# INTRODUCTION

## 1. Mandate of the Office of the Auditor General

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

- auditing revenues and expenditure of the State as well as local administrative entities, public enterprises and parastatal organizations, and government projects;

- auditing the finances of all institutions referred to above, particularly verifying whether the expenditure was in conformity with the laws and regulations in force and sound management, and whether they were necessary;

- carrying out audits of accounts, management, and strategies which were applied in institutions mentioned above.

In addition, article 184 of the Constitution, as amended to date, stipulates that the Auditor General shall each year submit to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the following year, a complete report on the State balance sheet (consolidated financial statements) for the previous year. That report must indicate 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 or wasteful expenditure.

Accordingly, I now submit to Parliament a report on the audits concluded during the period November 2005 to 4 October 2006, which includes the following:

| | | Audits carried out | Total number of entities |
|---|---|---|---|
| a. | Ministries and other Central Administration units | 17 | 32 |
| b. | Government Projects and Programs | 19 | * |
| c. | Local administration (Districts , before decentralisation implementation program) | 9 | 106 |
| d. | Autonomous and Semi – autonomous Public Enterprises | 24 | 50 |
| e | Public schools | 12 | 271 |
| f | Embassies | - | 14 |
| **Total** | | **81**** | |

*** Actual number not known**

****: Includes 2 reports for each of the following institutions:**

*Multi-sectoral HIV/AIDS Project (MAP); Rwanda Information Authority (ORINFOR); Rwanda National Examinations Council; Rwanda Office of Tourism and National Park (ORTPN); Ministry of Foreign Affairs and Cooperation (MINAFFET); Ministry of Agriculture and Animal Resources (MINAGRI); National Museum; Ministry of Finance and Economic Planning (MINECOFIN); National Post Office (NPO); Dairy Cattle Development Support Project (PADEBL).*

To date the Ministry of Finance and Economic Planning has not produced State consolidated financial statements. Therefore I did not carry out an audit of the State consolidated financial statements.

As stated in my previous reports, the periods audited are not consistent with the Government financial year. Although I continue to take 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 2005 to 31 December 2005.

It is expected that this will be realised after full implementation of the recently passed Organic Law on State Finances and Property, like the ongoing Public Financial Management reforms, together with other initiatives of the Ministry of Finance and Economic Planning which are geared towards improving Public Financial Management.

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<u>AUDITOR GENERAL</u>

KIGALI

4 OCTOBER 2006

## 2. General Observations

(i) Non preparation of financial statements
(ii) Poor management of Bank accounts
(iii) Poor Management of Fixed Assets
(iv) Absence of title deeds for government properties
(v) Lack of segregation of duties
(vi) Tax compliance
(vii) Execution of Expenditure
(viii) Inadequate supervision of implementation of funded activities
(ix) Non-compliance with contractual terms
(x) Ineffectiveness of internal audit functions
(xi) Financial management in Rwandan Embassies
(xii) Budgetary control
(xiii) Poor construction works
(xiv) Unimplemented Previous audit recommendations
(xv) Ineffectiveness of Directors of Finance and Administration in most institutions
(xvi) None performing consultants
(xvii) Improvements in public financial management (PFM)
(xviii) Training for accounting officers and Boards of Directors

### *(i) Non preparation of financial statements*

As mentioned above, some institutions audited do not maintain proper books of account. In particular, a general ledger is not maintained and no trial balance is prepared, hence no financial reports.

### *(ii) Poor management of Bank accounts*

- Bank reconciliation statements are not prepared. Therefore, completeness of the accounting records cannot be ascertained.

### *(iii) Poor Management of Fixed Assets*

Some entities still have no fixed assets registers or the registers maintained do not have adequate information to enable effective control over fixed assets.

### *(iv) Absence of title deeds for government properties*

Most Government institutions do not have title deeds for their properties. It is therefore not possible to ascertain the right of ownership thus disputes in ownership are likely.

*(v) Lack of segregation of duties*

*(vi) Tax compliance*

- Contrary to law n° 42/2002 of 31 December modifying and completing law n° 8/97 of 26/6/1997 relating to direct taxes, some institutions failed to deduct Pay As You Earn (P.A.Y.E) from salaries of expatriates staff.

- In addition, some institutions did not deduct 3% withholding tax from beneficiaries of public tenders contrary to the provisions of article 6 of law n° 15/1998 of 31 December 1998.

*(vii) Execution of Expenditure*

*(a) Non compliance with Tendering Procedures*

In order to ensure transparency in awarding public tenders and to benefit from advantages of competitive bidding in terms of quality and price, public expenditure execution procedures in force since October 2004 stipulate that tenders worth more than Frw 100.000.000 Frw are awarded by the National Tender Board (NTB) while tenders worth between Frw 20,000 and Frw 40.000.000 are awarded by the internal tender committees of the respective public entities without seeking clearance from the NTB. Tenders worth between Frw 40.000.000 and Frw 100.000.000 are awarded by the internal tender committees of the public entities after seeking approval from NTB. The decisions of the tender committees should be documented in reports signed by all members present.

Contrary to these procedures, the public entities audited awarded tenders amounting to Frw 5,171,846,240 without the approval of the NTB and Frw 4,632,153,539 without the approval of their respective internal tender committees.

*(b) Splitting of tenders:*

To avoid seeking no objection/approval from the National Tender Board, some tenders were split into small tenders. Some of the split tenders were awarded without subjecting them to competition which is contrary to the set procurement procedures.

*(c) Unsupported Expenditure*

Public expenditure execution procedures require that all expenditure be sufficiently supported with valid documents, which should be sequentially filed and properly referenced. Contrary to these procedures, the entities audited incurred expenditure amounting to Frw 3,638,963,081 and USD 329,196.23 that were not supported by any verifiable documents. In absence of 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, as a matter of procedure, be supported by the necessary documents detailing their utilisation. These documents should be well kept for future reference.

***(viii) Inadequate supervision of implementation of funded activities***

Ministries and projects transferred funds to different third parties to finance various projects but the beneficiaries failed to submit financial reports to account for funds spent. It should be noted that the ministries did not request the beneficiaries to submit the reports. In addition there is no indication of administrative follow up or of enforcement by ministries to ensure their sound management and follow up of their activities.

***(ix) 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 and supply contracts.

I noted that in some cases, contract durations had been exceeded and the works were not completed as per the agreements and the projects/Government failed to enforce retention penalties on delayed contracts 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 to contractors by various government institutions. Some institutions do not hold the guarantee until full performance is assured. Further performance guarantees are left to expire without recovering from them charges for non or poor contract execution.

- 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.

### *(x) Ineffectiveness of 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. This is evidenced by a lot of misstatements in the financial statements and several internal control weaknesses highlighted in audit reports of many institutions audited. In public enterprises Internal Auditor's reports are not submitted to the Boards of Directors, therefore the independence of the internal auditors is compromised as they cannot report on irregular transactions sanctioned by top management. There is a need to put in place audit committees in government institutions for follow up of action on internal and external auditor's reports.

### *(xi) Financial management in Rwandan Embassies*

The daily management of embassies is done by the heads of missions and the regular control of these embassies is the duty of MINAFFET and MINECOFIN. However, I noted that some embassies send reports of expenditure without supporting documents; others did not submit financial reports regularly and others did not submit any financial reports. Neither MINAFFET nor MINECOFIN checks the returns received from embassies.

### *(xii) Budgetary control*

I noted that some institutions did not produce an annual budget execution report and no budget follow-up is undertaken including a reconciliation of the expenditure recorded and analysis of the variations. For the most of the entities that produce budget execution reports, the reports do not indicate the balances at the beginning and end of the reporting period. Sometimes, the budget execution reports are obtained from MINECOFIN only because the auditors have asked for them, whereas they should be produced by the respective budget agencies.

Some institutions overspent on various budget lines without approval from the Minister of Finance and Economic Planning contrary to article 11 of the law determining state finances.

*(xiii) Poor construction works*

Physical verification of projects undertaken by CDF, PDRCIU, HRDP and PADEBL revealed poor construction works. Contractors failed to adhere to contract terms and yet no action was taken against them. This is generally as a result of poor contract management.

*(xiv) Unimplemented Previous audit recommendations*

During our audits, we assessed the implementation of our previous audit recommendations. I noted that many institutions made some remarkable efforts to implement the previous audit recommendations, however significant irregularities still persisted. There is need to establish audit committees to follow up the progress of the implementation of audit recommendations. I have also previously made a recommendation that Cabinet should deliberate on my report. I believe that this will speed up necessary initiatives for implementation of our recommendations.

*(xv) Ineffectiveness of Directors of Finance and Administration in most institutions*

- I noted the ineffectiveness of Directors in charge of Administration and Finance (DAF). These senior officials do not pay attention to financial management issues.
- In most cases qualifications and experience of the people holding these positions are not relevant to the position.
- There is need to separate the functions of administration and finance. In addition, there is a need to redefine qualifications and job descriptions for these functions in order to enhance their effectiveness.

*(xvi) None performing consultants*

I noted that some entities audited have hired consultants to bridge the skills gap in the financial management function. However, it has been noted that in most cases there is no value for money spent because they fail to deliver the expected results. There is no supervision of their work by management and there is usually no local staff to understudy the consultants work thus no transfer of skills. This instead widens the existing capacity gap.

*(xvii) Improvements in public financial management (PFM)*

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.

a. The on going PFM reforms including production of consolidated financial statements are expected to take effect starting from the 2006 financial year.
b. Training of accountants and internal auditors commenced.
c. Improvements in bookkeeping and filing supporting document are expected.
d. It is also expected that the enactment of the Accountants Law will help improve the financial management environment in the country including the public sector.

*(xviii) Training for accounting officers and Boards of Directors*

In view of the serious shortcomings noted in financial management of the institutions audited as a matter of urgency, there is need for training of accounting officers and board members. There is an urgent need to plan training sessions in accounting for non finance managers. Similarly there is need for training board members on their roles and responsibilities to be able to discharge their action and oversight to ensure corporate governance. Unfortunate at times the Executives authorise what they may not know.