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ABBREVIATIONS AND ACRONYMS

ACCA	: Association of Chartered Certified Accountants
ADC	: African Development Corporation
AERG	: Association des Etudiants Rescapés du Génocide
AFROSAI-E	: African Organization of English-speaking Supreme Audit Institutions
BNR	: National Bank of Rwanda
BRD	: Rwanda Development Bank
CCP	: Comptes Chèques Postaux
CDF	: Common Development Fund
CEDP	: Competitiveness and Enterprise Development Project
CEPEX	: Central Public Investment and External Finance Bureau
CSR	: Social Security Fund of Rwanda
CTAMS	: Mutual Health Technical Support Cell
DAF	: Director of Finance and Administration
EATTFP	: East Africa Trade and Transport Facilitation Project
EAC	: East African Community
FARG	: Genocide Survivors Fund
GBEs	: Government Business Enterprises
GBP	: Great Britain Pound
GoR	: Government of Rwanda
HIDA	: Human Resource & Institutional Development Agency
ICPAR	: Institute of Certified Public Accountants of Rwanda
KIE	: Kigali institute of Education
KIST	: Kigali Institute of Science and Technology
KVCS	: Kigali Veterans Cooperative Society
KWAMP	: Kirehe Community-based Watershed Management Project
MDTF	: Multi Donor Trust Fund
MIFOTRA	: Ministry of Public Service and Labour
MIGEPROF	: Ministry for Gender and Family Promotion

MINADEF	: Ministry of Defense
MINAFFET	: Ministry of Foreign Affairs
MINAGRI	: Ministry of Agriculture and Animal Resources
MINALOC	: Ministry of Local Government
MINEAC	: Ministry of East African Community
MINECOFIN	: Ministry of Finance and Economic Planning
MINEDUC	: Ministry of Education
MINELA	: Ministry of Environment and Lands
MINICOM	: Ministry of Trade and Industry
MINIJUST	: Ministry of Justice / Attorney General
MININFRA	: Ministry of Infrastructure
MININTER	: Ministry of Internal Affairs
MINIRENA	: Ministry of Natural Resources
MINISANTE	: Ministry of Health
MINISPOC	: Ministry of Sports and Culture
NBAs	: Non Budget agencies
NCDC	: National Curriculum Development Centre
NEC	: National Electoral Commission
NPO	: National Post Office
NPPA	: National Public Prosecution Authority
NUR	: National University of Rwanda
OAG	: Office of the Auditor General
OCIR CAFE	: Rwanda Coffee Development Authority (Office Rwandais de Promotion du Café)
ONATRACOM	: Office National des Transports en Commun
OP	: Payment Order
ORINFOR	: Rwanda Information Office (Office Rwandais d'Information)
OTR	: Treasury Paymaster
PADEBL	: Dairy Cattle Development Support Project
PAPSTA	: Support Project for the Strategic Transformation of Agriculture

PAYE	: Pay As You Earn
PPPMER	: Le Projet pour la Promotion des Petites et Micro Entreprises Rurales
PRIMATURE	: Prime Minister's Office
PDRCIU	: Projet de développement des ressources communautaires et des infrastructures de l'Umutara
PSCBS	: Public Sector Capacity Building Secretariat
RADA	: Rwanda Agricultural Development Authority
RAMA	: National Medical Insurance Scheme
RDRP	: Rwanda Demobilisation and Reintegration Programme
RECO –RWASCO	: Rwanda Electricity Corporation-Rwanda Water Sanitation Corporation (Current EWSA)
RIAM	: Rwanda Institute of Administration & Management
RICP	: Rwanda Investment Climate Project
RITA	: Rwanda Information and Technology Authority
RNEC	: Rwanda National Examination Council
RNP	: Rwanda National Police
RPPA	: Rwanda Public Procurement Authority
RRA	: Rwanda Revenue Authority
RSSP II	: Rural Sector Support Project (Phase II)
SFAR	: Student Financing Agency of Rwanda
SFB	: School of Financing and Banking
SONARWA	: Société Nationale des Assurances au Rwanda
TIG	: Travaux d'Intérêt Général
USA	: United State of America
USD	: United State Dollar
VUP	: Vision 2020 Umurenge Program

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, and law n° 05/98 of 4 June 1998 establishing the Office of the Auditor General of State Finances (OAG), 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.

Accordingly, I now submit to Parliament a report on the audits concluded during the period from June 2010 to 30 April 2011. The audits mainly covered expenditure incurred by Government entities for the year ended 30 June 2010 and also include audits of several Government Business enterprises for prior years.

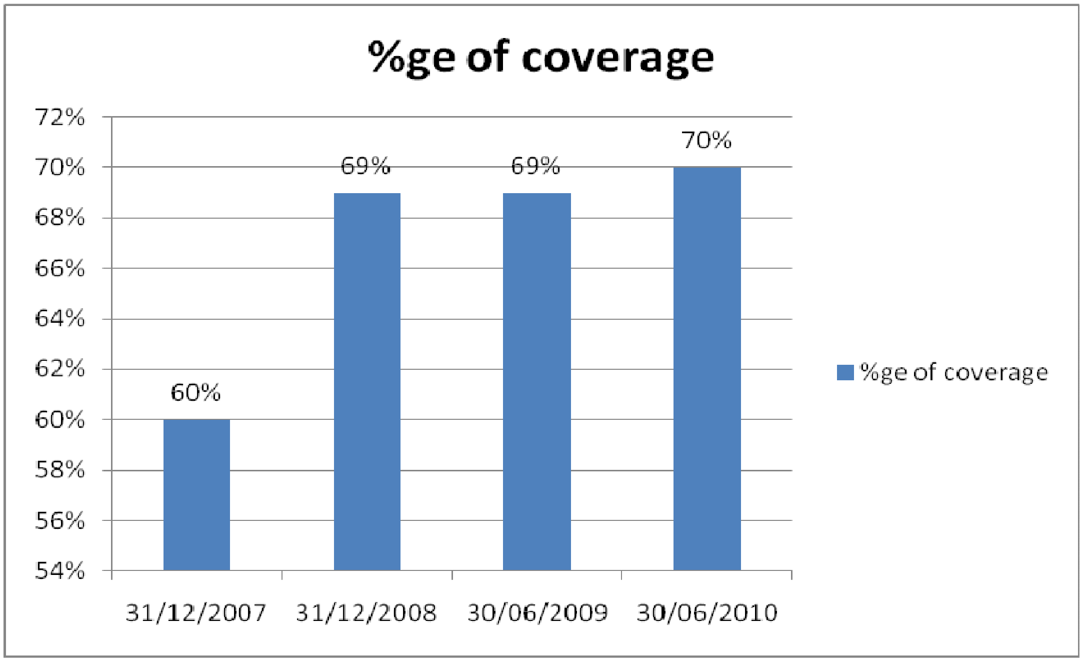
My report includes the following:

Volume I:	Executive summary
Volume II:	Report on State Consolidated Financial Statements
Volume III:	Key findings from the audit of Local Governments (Districts and City of Kigali)
Volume IV:	Key findings from the audit of Ministries and other Central Administration Entities, Projects, and Government Business Enterprises

1.2 AUDIT COVERAGE

The audit coverage represents the percentage of expenditure incurred by the entities audited when compared to the total national expenditure for the financial year, as presented in state consolidated financial statements. The computation of audit coverage does not consider expenditure incurred by Government Business enterprises because these entities are not consolidated and their expenditure does not form part of total expenditure presented in the State consolidated financial statements. The expenditure incurred by entities audited during the period June 2010 to 30 April 2011 (excluding GBEs) represents 70% of the reported Government Expenditure for the year ended 30 June 2010. The National Budget passed by Parliament for the 12 months period from July 2009 to June 2010 amounted to Frw 703,962,483,481 compared to Frw 673,975,527,207 for the 12 months period from January 2008 to December 2008.

The coverage in this report is slightly higher than the audit coverage for the mini-budget and 2008 audits, which covered 69% of all entities as shown in the graph below:



This increase in coverage was achieved, alongside increased involvement of OAG in audit of the East African Community, increased involvement in value for money audits and with increased number of audits of Government Business Enterprises.

In terms of entities audited, the number covered by the audits is still very low compared to the known number of existing public entities that are consolidated. Only 33% of all entities within the consolidated financial statements were audited during the reporting period, although these entities contributed 70% of the total Government expenditure incurred. The total number of entities and projects audited during this reporting period is 104 entities and projects, in addition to the audit of state consolidated financial statements, audit of the East African Community Secretariat and its organs and five (5) value for money (performance) audits.

Entities whose financial statements were audited during the reporting period comprise:

- All districts and Provinces (100% coverage);
- Ninety four percent (94%) coverage of Government ministries. MINIFOM was not audited because it had operated for only 6 months to 30 June 2010.
- Thirty two percent (32%) coverage of Government Business enterprises. The establishment of the Institute of Certified Public Accountants of Rwanda (ICPAR) to oversee the Accounting Profession in Rwanda has enabled the OAG to engage with some ICPAR member firms to extend its mandate. Four (4) out of the ten (10) Government Business Enterprises covered during this period were audited by ICPAR member firms.
- Twenty percent (20%) coverage of other central government entities;
- Fourteen percent (14%) coverage of Government programs and projects

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 30 June 2010 and those that were audited during the period.

		Total number of entities & projects consolidated	Entities & projects audited	Entity Coverage (%ge-2010)	Entity Coverage (%ge-2009) 6 months	Entity Coverage (%ge-2008) 12 months	Entity Coverage (%ge-2007) 12 months
a.	Ministries	17	16	94%	100%	100%	100%
b.	Other Central Administration units	111	26	23%	8%	32%	28%
c.	Government Projects and Programs	121	17	14%	12%	20%	13%
d.	Districts and City of Kigali	31	31	100%	100%	100%	100%
e.	Provinces	4	4	100%	100%	100%	100%
f.	Government Business Enterprises	31	10	32%	3%	3%	25%
	Sub Total	**315**	**104**	**33%**	**25%**	**36%**	**31%**

g.	State consolidated financial statements	1	1	100%	100%	100%	100%
Total		**316***	**105****	**33%**	**25%**	**36%**	**31%**

** Source: MINECOFIN (State consolidated financial statements)*

** It is worth noting that due to limited capacity to cover all entities in a specific financial year, I still carry out audits relating to previous financial years for some entities. This annual report comprises 22 reports covering periods outside the reporting period of 1 July 2009 to 30 June 2010 from thirteen (13) institutions. Institutions which have reports covering periods prior to 1 July 2009 are:

No.	Institution	Number of reports outside the reporting period of 1 July 2009 to 30 June 2010	Years covered by reports
1	ONATRACOM	2	The two (2) reports cover years ended 31 December 2007 and 2008
2	NPO	2	The two (2) reports cover years ended 31 December 2008 and 2009
3	RURA	2	The two (2) reports cover years ended 31 December 2008 and 2009
4	OCIR CAFE	2	The two (2) reports cover years ended 31 December 2007 and 2008
5	Universal Access Fund	2	The two (2) reports cover years ended 31 December 2008 and 2009
6	ORINFOR	1	The report covers 6 months period to 30 June 2009
7	Embassy of Washington	1	One (1) of the reports covers the 6 months period to 30 June 2009
8	CAMERWA	1	The report covers 12 months period to 31 December 2009
9	NUR	1	One (1) of the reports covers the 6 months period to 30 June 2009
10	RAMA	3	The three (3) reports cover years ended 31 December 2006,2007 and 2008
11	RECO-RWASCO	1	One (1) of the reports covers the 6 months period to 30 June 2009
12	RRA	3	The three (3) reports cover years ended 31 December 2006,2007 and 2008
13	MTDF	1	One (1) of the reports covers the 12 months period to 31 December 2009
	Total reports	**22**	

As highlighted in my previous reports, OAG ambition is to realise full coverage in terms of entities for any single financial year but there are still challenges that need to be addressed. These include:

- Lack of adequate financial and human resource capacity at the Office of the Auditor General. The office continues to experience a high staff turnover which drains it of trained and experienced staff and denies OAG the benefits of continuous capacity building interventions. Statistics over the past three years to date indicate that whereas OAG recruited 71 staff, 43 staff left the organisation during the same period.

  The analysis of staff who left the organisation shows that a significant number of senior staff left during the period and this implies that significant time and resources are spent by the OAG to continually train the newly recruited auditors to enhance their skills in order to deliver quality audits in accordance with International Standards. Such time and resources would have been utilised to increase coverage if the experienced staff had been retained. Most of the staff departures are attributed to better remuneration and benefits offered in the market place. This needs to be addressed urgently in order to enhance OAG capacity.

  Analysis of staff who left OAG over the last three years to date is presented below:

Category of staff	Level of responsibility	No. of staff who left OAG since 2008 to date
Audit Directors	Head of department, and responsible for directing, training, quality control and supervising at least five (5) audit teams expected to carry out at least 30 audit assignments within a 6 months audit cycle.	5
Team Leaders and senior auditors	Head of a team and is responsible for directing, training, supervising a team of auditors and executing at least 6 audit assignments within a 6 months audit cycle. He also provides quality control and coaching at team level.	12
Auditors	These are members of the audit team and are responsible for coaching new auditors, executing the audits and ensuring that audits are performed efficiently and appropriately.	21

	Each team comprises at least 3 team members and a team leader.	
Administrative staff	These support the office to ensure effective operations and functioning.	5
	Total	**43**

- Though there is noticeable improvement in the quality of accounting records among auditees, there are still persistent fundamental bookkeeping errors which lead to long periods of time in executing and finalizing audits. There is need for continued regular training of Accountants and review of financial statements submitted by budget Agencies by MINECOFIN. Chief Budget managers also need to be trained in financial management to gain the necessary skills to ensure proper supervision of the Accounting function within their institutions. The Internal audit units also need to be sufficiently trained and facilitated to equip them with appropriate skills and tools that can enable them to support the public institutions to improve accountability. Effective audit committees would go a long way in enhancing the effectiveness of internal audit units and ultimately strengthen internal control systems and accounting systems within public entities.
- Failure by Budget agencies to comply with various provisions of Organic Law No. 37/2006 of 12/09/2006 on State Finances and Property also hampers positive steps towards full coverage. For example, my audits show that most institutions did not implement most of the audit recommendations for previous years as required by Article 74 of the Organic Law. In addition, only 35% of the institutions in the consolidated financial statements submitted their financial statements to the Office of the Auditor General by 30 September 2010 as required by Article 71 of the organic law. In some cases, Chief Budget Managers do not participate in the audit process and only intervene at the time of finalising the audits, leading to significant delays in executing and finalising the audits.

Addressing the staff and capacity needs at OAG will not only help increase coverage, but will also save the office from continued costs of extensive training that are currently a necessity to facilitate quality delivery that complies with International Standards.

The establishment of the Public Accounts Committee and continued efforts by Parliament to provide oversight over public institutions will go a long way in enforcing the full implementation of the Organic Law on State Finances and Property.

Annual appraisals of the Chief Budget Managers on their performance in implementing both external and internal audit recommendations and the strengthening of capacity of MINECOFIN public Accounts unit and office of the Chief Government Internal Auditor to enable them undertake capacity building initiatives in public entities and to carry out trainings for Accounting and internal audit staff and Chief Budget managers in public entities, and to make follow up on internal control systems, accounting records and audit processes in public entities, will go a long way in improving financial management in public entities and will have a significant bearing on working towards full coverage.

1.3 OVERVIEW OF AUDIT RESULTS

The audit of the 104 entities and projects covered during this reporting period resulted in OAG issuing 118 audit reports (excluding the audit report on the state consolidated financial statements) because certain entities were audited for more than one financial year, especially Government Business Enterprises. The majority of audited entities obtained qualified audit opinions. Out of the 118 audit reports issued, 112 audit reports (95% of all audit reports issued) were qualified and only 6 audit reports (5% of all audit reports issued) were unqualified. A qualified audit report was also issued on the state consolidated financial statements, as was the case in previous years.

A qualified audit report is issued on financial statements if at the conclusion of the audit, the auditor believes that the financial statements have some omissions and errors which are material and could mislead users of the financial statements if not corrected or disclosed. A qualified audit report can also be issued if the auditor was unable to obtain information that was necessary for the audit of significant balances or if the auditor identified material instances of non compliance with the existing laws and regulations or financial reporting framework. On the other hand, an unqualified audit report implies that financial statements presented are a true reflection of the transactions of the entity audited and that such transactions were executed in accordance with the relevant laws and regulations.

Audit reports issued on all the other public entities were qualified except 6 reports of: MINECOFIN, Western Province and three (3) projects under MINECOFIN of MDTF, Public Sector Capacity Building project, Public Financial Management (PFM) Reform Basket Fund, as well as the EARP project under MININFRA. All Districts, all Ministries (except MINECOFIN), all Government projects (except the above four specified projects), all Provinces (except Western Province), all the Government Business Enterprises and all the remaining central Government entities obtained qualified audit reports, indicating that more needs to be done to improve internal controls and to maintain accounting records that are appropriate to support the financial statements. It should be noted that a lot of issues that formed a basis of my qualifications had been highlighted in my previous audit reports but no appropriate action had been taken by Chief Budget Managers and Directors of public bodies to correct or prevent them from re-occurring.

A summary of audit reports issued is provided below:

		Entities & projects audited	Total number of reports issued	Number of qualified reports	Number of unqualified reports	%ge of unqualified reports
a.	Ministries and other Central Administration units	42	45	44	1	1%
b.	Government Projects and Programs	17	19	15	4	3%
c.	Districts and Kigali City	31	31	31	0	0%

d.	Provinces	4	4	3	1	1%
e.	Government Business Enterprises	10	19	19	0	0%
	Sub Total	**104**	**118**	**112**	**6**	**5%**
f.	State consolidated financial statements	1	1	1	0	0%
Total		**105**	**119**	**113**	**6**	**5%**

1.4 KEY DEVELOPMENTS AT OAG DURING THE REPORTING PERIOD

1.4.1 Helping to enhance Accountability in public entities

During the reporting period, OAG continued with efforts to deliver high quality audits and support Parliament in enhancing accountability in Public Institutions. Our efforts were partly directed to enhancing capacity of public entities through our audit recommendations and supporting Parliament in following up audit recommendations. We continued working closely with the Budget Committee of Parliament in advisory capacity to support them in coming up with action plans to address issues raised in Auditor General's reports. The establishment of PAC also demands on our time to enhance its effective takeover from the Budget Committee.

Through our audits, numerous cases of fraud and mismanagement of public funds have been prevented and where they occurred, they were reported and followed up. Where our recommendations have been implemented, there have been improved internal control systems.

OAG has also been working closely with Government Donors, especially the World Bank to audit donor funded projects, as part of the process to ensure that donor funds are properly accounted for and utilised for intended purposes.

Our audits have also increased awareness of public accountability responsibilities by Chief Budget Managers. However, more still needs to be done to ensure that recommendations are implemented as required by Article 74 of Organic Law on State Finances and Property.

1.4.2 Increased audit coverage of Government Business Enterprises

Efforts were made during the reporting period to increase coverage for audit of Government Business Enterprises. The coverage in this report increased from average of 3% covered in my last two reports to 32%. Ten (10) Government Business enterprises out of the 31 Government Business Enterprises identified by MINECOFIN were audited.

1.4.3 Increased involvement in value for money (performance) audits

OAG undertook five (5) value for money (performance) audits during the reporting period. Three (3) of the reports have already been submitted to Parliament and the remaining two (2) reports are still ongoing. Details of the value for money audits are as shown below:

No	Name of the report	Status of the Value for money audit	Date of submission to the Parliament
1	Value for Money audit of Crop Intensification Programme: "Management of agricultural inputs"	Completed and report submitted to Parliament	28/09/2010
2	Value for Money audit of disaster management aid	Completed and report submitted to Parliament	18/02/2011
3	Value for money audit of Expenditure on Transformation and renovation of Senate and Parliamentary buildings	Completed and report submitted to Parliament	28/10/2010
4	Value for Money audit of Mutual Health Insurance Scheme: " Assessment of MHI policy implementation and its impact on accessibility to the health care"	Not finalized. Still ongoing	At reporting stage (to be delivered by 31/5/2011)
5	Value for money audit of funds utilised by FARG for construction of shelters and for projects for the Genocide Survivors during 2006 and 2007, and the acquisition and utilisation of construction materials procured and distributed by MINALOC in 2008	Not finalized. Still ongoing	At reporting stage (to be delivered by 30/6/2011)

The recommendations made in each of these reports aim to identify how services can be improved by developing and identifying good practices and ultimately ensuring value for money.

In 2009, OAG was enrolled in a prize contest organised by AFROSAI-E and Swedish National Audit Office for performance audits and the OAG performance audit report on *“The Integration of retrenched civil servants in the private sector by reconversion program under the Ministry of Public Service and Labour”* emerged as one of the top three (3) best performance audits. The assessment criteria was based on International Standards guiding performance audits and review team commended the Rwanda OAG for reporting transparently by publishing the management comments within the reports and for producing reports of high standards and quality.

The increase in the value for money (performance) audits had an impact on coverage for financial audits. For example, execution of the value for money audit of FARG required the OAG to reallocate resources hitherto allocated to 25 financial audits and hence forfeiting these audits and impacting on coverage for financial audits.

1.4.4 Increased involvement in audit of East African Community

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. The OAG is the current chair of the Audit Commission and was responsible for coordinating the audits for the year ended 30 June 2010. The OAG committed four (4) high level staff including the Deputy Auditor General. The Deputy Auditor General chaired the Audit Commission comprising of the Auditor Generals of the East Africa Region. This cost regular flights to Arusha while the Director and two Principal Auditors were based at the East African Secretariat in Arusha and at EAC organs in the different countries of East

Africa on full time basis to plan, execute and finalise reports for the audits of the East African Secretariat and EAC organs. In all, over 50 audit days were spent on the East African Community audit. This involvement in the audit of East African Community enhances the visibility of OAG Rwanda and the capacity, resilience and confidence building for OAG Rwanda staff. However, this had an impact on the struggle towards full audit coverage.

1.4.5 Continuing staff training and professional development

The office also continues with efforts to enhance the skills and capacity of our 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 professional training. Our pass rate in ACCA examinations of 34% at the June 2010 ACCA examination sitting, though below average is still among the best within the Country. Three (3) audit staff completed the ACCA professional qualification during the period, although two (2) of them have already left the OAG to join the market mainly due to better remuneration and career progression. It is worth noting that all those who have previously qualified with ACCA have left OAG. Other professional trainings and workshops are provided to staff internally to enhance their skills and improve on their capacity.

1.4.6 Staff secondment

Three staff of OAG went on secondment to other Supreme Audit Institutions. One was attached to the Botswana Supreme Audit Institution for a period of 3 months while two have been at the U.S.A Supreme Audit Institution. One has already returned after completing a 4 months attachment, while one will finalise the secondment by August 2011.

This staff secondment enhances the visibility of OAG Rwanda and the capacity, resilience and confidence building for OAG Rwanda staff, and ultimately enables skills transfer and capacity building.

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.

The audits identified that 47% of the weaknesses that were noted during the previous audits persisted and had not been addressed by the time of the current audits. This shows laxity or inability of Chief Budget managers in implementing audit recommendations. As required under Article 74 of the Organic Law, Chief Budget Managers should put efforts to implement audit recommendations and take necessary action to avoid and minimize recurrence of these similar weaknesses. Proper action plans should be drawn to facilitate the implementation of audit recommendations. These action plans should then be monitored on a regular basis by the entity and those supervising the different budget agencies

Mismanagement of public funds continued arising in various budget agencies due to lapses in internal control system, flouting of public procurement procedures, poor contract management and inadequate supervision of construction works and failure by the Chief Budget Managers to carry out their responsibilities. There were also cases of forgery and falsification of documents and payment for goods and services which were not actually delivered to the budget entities.

There is need for continued support to budget agencies to strengthen their internal control system and continuous monitoring of the implementation of both internal and OAG audit recommendations. The effectiveness of internal audit units and regular supervision and follow up of the financial management function of budget agencies will go a long way in enhancing a strong internal control system which is capable of preventing and detecting possible misuse of public funds.

The numerous errors in the accounting records continue to be noted in most of the public entities. Except for MINECOFIN, Western Province and three (3) projects under MINECOFIN of MDTF, Public Sector Capacity Building project, Public Financial Management (PFM) Reform Basket Fund, as well as the EARP project under MININFRA, the remaining audits have been qualified, implying that the information presented in the financial statements may not be reliable and accurate for decision making. For example, there were many unrecorded transactions such as receivables, payables, bank balances, as well as transactions for non budget agencies. In most cases, auditees are not aware of these unrecorded transactions until the time of the audit. Even the consolidated financial statements have errors because there are differences in inter-entity transfers between budget agencies. This is an indicator of inadequate training of the existing “Accountants” in Budget Agencies, lack of proper supervision by Chief Budget Managers and inadequate monitoring of financial management activities in budget agencies by MINECOFIN. There is need for strengthening capacity of the Accountants and making adequate follow up and supervision of the Accounting function in public entities.

In many cases, the Accountants were able to make adjusting entries in the books of account without any documentation and authorisation by the Chief Budget Managers. Most of these adjustments cannot be explained to the auditors and hence increasing the risk of errors in financial statements. There is need for more sensitization and training to support the Chief Budget Managers, Directors of Finance & Administration and Accountants to keep proper documentation and to ensure that prior approval of such adjustments is obtained before they are processed in the accounting system.

The problem of unsupported expenditure continues to be noted in some public entities. As highlighted in my previous audit reports, some payments were made without any supporting document, while others had support documents which were not sufficient to justify the expenditure. Management of some budget agencies claimed to have had this information, but there was poor records management which renders retrieval of the documents very difficult. The issue of records management needs urgent attention to facilitate proper management of public funds to enhance accountability. Chief Budget Managers should not authorize payments without adequate supporting documents as provided for in the public financial management procedures manual provided by MINECOFIN to all budget agencies.

2.1 NON COMPLIANCE WITH ARTICLE 74 OF ORGANIC LAW N° 37/2006

According to Article 74 of the Organic Law No. 37/2006 of 12 September 2006 on State Finances and Property, each Chief Budget Manager and Directors of public bodies are responsible for the implementation of instructions of the Auditor General of State Finances aimed at improving the effective management of finance of their entities. Contrary to this provision, I noted that a significant number of weaknesses noted during my previous audits persisted and had not been resolved by the time of my current audits. Out of the 2,151 audit recommendations made to entities in the previous audits (84 entities out the 104 entities audited), 1,130 recommendations (53%) had been fully implemented while 1,021 recommendations (47%) had not been fully implemented by the time of the current audits. The majority of recommendations made to Government Business Enterprises and to other central government entities and districts were not implemented. On the other hand, the majority of the ministries, Provinces and projects implemented most recommendations from previous audits. See table below:

	No. Of entities (audited)	**No. Of entities where we reviewed audit recommendations**	**Total number of all findings raised in previous report**	**Number of recommendations fully implemented by management by time of current audit**	**Number of recommendations not fully implemented by management by time of current audit**	**Percentage (%ge) of recommendations fully implemented**	**Percentage (%ge) of recommendations not fully implemented**
Districts& City of Kigali	31	31	927	471	456	51%	49%
Ministries	17	16	271	166	105	61%	39%
Provinces	4	4	54	34	20	63%	37%
Projects	17	6	58	42	16	72%	28%
Government Business Enterprises	10	6	216	89	127	41%	59%
Other central gov't entities	25	21	625	328	297	52%	48%
	104	**84**	**2,151**	**1,130**	**1,021**	**53%**	**47%**

Further analysis shows that in all the projects and in most ministries where we reviewed implementation of prior year audit recommendations, the majority of the recommendations had been implemented. However, this was not the case with Districts and Government Business Enterprises. Only 45% of the districts (14 Districts) had implemented more than 50% of the previous audit recommendations and the remaining 16 districts and Kigali city had not implemented most recommendations from the previous audits. This trend of failure to implement prior year audit recommendations was also noted amongst Government Business Enterprises, where only 2 entities out of the 6 entities (33%) assessed had implemented more than 50% of the previous audit recommendations. The remaining four (4) entities had not implemented the majority of the findings. See details in the table below:

	No. Of entities (audited)	No. Of entities where we reviewed prior year audit recommendations	Number of institutions where atleast 50% of recommendations had been implemented	Number of institutions where less than 50% of recommendations had been implemented	Percentage (%ge) of institutions that implemented atleast 50% of recommendation	Percentage (%ge) of institutions that implemented Less than 50% of recommendations
Districts& City of Kigali	31	31	14	17	45%	55%
Ministries	17	16	11	5	69%	31%
Provinces	4	4	2	2	50%	50%
Projects	17	6	6	0	100%	0%
Government Business Enterprises	10	6	2	4	33%	67%
Other public entities	25	21	13	8	62%	38%
	104	**84**	**48**	**36**	**57%**	**43%**

Entities such as four (4) Districts of Muhanga, Nyagatare, Rutsiro and Nyarugenge, City of Kigali, ONATRACOM and Social Security Fund of Rwanda had not implemented more than 80% of the previous audit recommendations, as shown below:

Institution	%ge of prior year recommendations not implemented
NYARUGENGE district	89%
RUTSIRO district	81%
MUHANGA district	80%
CITY OF KIGALI	80%
ONATRACOM	81%
CSR	84%

In most institutions, the issues that persisted include:

- Poor accounting records (**see section 2.2**)
- Inadequate follow up of Non budget agencies within Districts (**see section 2.2.7**)
- Unsupported expenditure (**see section 2.4.1**)
- Wasteful expenditure (**see section 2.4.2**)

- Non compliance with existing public procurement laws (**see section 2.6**)
- Poor contract management (**see section 2.7**)
- Mismanagement of internally generated revenue (**see section 2.11**)
- Poor management of fixed assets (**see section 2.14**)
- Non compliance with existing tax laws (**see section 2.15**)

Failure to implement the Auditor General's audit recommendations implies that internal control system in public entities may worsen and the desired improvements in management of public entities and in utilisation of public funds may not be achieved. Chief Budget managers, especially in Districts and Government Business Enterprises should put efforts to implement audit recommendations and take necessary action to avoid and minimize recurrence of these weaknesses. Proper action plans should be drawn by Budget agencies to ensure implementation of audit recommendations. These action plans should then be monitored on a regular basis by management and those supervising the different budget agencies.

I would also recommend that the individual performance of the Chief budget managers, Directors of other public bodies and the Directors of Finance and Administration be strongly linked to implementation of OAG recommendations. The Chief Budget manager should take full responsibility for failure to implement OAG recommendations.

2.2 WEAKNESSES IN PREPARATION OF FINANCIAL STATEMENTS

2.2.1 Omission of receivables and payables in financial statements

The audits continued to identify cases where receivables and payables outstanding as at the reporting date are not included in the Financial statements for many of the entities, as required under article 70 of Organic Law N° 37/2006 on State Finances and Property. This article 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 3,264,726,868 and US$ 23,580** for 56 institutions as compared to **Frw 4,245,831,944** for 41 institutions omitted from financial statements at 30 June 2009

Receivables: **Frw 2,347,202,528 and US$ 2,000** for 31 institutions as compared to **Frw 2,342,106,547 and US$ 80,000** for 26 institutions omitted from financial statements at 30 June 2009

It is important to note that the lists in **appendices 2 and 3** are not exhaustive as some entities were not audited but indicative that such balances exist and were not disclosed.

As highlighted in my previous reports, most Institutions do not maintain an invoice register and an accounts receivable book (debtors' ledger). This can lead to mismanagement of payables and receivables such as double payments and failure to monitor the recoverability of receivables. 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 Omitted bank accounts and balances

The audits continue to identify bank accounts which have been omitted from the books of account of budget agencies. As at 30 June 2010, **20** bank accounts totalling **Frw 1,267,103,553 and US$ 239,934** had been omitted from the financial statements of the audited entities, as compared with **61** bank accounts totalling **Frw 754,650,551 and US$ 1,003** (positive balances) and **Frw 50,584** (negative balances) which had been omitted as at 30 June 2009.

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.

2.2.3 Errors in books of account and financial statements

The problem of posting errors continues to persist and the books of account and financial statements of budget agencies comprise numerous posting and classification errors. In some instances, the figures included in the financial statements are different from those appearing in the books of account.

In some cases, the cashbook balances could not be properly reconciled to the bank statement and there were some unexplained differences between the derived cashbook balances obtained on reconciliation and the actual balances in the cashbooks. In some cases, cashbooks were adjusted and yet the bank reconciliation statements were not updated to reflect the adjusted transactions. Also, cases were noted where transactions appearing in the bank statements but not recorded in the cashbook were not reflected in the bank reconciliation statements as reconciling items, yet these bank reconciliation statements did not reflect any differences. Examples of institutions where the above cases were noted are: NPPA, NEC, Supreme Court, Eastern and Southern Provinces, ORINFOR, Kirehe, Burera, Gisagara, Gasabo, Rutsiro, Ngoma, Rubavu, Rusizi, Gatsibo and Nyarugenge districts.

Other irregularities in bank reconciliation statements include:

- Long outstanding reconciling items noted in bank reconciliation statements for many institutions. Bank reconciliation statements for many budget agencies had long outstanding payments. These ordinarily represent unpresented cheques, which have not been cashed by beneficiaries for a long time and consequently become stale and yet they continue to appear as payments in the cashbook. These cases were noted in ORINFOR, NPPA and Rutsiro, Ngoma, Kirehe, Gasabo and Gatsibo districts.

- Cases of long outstanding deposits were also noted, like in Gatsibo District where revenue collections amounting to Frw 10,303,685 that were transferred from BP NGARAMA receipt account 905-5473-01 to BP KABARORE Operational account 59000 -23 94 - 94 on 7/2/2009 and 1/4/2009 respectively had not been credited to the respective bank accounts as at the time of the audit in November 2010. Similarly, Frw 675,800 collected and deposited on BP Populaire Kabarore receipt account no 590002394-95 by Kabarore sector on 5th March 2009 had not been credited by the bank as at the time of the audit in November 2010. Similar cases of long outstanding deposits were noted in Ngororero District where transfers totaling Frw 4,589,790 from sectors have not been credited to the bank statement of the district for a period of 1 month to one year.

  Other entities with long outstanding include: ONATRACOM, where bus ticket collections were not deposited in the bank on a timely basis, RADA where MINECOFIN transfer of Frw 4,408,040 had not been credited for 3 years , KIE where transfers of Frw 6,413,217 (GBP 7,229.50) from University of Bristol has never been credited to the KIE bank account for over 2 years

- At the National Treasury, the monthly bank reconciliations of the OTR cashbook identified accumulated differences totalling to Frw 6,379,833 and covering a period from December 2007 – June 2010 which had not been corrected as at 30 June 2010. Most of these differences originate from overstated or understated transactions, incorrect currency rates and unknown Payment Orders paid by BNR which cannot be traced in the OTR cashbook.

  Long outstanding reconciling items may represent irregularities and errors and need to be investigated urgently to ensure that they are cleared and properly explained. Any errors in financial statements arising from these investigations should be corrected by management.

These cases could be an indicator of inadequate review of accounting records. There is need for proper and regular follow up and review of financial reports and reconciliations prepared by budget agencies. In addition, Accountants in budget agencies still need training to equip them with appropriate skills and ensure that bank reconciliation statements are prepared properly, as a control tool over bank transactions in public entities. MINECOFIN needs to strengthen the Public Accounts unit to facilitate review of financial statements submitted by budget agencies more regularly.

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

- As highlighted in my previous annual reports, there are still many cases noted where institutions made adjustments to the audited balances for prior years that affected the opening balances for the year ended 30 June 2010 without proper explanations and support documentation. The adjusting entries were made by accountants without any documentation and evidence of approval by the Chief Budget Managers and/or Directors of Finance and Administration.

- The effect of the above adjustments on audited balances for mini-budget are reflected in the consolidated financial statements for the year ended 30 June 2010, where the opening balances at 1 July 2009 included differ from the closing balances in the audited consolidated financial statements for the mini budget period ended 30 June 2009 by Frw 3,595,449,427 as follows:

Cluster	Balance per 30.06.09 audited Financial Statements Frw	Balance as at 1.7.09 per Consolidated Financial Statements for the year ended 30.06.10 Frw	Difference Frw
Central Treasury	39,256,394,319	39,179,572,447	76,821,872
Central	55,120,482,940	51,735,758,111	3,384,724,829

Government			
Local Government	11,240,021,277	10,829,247,570	410,773,707
Development Projects	52,535,283,756	52,812,154,737	(276,870,981)
Total	**158,152,182,292**	**154,556,732,865**	**3,595,449,427**

These significant differences indicate that at the end of reporting period closing procedures are not robust enough to ensure that all material adjustments to the consolidated financial statements are made before the financial statements are approved for issue. The accuracy and completeness of the Consolidated Financial Statements cannot be ascertained.

- Even during the financial year, most institutions made adjustments to balances included in their books of account without any documentation and supporting documents. Further, there is no evidence of approval of the adjustments by the Chief Budget Managers and Directors of Finance and Administration. For example, receivables amounting to Frw 1,127,984,056 relating to unpaid ground rent were written off in Kicukiro district general ledger on 02/07/2009 without any justification by the district management as to why this amount was written off. There was even no evidence of the district Chief Budget manager authorizing this write-off and there is no evidence to indicate involvement of the District Council in the approval for write off. This amount appeared in the report for the six months ended 30 June 2009 under unsupported receivables.

There is a risk that accountants may pass unauthorized, fraudulent and erroneous entries in the books of account and consequently distort financial statements. All adjusting entries should be appropriately documented and be approved before being posted in the books of account. In addition, MINECOFIN should make proper follow up with budget agencies to ensure that posting of adjustments for any specific financial year are not allowed beyond a specific date.

2.2.5 Differences between balances in consolidated financial statements and those in financial statements of individual budget agencies

Ordinarily, the state consolidated financial statements should be based on the information presented in the financial statements of individual budget agencies. However, the audit of consolidated financial statements identified differences between the amounts reported for budget agencies within the consolidated financial statements and those appearing in financial statements of individual budget entities. These differences have been noted in the opening balances, receipts and payments of the particular institutions. Balances in the consolidated financial statements are therefore not accurate.

2.2.6 Unreconciled inter-entity transactions and balances

In the normal course of Government business, there are inter-entity transfers made between budget agencies. Ordinarily, the amounts recorded in the books of the transferring entity should be the same as the amounts recorded in the books of the receiving entity. Ultimately, these two amounts should net off to zero at the time of consolidation to generate state financial statements. However, like in the previous years, the audits identified cases where amounts recorded in the books of account of the receiving entities are different from amounts recorded in the books of the transferring entities. The net effect of these differences in inter-entity transfers is reflected in the consolidated financial statements, which have an unreconciled difference of Frw 504,383,024 as at 30 June 2010. This demonstrates a wide spread problem which needs urgent attention to facilitate preparation of reliable financial statements.

The above differences are again an indicator of poor records management and also highlight lack of proper coordination between budget agencies and inadequate monitoring of funds disbursed to other budget agencies, especially districts. Most of the receiving entities claim that no appropriate information is provided by the transferring entities to specify the transfers and in some cases, amounts are just transferred to their bank accounts without notice. This makes it difficult to ascertain the source of the amounts on the bank statements and undermines the process of reconciliations. MINECOFIN should perform regular reviews 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. In addition, there should be proper coordination between budget agencies and regular monitoring of funds disbursed to other budget agencies.

2.2.7 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-Budget Agency (NBA) cost centres, such as the local government sectors, district schools, hospitals, pharmacies, 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:

- Transfers made to non budget agencies are expensed at the time of transfer, but there is no evidence to show that districts track the utilisation of the transfers to ascertain any unutilised balances at year end and to confirm whether the funds had been utilised for the intended purposes. Consequently, the Districts did not maintain cashbooks or debtors accounts 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.

The transfers made by districts to sectors, schools, hospitals and health centres (NBAs) during the year amounted to Frw 39,904,302,847. This amount was entirely recorded as expenditure in the districts' financial statements and ultimately in the consolidated financial statements. However, the NBAs still had some unspent balances on the bank accounts of NBAs as at 30 June 2010. From a sample of fourteen (14) districts, it was noted that **307** bank accounts with balances totalling **Frw 785,788,255** for sectors and district pharmacies were omitted from district financial statements as at 30 June 2010. Reporting such balances as part of expenditure results in financial statements that are not fairy stated.

- In addition, transactions relating to internally generated income at schools, 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 at each of the districts.

Expenditure included in books of account of districts therefore includes balances still held in bank accounts of sector and other non budget agencies and is therefore overstated and 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.

There seems to be inadequate capacity at sector level in financial management and accounting to facilitate proper recording of financial transactions. 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 staffing levels at the Districts and their capacity to implement these public financial management regulations.

2.2.8 Management of arrears before 1994

As highlighted in my previous reports, there is no detailed breakdown and repayment schedule provided for outstanding debt of Frw 25,652,300,000 relating to arrears for old financial obligations (before 1994) by the Government. This balance, presented in the consolidated financial statements for previous years, was still included in the consolidated financial statements as at 30 June 2010. It is difficult to ascertain what these old balance represent and ultimately, payments may be made for non-existent liabilities. MINECOFIN should therefore look at the background of these old liabilities and avail a detailed breakdown and repayment schedule. No payment should be made for these arrears without appropriate approvals and documentation.

2.2.9 Wrong accounting for scholarship funds recoverable by SFAR

The audit of SFAR identified that scholarship funds recoverable from Government sponsored students since 1980 is estimated at Frw 68,576,385,366 as at 30 June 2010. Management estimates that Frw 70,772,000,000 has been disbursed by SFAR since 1980 and only Frw 2,195,614,634 had been recovered as at 30 June 2010, hence remaining balance of Frw 68,576,385,366. The estimated balance is not appropriately supported by a detailed listing of beneficiaries and the amount reported by management cannot be verified. There is an ongoing data cleaning process that management has embarked on to facilitate reconciliation of scholarship loans and to obtain accurate figures for Student loans. As we await the final list of beneficiaries and balances due from each SFAR scholarship beneficiary, it should be noted that management has over the years been reporting the loans disbursed in their financial statements as expenditure instead of receivables and the recoveries have been reported as income. This distorts financial statements and there is need to ensure that all disbursements are recorded as receivables and reported in the financial statements as such. Any repayments should be offset against the receivables in the financial statements.

2.3 FOLLOW UP AND RECOVERY OF GOVERNMENT LOANS AND RECEIVABLES

2.3.1 Weaknesses in the process of recovering loans from SFAR beneficiaries

Government regulations require individuals benefiting from Government scholarships offered through SFAR to pay back the loans as soon they get employment. The loans should be repaid through deductions from the beneficiary's salary, remitted to SFAR by the employer. However, the audit noted the following:

- Many employers are not complying with these regulations and were not deducting and remitting loans for their staff to SFAR.
- Even those that deposited funds on SFAR bank accounts did not provide loan repayment schedules to show the individuals repaying to facilitate proper monitoring, tracking and accountability for recovered funds.
- Some employers contacted by SFAR to provide the necessary records and information did not respond.
- SFAR does not have a proper system to track those who have repaid and those who have not. For example, their estimates show that only Frw 2,195,614,634 has been recovered from SFAR loan beneficiaries since 1980. This information

is however not supported by a detailed listing and no reconciliation has been prepared to confirm the balances reported. There is an ongoing process to clean up the database.

There is need to strengthen the regulatory framework that empowers SFAR and compels employers to make monthly declarations to SFAR for loan deductions from staff that received SFAR scholarships. Such a framework would facilitate recovery and promote accountability for recoveries made to settle the loans. In addition, the process of cleaning the database needs to be fast tracked and undertaken diligently to ensure that the correct balances due from each beneficiary are established and recovered.

2.3.2 Weaknesses in management of funds for FARG beneficiaries

- **Lack of documented policies to guide selection process for students to benefit from education sponsorship in higher institutions of learning**

  A review of the identification and selection process for students to benefit from FARG for education sponsorship in Higher Institutions of Learning and for support under the *"Cas sociaux"* program that caters for those who missed out on initial FARG sponsorship but after passing the first year, are not able to pay subsequent fees and seek assistance from FARG through their umbrella body AERG, noted that FARG does not have specific guidelines and policies to guide the selection of students to benefit from FARG sponsorship in Universities and for students to be funded under *"Cas sociaux"*. There are no clear guidelines setting up a selection committee to be responsible for selection and identification of beneficiaries and ultimately, no clear terms of reference are available to guide evaluation of applications during the selection process. The composition of the selection committee, its timetable for selection and the reporting requirements on the selection process are also not clearly documented.

The absence of clear guidelines and terms of reference for selection of the beneficiaries for education sponsorship in universities may undermine objectivity in the selection process. There is need for FARG to develop a students' sponsorship selection handbook to elaborate policy on selections, including the criteria for identifying members of the selection committee and their terms of reference. The selection handbook should also give a comprehensive framework and evaluation criteria that need to be followed in selection process, and specify the reporting requirements for the selection committee that will show the results of each of the applications against the set criteria and justify why specific applications were successful in getting sponsorship when compared to the rest.

- **Lack of updated database for FARG beneficiaries**

FARG continues to experience challenges with the existing database of beneficiaries and information in the database has many errors. There is an ongoing cleaning process to ensure that information on FARG beneficiaries is up to date and reliable for decision making.

Further, there are weaknesses in the records management system and as a result there is no comprehensive list available for all the students who finished studies in higher institutions of learning through FARG education sponsorship. Management of FARG has established a list of beneficiaries who completed their studies for the period up to 2008 but the list is not yet finalized and does not provide adequate information, like the amount due from each beneficiary. There is no information on students who completed their studies after 2008. Ultimately, the amounts recoverable from FARG beneficiaries who successfully completed their higher education cannot be established. FARG should fast track the process of data cleaning and establish a comprehensive list of all beneficiaries of FARG education sponsorship in institutions of higher learning. Efforts should then be made by FARG to ensure that balances due from those who completed studies are recovered in accordance with the sponsorship agreements signed with FARG. The recovery process should include strengthening the regulatory framework to enable FARG enforce recovery of the education grants.

- **Uncontrolled movement of students from one school to another in secondary schools within one academic year**

  Needy genocide survivors receiving FARG education sponsorship in primary and secondary schools are allowed to join schools of their own choice at the beginning of the year of study, provided that they have a valid FARG attestation and the transfer issued by the previous school where they were studying. The transfer document from the previous school should be received and acknowledged by new school and approved by FARG. However, there are still many cases noted where the students change from one school to another in the second and third quarters of the academic year without any proper documentation and valid authorization from FARG. This uncontrolled movement of students from one school to another increase the risk of FARG making double payment of school dues and may lead to loss of public funds. FARG needs to continue sensitizing the public and school administration to ensure that any movement of students from one school to another are appropriately tracked and approved. Any students that have reported to another school without appropriate authorization should be reported by management of the concerned schools to FARG immediately for follow up.

2.3.3 Weaknesses in tracking and recovery of loans given to beneficiaries of Vision Umurenge Program (VUP) in Districts

The VUP program supports Rwandan citizens in selected sectors within each district with loans through the financial services component. These loans are disbursed in the Districts through the VUP offices at the selected sectors. During the year, Frw 4,515,524,024 was disbursed to the citizens in 30 districts. However, there is no adequate information provided to show how much of these loans had been recovered and what the exact closing loan balance was as at 30 June 2010. Recoveries made are deposited on bank accounts at sector level but such information is not readily available at CDF level to facilitate monitoring of the recoverability of loans disbursed through Districts. Accordingly, it is difficult to ascertain the outstanding balance not recovered from the Frw 4,515,524,024 disbursed to the citizens.

Visits made to 19 sectors identified that out of the Frw 1,387,549,616 disbursed to these sectors to support various financial services beneficiaries, only Frw 247,534,849 (18% of the total loans) had been reimbursed as at 21st March 2011 (nine months after 30 June 2010). The different sectors do not have loan assessment reports that can help to identify the persons who have repaid and the amounts recovered from each individual, so as to facilitate effective follow up and recovery. Recoverability of loans disbursed is doubtful and the project may lose out on funds injected in loans to support Program activities.

Cases were also noted where some of the loans given out had been misappropriated. Examples include:

- Funds amounting to Frw 90,600,000 were transferred to bank accounts of individual members of associations by VUP at sector level instead of Association bank accounts. The funds had been earmarked for specific projects owned by the Associations. There is no evidence to show that the planned project activities were actually executed;
- Some groups of VUP financial services beneficiaries received funds amounting to Frw 25,860,000 to finance their projects. However, the auditors did not see any evidence during the field physical verification undertaken, to confirm that the funded projects actually exist. A review of a report prepared by the VUP office at sector level in Gashanda sector, Ngoma District indicates that these

projects were not in existence and hence no recoveries had been made for the money disbursed to them;

- *TURWANYIMIRIRE MIBI* located in KARONGI District, Ruganda sector, Kivumu cell, Kagorora village received funds amounting to Frw 2,100,000 from VUP to finance their project for cultivation of vegetables but an amount of Frw 1,100,000 was embezzled by the president of the group; and
- Bank deposit slips kept by VUP staff at sector level had an amount of Frw 261,550 for repayments, but the amount could not be traced to the VUP bank statements.

The ability of the Government to realize its objectives through VUP financial services component may not be realized timely since the money earmarked for the revolving fund is not being recovered. Mismanagement of funds may result into withdrawal of donors, hence requiring Government to divert funds from other programs in order to sustain the project.

Management of Rwanda Local Development Support Fund (RLDSF) in collaboration with district authorities need to implement a system that will enable them to track loans disbursed through VUP offices and their recoverability to ensure realisation of program objectives and sustainability.

2.3.4 Access to loan facilities provided through RIF 2 Program (under MINAGRI) and PPPMER (under MINICOM)

MINAGRI is implementing a second Rural Investment Facility (RIF 2). In accordance with a memorandum of understanding signed between MINAGRI and BNR on 27th January 2009, the responsibility to manage this facility was given to BNR. BNR is responsible for final approval or rejection of proposals for funding from potential beneficiaries and disbursement of approved loans to beneficiaries through selected participating financial institutions.

A separate Memorandum of understanding signed between MINAGRI and Private Sector Federation (PSF) on 1 June 2009 assigned to PSF responsibility to train the potential beneficiaries and assist them to develop projects/ business plans and to prepare loan applications. PSF is also required under this memorandum, to follow up on implementation of business plans and projects submitted by beneficiaries of this fund to ensure proper usage of funds disbursed to beneficiaries.

However, the PSF report of 17 March 2010 shows that 266 project proposals totaling Frw 4,383,355,911 had been submitted to different Participating Financial Institutions (PFIs) for funding but these projects were still pending and had not been financed. A review of subsequent reports has not identified any documented feedback on the status of these projects and any reasons as to why PFIs have not financed the concerned projects.

In addition, the funds for RIF 2 availed for loans as at 30 June 2009 amounted to Frw 5,671,120,160 and only Frw 830,458,813 (representing 15% of the total available funds) had been disbursed by 30 June 2010.

Accordingly, this may undermine the implementation of the project and make it difficult to achieve objectives of the RIF 2 fund.

MINAGRI should ensure increased awareness of the RIF 2 program amongst the target beneficiaries. The ministry should ensure that potential beneficiaries are appropriately trained and assisted in developing projects/ business plans that are feasible. MINAGRI should also make adequate follow up on implementation of business plans and projects submitted by beneficiaries of the RIF 2 funds to ensure proper usage of funds disbursed to beneficiaries.

A similar case was noted with PPPMER loans to Small and Micro Enterprises, where Frw 155,921,493 had not yet been disbursed for loans to the Small and micro-enterprises as at 31 October 2010. The Frw 155,921,493 comprises Frw 1,099,493 balance on funds received from PPPMER in 2007 and Frw 154,822,000 transferred to *Banque Populaire* on 22 September 2009. It should be noted that the last disbursement made from this PPPMER bank account held at *Banque Populaire* headquarters to the branches for disbursement to the Small and Micro Enterprises was on 25 August 2009. This implies that the branches have not yet exhausted disbursements of the previous transfer to customers, though the actual balance on branch accounts could not be established. The delays in disbursement of funds to projects may limit achievement of PPPMER project objectives.

2.3.5 Recoverability of outstanding receivables relating to sale of fertilisers

As highlighted in my previous reports, there are weaknesses in recoverability of outstanding amounts due from individuals and institutions that purchased fertilisers from MINAGRI on credit. The management of fertilisers was transferred from MINAGRI to RADA during 2009/2010 financial year. However, the amount was subsequently transferred back to MINAGRI where a task force has been set up to manage the fertilizer sales. Throughout this period, the Government is still having long outstanding amounts due from third parties that obtained fertilizers on credit and the recoverability of balances due is not certain. For example, a follow up of fertilizer debtors during the year ended 30 June 2010 shows that fertilizer debtors had increased from Frw 4,076,349,139 held by MINAGRI at 30 June 2009 to Frw 5,139,608,422 in the financial statements of RADA at 30 June 2010. The analysis shows that credit sales made during the year by RADA amounted to Frw 2,253,398,172. Only Frw 626,748,961 had been recovered by RADA during the year in addition to Frw 563,441,908 of recoveries and corrections made by MINAGRI prior to handing over the fertilizers to RADA at the beginning of the year. No proper analysis was provided to identify how old the outstanding balances are, but recovery of only Frw 626,748,961 during the year out of an expected Frw 5,766,305,403 indicates that most of the balances handed over to RADA were not recovered during the year. It also shows that new credit sales were not recovered within a period of 7 days required of RADA customers procuring fertilizers on credit. A total of Frw 4,327,198,591 was handed over by RADA back to MINAGRI after year end for follow up and recovery. I recommend strong measures to be put in place to strengthen tracking of fertiliser stock and sales, and to ensure that all balances outstanding are recovered within reasonable time.

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 Unsupported expenditure

Public financial management and accounting procedures require that all expenditure should be sufficiently supported with valid documents, which should be sequentially filed, properly referenced and kept for future reference. Contrary to these procedures, 16 entities audited incurred expenditure amounting to **Frw 502,774,678 and US$ 7,933 (Frw 3,948,779,772** during mini-budget in 16 entities) that was not supported by any verifiable documents. An additional amount of **Frw 9,749,118,031** was incurred by 43 audited entities without sufficient support documents (compared to **Frw 6,503,117,770** incurred by 36 entities during the mini budget period to 30 June 2009). This partially supported expenditure lacked some support documents like utilisation reports, purchase orders, delivery notes among others.

2.4.2 Wasteful expenditure

Public entities (36 institutions) incurred wasteful expenditure amounting to **Frw 1,054,529,243** (2009: **Frw 610,396,260** in 27 institutions) that could have been avoided had they complied with laws, regulations and procedures in force. Wasteful expenditure was mainly incurred to pay penalties to Rwanda Revenue Authority for failure and/or delayed remittance of statutory deductions.

Nature of expenditure considered wasteful	Amount (Frw)
Penalties/interest and fines to RRA & CSR	746,591,853
Penalties on bounced cheques (insufficient amounts on bank account)	2,491,288
Payment made for goods/services not delivered	232,561,650
Court fines and claims for damages	59,766,393
Others	13,118,059
Total	**1,054,529,243**

2.4.3 Transfers made to schools for capitation grants and teachers salaries paid on the basis of wrong information

(i) In 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. For example, during physical verification at GS Mpanda school in Ruhango District and review of school reports for schools in Ruhango District, it was identified that the number of beneficiaries for capitation grants during the 2nd term as per Ruhango district payment order was higher than number of beneficiaries indicated in the school reports. For a sample of three (3) schools of GS Mpanda School, Indangaburezi and ADENTO, the difference was identified as 61 students who appeared on the payment order, but were not on the school reports. This resulted in excess transfer to the schools of Frw 236,250.

At GS RUBAYA/E.P RUBAYA in Gicumbi district, it was identified that the number of student beneficiaries of the capitation grants during the 1st term as per the GICUMBI district payment order was higher than that indicated in the school reports by 10 students.

In Rubavu district, a review of reports from 11 schools indicated that while the total number of students reported by the schools was 4,569 students, transfers were made on the basis of 4,458 students hence an unexplained difference of 111 students. In this case, less funds were transferred to the schools but it confirms that records maintained at the district had not been updated.

Districts should ensure that student records are updated regularly to minimize cases of transfers for ghost students. A regular program for verification of student numbers in schools should be put in place to facilitate confirmation of the actual students eligible for capitation grants in the schools.

(ii) The audits continue to identify cases where teachers who are no longer in service continued to receive their salaries from the Public treasury. Such cases were noted in Burera District, where eight (8) teachers no longer in service were still on the payroll by the time of the audit in October 2010 and had wrongfully received salary worth Frw 2,980,669 and in Gisagara District where two (2) teachers no longer in service were still on the payroll as at 30 June 2010 and had wrongfully received salary worth Frw 126,559.

At GS Rubaya in Gicumbi District, five (5) teachers who received salary amounting to Frw 630,372 from January 2010 to June 2010 as per the District's payrolls were not appearing anywhere in the school's records.

At RADA, one employee left in July 2009 but continued to receive salary for the four months of August, September, October and November 2009. The amount overpaid to this staff was subsequently repaid by the employee after the time of our audit.

These examples are pointers to weaknesses in the payroll management system which delays to remove those leaving public service from the payroll. There is need to ensure that payroll records are updated promptly to minimize instances of paying salaries to those who are no longer in service.

2.4.4 Irregularities in expenditure on the contract between MINEDUC and TERRACOM/ RWANDATEL for Internet connectivity in schools

On 26th November 2003, MINEDUC entered into a contract with TERRACOM for the provision of internet access services on a continuing basis to at least 300 public secondary schools in Rwanda. The total contract price for non-recurring engineering costs was USD **1,975,000** and was payable in instalments based on the level of project completion. The connection and provision of internet access was supposed to be completed within a period of 36 months (that is by December 2006). An addendum to the above contract was signed on 24 September 2004 for 100mbps LAN speed connectivity between KIST, RIAM, NUR and SFB for USD 1,900,000.

The following was noted in regard to this project:

- As of December 2008, TERRACOM/Rwandatel claimed to have connected 85 secondary schools out of the 300 public secondary schools in Rwanda. This represented only 28% of the total number of schools that were to be connected, twenty four months after the expiry of the contractual timeline. No further work was undertaken by Rwandatel to connect the remaining schools and MINEDUC terminated the contract with Rwandatel on 3rd August 2010. Ultimately, this denied most of the public secondary schools the benefit of internet connectivity, envisaged under the contract.

- Prior to termination of the contract in August 2010, MINEDUC held discussions with Rwandatel on 3 February 2010 and agreed on a two weeks joint survey to establish the status of the 85 schools reported to have been connected and also to establish the quality of connectivity. Though Rwandatel had reported earlier that 35 schools out of the 85 had connectivity problems. Despite this report of connectivity problems in 35 schools by Rwandatel, MINEDUC continued to pay invoices for internet connectivity for the entire 85 schools reported to have been connected. For example invoices totalling Frw **212,023,595** (USD 307,140) for internet connectivity of 85 schools for the six months period from December 2008 to May 2009 were paid during year under review without verifying the availability of internet connectivity in all the schools invoiced. Payments were accordingly made for services not provided in some of the schools invoiced.

- Further, upon termination of the contract with Rwandatel, a claim of unsettled invoices totalling USD 801,970 for internet connectivity of 85 schools for 13 months from 1st June 2009 to 30th June 2010 was issued to MINEDUC. This amount has neither been verified by MINEDUC nor recorded in the Ministry's financial statements for the year ended 30 June 2010. An additional claim of Frw 7,546,772 in respect of web hosting and modem connection for the period under review issued by Rwandatel was also not recognised in the financial statements. MINEDUC should endeavour to verify the work undertaken/service provided by Rwandatel and only pay for service rendered.

- The Auditors visited a sample of 38 schools appearing on the list invoiced to confirm whether or not they had internet connectivity and identified the following:
  (i) Among the schools visited, there were two (2) schools namely: *La Colombiere* located in Gasabo district, and *ESSA Nyarugunga* located in Kicukiro district, reported by Rwandatel as having internet connectivity and billed for since October 2006 but these two (2) schools have never

been connected to Internet. MINEDUC paid **USD 63,860 (**equivalent to Frw **37,812,278** translated at a rate of exchange of 1USD:Frw 592.1121) when there was no Internet connectivity services provided. Such payments could have been avoided if regular verification of work done had been undertaken by MINEDUC. Efforts should be made to recover these funds from Rwandatel.

(ii) Twelve (12) schools has been connected but the internet connectivity was terminated for several months (more than one year), and yet MINEDUC continued to pay for the services as though they still had internet connectivity. A total of **USD 234,989** (equivalent to **Frw 139,139,830** at the exchange rate of 1USD:Frw 592.1121) was paid by MINEDUC for the months when there was no connectivity for these 12 schools.

(iii) The auditors discovered that two (2) schools of *LE BERCAIL* and *ECOLE ISLAMIQUE DE MUGANDAMURE* located in Nyarugenge and Nyanza districts respectively reported by Rwandatel as part of the 85 schools connected with internet facilities had stopped operations in early 2008. However, they were still included on the list of schools being billed by Rwandatel. The bills for internet connectivity from Rwandatel for the period 2008 to May 2009 that were paid by MINEDUC included an amount of **USD 21,080** (equivalent to **Frw 12,481,723** translated at the exchange rate of 1USD:Frw 592.1121) for these two schools.

(iv) The Auditors also discovered that one (1) school identified as *Mayange High school* and claimed to be located in Bugesera district was included in the invoices raised by Rwandatel since October 2006 yet it does not exist at all. This school does not appear on the list of all schools licensed by MINEDUC to operate in Rwanda. Further, inquiries made on 28 March 2011 with the officials at Bugesera district indicated that this school is not known and has never existed in that district. Therefore MINEDUC paid Rwandatel amount of **USD 19,840** (equivalent to **Frw 11,747,504** translated at a rate of exchange of 1USD:Frw 592.1121) for services not rendered and this led to wastage of public funds.

(v) In addition, a total number of 21 schools visited during the physical verification confirmed that they had experienced internet disconnections for few months ranging from 1 month to 6 months. For some schools, internet connectivity speed was slow or it was not regularly available as reported by the respective school managements. However, these were included in the 85 schools billed for by Rwandatel, as though connectivity had no problems in all the 85 schools. Ultimately, MINEDUC did not obtain value for money on payments made for internet connectivity.

Consequently, payment for invoices for internet connectivity resulted into wasteful expenditure as some schools were not connected at all, and others had changed locations but were never reconnected. Even those which were connected, the internet connection was not regularly available and they had other connectivity problems. Further, absence of regular and continuous physical verifications of connected schools indicates management's failure to ascertain the quality of service being rendered to them. As such the Ministry paid for a service not rendered resulting into unnecessary expenditure. Efforts should be made to enhance quality of connectivity in schools already connected and ensure that connectivity is also provided for those not covered by Rwandatel. Proper follow up should be made to ensure that quality work is performed.

Further, efforts should be made to recover any undue payments made for services not provided. The pending invoices from Rwandatel and any other bills that may be raised should not be paid until it has been established that Rwandatel delivered services in accordance with the contract.

2.5 UNAUTHORIZED EXPENDITURE

2.5.1 Unauthorised staff benefits and staff advances

There are cases where bonuses and other staff benefits like communication, transport and overtime allowances, amounting to **Frw 256,183,545** were paid to staff who were not eligible to receive such benefits. For example, a total amount of Frw 188,431,734 was paid to staff as a 20% commission for each advertisement brought to ORINFOR by the staff. The commissions were not approved by ORINFOR board or other authority above management.

In addition, entities provided staff advances and loans and a total of Frw **371,508,750** had not been recovered by the audited institutions as at 30 June 2010.

No expenditure should be incurred by Budget Agencies without prior appropriate authorisation and benefits made to staff should be paid 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 Diversion of funds earmarked for specific activities by budget agencies

There are cases where public entities diverted funds earmarked for specific activities and utilized them on unauthorized activities during the year. For example, Rwanda Bureau of Standards (RBS) diverted Frw 52,340,273 of the funds provided by MINICOM to finance the rehabilitation of the warehouse to accommodate the Mycotoxin Laboratory to fund other RBS activities, to other RBS activities without authorization from MINICOM.

Another case was noted in Gatsibo District where Frw 110,679,168 earmarked for specific education sector activities within the District was withdrawn from the

Education Account and transferred to the District Operational bank account without approval of the District Council. Efforts to establish what the funds were utilized for after deposit on the operational account were difficult due to absence of underlying support documents. Management claims that some of the funds were utilized for school construction but no documentation was provided to justify this claim.

2.6 TENDERS AWARDED WITHOUT COMPLYING WITH EXISTING PUBLIC PROCUREMENT PROCEDURES

The audits identified continued instances of non compliance with public procurement laws and regulations similar to those noted in previous reports. The audits identified cases where some tenders were awarded without involvement of the internal tender committees and instances where tenders were awarded without sufficient tender documents. Cases were also identified where contracts were signed before successful bidders could provide performance security, while in other cases, performance security provided expired before completion of contracted works. Details are as highlighted in the sections below:

2.6.1 Tenders awarded without appropriate approval

There are still cases where entities awarded tenders without any evidence of approval by respective internal tender committees and/or RPPA. It was noted during the audits that tenders amounting to **Frw 212,250,404** were awarded without any evidence of approval by respective internal tender committees while tenders worth **Frw 1,397,928,600** were awarded without the approval of the Rwanda Public Procurement Authority (RPPA). This resulted into irregular award of contracts and 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.

2.6.2 Lack of transparency in award of Tenders

The audits identified other irregularities in the award of tenders, where in some instances, bidders evaluated during the tendering process had not submitted bids prior to the date of bid opening. In other cases, the tenders were awarded before the evaluation of bids, implying that those winning the tenders were pre-determined by the tender committee prior to evaluation of the bids. Specific cases of lack of transparency in award of tenders were noted in Musanze District, ONATRACOM and MINIJUST.

(i) The case noted in Musanze District is in respect to a tender worth Frw 248,470,070 awarded on 08/02/2010 in three (3) different lots to EMUJABO Enterprise for construction of roads (Yaounde - Gitesi- Kinigi, Kaguriro – Gaheru, Musekera – lake Ruhondo). The audit identified that bid opening reports prepared for tender opening for all the three lots and signed by members of the internal tender committee indicate that bid opening was done on 21/12/2009. However, the bid evaluation reports prepared by the internal tender committee at the time of evaluating bids on 08/02/2010 specify that the bid opening date for all lots was 21/12/2009 and 29/12/2009. Further, a review of a list of bidders that purchased tender documents and subsequent review of deposit slips for purchase of tender documents revealed that bidders actually purchased tender documents in January 2010.

The bid opening reports dated 21/12/2009 and bid evaluation reports of 08/02/2010 show that bids had already been received from all the above bidders by 21/12/2009 and the bidders had submitted bid guarantees. Yet, these bidders purchased tender documents in January 2010 and the bid guarantees were obtained from SORAS on 28/01/2010 (37 days after date of bid opening). The bid opening reports and information in the bid evaluation reports are contradictory and may indicate instances of falsification or alteration of documents.

A further review of the bid submission letters signed by the bidders while submitting their bid documents and of the register where bids were received by the district were recorded identified that all bids were submitted to the District on 29/01/2010. Since the advertisement in Imvaho Nshya specified the closing date for submission of bids as 21/12/2009, accepting bids from bidders on 29/01/2010 (39 days after the deadline) shows that the procurement process for this tender was not transparent.

(ii) In the case of ONATRACOM, tenders totaling Frw 118,520,800 were awarded to bidders who submitted invalid documents. The internal tender committee of ONATRACOM had required that documents to be submitted by the bidders in the bids must be original or certified copies, and yet bid evaluation was done based on bids supported by only copies of bidding documents and other invalid documents like expired tax clearance certificates, tax clearance certificates not dated and scanned documents.

(iii) For the case of MINIJUST, prospective bidders inspected the premises in response to an advertisement in IMVAHO on 20 March 2010 for a tender for the supply and fixing of blinds for its new building. The purpose of the inspection was to obtain relevant information to facilitate bidders in preparation of their bids. Following the inspection, the bidders noted that the sizes of blinds provided for in the bid document were not adequate to cover the inspected surface area. A report was issued on 19/04/2010 to highlight these concerns, but the internal tender committee ignored the concerns and went ahead on 20/04/2010 and opened the bids and carried out a bid evaluation on the basis of the initial bidding document. A tender worth Frw 6,948,972 was awarded on the basis of the initial bid document, but when management realized that the items awarded in the tender were not sufficient, negotiations were held with the supplier that had won the tender and the scope of work was significantly increased without re-advertisements. The total contract amount after negotiations was Frw 14,917,560.

2.6.3 Irregularities in management of guarantees

(i) There are still cases of forged guarantees submitted by suppliers to budget agencies. Such a case was noted in Nyamagabe District, where the district discovered at the time of dispute with a contractor (COLOBE) that the advance security provided from *Bank Populaire Gafunzo* (Nyamasheke District) for advance payment amounting to Frw 2,100,872 and performance guarantee amounting to Frw 1,050,436 were fraudulently obtained. The bank informed the district in its letter dated 21 February 2008 that the securities were fraudulent and not authentic.

A similar case was noted in Nyabihu District where the district was not able to seize the performance guarantee previously submitted by the contractor (ETRACOFOPE) at the time of signing the contract. The guarantee had been forged by the contractor as sated in the letter from Bank Populaire S.A-Nyamyumba branch dated 21 May 2010. The contractor was not able to complete the construction works within the agreed timelines and the district terminated the contract as per letter no.1318/07-03/04/2010 dated 17/05/2010 which was delivered to ETRACOFOPE. The district had signed a contract worth Frw 32,103,440 on 16/09/2009 with ETRACOFOPE for construction of 2 warehouses for storage of potatoes in Kabatwa sector.

(ii) There were cases where contractors and suppliers did not provide performance guarantees prior to signing contracts, contrary to existing public procurement procedures. This was noted in MINISPOC, NPPA, Public Service Commission, ORINFOR, PRIMATURE, KIST, ONATRACOM, Parliament, Office of the Ombudsman, ISAE, Rutsiro, Gasabo, Gisagara, Burera, Gatsibo, Musanze, Kamonyi and Rubavu districts.

(iii) In some cases, the contractors provided performance guarantees which expired before finalization of the contract. This was noted in Gatsibo district, Rubavu district, Burera District, KWAMP, Office of the Ombudsman, ISAE.

Although in most cases the items were delivered by the suppliers, public entities are exposed to a risk of loss in case the suppliers fail to perform. It is important that public entities should comply with existing public procurement laws and regulations relating to guarantees.

2.6.4 Award of tenders to more expensive bidders

Public entities continue to award tenders 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 excess expenditure of **Frw 121,194,419** that could have been avoided if the best evaluated bidder had been selected.

2.6.5 Payment of advances in excess of 20% allowed by the procurement law

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, public entities continue to pay advances exceeding 20% and in some cases, the advances paid were not guaranteed. In some instances, 100% of the contract amount was paid in advance and such advance payment requirements in excess of 20% are specified in the contracts. 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. Entering into contracts which require entities to pay advances in excess of 20% undermines the procurement laws and regulations.

2.6.6 Use of inappropriate procurement methods in award of tenders

Contrary to existing public procurement procedures, public entities still use inappropriate procurement methods. Many of them inadequately applied single sourcing and request for quotations method in procuring items without sufficient reasons and avoided using competitive bidding for tenders qualifying for competitive bidding. Entities where inappropriate procurement methods were applied include: PDRICU, MININFRA, ORINFOR, MINEAC, NEC, PRIMATURE, Office of the Ombudsman, Gasabo, Burera, Rusizi, Ngoma, Rutsiro, Nyarugenge, Kicukiro and Gatsibo Districts.

2.6.7 Insufficient time allocated for tender publication

Existing public procurement procedures require that tenders awarded under open competitive bidding (national tenders) should be advertised for 30 days. However, the audits identified cases where budget agencies limited this period of publication to less than 30 days. Entities where this was identified include: Burera District, Karongi District, MIFOTRA, MININFRA and PRIMATURE. For the case of Karongi District, a tender was advertised for just 13 days while at MININFRA, a there was a tender advertised for just 15 days. This practice limits competition. Public entities should ensure full compliance with public procurement regulations.

2.6.8 Tenders awarded without sufficient support documents

During the audits, cases were noted where support documents to tenders awarded were often incomplete. Tenders worth **Frw 9,869,361,676** did not have adequate support documents. Such missing documents include: minutes of internal tender committee meetings, performance guarantees, bid securities, bid advertising documents, tender evaluation reports among others. Without complete procurement documents, it is difficult to ascertain whether 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**.**

2.6.9 Alteration of bid prices by internal tender committees

Cases were identified where members of internal tender committees altered bid prices for tenders in line with their responsibility to correct arithmetic errors. However, the tender committees did not provide documentation to prove the need to correct arithmetic accuracy of the bids. In most cases, the corrections made to the bids resulted in increased bid prices although most of them were not justified. Examples were noted in Musanze and Rubavu Districts.

2.7 WEAKNESSES IN CONTRACT MANAGEMENT

(i) The problem of inadequate monitoring of civil works by management of public entities has not yet been resolved in public entities. This has resulted in poor quality of construction works and services. In some cases, works were even abandoned or contracts were terminated by the public entities on realising that the contractors were taking too long to execute the works. A case of abandoned works was identified at UCRIDP for construction of KAGEYO valley dam in KAYONZA District. A contract worth Frw 78,225,264 had been signed with the Association of AMIZERO on 11/12/2008 for construction of KAGEYO valley dam in KAYONZA district for 12 weeks, but works were abandoned by the contractor. A total of Frw 31,127,545 had been paid by UCRIDP to the contractor and according to a report dated 3rd March 2010 from M & E Associates Ltd, the Supervising Consultant, the value of works done by the contractor was Frw 16,538,950.

In the case of construction of a 2km (2000 meters) road EP Musekera – lake muhondo in Musanze District, the audit identified that only 933 meters of the road had been constructed by the contractor instead of the 2000 meters (2km) contracted. On this contract, the district had paid an amount totalling Frw 28,005,228 representing 56.2% of total contract and yet the value of work done was Frw 23,235,217 representing 46.6% of the total contract.

Accordingly, the district has overpaid the contractor by 9.5% worth Frw 4,770,011.

(ii) In most of the public entities audited, there are cases where works and services contracted were not completed within the contract period and yet public entities did not charge any penalty to the contractors and service providers. In KIST, KIE, PDRCIU, MININFRA, Ruhango, Gatsibo, Bugesera, Gasabo, Musanze, Ngororero and Kayonza Districts, contracts for construction works were not completed on time, meaning that the construction works were not ready and available for use when needed.

(iii) FARG signed contracts with 26 Civil engineers for the follow up and supervision of houses and cow sheds that were to be constructed in various districts for genocide survivors. FARG signed the contracts with civil engineers before the districts prepared themselves to launch the construction activities and the contract duration expired before the commencement of the activities. Despite the delays by the district to commence work, FARG gave the engineers advance payment of Frw 7,800,000 (cheque no 1818196) on 05/05/2010 and subsequently paid them for the first month and then for the second month, before they could start their work. The total payments made to the engineers including the advance amounted to Frw 35,300,000 which was made without any evidence of work done by the engineers. Correspondence between FARG and districts on the work done by the engineers revealed that the engineers had never gone to the Districts to perform the work contracted for by FARG, implying that engineers were paid and yet they did not perform any work.

(iv) Cases were also noted where public entities acquired assets but did not put these assets to use for most of the time since acquisition, ultimately leading to wastage. Such cases were noted with acquisition of software at FARG and at RNEC where the software is not fully operational. At TIG, materials were acquired for TIG camps in the Districts, which had not requested for them. These items are still kept in TIG stores for long and could be misused.

Failure to enforce contract terms made it difficult for Government to obtain value for money on many contracts. Procurement of items not planned for, resulted in wastage of public resources. In addition, Chief Budget Managers should ensure effective contract management and regular follow up with contractors to deliver value for money on all contracts. Entities should make appropriate planning to minimise cases of wastage of public resources.

2.8 FUNDS TRANSFERRED TO BUDGET AGENCIES WITHOUT GUIDELINES ON THEIR UTILISATION

Many Districts continue to receive transfers from other budget agencies, especially central Government agencies and ministries without any documentation to specify the purpose of the transfers and the reporting requirements by the Districts. In most cases, the districts record the transfers based on information appearing on the bank statements and do not provide any accountability reports to the transferring entities to explain how the funds received were utilized. In most cases, these funds received are not budgeted for in district budgets and expenditure is incurred outside the approved district budget without proper authorization. This was noted in Karongi, Huye, Muhanga, Gatsibo, Rubavu, Nyanza, Nyaruguru, Burera, Nyabihu, Rwamagana, Gisagara, Ngororero, Musanze, Kirehe, Rutsiro, Ngoma and Kicukiro districts.

2.9 INEFFECTIVE INTERNAL AUDIT FUNCTION

(i) **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 still ineffective across the board. There is need to operationalise the Internal Audit Charter to ensure effectiveness of the internal audit units.

(ii) **Audit committees**

Law N°004/09/10 MIN of 01/10/2009 for the establishment of the audit committees in public entities, local government entities and autonomous and semi-autonomous public entities requires each public entity to have an audit committee. However, the audits identified that most districts and other public entities have no functioning audit committees. There is no effective oversight over the activities of the public entities and the effectiveness of the internal audit function is not adequately monitored.

In some public entities, where these audit committees have been set up, the audits noted that some of them did not have persons with the required qualifications and experience in accounting and financial management to serve on the Audit committee, as required by article 5 of the same Ministerial instructions.

MINECOFIN should consider helping public entities to set up audit committees to provide oversight over their operations.

2.10 SUPERVISION AND MONITORING OF FINANCIAL REPORTING IN PUBLIC INSTITUTIONS

Public entities are required to 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, there is no evidence to indicate 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 period had MINECOFIN made adequate review and follow up of reports received from the budget agencies. There were also many instances noted where institutions did not comply with the existing policies and procedures for public financial management and accounting.

In a number of budget agencies, Directors of Administration and Finance (DAFs) do not adequately supervise the preparation of financial reports and their review was considered 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 account 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 Accountants at the Budget Agencies, and minimise errors in the state consolidated financial statements.

2.11 WEAKNESSES IN MANAGEMENT OF INTERNALLY GENERATED REVENUE

(i) Revenue collections made directly by Budget Agencies

a) In most Districts, Revenue officers did not complete daily revenue collection forms and pre-numbered daily revenue release registers during the year. In addition, monthly and weekly reports prepared have figures which are different from those shown in the financial statements. In the absence of reconciliations between the revenue officer's reports and amounts recorded in the general ledger, it is difficult to ascertain the cause of the differences and to confirm the accuracy and completeness of internally generated revenue reported.

   District management should ensure that reconciliations are prepared between the revenue officer's reports and amount recorded in the books of account. In addition, the accountant should record receipts on the basis of valid supporting documents (bank deposit slips reconciled to the tax officer's report) and should clearly identify the source of direct bankings through reconciliations.

b) Instances were noted where collections were utilised at source to meet operational expenses and therefore not banked intact, contrary to public financial management regulations. This was noted in Kamonyi, Nyamasheke, Rwamagana, Nyabihu, Kayonza, Gicumbi, Ruhango and Gakenke Districts, ONATRACOM, ORINFOR, RADA.

c) In most Districts, there were cases of delayed bankings of cash collected ranging from a few days up to 14 months. Delays were noted in: Kamonyi, Nyamasheke, Rwamagana, Nyabihu, Kayonza, Gicumbi, Ruhango and Gakenke Districts. In the case of Rwamagana District, the delay was 14 months, while Ruhango and Nyabihu districts had delays of 11 months and 9 months respectively.

d) Article 126 of Law n° 08/2006 of 24 February 2006 determining the organization and functioning of the District stipulates that districts should obtain a proportion of court fees from rulings of Lower and High Instance Courts as one of their sources of income. However, there are no proper records to enable the districts to assess how much each district should collect from the courts. In other cases, funds were transferred to the bank accounts of the district but the districts did not obtain collections details from the court to confirm whether right amount was remitted. This was noted in Ngororero, Rwamagana, Kayonza, Ruhango, Gicumbi, Gasabo and Nyabihu districts. Accordingly, this may deny Districts additional funds to supplement their budget as required by the law.

e) In most districts, there were cases of receipt books issued but not returned. Some of these receipt books were issued in prior years and had not yet been returned at the time of the audit. Failure to promptly return receipt books used weakens controls over the revenue collection system. There is a risk that the amount collected using the unreturned receipt books was misappropriated. Consequently, completeness of tax revenue could not be ascertained.

Management of Districts should put in place measures to reinforce controls over receipt books. Usage of issued receipt books should be accounted for by the tax collectors and management should devise means to ensure this happens. The districts should investigate cases of receipt books not accounted for and take action against the implicated tax collectors and other district officers.

In addition, there is need to strengthen controls over management of revenue collections in budget agencies to minimize revenue losses and fraud, including training of Accountants. 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 updated 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 collections

In some districts, revenue collection has been subcontracted but this is not well managed to achieve efficiencies in revenue collection. The audits noted that districts did not undertake feasibility studies to ascertain the expected revenue from subcontracted activities prior to the signing of subcontracting agreements. Further, the districts do not monitor the subcontractors and the terms of these contracts are not enforced to ensure that contracted revenue is remitted to the District bank accounts. The subcontractors did not execute the contracts as required, as noted in Muhanga, Nyabihu, Nyarugenge, Ruhango, Gicumbi, Rutsiro and Kamonyi districts.

In the case of Gasabo, Kicukiro and Nyarugenge Districts which subcontracted collection of parking fees to KVCS (*Kigali Veterans Cooperative Society*), there was non compliance with the contract. 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 during the period.

In Muhanga District for example, collection of tax revenue in Muhanga and Nyabisindu markets and collection of taxes from quarries was subcontracted by the district during the year ended 30 June 2010. The subcontractors did not remit the amounts agreed with the district, and there was no control mechanism in place to monitor contractors to ensure all revenue were collected, reported and remitted to the District bank account. Some of the money collected from the quarry and markets was not remitted to the district and yet no recovery efforts have been undertaken by the district.

In Musanze District, amounts totalling Frw 27,162,353 due from the subcontractors had not yet been recovered from them as at the time of audit. Further, no evidence was provided to confirm whether these contracts were terminated due to non compliance.

2.12 LACK OF DATABASE FOR TRACKING GOVERNMENT COURT CASES

The cabinet meeting held on 26^{th} June 2001 established a transaction commission comprising representatives from the Ministries of Infrastructure, Justice, Internal Security, Finance and Economic Planning to handle all pending unsettled court cases. The Commission was given a mandate to settle these cases through mutual agreement between the Government of Rwanda and other parties (individuals or companies). However, there is no database maintained for tracking court cases to facilitate identification of the court cases lost or those won by the State as at any reporting date. Any liabilities payable by Government from court cases or amounts recoverable from those cases where the Government has won cannot be ascertained and appropriately accounted for. MINIJUST should make efforts to ensure that a comprehensive database is maintained to record all court cases involving Government, whether won or lost. Status of settlement of each of the cases should also be included in the database.

2.13 WEAKNESSES IN MANAGEMENT OF BANK ACCOUNTS

(i) There are cases where audited entities are still holding dormant bank accounts. Fifty one (51) dormant bank accounts were noted in Kayonza, Karongi, Nyanza, Kirehe, Bugesera, Ruhango, Nyamagabe, Kicukiro and

Gicumbi Districts and NPO and these accounts had not been closed at year end.

(ii) The audits continue to reveal slow improvement in this area of management of bank accounts. As highlighted in this report, some entities still have unrecorded bank accounts while many continue to struggle with preparation of bank reconciliation statements. Some entities prepared bank reconciliation statements but these reconciliations were not reviewed by senior officials.

(iii) There are also public entities which still post their cash books from bank statements contrary to best practice that requires entries in the books of account to be 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 period end are not recorded in the books of account, resulting into incomplete financial statements.

The cases highlighted 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.

(iv) **Bank balances from Rusizi ex-districts**

According to instructions from MINALOC issued in 2005, bank accounts of ex-districts and *communes* should have been closed and balances transferred to the new Districts. The audits identified that in December 2005, MINALOC issued instructions to Rusizi District for closure of sixty three (63) bank accounts inherited from ex-districts and communes. As highlighted in my previous reports, the bank booklets show that the 63 bank accounts had balances totalling Frw 111,668,801. A letter No. 1109 issued by *Banque Populaire* on 15 August 2010, confirmed that these bank accounts were closed and their balances transferred to BNR account No. 1210470. However, there was no evidence to confirm that these balances were credited to the Rusizi District bank account in BNR as at the time of the audit in November 2010.

Efforts should be made to investigate where balances on the bank accounts of the ex-districts have been deposited and to ensure that they are properly accounted for.

2.14 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 deeds of title for Government properties. It is therefore not possible to ascertain the right of ownership in case disputes in ownership arise. Government property can be misappropriated in absence of proper monitoring.

As recommended in my previous reports, MININFRA and MINECOFIN as ministries responsible for supervision and coordination of the preparation of the Government Fixed Assets Register should accelerate the process of carrying out a physical verification, coding and valuation of all Government assets, obtain deeds of title for all Government properties and produce a comprehensive fixed assets register.

2.15 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 some cases, the withholding tax is either remitted late or not remitted at all to Rwanda Revenue Authority. An amount of **Frw 16,205,153** was not deducted as 3% withholding tax from suppliers while **Frw 9,874,635** was deducted as 3% withholding tax but not remitted to RRA.

(ii) Some institutions did not deduct and remit 15% withholding tax 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 143,334,246** were not deducted as 15% withholding tax.

(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 871,162,955** was not deducted while **Frw 101,213,625** was deducted but not remitted to RRA.

(iv) Some institutions did not deduct Social Security contributions from their employees while others did not remit Social Security contributions withheld to the Social Security Fund of Rwanda (SSFR) as required by law. Social Security contributions amounting to **Frw 7,781,629** were not deducted while Social Security contributions deducted amounting to **Frw 58,674,354** were not remitted to SSFR.

These public entities risk being subjected to estimated assessments, fines, penalties and interest resulting in wasteful expenditure as mentioned in **Section 2.4.2**. Efforts should be made to ensure that outstanding tax liabilities and Social Security contributions are remitted to RRA and SSFR respectively.

Chief Budget Managers should take full responsibility for non compliance with the law.

2.16 NON SERVICING OF LOAN FACILITIES ACQUIRED BY LOCAL GOVERNMENTS

As highlighted in my previous audit reports, there are a number of districts that acquired loans from Rwanda Development Bank for the purpose of purchasing mobile phones but they have had difficulties servicing the loans. As reported in my previous year report, thirteen (13) Districts were struggling to repay these loans as most of them had not collected proceeds from sale of the phones. Accordingly, a portion of this loan is still outstanding and attracting additional interest. As at 30 June 2010, the total outstanding loan principal was **Frw 274,019,416** while interest that had accumulated as at that date was **Frw 181,435,251**. It should be noted that accumulated interest was **Frw 77,189,339** as at 31 December 2008 and this has increased by **Frw 104,245,912** in the last 18 months to 30 June 2010. A lot of this interest has accumulated due to delayed repayments.

The audits noted that many of the districts were struggling to recover the outstanding amounts from sale of mobile phones to the citizens and have accordingly failed to raise funds to repay the BRD loan. There is no clear strategy in most districts on how these amounts will be recovered from the citizens. Examples of districts struggling with recovery of funds include: Nyagatare, Nyaruguru, Burera, Gatsibo, Ngoma, Rutsiro, Kirehe, Nyabihu.

Failure to recover these loans is attributed to the fact that these phones were supposed to be sold with solar chargers which were never supplied to Districts and citizens did not get value from the acquired mobile phones as they do not all have access to electricity facilitations. This is one of the reasons why the citizens failed to pay back the loan. In future there should be proper feasibility studies undertaken before such projects are implemented.

Strategies to service these loans or otherwise liquidate them need to be taken immediately to stop 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. Follow up should be made to recover the sale proceeds.

2.17 CONTRIBUTIONS TO MUTUELLE DE SANTE SCHEME

2.17.1 At the level of MINISANTE

Article 42 of Law No 62/2007 Establishing and determining the Organization, Functioning, and Management of the Mutual Health Insurance scheme stipulates that the source of finance for National Guarantee Fund of mutual health insurance scheme managed by CTAMS should be composed of 13% of the ordinary budget of the Ministry of health, and contribution from each of the medical insurance companies operating in Rwanda equivalent to one per cent (1%) of their collections.

However, the audits noted the following:

- According to the budget law for the year ended 30th June 2010, MINISANTE was allocated an ordinary budget of Frw 12,573,719,158. Accordingly, CTAMS should have received from the Ministry, a total amount of Frw 1,634,583,491 representing 13% of its recurrent budget to support the mutual health insurance scheme. However, only Frw 1,502,045,117 was transferred to CTAMS. Consequently there is an amount of Frw 79,803,265 which was not transferred by MINISANTE;
- There is no approved and updated list of contributing medical insurance companies available at CTAMS, making it difficult to ascertain whether or not the existing medical insurance companies contribute to *Mutuelle de santé*.

- The CTAMS unit does not make regular assessment of medical insurance companies to determine the amount receivable/collectable from the insurance companies. Therefore, the actual amount due from each of the companies as at 30 June 2010 cannot be ascertained.
- The Law establishing the Mutual Health Insurance scheme is not clear on how CTAMS can enforce collection of the contributions from the eligible companies and management does not have any clear policy on recoverability of outstanding contributions from these entities.

The above cases indicate failure to collect funds necessary for implementation and functioning of the Mutual Health Insurance scheme. Accordingly, its objectives may not be fulfilled. There is need for the Ministry to enforce the law and ensure that all funds allocated for Mutual Health Insurance scheme are availed. In addition, there is need to strengthen the legal framework to enable CTAMS follow up and recover funds due from medical insurance companies.

2.17.2 At District level

(i) Instructions from the Ministry of Health to Districts require that 20% of community health contributions should be remitted to the district account as part of the pooling risk fund. These same instructions require the District to contribute 20% of the contributions to the pooling risk fund.

However, *Mutuelle de Santé* sections in most districts did not remit the required contributions to the District pooling risk account during the period. Even most of the Districts did not remit the contribution of 20% expected from the District budget to the pooling risk account. Follow up with the District authorities indicates that districts do not have adequate resources and most sections do not collect enough funds to support *Mutuelle de santé* activities. This makes it difficult for the *Mutuelle de Santé* sections and the district to meet obligations for bills due from health centres and district hospitals. Ultimately, some sections are still indebted to health centres and do not have enough funds to transfer to the District pooling risk account. The *Mutuelle de santé* beneficiaries may be denied services due to long outstanding unpaid bills and this undermines the purpose of the Mutuelle de santé program.

There is need for MINISANTE to re-assess whether the funds collected at the *Mutuelle de Santé* sections can sustain delivery of health services at the health centres to the *Mutuelle de Santé* members. The Districts should ensure that a portion of their revenues is transferred to the *Mutuelle de Santé* pooling risk account to support the settlement of invoices from district hospitals.

(ii) There is no regular follow up made by the Districts to verify collections for contributions received from the *Mutuelle de Santé* members. In many districts, there was no evidence of internal audits conducted to confirm the utilisation of these collections. Therefore, completeness of collections for *Mutuelle de Santé* reported by Districts cannot be confirmed. A lot of sections of *Mutuelle de Santé* did not remit all the expected collections to the District pooling risk account. Such cases were noted in Kicukiro, Huye, Rubavu, Muhanga, Nyarugenge, Gatsibo, Bugesera, Burera, Gisagara, Ngoma, Karongi, Gasabo, Rulindo, Gakenke, Kayonza and Rusizi 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.

(iii) The audits identified that transfers made by some of the sections to the Pooling risk account of the District are not reconciled with the underlying records and reports prepared by the sections and District on a regular basis.

A reconciliation performed by the auditors for Yove community based health insurance section in Nyamasheke District identified that the members' collections were not banked intact. Only Frw 197,000 was banked on bank account No 49300291400 Banque Populaire- Kibogora and the remaining balance of Frw 2,124,000 was not banked. Further, by the time of the audit in November 2010, this balance had not been deposited. Hence the remaining balance of Frw 2,124,000 could have been misappropriated.

A detailed performance audit was conducted by OAG on the performance of Mutuelle de santé and a separate report will be issued.

2.18 FRAUDULENT CASES

2.18.1 Fraudulent payments

(i) Payments made on the basis of forged signatures and falsified documents

- **Musanze District**

  During the year ended 30 June 2010, the Accountant of Rwaza sector, MUSANZE District withdrew Frw 7,889,065 from the sector account No 0062500-01-03 at the BCR fraudulently. The Accountant was able to make these fraudulent payments by forging the signature of Executive Secretary of Rwaza sector. This was even made easier because of lack of proper segregation of duties. For example, the Accountant was the one who kept cheque books and also an Account signatory. The accountant also maintained all the accounting records, processed all payments and prepared bank reconciliation statements. Consequently, Public funds were used for personal gain, and accordingly, Government programs for which these funds were earmarked were not undertaken.

- **Rutsiro District**

  On 16/12/2009, the district paid supplier ESM/Sibomana Martin Frw 4,733,458 relating to invoice No.01/2009 of 15/12/2009 for supply of meat and cabbages to Murunda and Bumba sites where youth training courses (*Ingando z'urubyiruko)* were being conducted. This was according to the contract signed between the District and ESM on 18/11/2009. The audit identified that the invoice established by the supplier was based on the following goods received notes.

Items	Murunda Site on 30/11/2009	Bumba Site on 30/11/2009	Murunda Site on 14/12/2009	Bumba Site on 14/12/2009	TOTAL
	Kilograms	Kilograms	Kilograms	Kilograms	Kilograms
Meat	477	670	1,340	1,340	3,827
Cabbages	2010	2010	6,030	6,030	16,080

Regarding the quantities of 1,340 kilograms of meat for each of the sites delivered on 14/12/2009, the actual quantities delivered were 340 kilograms for each of the sites as confirmed by the school representatives. Copies of the delivery notes presented by the school representatives indicated that 340 kilograms had been delivered yet those presented to the district for payment indicated 1,340 kilograms. This indicates that the delivery notes presented to the district for payment had been fraudulently altered. This resulted in an overpayment of Frw 2,188,000 on 16/12/2009. Though this amount was refunded by the supplier on 25/03/2010 through a deposit on the district bank account number 1210390 maintained in BNR, the district had acted negligently to make a payment on the basis of delivery notes presented by the supplier without confirming with the ultimate beneficiaries on whether the quantities claimed for payment were actually delivered.

(ii) Misappropriation of Loan disbursements and recoveries under the CDF managed Vision Umurenge Program (VUP)

Cases were also noted where some the loans given out had been misappropriated. Examples include:

- Some groups of VUP financial services beneficiaries received funds amounting to Frw 25,860,000 to finance their projects. However, the auditors did not see any evidence during the field physical verification undertaken, to confirm that the funded projects actually exist. A review of a report prepared by the VUP office at sector level in Gashanda sector, Ngoma District indicates that these projects were not in existence and hence no recoveries had been made for the money disbursed to them;

- *TURWANYIMIRIRE MIBI* located in KARONGI District, Ruganda sector, Kivumu cell, Kagorora village received funds amounting to Frw 2,100,000 from VUP, to finance their project for cultivation of vegetables but an amount of Frw 1,100,000 was embezzled by the president of the group;
- Bank deposit slips kept by VUP staff at sector level had an amount of Frw 261,550 for repayments, but the amount could not be traced to the VUP bank statements; and
- A review of bank cards of three Cooperatives in Rwankuba sector, Karongi district established that Frw 986,000 had been withdrawn from the bank accounts. A follow up with management of the Cooperatives revealed that management did not authorise these withdrawals, implying that the money was taken by unauthorized individuals. These instances have been reported by management to the Police for further investigation.

(iii) Misappropriation of IT equipment and accessories

The audit of Gicumbi District identified that some IT equipment with an estimated market value of Frw 3,670,000 went missing. Discussions with District management revealed that the items had been misappropriated by the ICT officer. This officer has since disappeared. The recovery process was still in progress by the time of the audit in February 2011.

For the case of CEPEX, cartridges and IT equipment were misappropriated and an investigation by management and Rwanda National Police revealed that cartridges and IT equipment worth Frw 22,367,679 procured during 2009 and 2010 had been misappropriated by the logistics officer.

(iv) Fictitious payments

Review of Western Union operations managed by CCP (NPO) revealed unaccounted for cash of US$ 57,299 by cashiers as detailed below:

- **USD 32,212 reported as payment by cashier, missing on Western Union report**

  The reconciliation of statement (*Relevé des fonds recus – Transfert électronique recu*) produced by the cashier on the money paid by CCP to Western Union clients with the reports produced by Western Union on the transactions carried out by CCP revealed the following:

  (i) The cashier used correction fluid (Blanco) to falsify copies filed to support payments made to Western Union clients. However, I obtained copies of supporting documents which remained in the register and noted that during the months of January and February 2008, the cashier made payments totaling to USD 32,212 to different fictitious persons whose names, money transfer identification numbers and amounts received do not appear on the report produced by Western Union.

  (ii) The cashier also included a payment of USD 3,800 to a customer using the same code number 408-179-6920 at different dates (that is 8 and 9 January 2008). This amount is also included in the total of USD 32,212 above.

- **Payments of USD 25,087 where beneficiary ID and corresponding amounts could not be traced by Western Union**

  The reconciliation of Western Union forms (used for sending and receiving money) with reports from head of Western Union's systems revealed that during the month of June 2008 the CCP's cashiers paid out

USD 25,087 to different persons but the identification number of the beneficiaries and the money paid out were not found on the reports produced by Western Union to justify these payments.

Management was aware of these unclear payments of USD 25,087 committed in June 2008 and the case was brought before the courts of law. Judgment was made by the High Court of Kigali on 25/06/2010.

2.18.2 Revenue collections not appropriately accounted for

(i) Alteration of amounts on receipts and deposit slips

- **Gatsibo District**

A review of a sample of deposit slips used for banking money on the district revenue bank account No 59000-23-94-95 (Gatsibo District - *recettes*) for the month of July, August and October, showed that certain bank deposit slips kept at the district level were falsified by accountant secretaries of Nyagihanga and Gasange sectors. The falsified bank deposit slips had amounts which were different from those recognised on the bank statement prepared by *Banque populaire* of Kabarore, as shown in the table below:

Date	Sector	Deposit slip serial number	Amount as per bank deposit slip presented to the district Frw	Amount as per bank statement & original bank deposit slip maintained by the bank Frw	Difference Frw
27/10/2009	Gasange	342853	35,200	5,200	30,000
10/07/2009	Nyagihanga	176539	110,000	10,000	100,000
10/07/2009	Nyagihanga	176542	61,600	1,600	60,000
24/07/2009	Nyagihanga	176317	120,100	20,100	100,000
24/07/2009	Nyagihanga	176318	110,000	10,000	100,000
25/07/2009	Nyagihanga	176319	128,070	28,070	100,000
24/07/2009	Gasange	175909	27,100	7,100	20,000
24/07/2009	Gasange	175910	65,100	5,100	60,000
15/07/2009	Gasange	7879	301,500	101,500	200,000
15/07/2009	Gasange	7881	53,200	3,200	50,000
27/10/2009	Gasange	342852	35,500	5,500	30,000
27/10/2009	Gasange	342852	28,900	8,900	20,000
17/10/2009	Gasange	273980	74,800	4,800	70,000
1/10/2009	Gasange	150203	339,700	139,700	200,000
28/08/2009	Nyagihanga	154665	410,670	10,670	400,000
28/08/2009	Nyagihanga	154659	185,400	85,400	100,000
28/08/2009	Nyagihanga	154660	110,000	10,000	100,000
10/08/2009	Gasange	75830	56,900	6,900	50,000

10/08/2009	Gasange	75831	79,400	9,400	70,000
21/08/2009	Gasange	176810	44,900	4,900	40,000
TOTAL			**2,378,040**	**478,040**	**1,900,000**

(ii) Collections not banked and not accounted for

- The audit of Kirehe district noted that the accountants of Nasho and Gatore Sectors did not bank amounts collected during the year. An investigation carried out by the district identified that 51 receipt books had been utilized by the Sector Accountants to collect Frw 4,636,507 but these collections could not be traced. The Sector Accountants responsible for these collections fled the country prior to the investigation.

- The audit of Gisagara District noted that collections of Frw 1,653,450 were not banked by one (1) tax collector in Mugombwa sector. Bank deposit slips could not be traced to confirm that these collections had been banked. It should be noted that this case was brought before the Intermediate Court of Huye and judgment was passed on 26/02/2010.

- Revenue collections made by ONATRACOM amounting to Frw 3,845,834 could not be traced on the bank statement. This amount relates to revenue from sale of bus tickets collected at RUBAVU branch, which was allegedly deposited to the bank by one of the cashiers. When reconciling bank deposit slips to bank statements, these amounts did not appear on bank statement. According to the letter dated 01/08/2007 from ECOBANK, the deposit slips for these amounts are fictitious. Some of the bank deposit slips presented for this amount do not have the stamp of the bank while others do have the stamp.
- In NYANZA District, revenue totalling to Frw 441,700 collected using four (4) receipt books was not deposited to the district bank account. The

amounts were also not included in the revenue report and are accordingly omitted from the financial statements.