsequent to my submission of the annual report for the year ended 31 December 2003, I was accorded an opportunity to discuss the issue of the inconsistencies in the reporting requirements for my office contained in Articles 79 and 184 with various commissions of both chambers of Parliament.

- (ii) The Rwanda Financial Accountability Review Action Plan (FARAP) prepared in February 2003 gave a deadline of 2006 for MINECOFIN to produce the consolidated financial statements for the year 2005 ready for audit. However, in my opinion, this deadline might be too optimistic considering the capacity constraints in accounting within MINECOFIN. As of today the Ministry has not succeeded in reconciling bank accounts and has not even started the process of establishing opening balances for all assets and liabilities.

I recommend that after establishing the opening balances, Cabinet should first approve them before they are introduced in the books of account.

3. Coverage of my mandate

3.1 Update on initiatives proposed in my previous report

My last report highlighted that it was not possible to achieve full coverage of public entities and mentioned initiatives intended to lead to increased coverage of my mandate.

Below is an update on each of the proposed initiatives:

- (i) Timeliness in the preparation of financial reports this can be achieved by training of accounting staff in the public entities.

The Ministry of Finance and Economic Planning has taken initiatives to address the issue of capacity constraints in accounting and internal auditing in Central government. A training needs assessment study funded by the European Union was recently concluded and it is expected to be followed by training in these two fields. The programme is expected to bring about improvements in public financial management including preparation of financial reports.

I however noted that the project does not cover districts and yet their capacities in financial management are very limited. I recommend that the project be extended to local governments considering that they handle substantial amounts of public funds.

- (ii) 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.

The Organic Budget Law when enacted, and the accompanying financial regulations will address this problem.

The recently created Office of the Accountant General is expected to enforce the implementation of the Organic Budget Law and financial regulations. This Office should also ensure that there is wide circulation of the Organic Budget Law and financial regulations to the various institutions and training in their application.

- (iii) 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.

To continue discussions with Government. This activity would have to be funded possibly by donors.

- (iv) Hire private firms to clear the backlog of audits.

Same as in (iii) above.

- (v) Establishment of effective internal audit departments

The European Union funded project for training of internal auditors is expected to cause improvement in this area.

- (vi) Improved audit techniques including sampling, strategic planning of audits and the use of

the work of internal auditors and the Director of Government Internal Audit in MINECOFIN.

Same as in (v) above.

- (vii) Interim audits will be introduced after 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.
- (viii) 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.

This is expected to start soon.

- (ix) 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 sources of funding. It is possible to have one audit as long as terms of reference are agreed on with respective donors.

Same as (viii) above. I started discussions with some donors and they are positive.

3.2 Decentralisation Implementation Programme (DIP)

The Decentralisation Implementation Programme proposes a reduction in the numbers of Provinces and Districts from 12 to 5 and 106 to 30 respectively. I note that as far as public financial management is concerned, this reform is likely to have the following impact:

- (i) Less but more manageable units able to hire and retain competent accountants and internal auditors.

- (ii) It may not be possible to have fairly stated balances to be taken over by the new entities. It should be noted that as of today, I still come across districts that came into being by merging two or more communes and no formal hand-over was made, and there is no record of what assets and liabilities were taken over. Therefore, Government ought to make adequate arrangements for a smooth hand over of public assets.

However, it is still too early to measure the impact that this decision will have on the coverage of my mandate.

4. Capacity Building

4.1 Support from the Governments of Sweden and Netherlands

The Office of the Auditor General has received support for capacity building from the Governments of Sweden and Netherlands since the year 2000. The support will end in August 2006. However, there will be need for Government support for the programme to continue after August 2006. The Office as a young institution still needs support for capacity building initiatives especially with the new challenges in public financial management and in our country in particular where there is need for serious improvements.

4.2 Training

During the reporting period the OAG participated in the following training programs:

- (i) ***In-house training***
- (a) Short-term Improvement Seminar
 - (b) Preparation of financial statements
 - (c) Advanced Audit Skills

(ii) *In country training*

- (a) New Procurement Law organised by National Tender Board
- (b) Ministry of Finance accounting and budgeting software-SIBET II organised by the Ministry of Finance and Economic Planning.
- (c) International Financial Reporting Standards Seminar organised by MTN and conducted by Mr Suresh Tannah, an Accountant/Trainer of international standing.

(iii) *Overseas training*

- (a) Financial Audit and Fraud: Bamako, Mali organised by the French Speaking African Organisation of Supreme Audit Institutions (AFROSAI-F/ CREFFIAF)
- (b) Training of Trainers: Libreville, Gabon organised by AFROSAI-F/ CREFFIAF
- (c) Audit of Projects and Infrastructure Sector: New Delhi, India organised by the Office of the Comptroller and Auditor General of India
- (d) Audit of the Execution of the State Budget: Tripoli, Libya organised by People's Committee for Auditing and Technical Supervision
- (e) Audit Planning: Johannesburg, South Africa organised by English Speaking African Organisation of Supreme Audit Institutions (AFROSAI-E)

(iv) *Project seminars*

The OAG has hosted two seminars in the framework of the co-operation project mentioned above, namely:

- (a) Audit Manual

The objective of the mission from the Swedish National Audit Office was to discuss and give their comments on the draft audit manual.

- (b) Full coverage

The objective of the mission from the Netherlands Court of Audit was to review the action points adopted in 2003.

4.3 Professional Accounting Training Program (ACCA)

The Association of Chartered Certified Accountants (ACCA) training program is on going with a group of 31 staff sitting in December 2005. I expect that in the June 2006 sitting, the programme will produce the first fully qualified staff members.

5. International Activities

5.1 Memberships

Since the adoption of the new Constitution in 2003, the Office has the status of a Supreme Audit Institution (SAI).

As such, it requested and obtained membership from the following international organisations:

- (i) INTOSAI: International Organisation of Supreme Audit Institutions.
- (ii) AFROSAI: African Organisation of Supreme Audit Institutions.

And the following sub-groupings:

- (i) AFROSAI-E: English Speaking African Organisation of Supreme Audit Institutions- Member of Governing Board.
- (ii) AFROSAI-F/ CREFFIAF: French Speaking African Organisation of Supreme Audit Institutions.

5.2 International Meetings attended

The Office participated in the following international meetings during the reporting period:

- (i) International Organisation of Supreme Audit Institutions Triennial Congress (INCOSAI), October 2004, Budapest, Hungary.
- (ii) Public Finance Management Meeting, February 2005, Johannesburg, South Africa, organised by the World Bank.
- (iii) English Speaking African Organisation of Supreme Audit Institutions (AFROSAI-E) Inauguration, May 2005, Cape Town, South Africa.
- (iv) Annual General Meeting and Workshop of the Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC), May 2005, Zanzibar.
- (v) African Organisation of Supreme Audit Institutions (AFROSAI) Congress, July 2005, Abidjan (Côte d'Ivoire).

5.3 Outcomes of international activities

The Office pays membership fees for the organisations mentioned in 4.1 above ,and in return benefits from sponsored training programs.

Other positive outcomes that have emerged from the Office's participation in international activities:

- (i) *Nomination of Rwanda to the AFROSAI-E Governing Board's Finance Committee*

During the AFROSAI-E Governing Board Meeting held in May 2005, Rwanda was nominated to the Board's Finance Committee.

(ii) Nomination of two OAG Team Leaders as Regional Trainers

Two of our Team Leaders were selected to become Regional Trainers for AFROSAI-F/CREFFIAF.

As such, they will be called upon to train the colleagues from Supreme Audit Institutions in the region of French speaking Africa.

This is a clear recognition of the Office's achievements in terms of capacity building of trainers and skills transfer.

6. Future strategies :Human Resource Policy

This month, the Office will draw up a Human Resource Management (HRM) Policy Document with the assistance of the Netherlands Court of Audit.

This exercise started with the collection of staff views using satisfaction questionnaires.

It will allow the OAG to have an improved and documented HRM Policy that will help in attracting, developing and retaining staff.