

**REPORT OF THE AUDITOR GENERAL OF STATE FINANCES
FOR THE YEAR ENDED 31 DECEMBER 2008**

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ABBREVIATIONS AND ACRONYMS

ADB	: African Development Bank
ACCA	: Association of Chartered Certified Accountants
BADEA	: Arab Development Bank
BCR	: 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
BHR	: 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
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

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MINIJUST	: Ministry of Justice / Attorney General
MININFRA	: Ministry of Infrastructure
MININTER	: Ministry of Internal Affairs
MINISANTE	: Ministry of Health
MINISTR	: Ministry of Technology & Scientific Research
MINIRENA	: Ministry of Natural Resources
RBS	: Rwanda Bureau of Standards
NCDC	: National Curriculum Development Centre
NCHE	: National Council for Higher Education
NUR	: National University of Rwanda
NURC	: National Unity & Reconciliation Commission
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
OTR	: Ordonnateur Tresorier du Rwanda (Director of Treasury)

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1. INTRODUCTION

1.1 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.

There was a delay in submission of this report and this was due to the numerous challenges which include:

- Delays by auditees to submit financial statements including the state consolidated financial statements which were submitted on 30 April 2009;

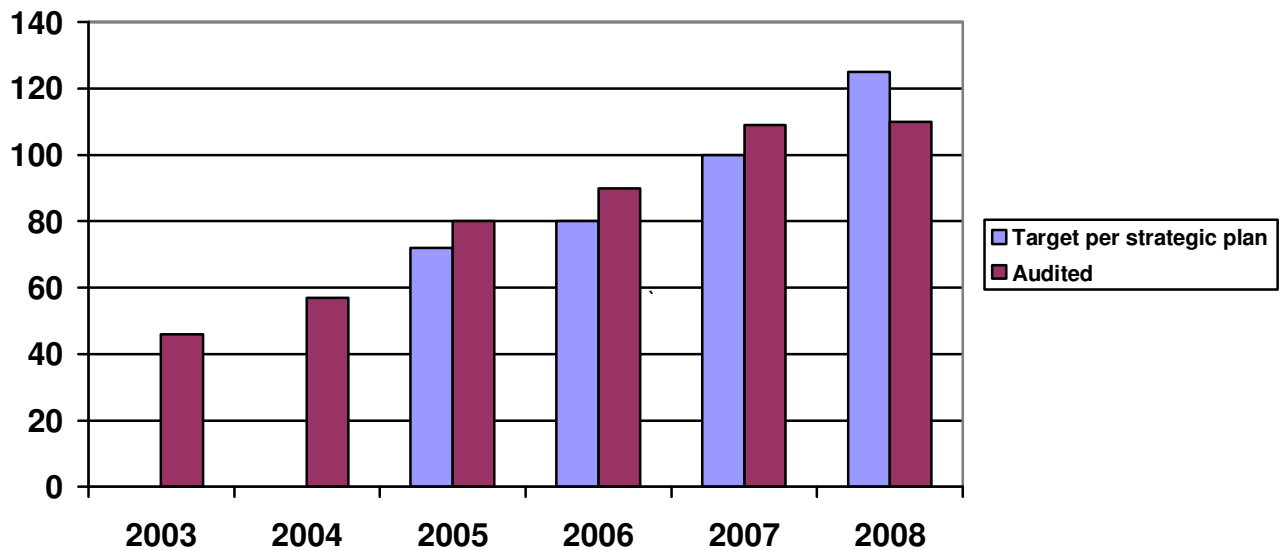
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- High staff turnover at OAG (74 audit staff have left OAG between 2004 and 2008, with an average of 15 audit staff per year) and this drains the office of extensive experience and benefits of continuous capacity building. Most of the staff departures are attributed to better remuneration and benefits offered in the market place;
- Poor quality of accounting records maintained by auditees;
- Lack of adequate preparation for audit by many of the public institutions; and
- The adoption of a new audit methodology at OAG during the year which necessitated additional training of staff.

Accordingly, I now submit to Parliament a report on the audits concluded during the period from May 2009 to 30 November 2009.

1.2 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 110 entities and projects included in this report, as illustrated in the graph below:



The total expenditure incurred by the above public entities audited represents 69% of the reported Government Expenditure for the year ended 31 December 2008 (Excluding GBEs). This is an improvement compared to previous year audit coverage of 60%. The National Budget passed by Parliament for 2008 amounted to Frw 673,975,527,207 compared to Frw 527,972,000,000 for the year 2007. However, I still do not have a database of all public entities that are eligible for audit by the Office of the Auditor General. The table below provides the number of entities and projects (per category) that were included in the state consolidated financial statements for the year ended 31 December 2008 and those that were audited during the period.

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	Total number of entities & projects consolidated	Entities & projects audited	Total number of reports issued	Number of qualified reports	Number of unqualified reports
a. Ministries and other Central Administration units	120	51	53	53	0
b. Government Projects and Programs	113	23	23	21	2
c. Districts	30	30	30	30	
d. Provinces and Kigali City	5	5	5	5	
e. Government Business Enterprises (not consolidated)	30	1	1	1	
Sub Total	298	110	112	110	2
g. Audit of salaries	0	1	1	1	
h. State consolidated financial statements		1	1	1	
i. Peace Keeping Operations	0	1	1	1	
Total	298*	113	115**	113	2

*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 three (3) institutions with reports covering periods outside the reporting period of 1 January 2008 to 31 December 2008. Institutions which have reports covering periods prior to 1 January 2008 are:

- Rwanda Civil Aviation Authority (2007),
- Genocide Survivors Fund (FARG) (2007)
- Media High Council (2007)

Further, I noted that RURA did not submit financial statements to MINECOFIN. This is an example, which indicates that some public entities continue not to submit their financial statements to MINECOFIN and hence the need for MINECOFIN to continuously monitor and update their registry for public entities.

Realisation of full coverage for any single financial year is expected on availability of adequate financial and human resource capacity at the Office of the Auditor General. Further, improvement in the quality of accounting records maintained by public entities will minimise the fundamental bookkeeping errors I continue to find during my audits and reduce the long periods of time it takes to execute and finalize audits. 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.

1.3 KEY DEVELOPMENTS AT OAG DURING THE YEAR 2008

In 2008, the OAG commenced the process of drafting the audit bill that aims at enhancing effectiveness in operations of the Office of the Auditor General. Consultations have continued during 2009 with various stakeholders, and the process is yet to be finalised.

I recruited 33 audit staff during the year to fill gaps arising from high staff turnover during the past years, bringing our total number of professional audit staff to 83 as at 31 December 2008 compared to 66 as at 31 December 2007. However, more needs to be done to motivate staff, and reduce the turnover to ensure sustainability of our capacity building efforts. The number of staff and Directorates also need to be increased if we are to substantially increase the audit coverage and move towards full coverage.

The office continued with efforts to deliver high quality audits and increase audit coverage with focus on capacity building initiatives, to improve the knowledge and skills of staff, mainly through technical assistance and training. All audit staff have enrolled for professional training in ACCA, fully paid for by the office, and additional logistical support is provided to ensure that our staff complete this

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professional training. I have also ensured that each Auditor has a laptop computer to facilitate the audit activities.

The office continued with the process of upgrading our audit methodology during the year, and an enhanced audit methodology for financial audits resulting from this process was adopted and applied during the audits conducted in 2009. The implementation of this enhanced methodology will help us ensure continued full compliance with International Standards on Auditing.

Under article 134 of the East African Community (EAC) treaty, OAG Rwanda is a member of the Independent Audit Commission that audits all organs, projects and programmes of the EAC. During the year 2008, OAG invested not less than three months of audit time at Director/Deputy Auditor General level. We will be fully involved in the planning of the audit for the year ended 30 June 2009. OAG is scheduled to chair the Audit Commission for the audit of the year 30 June 2010. This no doubt increases demand on our high level staff, hence impacting on the challenge towards full audit coverage.

Obadiah R. Biraro
DEPUTY AUDITOR GENERAL

KIGALI

2. EXECUTIVE SUMMARY

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.

Judging by the findings of the audit of year ended 31 December 2008, the year had even greater challenges than the audit of the year 2007. However some notable improvements when compared to 2007 in the following areas:

- (i) For the year ended 31 December 2008, all public entities audited had prepared financial statements and maintained auditable books of account. This is an indicator of increased awareness among budget agencies of their accountability responsibilities as required by the Organic Law.
- (ii) More entities submitted their financial statements to Office of Auditor General when compared to previous years. The number of entities that submitted on time (by 31 March as required by Article 71 or Organic Law)

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increased from 26 in 2007 report to 46 in this report, indicating more awareness by entities of regulatory audit requirements.

- (iii) Generally, total unsupported expenditure reduced from **Frw 6,524,683,240** for the 109 entities audited in 2007 to **Frw 4,364,777,523** for the 110 entities audited in 2008. In addition, the number of entities which had totally unsupported expenditure reduced from 54 entities in the 2007 report to 29 entities in this report.
- (iv) The Law establishing the Institute of Public Accountants in Rwanda was enacted and the Institute was launched during the year 2008. I believe establishment of this Institute will contribute to the Establishment of professional norms and standards for auditing and accounting.

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 and numerous accounting errors continue to be identified during the audits. There are no audit committees in some institutions, and even where they exist, they are not effective in following up implementation of audit recommendations. I recommend regular performance appraisal of the Boards and audit committees to enhance accountability and appropriate training to enhance capacity of these committees in executing their responsibilities.

I noted increased cases of fraud during audits conducted for the year ended 31 December 2008, in comparison to previous years. Most of the fraud cases mainly relate to forgery and falsification of documents and payment for goods and services which were not actually delivered to the entities. I believe that such instances occurred due to lack of, and failure to enforce, the existing internal control systems

that could have prevented, and detected some of the frauds. In some instances, there was a likelihood of abuse of office and collusion between suppliers and staff of the audited entities, leading to fraud in the award of tenders and in approval of fraudulent payment requests.

I recommend that capacity of internal audit units in each of the public entities be strengthened to conduct their audits on a more regular basis and their reporting structure be streamlined to enable them to be independent. Training of the Board members and the Chief Budget Officers in basic accounting and audit skills and regular appraisal of their performance on implementation of audit recommendations would enhance their ability to prevent and detect some of these frauds. I also believe that further action should be taken to blacklist suppliers and service providers identified in fraudulent transactions and ensure that such suppliers are not eligible for any public tenders.

An additional measure is for the Supervising authorities such as ministries to ensure that implementation of audit recommendations is followed up and action taken to ensure that these constructive recommendations which aim at enhancing improvements in management of public entities are implemented. The capacity of institutions to implement some of the recommendations needs to be enhanced to increase accountability in public institutions and the establishment of a Public Accounts Committee (PAC) of Parliament will help to enhance parliament's oversight role and enforce accountability in public institutions.

Specific observations identified during the audits carried out for this reporting period are highlighted below:

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.

However, of the 298 entities that were consolidated and therefore eligible for audit, only 100 entities submitted financial statements to OAG. Of the 100 entities, 46 were submitted on time and the remaining 54 entities submitted their financial statements to OAG after 31 March 2009. The consolidated financial statements were submitted late on 30 April 2009.

Although this situation shows an improvement in compliance with Article 71 of Organic Law N° 37/2006 as compared to the previous years, the level of compliance at 17% is still very low and it still appears that some 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.

Some of these institutions still had significant adjustments to make on the figures included in the reports already submitted to both MINECOFIN and OAG. In some cases like Parliament, Bugesera, RCAA and ORINFOR, audits could not start as planned because management was still making significant adjustments to the submitted financial statements and hence the need to wait for new financial statements. Even with these delays and adjustments, I still noted differences between amounts in the entity financial statements and those in the audited state consolidated financial statements. This implies that the reports I received were different from those submitted to MINECOFIN and there is no proper coordination between MINECOFIN and the budget agencies regarding the adjustments made.

Further, I noted that RURA did not submit financial statements to MINECOFIN. This is an example, which indicates that some public entities continue not to submit

their financial statements to MINECOFIN and hence the need for MINECOFIN to continuously monitor and update their registry for public entities.

The 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. More sensitisation of budget agencies on the financial reporting requirements is also essential in ensuring more compliance with the organic law.

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 8,473,696,614** (2007:Frw 7,699,941,395)

Receivables: **Frw 4,475,491,180** (2007:Frw 27,542,303,862)

In general, most 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. An invoice register and accounts receivable book should be maintained by each budget agency and reconciled with the balances in the books of account at year end.

2.2.2 Long outstanding reconciling items referred to as deposits in the bank reconciliation Statement

There are long outstanding deposits from 2007 totalling Frw 21,988,990 that were still appearing as reconciling items at 31 December 2008 in the Financial statements of MINAGRI. Management did not provide bank deposit slips and invoices for these transactions to confirm their validity. The reference indicated for these transactions is for the invoice and not the deposit slip from the bank. No investigation has been carried out to find out why these amounts have been outstanding for such a long time. There is a possibility that these sales of fertilizers were not paid for since the reference in the general ledger is for the invoice and not the bank slip. Consequently these may not be bona fide sales since there is no evidence that money was ever received in the bank.

2.2.3 Omitted bank accounts and balances

The audits identified 73 bank accounts totalling **Frw 443,482,625** (2007: Frw 818,067,270) (positive balances) and **Frw 44,846,393** (2007: 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.

The cases highlighted 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. A register of all bank accounts opened by budget agencies should be regularly updated and reconciled to the bank accounts in the books of account at year end.

2.2.4 Long outstanding receivables

Credit terms given to clients are stated in the contract signed between them and RADA who is the authorized sales agent for MINAGRI fertilizers. I noted that these terms are not followed up to ensure that they are adhered to leading to long outstanding receivables. The accounts receivable balances arising from sales of fertilizers are not aged and are not regularly reviewed for impairment and recoverability, to enable management to ascertain any bad and doubtful debts that may require provisions and/or write off. This resulted in MINAGRI having a balance of Frw 905,140,340 receivable from various debtors that has been long outstanding for over two years. Consequently, I am unable to confirm the validity and recoverability of the accounts receivable indicated in the financial statements as at 31 December 2008.

2.2.5 Unexplained differences in opening balances and lack of approval of adjusting entries

- There were many cases noted where institutions made adjustments to the audited balances for 2007 that affected the opening balances for 2008 without proper explanations and support documentation. The adjusting

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entries were passed by accountants without any documentation and evidence of approval of the adjustments by the Chief Budget Managers and Directors of Finance and Administration. Notably, the Accounting system is not closed/ 'locked' to prohibit posting of accounting entries after 31 March of the subsequent year when financial statements have been submitted to OAG.

- The effects of the above adjustments to audited balances for 2007 are reflected in the consolidated financial statements for the year ended 31 December 2008, where the opening balances included differ from the closing balances in the audited consolidated financial statements for the year ended 31 December 2007 as follows:

Cluster	Balance per 31.12.07 audited Financial Statements (Frw)	Balance at 1.1.08 per Consolidated Financial Statements for the year ended 31.12.08 (Frw)	Difference (Frw)
Central government	56,066,745,329	60,516,753,262	(4,450,007,933)
Local government	18,312,501,263	16,844,388,180	1,468,113,083
Projects	51,910,567,549	42,493,188,101	9,417,379,448

- Even during the financial year, most institutions made adjustments to balances included in their books of account without any documentation of journal vouchers and supporting documents. Still, there is no evidence of approval of the adjustments by the Chief Budget Managers and Directors of Finance and Administration.

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. In addition, a journal

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entry module in the accounting system should be activated for capturing all adjustments necessary in the books of account.

2.2.6 Posting errors in entity books of account

The books of account and financial statements of budget agencies comprise numerous posting errors, which could be an indicator that budget agencies may not have competent staff for the accounting function or that the staff may not have a good understanding of the use of the SAGE Pastel Accounting Software used in public entities.

In addition, the chart of accounts provided by MINECOFIN has unclear account titles which do not facilitate proper recording of transactions for the fair presentation of the financial statements and actually, Accountants sometimes do not understand which ledger account title they should use to record specific transactions. For example, expenditure on terraces is sometimes recorded in the account for land, while others record it as subsoil assets and others record it as social assistance. In addition, it is not clear which transactions should be recorded in some account titles appearing in the chart of accounts. Such unclear titles include the following:

Account number	Account name
2400/240005/100/0001/0 00101	(Capital Work-in-Progress/Information Systems and Equipment/Conditional Transfers/General Administration/Logistics & Support Services)
2400/240001/100/0001/0 00101	(Capital Work-in-Progress/Buildings/Conditional Transfers/General Administration/Logistics & Support Services)
2200/220003/100	(Equity Investments - Domestic/Capital Grants (subsidiaries) - Public Corp/Conditional Transfers)
2200/220002/100	(Equity Investments - Domestic/Equity shares – Quasi-Public Enterprises/Conditional Transfers)
2200/220001/200	(Equity Investments - Domestic/Equity shares - Public Corporations/External Loans)
2200/220001/100	(Equity Investments - Domestic/Equity shares - Public Corporations/Conditional Transfers)
2100/210014/100/0001/0 00101	(Acquisition of Tangible Fixed Assets/Other Specialised Equipment/Conditional Transfers/General Administration/Logistics & Support Services)
2100/210012/100/0001/0 00101	(Acquisition of Tangible Fixed Assets/Computer and Printers/Conditional Transfers/General Administration/Logistics & Support Services)

More training should be provided to the Accountants to improve their knowledge in the use of SAGE Pastel Accounting software and to clearly enhance their understanding of the chart of accounts. Where some accounting titles are not applicable to specific institutions, MINECOFIN should ensure that these accounting titles are blocked and inactive in the accounting system. This should help to minimize posting errors in the books of account.

2.2.7 Inter-entity transactions and balances

Transfers of funds between budget agencies are common transactions, particularly from central Government entities to local Governments and projects and vice versa. These transactions are referred to as Inter entity transfers in the consolidated financial statements and should be identified at individual cluster level, be correctly classified and eliminated on consolidation. However, the audit of state consolidated financial statements identified that these inter entity transfers were not completely eliminated during the consolidation process. The consolidated financial statements for the year ended 31 December 2008 as a result, have an unreconciled difference of Frw 139,929,971 and are therefore not fairly stated.

I noted a case of FER that recognized a receivable from Government of Frw 3,113,728,099 and yet this amount was not recognized as a payable by MINECOFIN. This means that the debtors shown in the consolidated financial statements are overstated by this amount as there was no inter entity net off on consolidation. In effect the Government Consolidated financial statements are reporting Frw 3,113,728,099 as receivable from the Government; contrary to sound consolidated procedures that require inter entity transactions to be netted off on consolidation.

MINECOFIN should perform more regular review and reconciliation of inter-entity transfers included in the monthly financial statements submitted by budget agencies and take corrective action to eliminate such differences. More training and

sensitisation of entity Accountants on classification of transactions and use of the chart of accounts would minimise classification errors and enhance accuracy of information provided by entities for consolidation.

2.2.8 Transfers from OTR to budget agencies

Transfers from OTR (*cash transfers and direct payments*) to budget agencies are expected to be reflected in the budget agency financial statements as receipts and therefore would net off on consolidation. However, review of the consolidated financial statements shows that these amounts do not net off by Frw 1,096,376,164 for the year ended 31 December 2008. The implication is that books of account and consequently the financial statements of various budget agencies contain errors and are therefore not fairly stated. There is need for more reconciliation between these transfers with the amounts reported in the monthly financial statements submitted to MINECOFIN by budget agencies to minimize these errors.

2.2.9 Management of shared recoveries

During the privatization process, the Government of Rwanda represented by MINECOFIN signed separate agreements with FINA Bank and BCR, assigning these banks responsibility to recover old outstanding loans and advances. The recoveries were to be shared in accordance with an agreed formula. However, there is no detailed information on the debtors to be managed under the shared recoveries and there is no evidence that MINECOFIN independently verifies the debts collected to ensure that amounts paid are complete and accurate. For example there is no report or other evidence to show the completeness and accuracy of the Frw 48,145,796 paid by BCR during the year. There was also no evidence of follow up by MINECOFIN on the shared recoveries agreement signed with FINA Bank.

Without evidence and proper supporting documents it is not easy to determine the authenticity of the transactions under these agreements for shared recovery signed with the two banks and the completeness and accuracy of the amount of recoveries

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paid to the Government cannot be confirmed. MINECOFIN should put in place a proper mechanism for identifying the debtors being followed up by these banks and ensure that recoveries made by the banks are reconciled against the debtors listing. Such information should then be submitted by the banks to support the recoveries remitted to Government.

2.2.10 Differences in records maintained by MINECOFIN for public and external debt

(i) Difference in the external debt data

There was unexplained difference of Frw 3,651,433,880 noted between the balance for external loans shown in the external debt movement schedules and the balance in the Consolidated Financial Statements (CFS) as at 31 December 2008. The details of the difference are given in the following table:

Description	Amount per Schedules* Frw	Amount per consolidated financial statements Frw	Difference Frw
Opening balance	312,782,584,254	312,782,584,254	-
Add:			-
Disbursements	61,286,345,870	57,811,726,828	3,474,619,042
Interest charged	3,161,900,422	3,161,900,422	-
Exchange gain	5,374,412,140	5,197,597,302	176,814,838
Sub total	69,822,658,432	66,171,224,552	3,651,433,880
Less:			-
Repayments through OTR	4,252,356,429	4,252,356,429	-
IMF repayment through BNR	25,614,670	25,614,670	-
OPEC repayments through BNR	892,011,185	892,011,185	-
Debt relief	2,828,386,651	2,828,386,651	-
Sub total	7,998,368,935	7,998,368,935	-
Closing balance	374,606,873,751	370,955,439,871	3,651,433,880

* Source: *MINECOFIN Public Debt Unit*

The difference is an indication of possible misstatement in the reported figures for public debt. There should be regular reconciliation of balances in the financial statements to the underlying records to minimize errors and

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ensure presentation of reliable information in the consolidated financial statements.

(ii) Corporate loans-debt owed to CSR

There was unexplained difference of Frw 5,855,350,001 between records maintained by MINECOFIN and those maintained by CSR for the amounts due from Government to CSR as at 31 December 2007. No adjustments were made by MINECOFIN to the opening balance of the debt to CSR in their public debt records to address the difference. Balances as at 31 December 2007 are 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)

Proper reconciliations should be made between MINECOFIN and CSR to identify the correct balance and ensure that public debt records are updated to reflect the true liability of Government.

2.2.11 Management of old arrears (Before 1994)

An outstanding debt of Frw 25,652,300,000 relating to arrears for old financial obligations (before 1994) by the Government was presented in the consolidated financial statements for the year ended 31 December 2008. However, there is no detailed breakdown and repayment schedule for these old liabilities and therefore, making it difficult to confirm their existence. MINECOFIN should therefore look at the background of these old liabilities and avail a detailed breakdown and repayment schedule.

2.2.12 Unrecorded transactions for Non Budget Agencies within districts

Section 5.11 of the Manual of Government Policies and Procedures: Financial Management and Accounting (Volume 3) states that expenditure budgets of Non-

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Budget Agency (NBA) cost centres, such as the local government sectors, district schools, hospitals, pharmacy, and prisons are sub-budgets of their “parent district”. These NBAs are required to keep cashbooks and submit the original pages of cashbooks together with the detailed supporting documents to the Chief Budget Manager of the “parent district” for verification, approval and use in posting the transactions in the general ledgers of the “parent district”-the recognised “Budget Agency for reporting those transactions. The NBAs should also submit reconciliation statements for each bank account to the Chief Budget Manager of the “parent district” together with the cashbook.

However, the audits of districts identified the following:

- The Districts did not maintain a cashbook or debtors account for balances held by each of the non budget agencies under their control, within their books of account. Any closing balances held by these entities were therefore not recorded in the districts’ books of account;
- In addition, transactions relating to district pharmacies and internally generated income at schools and of hospitals and health centres were not recorded in Districts’ books of account. There was no evidence of any follow up and monitoring of these internally generated funds by most of the districts;
- There was also no evidence to show that the districts obtained and reviewed bank reconciliation statements for each bank account maintained by the non budget agencies within each of the districts;
- The districts made transfers to sectors, schools, prisons and hospitals and health centres. However, there was no evidence of regular follow up to monitor the utilization of these funds.

Books of accounts of districts are incomplete and may therefore be misleading to users. In addition, absence of proper monitoring and follow up of utilization of public funds by districts may result in misuse of public resources. Proper accountability for transactions of non budget agencies will enhance transparency in

local governments and efforts need to be undertaken by the relevant ministries to strengthen the capacity of districts to manage this process.

The capacity of local Governments should be enhanced to facilitate compliance with the existing public financial management regulations and improve accountability for public funds. Consideration should be given to the organization structure and staff levels at the Districts and their capacity to implement these public financial management regulations.

2.2.13 Failure by budget agencies to implement policies and procedures issued by MINECOFIN for public financial management and accounting

There were many instances noted where institutions did not comply with the existing policies and procedures for public financial management and accounting. Most entities did not maintain invoices registers, register of all bank accounts, register of receivables and did not perform regular review of bank reconciliations and fixed assets registers, as required by the regulations.

2.3 Weaknesses in processing of Government salaries by MIFOTRA

During the financial year ended 31 December 2008, the Ministry of Public Service and Labour (MIFOTRA) processed government employees' salaries for the following institutions;

- The Prosecutor General's office
- The Supreme Court
- All ministries
- Teachers (for the first six months only).

The monthly average number of government employees whose salaries are processed by the Ministry of Public Service (MIFOTRA) is 40,500 (Forty thousand, five hundred).

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From the records that I obtained from the ministry, a total of Frw 7,871,163,113 was paid in salaries for the year ended 31 December 2008. The table below provides a breakdown of the total sum paid out during the period under review;

N°	INSTITUTIONS	Salary expenditure payments 2008
		Frw
1	Central Administration	3,822,256,369
2	Supreme court	2,688,878,419
3	Prosecutor General	1,360,028,325
	TOTAL	7,871,163,113

The audit of Government salaries for the year ended 31 December 2008 revealed the following weaknesses:

(i) Social Security Fund reference numbers

Government staff still lack CSR reference numbers and yet social security contributions are deducted on their salaries. Without social security fund reference numbers, the Government employee member contributions may not be posted to the contributing members' accounts and this may result into a loss on completeness and accuracy on the respective member statements. Consequently, at retirement, Government employees may not receive their accurate benefits as mandated by the contributions and benefits manual requirements. It is difficult for employees to obtain current correct status of their accounts.

MIFOTRA and other ministries concerned should ensure that all their staff members are registered with the social security fund of Rwanda and have therefore been assigned reference numbers on the fund's system. Monthly contributions should only be declared for those with reference numbers until the issue is resolved. In addition, all administrative officers charged with the role to ensure that government employees have CSR reference numbers should work closely with the officers at the fund (CSR) to achieve remarkable progress on this issue.

(ii) Payment to staff even after their resignation/dismissal

There were instances where employees were paid salaries even after the dates of their resignation and/or termination. Cases were noted at the Supreme Court and Prosecutor General's office where four (4) former staff in both institutions were paid Frw 2,607,635 after their resignation. Government therefore lost funds in payment of staff who are no longer employed by the respective budget agencies. Further discussions with MIFOTRA management revealed that this was due to delays in the submission of the deletion request cards for the staff mentioned, leading to delays in updating the systems used for salary processing. The above cases are examples and indicate that Government is making ineligible payments for salaries. Efforts should be made to ensure that deletion cards should be submitted on time to enable timely and accurate modification of employee details in both the master and payroll files on the systems.

(iii) Failure to implement the previous year audit recommendations

Most of the issues raised during the Audit for the period ended 31 December 2007 are still unresolved. Accordingly, non resolution of the issues to date may result into Government losing funds due to system errors and other errors that would otherwise have been avoided. The long outstanding issues include:

- Unlimited physical access to the salaries system,
- Logical access control weakness,
- Computer operations weaknesses,
- Creation, Modification and Deletion of staff in the payroll processing system.
- Inaccuracy and completeness of salaries processed as a result of weaknesses noted in the controls in place,
- Blank CSR numbers,

- Staff Management System (SMS) limitations and employee termination review procedures.

Non resolution of issues in on timely basis may result into government losing funds due to system errors and other errors that would otherwise have been avoided. Efforts should be made to ensure that all issues that are raised following a review should be accorded attention to enable timely resolution.

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 3,018,850,130** (2007: Frw 2,130,603,874) without any evidence of approval by respective internal tender committees. Other entities awarded tenders worth Frw **3,167,746,691** (2007: Frw 687,661,009) without the approval of the Rwanda Public Procurement Authority (RPPA). In the case of PAFOR, there was no internal tender committee and instead, individuals were selected to comprise an internal tender committee as and when management considered

it necessary. In the case of Gatsibo, the tender for supply of 200 cows worth Frw 60,000,000 was awarded by the Mayor without the involvement of the Internal Tender Committee.

Bypassing the tender committees in making procurements or their absence led to wrongful award of contracts, like in the case of PAFOR and RIAM. It also highlights a risk that the tenders not reviewed by the internal tender committees or RPPA may not have been subjected to competition and therefore not 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 82,131,653** (2007: 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.
- (iv) There were cases where contractors and suppliers did not provide performance guarantees on signing of contracts, contrary to existing public procurement procedures. Examples include Ngororero, Rubavu, Bugesera, Gatsibo, Rubavu, Kayonza, Muhanga, Kamonyi, Gasabo, Gicumbi, Nyanza, Rutsiro, Nyamagabe and Ngoma Districts, and RIEPA, ORINFOR, CNLS, RADA, RIAM, Southern Province, CHUK, KIST
- (v) There were various instances where performance guarantees provided by bidders for tenders awarded were discovered as forged at the time of enforcing these guarantees with the banks. In most of these cases, the

contractual obligations had not been executed and the entities are finding it difficult to recover advances paid to the contractors and even enforce the law that authorises them to seize performance guarantees in case of failed execution of the contract. Such cases are indicators that some contractors selected may not have the capacity to perform the tenders awarded.

Management of these entities should strengthen their tender evaluation process and also start validation of the performance guarantees with the concerned banks at the time they are presented. Regular monitoring and sharing of information with the banks could help minimise these instances. Cases of forged performance guarantees were reported in Nyabihu, Gisagara, Huye, Gasabo, Bugesera and Nyamasheke districts.

A blacklist of companies involved in this practice should be developed by RPPA and circulated to all public entities to exclude these companies from bidding for public tenders over a given period of time. Such a list should be updated on a more regular basis, but at least annually. In addition, such suppliers should be prosecuted.

- (vi) There were instances where bid documents provided by bidders comprised falsified information, but no disciplinary action was taken by the procuring entities on review of such information during the procurement process. Instead, the falsified documents were considered valid and tenders were awarded normally by the procuring entities. For example, in the case of Gasabo District, PAFOR and RIAM, there was no record about the legal registration details of some companies that presented bids or quotations, and in some instances, these bidding companies had the same Post office or contact address but presented their bids using different company names. Failure to detect such cases and take disciplinary action indicate that the tender evaluation process is not thoroughly done and the tender award decisions are not based on the six (6) fundamental principles of transparency, competition, economy, efficiency, fairness and accountability required of all public procurements in article 4 of law no 12/2007 of

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29/03/2007 on Public procurement, hence lack of value for money on some public procurements.

- (vii) 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 and avoided using competitive bidding for tenders qualifying for competitive bidding. This resulted in failure to obtain value for money on most of these procurements, as was the case at RIAM, PAFOR and Gasabo District. Other entities where inappropriate procurement methods were applied include PRIMATURE, Kicukiro, Ngororero, Burera, Nyarugenge, Gatsibo, Gicumbi, Rutsiro, Kirehe districts, NID, FARG, Parliament, MINALOC, MINICYOUTH, Northern Province, SFB, and IRST.
- (viii) During the audits, I noted that documents supporting tenders awarded were often incomplete. Such missing documents include: minutes of internal tender committee meetings, performance guarantees, bid securities, bid advertising documents, tender evaluation reports among others. In the case of FER, I did not get any documents relating to 62 tenders worth Frw 10,292,578,499 awarded during the year ended 31/12/2008 for road maintenance works. These tender documents are said to be kept by Kigali City Council-MVK and Ministry of Infrastructure-MININFRA. These documents were requested for from the concerned entities during the audit but they could not be obtained.

Without complete procurement documents, I cannot ascertain that the procurement process complied with the six (6) fundamental principles of transparency, competition, economy, efficiency, fairness and accountability required of all public procurements in article 4 of law no 12/2007 of 29/03/2007 on Public procurement

2.4.2 Unsupported expenditure

- (i) 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 4,364,777,523** (2007: 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.
- (ii) Despite the reduction in the amount for totally unsupported expenditure, there was still a high level of expenditure that did not have all the necessary support documents and therefore partially supported. This partially supported expenditure lacked some support documents like utilisation reports, purchase orders, delivery notes among others. Total expenditure of **Frw 13,925,351,830** was partially supported during the year.
- (iii) For some entities, the audits identified that some support documents were kept at MINECOFIN instead of being kept by the budget agencies. This was for example in case of salaries for teachers in the first half of 2008 for most districts.

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

2.4.3 Wasteful expenditure

- (i) Public entities incurred wasteful expenditure amounting to **Frw 201,151,596** (2007: Frw 137,578,872) that could have been avoided had they complied with laws, regulations and procedures in force.
- (ii) In the case of RSSP, the physical verification revealed that some infrastructure constructed under sub projects financed by RSSP have been used for activities different from those specified in the contracts. For example, in Nyabihu District, RSSP paid Frw 45,679,840 for construction of Vunga market. But, the Vunga market office's was turned into the office of the executive secretary of the cell of the area. The same case was raised in Nyagatare where the building was constructed to be used as farmers services centre but it is used to accommodate persons implementing community service as an alternative penalty to imprisonment (TIG).
- (iii) RSSP also paid Frw 48,521,100 to SWIFT Company for construction of six (6) rice drying bays located at Nyungwe, Gaharawe, Kimironko and Gisenyi in Kanyonyomba - Gatsibo District. The physical verification exercise noted that four (4) drying bays located at Nyungwe, Gaharawe, Kimironko, and Gisenyi did not have iron sheets and doors of their respective toilets and these are said to have been stolen by unidentified persons.
- (iv) At the Competitiveness and Enterprise Development Project (CEDP), the project handed over project vehicles to the Government following the implementation of Zero fleet policy and started hiring vehicles for official use by the Project Coordinator. The total amount spent on coordinator transport expenses from then (October 2005) to 31/12/2008 has been increasing and totals Frw 41,824,079 as at 31/12/2008. This is likely to keep increasing since the contract was still running as at the time of the audit.

There is no clear Government policy on provision of vehicles for Project Coordinators and this has resulted in high costs of hiring vehicles for official

use to the detriment of the policy on Zero fleet which aimed at minimising excessive expenditure on transport in public institutions. The acquisition cost for the vehicles taken by MININFRA was Frw 55,780,000 and the expenditure as at 31 December 2008 on vehicle hire represents 75% of this cost. A clear policy should be put in place by Government on provision of vehicles for Project Coordinators of Government projects to minimize these excessive costs of vehicle hire.

2.5 Unauthorized expenditure

2.5.1 Unauthorised staff benefits and staff advances

There are cases where bonuses and other staff benefits amounting to **Frw 154,026,629** (2007: Frw 53,170,367) were paid. Similarly, entities provided staff advances and loans and a total of **Frw 404,370,817** (2007: Frw 56,078,953) had not been recovered by the audited institutions as at 31 December 2008.

In the case of KIST, there are large imprests of Frw 257,521,648 given to staff with some dating as far back as 2003 that had still not been recovered as at 31 December 2008. The analysis of this balance shows that Frw 170,833,444 (66%) was received by 11 staff members. However, nine (9) of these staff members with outstanding balance of Frw 142,813,295 as at 31 December 2008 have since left KIST and contact addresses for six (6) of them are currently unknown, making it difficult to follow up and recover these imprests.

No expenditure should be incurred by Budget Agencies without prior appropriate authorisation and all staff benefits should be awarded in accordance with the labour law. In addition, Chief Budget Officers should comply with Public financial management regulations and recover advances and imprest within the appropriate time.

2.5.2 Signing contracts with suppliers by individuals who are not Chief Budget Managers

Contrary to Article 46 of Organic law no. 37/2006 of 12 September 2006 which assigns responsibility for execution of the budget to the Chief Budget Manager, there were cases where contracts with suppliers were wrongfully signed by individuals who were not Chief Budget Managers and executed. Examples were noted in Gatsibo District, MINALOC, Gasabo District, and MINIJUST. Public entities should comply with the organic law and ensure that full responsibility for budget execution is vested with the Chief Budget Managers without any interference.

2.6 Inadequate verification of payrolls submitted for health workers working within the districts and lack of follow up on fund transfers to schools

- (i) In all districts, the audits identified that payment orders sent to MINECOFIN for salaries of health workers were based only on titles/posts (qualifications) given by the Ministry of Health for staff at various health centres. However, the Districts did not make follow up on the payroll lists provided by various health centres to confirm whether the mentioned health workers on the pay roll lists existed and were actually employees of those health centres. In Karongi District for example, a review of payroll lists submitted by six (6) health centers and two (2) hospitals to the District for the month July 2008 showed a net difference of Frw 956,171 between the amounts transferred by MINECOFIN on behalf of the District to settle salaries of health workers at various health centres and the payroll lists submitted to the District to support the transfers. In Kirinda and Mugonero Hospitals, the amount supported by the payroll list was less than the actual transfers from MINECOFIN.

The districts should ensure that payroll lists are verified on a more regular basis to confirm the authenticity of names of the nurses indicated and paid on the monthly payrolls.

- (ii) In the districts, capitation grants are transferred to schools based on the number of students reported by each school in the records of the district education department. However, in most of the districts, there were no detailed verification reports provided by districts to show follow up with the schools to confirm the accuracy of the number of students reported in each of the schools. In Karongi district for example, a site visit to four schools indicated that in each of the schools visited, the number of students used in computation of the transfers was higher than the actual number of students in the schools.

Districts should make efforts to regularly verify information provided by schools on the number of students benefiting from the capitation grants. The results of physical verification should be used to update records maintained at the districts.

2.7 Utilisation of casual and contractual workers

In a number of public institutions, the utilisation of casual and contractual workers is rampant. Management often do this because they cannot recruit any staff for positions that are not within the *cadre organique* officially approved by MIFOTRA and passed by cabinet, and yet such positions are critical in the functioning of the public institutions.

The recruitment of casuals presents a problem because of the following:

- The new law on public recruitments does not specify the period of time an institution can employ casual workers, it only says for a limited period of time. Therefore, public institutions engage casual workers for even two

years, by giving them three month renewable contracts in some cases. Such a worker is, in reality, like a permanent staff;

- With regard to taxing casual workers, the tax law states that a casual worker for tax purposes is an unskilled worker, employed for a period not exceeding 30 days during the tax period in question (usually a tax year). The applicable tax is 15% of the wages paid. However due to the renewal of contracts mentioned above, public institutions are in a fix as to what tax rate to apply and some apply 30%, the top rate, which is unfair to the casual worker.

The management and recruitment of casual and contractual workers should be streamlined and an appropriate legislation put in place to guide entities on retention of individuals on casual employment. Such rampant hiring of casual workers may indicate the need for review of the cadre organic of public institutions on a regular basis to accommodate their changing human resource needs.

2.8 Weaknesses in monitoring of Government Budget and expenditure

2.8.1 Monitoring district budgets and expenditure

- (i) In many districts, budgets were prepared but there was no evidence of approval of these district budgets by the district councils. In some districts, the Council minutes indicate that the budget was approved, but there were no details of the budget approved and the amount approved is not also indicated in the minutes. This makes it difficult to ascertain what the approved budget is, and to determine any instances of unauthorised expenditure.
- (ii) Some of the districts do not prepare budget execution reports to compare their budgets to performance during the year. They rely instead on budget execution reports prepared by MINECOFIN (through SMARTGOV) but such reports are incomplete because they exclude information on internally

generated revenue at the district. Accordingly, monitoring of the district budgets is not effective since information in the Budget execution reports prepared by MINECOFIN is incomplete.

- (iii) There were cases where some districts received transfers from other public entities especially from central administration without any knowledge of the purpose of such transfers and without making any request for the funds. There are no funding agreements, memoranda of understanding or guidelines that show how these funds should be utilised by the recipient districts. The receiving districts do not make an effort to obtain complete information supporting the funds remitted to them. This is an indicator of poor coordination between the different Government agencies in implementation of Government programmes.

All Government activities that need to be implemented through the district structures should be properly coordinated between Central Government and the concerned districts to facilitate effective monitoring.

2.8.2 Monitoring budgets and expenditure for central administration entities

As reported in previous year report, expenditure categories/classification in the chart of accounts that entities use to record transactions in the books of account are still 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.

A lot of budget agencies still do not prepare their own individual budget execution reports to provide accurate information on their performance. Instead, they rely on the budget execution reports prepared by MINECOFIN (through SMARTGOV) but these reports do not have accurate information on the utilisation of funds

disbursed to the budget agencies during the course of the year. Any unutilised balances held by the budget agencies, direct donor funds or internally generated revenue and related expenditures are not included in the SMARTGOV report and therefore the need for the budget agencies to prepare their own individual budget execution reports.

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.

2.9 Contract management

2.9.1 Non-compliance with contract terms

- In most of the public entities audited, 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.
- There is lack of monitoring of civil works by management of public entities and this has resulted in poor quality of construction works and abandoned works. Such cases of abandoned works were noted in Huye, Kayonza, Bugesera, Kirehe, Gasabo and Gisagara Districts and RSSP.
- In some cases, the public entities terminated contracts due to non performance of contractors, but at the time of termination, it was noted that the contractors had been paid more than the value of completed works. In Huye, Musanze and Bugesera Districts however, some payments had been made to the contractors but the value of work done at the time of termination of the contract was not evaluated by the District. The audits also show that in some public entities, payments were made to the contractors without basing on certificates of work done and in some other cases, payments to contractors and suppliers exceeded total contracts sums by **Frw 1,954,283,833**.

- Other entities made final payments to contractors before issue of final completion certificates like in the case of Eastern Province.
- There were cases noted where goods and services supplied and paid for had technical specifications different from those laid down in the contract and tender documents. Examples were noted at MINICYOUTH, CHUB and Parliament. This was also noted for the Mobile phones delivered to Districts under their Loan Agreements with Rwanda Development Bank (BRD). The Districts required ‘*Solar chargeable*’ mobile phones, but the phones delivered do not use ‘*solar chargers*’.

Failure to enforce contract terms made it difficult for Government to obtain value from the various contracts. Efforts should be made to recover all excess funds paid to contractors. In addition, Chief Budget Managers should ensure effective contract management and ensure regular follow up with contractors to delivery of value for money on all contracts. Contractors that abandoned works should be blacklisted and suspended from bidding for public tenders for a specified period of time determined by RPPA. A database of such blacklisted contractors should be maintained by RPPA for ease of monitoring and review.

2.9.2 Weaknesses in management of contract awarded to BCE contractors for construction of Road Butare – Kibeho – Muse and the Road MUDASOMWA (Gisovu) - Gisovu

On 09/08/2007, the Rwanda Public Procurement Authority (RPPA) former National Tender Board, in its resolution no 010/2007-1307/NTB, awarded the tender for the periodical maintenance of MUDASOMWA (Gasarenda) – Gisovu road of 52.3 Km to BCE Contractors at a contract price of Frw 1,461,480,083. On the same date through resolution no 010/2007-1308/NTB, BCE Contractors was awarded another tender at a contract price of Frw 2,230,616,568 for maintenance works of Butare - Kibeho – Muse road of 53 Km.

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The Mudasomwa – Gisovu Road contract was awarded for a period of 12 months and the Butare – Kibeho – Muse Road contract for 15 months. The contracts for both tenders were signed on 26/09/2007 to commence on 02/11/2007. On 09/10/2008, the Ministry signed a memorandum of understanding with BCE Contractors extending the contract period for the two contracts on the Mudasomwa – Gisovu and Butare – Kibeho – Muse roads by 5 and 4 months respectively.

A review of these contracts noted the following:

- A field visit conducted by MININFRA on 5/02/2009 to assess the work done by the Contractor concluded that despite the extension granted in October 2008, the Contractor would still not be able to complete the remaining works in the time left to the end of the two contracts (i.e. 2 months to the end of the contract for Mudasomwa (Gasarenda) - Gisovu road and 4 months to end of contract for Butare – Kibeho – Muse road). Accordingly, the Ministry terminated the two contracts signed with BCE Contractors and communicated this decision to the contractor in a letter dated 11/02/2009, and seized both the advance guarantee and performance security presented from SORAS.
- The field visit report also shows that despite the presentation of two separate Project Directors by BCE contractors for the two contracts (NTANGANIRA Robert for MUDASOMWA (Gasarenda) – GISOVU road and BYIBESHYO Stanislas for BUTARE – KIBEHO – MUSE road), BCE contractors was represented by a Project Director (DUSABE Didas) who was different from the names of the Project Directors submitted at the time of signing the contracts. This Project Director signed the field visit reports.
- Relevant documents were not provided to enable confirmation of whether DUSABE Didas was qualified to act as the Project Director for the two contracts and there was no evidence to indicate that MININFRA was informed by BCE contractors, of the change of key personnel in the management of these contracts. Accordingly, it is not possible to confirm

whether the two Project Directors that were initially presented by BCE contractors actually participated in the management of the contracts.

- The final assessment carried out by MININFRA on 11 March 2009 and 12 March 2009 in order to ascertain the amount of money due to the contractor indicated that the completed works were at 28.93% for the Butare – Kibeho – Muse road and 16.09% for Mudasomwa – Gisovu road. The value of works completed as at 12 March 2009 for both contracts amounting to Frw 880,469,518 was less than the total advance payment of Frw 1,107,628,995 made to the contractor by Frw 227,159,477. This is an indication that the advance payment may not have been utilized strictly for the activities related to the contracts as required by Article 88 of law no 12/2007 of 7/03/2007 on public procurement. Consequently, MININFRA should not have approved the additional advance of 20% that was requested for by the contractor. This also shows that the contractor had unutilized advance of Frw 965,578,808 as at 12 March 2009, at time of termination of the contract.

A review of the existing advance security and performance guarantees held by MININFRA from the contractor to assess the recoverability of the excess advances of Frw 965,598,808 above indicated that MININFRA is exposed to a net loss of Frw 42,554,645. This was due to the fact that the total value of advance security and performance guarantee held by MININFRA was less than the advance payment that was made to the contractor.

- It is not evident that value for money paid to supervising companies can be ascertained since there is no verifiable evidence of works done and in view of contradictions and inconsistency noted in different reports signed for these roads by supervising companies.

I am aware that Government has made efforts to follow up this case and my recommendation is that there should be full accountability for all public funds.

Efforts should be made to recover all excess funds paid to the contractor. In addition, public entities should strengthen controls over contract management, and monitor contracted works on an ongoing basis to minimize such cases and ensure effective delivery on contracts. Any payments to contractors should be based on certified copies of works completed in order to minimize payment for non-existent works.

2.9.3 Weaknesses in management of contract for construction of Eastern Province head office

On 19/04/2007, Eastern Province entered into contract no 259/07.05.01 with *Entreprise Mugarura Alexis* (EMA) for the construction of the proposed head quarter office block for the Eastern Province in Rwamagana. The contract sum amounted to Frw 1,730,474,065 (inclusive of taxes) and the contract period was set at 15 months. On 17/10/2007, six (6) months from the commencement of works, the first addendum no 159/UPPR/07 to the above contract was signed. The additional amount agreed on amounted to Frw 301,866,081 all taxes inclusive. The addendum related to additional works for construction of the proposed headquarter office block for the Eastern Province in Rwamagana.

On 9/10/2008, three months after the expiry of the contract period, the Internal Tender Committee of MININFRA decided that EMA be granted an addendum related to price adjustment based on the value of Frw 1,305,017,212 as remaining works. The price adjustment signed on 13/10/2008 amounted to Frw 659,457,823 and the contract duration was extended up to 31/05/2009.

- According to the valuation report by MININFRA signed on 8/10/2008 in order to determine completed works as of 2/06/2008, the value of works completed by then amounted to Frw 737,273,643 which represents 36% of the total tender (including the addendum) at the time of expiry of the 15 months contract period. This is an indication of poor contract management

by MININFRA, Eastern province and INTERTECH CONSULTANTS the company in charge of supervising the construction works. The increase of the contract price from Frw 1,730,474,065 to Frw 2,691,797,969 resulted into an additional expenditure of Frw 961,323,904 representing a 55.5% increase, which is contrary to the threshold of 20% allowed by the existing procurement laws.

- Further, the contract period was not complied with and the revision of price was signed by MININFRA 3 months after the contract expired. This is in contravention of Article 84 of the law on public procurement of 27/03/2007 which requires that prices cannot be revised for completed works or works that have delayed being completed when the contractor is responsible for such delays except where the revision is for reducing the price. I was not provided with explanations for the delay.
- In addition, not all supporting documentation relating to the process of awarding this tender and other documents forming part of the contract were availed for audit purposes. These include the tender document, the tender offer; the bill of quantities, the planning of activities and the technical specifications and drawings. Consequently, it is not possible to confirm whether the tender awarding process complied with existing procurement laws.

There should be full accountability for all public funds and efforts should be made to recover all excess funds paid to contractor. In addition, public entities should strengthen controls over contract management, and monitor contracted works on an ongoing basis to minimize such cases and ensure effective delivery on contracts. Any payments to contractors should be based on certified copies of works completed in order to minimize payment for non existent works.

**2.9.4 Weaknesses in management of contract for construction classrooms in
Bugesera District**

On 21 and 24 July 2008, Bugesera District awarded tenders totalling Frw 516,247,329 for the construction of 83 classrooms and toilets for different schools in various sectors of Bugesera district namely; Gashora, Rweru, Ngeruka, Nyamata, Ntarama, Mwogo, Ririma, Juru and Ruhuha to different contractors. At the time of signing of the contracts, all the contractors agreed to speed up construction works and complete within 4 months from the date of signing of the contracts. The contracts were signed on 8/8/2008 and the classrooms were supposed to be used with effect from the beginning of academic year 2009. However, during physical verification conducted on 14th and 17th August 2009, I noted that 8 months after the agreed date of completion (7 December 2008), there were some classrooms which had not yet been completed and others are awaiting provisional handover and were therefore not in use.

One of the contractors King Stone Construction International with tenders amounting to Frw 128,799,380 to construct 22 classrooms, 20 toilets and 5 water tanks for different schools had not completed the works at all construction sites visited. The contractor abandoned the works and as a consequence, the District terminated the contract on 22/07/2009. At Kagasa Primary school, the pupils were still studying under a tree at the time of the site visit. The company had been paid an amount of Frw 77,691,102 representing 60.3% of the contract price but the value of work done had not been evaluated as at the time of the audit.

There should be full accountability for all public funds and efforts should be made to recover all excess funds paid to contractors. In addition, public entities should strengthen controls over contract management, and monitor contracted works on an ongoing basis to minimize such cases and ensure effective delivery on contracts. Any payments to contractors should be based on certified copies of works completed in order to minimize payment for non existent works.

2.9.5 Irregular price variations in contracts signed with suppliers

(a) Gasabo District

- Gasabo District signed a contract on 01/04/2008 with COMFORT SAFARIS worth Frw 56,619,300 for supplying foods stuffs (beans, Maize, Cooking oil, salt) and firewood to Remera Prison for a period of three months (January - March 2008). For each delivery, the District prepared a purchase order which was sent to the supplier but the prices charged within this same contract period for the same items were different and varied from the prices included in the signed contract, resulting in overpayment of Frw 27,092,434 to COMFORT SAFARIS. There was no documentation provided to support and justify revision of prices indicated in the signed contract.

- The District signed a contract of Frw 68,818,300 on 01/04/2008 with Mr. Bavukiyehe Eugene for supplying food stuffs to Remera Prison. The contract specifies that any other tender for supplying the same items will be awarded to the supplier. Accordingly, additional items worth Frw 220,048,040 were supplied by Mr. Bavukiyehe Eugene for TIG activities, without going through tendering procedures. Additional items worth 1,968,000 were supplied to a TIG solidarity camp at Masoro based on a contract for Frw 7,532,550 signed on 15/10/2007.

- Further, I noted that the above supplies made by Mr. Bavukiyehe Eugene for TIG activities were at inflated prices when compared to prices indicated in the original contract for supply of the same food stuffs to Remera Prison. This resulted in an overpayment of Frw 76,987,866.

- Gasabo District signed another contract on 01/04/2008 with MURENZI SUPPLY worth Frw 16,329,600 for supply of food stuffs to Remera prison for the period of January- March 2008. MURENZI SUPPLY was allowed by the District to supply additional items worth Frw 37,716,986 without going through tendering procedures. Further, I noted that MURENZI SUPPLY charged the district inflated prices when compared to prices indicated in the original contract for supply of the same food stuffs to Remera Prison, resulting in an overpayment of Frw 20,155,050.

(b) Musanze District

Musanze district made price adjustments to the contract signed with ECOMIRWA Company for supply of 2,700 corrugated sheets, after the delivery date. Article 32 of Ministerial order no 001/08/10/min of 16/01/2008 specifies that no price adjustment shall be allowed beyond the original delivery dates unless specifically stated in the extension letter. The contract was signed on 18/04/2008 and was valid for 18 days (up to 11/05/2008) and the items were delivered by the contractor and received by the District on 27/05/2008. The request for price adjustment made by the contractor on 29/05/2008 was accepted by the District on 03/07/2008 (53 days after the expiry of the contract). The price increase per iron sheet was Frw 850 and the total cost increased from Frw 15,795,000 to Frw 18,090,000, hence Frw 2,295,000 expenditure incurred outside the existing procurement regulations.

There should be full accountability for all public funds and efforts should be made to recover all excess funds paid to the suppliers. In addition, public entities should strengthen controls over contract management, and monitor contracted works on an ongoing basis to minimize such cases and ensure effective delivery on contracts. Any price revisions should be properly justified and done in accordance with the procurement regulations, which prohibit price revisions within the bid validity period.

2.9.6 Illegal advance payment to the supplier at Rwanda Bureau of Standards (RBS)

During 2008, “Entreprise de Construction et de Menuiserie Rudacogora Alexis” (ECMRA) won a tender worth Frw 154,254,100 for construction works to rehabilitate RBS office blocs. However, RBS transferred an amount of Frw 108,984,008 to ECMRA on 10/11/2008, being the outstanding balance on the contract. The transfer was made as an advance payment for work yet to be done and was based on the arrangement with contractor’s bank not to release funds to the contractor without authorisation from RBS. The amount was fully expensed in the books of account and only invoices worth Frw 80,948,590 had been presented by the contractor since the time of transfer of funds, to time of the audit in May 2009. The statement for the bank account of the contractor was not reviewed to confirm whether the remaining funds were still unutilised on the Contractor’s bank account but the practice was a breach of public financial management regulations and indicated poor contract management.

Chief Budget Managers should ensure strict enforcement of public financial management regulations and ensure that payments to suppliers and contractors are based on evidence of work done.

2.10 Ineffective internal audit units

The Minister of Finance and Economic Planning (MINECOFIN) issued Ministerial Order No 002/09/10/GPIA of 12/02/2009 setting out regulations for Internal Control and Internal Audit in Government. An Internal Audit Charter was then developed to help to operationalise this Ministerial order and guide operations of Internal Audit functions in Public entities and to enable internal audit units to be functionally independent in providing professional and objective assurance and advisory services in risk management, internal control and governance processes.

Each government entity is supposed to have an internal audit unit to fulfill the internal audit mission.

Despite the above initiatives, the audits identified that the existing internal audit units in public institutions are not adequately staffed to effectively discharge their mandate. The structures of public entities provide for only one Internal Auditor and their work if done is not reviewed by any senior person before finalization of audits. In some institutions, Annual internal audit plans were not prepared by the audit units and even where they were prepared, the planned activities were not fully implemented hence a back log of activities. In some institutions, these plans were not approved.

The audits also identified that Internal Auditors do not use standard working papers to document the audit work done during the audit execution phase of their work. The work is done in an unsystematic way and the scope of work covered is not clearly established, rendering internal audit units ineffective. Similarly, there is no evidence of any work done by some internal audit units during the year as they did not prepare any reports. There seems to be inadequate training of Internal Auditors and there is need to train the internal audit staff on how to plan and execute the audits as well as the required documentation. This will enhance efficiency of the internal audit function. Further, there is need to review the function and ensure that this is adequately staffed depending on the nature and size of the institution to enable them execute their mandate effectively. Proper capacity assessment should be made and action taken to ensure that the Charter setting out Internal Audit activities is implemented.

2.11 Lack of supervision, ownership and skills transfer

2.11.1 Consultancy services

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. In most cases there was no supervision as well

as ownership of the consultants' work by management and there was usually no local staff to adequately understudy the consultants. Ultimately, there is no transfer of skills and this widens the existing capacity gaps.

Even where these consultants were hired, the books of account for these institutions still had significant errors and there were no notable improvements over previous years. Such was the case with the State consolidated financial statements, KIST, NUR and RCAA.

I recommend that where the use of consultants is necessary to build capacity, public entities should identify local staff to adequately understudy the consultants to ensure skills transfer. There should be regular review of performance of consultants to ensure that there is value for money on these consultancy contracts.

2.11.2 Supervision and monitoring of financial reporting 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. In a number of budget agencies Directors of Administration and Finance (DAFs) do not adequately supervise the preparation of financial reports and their review is insufficient. This is evident from the many errors in bank reconciliation statements (long outstanding reconciling items, unreconciled differences in bank reconciliations and misposting errors in the general ledger), financial statements, and general ledgers among others. Accountants in budget agencies are therefore not supervised and guided in writing books of accounts and preparation of financial statements.

There is need for MINECOFIN to ensure that monthly or at least quarterly reports submitted by Budget Agencies are reviewed and followed up to ensure that issues arising are resolved on an ongoing basis. This will enhance accountability by Chief Budget Managers and improve the capacity of Directors of Finance and Administration and the Accountants at the Budget Agencies, and minimise errors in the state consolidated financial statements.

2.12 Weaknesses in the management of internally generated revenue

2.12.1 Internally generated tax revenue

(i) Revenue collections made directly by Budget Agencies

- a) 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 financial 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.
- b) In some entities, like Kicukiro and Gatsibo districts, and Embassy of the Republic of Rwanda in Kampala, collections were utilised at source to meet operational expenses and therefore not banked intact, contrary to public financial management regulations.
- c) There were instances where receipt books were returned to the district without any deposit slips and evidence that the collections had been banked. In most districts, the amounts collected could not be traced to bank statements of the district bank accounts, hence the likelihood

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- that tax collectors did not bank the money and instead used it for their personal benefit.
- d) There are cases where the bank did 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 and Muhanga Districts.
- e) In Kirehe District, there were deposits appearing on deposit slips but not appearing on the bank statement 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 and bank statement for those respective days. Collections were not banked intact and were not accounted for.
- f) In some Districts, there were cases where deposit slips presented at the district office for collections banked were altered and indicated amounts different from the amounts on copies of the deposit slips retained at the bank and the bank statement. This was noted in Kirehe and Ngoma Districts. In Nyarugenge District, instances were noted where amounts appearing on original receipts issued to customers were higher than the amounts appearing on copies of receipts retained in the receipt books returned by tax collectors and kept at the District.
- g) There are also cases of delayed bankings of up to 562 days for cash collected. The delays were noted in Kicukiro, Bugesera, Gatsibo, Kayonza, Nyamagabe, Nyaruguru and Nyagatare Districts.
- h) Some districts like Burera, Ngororero and Rusizi 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

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year. In most districts, there were cases of receipt books issued but not accounted for.

- i) 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. Cases were noted in Muhanga and Ruhango Districts.
- j) Further, cash balances not yet transferred from sectors to the district collection accounts are sometimes omitted from the district books of account, as noted in Muhanga, Ruhango and Ngororero districts. This should be accounted for properly and shown as cash in transit.
- k) 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.
- l) 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. This was noted in Nyaruguru, Nyarugenge, Kicukiro, Gasabo, and Rubavu Districts.

Efforts should be made to account for all internally generated funds. In addition, there is need to strengthen controls over management of revenue collections in budget agencies to minimize revenue losses and fraud. In Districts, daily summary sheets should be used to record all daily

collections, and the amount on these daily collection sheets should then be reconciled to the deposit slips and bank statement. A further control is to ensure that a cashbook for the Revenue collection account is recorded based on information in the receipt books and then be regularly reconciled with the bank statements to enable identification of any missing receipts or errors.

(ii) Weaknesses in management of subcontracted revenue

In most districts, revenue collection has been subcontracted but this practice has become non performing. This is because the subcontracting budget agencies do not monitor the contractees. A specific example is that of subcontracted collection of parking fees to KVCS (*Kigali Veterans Cooperative Society*) in the three Districts of Kigali. The agreement requires a daily collection report and daily deposit slip to be submitted to the districts by KVCS on the following day and for the District to carry out an internal audit of the revenue collected by KVCS on quarterly basis. KVCS did not comply with the agreement and no follow up was made by the Districts on revenue collections by KVCS during the year.

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

- (i) There were differences noted between contributions shown in ‘*Mutuelle de Santé*’ reports prepared by the districts and those prepared by ‘*Mutuelle de Santé*’ sections based at health centres. This was noted in Rutsiro and Gasabo Districts.
- (ii) The ‘*Mutuelle de Santé*’ scheme requires that 20% (10% prior to March 2008) 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 20% 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 Kirehe, Rutsiro, Gasabo districts

- (iii) Contributions for 'Mutuelle de sante' from sections are recorded in the books of account of districts based on the bank statements and yet no reconciliations are prepared by District Accountants to compare the amounts collected at 'Mutuelle de sante' sections and the amounts deposited in the district bank accounts. Such cases were noted in Rutsiro, Rusizi, Ruhango, Kirehe, Gasabo and Kamonyi 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.

2.13 Inadequate coordination and monitoring of decentralised activities relating to revenue collection

Following the decentralisation of central government activities in the last decade, implementation is carried out at the governance unit that is closest to the people, in most cases Districts and sectors. Mechanisms to monitor decentralised activities should then be in place to ensure that public assets are not exposed to the risk of loss through irregularities or mismanagement. However, there was no proper monitoring and follow up of financial resources in these decentralised units. Examples are shown below:

(i) **National Identity Cards**

The National ID card project requires that all eligible Rwandan citizens obtain IDs and upon application for this ID a fee of Frw 500 is paid per

person. The ID card project is managed by the National ID project based in Kigali under the Ministry of Local Government. Once ID cards have been produced, they are transported to distribution centres, usually within sectors for distribution to those who have paid the Frw 500. Sectors bank this money in transit bank accounts nearest to the sectors and transfer the money to the project's bank account in BNR after every seven (7) days. However, the audit noted that no reconciliations had been prepared between the number of identity cards produced and transported for distribution in districts and sectors, and the revenue collected by these units from the ID cards, resulting in an unreconciled difference of Frw 1,130,691,067.

It was also not clear how much money is still held at sector transit bank accounts. The project's management believe that since the collection of the Frw 500 is the responsibility of the districts and sectors, it has no role in the monitoring of the funds collected. There appears to be no clear guidelines as to who is responsible for monitoring the cash collected and reconciling the cards produced to the cash collected.

(ii) Revenue from permits issued for mining operations and permits for sale of timber from government forests

These permits are issued through Ministerial Orders by the Prime Minister's office, upon applications, first reviewed at District level. Permits for sale of timber/logging are issued at the District level. However, MINIRENA as the ministry responsible for Natural Resources is not aware of how many permits have been issued for logging activities in different forests within Districts. The Districts issue the permits, collect the funds and deposit in transit bank accounts after which transfers are made to MINIRENA's bank account in BNR. The Ministry however has no reports reconciling permits issued to money collected and cannot therefore know whether funds have been collected for all permits issued. Similarly for mining permits, the Ministry has no reconciliation of cash collected to permits issued.

(iii) FARG collections from citizens aged 18 year and above

The Law establishing FARG requires Rwandan citizens of 18 years and above to contribute Frw 100 annually to the Fund. The procedures for collection of these funds are administered by the districts and collections are made at cell level within each district. The collections should be deposited by each cell on the FARG account maintained by the district and the district should then report the collections to FARG. For collection purposes, FARG distributed receipts books to districts, for subsequent distribution to cells. The districts and cells were given a format that should be followed for reporting the collections. However, FARG does not have information on the number of individuals aged above 18 years in all cells within the districts, and does not have information of collections from each cell. There is no evidence that districts are monitoring the collection of these funds because there are no reports on the money collected by the districts from each cell.

In all the above cases, coordination and monitoring by the Ministry, NID project and FARG of activities implemented at District/sector level is weak and there needs to be clear guidelines that define this monitoring responsibility.

2.14 Wrong accounting for caution money collected for Mining permits

The law regarding mining operations requires that persons wishing to be granted permits to prospect in mining areas pay a certain amount of caution fees to ensure they restore the land to its environmentally acceptable condition after cessation of their operations. These fees depend on a number of factors such as the hectarage, gradient of the land, form of the investor (cooperatives or companies) and method of mining (manual or use of heavy equipment). The fees are refundable to the investors if they restore the land to the satisfaction of the government. MINIRENA has been accounting for these fees paid as revenue instead of liability. During the

year under audit, these fees amounted to Frw 311,849,221, while the bank account where these fees are deposited holds Frw 1,076,000,000 all of which has been collected in the past and considered as revenue in government books of account. The amount should be recognised as a liability instead of revenue.

2.15 Weaknesses in management of bank accounts

- (i) A number of budget agencies had numerous bank accounts. For example Nyamasheke District had 42 bank accounts, while Gatsibo District had 37 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. 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. NURC, Eastern province, KHI, RBS, PPPMER, PAIGELAC, RITA, MINAGRI, PRIMATURE, NYARUGURU, ORINFOR, MINIRENA, MINIJUST, Burera district, NID Project, CNLS, MINALOC, MINISANTE, Bugesera, Kicukiro, Huye, Ruhango, Kamonyi, Rwamagana, Gicumbi, Ngoma, Rulindo, Rubavu, Gatsibo and Gasabo, Gakenke districts, Treasury account.

- (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 Kirehe, ORINFOR, RBS, SFB, Nyamagabe,

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. Therefore, efforts should be made to implement these necessary controls over bank transactions.

2.16 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, NID Project, ORINFOR, FARG, MINISANTE, RSSP, SRA Project, SENATE, MINALOC, and RIAM.

2.17 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.

2.18 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° 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. An amount of **Frw 58,034,431** was not deducted as 3% withholding tax from suppliers while **Frw 89,988,818** was deducted as 3% withholding tax but not remitted to RRA.
- (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.

Some institutions did not also remit tax withheld to Rwanda Revenue Authority by the fifteenth day of the following month as required by law. Taxes amounting to **Frw 25,588,498** were not deducted as 15% withholding tax while **Frw 25,718,010** was deducted as 15% withholding tax but not remitted to RRA.

- (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. Some institutions did not also remit PAYE withheld to Rwanda Revenue Authority by the fifteenth day of the following month as required by law. PAYE amounting to **Frw 594,149,021** was not deducted as PAYE while **Frw 73,348,827** was deducted but not remitted to RRA.
- (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.

These public entities risk being subjected to estimated assessments, fines, penalties and interests resulting in wasteful expenditure as mentioned in **Section 2.4.3**. Efforts should be made to ensure that outstanding tax liabilities are remitted to RRA and Chief Budget Managers should ensure full compliance with the law.

2.19 Weaknesses in the management of FARG funds

2.19.1 Weaknesses linked with database of students assisted by FARG

FARG has a database management system which keeps records of beneficiary students selected for FARG assistance. The database is updated annually with new students identified and the student removed as having finished their studies. Information in the database is captured from records obtained from different administrative cells within sectors, per each district throughout the country and is updated by staff at FARG headquarters.

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However, the following weaknesses were noted in the database management system:

- (i) The system does not store data for previous periods and the records for students in previous years were overwritten at the time of updating the database. Accordingly, we were unable to obtain information on students in the database for any period prior to 2009. According to management, the existing information in the database is overwritten every time an update is done and it is not possible to obtain information on number of students even for the previous day if the update was done today. In absence of information for prior periods, it is difficult to identify any new beneficiaries introduced in the database during the year.
- (ii) The database does not enable easy identification of new students selected during a specific academic year. The new students selected for assistance are captured into the system but cannot be differentiated from the existing students recorded in the database in the previous period;
- (iii) The system does not disclose the date on which the students are captured into system, to enable corroboration of information included in the database to source information maintained in notebooks from the different districts. Therefore, validation of information in the database is difficult.
- (iv) The database is used on daily basis as a control tool to validate accuracy of the requests for payments received from schools. However, although modification and input of data is subject to access restrictions granted by IT officer, it is difficult to identify, on a timely basis, any students who may be fraudulently introduced into system. Consequently, fraudulent transactions are likely to happen without being detected easily.
- (v) The database is updated each year after annual identification of ultimate fund beneficiaries at administrative cell level and for those students selected for the first time, their photographs are taken for inclusion in system. Where a photograph is not taken, the beneficiary is not introduced into the database. However, there is no information that reconciles the number of

students identified and those whose pictures were taken to enable identification of any students selected but not included in the database.

The weaknesses in the database management system make it difficult to ascertain the integrity of the data used by FARG for management of beneficiaries. There is a risk of beneficiaries in the database that are not supported by any identification documents. Similarly, the database may be incomplete and it is difficult to validate data within the database in absence of dates and other fields that can link information in the software to the source records from which data is captured. It is also not possible to reconcile the number of students supported by FARG from one year to another, and this makes it difficult to detect any ineligible students introduced in the database. This is made worse with the absence of audit trail for new entries made into the system.

There is need for FARG to perform a thorough evaluation of the existing database management system and ensure that an appropriate system is put in place to meet all user requirements. Such requirements would include a system that:

- Enables validation of data and audit trail to ascertain the integrity of information generated;
- Has adequate capacity for storage of information on all FARG beneficiaries over a period of time, without overwriting it;
- Enables management to monitor any changes in number of students and reconciliation of students supported by FARG;
- Enables reference to the source records where information is captured from;

2.19.2 Lack of procedures over recovery process

According to contracts signed between the students attending higher institutions of learning and FARG, students are required to refund the student allowances paid to them by FARG after a period of 2 years from the time they finish their studies. However, the following was noted:

- (i) There are no proper procedures in place to help management in identifying those students who have finished their studies.

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- (ii) There is no mechanism in place to help management in tracking students who have completed their studies and to enforce the recovery of the loans given to the students during their studies. No recovery was made by FARG during the year ended 31 December 2008.

Management should put in place a mechanism that help them to track students who have completed their studies and put in place a policy that will enforce recoverability of the student loans

2.20 Non servicing of Loan facilities acquired by Local Governments

During the year, a number of budget entities had loan facilities acquired from commercial banks but these loans were not being serviced in accordance with the loan agreements. This resulted into the concerned institutions falling behind on their loan servicing commitments and incurring unnecessary additional interest. Examples of this include:

2.20.1 Kigali City Council

Entity	Bank	Credit Facility	Arrears at the date of the audit in July 2009 Frw		Balance at 31 December 2008	Comments
			Principal	Interest		
Kigali City Council	Ecobank	No information available	No information available	No information available	228,828,284	The loan is not being serviced
Kigali City Council	(ADC) African Development Corporation	Loan amount Frw 741,958,772 for land expropriation at Akumunigo; Repayable in 6 monthly installments of Frw 140,000,000 with effect from February 2009. The last installment of Frw 131,349,886.91 was due in July 2009	741,958,772		741,958,772	The loan is not being serviced

2.20.2 Districts

There are a number of districts that acquired loans for the purpose of purchasing mobile phones but they are having difficulties servicing the loans. Fourteen (14) districts signed loan contracts with Rwanda Development Bank (BRD) for various amounts of loans. As at 31 December 2008, the districts had loan arrears amounting to **Frw 457,229,301** and **Frw 77,189,339** in principal and interest respectively.

A further follow up on the utilisation of the loan proceeds by the Districts indicates that some Districts do not have any record in relation to the above loan. In addition, there are no records to show the total number of telephone received, distributed, sold and balance (if any). The amount collected, and loan repaid and outstanding balance of the loan is also not recorded. Therefore, the outstanding loan balance and the revenue from the sale of mobile phones cannot be easily ascertained.

The loan agreement also indicates that the loan amount should be paid by BRD directly to the supplier of mobile phones. However no information was provided to show the identity of the suppliers, the basis for selecting the supplier, and the cost of the mobile phones delivered to the Districts. In Ngoma District, the mobile phones delivered were not as per specifications in article 2 of the loan agreement that required delivery of ‘solar charger’ mobile phones and as a result it has been difficult to sell these phones to the population.

Strategies to service these loans or otherwise liquidate them need to be taken immediately to stem further penalties and interest from accruing, thus potentially placing a strain on budgeted funds. In addition, efforts should be made to ensure proper accountability for mobile phones procured under the loan agreement and to ensure that the purpose for acquisition of these phones is achieved.

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2.21 Pending Mutuelle de santé claims from CHUB, CHUK, Psychosocial Consultation Service (SCPS) and NDERA hospital long outstanding

A review of Mutual Health Technical Support Cell in MINISANTE identified that this unit does not have any records for invoices received from various hospitals in connection with medical services given to patients insured under *Mutuelle de santé*. Consequently, invoices amounting to Frw 666,571,772 for medical expenses outstanding at end of year 2008 (as indicated in the records of the hospitals) were not recognized as MINISANTE payables at 31 December 2008. Records at the hospitals show that these balances have been increasing since 2007 and MINISANTE has not been settling them partly because the amounts invoiced by the hospitals are disputed.

The following table indicates the increase of this balance from 2007 up to 2008:

Partner institution/ Supplier	2007 Frw	Increase Frw	2008 Frw
CHUK	115,469,041	228,896,301	344,365,342
CHUB	116,560,380	151,071,922	267,632,302
SCPS	6,315,210	30,786,262	37,101,472
Ndera Hospital	0	17,472,656	17,472,656
Total	238,344,631	428,227,141	666,571,772

The continued dispute over invoices and failure to settle these invoices from hospitals on timely basis may lead to cash flow problems at the hospitals and consequently, may affect the quality of service provision to *Mutuelle de santé* beneficiaries. Regular verification of the hospital invoices by MINISANTE as well as follow up to reconcile the invoices with the hospitals should be done urgently. Action should be taken to settle the resulting agreed claims and to ensure that the quality of service provided to the *Mutuelle de santé* beneficiaries is not compromised due to delayed payments.

2.22 Audit of other Central Government Agencies (CGAs)

The audits of CGAs 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. Ultimately, these need to be addressed by management and the Boards of Directors of the respective CGAs. The examples are as follows:

- (i) RCAA financial statements do not present a true and fair view of the financial position as 31 December 2007 and results for the year then ended. There were numerous errors in the books of account which necessitated correction before finalisation of books of account for the year ended 31 December 2008.
- (ii) For ORINFOR financial statements do not present a true and fair view of the financial position as 31 December 2008 and results for the year then ended. There were numerous errors in the books and material weaknesses over the management of assets and revenue.

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

2.23 Appointment of private auditors without approval of OAG

Article 183 of the Constitution of the Republic of Rwanda of 4 June 2003, as amended to date vests authority for audit of public entities and projects with the Office of the Auditor General. However, public entities are increasingly contracting private auditors to perform audit of their books of account without prior consultation and authorisation from the OAG. Ultimately, expenditure incurred on such audits may become wasteful expenditure, especially if the quality of work done performed is not sufficient to meet the auditing standards applied at the Office of the Auditor General. Examples of public entities and Government

projects that hired auditors to audit their books of account for the year ended 31 December 2008 without consultation and authorisation from OAG include: FER and National University of Rwanda (NUR).

All Public entities should not contract private auditors without prior consultation and approval from the Office of Auditor General that is mandated to conduct audits of all public entities and projects.

2.24 Fraudulent cases

The audits carried out for the financial year ended 31st December 2008 revealed fraudulent cases totalling to Frw 501,935,052 with some details as explained below.

2.24.1 Fraudulent payments

(i) Kicukiro District

A case was identified where cheques amounting to Frw 1,343,908 were not cashed by the ultimate beneficiaries. These bonafide beneficiaries claim not to have endorsed the cheques to the individuals who withdrew the funds from the District bank account and they did not receive the proceeds of those cheques.

(ii) Gatsibo District

Payments amounting to Frw 4,810,520 that were made from account no 916-2394-01/07 and which appear on the bank statement are neither recorded in the cash book nor supported. These payments do not appear as reconciling items in the bank reconciliation statements prepared by management which is an indication that the cashbook may be falsified. This is also one of the reasons the bank reconciliation is not balancing. The utilisation of this money cannot be justified.

(iii) Gicumbi District

On 09/09/2009, I carried out a physical verification for the works that have been executed in GICUMBI district. The works visited were carried out in Rubaya sector, Mukuramo cell in the village of Centre Rubaya. In Rubaya school center, there were two different works carried out. One of the contracts was for construction of 4 blocks of 3 classes each, 1 block of latrine of 12 cabins and 1 bureau of headmaster and was awarded to BCE Contractors. The contract was signed on 12/09/2007 at price of Frw 79,039,774 for a period of 4 months. The bidding document specified that the works should be executed in the following manner: Block A 3 classrooms, Block B 3 classrooms, Block C 3 classrooms, Block D 3 classrooms, 1 bureau of headmaster, 1 block of latrine of 12 cabins.

On 14/09/2007 an advance of Frw 15,807,955 was granted to BCE Contractors to facilitate commencement of construction works. On 08/01/2008 an invoice n°002/BCE/RUBAYA/01/08 totaling Frw 49,039,724 for payment was submitted by BCE Contractors for works done. The district engineer inspected the works done and produced a report on works in progress dated 14/01/2008 indicating that the works for all the classrooms blocks and the headmaster's office were at the level of roofing. The report indicates that the roof structure was made out of metal and covered by iron sheet called "**autoportant 28BG**" with also metal gutter and metal river plank (*planche de rive*). The report also states that construction works for latrine block was at 53.4% of completion that is Frw 3,108,540 of the total cost of its construction of Frw 5,815,080. The Director of Infrastructure at the District in his report recommended that the company should be paid Frw 48,656,124 because the works were executed up to 62% of the total works.

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Based on the engineer's report, Frw 47,568,532 was paid on 15/01/2008 for the works executed bringing the total payment on this contract to Frw 64,464,079 (representing 82% of the contract amount).

However, I noted the following:

- The metal roofing structure was on only 2 classroom blocks out of the 4 classroom blocks as indicated in the engineer's report. For the two classroom blocks with a roofing structure, roofing with iron sheets was done partly on one classroom block. Also no works were done on the latrine block and collection and storage of rain water (Tanks of 10 m³). The metal gutter and metal river plank (planche de rive) were not constructed as well. This had been indicated as done in the Director of Infrastructure's report which supported the invoice of the contractor.
- BCE Contractor violated the construction plan as indicated in the bidding document. They constructed Block B and C with 4 classrooms each instead of 3 and Block D with 1 classroom instead of 3. This reduced the spacing of the classroom that had been specified in the bidding document. This was not highlighted in the engineer's report.

(iv) RIAM

- **Non existence of construction works paid for**
 - a) During the year, RIAM paid for purchase of building and construction materials worth Frw 203,738,368 based only on supplier invoices without any contracts, and without any evidence of delivery of these items. A physical verification (in RIAM Muhanga and RIAM Muhima campus) carried out by auditors and the engineer of RIAM did not find any of the construction works paid for, as having been executed. In

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addition, the staff of RIAM including engineers and top management failed to indicate the physical location of the works related to the above expenditure. This works do not therefore exist.

The beneficiaries of the Frw 203,738,369 are shown in the table below:

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Names	Amount
	Frw
MUPENZI Samuel	53,397,555
KWIRINGIRA Stephen	5,307,900
BAZATSINDA Alex	28,299,178
BUTERA Robert	30,154,280
NKUBITO Fidel	10,973,650
KAGAME Steven	32,610,166
SHYAKA Gerald	19,400,440
MUGABO Richard	13,929,800
RWAKA Dominique	9,665,400
Total	203,738,369

b) I reviewed the invoices presented by the suppliers and noted that one supplier-MUPENZI Samuel, signed as a Director on invoices presented by three different companies paid by RIAM for supply of building and construction materials during the period under review. The companies whose invoices were signed by MUPENZI Samuel as Director are: M.S & Sons Building contractors, Horizon Development Etude & Surveillance and Kigali Supply of Building Materials. I did not have adequate information to ascertain the existence of these companies.

- **Overpayment of lumpsum and transport allowances**

In their efforts to facilitate transport for staff between the two campus of Muhima and Murambi, RIAM paid additional transport allowances to the Director General and the Director of Administration and Finance. Such allowances were paid together with the lump sum. I however noted that the beneficiaries received lump sum for more than 12 months for the year under review. A total amount unduly paid to Director General amounted to Frw 4,915,594, as shown below:

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	Rightful benefit	Amount received	Unduly received
	Frw	Frw	Frw
Transport allowances	2,400,000*	4,400,000	2,000,000
Lump sum	4,425,990	7,341,584	2,915,594
Total	6,825,990	11,741,584	4,915,594

* This is amount was determined by the management of RIAM without approval

The Director of Administration and Finance unduly received Frw 1,371,540, as shown below:

	Rightful benefit	Amount received	Unduly received
	Frw	Frw	Frw
Transport allowances	1,785,600*	2,529,600	744,000
Lump sum	2,093,655	2,726,193	632,538
Total	3,879,255	5,255,793	1,376,538

* This is amount was determined by the management of RIAM without approval

- **Mismanagement of public funds**

I noted that on 02 August 2004, RIAM signed an irrevocable commitment in quality of guarantee “*engagement irrevocable en qualite d’avaliste*” for Mr. Rwanga J. Marie who was a permanent staff of RIAM. The document granted B.C.D.I, now ECOBANK a right to debit RIAM bank account in ECOBANK by the unpaid amount of the loan to the extent of Frw 2,000,000, if the beneficiary fails to pay.

On 18/04/2008, in a letter N° JUR/ME/Im/122/04-2008, ECOBANK informed RIAM that it had gone ahead and debited RIAM’s bank account with Frw 2,000,000 representing the loan not reimbursed by Mr RWANGA J. Marie. This amount had not been recovered by RIAM from Mr. RWANGA J. Marie as at the time of the audit in August 2009.

(v) KIST

KIST has a bank account in ZIGAMA CSS (A/C N°7021119-01) opened to manage funds earmarked for the KIST Entrepreneurship Development Fund (KEDF) project. The Fund is managed by Zigama CSS and its signatories are staff of Zigama CSS. Eligible beneficiaries of this project are the young graduates from KIST. The project guidelines require the graduates to submit their project proposals to KIST for approval. However:

- It was noted that signatories at ZIGAMA CSS authorised and transferred funds amounting to Frw 20,241,150 to bank account N° 0062069-02-00. This account is in the names of Yesarakiza Augustin who is not a former KIST student and therefore not eligible to benefit from these project loans. The disbursement of this amount was not known by management of KIST and there was no project approved by KIST to support the loan disbursements to Yesarakiza Augustin.
- ZIGAMA CSS made a payment of Frw 16,000,050 on 13 September 2005 to the Ministry of Defence (MOD) from this bank account. The details of this transaction were not availed during the audit and there is no evidence to show that this payment was made in respect to projects approved by KIST for eligible beneficiaries.
- Only the closing balance of Frw 22,668,093 on the bank statement at 31 December 2008 was recorded in the books of account and the transactions on this account since its inception are not in KIST books of account.

(vi) Kirehe District

- I reviewed four cash requests worth Frw 3,300,000 that were made by the in-charge of the district commission for fighting against HIV/AIDS (CDLS), to carry out VCT activities in various sectors of Kirehe District, and noted the following:

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- a) There was no budget for each activity to enable confirmation of whether the allowances paid had been planned for. It is therefore not possible to ascertain whether or not the allowances paid were within the district budget.
- b) There was no report for each activity to explain if the activities were executed. Therefore, it is difficult to confirm whether the money was utilized for the intended purpose.
- c) There was no list of participants to prove their attendance. There is a risk that these activities did not actually take place.
- d) I selected 13 persons whose names were appearing on the allowances payment list and were paid a total of Frw 1,152,000 and interviewed them to confirm their participation in the reported activities. I noted the following:
 - All of the 13 individuals said they had never participated in VCT activities in their respective sectors because they were never invited to participate in such activities.
 - They also said they have never received any allowance for participating in the VCT activities in their respective sectors.
 - The signatures appearing on the allowances payment list were not their signatures and are therefore forged by the district staff.
 - I also noted that among the persons who were included on the list of participants are the executive secretary of Musaza sector, Mr Iragaba Felix, who was paid as the laboratory assistant during the above activities and Karanganwa Gaspard, the in- charge of social affairs at the sector, who was included on the payroll list as a nurse who participated in the VCT activities. Mr Iragaba Felix and

Karanganwa Gaspard said that they have never studied nursing and laboratory sciences and did not participate in these activities.

Accordingly, documents presented to account for funds paid for VCT activities are forged and cannot be relied upon to justify the expenditure.

e) Kirehe District organised a workshop and training for headmasters of the primary and secondary schools on the action plan for 2009, strategic plan 2008-2012. These activities were held from 15-17 December 2008 at Nyagatare. I reviewed expenditure incurred on these activities and noted the following:

- A budget of Frw 4,473,000 for the above training was prepared and the Director for Education prepared a request for funds to organize the workshop and training. This amount of Frw 4,473,000 was then withdrawn on 18 December 2008 from BNR bank account No 1210695 District Kirehe Education to finance the activity. However, I noted that for the same activity, an amount of Frw 7,000,000 was withdrawn on 18 December 2008 by Murengezi B. Josué (Director for Education) from account No 0080827101 Training (Formation) at Banque Populaire of Rusumo. Details are as shown below:
- Included in the Frw 4,473,000 withdrawn from BNR bank account No 1210695 District Kirehe Education on 18 December 2008 was Frw 3,295,000 for payment to Blue Sky Hotel (using cheque No 1253399) for meals and accommodation for the participants. Similarly, the Frw 7,000,000 that was withdrawn by Mr Murengezi B. Josué

(Director for education) from account No 0080827101 Training (Formation) at Banque Populaire of Rusumo on 18 December 2008 includes an amount of Frw 4,000,000 to pay for accommodation and meals consumed by the participants in the same training. This implies that the Director for Education obtained Frw 7,295,000 to pay for accommodation of participants and yet the invoice was Frw 3,295,000.

- Also included in the Frw 4,473,000 withdrawn from BNR bank account No 1210695 District Kirehe Education on 18 December 2008 was Frw 1,178,000 as an imprest to pay for, reams of paper, cartridge, and communication and transport allowances to participants. Similarly, the Frw 7,000,000 that was withdrawn by Mr Murengezi B. Josué (Director for education) from account No 0080827101 Training (Formation) at Banque Populaire of Rusumo on 18 December 2008 included Frw 3,000,000 to pay for imprest and meals consumed by the participants in the same training.

This implies that the Director for Education obtained Frw 4,178,000 for imprest to pay for reams of paper, cartridge, communication and transport allowances for participants, instead of the planned imprest of Frw 1,178,000.

- f) The accountability documents show that the Frw 1,178,000 given to Director for education by the cashier on 19/12/2008 was utilized as follows: Frw 1,125,000 was utilized for payment of transport and communication allowances to participants and Frw 53,000 for stationery. I reviewed the accountability documents for allowances and noted the following:

- The list of payments for allowances shows that 75 participants received allowances of Frw 15,000 each for the duration of the training. However, I made a field visit and inquired of a sample of participants indicated on the list and noted that information presented on this listing was falsified. All six individuals interviewed denied the signatures indicated on the listing, and one of them- Mr Masengesho Emmanuel denied having attended the workshop. Mr. Masengesho Emmanuel asserted that at the time of the Nyagatare training, he was attending another training that was held in Butare (Southern Province) and therefore could not be in two places at the same time. Accordingly some participants on the list are not genuine and the signatures presented on the listing were forged.

- In following up the findings above, I identified another listing prepared to account for funds spent on allowances for the same training. This newly identified accountability shows that 66 people attended the workshop (not 75 people shown in previous accountability) and each was paid Frw 31,000 for the duration of the training (not the Frw 15,000 shown in previous accountability). Most of the people interviewed in the field acknowledged receipt of allowances of Frw 31,000 and signatures presented on this accountability listing. Four (4) of the 66 participants on this listing did not sign against their names to acknowledge receipt of the allowances.

This accountability shows that Frw 1,922,000 was paid as allowances to 62 participants instead of Frw 1,125,000 presented by Director of Education to support the utilization of funds received from cashier for training. This confirms that the

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Director for Education had more funds than those given to him by the district for this training.

- (i) A review of the listing where Frw 31,000 was paid from shows that it includes per diem of Frw 5,000 per day paid to participants despite providing them with accommodation and meals. According to public financial management regulations, public officials receiving accommodation and meals are not eligible for per diems.

The above findings show that public funds were misappropriated.

- g) Signatories for bank account No 0080827101 Training (Formation) held in Banque Populaire of Rusumo are the Director for Education (Murengezi B. Josué) and the In-charge of Education (Ndayishimiye Tom). I noted that there was no segregation of duties in operations of this bank account and transactions paid on this account were initiated by the Director for education. The same Director of education then approved the transactions without any independent review and authorized cash withdrawal letters together with the in-charge of education (junior officer to the Director of Education). The cash at the bank was also withdrawn by the Director of education for implementation of activities.
- h) I noted that account No 0080827101 Training (Formation) held in Banque Populaire of Rusumo where for example the total of Frw 7,000,000 was withdrawn is not recorded in the District's books of account and financial statements. The account was maintained and replenished with the money deducted from capitation grants sent by MINECOFIN to the District for primary and secondary school students in the District. The bank statement balance on this bank account as at 31 December 2008 was Frw 627,070, as shown below:

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	Frw
Opening balance	-
Deposits on the bank account	17,025,340
Withdrawals from bank account	(15,901,200)
Balance on account as at 31 December 2008 (computed)	1,124,140
Balance as at 31 December 2008 as shown on bank statement	627,070
Difference	497,070

(vii) Gasabo District

I reviewed tenders awarded by Gasabo District worth Frw 194,514,100 and noted the following:

- All the tenders were awarded to companies owned or controlled by Mr Bavukiyehe Eugene.
- The companies that were short listed and invited for bidding for each tender were all controlled or owned by Mr Bavukiyehe Eugene.
 - a) For example, in most of the tenders, bids were invited from Bavukiyehe Eugene sarl owned by Mr. Bavukiyehe Eugene, Nisengwe Marie Chantal sarl owned by Mrs. Nisengwe Marie Chantal (wife to Bavukiyehe Eugene) and Société de commerce et de construction owned by Bavukiyehe Eugene. Mrs. Nisengwe Marie Chantal and Bavukiyehe Eugene have the same post office box number that is P.O. Box 5366 Kigali. A review of Bavukiyehe Eugene's certificate of registration No RC: 656/06/MS delivered at Musanze on 23/06/2006, indicated that Mrs Nisengwe Marie Chantal is wife to Mr Bavukiyehe Eugene.
 - b) For some other tenders, bids were invited from Mr. Bavukiyehe Eugene, Nisengwe Marie Chantal S.a.r.l owned by Mrs. Nisengwe Marie Chantal (wife to Bavukiyehe Eugene) and Quincaillerie de la paix. There were no details provided to show the ownership of Quincaillerie de la paix.

- c) For transport services, Gasabo District requested quotations from Nisengwe Marie Chantal S.a.r.l owned by Nisengwe Marie Chantal; Société de commerce et de transport (BANI) owned by Bavukiyehe Eugene and Société de Transport (BANI) which did not have any details of ownership. However, I noted an instance where the district made payment to Société de commerce et de construction (BANI) and yet the invoice and delivery note were from Société de Transport (BANI). This indicates that these two companies may be owned by one person who is BAVUKIYEHE Eugene.
- d) In another instance, the internal tender committee awarded a tender for supplying construction materials to Societe de commerce et de construction (BANI) represented by Twizeyimana Fidèle, but the tender award notification letter signed on 23/10/2008 by the Executive Secretary of Gasabo district was remitted to Bavukiyehe Eugene sarl and Mr Bavukiyehe Eugene the owner signed to acknowledge receipt of the notification.
- e) A letter from BANI requesting for payment addressed to the Mayor of Gasabo also indicates the phone number (0788307069) and the post office box (BP 5366 Kigali) which are the same as those used by Bavukiyehe Eugene Sarl when tendering in Gasabo district. In addition, the signature of Twizeyimana Fidèle appearing on this letter is similar to that of Mr. Bavukiyehe Eugene.
- f) Some of the companies that submitted bids and were awarded tenders did not have registration details and their ownership cannot be established. These include Quincaillerie de la paix which submitted bids for three tenders to supply materials utilized in the construction of houses for vulnerable groups, and Harelimana Anastase s.a.r.l owned by Harelimana Anastase that

bid for a tender to transport peat from Rwabusoro (Nyanza District) to Gikomero sector.

- g) However, I noted that Harelimana Anastase purportedly signed a payment voucher to acknowledge receipt of payment as a representative of Société BANI S.A.R.L owned by Bavukiyehe Eugene. In addition, the signature appearing on the payment voucher is that of Bavukiyehe Eugene. Accordingly, these two companies may be related and Bavukiyehe Eugene could have created Harelimana Anastase in order to compete for the tender but he owned the enterprise.
- h) Quincaillerie Ituze which submitted a bid for relocating TIG solidarity camp did not also have an address and contact details.

The above irregularities indicate that Bavukiyehe Eugene created numerous companies to provide quotations for evaluation during the bid process and all of them are related. Accordingly, there was no competition in award of the tenders and documentation used in evaluation of bids was fraudulent.

- The tender for supplying 59,106 kgs of maize to Remera prison whose value was Frw 25,798,500 was fraudulently awarded to Bavukiyehe Eugene, where the tender advertisement appeared in Imvaho Nshya newspaper n°1795 of 16-18/06/2008, and it was indicating that the deadline for submitting bids and their opening was 30th June 2008. However, I noted that the tender award notification letter was signed on 17/06/2008 by the Executive Secretary of Gasabo district sent to Mr. Bavukiyehe Eugene. In addition, the tender contract was signed on 09/07/2008. One part payment amounting to Frw 10,343,550 was made to Mr. Bavukiyehe Eugene on 24/09/2008 using the cheque number 1276710.

(viii) PAFOR

- I noted that some associations which bid for work in FMSP belonged to the Coordinator Mr RWIKILIZWA Athanase and his family. An example is the case of ADSF/Abajyamugambi association which from 2003 to 2006 was represented by KANTENGWA Domitille and from 2007 to 2009 represented by his daughter MUHAWENIMANA Delphine. In some tenders, this association was divided into two separate associations named ADSF and Abajyamugambi that bid for one tender divided in lots, and both associations were awarded a lot in that tender. Tenders awarded to these associations were worth Frw 137,800,013.

- There are cases where tenders amounting to Frw 22,490,000 were awarded to the coordinator's association three times for the same work in the same period.

- In another instance, the Coordinator improvised an internal tender committee composed by himself as the president, the accountant of the project, the accountant of the outstation and the topographer of the project as members for a tender amounting to Frw 20,900,000. In that session, the coordinator brought 7 bids including one for his association and all of them were awarded tender. The method of procurement was shortlist yet the tender price was more than 5 million.

- I noted a case where associations belong to one family. According to the head of Umutara out station Mr BAKUNDUKIZE Dismas and his accountant, there are five associations of one Family of NYILIMANA Etienne and MUKESHIMANA Ernestine respectively husband and wife, that participated in one tender of reforestation in Kayonza District, Rwinkwavu and Kabare Sectors where these associations

were awarded tenders. These associations are AVPERU, INTEGO, ACV, ALCE and AAPE. According to their bids NYILIMANA Etienne is a president of AVPERU while his wife is a president of ALCE.

This implies that there was lack of transparency, efficiency and fairness in the award of tenders. Similarly, for associations which belong to the coordinator, there was conflict of interest and therefore FMSP did not benefit from the advantage of competitive bidding in terms of quality and price.

2.24.2 Revenue collections embezzled

(i) Altering amounts on receipts and deposit slips

- In Kicukiro District, a case was noted where original receipts issued by a tax payer named Murenzi Jean Chrysostome to customers had amounts different from the amounts shown on the copies of receipts retained in the receipt book. A specific case known concerns receipt n° 217536 issued on 08/02/2008. The amount on the original receipt to the customer was Frw 5,000 while the copy of the receipt retained in the receipt book had an amount of Frw 500.

- In Ngoma District, a comparison of original bank deposit slips kept at the District with the corresponding copies at the Karembo “*Banques Populaires*” revealed instances where the amounts on the bank deposit slips kept at the bank were less than the amounts on the bank deposit slips kept at Ngoma district. The amount on the deposit slips at the bank was the same as that in the bank statement. Revenue amounting to Frw 4,198,600 was not banked.

- In Nyarugenge District, a comparison on a sample basis of amounts on original receipts issued to customers with amounts on the corresponding copies in the receipt books kept at the District revealed

instances where the originals had higher amounts than the copies. The total amount not declared was Frw 964,719 which was misappropriated by various district tax collectors.

- In Kirehe District, cases were identified where deposit slips had been altered by a tax collector of Mpanga sector. The falsified deposit slips kept at the District office have amounts higher than those shown on the original deposit slips maintained at the bank by Frw 80,000.

(ii) Blank duplicate copies of receipts

- In Nyaruguru District, the receipt books with serial numbers 6551-6575, 6576-6600 and 18126-18150 issued to Mukankundiye and used to collect revenue in Kibeho Sector had no original receipts and their related copies do not have any information. This made it difficult to ascertain how much could have been collected and whether all amounts collected were banked intact.
- In Nyarugenge District, a review of a sample of receipt books revealed five (5) counterfoils (duplicate receipts) which were blank. The blank counterfoils were for receipt numbers 310778, 310779, 310780, 307774, 307759 in the receipt books. This made it difficult to ascertain how much could have been collected and whether all amounts collected were banked intact.
- In Gasabo District, there were four duplicate receipts which did not contain any information and yet the originals had been issued out of the receipt book. These were receipt numbers 351655, 351652, 19958 and 396131.
- In Rubavu District, there were eleven (11) receipt counterfoils (duplicate receipts) which were blank and did not contain any

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information. The receipt numbers were: 181818, 181819, 181820, 181821, 181822, 181823, 181824, 181825, 181826, 112243, 112281.

(iii) Collections not banked and not accounted for

- In Nyarugenge District, receipts amounting to Frw 1,591,200 collected through receipt book no 229901 -229900 jointly used by MURUNGI Juliet and GATERA were not banked and the receipt book was not returned to the District. In addition, a comparison between the amounts per receipt books to corresponding bank deposit slips identified that collections amounting to Frw 1,958,452 did not have bank deposit slips and were therefore not accounted for.

- In Rusizi District, a comparison between the amounts per receipt books to corresponding bank deposit slips identified that collections amounting to Frw 90,440 did not have bank deposit slips and were therefore not accounted for.

- In Kirehe District, a comparison between the amounts per receipt books to corresponding bank deposit slips identified that collections amounting to Frw 761,345 had not been deposited in the bank account. In addition, an amount of Frw 1,390,500 appearing on a deposit slip could not be traced to the bank statement. Accordingly, a total of Frw 2,151,845 of cash collections is not accounted for.

- In Nyarugenge District, the audit of 2 mutual health sections out of the 12 health sections revealed that an amount of Frw 412,000 collected by the Executive Secretary of Nyamigina Cell, Nkurunziza Emmanuel on behalf of Mushesha mutual health section could not be traced to the bank statement.

(iv) Fraudulent bank account used in collection of District revenue

In Nyaruguru District, Mr. Twine Kakulu who I highlighted in my 2007 report as having embezzled Frw 15,565,717 through a fraudulent bank account embezzled a further Frw 5,288,500 in 2008. This is an indication of extreme weak controls on district revenue, leading to total embezzlement by Mr. Twine Kakulu to Frw 20,854,217 as at 31 December 2008.

(v) Misappropriation of fertilisers at MINAGRI

I noted that MINAGRI fertilizer stock records maintained by RADA are not adequate for proper monitoring of fertilizers receipts, sales and the running balance of unsold fertilizers. This means that any reconciliation between the stock records and results of any physical counts can not be accurately performed. Hence MINAGRI management is not able to reconcile deposit slips for fertilizer sales to the fertilizer stock records. As a result, any loss of stocks can not be easily detected. Further management cannot ascertain whether revenue from the sales of fertilizers is completely banked and recorded. Consequently, an employee known as BIKORO BUKURU Eugene is said to have stolen 28 Tones and 672 Kgs of fertilizers (NPK 17.17.17), worth Frw 8,314,880. This malpractice began in 2007 where some stock issue forms were not appearing in their respective booklets as can be evidenced by the following missing numbers: 04826, 004765, 04302, 04929, 03122, 00277 and 03072.

(vi) University Hospital-Butare (CHUB)

Since April 2007, CHUB has dialysis unit which treats patients with kidney problems (*'insuffisances reinales'*). This unique unit in the great lakes region has two machines that are used in the cleaning of human blood for those suffering with kidney. A patient that requires dialysis treatment makes an advance payment collected by the head of the Billing and Fund Recovery

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Unit to be offset later against the cost of all treatments provided to the patient. I noted the following:

- From April to November 2007, revenue from kidney dialysis was collected in cash by NIMUBONA George (*the head of the Billing and Fund Recovery Unit*). However, out of cash collected totaling Frw 12,034,964, he only banked Frw 5,278,357, and thus a difference of Frw 6,756,607 not banked amounts to embezzlement perpetrated by NIMUBONA George.
- Further, it appears that NIMUBONA George had been using two parallel receipt-books; one of them was used in the collection of funds for his personal use, as evidenced by the duplicate/counterfoil of the receipt voucher no 130387. For this specific receipt voucher, I was provided with two counterfoils having the same number but actually issued to two different patients as shown below:

Date	Receipt voucher no	Patient	Amount collected
28/09/2007	130387	LUKALA NTABONA	\$ 400
28/09/2007	130387	Pastor ARUNA OLELAKAN	\$ 235 & Frw 13,200

Such a fraud would not have been possible in case CHUB had strong controls in place.

The case of embezzlement was followed by High Court of Huye and the results were issued on 23/06/2008. After investigations conducted on 14/04/2008, the court found that NIMUBONA George embezzled Frw 1,596,548 made of Frw 972,298 and USD 1,135 (i.e. Frw 624,250 using an exchange rate of USD 1=Frw 550).

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In addition to the above, SHEMA Parfait, who replaced NIMUBONA during his absence, also embezzled Frw 500,000. Therefore, the court decided that NIMUBONA George and SHEMA Parfait were guilty of embezzlement and were requested to refund the amount embezzled. Up to the end of September 2009, they had not fully refunded the amount as shown below:

	NUMUBONA George	SHEMA Parfait	Total
Amount embezzled	1,596,548	500,000	2,096,548
Fines	50,000	50,000	100,000
<i>Frais d'avocat</i>	200,000	200,000	400,000
Court fees	2,000	2,000	4,000
Total	1,848,548	752,000	2,600,548
Amount so far paid	1,000,000	500,000	1,500,000
Balance	848,548	252,000	1,100,548

There is no evidence whether the payment of Frw 500,000 said to have been made by Parfait SHEMA was received by the hospital.