

**REPORT OF THE AUDITOR GENERAL OF STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2007**

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ABBREVIATIONS AND ACRONYMS

ADB	: African Development Bank
BADEA	: Arab Development Bank
BCR	: Banque Commerciale du Rwanda/Commercial Bank of Rwanda
BEI	: European Investment Bank
BNR	: National Bank of Rwanda
BRD	: Banque Rwandaise de Développement
CDF	: Common Development Fund
CEPEX	: National Project Bureau
CFP	: Kavumu training Centre
CHR	: Rwanda Housing Finance Bank
CHUB	: University Hospital - Butare
CHUK	: University Hospital/Kigali Central Hospital
CNER	: Rwanda National Examinations Council
CNLS	: National Commission for the fight against AIDS
CNRU	: National Rwandan Commission for UNESCO
CSR	: Social Security Fund of Rwanda
CTB	: Belgian Technical Cooperation
FADEA	: Abu Dhabi Fund
FARG	: Genocide Survivors Fund
FAS	: Fund Accountability Statement
FER	: Fond d'Entretien du Rwanda (Road Fund)
FSD	: Saudi Arabian Fund
GLIA	: Great Lakes Initiative on AIDS
GoR	: Government of Rwanda
GTZ	: German Technical Cooperation
HIDA	: Human Resource & Institutional Development Agency
ICRC	: International Committee of the Red Cross
IDA	: International Development Association
IFAD	: International Fund for Agricultural Development
IGE	: General Inspectorate of Education
IMF	: International Monetary Fund
IRST	: Institute of Technology and Scientific Research
ISAR	: Rwanda Institute of Agronomy Sciences
JICA	: Japan International Cooperation Agency
KHI	: Kigali Health Institute
KIE	: Kigali Institute of Education
KIST	: Kigali Institute of Science and Technology
MAGERWA	: Magasins Généraux du Rwanda
MIFOTRA	: Ministry of Public Service and Labour
MINISPOC	: Ministry of Sports and Culture
MINADEF	: Ministry of Defense
MINAFFET	: Ministry of Foreign Affairs
MINAGRI	: Ministry of Agriculture and Animal Resources
MINALOC	: Ministry of Local Government
MINECOFIN	: Ministry of Finance and Economic Planning
MINEDUC	: Ministry of Education
MINICOM	: Ministry of Trade and Industry
MINIJUST	: Ministry of Justice / Attorney General

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MININFRA	: Ministry of Infrastructure
MININTER	: Ministry of Internal Affairs
MINISANTE	: Ministry of Health
MINISTR	: Ministry of Technology & Scientific Research
MINIRENA	: Ministry of Natural Resources
NBS	: National Bureau of Standards
NCDC	: National Curriculum Development Centre
NCHE	: National Council for Higher Education
NUR	: National University of Rwanda
NURC	: National Unity & Reconciliation Commission
NYC	: National Youth Council
OAG	: Office of Auditor General
OFID	: OPEC Fund for International Development
ONP/NPO	: National Post Office
OP	: Ordre de Paiement
OPEC	: Organization of Petroleum Exporting Countries
ORINFOR	: Office Rwandais d'Information
ORTPN	: Rwanda Office of Tourism and National Parks
OTR	: Ordonnateur Tresorier du Rwanda (Director of Treasury)
PNILT	: National Leprosy and Tuberculosis Programme
PNLP	: National Malaria Programme
PNTS	: National Blood Transfusion Programme
PRESIREP	: President's Office
PRIMATURE	: Prime Minister's Office
RADA	: Rwanda Agriculture Development Agency
RAMA	: National Medical Insurance Scheme
RARDA	: Rwanda Animal Resource Development Agency
RDRP	: Rwanda Demobilisation And Reintegration Programme
REMA	: Rwanda Environment Management Authority
RIAM	: Rwanda Institute of Administration & Management
RIEPA	: Rwanda Investment & Export Promotion Agency
RITA	: Rwanda Information and Technology Authority
RRA	: Rwanda Revenue Authority
RURA	: Rwanda Utilities Regulatory Agency (RURA)
SFAR	: Educational Scholarships Agency
SFB	: School of Finance and Banking
Sida	: Swedish International Development Cooperation Agency
SONARWA	: Société Nationale des Assurances au Rwanda
TIG	: Travail D'Interet General
TRAC	: Research on HIV/AIDS and Treatment center
TSC	: Commission National for Teachers
UBPR	: Union Banques Populaire du Rwanda
UNAIDS	: Joint United Nations Programme on HIV/AIDS
UNDP	: United Nations Development Programme
UNFPA	: United Nations Population Fund
UNHCR	: United Nations High Commission for Refugees
UNICEF	: United Nations Children's Fund
UNIFEM	: United Nations Development Fund for Women
USAID	: United States Agency for International Development
WFP	: World Food Programme

INTRODUCTION

1. MANDATE OF THE OFFICE OF THE AUDITOR GENERAL

According to Article 183 of the Constitution of the Republic of Rwanda of 4 June 2003, as amended to date, the responsibilities of the Office of the Auditor General include the following:

- (i) auditing revenues and expenditure of the state as well as local administrative entities, public enterprises, parastatal organizations and government projects;
- (ii) 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;
- (iii) carrying out audits of accounts, management, and strategies which were applied in the institutions mentioned above.

In addition, Article 184 of the Constitution, as amended to date, 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 state financial statements for the previous year. That report must indicate the manner in which the budget was utilised, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

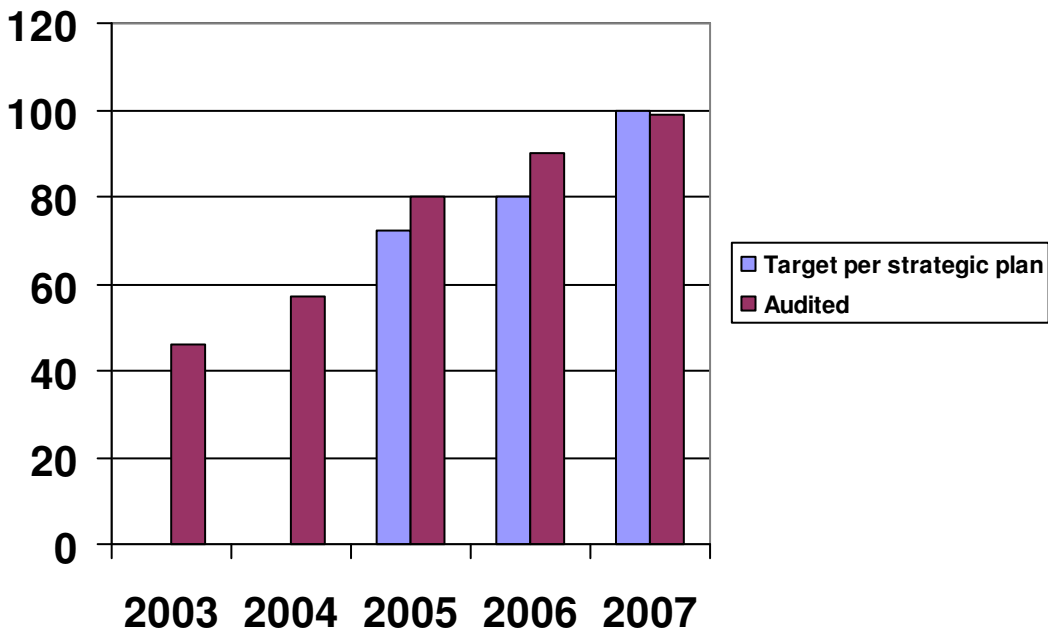
The delay in submission of this report is due to the numerous challenges associated with very high staff turnover, delays by auditees to submit financial statements including the state consolidated financial Statements as well as poor quality of accounting records and lack of adequate preparation for audit by many of the public institutions.

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Accordingly, I now submit to Parliament a report on the audits concluded during the period from February 2008 to 30 January 2009.

Audit coverage

Despite the challenges mentioned above, the number of entities covered by my audits has been steadily increasing over the years, from 46 entities in the year 2003 report to 99 entities included in this report, as illustrated in the graph below:



The table below provides the number of entities (per category) that are eligible for audit and those that were audited during the period.

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		Total number of entities & projects	Audits carried out	Total number of reports issued	Number of qualified reports	Number of unqualified reports
a.	Ministries and other Central Administration units	128	45	48	47	1
b.	Government Projects and Programs	149	10	11	10	1
c.	Districts	30	30	30	30	0
d.	Provinces and Kigali City	5	5	5	4	1
e.	Gouvernement Business Entreprises	32	8	17	17	0
f.	Audit of UNAFRI	1	1	1	1	
	Sub Total	345	99***	112	109	3
g.	Audit of salaries	N/A	1	1	1	0
h.	State consolidated financial statements	N/A	1	1	1	
i.	Peace Keeping Operations	N/A	1	1	1	0
j.	Small projects audited (implemented through public entities)	10	10	10	10	0
	Total	355*	112	125**	122	3

*Source: MINECOFIN

** Although I continue to take steps towards having audits done for periods consistent with the Government financial year, the current report still has 14 institutions with reports covering periods outside the reporting period of 1 January 2007 to 31 December 2007. Institutions which have reports covering periods prior to 1 January 2007 are:

- Rwanda Civil Aviation Authority (2006),
- Social Security Fund of Rwanda (2004, 2005 & 2006),
- RIEPA (2005 & 2006),
- National Post Office (2006),
- Automobile Guarantee Fund (2006),
- King Faisal Hospital (2006),
- DCDP (2006),
- Electrogaz (2005 & 2006),
- OCIR THE (2006),
- CAMERWA (2006),
- ISAE Busogo (2006),
- Ombudsman (2006),
- TIG (2006),
- PDCRE (2006).

*** These include PAFOR, KIST and ORINFOR where I was unable to perform full scope audit because of the poor state of the books of account and supporting records.

The total expenditure incurred by institutions covered by the audits represents 60% of the reported Government Expenditure for the year ended 31 December 2007 (Excluding GBEs).

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It is expected that full coverage for any single financial year will be realised on availability of adequate financial and human resource capacity at the Office of the Auditor General. I still find fundamental bookkeeping errors during my audit in many institutions. This costs us a lot of time in executing and finalizing audits and it has a negative impact on full coverage. The full implementation of the Organic Law on State Finances and Property, and the ongoing Public Financial Management reforms, together with other capacity building initiatives of the Ministry of Finance and Economic Planning (MINECOFIN) geared towards improving Public Financial Management will also have a bearing on working towards full coverage.

Of the 99 audited entities, three entities, namely; e-Rwanda, CEPEX and Southern Province should be applauded for maintaining proper books of account and receiving unqualified audit reports. I urge all the other entities to work towards full compliance and accountability so as to enhance transparency in public financial management.

Evelyn Kamagaju Rutagwenda

AUDITOR GENERAL

KIGALI

30 JANUARY 2009

2. MY AUDIT REPORT

I carried out my audits in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

I also considered the public entities' internal control systems to determine my auditing procedures for the purpose of expressing an opinion on their financial statements.

To ensure that the execution of the State budget was in conformity with the provisions of existing laws, regulations and prescribed procedures, the audits essentially covered authorisation and approval of expenditure, budget procedures, management of bank accounts and a review of the internal control systems set up by the audited entities.

For the year ended 31 December 2007, all public entities audited had prepared at least a fund accountability statement and maintained auditable books of account except for RCAA which only submitted financial statements for the year ended 31 December 2006.

Government, through the Ministry of Finance and Economic Planning (MINECOFIN) continued to provide capacity building support through an international accounting firm that assisted and guided entities in the preparation of financial statements. Other notable improvements were:

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- (i) The audited entities listed below did not have any case of unsupported expenditure.

	Entities
1	Rwanda Information Technology Agency (RITA)
2	e-Rwanda Project
3	Ministry of Finance and Economic Planning (MINECOFIN)
4	Central Public Investment and External Finance Bureau (CEPEX)
5	Ministry of Education (MINEDUC)
6	Rwanda Development Gateway Group (RDGG)
7	Chamber of Deputies
8	Senate
9	Rural Sector Support Project (RSSP)
10	Support Project to Strategic Plan for Agricultural Transformation (PAPSTA)
11	Southern Province
12	Nyarugenge District
13	Ministry of Agriculture and Animal Resources (MINAGRI)

- (ii) Similarly, the following entities did not have any cases of non compliance with existing public procurement procedures: the National Post Office, e-Rwanda Project, Senate, Chamber of Deputies, National Unity and Reconciliation Commission, NEC Capacity Building Project, Support to NEC Effectiveness Project, Gisagara District and Western Province.
- (iii) Three of the audited entities received unqualified audit opinions, namely: CEPEX, Southern Province, and e-Rwanda. This is an improvement compared to one in the 2005 annual report and none in the 2006 annual report.

However, there are still a lot of challenges. Assessment of implementation of previous audit recommendations shows that much as some had been implemented, significant irregularities still persist as highlighted in this report. Many of the Public entities did not fully implement the recommendations made in previous audits as required of their Chief Budget Managers under Article 74 of Organic Law N° 37/2006 on State Finances and Property. As recommended in my previous report, there is need to establish audit committees to follow up the progress of the implementation of audit recommendations. Further, I believe that the enactment of the Accountants law will substantially contribute to the establishment of professional norms and standards for the auditing and accounting profession in Rwanda. I also believe that the proposed establishment of a Public Accounts Committee (PAC) will enhance parliament's oversight role.

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In addition, as constructive recommendations enhance improvements in the implementation of government's planned activities, continuous failure to implement audit recommendations should necessitate action by supervising authorities.

The following specific observations were noted in most of the audits carried out during the period:

2.1 Non compliance with article 71 of Organic Law N° 37/2006

In accordance with Article 71 of Organic Law N° 37/2006, budget agencies, local administrative entities and other public bodies shall submit their financial statements to the Auditor General of State Finances in the following year not later than 31 March of the following year.

Only 26 entities complied with the reporting deadline of 31 March 2008. These include MINAGRI, Senate, Supreme Court, MINISANTE, Chamber of Deputies, MINALOC, MINEDUC/CNRU, MINADEF, DCDP, TIG, RADA, RITA, Office of the Ombudsman, ISAE Busogo, AGF, NCHR, REMA, Rwanda Revenue Authority, National Service of Gacaca, Gisagara, Kicukiro, Bugesera, Ruhango, Kamonyi, Ngororero and Muhanga Districts.

The following 23 entities submitted their financial statements over three months late: ORINFOR, OCIR THE, NPO, CAMERWA, PADEBL, King Faisal Hospital, NUR, PAFOR, PRIMATURE, MINISPOC, NISR, Embassy of Rwanda in London, Embassy of Rwanda in New Delhi, Eastern Province, Muhima Hospital, Rulindo, Gakenke, Burera, Gicumbi, Rwamagana, Rutsiro, Kayonza, and Gatsibo Districts.

For most entities, financial statements were obtained on request at the time of commencing the audit. It appears that the Chief Budget Managers do not know that they have to submit their financial statements to the Office of the Auditor General of State Finances not later than 31 March of the subsequent year.

There were institutions that submitted their financial statements, but were not ready for audit. In the case of KIST, the financial statements contained significant errors and omissions and therefore could not be audited. Instead, management embarked on a clean up exercise that would

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result in adjustments to correct and generate a final set of financial statements for the year ended 31 December 2007. However, to date, I have not received the corrected version.

In the case of PAFOR, I planned to conduct an audit for the financial statements for the year ended 31 December 2007 but the audit was postponed many times and could not take place. The PAFOR Project Accountant was in jail over a fraud case and the Director in charge of Finance and Administration had resigned in March 2008 without notice and hand over, leaving all accounting documents in disorder.

ORINFOR did not submit its financial statements for the year ended 31 December 2007 within the deadline set under Article 71. I received the financial statements for the year ended 31 December 2007 on 26 September 2008.

Similarly, 14 institutions and projects did not submit financial statements to MINECOFIN at all and are therefore not included in the State consolidated financial statements. This needs urgent attention to ensure that all institutions submit their financial statements as required by law.

MINECOFIN also submitted the consolidated financial statements to me on 31 March 2008. However, subsequently on 20 May 2008, I received another version which significantly differed from the previous version submitted on 31 March 2008.

Further the final audited consolidated financial statements significantly differ from those submitted on 31 March 2008 as indicated in the table below:

	GOR Consolidated FS submitted to OAG on 31/3/2008	Revised GOR Consolidated FS submitted to OAG on 20/5/2008	Final audited version
	Frw	Frw	Frw
Opening balances	109,003,289,646	135,934,724,573	136,711,602,501
Receipts	676,771,200,629	657,506,182,113	658,116,389,377
Expenses	658,722,178,701	654,492,070,498	654,091,339,597
Closing balances	127,052,311,575	138,948,836,189	140,736,652,280

These differences from the 31 March 2008 version are due to adjustments subsequently passed to correct errors and omissions at both budget agency and consolidation levels.

For many entities, the financial statements received had amounts that differed from those in the audited state consolidated financial statements. This implies that the reports I received were different from those submitted to MINECOFIN.

Delays in submission of reports and the differences noted indicate lack of adequate capacity by public institutions in financial management and accounting, which still needs to be strengthened. This also affects the audit process and consequently delays the audits.

In addition many budget agencies continue to unduly prolong the audit process due to their lack of preparedness and commitment. In many instances, documents are not well organised and easily available and the participation of senior officials is often lacking. Responses to audit queries are also unduly delayed leading to significant delays in finalization of audits. MINECOFIN and Chief Budget Managers should take a more active role in ensuring that entities are adequately prepared for audits and avail all necessary information during the audit process.

2.2 Preparation of financial statements

2.2.1 Omission of receivables and payables in financial statements

Financial statements for some entities did not include receivables and payables contrary to article 70 of Organic Law N° 37/2006 on State Finances and Property which *requires the accounts report to include all revenues collected or received and all expenditure made during the fiscal year, as well as a statement of all outstanding receipts and payments before the end of the fiscal year.*

In this regard, the following balances were omitted:

Liabilities:	Frw 7,699,941,395
Receivables:	Frw 27,542,303,862

In general, the Institutions did not maintain an invoice register and an accounts receivable book (debtors' ledger). This can lead to mismanagement of receivables and payables. Double payments may occur and it is also difficult to determine whether all receivables are recoverable.

2.2.2 Omitted bank accounts and balances

I noted 65 bank accounts totalling **Frw 818,067,270** (positive balances) and **Frw 132,043,733** (negative balances) that were omitted from the financial statements of the audited entities. Some of the omitted bank accounts were not known to management of the entities. For example management of MINICOM was not aware of the existence of account number 320.76.85 at BNR entitled "MINICOM BYUMBA MILLS FACILITY" which had a balance of **USD 499,805.08** (**Frw 272,003,921** at the rate of **544.22**) as at 31 December 2007.

Further, an amount of **Frw 3,454,192,129** on the Rwanda Revenue Authority (RRA) transit accounts in BNR and various commercial banks at 31 December 2007 had initially not been incorporated in the State consolidated financial statements until January 2009 when I brought it to the attention of the Accountant General. This is an indication of the weaknesses in internal controls over accounting for revenues and management of bank accounts.

The cases highlighted in above are indicative that not all Government bank accounts as well as their related transactions are recorded in books of account and the financial statements submitted by some entities are incomplete.

2.2.3 Unexplained differences in opening balances

There were many cases noted where institutions made adjustments to the audited balances for 2006 that affected the opening balances for 2007 without proper explanations and support documentation. There are also other adjusting entries passed by accountants without any evidence of approval of the adjustments by the Chief Budget Managers and Directors of Finance and Administration. In addition, there is no clear guidance to budget agencies on end of year closing procedures. There is a risk that accountants may pass unauthorized, fraudulent and erroneous entries in the books of account and consequently distort financial statements. The

Accountant General should always issue clear year end procedures which should specify, among other things, the date beyond which further posting of adjustments for that specific financial year could be allowed. This could be enhanced by the ability of MINECOFIN to 'lock' the budget agency accounting software so that they are not able to post transactions beyond a specific date. Further, all adjustments should be approved and properly supported to provide audit trail and accountability.

2.2.4 Inter-entity transactions and balances

Inter-entity transfers which represent transfers between budget agencies should be eliminated on consolidation of State financial statements. However, these were not eliminated on consolidation and a credit balance of **Frw 15,317,009,488** is shown as inter-entity transfers in the state consolidated financial statements under expenditure. In some cases balances were shown as inter-entity transfers in one budget agency but did not appear in the books of account of the recipient entity. A case in point is **Frw 150,000,000** shown as receivable from PRIMATURE in the books of AGF but not reflected in the books of PRIMATURE.

Transfers from Treasury to budget agencies are expected to be reflected in the budget agency financial statements as receipts and therefore net-off on consolidation. However, there is a difference of **Frw 10,372,461,640** between transfers made by Treasury and amounts received by budget agencies.

The cases highlighted in the above two paragraphs indicate that the consolidation process was not properly executed and consequently the state consolidated financial statements are not fairly stated.

2.2.5 Lack of reconciliations for public debt

There are cases where loans and receivables for public entities are not recorded in Government books of account. For example, **Frw 958,865,725** shown by National Post Office as receivable from Government does not appear in public debt records at MINECOFIN. Consequently, it may not be recoverable. Similarly, amounts due from Government to CSR as at 31 December 2007

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differ from those shown in the books of account of MINECOFIN by **Frw 5,855,350,001** as shown below:

As at 31 December 2007	Frw
Balance per MINECOFIN records	59,703,306,491
Balance per CSR records	65,558,656,492
Unexplained difference	(5,855,350,001)

There are no regular reconciliations performed by MINECOFIN to determine the actual balances receivable and payable by Government from Public entities and therefore Government books of account are misleading.

2.2.6 Refundable deposits wrongly accounted for

The financial statements of the Supreme Court include a balance of **Frw 942,462,650** held on the “*Frais de Justice*” bank account as at 31 December 2007. This amount, which represents refundable deposits held by Courts and therefore a liability is wrongly recognised as income to the Courts within the year of collection. In addition, there is no list of claimants maintained to support these refundable deposits. Therefore, over a number of years, revenue is overstated and liabilities are understated by **Frw 942,462,650** each.

2.3 Weaknesses in processing of Government salaries by MIFOTRA

The Ministry of Public Service and Labour (MIFOTRA) is responsible for processing the salaries of central administration, Supreme Court and the Public Prosecutor General’s office (*Parquet Général*), teachers and health sector employees. The average monthly number of Government employees in these institutions is shown below:

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	Institutions	N° of Employees
1	Central administration	724
2	Supreme court	557
3	Prosecutor General's office	248
4	Health sector	3,858
5	Education sector	36,146
Total		41,533

During the year ended 31 December 2007, MIFOTRA processed salaries amounting to Frw 38,281,818,938 as shown below:

	Institutions	2007 Frw
1	Central Administration	3,396,536,322
2	Health Sector	7,761,935,543
3	Supreme court	2,688,878,419
4	Prosecutor General	1,252,110,726
5	Education Sector	23,182,357,928
TOTAL		38,281,818,938

Examples of significant weaknesses identified in salary processing are highlighted below:

- (i) There are significant weaknesses in the logical access controls for both the Staff Management system software and the in-house application (Benjamin's in house developed software) which may provide favourable grounds to carry out fraud.
- (ii) Some teachers, whose employment had been terminated, still received salaries during the year ended 31 December 2007. The teachers are able to receive their salaries because the period it takes for the teachers to be deleted from the payroll is too long.
- (iii) The dates for recruitment and dates of birth for teachers were found to be incorrect and not representative of the actual ages of the salaried teachers and other government employees. I noted some employees recorded as having been born in 2050 but recruited in 1900. This impairs human resource planning and also increases the risk of people being employed beyond their retirement age.
- (iv) 3,546 teachers do not have CSR numbers yet according to the payroll. It is evident that they remit CSR contributions to the institution mandated to receive them i.e. CSR.

- (v) There are cases of more than one person especially teachers having the same bank account number. This could be an indicator of ghost employees in the payroll.

It is important to note that these same issues were raised in my previous report released in January 2008 and to date (January 2009) they have not been resolved.

2.4 Irregular expenditure

Irregular expenditure is expenditure which would have been avoided if reasonable care had been exercised. It is expenditure made in vain and thus wasteful. This includes expenditure that is not properly supported with documents such as purchase orders, payment vouchers, invoices and third party receipt acknowledgement. It also includes, even if supported, expenditure made contrary to the established procurement regulations or expenditure involving unreasonable/inappropriate pricing, expenditure not commensurate with quality of services/goods delivered and excess expenditure incurred on basis of arithmetic errors in supporting invoices or fraudulent actions of the persons involved.

I noted the following irregular expenditure:

2.4.1 Tenders awarded without complying with existing public procurement procedures

- (i) Entities audited awarded tenders amounting to **Frw 2,130,603,874** without any evidence of approval by respective internal tender committees. Kigali City, King Faisal Hospital and Kirehe and Kayonza Districts awarded tenders worth **Frw 687,661,009** without the approval of the Rwanda Public Procurement Authority (RPPA). Therefore, I was unable to confirm that these tenders were subjected to competition and awarded in a transparent manner.
- (ii) Tenders were awarded to suppliers whose financial offers were higher than those offered by other bidders and yet the internal tender committee evaluation report indicated that all the bids met the specifications in the tender documents. Therefore public entities incurred **Frw 65,141,100** in excess expenditure that could have been avoided if the best evaluated bidder had been selected.

- (iii) Public Procurement regulations allow public entities to pay an advance of up to 20% to contractors, suppliers and service providers, on condition that it is 100% guaranteed by a reputable bank or any other financial institution. However, I noted cases where entities paid advances exceeding 20% and in some cases, the advances paid were not guaranteed. In absence of an advance payment guarantee, the entity is exposed to the risk of loss in case the supplier/contractor fails to honour the contract. This risk materialized in King Faisal Hospital where in March and August 2005, the Hospital made an advance payment of **USD 30,886.80** equivalent to **Frw 17,544,787** to LILY MAX PTY LTD-SOUTH AFRICA a supplier of laboratory reagents and medicines, but only medicines worth **Frw 11,600,951** were supplied, thus a balance of **Frw 5,943,835** worth of goods not supplied to date.
- (iv) There were cases where contractors and suppliers did not provide performance guarantee on signing of contracts, contrary to existing public procurement procedures. These cases were noted in HRDP, PADEBL, MINEDUC, Kigali City, and Kayonza, Bugesera, Kamonyi, Ruhango and Ngororero Districts.
- (v) Contrary to existing public procurement procedures, public entities still use inappropriate procurement methods. Many of them inadequately applied single sourcing and shopping method in procuring items without sufficient reasons. Such cases were noted in MINADEF, Automobile Guarantee Fund, Kigali City, ISAE Busogo, and Karongi and Kirehe Districts.

2.4.2 Unsupported expenditure

Public financial management and accounting procedures require that all expenditure should be sufficiently supported with valid documents, which should be sequentially filed, properly referenced and kept for future reference. Contrary to these procedures, the entities audited incurred expenditure amounting to **Frw 6,524,683,240** that was not supported by any verifiable documents. In absence of supporting documents, I am unable to confirm the nature and validity of such expenditure. I also noted poor records management rendering retrieval of documents very difficult. The issue of records management needs urgent attention.

For better management of public funds, expenses incurred by all public entities and adjustments made in the general ledger should, as a matter of procedure, be supported by all necessary documents. These documents should be well kept for future reference.

2.4.3 Wasteful expenditure

Public entities incurred wasteful expenditure amounting to Frw 137,578,872 that could have been avoided had they complied with laws, regulations and procedures in force.

2.5 Unauthorized expenditure

There are cases where bonuses and other staff benefits amounting to **Frw 53,170,367**. Similarly, entities provided staff advances and loans and a total of **Frw 56,078,953** had not been recovered by the audited institutions as at 31 December 2007.

2.6 Weaknesses in monitoring of Government Budget

- There are entities that did not incorporate internally generated revenue in their annual budgets submitted to MINECOFIN. This makes it difficult to monitor expenditure from internally generated revenue and there is a risk of ineligible expenditure and duplication of expenditure for budget lines already supported by Government. In addition, the reports produced by MINECOFIN for budget monitoring (through SMARTGOV) may not provide accurate information on budget performance since they lack budget information for internally generated revenue. This is notable in the case of all districts and other entities that have internally generated revenue like ISAE Busogo, RARDA, RADA, IRST, Muhima Hospital, National University of Rwanda, Kigali Health Institute and School of Finance and Banking (SFB).

There is need for all institutions to incorporate all expected sources of income in their annual budgets and ensure that this information is submitted to MINECOFIN. Expenditure incurred from the various sources of income should then be properly

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authorized and monitored and this information should be provided to MINECOFIN on a regular basis.

- I noted that expenditure categories/classification in the chart of accounts that entities use to record transactions in the books of account are different from the classification provided in the budget law. This makes it difficult to compare the actual expenditure classified according to the chart of accounts and the budget classified according to the budget law. This limitation may result in cases of overspending by budget agencies on individual budget lines unknowingly or deliberately and such cases may not be detected by management and MINECOFIN. I am aware that MINECOFIN is in the process of harmonizing the chart of accounts with the budget codes. It is expected that this will facilitate comparison of budgeted expenditure to execution.

2.7 Payments made to wrong beneficiaries

There are some entities that made payments to individuals purportedly on behalf of the rightful beneficiaries like contracted suppliers or grant recipients without any documented authorization from the rightful beneficiaries. Examples are shown in the table below:

Entity	Description	Amount	Rightful beneficiary	Beneficiary paid
		Frw		
PDCRE	Vehicle hire - Transportation of plants	565,136	Rucamubyuma Eric	Ngabonziza Felix
PDCRE	Vehicle hire - Transportation of plants	476,556	Kagabo Jean Damascene	Ngirimana Theophile
PDCRE	Repairs	240,000	Engineer Sylvestre	Ndayisaba Jean Bosco
OCIR THE - MULINDI	Tax payment	30,000	Gicumbi District	NZAYINO Elie
OCIR THE - MULINDI	Tax payment	90,000	Gicumbi District	NZAYINO Elie
PRIMATURE	School fees for orphans	10,333,800	Orphanage Umurwa w'Amahoro	Sister Adria Nyirabarima
Eastern Province	Construction of 2 residential blocs	19,461,310	Mugabe Enterprise	Mugabe Thomas
	Construction of 6 houses	10,218,924	RUKOFAR Enterprise	Bizimana Antoine
Rwamagana	Electrical installation	763,390	CTS	Ngayabarambirwa Abias
ISAE Busogo 2006	Vehicle Maintenance	2,186,768	Garage Station SHELL	Misago Pascal
ISAE Busogo 2007	Bread slicing machine	3,763,600	Kagabo & Sons Ese LTD	Kagabo Kassim
ISAE Busogo 2007	Purchase of mobile phone	400,000	Hello Phone	Mukasine Ndagije
ISAE Busogo 2007	Mobile phone for VRAC	300,000	Hello Phone	Mukasine Ndagije
TOTAL		48,066,094		

2.8 Non-compliance with contract terms

There are cases where contract terms were not complied with and yet no action was taken against the defaulting party by the public entities, as illustrated below:

There are cases where contracted works and services were not completed within the contract period and yet public entities did not charge any penalty to the contractors and service providers. This was the case in Ngororero district, HRDP, MINEDUC, Kigali City, and PAPSTA .

There is lack of monitoring of civil works by management of districts and this has resulted in poor quality of construction works and abandoned works and in some cases, contractors were paid more than the value of completed works. Similarly, in Kayonza and Kirehe Districts, payments to contractors and suppliers exceeded total contracts sums.

Other entities made final payments to contractors before issue of a final completion certificates like in the case of Kamonyi and Karongi Districts.

2.9 Ineffectiveness of internal audit units

Most of the audited entities have internal audit units, but they are not effective as evidenced by the persistent errors in financial statements and significant weaknesses in internal control systems as highlighted in our audit reports. Internal audit plans and auditors' reports are not submitted to the Boards of Directors, District Councils, and in the case of ministries, to Ministers. Further, the units are inadequately staffed to effectively discharge their mandate and there is no action taken on the findings and recommendations of the Internal Auditors. Examples of entities where Internal Audit units were ineffective include: almost all the districts, MINADEF, MINECOFIN, Rwanda National Police, National Post Office, RCAA and AGF.

There is need to put in place audit committees in government institutions to follow up and take action on internal and external auditors' reports. In addition, there is need to implement the existing Internal Audit Charter through provision of adequate training and staff.

2.10 Lack of supervision, ownership and skills transfer

(i) Consultancy services

I noted that some entities audited hired consultants to perform certain tasks that should ordinarily be carried out by their own staff, such as writing books of account and preparation of financial statements. I also noted that in most cases there is no supervision as well as ownership of the consultants' work by management and there is usually no local staff to adequately understudy the consultants. Ultimately, there is no transfer of skills and this widens the existing capacity gaps. Cases in point are:

- Although there was a slight improvement, there is still lack of ownership of State Consolidated financial statements by MINECOFIN staff. The staff could not provide adequate workings, explanations and support for figures in State Consolidated financial statements without the direct assistance of the consultants. Other institutions where there was lack of ownership and continuous need for direct assistance of consultants to explain their work and figures in the books of account include King Faisal Hospital, KIST and RCAA. In the case of RCAA and King Faisal Hospital, the work of the consultant was not formally reviewed and evaluated by management, and some aspects of the contracts were not finalized by the consultants.
- It should be noted that the books of account for these institutions that hired Consultants still had significant errors and there were no notable improvements over previous years. Such was the case with KIST, RCAA and King Faisal Hospital. For KIST, the '*Consultant*' was not qualified for the job.
- There was also lack of ownership of financial statements by some Districts, Ministries and other public entities which claimed that their financial statements were prepared by consultants and MINECOFIN staff and they did not understand figures included therein. This was the case of Burera, Ngororero and Rubavu districts, Western Province, MIFOTRA, ORINFOR, TIG and AGF.

- (ii) Supervision and monitoring of activities in public institutions
- Public entities submit monthly and quarterly financial reports to MINECOFIN to facilitate preparation of consolidated financial statements and effective monitoring of financial management in public institutions by MINECOFIN. However, I did not obtain evidence of regular and adequate review and follow up of these monthly and quarterly financial reports by MINECOFIN. A lot of errors were noted in financial statements of budget agencies during my audits and yet some of them could have been addressed during the year had MINECOFIN made adequate review and follow up of reports received from the budget agencies. Examples are long outstanding reconciling items and unreconciled differences in bank reconciliations.
 - Districts did not also make regular and adequate follow up of activities in entities under their management such as sectors, district hospitals and health centres, ‘*Mutuelle de santé*’ sections, dispensaries, and schools. As a result, most of the grants disbursed by districts to these entities and any revenue collections by the respective entities are not properly monitored and accounted for.

2.11 Weaknesses in the management of internally generated revenue

2.11.1 Internally generated tax revenue in Districts

- (i) In most of the Districts, Revenue officers did not complete daily revenue collection forms and pre-numbered daily revenue release registers during the year. In addition, the monthly and weekly reports prepared cannot be reconciled with receipt books since they do not indicate the receipt numbers they relate to, and the figures in these reports are different from those shown in the fund accountability statements. Further, the revenue collections were not reconciled to revenue banked and deposit slips do not show receipt numbers to facilitate checking that all revenue collections have been banked promptly and intact. Therefore, completeness of revenue collections cannot be ascertained.

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- (ii) There are cases where the bank does not record the amount appearing on the individual bank deposit slips on the bank statement. Instead, it aggregates all deposit slips for the day and records the aggregate amount on the bank statement. However, reference numbers for the individual deposit slips are not indicated on the summary deposit slips, making it difficult to determine whether or not all the deposits for the day have been recorded. This was the case in Kirehe, Nyamasheke, Rusizi, Nyaruguru and Gatsibo Districts.
- (iii) In some Districts like Kirehe, Nyamagabe and Nyamasheke, there were deposits recorded on the summary deposit slip that did not appear on the bank statements and for some days, the total collections per individual deposit slips of tax collectors differed from the total amount shown on the summarised deposit slip for those respective days. Collections were not banked intact and were not accounted for.
- (iv) There are also cases of delayed bankings ranging between 2 and 114 weeks for cash collected. This was noted in most Districts. In Rusizi, Rulindo, Ruhango, Gakenke, Nyanza, Kayonza and Kamonyi Districts, I noted delays exceeding six months. In Kayonza, I noted an amount of **Frw 696,688** collected in August 2006 by MUKARUKUNDO Marie Louise, banked in November 2008 after I brought it to their attention.
- (v) In some districts, tax revenue was recorded in the books of account on the basis of bank statements rather than the source documents. Other districts recorded revenue basing on monthly revenue reports prepared by revenue officers. However, because collections are not reconciled to bank deposits and monthly revenue reports prepared cannot be reconciled with receipt books as highlighted in (i) above, there are unexplained differences between the tax revenue recorded by the District accountants and that reported by revenue officers. Therefore, completeness of tax revenue collections cannot be ascertained hence tax revenue may not be fairly stated. These differences were noted in most of the districts.
- (vi) Some districts did not maintain a record of receipt books received and issued thus making it difficult to determine the number of receipt books used by the district during the year. In almost all districts, there were cases of receipt books issued but not accounted for. This

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- exposes districts to a risk of fraud and use of district revenue by tax collectors for personal gain and makes it difficult to ascertain the completeness of tax revenues.
- (vii) Collections at sector level are banked in an account maintained at Banque Populaire and then transferred to District revenue accounts in commercial banks. A summary report for all collections at the sector is done by the *Secrétaire-comptable* of the sector. There are no reconciliations done at the sector to confirm that all collections are banked and that all collections on the sector account in a given period are equal to the amounts transferred to the District bank account and that they tally with the *secrétaire-comptables*' reports for collections within the same period. Any errors or misappropriations at the banking or transfer points may not be detected. Further, cash balances not yet transferred from sectors to the district collection accounts are sometimes omitted from the district books of account. This should be accounted for properly and shown as cash in transit.
- (viii) Tax receipt books do not show the type of income which has been collected. This hinders the preparation of reliable revenue reconciliations. There is need for districts to record each category of revenue separately in the books of account and ensure regular reconciliations.
- (ix) There were cases where retained duplicate copies of receipts issued to taxpayers were blank and did not have the information written on the original issued to the taxpayer. Two (2) of these cases were identified in Karongi District and three (3) in Kirehe District.
- (x) In Nyarugenge District, a contract for one year commencing on 30 December 2006 was signed between Nyarugenge District and ATRACO for hiring Nyabugogo Bus/Taxi Park at a price of **Frw 5,000,000** per month. In 2007, ATRACO made two payments of **Frw 30,000,000** and **Frw 23,246,000**. The first payment was made in August 2007 to cover rental costs of the first semester while the second instalment was paid on 27 December 2007 by cheque No 02393574 for July, August, September, October and a half of November. By July 2008, ATRACO had not paid the remaining balance of Frw 6,754,000 for 2007 and the rent for the first seven months of 2008 of **Frw 35,000,000**. In addition, the contract of ATRACO had not been renewed by July 2008 (date of audit), seven months after expiry although they were still operating.

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- (xi) Nyabihu District contracted collection of taxes to boost revenue collection. The contracts stipulated the amount of taxes to be collected and remitted to the district by the contractors. During the year 2007 some contractors did not remit taxes stipulated in their contracts amounting to **Frw 31,858,225**. There was no evidence of any efforts by the Districts to recover the outstanding balance.

2.11.2 Accounting for and utilisation of ‘Mutuelle de Santé’ contributions in Districts

- (i) Since the handing over of the management of health centres to Districts on 1 January 2006, there was no control over receipt books in circulation by the District for contributions of ‘Mutuelle de Santé’ and hence no control over cash collections.
- (ii) In Karongi and Nyamagabe Districts for example, there were differences amounting to **Frw 33,556,686** between ‘Mutuelle de Santé’ reports prepared by the districts and those prepared by ‘Mutuelle de Santé’ sections based at health centres as shown below:

District	Period audited	Per section of <i>Mutuelle de santé</i> /Health centre report (a)	Per report of the district (b)	Difference (a-b)
		Frw	Frw	Frw
NYAMAGABE	01/01/2007-31/12/2007	21,187,796	3,962,462	17,225,334
KARONGI	01/01/2007-31/12/2007	77,072,292	60,740,940	16,331,352
		98,260,088	64,703,402	33,556,686

- (iii) The ‘Mutuelle de Santé’ scheme requires that 10% of community contributions should be remitted to the district account as part of the pooling risk fund. However, some ‘Mutuelle de Santé’ sections did not remit the required contribution during the year. The basis for computation of the 10% is also not regularly verified by the district ‘Mutuelle de Santé’ unit and internal audit department. Therefore, completeness of collections for *Mutuelle de Santé* reported by Districts cannot be confirmed. Such cases were noted in Rutsiro, Gasabo, Karongi, Nyamagabe and Kirehe Districts.

There is urgent need to strengthen controls over ‘*Mutuelle de Santé*’ contributions by maintaining a register of eligible contributors and this should be reconciled to the collections and bankings on a regular basis.

2.11.3 Lack of reconciliations between revenue, stock, cash collections and bank deposits for internally generated revenue in other public entities

Public entities that have internally generated revenue do not always prepare regular reconciliations between the revenue reported, cash collected and stock sold as noted in RARDA, RADA, MINAGRI, ISAE Busogo, RCAA, OCIR THE, IRST, NPO, KIST and NUR. These entities may therefore not be able to detect and prevent any revenue leakages and losses. This risk materialized in MINAGRI, where a customer altered a deposit slip for **Frw 2,000** to show **Frw 2,800,000** and management issued fertilizers basing on the false deposit slip and hence a loss of **Frw 2,798,000**. It was even more difficult to detect the fraud because the amount posted in the cash book was from the bank statement not the deposit slip, therefore it could not be picked at the time of bank reconciliation. In OCIR-THE, there was a financial loss of **Frw 658,084,553 (USD 1,192,843)** as described in **section 2.21.5** of this report.

2.12 Weaknesses in management of bank accounts

- (i) A number of budget agencies had numerous bank accounts. For example Nyabihu District had 39 bank accounts, while Kicukiro District had 29 bank accounts. This presents challenges to local administration as they do not have the capacity required to carry out bank reconciliations. A policy geared towards minimizing the number of bank accounts should be actively pursued to assist budget agencies to manage the number of bank accounts that they have at any one point in time.
- (ii) There are still some entities where bank reconciliation statements are not prepared, and where they are prepared, it is only for some bank accounts or some months.
- (iii) There are cases where the bank reconciliation statements are prepared but not reviewed by senior officials in public entities.

- (iv) There are also public entities which still post their cash books from bank statements contrary to best practice that requires books of account to be posted based on original source documents like receipts/deposit slips and payment vouchers. This makes it difficult to detect any errors and fraud on bank accounts like in the case of MINAGRI fertilizer bank account, Nyamasheke and Nyagatare Districts. In addition, any unpresented cheques as at the year end are not recorded in the books of account, thus incomplete financial statements.
- (v) There are cases of unreconciled differences and long outstanding reconciling items which are not followed up by management. Notably some of these reconciling items have already cleared through the bank and some outstanding cheques have expired. Accordingly, bank balances are misstated. Examples were noted in Gatsibo, Musanze and Nyamagabe Districts, and Western, Eastern and Northern Provinces, Chamber of Deputies, RADA, RARDA, RCAA, TIG, NURC, MIFOTRA, and MINICOM.
- (vi) There are still long outstanding cash deposits which were not credited by the bank to the respective entity bank accounts. This could be an indicator of fraud and needs urgent review to identify why deposits remain outstanding for so long. This was the case in ORINFOR, Nyamasheke, Rusizi, Nyaruguru, Kicukiro Districts and Northern Province.

The cases highlighted in (v) and (vi) above would have been eliminated if Chief Budget Managers were ensuring that bank reconciliations are prepared and reviewed. Similarly such cases would have been picked, investigated and cleared if MINECOFIN was reviewing and following up monthly financial reports submitted by budget agencies.

2.13 Payment system in public entities

I noted that the practice of issuing open cheques and having them endorsed by the payee to another person is widely used and is open to abuse as was the case in Northern Province. (**See section 2.21.1**). Incidentally, a stolen cheque can be endorsed by the ‘thief’ to another person and the bank(s) will pay it because there is no system in place to verify the identities and signatures of the person endorsing the cheque and the person cashing the cheque respectively. To address this problem, I recommend the following:

- (i) All banks should only issue cheque books with already crossed cheques to eliminate the option of payees endorsing cheques to other persons;
- (ii) The cheques should only be opened by the signatory/account holder;
- (iii) Only cheques in the names of the account holder or an authorized agent known to the bank should be cashed at the bank counter;
- (iv) Payments to public officials and suppliers/contractors should be made into their accounts preferably by '*Ordre de paiement*' (OP) except if it is below the cash payment threshold and travel allowances;
- (v) Public institutions should always send confirmation letters to the banks indicating the cheques issued, amounts paid and respective payees. This will prevent cases such as those identified in Gatsibo District. (See section 2.21 of this report and the cases in SFAR and PAFOR highlighted in my 2006 Annual Report).

2.14 Lack of segregation of duties

In some of the entities audited, staff handle several incompatible duties (receipt, custody, initiation of transactions, authorization and recording) for example over cash management. In some Districts, Revenue officers also acted as Cashiers and Accountants acted as Cashiers. This is a weakness in the internal control system which does not enable detection and prevention of errors, fraud and other irregularities. This may lead to misappropriation of funds as was the case in Northern Province & Gatsibo, Nyaruguru and Kicukiro Districts.

2.15 Poor management of fixed assets

Many entities still do not maintain fixed assets registers or the registers maintained do not have adequate information to enable effective control over fixed assets. In most cases, fixed assets were not coded and no physical verification had been carried out. In addition, most Government assets are not insured, and there are no title deeds for Government properties. It is therefore not possible to ascertain the right of ownership thus disputes in ownership are likely to occur. Specifically, MININFRA, the responsible line Ministry, does not maintain a register for

Government properties. Government property can be misappropriated in absence of proper monitoring. The Government should accelerate the process of carrying out a physical verification, coding and valuation of all Government assets, obtain title deeds for all Government properties and produce a comprehensive fixed assets register.

- **Handover of assets between MINICOM and Private Sector Federation**

During the year under review, MINICOM moved offices from Gikondo to Kicukiro but did not handover the assets that they would not need in the new premises to MININFRA in accordance with existing Government Procedures. Instead, MINICOM claims to have handed over the assets and premises at Gikondo to the Private Sector Federation (PSF) on 27 July 2007 without involving MININFRA.

Subsequently, following a letter from MINICOM about assets having been handed over to PSF, MININFRA undertook a physical verification and reported that they did not find any of the said assets. This information was communicated to MINICOM on 28 September 2007 but since then, there is no evidence of any follow-up.

It is possible that these assets were misappropriated. This demonstrates poor management of Government assets and lack of accountability and needs to be investigated without any further delay.

2.16 Non compliance with tax laws

- (i) Some institutions, including projects, continue not to deduct 3% withholding tax from beneficiaries of public tenders contrary to the provisions of Law n^o 16/2005 of 18 August 2005 regarding withholding tax on payments to beneficiaries of public tenders. Some institutions did not also remit tax withheld to Rwanda Revenue Authority by the fifteenth day of the following month as required by law. In addition, in some cases, the rate is not applied on the invoice amount before VAT, and the withholding tax is either remitted late or not remitted at all to Rwanda Revenue Authority.

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- (ii) Some institutions did not deduct and remit 15% withholding tax on payments to casual workers and on fees paid to consultants contrary to the requirements of Articles 50 and 51 of Law no 16/2005 of 18 August 2005.
- (iii) Some institutions did not deduct Pay As You Earn (PAYE) from their employees as required under Article 50 of Law No 16/2005 of 18/08/2005 on direct taxes.
- (iv) In the case of RCAA and ORINFOR corporation tax returns were not filed with Rwanda Revenue Authority. Therefore they did not comply with Articles 42 and 43 of Law No 16/2005 of 18/08/2005 on direct taxes.
- (v) Extreme cases of non compliance include:
 - ORINFOR – **Frw 2,290,816,526** including corporation tax, withholding tax, VAT, patents, PAYE and penalties; some dating as far back as September 1979.
 - KIST – **Frw 906,834,613** PAYE on expatriate salaries outstanding as of 1 May 2004 which had not been settled by 11 September 2008.

These public entities risk being subjected to estimated assessments, fines, penalties and interests resulting in wasteful expenditure as mentioned in **Section 2.4.3**.

2.17 Implementation of the Manual of Government policies and procedures

The manual of Government policies and procedures was issued in 4 volumes. I noted that only volumes 2, 3 and 4 were approved for implementation and officially launched but Volume 1 has not been launched. This creates an implementation problem for budget agencies since Volume I: Financial policies and Procedures is the foundation for the other 3 Volumes.

2.18 Staff appraisal

Staff performance appraisals should be carried out at least annually. These appraisals enable the employer to assess the need for training and skills development and for the staff to make their own self assessment on how they have performed. The performance appraisal also forms the basis for rewarding staff who performed well and assess their training needs. However, in most of the public institutions audited, staff performance appraisal was not carried out for the year ended 31 December 2007 despite the continued recommendations made to that effect. Failure to evaluate staff performance on a periodical basis and reward them accordingly may adversely affect their morale and performance. Similarly, the training needs of the staff may not be identified to enable timely corrective action.

2.19 Lack of post implementation review of SAGE PASTEL Accounting Software

In their efforts to improve bookkeeping and financial management in public entities, MINECOFIN assisted public entities to acquire SAGE PASTEL accounting software. However, I noted that no post implementation review was carried out by MINECOFIN to enable identification of any follow up issues. In absence of this review, shortcomings of SAGE PASTEL may not be identified within reasonable time and the purpose for its implementation may not be fully achieved. Further, there is generally lack of proper understanding of application of the software by the accountants. This resulted in numerous errors in the books of account.

2.20 Failure to dispose of expired drugs

I noted that CAMERWA, ELECTROGAZ and RSSP continue to keep expired drugs for several years as they cannot destroy them without permission from REMA. REMA confirms that the Government has not yet acquired an appropriate facility for disposal of toxic materials (like expired drugs). These drugs are harmful to the environment and Government should act fast to ensure that disposal is carried out in a safe manner.

2.21 Fraudulent cases

2.21.1 Duplicated payments

- There were duplicated payments made in the name of the Governor of Northern Province for lumpsum transport allowances. Instead of receiving an annual allowance of **Frw 5,700,000 (475,000 x 12)** in 2007, a total of **Frw 8,550,000 (475,000 x 18)** was paid in the name of the Governor and hence excess expenditure of **Frw 2,850,000** in fraudulent payments.

This practice continued in 2008 and total payments of **Frw 5,225,000 (475,000 x 11)** had been made in the name of the Governor as lumpsum transport allowances by 3 September 2008. Notably, three (3) cheques were issued in January 2008 alone and by 12 May 2008, seven (7) lumpsums had already been paid. There were no payments for lumpsum transport allowance identified between 3 September 2008 and 14 November 2008 and therefore, it is not clear whether the allowance for October was paid and/or there could be another account where this allowance was paid from.

This was said to be fraud on the part of the accountant of the Province who wrote the extra cheques, got them signed and cashed them. He has since been reported to have absconded from office and left the country.

- In Gatsibo District, two ‘*Autorisation de retrait*’ of **Frw 460,135** each, both dated 5 September 2007 were issued for payment of monthly communication allowances of **Frw 460,135** for various District Staff for September 2007. The ‘*Autorisation de retrait*’ were paid from KABARORE *Banque Populaire* in September 2007 and November 2007 in the names of two different District officials namely the Executive Secretary and the Accountant. The bank statement indicates that both ‘*Autorisation de retrait*’ were cashed by the Executive Secretary and Accountant respectively. As a result, the District ended up paying communication allowances for 13 months in 2007 with two payments in November 2007.

2.21.2 Falsification of records and documents

- In Nyamasheke District, Banques populaires deposit slips were altered by a District staff. The falsified deposit slips kept at the District office have amounts higher than those shown on the original deposit slips maintained at the bank and on the bank statements by **Frw 2,378,000**.
- In addition, some amounts on the bank deposit slips kept at the District offices could not be traced to the respective bank statements. Consequently, revenue amounting to **Frw 5,479,450** was misappropriated by various District staff. .
- In Gatsibo District,
 - a) An amount of **Frw 66,442** approved for payment to the Vice Mayor for Social Affairs as mission and mileage allowances was altered and paid as **Frw 466,442**. The falsification of this amount might have been done after approval of the payment voucher and the fraudster inserted “4” to show **Frw 466,442** and inserted “four hundred” in words. This amount was drawn from the bank by the accountant but the Vice Mayor for Social Affairs denied having received the falsified amount.
 - b) An amount of **Frw 72,698** approved for payment to Vice Mayor for Social Affairs as mission and mileage allowances was altered and paid as **Frw 472,698**. The falsification of this amount might have been done after approval of the payment voucher and fraudster inserted “4” to show **Frw 472,698** and inserted “four hundred” in words. This amount was withdrawn by the accountant but Vice Mayor for Social Affairs denied having received the falsified amount.
- In DCDP, there was use of forged supporting documents for withholding tax paid by “Entreprise de Construction et de Fourniture Générale: ECOFOGE”. The company presented copies of previously used receipts for withholding tax with altered amounts and dates as proof of payment of withholding tax relating to new

invoices presented for payment. This company used falsified receipts from 2006 up to 2008. Forged receipts of withholding tax amounting to **Frw 2,710,209** were presented to the Districts and to the Project in years ended 31 December 2006, 2007 and 2008. The use of forged documents led to loss of government revenue and is a criminal act.

2.21.3 Fraudulent payments

- In Gatsibo District, a cheque worth **Frw 249,390** for payment of mission allowances for the Vice Mayor in charge of Economic Affairs was issued in the name of the office attendant and there was no acknowledgement of receipt of this money by the Vice Mayor in charge of Economic Affairs. The payment was computed on the basis of **1,530 kilometers** as the distance to be covered between Gatsibo District and Kigali which is obviously inflated because according to data from RURA, a return journey between Kigali and Gatsibo is 240 km. Further, the travel clearance (ordre de mission) attached to support this payment was not approved.
- Gatsibo District approved advances of **Frw 979,000** for various staff as their contribution to a wedding function of the Accountant. However, the Accountant withdrew **Frw 1,114,000** instead of **Frw 979,000**, which resulted into an overpayment of **Frw 135,000**. The respective staff signed for the amount making the total of **Frw 979,000**. Therefore, the District may lose the **Frw 135,000** since it is not supported.
- A request for **Frw 3,200,000** was made by the Director for Education for the purpose of a competition of unity and reconciliation clubs in the Gatsibo secondary schools. This amount was withdrawn by the Executive Secretary. However, the competition did not take place. I did not find evidence that this money was returned to the District's bank account by the Executive Secretary.

2.21.4 Revenue collections embezzled

- In Nyaruguru District, some tax collectors deposited revenue collections in a fraudulent bank account opened by the former tax officer (Mr. TWINE Silver KAKULU) in the name of the District at Kivu Banque Populaire. A follow up of this issue by management after the audit identified that **Frw 12,562,485** had been withdrawn from this account by Mr. TWINE Silver KAKULU (the former tax officer who later became a tax auditor and Director of Finance).
- Mr. TWINE Silver KAKULU also received tax revenue amounting to **Frw 3,063,232** from the tax collectors for subsequent banking but only deposited **Frw 60,000** and hence misappropriating the balance of **Frw 3,003,232**.
- In Nyagatare District, the Cashier who also served as a store keeper sold **600** rolls of barbed wire at **Frw 20,000** each. By year end, the cashier collected a total of **Frw 12,000,000** but only banked **Frw 9,240,000**; leaving a balance of **Frw 2,760,000** not accounted for.

As evidenced by the Police investigation report conducted on 06/03/2008, at Nyagatare Sector where those rolls were stored, Cashier Mr. NTAMUSHOBORA Xavier absconded at the end of February 2008.

2.21.5 OCIR THE

- In the sale contracts for tea, OCIR THE require that customers should first deposit cash in their collection bank account before the tea can be released from the warehouse in Mombasa. The contracts also require that the customer should deposit cash within a period of time specified on the invoice and the contract should be cancelled if the customer does not pay within the specified period. On confirmation of receipt of funds from the customer, OCIR THE issues a release order to the warehouse manager in Mombasa before the sold tea can be released to the customer. However, I noted that CARGILL, the warehouse managers released tea worth **Frw 700,899,289 (USD 1,270,776)** from the warehouse to one of the OCIR THE customers - NIYONKURU

Samuel against allegedly forged release orders over a period of April 2006 to January 2007. This loss occurred due to lack of regular reconciliation between stock movement reports received from CARGILL and OCIR THE own stock records, release orders and bankings. OCIR THE does not maintain stock ledgers showing all the stock movements and balances despite my previous recommendations to this effect.

The matter is under investigation.

- I noted cases whereby factory property/forest was illegally exploited by RUZINDANA Peter (in charge of factory plantations). He harvested trees from the OCIR THE – Kitabi forest to make charcoal and timber for personal gain. The misappropriation of this resource by the officer over a long period of time was estimated at **Frw 107,100,000** by management. RUZINDANA is said to have been arrested, released and now his whereabouts are said not to be known.

There is need to strengthen controls and monitoring of forests to minimise such cases of misappropriation.

2.22 Audit of Government Business Enterprises (GBEs)

The audits of GBEs revealed that there are significant financial reporting issues that indicate that proper books of account have not been kept and therefore the financial statements do not give a true and fair view of their financial affairs. It is also difficult to determine the sustainability of services rendered by these institutions. Ultimately, these need to be addressed by management and the Boards of Directors of the respective GBEs. The examples are as follows:

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- **ELECTROGAZ:** Salient issues are summarized in the table below:

Account balance	Comment
Bank balances	Bank balances include an amount of Frw 9,841,000,498 in Letters of Credit which have no supporting documentation
Trade and other receivables	Trade and other receivables include a suspense account with an amount of Frw 4,222,963,801 which is not supported.
Trade and other payables	Trade and other payables include a suspense account with an amount of Frw 1,948,464,569 which is not supported.
Stock	Stocks include a credit balance of Frw 2,970,537,258 of stock in transit that has no supporting documents.

- *Caisse Sociale du Rwanda:*

The audit of CSR covered the years 2004 to 2007. I noted that an actuarial valuation has not been performed for all the four years to take account of obligations to pay pensions and benefits that fall due after the end of the financial years. Consequently, the financial statements do not include CSR's obligations to pay pension benefits and when they fall due as well as the related expense. Accordingly, I am unable to obtain sufficient appropriate audit evidence to determine whether the fund is adequately funded and whether it is in a surplus or deficit position.

- RCAA did not have auditable books of account for the years ended 31 December 2007;

For the year ended 31 December 2006, the financial statements were prepared on a going concern basis, which presumes that the company will continue operations in the foreseeable future. However, due to errors identified in current liabilities like the inappropriate classification of current loan balances and unrecorded interest payable; errors in cash and bank balances; and errors in debtors where balances in the ledger differ from those confirmed and those in debtors' register, and due to failure by management to assess the impairment of debtors and make appropriate provisions against doubtful debts, it is difficult to reliably ascertain RCAA working capital position, liquidity and ability as at 31 December 2006 to meet obligations as they fall due. Accordingly, I am unable to

assess and determine whether the going concern assumption made by management in preparation of the financial statements is appropriate.

- For ORINFOR, I was unable to carry out a full scope audit because of the poor state of books of account and supporting records. Further, due to errors identified in debtors, cash and bank balances and creditors, and because the current liabilities significantly exceeded current assets as at 31 December 2006 and 2007, it is difficult to reliably ascertain ORINFOR's working capital position as at 31 December 2007, liquidity and ability to meet obligations as they fall due. Accordingly, I am unable to assess and determine whether the going concern assumption made by management in preparation of the financial statements is appropriate.

There is no proper coordination between the Government representatives (directors) in these enterprises and the portfolio team in MINECOFIN in order to ensure efficient management of Government investments. For example, out of the 32 GBEs on the list provided by MINECOFIN, only 9 submitted audited financial statements to MINECOFIN and only 5 paid dividends.

MINECOFIN needs to closely monitor performance of GBEs and ensure that they have adequate capacity to address the accounting and financial reporting challenges that they face.

2.23 Training for Boards of Directors, Chief Budget Managers, Directors of Finance and Accountants

Generally, Boards of Directors in public institutions did not effectively execute their oversight role to ensure proper Corporate Governance.

In addition, Chief Budget Managers and Directors of Finance in most institutions did not ensure proper bookkeeping and presented financial statements with numerous errors and irregularities.

There is a need to plan training sessions for the following:

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- (i) Chief Budget Managers: These require training in accounting for non finance managers including some overview on the basics of accounting systems and financial management since they are the accounting officers for their respective institutions.
- (ii) Board members: These require training to understand their responsibility to enable them discharge their oversight role and ensure Corporate Governance.
- (iii) Accountants and Directors of Finance: Accountants have so far received training but it is not adequate. It is clear that this contributed to the weaknesses identified in the course of my audits. I recommend more intensive training for Directors of Finance and Accountants in both basic accounting principles and application of the accounting software that is currently in use. This will require both classroom and on the job training.